INTER PARFUMS INC
Form 10-Q
August 08, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

x Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2012.

OR

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

Commission File No. **0-16469**

INTER PARFUMS, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

At August 6, 2012, there were 30,567,181 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, 2011 included in our annual report filed on Form 10-K.

The results of operations for the six months ended June 30, 2012 are not necessarily indicative of the results to be expected for the entire fiscal year.

INTER PARFUMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands except share and per share data)

(Unaudited)

ASSETS

	June 30, 2012	December 31, 2011
Current assets:		
Cash and cash equivalents	$23,130	$ 35,856
Accounts receivable, net	139,327	175,223
Inventories	175,753	164,077
Receivables, other	1,287	3,258
Other current assets	5,847	4,258
Income tax receivable	1,967	1,404
Deferred tax assets	8,162	7,270
Total current assets	355,473	391,346
Equipment and leasehold improvements, net	16,102	14,525
Goodwill	2,693	2,763
Trademarks, licenses and other intangible assets, net	101,969	105,750
Other assets	2,024	1,650
Total assets	$478,261	$ 516,034
LIABILITIES AND EQUITY		
Current liabilities:		
Loans payable – banks	$4,448	$ 11,826
Current portion of long-term debt	1,528	4,480
Accounts payable, trade	74,931	112,726
Accrued expenses	43,200	52,042
Income taxes payable	6,355	2,099
Dividends payable	2,445	2,443
Total current liabilities	132,907	185,616

Deferred tax liability	5,653	6,068
Equity:		
Inter Parfums, Inc. shareholders' equity:		
Preferred stock, $.001 par; authorized 1,000,000 shares; none issued		
Common stock, $.001 par; authorized 100,000,000 shares; outstanding 30,567,181 and 30,541,506 shares at June 30, 2012 and December 31, 2011, respectively	31	31
Additional paid-in capital	52,184	50,883
Retained earnings	244,860	228,164
Accumulated other comprehensive income	1,782	7,747
Treasury stock, at cost, 10,009,492 common shares at June 30, 2012 and December 31, 2011	(34,151)	(34,151)
Total Inter Parfums, Inc. shareholders' equity	264,706	252,674
Noncontrolling interest	74,995	71,676
Total equity	339,701	324,350
Total liabilities and equity	$478,261	$ 516,034

See notes to consolidated financial statements.

INTER PARFUMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In thousands except per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net sales	$145,555	$121,063	$310,923	$254,426
Cost of sales	57,099	46,477	116,389	93,850
Gross margin	88,456	74,586	194,534	160,576
Selling, general and administrative expenses	75,828	63,739	150,152	124,188
Income from operations	12,628	10,847	44,382	36,388
Other expenses (income):				
Interest expense	442	390	805	830
Loss on foreign currency	931	567	1,178	148
Interest income	(311)	(389)	(835)	(706)
	1,062	568	1,148	272
Income before income taxes	11,566	10,279	43,234	36,116
Income taxes	4,085	3,851	15,499	12,348
Net income	7,481	6,428	27,735	23,768
Less: Net income attributable to the noncontrolling interest	1,473	1,435	6,230	6,016
Net income attributable to Inter Parfums, Inc.	$6,008	$4,993	$21,505	$17,752
Earnings per share:				
Net income attributable to Inter Parfums, Inc. common shareholders:				
Basic	$0.20	$0.16	$0.70	$0.58

Diluted	$0.20	$0.16	$0.70	$0.58
Weighted average number of shares outstanding:				
Basic	30,563	30,506	30,557	30,490
Diluted	30,688	30,695	30,687	30,664
Dividends declared per share	$0.08	$0.08	$0.16	$0.16

See notes to consolidated financial statements

INTER PARFUMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands except per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Comprehensive income (loss):				
Net income	$ 7,481	$ 6,428	$ 27,735	$ 23,768
Other comprehensive income:				
Net derivative instrument gain, net of tax	(56)	82	46	102
Translation adjustments, net of tax	(17,644)	3,963	(8,127)	21,382
Comprehensive income (loss)	(10,219)	10,473	19,654	45,252
Comprehensive income attributable to the noncontrolling interests:				
Net income	1,473	1,435	6,230	6,016
Other comprehensive income:				
Net derivative instrument gain, net of tax	(9)	21	16	22
Translation adjustments, net of tax	(4,535)	806	(2,132)	5,128
Comprehensive income (loss) attributable to the noncontrolling interests	(3,071)	2,262	4,114	11,166
Comprehensive income(loss) attributable to Inter Parfums, Inc.	$ (7,148)	$ 8,211	$ 15,540	$ 34,086

See notes to consolidated financial statements.

