

INTER PARFUMS INC  
Form 10-Q  
August 07, 2015

UNITED STATES

**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

( MARK ONE )

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2015.

**OR**

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

Commission File No. **0-16469**

***INTER PARFUMS, INC.***

(Exact name of registrant as specified in its charter)

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

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

**(212) 983-2640**  
(Registrants telephone number, including area code)

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

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

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

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

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

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

At August 6, 2015, there were 31,005,208 shares of common stock, par value \$.001 per share, outstanding.

*INTER PARFUMS, INC. AND SUBSIDIARIES*

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*INTER PARFUMS, INC. AND SUBSIDIARIES*

**Part I. Financial Information**

**Item 1. Financial Statements**

In our opinion, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly our financial position, results of operations and cash flows for the interim periods presented. We have condensed such financial statements in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). Therefore, such financial statements do not include all disclosures required by accounting principles generally accepted in the United States of America. In preparing these consolidated financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through the date the consolidated financial statements were issued by filing with the SEC. These financial statements should be read in conjunction with our audited financial statements for the year ended December 31, 2014 included in our annual report filed on Form 10-K.

The results of operations for the six months ended June 30, 2015 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,<br>2015 | December 31,<br>2014 |
|--|------------------|----------------------|
| <b>ASSETS</b>  |                  |                      |
| Current assets:  |                  |                      |
| Cash and cash equivalents  | \$76,931         | \$ 90,138            |
| Short-term investments   | 151,901          | 190,152              |
| Accounts receivable, net   | 89,486           | 90,124               |
| Inventories  | 122,352          | 102,326              |
| Receivables, other   | 1,959            | 1,542                |
| Other current assets   | 5,780            | 4,504                |
| Income tax receivable  | 866              | 929                  |
| Deferred tax assets  | 7,180            | 6,848                |
| Total current assets   | 456,455          | 486,563              |
| Equipment and leasehold improvements, net  | 8,618            | 9,187                |
| Trademarks, licenses and other intangible assets, net  | 208,637          | 98,531               |
| Other assets   | 9,319            | 10,225               |
| Total assets   | \$683,029        | \$ 604,506           |
| <b>LIABILITIES AND EQUITY</b>  |                  |                      |
| Current liabilities:   |                  |                      |
| Loans payable – banks  | \$—              | \$ 298               |
| Current portion of long-term debt  | 21,910           | —                    |
| Accounts payable - trade   | 53,302           | 46,646               |
| Accrued expenses   | 33,120           | 49,194               |
| Income taxes payable   | 2,011            | 3,773                |
| Dividends payable  | 4,030            | 3,717                |
| Total current liabilities  | 114,373          | 103,628              |
| Long-term debt, less current portion   | 89,727           | —                    |
| Deferred tax liability   | 4,394            | 2,154                |
| 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 31,003,908 and 30,977,293 shares at June 30, 2015 and December 31, 2014, respectively | 31               | 31                   |

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|  |           |            |
|--|-----------|------------|
| Additional paid-in capital   | 61,015    | 60,200     |
| Retained earnings  | 380,421   | 374,121    |
| Accumulated other comprehensive (loss)   | (39,459 ) | (15,823 )  |
| Treasury stock, at cost, 9,897,995 common shares at<br>June 30, 2015 and December 31, 2014, respectively | (36,464 ) | (36,464 )  |
| Total Inter Parfums, Inc. shareholders' equity   | 365,544   | 382,065    |
| Noncontrolling interest  | 108,991   | 116,659    |
| Total equity   | 474,535   | 498,724    |
| Total liabilities and equity   | \$683,029 | \$ 604,506 |

*See notes to consolidated financial statements.*

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

(In thousands except per share data)

*(Unaudited)*

|   | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |            |
|---|--------------------------------|------------|------------------------------|------------|
|   | 2015                           | 2014       | 2015                         | 2014       |
| Net sales   | \$ 102,021                     | \$ 118,192 | \$ 211,270                   | \$ 239,923 |
| Cost of sales   | 41,696                         | 50,076     | 83,335                       | 102,577    |
| Gross margin  | 60,325                         | 68,116     | 127,935                      | 137,346    |
| Selling, general and administrative expenses                        | 52,083                         | 55,265     | 98,627                       | 107,073    |
| Income from operations  | 8,242                          | 12,851     | 29,308                       | 30,273     |
| Other expenses (income):  |                                |            |                              |            |
| Interest expense  | 613                            | 574        | 771                          | 847        |
| Loss on foreign currency  | 80                             | 122        | 2,086                        | 72         |
| Interest income   | (776 )                         | (948 )     | (1,972 )                     | (2,059 )   |
|   | (83 )                          | (252 )     | 885                          | (1,140 )   |
| Income before income taxes  | 8,325                          | 13,103     | 28,423                       | 31,413     |
| Income taxes  | 2,805                          | 5,436      | 9,598                        | 11,596     |
| Net income  | 5,520                          | 7,667      | 18,825                       | 19,817     |
| Less: Net income attributable to the noncontrolling interest        | 1,169                          | 1,558      | 4,467                        | 4,814      |
| Net income attributable to Inter Parfums, Inc.                      | \$ 4,351                       | \$ 6,109   | \$ 14,358                    | \$ 15,003  |
| Earnings per share:   |                                |            |                              |            |
| Net income attributable to Inter Parfums, Inc. common shareholders: |                                |            |                              |            |
| Basic   | \$ 0.14                        | \$ 0.20    | \$ 0.46                      | \$ 0.49    |
| Diluted   | \$ 0.14                        | \$ 0.20    | \$ 0.46                      | \$ 0.48    |

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|  |        |        |        |        |
|--|--------|--------|--------|--------|
| Weighted average number of shares outstanding: |        |        |        |        |
| Basic  | 30,988 | 30,938 | 30,984 | 30,919 |
| Diluted  | 31,107 | 31,069 | 31,089 | 31,063 |
| Dividends declared per share                   | \$0.13 | \$0.12 | \$0.26 | \$0.24 |

*See notes to consolidated financial statements*

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

(In thousands except per share data)

