

INTER PARFUMS INC
Form 10-K
March 11, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark one)

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2013 or

Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____.

Commission file no. 0-16469

Inter Parfums, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or
organization)

13-3275609
(I.R.S. Employer Identification No.)

551 Fifth Avenue, New York, New York
(Address of Principal Executive Offices)

10176
(Zip Code)

Registrant's telephone number, including area code: 212.983.2640

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Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common Stock, \$.001 par value per share	The Nasdaq Stock Market

Securities registered pursuant to Section 12(g) of the Act:

Title of each class	Name of exchange on which registered
None	None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation SK is not contained herein and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10K or any other amendment to this Form 10K.

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

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Large accelerated filer Accelerated filer

Non-accelerated filer Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. \$480,478,921 of voting equity and \$-0- of non-voting equity.

Indicate the number of shares outstanding of the registrant's \$.001 par value common stock as of the close of business on the latest practicable date March 7, 2014: 30,924,461

Documents Incorporated By Reference: None.

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FORWARD LOOKING STATEMENTS

This report includes forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, and if incorporated by reference into a registration statement under the Securities Act of 1933, as amended, within the meaning of Section 27A of such act. When used in this report, the words “anticipate,” “believe,” “estimate,” “will,” “should,” “could,” “may,” “intend,” “expect,” “plan,” “predict,” “potential,” or “continue” or similar expressions identify certain 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.

Actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking statements contained in this report. Important factors that could cause actual results to differ materially from our forward-looking statements are set forth in this report, including under the heading “Risk Factors”. Such factors include: continuation and renewal of existing license agreements; continuation and renewal of existing specialty retail agreements as well as sales and marketing efforts of specialty market retailers; potential inability to obtain new licensing, arrangements or agreements for additional brands; potential reduction in sales of our fragrance and fragrance related products due to reduced consumer confidence as the result of a prolonged economic downturn or recession in the United States, Europe or any of the other countries in which we do significant business; uncertainties and continued deterioration in global credit markets could negatively impact suppliers, customers and consumers; protection of our intellectual property rights; potential liability for infringement of third party brand names; product liability claims; effectiveness of our sales and marketing efforts and product acceptance by consumers; dependence upon third party manufacturers and distributors; dependence upon our management; competition; risks related to our foreign operations currency fluctuation and international tariff and trade barriers; compliance with governmental regulation; seasonal variability of our business; our ability to operate our business without infringing, misappropriating or otherwise violating the intellectual property rights of other parties; and possible liability for improper comparative advertising or “Trade Dress”.

These factors are not intended to represent a complete list of the general or specific factors that may affect us. It should be recognized that other factors, including general economic factors and business strategies, may be significant, presently or in the future, and the factors set forth herein may affect us to a greater extent than indicated. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements set forth in this report. Except as may be required by law, we undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.

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 filings with the Securities and Exchange Commission.

On July 16, 2012, Burberry exercised its option to buy-out our license rights effective December 31, 2012. Due to the significance of this transaction as well as its non-recurring nature, exclusion of such gain in the non-GAAP financial measures provides a more complete disclosure and facilitates a more accurate comparison of current results to historic results. In addition, providing comparable sales information excluding sales relating to a terminated license provides investors with a more accurate picture of current sales trends. Based upon the foregoing, we believe that our presentation of the non-GAAP financial information included on pages 46, 49 and 51 of this Form 10-K are important supplemental measures of operating performance to investors.

PART I

Item 1. Business

Introduction

We are Inter Parfums, Inc. We operate in the fragrance business, and manufacture, market and distribute a wide array of fragrances and fragrance related products. Organized under the laws of the State of Delaware in May 1985 as Jean Philippe Fragrances, Inc., we changed our name to Inter Parfums, Inc. in July 1999. We have also retained our brand name, Jean Philippe Fragrances, for some of our mass market products.

Our worldwide headquarters and the office of our three (3) wholly-owned United States subsidiaries, Jean Philippe Fragrances, LLC and Inter Parfums USA, LLC, both New York limited liability companies, and IP Beauty, Inc. (formerly Nickel USA, Inc.), a Delaware corporation, are located at 551 Fifth Avenue, New York, New York 10176, and our telephone number is 212.983.2640. We also own 100% of Inter Parfums USA Hong Kong Limited indirectly through our 100% owned subsidiary, Inter Parfums USA, LLC.

Our consolidated wholly-owned subsidiary, Inter Parfums Holdings, S.A., and its majority-owned subsidiary, Interparfums SA, maintain executive offices at 4, Rond Point des Champs Elysees, 75008 Paris, France. Our telephone number in Paris is 331.5377.0000. Interparfums SA is the majority owner of three (3) distribution subsidiaries, Inter Parfums Limited, Inter Parfums GmbH and Inter Parfums srl, covering territories in The United Kingdom, Germany and Italy, respectively, and is the sole owner of two (2) distribution subsidiaries, Inter España Parfums et Cosmetiques, SL, covering the territory of Spain and Interparfums Luxury Brands, Inc., a Delaware corporation, for distribution of prestige brands in the United States. Interparfums SA is also the sole owner of Interparfums (Suisse) SARL, a company formed to hold and manage certain brand names, and Interparfums Singapore Pte., Ltd., an Asian sales and marketing office.