INTER PARFUMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In thousands)

(Unaudited)

	Inter Parfums, Inc. shareholders						
	Common stock	Additional paid-in Capital	Retained earnings	Accumulated other comprehensive income	Treasury stock	Noncontrolling interest	Total
Balance – January 1, 2011	$ 30	$ 48,887	$ 205,453	$ 14,757	$ (34,151)	$ 64,970	$ 299,946
Comprehensive income:							
Net income	—	—	17,752	—	—	6,016	23,768
Foreign currency translation adjustment	—	—	—	16,254	—	5,128	21,382
Net derivative instrument gain (loss), net of tax	—	—	—	80	—	22	102
Shares issued upon exercise of stock options	1	1,115	—	—	—	—	1,116
Purchase of subsidiary shares from noncontrolling interests	—	(417)	—	—	—	(333)	(750)
Sale of subsidiary shares to noncontrolling interests	—	479	—	—	—	2,021	2,500
Dividends	—	—	(4,881)	—	—	(3,149)	(8,030)
Stock compensation	—	352	90	—	—	32	474
Balance – June 30, 2011	$ 31	$ 50,416	$ 218,414	$ 31,091	$ (34,151)	$ 74,707	$ 340,508
Balance – January 1, 2012	$ 31	$ 50,883	$ 228,164	$ 7,747	$ (34,151)	$ 71,676	$ 324,350
Comprehensive income:							
Net income	—	—	21,505	—	—	6,230	27,735
Foreign currency translation adjustment	—	—	—	(5,995)	—	(2,132)	(8,127)
Net derivative instrument gain, net of tax	—	—	—	30	—	16	46
Shares issued upon exercise of stock options	—	311	—	—	—	—	311
Sale of subsidiary shares to noncontrolling interests	—	737	—	—	—	2,508	3,245
Dividends	—	—	(4,889)	—	—	(3,333)	(8,222)

Stock compensation	—	253	80	—	—	30	363
Balance – June 30, 2012	$ 31	$ 52,184	$ 244,860	$ 1,782	$ (34,151)	$ 74,995	$ 339,701

See notes to consolidated financial statements.

INTER PARFUMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six months ended June 30,	
	2012	2011
Cash flows from operating activities:		
Net income	$27,735	$23,768
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,455	6,221
Provision for doubtful accounts	472	1,166
Noncash stock compensation	425	536
Deferred tax (benefit)	(1,353)	45
Change in fair value of derivatives	(56)	(193)
Changes in:		
Accounts receivable	32,056	(14,830)
Inventories	(15,861)	(57,847)
Other assets	(55)	928
Accounts payable and accrued expenses	(43,321)	24,637
Income taxes payable, net	3,784	(6,749)
Net cash provided by (used in) operating activities	11,281	(22,318)
Cash flows from investing activities:		
Purchases of short-term investments	—	(4,022)
Proceeds from sale of short-term investments	—	42,052
Purchases of equipment and leasehold improvements	(5,968)	(5,502)
Payment for intangible assets acquired	(2,337)	(3,077)
Net cash provided by (used in) investing activities	(8,305)	29,451
Cash flows from financing activities:		
Proceeds from (repayments of) loans payable – banks, net	(7,272)	1,988
Repayment of long-term debt	(2,860)	(5,859)
Proceeds from exercise of options	311	1,116
Proceeds from sale of stock of subsidiary	3,245	2,500
Payment for noncontrolling interests acquired	—	(750)
Dividends paid	(4,889)	(4,418)
Dividends paid to noncontrolling interest	(3,333)	(3,149)

Net cash used in financing activities	(14,798)	(8,572)
Effect of exchange rate changes on cash	(904)	2,665
Net increase (decrease) in cash and cash equivalents	(12,726)	1,226
Cash and cash equivalents - beginning of period	35,856	37,548
Cash and cash equivalents - end of period	$23,130	$38,774
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	$838	$924
Income taxes	9,793	18,087

See notes to consolidated financial statements.