*(Unaudited)*

|   | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |           |
|---|--------------------------------|----------|------------------------------|-----------|
|   | 2015                           | 2014     | 2015                         | 2014      |
| Comprehensive income: (loss)  |                                |          |                              |           |
| Net income  | \$ 5,520                       | \$ 7,667 | \$ 18,825                    | \$ 19,817 |
| Other comprehensive income (loss):  |                                |          |                              |           |
| Reclassification from OCI into earnings, net                              | 608                            | —        | —                            | —         |
| Translation adjustments, net of tax                                       | 15,279                         | (3,233 ) | (32,589 )                    | (4,630 )  |
| Comprehensive income (loss)   | 21,407                         | 4,434    | (13,764 )                    | 15,187    |
| Comprehensive income (loss) attributable to the noncontrolling interests: |                                |          |                              |           |
| Net income  | 1,169                          | 1,558    | 4,467                        | 4,814     |
| Other comprehensive income (loss):  |                                |          |                              |           |
| Reclassification from OCI into earnings, net                              | 165                            | —        | —                            | —         |
| Translation adjustments, net of tax                                       | 4,122                          | (1,032 ) | (8,953 )                     | (1,510 )  |
| Comprehensive income (loss) attributable to the noncontrolling interests  | 5,456                          | 526      | (4,486 )                     | 3,304     |
| Comprehensive income attributable to Inter Parfums, Inc.                  | \$ 15,951                      | \$ 3,908 | \$ (9,278 )                  | \$ 11,883 |

*See notes to consolidated financial statements.*

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

|  | Six months ended<br>June 30, |           |
|--|------------------------------|-----------|
|  | 2015                         | 2014      |
| Common stock, beginning and end of period                          | \$31                         | \$31      |
| Additional paid-in capital, beginning of period                    | 60,200                       | 57,877    |
| Shares issued upon exercise of stock options                       | 429                          | 1,014     |
| Sale of subsidiary shares to noncontrolling interests              | (6 )                         | (319 )    |
| Stock-based compensation   | 392                          | 335       |
| Additional paid-in capital, end of period                          | 61,015                       | 58,907    |
| Retained earnings, beginning of period                             | 374,121                      | 359,459   |
| Net income   | 14,358                       | 15,003    |
| Dividends  | (8,058 )                     | (7,424 )  |
| Stock-based compensation   | —                            | 55        |
| Retained earnings, end of period                                   | 380,421                      | 367,093   |
| Accumulated other comprehensive income (loss), beginning of period | (15,823 )                    | 25,860    |
| Foreign currency translation adjustment                            | (23,636 )                    | (3,120 )  |
| Accumulated other comprehensive income (loss), end of period       | (39,459 )                    | 22,740    |
| Treasury stock, beginning of period                                | (36,464 )                    | (36,016 ) |
| Shares issued upon exercise of stock options                       | —                            | 101       |
| Shares received as proceeds of option exercises                    | —                            | (351 )    |
| Treasury stock, end of period                                      | (36,464 )                    | (36,266 ) |
| Noncontrolling interest, beginning of period                       | 116,659                      | 128,145   |
| Net income   | 4,467                        | 4,814     |
| Foreign currency translation adjustment                            | (8,953 )                     | (1,510 )  |
| Sale of subsidiary shares to noncontrolling interest               | 654                          | 1,309     |
| Dividends  | (3,836 )                     | (4,667 )  |
| Stock-based compensation   | —                            | 21        |
| Noncontrolling interest, end of period                             | 108,991                      | 128,112   |
| Total equity   | \$474,535                    | \$540,617 |

*See notes to consolidated financial statements.*

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

(In thousands)

*(Unaudited)*

|   | Six months ended |           |
|---|------------------|-----------|
|   | June 30,         |           |
|   | 2015             | 2014      |
| Cash flows from operating activities:   |                  |           |
| Net income  | \$ 18,825        | \$ 19,817 |
| Adjustments to reconcile net income to net cash used in operating activities: |                  |           |
| Depreciation and amortization   | 4,441            | 5,143     |
| Provision for doubtful accounts   | 55               | 37        |
| Noncash stock compensation  | 392              | 457       |
| Deferred tax provision  | 1,567            | 1,976     |
| Change in fair value of derivatives   | 186              | —         |
| Changes in:   |                  |           |
| Accounts receivable   | (4,494 )         | (17,157 ) |
| Inventories   | (26,182 )        | (9,049 )  |
| Other assets  | (1,929 )         | (1,336 )  |
| Accounts payable and accrued expenses   | (289 )           | (18,127 ) |
| Income taxes, net   | (1,601 )         | 6,799     |
| Net cash used in operating activities   | (9,029 )         | (11,440 ) |
| Cash flows from investing activities:   |                  |           |
| Purchases of short-term investments   | (56,307 )        | (233,794) |
| Proceeds from sale of short-term investments                                  | 79,592           | 198,968   |
| Purchases of equipment and leasehold improvements                             | (1,588 )         | (1,144 )  |
| Payment for intangible assets acquired  | (119,500)        | (704 )    |
| Net cash used in investing activities   | (97,803 )        | (36,674 ) |
| Cash flows from financing activities:   |                  |           |
| Repayments of loans payable – banks, net                                      | (274 )           | (5,836 )  |
| Proceeds from issuance of long-term debt                                      | 111,620          | —         |
| Repayments of long-term debt  | (438 )           | —         |
| Proceeds from exercise of options   | 428              | 801       |
| Proceeds from sale of stock of subsidiary                                     | 654              | 990       |
| Dividends paid  | (7,745 )         | (7,415 )  |

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|   |           |           |
|---|-----------|-----------|
| Dividends paid to noncontrolling interest           | (4,759 )  | (4,667 )  |
| Purchase of treasury stock                          | —         | (37 )     |
| Net cash provided by (used in) financing activities | 99,486    | (16,164 ) |
| Effect of exchange rate changes on cash             | (5,861 )  | (1,221 )  |
| Net decrease in cash and cash equivalents           | (13,207 ) | (65,499 ) |
| Cash and cash equivalents - beginning of period     | 90,138    | 125,650   |
| Cash and cash equivalents - end of period           | \$76,931  | \$60,151  |
| Supplemental disclosure of cash flow information:   |           |           |
| Cash paid for:                                      |           |           |
| Interest  | \$1,093   | \$699     |
| Income taxes  | 11,797    | 6,453     |

*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, 2014. 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 May 2014, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update which supersedes the most current revenue recognition requirements. The new revenue recognition standard requires entities to recognize revenue in a way that depicts the transfer of goods or services to customers in an amount that reflects the consideration which the entity expects to be entitled to in exchange for those goods or services. This guidance is effective for annual and interim reporting periods beginning after December 15, 2017, with early adoption permitted for annual periods after December 15, 2016. We are currently evaluating the standard to determine the impact of its adoption on our consolidated financial statements.

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

**3. New Agreements:**

In May 2015, the Company, through its majority owned Paris-based subsidiary, Interparfums SA, acquired the Rochas brand from The Procter & Gamble Company. This transaction includes all brand names and registered trademarks for Rochas (*Femme, Madame, Eau de Rochas*, etc.), mainly for class 3 (cosmetics) and class 25 (fashion). Substantially the entire €106 million purchase price for the assets acquired (approximately \$118 million) was allocated to trademarks with indefinite lives, including approximately \$5.4 million in acquisition related expenses. An additional \$4.4 million was paid for related inventory.