Our common stock is listed on The Nasdaq Global Select Market under the trading symbol "IPAR". The common shares of our subsidiary, Interparfums SA, are traded on the Euronext Exchange.

We maintain our internet website at www.interparfumsinc.com which is linked to the Securities and Exchange Commission Edgar database. You can obtain through our website, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, interactive data files, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934 as soon as reasonably practicable

after we have electronically filed them with or furnished them to the SEC.

Summary

The following summary is qualified in its entirety by and should be read together with the more detailed information and audited financial statements, including the related notes, contained or incorporated by reference in this report.

General

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. Prestige fragrance products are produced and marketed by our European operations through our 73% owned subsidiary in Paris, Interparfums SA, which is also a publicly traded company, as 27% of Interparfums SA shares trade on the Euronext. Prestige cosmetics and prestige skin care products represent less than 1% of consolidated net sales.

Our business is not capital intensive, and it is important to note that we do not own any 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 deliver them back to one of our distribution centers.

As with any business, many aspects of our operations are subject to influences outside our control. We discuss in greater detail risk factors relating to our business in Item 1A of this Annual Report on Form 10-K for the fiscal year ended December 31, 2013, and the reports that we file from time to time with the Securities and Exchange Commission.

European Operations

We produce and distribute prestige fragrance products primarily under license agreements with brand owners, and prestige product sales through our European operations represented approximately 82% of net sales for 2013. We have built a portfolio of prestige brands, which include *Lanvin, Montblanc, Jimmy Choo, Van Cleef & Arpels, Paul Smith, Boucheron, S.T. Dupont, Balmain, Karl Lagerfeld* and *Repetto*, whose products are distributed in over 100 countries around the world.

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Burberry was our most significant license, and net sales of Burberry products represented 23%, 46% and 50% of net sales for the years ended December 31, 2013, 2012 and 2011, respectively. As discussed below, Burberry exercised its option to buy-out the license rights effective December 31, 2012 and we entered into a transition agreement that provided for an extension of certain license rights and obligations for an additional three month period through March 31, 2013. In addition, we own the Lanvin brand name for our class of trade, and license the Montblanc and Jimmy Choo brand names; for the year ended December 31, 2013, sales of product for these brands represented 15%, 15% and 13% of net sales, respectively.

Our prestige products focus on niche brands with a devoted following. By concentrating in markets where the brands are best known, we have had many successful launches. We typically launch new fragrance families for our brands every year or two, with some frequent “seasonal” fragrances introduced as well.

The creation and marketing of each product family is intimately linked with the brand’s name, its past and present positioning, customer base and, more generally, the prevailing market atmosphere. Accordingly, we generally study the market for each proposed family of fragrance products for almost a full year before we introduce any new product into the market. This study is intended to define the general position of the fragrance family and more particularly its scent, bottle, packaging and appeal to the buyer. In our opinion, the unity of these four elements of the marketing mix makes for a successful product.

United States Operations

Prestige brand and specialty retail fragrance and fragrance related products are marketed through our United States operations and represented 18% of sales for the year ended December 31, 2013. These fragrance products are sold under trademarks owned by us or pursuant to license or other agreements with the owners of brands, which include *Agent Provocateur, Alfred Dunhill, Anna Sui, Shanghai Tang, Oscar de la Renta, Gap, Banana Republic, Brooks Brothers, bebe, Betsey Johnson and Lane Bryant.*

Recent Developments

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 and 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 September 30, 2013, the \$10 million inventory reserve, recorded in December 2012 upon recognition of the license termination gain of \$198.8 million, was fully consumed during 2013.

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.

Shanghai Tang

In July 2013, we 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. We plan to launch the first fragrance under the Shanghai Tang brand in Spring 2014.

Agent Provocateur

In July 2013, we 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 commenced on August 1, 2013 and is subject to certain minimum advertising expenditures as is customary in our industry. We plan to launch the first fragrance under the Agent Provocateur brand, *Fatale* and *Fatale Pink*, in 2014. In addition, we have taken over distribution of selected fragrances within the brand's current perfume portfolio, and plan to revitalize the Agent Provocateur signature scent.

Oscar de la Renta

In October 2013, we entered into a 12-year exclusive worldwide license to create, produce and distribute perfumes and related products under the Oscar de la Renta brand, which closed in December 2013, and is subject to certain minimum advertising expenditures as are customary in our industry. We purchased certain inventories and paid an up-front entry fee of \$5.0 million. We have taken over distribution of fragrances within the brand's current perfume portfolio, and plan to launch our first fragrance under the Oscar de la Renta brand in the Fall of 2014.

Prestige Products***General***

We produce and distribute our prestige fragrance products primarily under license agreements with brand owners. Under license agreements, we obtain the right to use the brand name, create new fragrances and packaging, determine positioning and distribution, and market and sell the licensed products, in exchange for the payment of royalties. Our rights under license agreements are also generally subject to certain minimum sales requirements and advertising expenditures.