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

1. Significant Accounting Policies:

The accounting policies we follow are set forth in the notes to our financial statements included in our Form 10-K, which was filed with the Securities and Exchange Commission for the year ended December 31, 2011. We also discuss such policies in Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, included in this Form 10-Q.

2. New Accounting Pronouncements:

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

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

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

3. Status of Burberry License:

In December 2011, the Company and Burberry began discussions regarding the potential establishment of a new operating structure for the Burberry fragrance and beauty business. As there was no assurance that an agreement

would be reached, Burberry exercised its right to evaluate the purchase price for the unexpired term of the existing license. On July 16, 2012, while discussions were still underway, Burberry exercised its option to buy out the license rights effective December 31, 2012. On July 26, 2012, discussions with Burberry on the creation of a new operating model were discontinued as we were unable to agree on final terms. As such, on December 31, 2012 Burberry will buy out our license rights for €181 million (approximately $220 million at current exchange rates excluding receivables, inventories and other tangible assets).

4. <u>Inventories:</u>

Inventories consist of the following:

(In thousands)	June 30, 2012	December 31, 2011
Raw materials and component parts	$57,365	$ 64,411
Finished goods	118,388	99,666
	$175,753	$ 164,077

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

5. <u>Fair Value Measurement:</u>

The following tables present our financial assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy. In measuring the fair value of our assets and liabilities, we use market data or assumptions that we believe market participants would use in pricing an asset or liability including assumptions about risk when appropriate. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value.

(In thousands)		Fair Value Measurements at June 30, 2012		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Short-term investments	$—	$—	$—	$—
Liabilities:				
Foreign currency forward exchange contracts not accounted for using hedge accounting	$2,094	$—	$2,094	$—
Interest rate swaps	13	—	13	—
	$2,107	$—	$2,107	$—

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

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

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

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

The Company enters into foreign currency forward exchange contracts to hedge exposure related to receivables denominated in a foreign currency and occasionally to manage risks related to future sales expected to be denominated in a foreign currency. Before entering into a derivative transaction for hedging purposes, it is determined that a high degree of initial effectiveness exists between the change in value of the hedged item and the change in the value of the derivative instrument from movement in exchange rates. High effectiveness means that the change in the cash flows of the derivative instrument will effectively offset the change in the cash flows of the hedged item. The effectiveness of each hedged item is measured throughout the hedged period and is based on the dollar offset methodology and excludes the portion of the fair value of the foreign currency forward exchange contract attributable to the change in spot-forward difference which is reported in current period earnings. Any hedge ineffectiveness is also recognized as a gain or loss on foreign currency in the income statement. For hedge contracts that are no longer deemed highly effective, hedge accounting is discontinued and gains and losses accumulated in other comprehensive income are reclassified to earnings. If it is probable that the forecasted transaction will no longer occur, then any gains or losses accumulated in other comprehensive income are reclassified to current-period earnings. The Company had no cash flow hedges during the three and six month periods ended June 30, 2011 and 2012.

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

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) recognized in Income on Derivative	Six months ended June 30, 2012	Six months ended June 30, 2011
Interest rate swaps	Interest expense	$ 56	$ 193
Foreign exchange contracts	Gain (loss) on foreign currency	$ 143	$ (43)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) recognized in Income on Derivative	Three months ended June 30,	Three months ended June 30,

		2012	2011
Interest rate swaps	Interest expense	$ 26	$ 74
Foreign exchange contracts	Gain (loss) on foreign currency	$ 29	$ (79)

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, 2012 and December 31, 2011, resulted in a liability and is included in accrued expenses on the accompanying balance sheets. Generally, increases or decreases in the fair value of derivative instruments will be recognized as gains or losses in earnings in the period of change. If the derivative instrument is designated and qualifies as a cash flow hedge, the changes in fair value of the derivative instrument will be recorded as a separate component of shareholders' equity.