The cost of the acquisition was paid in cash on the closing date and was financed entirely through a 5-year term loan payable in equal quarterly installments plus interest. This term loan requires the maintenance of certain financial covenants including a maximum leverage ratio and a minimum interest coverage ratio. The facility also contains new debt restrictions among other standard provisions. The Company is in compliance with all of the covenants and other restrictions of the debt agreements. In order to reduce exposure to rising variable interest rates, the Company entered into a swap transaction effectively exchanging the variable interest rate to a fixed rate of approximately 1.2%. The swap is a derivative instrument and is therefore recorded at fair value and changes in fair value are reflected in the accompanying consolidated statements of income.

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

Activity relating to trademarks, licenses and other intangible assets is as follows:

| (In thousands)   | June 30,<br>2015 | December 31,<br>2014 |
|--|------------------|----------------------|
| Trademarks, licenses and other intangible assets – beginning of period | \$98,531         | \$ 116,243           |
| Trademarks, licenses and other intangible assets acquired              | 119,500          | 922                  |
| Amortization   | (2,830 )         | (6,595 )             |
| Foreign currency translation adjustment                                | (6,564 )         | (12,039 )            |
| Trademarks, licenses and other intangible assets – end of period       | \$208,637        | \$ 98,531            |

In April 2015, the Company, through its majority owned Paris-based subsidiary, Interparfums SA, entered into an 11-year exclusive worldwide license with Coach, Inc. to create, produce and distribute new perfumes and fragrance related products, including new men's and women's scents under the Coach brand name. Interparfums SA will distribute these fragrances globally to department stores, specialty stores and duty free shops, as well as in Coach retail stores beginning in 2016. The agreement is subject to certain minimum sales, advertising expenditures and royalty payments as are customary in our industry.

**4. Inventories:**

Inventories consist of the following:

| (In thousands)                    | June 30,<br>2015 | December 31,<br>2014 |
|-----------------------------------|------------------|----------------------|
| Raw materials and component parts | \$40,146         | \$ 36,383            |
| Finished goods                    | 82,206           | 65,943               |
|                                   | \$122,352        | \$ 102,326           |





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

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

| (In thousands)   | Fair Value Measurements at June 30, 2015 |  |   |   |
|--|--|--|---|---|
|  | Total                                    | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| <b>Assets:</b>   |  |  |   |   |
| Short-term investments   | \$ 151,901                               | \$ —   | \$ 151,901                                    | \$ —                                      |
| Foreign currency forward exchange contracts not accounted for using hedge accounting | 101                                      | —  | 101   | —   |
|  | \$ 152,002                               | \$ —   | \$ 152,002                                    | \$ —                                      |
| <b>Liabilities:</b>  |  |  |   |   |
| Interest rate swaps  | \$ 186                                   | \$ —   | \$ 186  | \$ —                                      |

| Fair Value Measurements at December 31, 2014 |                                     |                              |                          |
|--|-------------------------------------|------------------------------|--------------------------|
|  | Quoted Prices in Active Markets for | Significant Other Observable | Significant Unobservable |
|  | Inputs                              | Inputs                       | Inputs                   |

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|  | Total      | Identical<br>Assets<br>(Level<br>1) | (Level 2)  | (Level 3) |
|--|------------|-------------------------------------|------------|-----------|
| Assets:  |            |                                     |            |           |
| Short-term investments   | \$ 190,152 | \$ —                                | \$ 190,152 | \$ —      |
| Liabilities:   |            |                                     |            |           |
| Foreign currency forward exchange contracts not accounted for using hedge accounting | \$ 355     | \$ —                                | \$ 355     | \$ —      |

The carrying amount of cash and cash equivalents including money market funds, accounts receivable, other receivables, accounts payable and accrued expenses approximates fair value due to the short terms to maturity of these instruments. The carrying amount of loans payable approximates fair value as the interest rates on the Company's indebtedness approximate current market rates. The fair value of the Company's long-term debt was estimated based on the current rates offered to companies for debt with the same remaining maturities and is approximately equal to its carrying value.

Foreign currency forward exchange contracts are valued based on quotations from financial institutions and the value of interest rate swaps are the discounted net present value of the swaps using third party quotes obtained from financial institutions.

*INTER PARFUMS, INC. AND SUBSIDIARIES*

**Notes to Consolidated Financial Statements**

**6. Derivative Financial Instruments:**

The Company enters into foreign currency forward exchange contracts to hedge exposure related to receivables denominated in a foreign currency and occasionally to manage risks related to future transactions expected to be denominated in a foreign currency. In connection with the Rochas acquisition, \$108 million of the purchase price was paid in cash on the closing date and was financed entirely through a 5-year term loan. As the payment at closing was due in dollars and we had planned to finance it with debt in euro, the Company entered into foreign currency exchange contracts to secure the exchange rate for the \$108 million purchase price at \$1.067 per 1 euro. This derivative was designated and qualified as a cash flow hedge. The Company did not have any other cash flow hedges during the three and six months ended June 30, 2015 and 2014.

Gains and losses in derivatives not designated as hedges are included in loss on foreign currency on the accompanying income statement and were immaterial for the three and six months ended June 30, 2015 and 2014. For the three and six months ended June 30, 2015, the loss of \$0.2 million from the interest rate swap is included in interest income.

All derivative instruments are reported as either assets or liabilities on the balance sheet measured at fair value. The valuation of interest rate swaps resulted in a liability which is included in long-term debt on the accompanying balance sheets. The valuation of foreign currency forward exchange contracts not accounted for using hedge accounting as of June 30, 2015 resulted in an asset and is included in other current assets and at December 31, 2014 such valuation resulted in a liability and is included in accrued expenses on the accompanying balance sheet. Generally, increases or decreases in the fair value of derivative instruments will be recognized as gains or losses in earnings in the period of change. If the derivative instrument is designated and qualifies as a cash flow hedge, the changes in fair value of the derivative instrument will be recorded as a separate component of shareholders' equity.

At June 30, 2015, we had foreign currency contracts in the form of forward exchange contracts in the amount of approximately U.S. \$14.0 million, GB pounds £1.9 million and JPY ¥68.0 million which all have maturities of less than one year.

**7. Accrued Expenses:**

Accrued expenses include approximately \$9.0 million and \$16.5 million in advertising liabilities as of June 30, 2015 and December 31, 2014, respectively.