We have built a portfolio of licensed prestige brands which include Montblanc, Jimmy Choo, Boucheron, Van Cleef & Arpels, Karl Lagerfeld, Paul Smith, S.T. Dupont, Balmain, Repetto, Agent Provocateur, Alfred Dunhill, Anna Sui, Shanghai Tang, and Oscar de la Renta. In addition, we are the owner of the Lanvin brand name and trademark for our class of trade. Our exclusive worldwide licenses for these brands expire on the following dates:

Brand Name	Expiration Date
Jimmy Choo	December 31, 2021
Van Cleef & Arpels	December 31, 2018, plus a 5-year optional term if certain sales targets are met
Montblanc	December 31, 2020
Paul Smith	December 31, 2017
S.T. Dupont	December 31, 2016
Boucheron	December 31, 2025, plus a 5-year optional term if certain sales targets are met
Balmain	December 31, 2023
Repetto	December 31, 2024
Alfred Dunhill	September 30, 2023, subject to earlier termination on September 30, 2019, if certain minimum sales are not met
Anna Sui	December 31, 2021, plus two five-year optional terms if certain conditions are met
Karl Lagerfeld	October 31, 2032
Shanghai Tang	December 31, 2025, subject to earlier termination on December 31, 2019, if certain minimum sales are not met; subject to 2 year extensions unless 1 year advance notice not to renew is provided
Agent Provocateur	December 31, 2023
Oscar de la Renta	December 31, 2025, plus a 5-year optional term if certain sales targets are met

In connection with the acquisition of the Lanvin brand names and trademarks, we granted Lanvin the right to repurchase the brand names and trademarks in 2025 for the greater of €70 million (approximately \$97 million) or one

times the average of the annual sales for the years ending December 31, 2023 and 2024.

Prestige Fragrances

Lanvin— In July 2007, we acquired the worldwide rights to the Lanvin brand names and international trademarks listed in Class 3 that we had previously licensed in June 2004. A synonym of luxury and elegance, the Lanvin fashion house, founded in 1889 by Jeanne Lanvin, expanded into fragrances in the 1920s.

With sales in 2013 of \$86.1 million, Lanvin fragrances occupy an important position in the selective distribution market in France, Europe and Asia. Current lines in distribution include: *Arpège* (1927), *Lanvin L'Homme* (1997), *Eclat d'Arpège* (2002), *Rumeur 2 Rose* (2007), *Jeanne Lanvin* (2008), *Marry Me!* (2010) and *Jeanne Lanvin Couture* (2012). During 2013, Lanvin fragrances sales increased 11% which was driven by continuing gains from the *Eclat d'Arpège* line and the launch of *Lanvin Me*, which was designed by Lanvin designer, Alber Elbaz.

Montblanc— In January 2010, we entered into an exclusive, worldwide license agreement commencing on July 1, 2010, for the creation, development and distribution of fragrances and fragrance related products under the Montblanc brand.

Montblanc has achieved a world-renowned position in the luxury segment and has become a purveyor of exclusive products, which reflect today's exacting demands for timeless design, tradition and master craftsmanship. Through its leadership positions in writing instruments, watches and leather goods, promising growth outlook in women's jewelry, active presence in more than 70 countries, network of more than 350 boutiques worldwide and high standards of product design and quality, Montblanc has quickly grown to one of our largest and fastest growing fragrance brands.

In July 2010, we commenced distribution of Montblanc's legacy fragrances, which include: *Présence* (2001), *Présence D'une Femme* (2002), *Individuel* (2004), *Femme Individuelle* (2004), *Starwalker* (2005), *Femme de Montblanc* (2006) and *Homme Exceptionnel* (2006). In 2011, we launched a new Montblanc fragrance, *Legend*, which has become our best-selling men's line. In 2012, we launched our first women's fragrance under the Montblanc brand, and we have a second men's fragrance under development for a 2014 debut. Montblanc product sales increased 40% in 2013 to \$83.2 million as compared to \$59.3 million, which was 40% ahead of \$42.5 million in 2011. Our second men's line, *Emblem*, is ready for launch in the Spring of 2014.

Jimmy Choo— In October 2009, we entered into an exclusive, worldwide license agreement that commenced on January 1, 2010 for the creation, development and distribution of fragrances under the Jimmy Choo brand.

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With a heritage in luxury footwear, Jimmy Choo today encompasses a complete luxury lifestyle accessory brand with women's shoes, handbags, small leather goods, sunglasses and eyewear. Its products are available in the growing network of Jimmy Choo freestanding stores as well as in the most prestigious department, specialty and duty free stores worldwide.

We believe that this relationship with Jimmy Choo offers a perfect fit with our strategy of expanding our brand portfolio to include new universes and represents an important milestone in our development. This brand possesses the quintessential qualities to ensure the ambitious development of fragrance lines that will be supported by significant advertising commitments over the coming years.