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

At June 30, 2012, we had foreign currency contracts in the form of forward exchange contracts in the amount of approximately U.S. $57 million and GB pounds 1.0 million which all have maturities of less than one year.

7. Goodwill and Other Intangible Assets:

We review goodwill and trademarks with indefinite lives for impairment at least annually, and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When testing goodwill for impairment the Company performs a qualitative assessment before calculating the fair value of a reporting unit in the first step of the goodwill impairment test. If we determine, on the basis of qualitative factors, that the fair value of a reporting unit is more likely than not less than the carrying amount, the two-step impairment test is performed. Otherwise, further testing is not needed. No triggering events have been identified in 2012. The following table presents our assets and liabilities that are measured at fair value on a nonrecurring basis and are categorized using the fair value hierarchy.

		Fair Value Measurements at June 30, 2012		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description				
Trademark - Nickel	$2,202	$ —	$ —	$ 2,202
Goodwill	$2,693	$ —	$ —	$ 2,693

		Fair Value Measurements at December 31, 2011		
		Quoted Prices in	Significant Other Observable	Significant Unobservable

Description	Total	Active Markets for Identical Assets (Level 1)		Inputs (Level 2)		Inputs (Level 3)	
Trademark - Nickel	$2,263	$	—	$	—	$	2,263
Goodwill	$2,763	$	—	$	—	$	2,763

Goodwill relates to our Nickel skin care business, which is primarily a component of our European operations. Testing goodwill for impairment requires us to estimate the fair value of the reporting unit using significant estimates and assumptions. The assumptions we make will impact the outcome and ultimate results of the testing. In making our assumptions and estimates, we use industry accepted valuation models and set criteria that are reviewed and approved by management. We have determined that we may be inclined to sell the Nickel business within the next few years and therefore, we engaged a third party valuation specialist to advise us and assist in a potential transaction. As a result, the Company has determined that as of December 31, 2011, the carrying amount of the goodwill exceeded fair value resulting in an impairment loss of $0.8 million. We expect Nickel brand sales to remain steady over the next few years as the result of new product initiatives. In estimating future sales, we use our internal budgets developed from recent sales data for existing products and planned timing of new product launches. If sales for the reporting unit decreased 10%, we could incur an additional goodwill impairment charge of $0.5 million.

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

To determine fair value of indefinite-lived intangible assets, we use an income approach, including the relief-from-royalty method. This method assumes that, in lieu of ownership, a third party would be willing to pay a royalty in order to obtain the rights to use the comparable asset. The relief-from-royalty calculations require us to make a number of assumptions and estimates concerning future sales levels, market royalty rates, future tax rates and discount rates. We use this method to determine if an impairment charge is required relating to our Nickel brand trademarks. No impairment charges have been required since 2009. We assumed a market royalty rate of 6% and a discount rate of 7.7%.

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

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

8. <u>Share-Based Payments:</u>

The Company maintains a stock option program for key employees, executives and directors. The plans, all of which have been approved by shareholder vote, provide for the granting of both nonqualified and incentive options. Options granted under the plans typically have a six year term and vest over a four to five-year period. The fair value of shares vested during the six months ended June 30, 2012 and 2011 aggregated $0.52 million and $0.05 million, respectively. Compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. It is generally our policy to issue new shares upon exercise of stock options.

The following table sets forth information with respect to nonvested options for the six month period ended June 30, 2012:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested options – beginning of period	456,923	$ 4.40
Nonvested options granted	4,500	$ 4.99
Nonvested options vested or forfeited	(140,743)	$ 3.92
Nonvested options – end of period	320,680	$ 4.62

Share-based payment expense decreased income before income taxes by $0.20 million and $0.43 million for the three and six month periods ended June 30, 2012, respectively, as compared to $0.27 million and $0.54 million for the corresponding periods of the prior year. Share-based payment expense decreased income attributable to Inter Parfums, Inc. by $0.11 million and $0.23 million for the three and six month periods ended June 30, 2012, respectively, as compared to $0.15 million and $0.31 million for the corresponding periods of the prior year.