**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 for both the six months ended June 30, 2015 and 2014 aggregated \$0.03 million. 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.

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

The following table sets forth information with respect to nonvested options for the six month period ended June 30, 2015:

|   | Number of Shares | Weighted Average<br>Grant Date Fair Value |
|---|------------------|---|
| Nonvested options – beginning of period | 385,505          | \$ 7.14                                   |
| Nonvested options granted               | 14,000           | \$ 6.73                                   |
| Nonvested options vested or forfeited   | (7,815 )         | \$ 6.47                                   |
| Nonvested options – end of period       | 391,690          | \$ 7.14                                   |

Share-based payment expense decreased income before income taxes by \$0.20 million and \$0.39 million for the three and six months ended June 30, 2015, respectively, as compared to \$0.23 million and \$0.46 million for the corresponding periods of the prior year. Share-based payment expense decreased income attributable to Inter Parfums, Inc. by \$0.12 million and \$0.24 million for the three and six months ended June 30, 2015, respectively, as compared to \$0.15 million and \$0.26 million for the corresponding periods of the prior year.

The following table summarizes stock option information as of June 30, 2015:

|                                     | Shares    | Weighted Average<br>Exercise Price |
|-------------------------------------|-----------|------------------------------------|
| Outstanding at January 1, 2015      | 639,495   | \$ 23.19                           |
| Options granted                     | 14,000    | 25.67                              |
| Options cancelled                   | (2,950 )  | 26.02                              |
| Options exercised                   | (26,615 ) | 16.12                              |
| Outstanding at June 30, 2015        | 623,930   | \$ 23.53                           |
| Options exercisable                 | 232,240   | \$ 18.74                           |
| Options available for future grants | 316,705   |                                    |

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As of June 30, 2015, the weighted average remaining contractual life of options outstanding is 3.50 years (2.19 years for options exercisable), the aggregate intrinsic value of options outstanding and options exercisable is \$6.7 million and \$3.6 million, respectively, and unrecognized compensation cost related to stock options outstanding of Inter Parfums, Inc. aggregated \$2.3 million.

Cash proceeds, tax benefits and intrinsic value related to stock options exercised during the six months ended June 30, 2015 and June 30, 2014 were as follows:

| (In thousands)                             | June<br>30,<br>2015 | June<br>30,<br>2014 |
|--|---------------------|---------------------|
| Cash proceeds from stock options exercised | \$ 428              | \$ 801              |
| Tax benefits                               | —                   | —                   |
| Intrinsic value of stock options exercised | 462                 | 1,568               |

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

The weighted average fair values of the options granted by Inter Parfums, Inc. during the six months ended June 30, 2015 and 2014 were \$6.73 and \$8.37 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, 2015 and 2014 are set forth in the following table:

|  | June 30,<br>2015 |   | June 30,<br>2014 |   |
|--|------------------|---|------------------|---|
| Weighted average expected stock-price volatility | 34               | % | 37               | % |
| Weighted average expected option life            | 5 years          |   | 5 years          |   |
| Weighted average risk-free interest rate         | 1.28             | % | 1.55             | % |
| Weighted average dividend yield                  | 1.8              | % | 2.8              | % |

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.



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

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

| (In thousands)   | Three months ended |          | Six months ended |           |
|--|--------------------|----------|------------------|-----------|
|  | June 30,<br>2015   | 2014     | June 30,<br>2015 | 2014      |
| Numerator:   |                    |          |                  |           |
| Net income attributable to Inter Parfums, Inc.                         | \$ 4,351           | \$ 6,109 | \$ 14,358        | \$ 15,003 |
| Effect of dilutive securities of consolidated subsidiary               | —                  | —        | —                | —         |
| Numerator for diluted earnings per share                               | \$ 4,351           | \$ 6,109 | \$ 14,358        | \$ 15,003 |
| Denominator:   |                    |          |                  |           |
| Weighted average shares  | 30,988             | 30,938   | 30,984           | 30,919    |
| Effect of dilutive securities:   |                    |          |                  |           |
| Stock options  | 119                | 131      | 105              | 144       |
| Denominator for diluted earnings per share                             | 31,107             | 31,069   | 31,089           | 31,063    |
| Earnings per share:  |                    |          |                  |           |
| Net income attributable to Inter Parfums, Inc.<br>common shareholders: |                    |          |                  |           |
| Basic  | \$ 0.14            | \$ 0.20  | \$ 0.46          | \$ 0.49   |
| Diluted  | 0.14               | 0.20     | 0.46             | 0.48      |

Not included in the above computations is the effect of antidilutive potential common shares which consist of outstanding options to purchase 0.27 million shares and 0.13 million shares of common stock for the six months ended June 30, 2015 and 2014, respectively, and 0.26 million and 0.13 million shares of common stock for the three months ended June 30, 2015 and 2014, respectively.

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

| (In thousands)                                 | Three months ended |          | Six months ended |           |
|--|--------------------|----------|------------------|-----------|
|  | June 30,<br>2015   | 2014     | June 30,<br>2015 | 2014      |
| Net income attributable to Inter Parfums, Inc. | \$ 4,351           | \$ 6,109 | \$ 14,358        | \$ 15,003 |
|  | —                  | —        | 6                | 319       |

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Decrease in Inter Parfums, Inc.'s additional paid-in capital for subsidiary share transactions

|   |          |          |           |           |
|---|----------|----------|-----------|-----------|
| Change from net income attributable to Inter Parfums, Inc. and transfers from noncontrolling interest | \$ 4,351 | \$ 6,109 | \$ 14,352 | \$ 14,684 |
|---|----------|----------|-----------|-----------|

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*INTER PARFUMS, INC. AND SUBSIDIARIES***Notes to Consolidated Financial Statements****11. Segment and Geographic Areas:**

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

Information on our operations by geographical areas is as follows:

| (In thousands)                                  | Three months ended |           | Six months ended |              |
|---|--------------------|-----------|------------------|--------------|
|   | June 30,           |           | June 30,         |              |
|   | 2015               | 2014      | 2015             | 2014         |
| Net sales:                                      |                    |           |                  |              |
| United States                                   | \$24,874           | \$23,540  | \$47,353         | \$42,933     |
| Europe  | 77,221             | 94,673    | 164,008          | 197,049      |
| Eliminations                                    | (74 )              | (21 )     | (91 )            | (59 )        |
|   | \$102,021          | \$118,192 | \$211,270        | \$239,923    |
| Net income attributable to Inter Parfums, Inc.: |                    |           |                  |              |
| United States                                   | \$1,241            | \$1,405   | \$2,349          | \$1,338      |
| Europe  | 3,110              | 4,704     | 12,009           | 13,665       |
|   | \$4,351            | \$6,109   | \$14,358         | \$15,003     |
| Total Assets:                                   |                    |           | June 30,         | December 31, |
| United States                                   |                    |           | 2015             | 2014         |
| Europe  |                    |           | \$82,131         | \$78,740     |
| Eliminations of investment in subsidiary        |                    |           | 610,107          | 535,049      |
|   |                    |           | (9,209 )         | (9,283 )     |
|   |                    |           | \$683,029        | \$604,506    |



**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, 2014 and the reports Inter Parfums files from time to time with the Securities and Exchange Commission. Inter Parfums does not intend to and undertakes no duty to update the information contained in this report.