In January 2011, our first fragrance under the Jimmy Choo brand was initially launched in select distribution in the United Kingdom and the United States, and this signature scent rolled out globally in Spring 2011. Throughout 2011, Jimmy Choo product sales exceeded our expectations and sales topped \$40 million in that year. Sales growth has continued, reaching \$51.5 million in 2012 and \$72.4 million in 2013, a year marked by the launch by our second Jimmy Choo line, *Flash*, in February.

Van Cleef & Arpels— In September 2006, we entered into an exclusive, worldwide license agreement for the creation, development and distribution of fragrance and related bath and body products under the Van Cleef & Arpels brand and related trademarks.

Van Cleef & Arpels fragrances in current distribution include: *First* (1976), *Van Cleef pour Homme* (1978), *Tsar* (1989), *Van Cleef* (1994), *First 1^{er} Bouquet* (2008), *Féerie* (2008), *Collection Extraordinaire* (2009), *Oriens* (2010), *Midnight in Paris* (2010).

For the past two years we have been fine tuning the product range and repositioning our Van Cleef & Arpels fragrances in the exclusive high-end segment. With two new product launches in 2010 and no new launches in 2011 or 2012, we saw a sales decline of approximately 19% and 17% in 2012 and 2011, respectively. Sales growth resumed in 2013 with 11% year-over-year improvement due to the promising start to the new *Rêve* line and steady performances by the *First* and *Collection Extraordinaire*.

Boucheron— In December 2010, we entered into an exclusive, worldwide license agreement for the creation, development and distribution of fragrance and related bath and body products under the Boucheron brand.

Boucheron is the French jeweler "par excellence". Founded by Frederic Boucheron in 1858, the House has produced some of the world's most beautiful and precious creations. Today Boucheron creates jewelry and timepieces and, under license from global brand leaders, fragrances and sunglasses. Currently Boucheron operates through over 40 boutiques worldwide as well as an e-commerce site.

The transfer of existing inventory from the former licensee was completed early in 2011, and we then commenced distribution of Boucheron's legacy fragrances. Our first new fragrance under the Boucheron brand, *Jaïpur Bracelet*, debuted in 2012, and we were pleased with its results. Our second line, *Boucheron Place Vendôme*, which has a beautiful glasswork bottle with a cabochon, the emblematic stone of House Boucheron, was released in Fall 2013. Despite a difficult 2012 base comparison from the reintroduction of the brand's classic lines and a one-time special edition fragrance in the *Jaïpur Bracelet* line, Boucheron fragrances sales increased 10% to of \$23.1 million in 2013, as compared to \$21.1 million in 2012, driven in particular by the launch of the Boucheron *Place Vendôme* line.

Paul Smith— We signed an exclusive worldwide license agreement with Paul Smith in December 1998 for the creation, development and distribution of Paul Smith perfumes. In July 2008, we extended this license for an additional seven years through December 31, 2017.

Paul Smith is an internationally renowned British designer who creates fashion with a clear identity. Paul Smith has a modern style which combines elegance, inventiveness and a sense of humor and enjoys a loyal following, especially in the UK and Japan. Fragrances include: *Paul Smith (2000)*, *Paul Smith Extrême (2002)*, *Paul Smith Rose (2007)*, *Paul Smith Man 2 (2010)* and *Optimistic (2011)*. A new men's and women's line, *Portrait*, was released in Spring 2013.

S.T. Dupont— In June 1997, we signed an exclusive worldwide license agreement with S.T. Dupont for the creation, manufacture and distribution of S.T. Dupont perfumes. In 2011, the agreement was renewed and now runs through December 31, 2016. S.T. Dupont is a French luxury goods house founded in 1872, which is known for its fine writing instruments, lighters and leather goods.

S.T. Dupont fragrances include: *S.T. Dupont (1998)*, *S.T. Dupont Essence Pure (2002)*, *S.T. Dupont Noir (2006)*, *S.T. Dupont Blanc (2007)*, *S.T. Dupont Passenger (2008)*, *S.T. Dupont Intense (2009)*, *S.T. Dupont Passenger Cruise (2011)*, and *58 avenue Montaigne (2012)*. Our plans call for a new men's and women's line for 2014.

Balmain— In July 2011, we entered into a 12-year exclusive worldwide license agreement to create, produce and distribute perfumes and ancillary products under the Balmain brand. Our rights under the agreement commenced on January 1, 2012 when we took over the production and distribution of existing Balmain fragrances for men and women.

The Balmain couture house was founded in 1945 by Pierre Balmain. In recent years, Balmain has undergone a significant transformation. With the redefinition of its image in ready-to-wear, the brand has become a reference for style, while retaining its distinctive design codes from the haute couture universe. In doing so, the brand has become a major trendsetter. Our first new Balmain women's fragrance, *Extatic*, is scheduled to make its debut in 2014 in selective distribution.

Repetto— In December 2011, we entered into a 13-year exclusive worldwide license agreement to create, produce and distribute perfumes and ancillary products under the Repetto brand. Our rights under the agreement commenced on January 1, 2012.