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The following table summarizes stock option information as of June 30, 2012:

	Shares	Weighted Average Exercise Price
Outstanding at January 1, 2012	823,275	$ 13.20
Options granted	4,500	17.07
Options cancelled	(8,830)	15.25
Options exercised	(25,675)	12.11
Outstanding at June 30, 2012	793,270	$ 13.23
Options exercisable	472,590	$ 12.17
Options available for future grants	716,125	

As of June 30, 2012, the weighted average remaining contractual life of options outstanding is 2.63 years (1.57 years for options exercisable), the aggregate intrinsic value of options outstanding and options exercisable is $3.4 million and $2.5 million, respectively and unrecognized compensation cost related to stock options outstanding of Inter Parfums, Inc. aggregated $1.2 million. The amount of unrecognized compensation cost related to stock options outstanding of our majority-owned subsidiary, Interparfums SA, was $0.68 million. Options under Interparfums SA plans vest over a four-year period.

Cash proceeds, tax benefits and intrinsic value related to stock options exercised during the six months ended June 30, 2012 and June 30, 2011 were as follows:

(In thousands)	June 30, 2012	June 30, 2011
Cash proceeds from stock options exercised	$ 311	$ 1,116

Tax benefits	34	—
Intrinsic value of stock options exercised	105	650

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

The weighted average fair values of the options granted by Inter Parfums, Inc. during the six months ended June 30, 2012 and 2011 were $4.99 and $5.27 per share, respectively, on the date of grant using the Black-Scholes option pricing model to calculate the fair value of options granted. The assumptions used in the Black-Scholes pricing model for the periods ended June 30, 2012 and 2011 are set forth in the following table:

	June 30, 2012		June 30, 2011	
Weighted-average expected stock-price volatility	40	%	38	%
Weighted-average expected option life	4.5 years		4.5 years	
Weighted-average risk-free interest rate	.84	%	2.0	%
Weighted-average dividend yield	1.7	%	1.7	%

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Notes to Consolidated Financial Statements

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

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

Net income attributable to Inter Parfums, Inc. per common share ("basic EPS") is computed by dividing net earnings attributable to Inter Parfums, Inc. by the weighted-average number of shares outstanding. Net earnings attributable to Inter Parfums, Inc. per share assuming dilution ("diluted EPS"), is computed using the weighted average number of shares outstanding, plus the incremental shares outstanding assuming the exercise of dilutive stock options and warrants using the treasury stock method. The reconciliation between the numerators and denominators of the basic and diluted EPS computations is as follows:

(In thousands)	Three months ended June 30, 2012	2011	Six months ended June 30, 2012	2011
Numerator:				
Net income attributable to Inter Parfums, Inc.	$ 6,008	$ 4,993	$ 21,505	$ 17,752
Effect of dilutive securities of consolidated subsidiary	—	(5)	—	(59)
Numerator for diluted earnings per share	$ 6,008	$ 4,988	$ 21,505	$ 17,693
Denominator:				
Weighted average shares	30,563	30,506	30,557	30,490
Effect of dilutive securities:				
Stock options and warrants	124	189	130	174
Denominator for diluted earnings per share	30,687	30,695	30,687	30,664
Earnings per share:				
Net income attributable to Inter Parfums, Inc. common shareholders:				
Basic	$ 0.20	$ 0.16	$ 0.70	$ 0.58
Diluted	0.20	0.16	0.70	0.58

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

June 30, 2012, and 0.1 million shares of common stock for both the three and six month periods ended June 30, 2011.