**Overview**

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

We produce and distribute our European based prestige products primarily under license agreements with brand owners, and European based prestige product sales represented approximately 78% and 82% of net sales for the six months ended June 30, 2015 and 2014, respectively. We have built a portfolio of prestige brands, which include *Balmain*, *Boucheron*, *Coach*, *Jimmy Choo*, *Karl Lagerfeld*, *Lanvin*, *Montblanc*, *Paul Smith*, *S.T. Dupont*, *Repetto*, *Rochas* and *Van Cleef & Arpels*, whose products are distributed in over 100 countries around the world. We own the Lanvin brand name for our class of trade, and license the Montblanc and Jimmy Choo brand names; for the six months ended June 30, 2015, sales of product for these brands represented 15%, 22%, and 18% of net sales, respectively.

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Through our United States operations, we also market prestige brand as well as specialty retail fragrance and fragrance related products. United States operations represented 22% and 18% of net sales for the six months ended June 30, 2015 and 2014, respectively. These fragrance products are sold or to be sold under trademarks owned by us or pursuant to license or other agreements with the owners of the *Anna Sui*, *Abercrombie & Fitch*, *Agent Provocateur*, *Anna Sui*, *Banana Republic*, *bebe*, *Dunhill*, *Gap*, *Hollister*, *Oscar de la Renta*, and *Shanghai Tang* brands.

*INTER PARFUMS, INC. AND SUBSIDIARIES*

Quarterly sales fluctuations are influenced by the timing of new product launches as well as the third and fourth quarter holiday season. In certain markets where we sell directly to retailers, seasonality has been more evident in the past few years. We operate distribution subsidiaries in Italy, Germany, Spain, and the United States. In addition, our specialty retail product lines sold to United States 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, 2015, the economic uncertainty and financial market volatility taking place in certain European countries, the Middle East and China had a small negative impact on our business, and at this time we do not believe it will significantly affect our business for the foreseeable future. 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 strong U.S. dollar has a negative impact on our net sales. However, earnings are positively affected by a strong dollar, because almost 50% of net sales of our European operations are denominated in U.S. dollars, while almost all costs of our European operations are incurred in euro. Our Company addresses certain financial exposures through a controlled program of risk

management that includes the use of derivative financial instruments. We primarily enter into foreign currency forward exchange contracts to reduce the effects of fluctuating foreign currency exchange rates.



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

**Recent Important Events**

***Coach***

In April 2015, the Company, through its majority owned Paris-based subsidiary, Interparfums SA, entered into an 11-year exclusive worldwide license with Coach, Inc. to create, produce and distribute new perfumes and fragrance related products, including new men's and women's scents under the Coach brand name. Interparfums SA will distribute these fragrances globally to department stores, specialty stores and duty free shops, as well as in Coach retail stores beginning in 2016. The agreement is subject to certain minimum sales, advertising expenditures and royalty payments as are customary in our industry.

***Rochas***

In May 2015, the Company, through its majority owned Paris-based subsidiary, Interparfums SA, acquired the Rochas brand from The Procter & Gamble Company. This transaction includes all brand names and registered trademarks for Rochas (*Femme, Madame, Eau de Rochas*, etc.), mainly for class 3 (cosmetics) and class 25 (fashion). Substantially the entire €106 million purchase price for the assets acquired (approximately \$118 million) was allocated to trademarks with indefinite lives, including approximately \$5.4 million in acquisition related expenses. An additional \$4.4 million was paid for related inventory.

The cost of the acquisition was paid in cash on the closing date and was financed entirely through a 5-year term loan payable in equal quarterly installments plus interest. In order to reduce exposure to rising variable interest rates, the Company entered into a swap transaction effectively exchanging the variable interest rate to a fixed rate of approximately 1.2%. The swap is a derivative instrument and is therefore recorded at fair value and changes in fair value are reflected in the accompanying consolidated statements of income.

***Abercrombie & Fitch and Hollister***

In December 2014, the Company entered into a 7-year exclusive worldwide license to create, produce and distribute new perfumes and fragrance related products under the Abercrombie & Fitch and Hollister brand names. The

Company will distribute these fragrances internationally in specialty retailers, high-end department stores and duty free shops, and in the U.S., in duty free shops and potentially in Abercrombie & Fitch and Hollister retail stores. The agreement is subject to certain minimum sales, advertising expenditures and royalty payments as are customary in our industry. New men's and women's scents are planned for both Abercrombie & Fitch and Hollister for 2016.

### **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.

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

***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.

***Sales Returns***

Generally, we do not permit customers to return their unsold products. However, for U.S. distribution of our prestige products, we allow 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.

*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 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 indicate that the carrying value of an indefinite-lived intangible asset may not be recoverable. When testing indefinite-lived intangible assets for impairment, the evaluation requires a comparison of the estimated fair value of the asset to the carrying value of the asset. The fair values used in our evaluations are estimated based upon discounted future cash flow projections using a weighted average cost of capital of 6.7%. The cash flow projections are based upon a number of assumptions, including, future sales levels and future cost of goods and operating expense levels, as well as economic conditions, changes to our business model or changes in consumer acceptance of our products which are more subjective in nature. If the carrying value of an indefinite-lived intangible asset exceeds its fair value, an impairment charge is recorded.