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Created in 1947 by Rose Repetto at the request of her son, dancer and choreographer Roland Petit, Repetto is today a legendary name in the world of dance. For a number of years it has developed timeless and must-have collections with a fully modernized signature style ranging from dance shoes, ballet slippers, flat shoes, and sandals to more recently handbags and high-end accessories.

With an ambitious plan of international expansion focusing mainly on Europe, the brand is now branching out into Asia, notably South Korea and Japan where its mix of cross-generational appeal and French chic has met with unprecedented enthusiasm. Our first fragrance line was launched in 2013, and with sales of \$12.0 million for just seven months of activity, Repetto fragrances achieved much higher performances in Europe and Asia than expected. This line was among the year's top successes, with the second best women's fragrance launch in France for 2013.

Anna Sui—In June 2011, we entered into a 10-year exclusive worldwide fragrance license agreement to produce and distribute perfumes and fragrance related products under the Anna Sui brand. Our rights under the agreement commenced on January 1, 2012 when we took over production and distribution of the existing Anna Sui fragrance collections.

We are working in partnership with American designer, Anna Sui, and her creative team to build upon the brand's growing customer appeal, and develop new fragrances that capture the brand's very sweet feminine girly aspect, combined with touch of nostalgia, hipness and rock-and-roll. Anna Sui's devoted customer base, which spans the world, is especially strong in Asia.

We have high expectations for growing the Anna Sui fragrance franchise by developing new products and expanding the brand's fragrance presence in North America, Europe and the Middle East. With help from the Fall 2013 launch of *La Vie de Bohème*, sales of Anna Sui products were up 29% in 2013, reaching approximately \$25.8 million. A new Anna Sui fragrance family is in the works for 2015.

Alfred Dunhill—In December 2012, we entered into a 10-year exclusive worldwide fragrance license to create, produce and distribute perfumes and fragrance related products under the Alfred Dunhill brand, which commenced on April 3, 2013.

The house of Alfred Dunhill was established in 1893 and since that time has been dedicated to providing high quality men's luxury products, with core collections offered in menswear, leather goods and accessories. The brand has global reach through a premium mix of self-managed retail outlets, high-level department stores and specialty retailers. Known for its commitment to elegance and innovation and being a leader of British men's style, the brand continues to blend innovation and creativity with traditional craftsmanship.

Inter Parfums USA, LLC took over production and distribution of Alfred Dunhill legacy fragrances beginning in April 2013, and we plan to introduce a new men's scent in the Fall of 2014. We plan to support the new men's scent with a distribution strategy that recognizes and utilizes Alfred Dunhill's luxury positioning, along with brand appropriate marketing materials and a media campaign.

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

Under the creative direction of Karl Lagerfeld, one of the world's most influential and iconic designers, the Lagerfeld Portfolio represents a modern approach to distribution, an innovative digital strategy and a global 360 degree vision that reflects the designer's own style and soul. Our first new line, a premium scent for both men and women, is scheduled to be launched in the Spring of 2014.

Shanghai Tang— In July 2013, we 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. We plan to launch the first fragrance under the Shanghai Tang brand in late 2014. Founded in 1994, Shanghai Tang is the leading Chinese luxury brand with international recognition and distribution. As the global curator of modern Chinese chic, Shanghai Tang champions the richness and beauty of the Chinese culture through its contemporary lifestyle offer of apparel and accessories for men, women and children, as well as home collections. Shanghai Tang supports an international network of 45 boutiques, including the world's largest lifestyle flagship – The Shanghai Tang Mansion in Hong Kong and its largest flagship Boutique, The Cathay Mansion in Shanghai, China and on-line.

Agent Provocateur— In July 2013, we 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 commenced on August 1, 2013 and is subject to certain minimum advertising expenditures as is customary in our industry. We plan to launch the first fragrances under the Agent Provocateur brand, *Fatale* and *Fatale Pink*, in the Spring of 2014. In addition, we have taken over distribution of selected fragrances within the brand's current perfume portfolio, and plan to revitalize the Agent Provocateur signature scent.

Founded in 1994 by Joseph Corr , and Serena Rees and acquired by the private equity firm, 3i Group plc in 2007, Agent Provocateur is an iconic, globally-recognized brand, breaking new ground with every collection and rightfully earning its place as a benchmark brand in the world of lingerie. It is a brand that is confident, sensual and irreverent. Agent Provocateur celebrates and empowers women with a unique brand image renowned for being provocative and yet always leaving something to the imagination.

In recent years, Agent Provocateur has been opening doors at a steady growth and plans to continue to grow its door count, especially in Asia. Currently, its products which extend into swimwear, bridal and accessories, are sold globally at nearly 80 doors in 26 countries, which include its own boutiques, shop-in-shops within the finest department stores and specialty retailers, as well as on-line.

Oscar de la Renta— In October 2013, we entered into a 12-year exclusive worldwide license to create, produce and distribute perfumes and related products under the Oscar de la Renta brand, which closed in December 2013, and is subject to certain minimum advertising expenditures as are customary in our industry. We have taken over distribution of fragrances within the brand's current perfume portfolio, and plan to launch our first fragrance under the Oscar de la Renta brand in the Fall of 2014.