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

(In thousands)	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Net income attributable to Inter Parfums, Inc.	$ 6,008	$ 4,993	$ 21,505	$ 17,752
Increase (decrease) in Inter Parfums, Inc.'s additional paid-in capital for subsidiary share transactions	737	(151)	737	62
Change from net income attributable to Inter Parfums, Inc. and transfers from noncontrolling interest	$ 6,745	$ 4,842	$ 22,242	$ 17,814

11. Segment and Geographic Areas:

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

(In thousands)	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Net sales:				
United States	$ 19,897	$ 14,538	$ 41,249	$ 26,332
Europe	125,616	106,525	270,813	228,094
Eliminations	42	—	(1,139)	—
	$ 145,555	$ 121,063	$ 310,923	$ 254,426
Net income (loss) attributable to Inter Parfums, Inc.:				
United States	$ 921	$ 230	$ 2,485	$ (64)
Europe	5,041	4,763	19,022	17,816
Eliminations of intercompany profits	46	—	(2)	—

$6,008	$4,993	$21,505	$17,752

	June 30, 2012	December 31, 2011
Total Assets:		
United States	$65,710	$ 59,841
Europe	421,857	465,747
Eliminations of investment in subsidiary	(9,306)	(9,554)
	$478,261	$ 516,034

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

12. Accrued Expenses:

Accrued expenses include approximately $13.5 million and $16.4 million in advertising liabilities as of June 30, 2012 and December 31, 2011, respectively.

13. Reclassification:

Certain prior year amounts in the accompanying consolidated statements of income have been reclassified to conform to current period presentation. More specifically, $0.4 million and $1.0 million of selling, general and administrative expenses for the three and six months ended June 30, 2011 have been reclassified to cost of sales.

INTER PARFUMS, INC. AND SUBSIDIARIES

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

Forward Looking Information

Statements in this report which are not historical in nature are forward-looking statements. Although we believe that our plans, intentions and expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such plans, intentions or expectations will be achieved. In some cases you can identify forward-looking statements by forward-looking words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "should," "will" and "would" or similar words. You should not rely on forward-looking statements because actual events or results may differ materially from those indicated by these forward-looking statements as a result of a number of important factors. These factors include, but are not limited to, the risks and uncertainties discussed under the headings “Forward Looking Statements” and "Risk Factors" in Inter Parfums' annual report on Form 10-K for the fiscal year ended December 31, 2011 and the reports Inter Parfums files from time to time with the Securities and Exchange Commission. Inter Parfums does not intend to and undertakes no duty to update the information contained in this report.

Overview

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

We produce and distribute our European based prestige products primarily under license agreements with brand owners, and European based prestige product sales represented approximately 87% and 90% of net sales for the six months ended June 30, 2012 and 2011, respectively. We have built a portfolio of prestige brands, which include Burberry, Lanvin, Jimmy Choo, Van Cleef & Arpels, Montblanc, Paul Smith, Boucheron, S.T. Dupont, Balmain and Repetto, whose products are distributed in over 120 countries around the world. Shipments to our distribution subsidiaries are not recognized as sales until that merchandise is sold by our distribution subsidiary to their customers.

Burberry is our most significant license, as sales of Burberry products represented 43% and 47% of net sales for the six months ended June 30, 2012 and 2011, respectively. See “Recent Important Events” on page 18 of this Quarterly Report on Form 10-Q for a status on the buy out of the Burberry license effective December 31, 2012. In addition, we own the Lanvin brand name for our class of trade and sales of Lanvin product represented 12% and 14% of net sales for the six months ended June 30, 2012 and 2011, respectively.

Through our United States operations we market specialty retail and mass-market fragrance and fragrance related products, which represented 13% and 10% of net sales for the six months ended June 30, 2012 and 2011, respectively. These fragrance products are sold under trademarks owned by us or pursuant to license or other agreements with the owners of the *Gap*, *Banana Republic, Anna Sui, Brooks Brothers, bebe, Betsey Johnson, Nine West, Lane Bryant* and *Jordache* brands.