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 indefinite-lived intangible assets. 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. The following table presents the impact a change in the following significant assumptions would have had on the calculated fair value in 2014 assuming all other assumptions remained constant:

| In millions                      | Change | Increase (decrease)<br>to fair value |
|----------------------------------|--------|--------------------------------------|
| Weighted average cost of capital | +10    | % \$ (1.0 )                          |
| Weighted average cost of capital | -10    | % \$ 1.3                             |
| Future sales levels              | +10    | % \$ 1.0                             |
| Future sales levels              | -10    | % \$ (1.0 )                          |



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

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

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

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

***Derivatives***

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

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

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



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

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

**Results of Operations****Three and Six Months Ended June 30, 2015 as Compared to the Three and Six Months Ended June 30, 2014****Net Sales**

|                                    | Three months ended |         |          | Six months ended |          |          |   |
|------------------------------------|--------------------|---------|----------|------------------|----------|----------|---|
|                                    | June 30,           |         | % Change | June 30,         |          | % Change |   |
|                                    | 2015               | 2014    |          | 2015             | 2014     |          |   |
|                                    | (\$ in millions)   |         |          |                  |          |          |   |
| European based brand product sales | \$77.1             | \$94.7  | -18.5    | % \$163.9        | \$ 197.0 | -16.8    | % |
| United States based product sales  | 24.9               | 23.5    | 5.7      | % 47.4           | 42.9     | 10.3     | % |
| Total net sales                    | \$102.0            | \$118.2 | -13.7    | % \$211.3        | \$ 239.9 | -11.9    | % |

Net sales for the three months ended June 30, 2015 decreased 13.7% to \$102.0 million, as compared to \$118.2 million for the corresponding period of the prior year. At comparable foreign currency exchange rates, net sales decreased 5.3%. Net sales for the six months ended June 30, 2015 decreased 11.9% to \$211.3 million, as compared to \$239.9 million for the corresponding period of the prior year. At comparable foreign currency exchange rates, net sales decreased 4.0% for the period.

European based prestige product sales decreased 18.5% and 16.8% for the three and six months ended June 30, 2015, respectively as compared to the corresponding periods of the prior year. At comparable foreign currency exchange rates, European based prestige product sales decreased 8% and 7% for the three and six months ended June 30, 2015, respectively. Jimmy Choo was our leading brand in the second quarter. Strong momentum by the Jimmy Choo *Man* line, particularly in the U.S. market, along with the launch earlier this year of Jimmy Choo *Blossom* for women, led to an increase in local currency sales of 62%. In dollars, Jimmy Choo brand sales increased 30% in the period, reflecting the impact of the 19% depreciation of the euro versus the dollar compared to the prior year second quarter. The weakening of the euro also had the effect of exacerbating lower second quarter sales of other brands, such as Montblanc, which experienced a 23% decline in local currency and a 38% reduction in dollars. Montblanc sales also had a difficult comparison against the highly successful launch of *Emblem* in the second quarter of 2014. Lanvin sales in the second quarter were down 9% and 27% in local currency and dollars, respectively, largely as a result of a challenging market environment in Eastern Europe, which was partially offset by gains for the ever resilient *Eclat d'Arpège*.

**INTER PARFUMS, INC. AND SUBSIDIARIES**

Despite the effect of a weaker euro, we maintain confidence in our future as we have strengthened advertising and promotional investments supporting all portfolio brands and accelerated brand development. Our expectations reflect plans to continue to build upon the strength of our brands and our worldwide distribution network. For the remainder of 2015, although we anticipate strong performances from certain of our existing scents within our major European based prestige brands, our optimism is somewhat tempered by the negative market conditions seen in China and Eastern Europe that have continued through the second quarter of 2015, and which we expect to continue throughout 2015. However, we are very excited for the upcoming August launch of Jimmy Choo *Illicit*, which promises to build on the strong results we've generated with this brand. Our plans also call for the unveiling of *Lady Emblem* during the second half of 2015, which we expect to boost Montblanc sales as the year progresses and into 2016. Lanvin sales should also benefit from new launch activity in the coming months, with the introduction of a new scent for women, *Eclat de Fleurs*.

United States based product sales increased 5.7% and 10.3% for the three and six months ended June 30, 2015, respectively as compared to the corresponding periods of the prior year and reflects the successful launches of *Extraordinary* by Oscar de la Renta and *Icon* by Dunhill earlier this year. Both of these launches have exceeded our expectations. Oscar de la Renta brand sales increased 94% to \$8.4 million for the six months ended June 30, 2015, as compared to \$4.3 million for the corresponding period of the prior year. Dunhill brand sales increased 58% in the six month period to \$10.2 million, as compared to \$6.5 million for the corresponding period of the prior year. Mitigating some of these gains was the decline in Anna Sui brand sales, which resulted from continued negative market conditions in China. Anna Sui product sales declined 24% and 35% for the three and six months ended June 30, 2015 respectively, as compared to the corresponding periods of the prior year.

**Net Sales to Customers by Region**

(In millions)

|                           | Six months ended June 30, |          |
|---------------------------|---------------------------|----------|
|                           | 2015                      | 2014     |
| North America             | \$ 55.3                   | \$ 59.2  |
| Western Europe            | 49.5                      | 63.5     |
| Eastern Europe            | 13.9                      | 16.8     |
| Central and South America | 21.8                      | 26.7     |
| Middle East               | 26.2                      | 25.2     |
| Asia                      | 39.5                      | 42.9     |
| Other                     | 5.1                       | 5.6      |
|                           | \$ 211.3                  | \$ 239.9 |

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The chart above demonstrates the effect of negative market conditions in China and Eastern Europe. The 2015 decline in Western Europe includes the effect of the 19% devaluation of the euro against the dollar and the difficult comparison for Karl Lagerfeld brand sales in 2015 compared to the initial launch of that brand in the 2014 period.

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

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**INTER PARFUMS, INC. AND SUBSIDIARIES**

| <b>Gross margin</b><br>(In millions)   | Three months ended<br>June 30, |          | Six months ended<br>June 30, |          |
|--|--------------------------------|----------|------------------------------|----------|
|  | 2015                           | 2014     | 2015                         | 2014     |
| Net sales                              | \$ 102.0                       | \$ 118.2 | \$ 211.3                     | \$ 239.9 |
| Cost of sales                          | 41.7                           | 50.1     | 83.3                         | 102.6    |
| Gross margin                           | \$ 60.3                        | \$ 68.1  | \$ 128.0                     | \$ 137.3 |
| Gross margin as a percent of net sales | 59 %                           | 58 %     | 61 %                         | 57 %     |

Gross profit margin was 59% and 61% for the three and six months ended June 30, 2015, respectively, as compared to 58% and 57% for the corresponding periods of the prior year. For European operations, gross profit margin was 62.9% and 63.9% for the three and six months ended June 30, 2015, respectively, as compared to 59.7% and 59.6% for the corresponding periods of the prior year. The margin fluctuation for European operations is directly related to currency fluctuation. We carefully monitor movements in foreign currency exchange rates as almost 50% of our European based operations net sales are denominated in U.S. dollars, while most of our costs are incurred in euro. From a margin standpoint, a strong U.S. dollar has a positive effect on our gross margin while a weak U.S. dollar has a negative effect. The average dollar/euro exchange rate for both the three and six months ended June 30, 2015 was 1.11, as compared to 1.37 for both periods in 2014.