Oscar de la Renta is one of the world's leading luxury goods firms. The New York-based company was established in 1965, and encompasses a full line of women's accessories, bridal, childrenswear, fragrance, beauty and home goods, in addition to its internationally renowned signature women's ready to wear collection. Oscar de la Renta products are sold globally in fine department and specialty stores, oscardearenta.com and wholesale channels. There are currently eight Oscar de la Renta retail stores in the United States. There are five international retail stores located in London, Athens, the Dominican Republic, Dubai and Riyadh.

Specialty Retail Products

In connection with our specialty retail and designer agreements in our United States operations, we design, produce and manufacture fragrance and fragrance related products for brand name specialty retailers, primarily for sale in their retail stores. This specialty retail business began in 2005 with the signing of an exclusive agreement with The Gap, Inc. covering the Gap and Banana Republic brands in the United States and Canada. We have expanded this business through the years and currently have agreements in place with Brooks Brothers, bebe Stores, Betsey Johnson and Lane Bryant. Our exclusive agreements for specialty retail brands and their expiration dates are as follows:

Brand Name Expiration Date

The Gap Inc.	December 31, 2014
Brooks Brothers	December 31, 2014 plus a 5-year optional term if certain sales targets are met
bebe Stores	June 30, 2017 plus three, 3-year optional terms, if certain sales targets are met
Betsey Johnson	December 31, 2015 plus a 5-year optional term if certain conditions are met
Lane Bryant	December 31, 2015

In addition, our agreements for the Gap, Banana Republic, Brooks Brothers, bebe and Betsey Johnson brands include a license component for worldwide sales to select third party retailers and distributors, in return for royalty payments and certain advertising expenditures as are customary in our industry.

Gap and Banana Republic

In July 2005, we entered into an exclusive agreement with The Gap, Inc. to develop, produce, manufacture and distribute fragrance and fragrance related products for Gap and Banana Republic brand names to be sold in Gap and Banana Republic retail stores in the United States and Canada. In March 2006, the agreement was amended to include fragrance and fragrance related products for Gap Outlet and Banana Republic Factory Stores in the United States and Canada.

In 2008, we expanded our relationship with Gap Inc. to include a licensing agreement for international distribution of personal care products created for the Gap and Banana Republic brands. We entered into this license agreement to capitalize on cross-border brand awareness of Gap's iconic American style and Banana Republic's affordable luxury, which we have interpreted into a brand-specific assortment of fragrance and fragrance related products. In addition, our long-established relationships with distributors in over 100 countries, and our current infrastructure enabled us to rollout Gap and Banana Republic products to select department stores, perfumeries, travel retailers, military bases and other appropriate retail outlets around the world.

In July 2011, we renewed our exclusive agreement with The Gap, Inc. to develop, produce, manufacture and distribute fragrances for Gap and Banana Republic brand names to be sold in Gap and Banana Republic retail stores in the United States and Canada. In July 2011, we also renewed our license agreement with The Gap Inc. for international distribution of fragrances through Gap and Banana Republic stores as well as select specialty and department stores outside the United States, including duty-free and other travel related retailers. These renewal agreements, which became effective on January 1, 2012, run through December 31, 2014. Commencing in 2015, our current plans are to continue to distribute Gap fragrances internationally and through their Outlet division in North America only, and distribute Banana Republic fragrances to Banana Republic stores and Banana Republic Factory Stores in North America as well as through international distribution.

Gap scents in current distribution include: *Close* (2009), *Stay* (2010), *Core* (2010), *Deep* (2011) and *Near* (2011). Building upon the success of the Gap brand's fragrances, in 2012 we launched a new fragrance concept for Gap in an effort to capture the heritage of the brand. *Gap Established 1969* launched in March 2012 at Gap stores in the U. S. and international distribution commenced in June 2012. During 2013, we brought to market *Gap Established 1969 Bright* and *Electric* and in 2014, *Gap Established 1969 Inspire* and *Imagine* comes to market.

Banana Republic products currently available include: *Classic* (1995), *W* (1995), *Alabaster* (2006), *Jade* (2006), *Rosewood* (2006), *Slate* (2006), *Black Walnut* (2006), *Cordovan* (2007), *Malachite* (2007), *Republic of Women* (2009), *Republic of Men* (2009) and *Wildbloom* (2011). To complement the women's scent *Wildbloom*, introduced in 2011, we launched a brand extension, *Wildbloom Vert*, in early 2012 followed later in the year with *Wildblue*. In 2013, we brought new fragrances to market: Banana Republic's *Wildbloom Rouge* and *Wildblue Noir*. In the Fall of 2014, *Modern*, a new collection for men and women is scheduled to launch.

bebe Stores

In July 2008, we entered into an exclusive six-year worldwide agreement with bebe Stores, Inc., under which we design, manufacture and supply fragrance, bath and body products and color cosmetics for company-owned bebe stores in the United States and Canada, as well as select specialty and department stores worldwide. We have incorporated bebe's signature look into fragrance and cosmetics for the brand's strong, hip, sexy, and sophisticated clientele.