INTER PARFUMS, INC. AND SUBSIDIARIES

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

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

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

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

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

Our reported net sales are impacted by changes in foreign currency exchange rates. A weak U.S. dollar has a positive impact on our net sales. However, earnings are negatively affected by a weak dollar because over 40% of net sales of

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

INTER PARFUMS, INC. AND SUBSIDIARIES

Recent Important Events

Burberry to Buy out License on December 31, 2012

In December 2011, the Company and Burberry began discussions regarding the potential establishment of a new operating structure for the Burberry fragrance and beauty business. As there was no assurance that an agreement would be reached, Burberry exercised its right to evaluate the purchase price for the unexpired term of the existing license. On July 16, 2012, while discussions were still underway, Burberry exercised its option to buy out the license rights effective December 31, 2012. On July 26, 2012, discussions with Burberry on the creation of a new operating model were discontinued as we were unable to agree on final terms. As such, on December 31, 2012 Burberry will buy out our license rights for €181 million (approximately $220 million at current exchange rates excluding receivables, inventories and other tangible assets).

Future sales and earnings will be significantly affected as a result of this buy out. However, the Company is confident in its future. Based on current growth rates for all of our brands, the preliminary full-year sales target for 2013 is expected to reach approximately $400 million at current exchange rates. With only limited reorganization measures needed, the Company's business model is expected to continue to demonstrate its effectiveness. This new situation will allow us to strengthen investments supporting all portfolio brands and to accelerate their development while maintaining an estimated operating margin of more than 10%. In addition, the Company will benefit from its substantial resources to potentially acquire one or more brands, either on a proprietary basis or as a licensee. Opportunities for external growth will be examined without urgency, with the priority of maintaining the quality and homogeneous nature of our portfolio.

Discussion of Critical Accounting Policies

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

Revenue Recognition

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

INTER PARFUMS, INC. AND SUBSIDIARIES

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

Promotional Allowances

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

expectations.

INTER PARFUMS, INC. AND SUBSIDIARIES

Inventories

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

Equipment and Other Long-Lived Assets

Equipment, which includes tools and molds, is recorded at cost and is depreciated on a straight-line basis over the estimated useful lives of such assets. Changes in circumstances such as technological advances, changes to our business model or changes in our capital spending strategy can result in the actual useful lives differing from our estimates. In those cases where we determine that the useful life of equipment should be shortened, we would depreciate the net book value in excess of the salvage value, over its revised remaining useful life, thereby increasing depreciation expense. Factors such as changes in the planned use of equipment, or market acceptance of products, could result in shortened useful lives.

We evaluate goodwill and indefinite-lived intangible assets for impairment at least annually during the fourth quarter, or more frequently when events occur or circumstances change, such as an unexpected decline in sales, that would more likely than not (i) reduce the carrying value of the reporting unit below its fair value or (ii) indicate that the carrying value of an indefinite-lived intangible asset may not be recoverable. Impairment of goodwill is evaluated using a two-step process. The first step involves a comparison of the estimated fair value of the reporting unit to the carrying value of that unit to determine if there is an indication of impairment. In accordance with ASU 2011-08, the Company has the option of performing a qualitative assessment before calculating the fair value of a reporting unit in the first step of the goodwill impairment test. If the Company determines, on the basis of qualitative factors, that the fair value of a reporting unit is more likely than not less than the carrying amount, the two-step impairment test would be required. Otherwise, further testing would not be needed. If the carrying value of the reporting unit exceeds the fair value of the reporting unit, the second step of the process involves comparison of the implied fair value of goodwill with its carrying value. If the carrying value of the reporting unit’s goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized as an amount equal to the excess.

For indefinite-lived intangible assets, the evaluation requires a comparison of the estimated fair value of the asset to the carrying value of the asset. If the carrying value of an indefinite-lived intangible asset exceeds its fair value, impairment is recorded. To determine fair value of indefinite-lived intangible assets, we use an income approach,

including the relief-from-royalty method. This method assumes that, in lieu of ownership, a third party would be willing to pay a royalty in order to obtain the rights to use the comparable asset. The relief-from-royalty calculations require us to make a number of assumptions and estimates concerning future sales levels, market royalty rates, future tax rates and discount rates. We use this method to determine if an impairment charge is required relating to our Nickel brand trademarks.