For U.S. operations, gross profit margin was 49.1% for the six months ended June 30, 2015, as compared to 46.3% for the corresponding period of the prior year. The increase for the six months ended June 30, 2015 is primarily the result of a shift in product mix during the period as sales growth for our U.S. operations has primarily come from our newest, higher margin prestige product licenses, such as Oscar de la Renta and Dunhill, while sales of lower margin specialty retail and mass market products have been in a decline. This trend is expected to continue throughout 2015 although some quarterly fluctuations will occur.

Generally, we do not bill customers for shipping and handling costs, and such costs, which aggregated \$1.1 million and \$2.2 million for the three and six month periods ended June 30, 2015, respectively, as compared to \$1.2 million and \$2.4 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<br>(In millions) | Three months<br>ended<br>June 30, |      | Six months<br>ended<br>June 30, |      |
|---|-----------------------------------|------|---------------------------------|------|
|   | 2015                              | 2014 | 2015                            | 2014 |

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|  |        |        |        |         |
|--|--------|--------|--------|---------|
| Selling, general and administrative expenses                           | \$52.1 | \$55.3 | \$98.6 | \$107.1 |
| Selling, general and administrative expenses as a percent of net sales | 51 %   | 47 %   | 47 %   | 45 %    |

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

Selling, general and administrative expenses decreased 6% and 8% for the three and six months ended June 30, 2015, respectively, as compared to the corresponding periods of the prior year. Selling, general and administrative expenses were 51% and 47% of net sales for the three and six months ended June 30, 2015, as compared to 47% and 45% for the corresponding periods of the prior year. For European operations, selling, general and administrative expenses decreased 8% and 12% for the three and six months ended June 30, 2015, as compared to the corresponding periods of the prior year and represented 55% and 48% of sales for the three and six months ended June 30, 2015, as compared to 49% and 45% for the corresponding periods of the prior year. With constant currency sales declining 8% and 7% for the three and six months ended June 30, 2015, respectively, we have not yet gained leverage over our fixed expenses. For U.S. operations, while sales increased 6% and 10% for the three and six months ended June 30, 2015, respectively, as compared to the corresponding periods of the prior year, selling, general and administrative expenses increased 6% and 11% for the three and six months ended June 30, 2015. This increase is due as the result of sales growth from our U.S. operations coming primarily from our newest, prestige product licenses, such as Oscar de la Renta and Dunhill, which bear royalty and advertising expenses.

Promotion and advertising included in selling, general and administrative expenses aggregated \$17.5 million and \$30.1 million for the three and six months ended June 30, 2015, respectively, as compared to \$20.3 million and \$34.8 million for the corresponding periods of the prior year. Promotion and advertising represented 17% of net sales for both three month periods ended June 30, 2015 and 2014, and represented 14% of net sales for both six month periods ended June 30, 2015 and 2014.

Royalty expense included in selling, general and administrative expenses aggregated \$7.6 million and \$16.2 million for the three and six months ended June 30, 2015, respectively, as compared to \$8.0 million and \$15.8 million for the corresponding periods of the prior year. Royalty expense represented 7.5% and 7.7% of net sales for the three and six months ended June 30, 2015, as compared to 6.8% and 6.6% of net sales for the corresponding period of the prior year. Royalty expense for the three and six months ended June 30, 2015 include \$0.6 million and \$1.2 million, respectively, relating to a June 2015 settlement with Burberry regarding the royalty liability.

Service fees relating to the activities of our distribution subsidiaries aggregated \$2.2 million and \$4.7 million for the three and six months ended June 30, 2015, respectively, as compared to \$2.4 million and \$5.7 million for the corresponding periods of the prior year.

As a result of the above analysis regarding margins and selling, general and administrative expenses, income from operations decreased to \$8.2 million for the three months ended June 30, 2015, as compared to \$12.9 million for the corresponding period of the prior year. Income from operations decreased to \$29.3 million for the six month period ended June 30, 2015, as compared to \$30.3 million for the corresponding period of the prior year. Operating margins were 8.1% and 13.9% of net sales for the three and six months ended June 30, 2015, respectively, as compared to

10.9% and 12.6% for the corresponding periods of the prior year.

*Other Income and Expense*

Interest expense aggregated \$0.6 million and \$0.8 million for the three and six months ended June 30, 2015 and 2014. We use the credit lines available to us, as needed, to finance our working capital needs as well as our financing needs for brand acquisitions.



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

Foreign currency loss aggregated \$0.1 and \$2.1 million for the three and six months ended June 30, 2015, respectively, as compared to \$0.1 million for both the corresponding periods of the prior year. The volatility in currency exchange rates during the first quarter of 2015 had not been seen in many years. The loss incurred during the six months ended June 30, 2015, primarily represents losses from intercompany accounts between our majority owned subsidiary, Interparfums SA, and its other foreign subsidiaries, which were not hedged by the use of foreign currency forward exchange contracts. We typically enter into foreign currency forward exchange contracts to manage exposure related to receivables from unaffiliated third parties denominated in a foreign currency and occasionally to manage risks related to future sales expected to be denominated in a foreign currency. Almost 50% of net sales of our European operations are denominated in U.S. dollars.

Interest income aggregated \$0.8 million and \$2.0 million for the three and six months ended June 30, 2015, respectively, as compared to \$0.9 million and \$2.1 million for the corresponding periods of the prior year. Cash and cash equivalents and short-term investments are primarily invested in certificates of deposit with varying maturities.

***Income Taxes***

Our effective income tax rate was 34% for both the three and six-month periods ended June 30, 2015, respectively, as compared to 41% and 37% for the corresponding periods of the prior year. In the 2014 second quarter, the Company accrued \$0.8 million for a tax levied by the French Government equal to 3% on any dividend paid by a French company to its shareholders. Although a similar amount was incurred in the second quarter of 2015, the Company modified its income tax accrual for interim periods to utilize an annual effective rate. Excluding this tax our effective income tax rate was 34% for the six months ended June 30, 2014. 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 |          | Six Months Ended |           |
|---|--------------------|----------|------------------|-----------|
|   | June 30,<br>2015   | 2014     | June 30,<br>2015 | 2014      |
| Net income European operations                                      | \$ 4,279           | \$ 6,262 | \$ 16,476        | \$ 18,479 |
| Net income U.S. operations  | 1,241              | 1,405    | 2,349            | 1,338     |
| Net income  | 5,520              | 7,667    | 18,825           | 19,817    |
| Less: Net income attributable to the noncontrolling interest        | 1,169              | 1,558    | 4,467            | 4,814     |
| Net income attributable to Inter Parfums, Inc.                      | \$ 4,351           | \$ 6,109 | \$ 14,358        | \$ 15,003 |
| Earnings per share:   |                    |          |                  |           |
| Net income attributable to Inter Parfums, Inc. common shareholders: |                    |          |                  |           |
| Basic   | \$ 0.14            | \$ 0.20  | \$ 0.46          | \$ 0.49   |
| Diluted   | \$ 0.14            | \$ 0.20  | \$ 0.46          | \$ 0.48   |
| Weighted average number of shares outstanding:                      |                    |          |                  |           |
| Basic   | 30,988             | 30,938   | 30,984           | 30,919    |
| Diluted   | 31,107             | 31,069   | 31,089           | 31,063    |