Our bebe signature fragrance was unveiled at more than 200 bebe stores in the U.S. in August 2009, which was followed by worldwide distribution shortly thereafter. Scents currently available for domestic and international markets include: *bebe* (2009), *bebe Sheer* (2010) and *bebe gold* (2011). In 2012, we introduced a new bebe scent, *Wishes & Dreams* and we introduced two other scents, *bebe desire* and *bebe Nouveau* in 2013.

Betsey Johnson

In July 2010, we entered into an exclusive worldwide agreement for the Betsey Johnson brand, under which we design, manufacture and sell fragrance, color cosmetics as well as other personal care products across a broad retail spectrum. The agreement includes a licensing component, enabling us to sell these fragrance and beauty products to specialty and department stores as well as other retail outlets worldwide.

Our first product launch under the Betsey Johnson brand occurred in 2010 with a new take on the designer's vintage fragrance. In 2011, we launched our first new Betsey Johnson scent, *Too Too*, with initial distribution in select department stores as well as Sephora stores in the U.S. In 2012, we added *Too Too Pretty* to the Betsy Johnson lineup.

Brooks Brothers

In November 2007, we entered into an exclusive agreement with Retail Brand Alliance, Inc. covering the design, manufacture and supply of personal care products for men and women to be sold at Brooks Brothers locations in the United States as well as a licensing agreement covering Brooks Brothers stores and specialty and department stores outside the United States and duty-free and other travel-related retailers.

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Brooks Brothers product lines currently available include: *Brooks Brothers New York* (2008), *Black Fleece* (2009), *Brooks Brothers Madison* (2010), and a trio of scents *Black Fleece Red, White, & Blue* (2010). In 2012, we introduced a new Brooks Brothers fragrance, *Miss Madison*. A new master brand for the Brooks Brothers brand is scheduled for launch in the Fall of 2014.

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 designs and manufactures personal care products for the Lane Bryant brand to be sold in Lane Bryant stores. Lane Bryant is responsible for marketing, promoting and selling these products.

In Spring 2011, we commenced shipments of a line of performance-based bath, body and specialty products, to be sold under Lane Bryant's Cacique® brand. This line was not successful and has since been discontinued. In 2012, we created a signature scent for Lane Bryant stores which is currently being sold chain-wide.

Business Strategy

Focus on prestige beauty brands. Prestige beauty brands are expected to contribute significantly to our growth. We focus on developing and launching quality fragrances utilizing internationally renowned brand names. By identifying and concentrating in the most receptive market segments and territories where our brands are known, and executing highly targeted launches that capture the essence of the brand, we have had a history of successful launches. Certain fashion designers and other licensors choose us as a partner because our Company's size enables us to work more closely with them in the product development process as well as our successful track record.

Grow portfolio brands through new product development and marketing. We grow through the creation of fragrance family extensions within the existing brands in our portfolio. Every year or two, we create a new family of fragrances for each brand in our portfolio. We frequently introduce "seasonal" fragrances as well. With new introductions, we leverage our ability and experience to gauge trends in the market and further leverage the brand name into different product families in order to maximize sales and profit potential. We have had success in introducing new fragrance families (sub-brands, or flanker brands) within our brand franchises. Furthermore, we promote the smooth and consistent performance of our prestige perfume operations through knowledge of the market, detailed analysis of the image and potential of each brand name, a "good dose" of creativity and a highly professional approach to international distribution channels.

Continue to add new brands to our portfolio, through new licenses or acquisitions. Prestige brands are the core of our business and we intend to add new prestige beauty brands to our portfolio. Over the past twenty years, we have built our portfolio of well-known prestige brands through acquisitions and new license agreements. We intend to further build on our success in prestige fragrances and pursue new licenses and acquire new brands to strengthen our position in the prestige beauty market. To that end, in December 2012, we received the Burberry exit payment of €181 million (approximately \$239 million), which we believe should assist us in entering new brand licenses or outright

acquisitions. However, we cannot assure you that we will be able to enter into any future agreements or acquire brands, assets on terms favorable to us, or if we do, that any such transaction will be successful. We identify prestige brands that can be developed and marketed into a full and varied product families and, with our technical knowledge and practical experience gained over time, take licensed brand names through all phases of concept, development, manufacturing, marketing and distribution.

Expand existing portfolio into new categories. We intend to continue to broaden our product offering beyond the fragrance category and offer other fragrance related products and personal care products under some of our existing brands. We believe such product offerings meet customer needs and further strengthen customer loyalty.

Continue to build global distribution footprint. Our business is a global business and we intend to continue to build our global distribution footprint. In order to adapt to changes in the environment and our business, we have modified our distribution model and have formed and are operating joint ventures or distribution subsidiaries in the major markets of the United States, Italy, Spain and Germany for distribution of prestige fragrances. Although we may look into future joint ventures arrangements or acquire distribution companies within other key markets to distribute certain of our prestige brands, we must also take into consideration the effect of the termination of the Burberry license. Accordingly, we are presently in the process of liquidating our wholly-owned distributor in the United Kingdom. While building a global distribution footprint is part of our long-term strategy, we may need to make certain decisions based on the short-term needs of the business. We believe that in certain markets, vertical integration of our distribution network may be one of the keys to future growth of our Company, and ownership of such distribution should enable us to better serve our customers' needs in local markets and adapt more quickly as situations may determine.