Net income was \$5.5 million for the three months ended June 30, 2015, as compared to \$7.7 million for the corresponding period of the prior year. Net income was \$18.8 million for the six months ended June 30, 2015, as compared to \$19.8 million for the corresponding period of the prior year. The reasons for significant fluctuations in net income for both European operations and United States operations are directly related to the previous discussions relating to changes in sales, gross margin and selling, general and administrative expenses. As previously discussed, our European operations reported net sales are affected by changes in foreign currency exchange rates, as a strong U.S. dollar has a negative impact on reported net sales. However, earnings are positively affected by a strong U.S. dollar, because almost 50% of net sales of our European operations are denominated in U.S. dollars, while almost all costs of our European operations are incurred in euro. For United States operations during the six months ended June 30, 2015, sales increased 10% while selling, general and administrative expenses increased 11%. Therefore, the increase in net income for the six month period is primarily the result of the increase in gross margin.

The noncontrolling interest arises from 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. Net income attributable to the noncontrolling interest is directly related to the profitability of our European operations, and aggregated 27% of

European operations net income for the three and six months ended June 30, 2015, respectively, as compared to 25% and 26% for the corresponding periods of the prior year.

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

**Liquidity and Capital Resources**

The Company's financial position remains strong. At June 30, 2015, working capital aggregated \$342 million and we had a working capital ratio of almost 4.0 to 1. Cash and cash equivalents and short-term investments aggregated \$229 million, practically all of which is held in euro by our European operations and is readily convertible into U.S. dollars. We have not had any liquidity issues to date, and do not expect any liquidity issues relating to such cash and cash equivalents and short-term investments held by our European operations. Almost 90% of the Company's total assets are held by European operations. In addition to the cash and cash equivalents and short-term investments referred to above, approximately \$197 million of trademarks, licenses and other intangible assets are held by European operations.

The Company hopes to benefit from its substantial resources to potentially acquire additional brands either on a proprietary basis or as a licensee. Opportunities for external growth continue to be examined without urgency, with the priority of maintaining the quality and homogeneous nature of our portfolio. However, we cannot assure you that any new license or acquisition agreements will be consummated.

Cash used in operating activities was \$9.0 million for the six months ended June 30, 2015, as compared to \$11.4 million for the six months ended June 30, 2014. For the 2015 period, working capital items used \$34.5 million in cash from operating activities, as compared to \$38.9 million in the 2014 period. The only significant fluctuation relates to inventories which increased 26% in terms of cash flow and reflect levels needed to support all of our upcoming new product launches.

Cash flows used in investing activities in 2015 reflect the purchase and sales, in our European operations, of short-term investments. These investments are primarily certificates of deposit with maturities greater than three months. Approximately \$72 million of such certificates of deposit contain penalties where we would forfeit a portion of the interest earned in the event of early withdrawal. Our business is not capital intensive as we do not own any manufacturing facilities. However, on a full year basis, we spend approximately \$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 May 2015, the Company, through its majority owned Paris-based subsidiary, Interparfums SA, acquired the Rochas brand from The Procter & Gamble Company. This transaction includes all brand names and registered trademarks for Rochas (*Femme, Madame, Eau de Rochas*, etc.), mainly for class 3 (cosmetics) and class 25 (fashion). Substantially the entire €106 million purchase price for the assets acquired (approximately \$118 million) was allocated to trademarks

with indefinite lives, including approximately \$5.4 million in acquisition related expenses. An additional \$4.4 million was paid for related inventory.

The cost of the acquisition was paid in cash on the closing date and was financed entirely through a 5-year term loan payable in equal quarterly installments plus interest. In order to reduce exposure to rising variable interest rates, the Company entered into a swap transaction effectively exchanging the variable interest rate to a fixed rate of approximately 1.2%. The swap is a derivative instrument and is therefore recorded at fair value and changes in fair value are reflected in the accompanying consolidated statements of income.

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

Our short-term financing requirements are expected to be met by available cash on hand at June 30, 2015, cash generated by operations and short-term credit lines provided by domestic and foreign banks. The principal credit facilities for 2015 consist of a \$20.0 million unsecured revolving line of credit provided by a domestic commercial bank and approximately \$28.0 million in credit lines provided by a consortium of international financial institutions.

In January 2015, the Board of Directors authorized an 8% increase in the annual dividend to \$0.52 per share. The next quarterly cash dividend of \$0.13 per share is payable on October 15, 2015 to shareholders of record on September 30, 2015. The annual cash dividend for 2015 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 six months ended June 30, 2015.

**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.

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

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, 2015, we had foreign currency contracts in the form of forward exchange contracts in the amount of approximately U.S. \$14.0 million, GB pounds £1.9 million and JPY ¥68.0 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 June 2015 on €100 million of debt, effectively exchanging the variable interest rate to a fixed rate of approximately 1.2%. This derivative instrument is recorded at fair value and changes in fair value are reflected in the accompanying consolidated statements of income.

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

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

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

### **Changes in Internal Control Over Financial Reporting**



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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. In 2015, the Company has implemented *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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*INTER PARFUMS, INC. AND SUBSIDIARIES*

**Part II. Other Information**

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

**Item 6. Exhibits.**

The following documents are filed herewith:

| Exhibit No. | Description  | Page Number |
|-------------|--|-------------|
| 31.1        | Certifications required by Rule 13a-14(a) of Chief Executive Officer                       | 33          |
| 31.2        | Certifications required by Rule 13a-14(a) of Chief Financial Officer                       | 34          |
| 32.1        | Certification required by Section 906 of the Sarbanes-Oxley Act of Chief Executive Officer | 35          |
| 32.2        | Certification required by Section 906 of the Sarbanes-Oxley Act of Chief Financial Officer | 36          |
| 101         | Interactive data files   |             |

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on the 7th day of August 2015.

**INTER PARFUMS, INC.**

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

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