Build specialty retail business. We believe that specialty retailers are growing their beauty business by partnering with companies like Inter Parfums. In that regard, we now have agreements in place for the following brands, Gap and Banana Republic, Brooks Brothers, bebe, Betsey Johnson and Lane Bryant. We are responsible for product development, formula creation, packaging and manufacturing under all of those brands. Gap, Banana Republic, Brooks Brothers, bebe Stores, Inc. and Lane Bryant are innovative specialty retailers which offer a variety of lifestyle merchandise to highly defined customer niches.

Production and Supply

The stages of the development and production process for all fragrances are as follows:

..Simultaneous discussions with perfume designers and creators (includes analysis of esthetic and olfactory trends, target clientele and market communication approach);

.. Concept choice;

.. Produce mock-ups for final acceptance of bottles and packaging;

“Receive bids from component suppliers (glass makers, plastic processors, printers, etc.) and packaging companies;

“Choose suppliers;

“Schedule production and packaging;

“Issue component purchase orders;

“Follow quality control procedures for incoming components; and

“Follow packaging and inventory control procedures.

Suppliers who assist us with product development include:

“Independent perfumery design companies (Federico Restrepo, Fabien Baron, Aesthete, Ateliers Dinand);

..Perfumers (IFF, Firmenich, Robertet, Givaudan, Takasago) which create a fragrance consistent with our expectations and, that of the fragrance designers and creators;

..Contract manufacturers of components such as glassware (Saint Gobain, Saverglass, Pochet, Nouvelles Verreries de Momignie), caps (MT Packaging, Codiplas, Risdon, Newburgh) or boxes (Printor Packaging, Draeger);

..Production specialists who carry out packaging (MF Production, Brand, CCI, IKI Manufacturing) or logistics (SAGA for storage, order preparation and shipment).

For our prestige products, component and contract filling needs are purchased from many different suppliers located around the world. The suppliers' accounts for our European operations are primarily settled in euro and for our United States operations, suppliers' accounts are primarily settled in U.S. dollars. The components for our specialty retail products are sourced and our specialty retail products are primarily produced and filled in the United States, and our mass market products are primarily manufactured, produced or filled in the United States or China.

Marketing and Distribution

Prestige Products

Our prestige products are distributed in over 100 countries around the world through a selective distribution network. For the majority of our international distribution of prestige products, we contract with independent distribution companies specializing in luxury goods. In each country, we designate anywhere from one to three distributors on an exclusive basis for one or more of our name brands. We also distribute our prestige products through a variety of duty-free operators, such as airports and airlines and select vacation destinations.

As our business is a global one, we intend to continue to build our global distribution footprint. For distribution of prestige brands of our European operations we presently operate through our distribution subsidiaries in the major markets of Italy, Spain and Germany for distribution of prestige fragrances. In addition we formed Interparfums Luxury Brands, Inc., a Delaware corporation and subsidiary of our French subsidiary Interparfums SA, for distribution of European based prestige brands in the United States. It has also entered into an agreement with Clarins Fragrance Group US (a Division of Clarins Group) effective January 1, 2011 to share sales and distribution personnel and facilities.

Our third party distributors vary in size depending on the number of competing brands they represent. This extensive and diverse network together with our own distribution subsidiaries provides us with a significant presence in over 100 countries around the world.

Approximately 40% of our European based prestige fragrance net sales are denominated in U.S. dollars. We address 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.

The business of our European operations has become increasingly seasonal due to the timing of shipments by our majority-owned distribution subsidiaries to their customers, which are weighted to the second half of the year.

Specialty Retail Products

We do not presently market and distribute Gap, Banana Republic, Brooks Brothers or Lane Bryant specialty retail products to third parties in the United States. Marketing and distribution for such brands are the responsibility of the brand owners, which market and sell the products we produce in their own retail locations. However, with respect to our agreements with bebe Stores, Inc. and Betsey Johnson, we have the rights to distribute product to their stores as well as to other retail outlets and department stores within the United States.

With respect to Gap, Banana Republic, Brooks Brothers, bebe, and Betsey Johnson brands, we also distribute product to specialty retailers and department stores outside the United States, including duty-free and other travel-related retailers. We utilize our in house sales team to reach our third party distributors and customers outside the United States.

In addition, the business of our United States operations has become increasingly seasonal as shipments to our specialty retail customers are weighted toward the second half of the year.

Geographic Areas

United States export sales were approximately \$50.4 million, \$38.8 million and \$24.9 million in 2013, 2012 and 2011, respectively. Consolidated net sales to customers by region are as follows:

(in thousands)	Year ended December 31,	
	2013	2012 2011