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The fair values used in our evaluations are also estimated based upon discounted future cash flow projections using a weighted average cost of capital of 7.7%. The cash flow projections are based upon a number of assumptions, including, future sales levels and future cost of goods and operating expense levels, as well as economic conditions, changes to our business model or changes in consumer acceptance of our products which are more subjective in nature. We believe that the assumptions we have made in projecting future cash flows for the evaluations described above are reasonable. However, if future actual results do not meet our expectations, we may be required to record an impairment charge, the amount of which could be material to our results of operations.

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.

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Derivatives

We account for derivative financial instruments in accordance with ASC topic 815, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. This topic also requires the recognition of all derivative instruments as either assets or liabilities on the balance sheet and that they are measured at fair value.

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

Income Taxes

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

Results of Operations

Three and Six Months Ended June 30, 2012 as Compared to the Three and Six Months Ended June 30, 2011

Net sales	Three months ended June 30,	Six months ended June 30,

(In millions)	2012	% Change	2011	2012	% Change	2011
European based product sales	$125.6	18 %	$106.5	$270.8	19 %	$228.1
United States based product sales	20.0	37 %	14.6	40.1	52 %	26.3
Total net sales	$145.6	20 %	$121.1	$310.9	22 %	$254.4

Net sales for the three months ended June 30, 2012 increased 20% to $145.6 million, as compared to $121.1 million for the corresponding period of the prior year. At comparable foreign currency exchange rates, net sales increased 29% for the period. Net sales for the six months ended June 30, 2012 increased 22% to $310.9 million, as compared to $254.4 million for the corresponding period of the prior year. At comparable foreign currency exchange rates, net sales increased 27% for the period. The strength of the U.S. dollar has had, and is expected to continue to have, a significant effect on reported sales. The dollar/euro exchange rate for the three and six months ended June 30, 2012 was 1.28 and 1.30, respectively, as compared to 1.44 and 1.40 for the corresponding periods of the prior year.

INTER PARFUMS, INC. AND SUBSIDIARIES

European based prestige product sales increased 18% for the three months ended June 30, 2012 and 19% for the six months ended June 30, 2012, as compared to the corresponding periods of the prior year. The positive trends of the first quarter continued into the second quarter with strong performances across our brand portfolio. In euros, the local currency of our European segment, Burberry sales rose 34% for the current second quarter and 21% for the first half on strong growth of established fragrances, including *Burberry Body*, which launched in late 2011. While there were no major launches this year, Lanvin fragrance sales increased 13% for the quarter and year-to-date due to continuing gains by *Eclat d'Arpège* and the 2012 introductions of *Avant Garde* and *Jeanne Couture*. With Montblanc *Legend* as the catalyst, Montblanc brand sales rose 72% in the second quarter and 75% through the first half. The positive momentum of Jimmy Choo fragrances that began in 2011 with the *Eau de Parfum*, continued in 2012 with the *Eau de Toilette*, resulting in a 13% and 42% increase in brand sales for the second quarter and first half, respectively. Some of the smaller brands in our portfolio are also generating significant year-to-date gains, including Boucheron, which had a more than fivefold increase in sales, and S.T. Dupont with a 48% sales increase compared to the first half of 2011.

Sales growth for our European based prestige products has been especially strong in North America, the Middle East, Asia, and South America where year-to-date sales rose 56%, 40%, 22%, and 35%, respectively. We have also seen significant sales growth in Eastern Europe with first half gains of 25%. Despite the slowdown in consumer spending in selected countries in Western Europe, first half sales were 10% ahead of the same period last year.

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

With respect to our United States specialty retail and mass-market products, net sales for the three months ended June 30, 2012 were $20.0 million, as compared to $14.6 million for the corresponding period of the prior year. Net sales for the six months ended June 30, 2012 were $40.1 million, as compared to $26.3 million for the corresponding period of the prior year.

The initial launch of our first Nine West fragrance and the commencement of sales pursuant to our Anna Sui license were the primary contributors to 2012 sales growth. In January 2012, *Love Fury*, a women's fragrance created for Nine West launched at over 650 Macy's stores and 282 Nine West stores in the U.S. and internationally. In 2011, we entered into a ten-year exclusive worldwide fragrance license agreement to create, produce and distribute perfumes and fragrance-related products under the Anna Sui brand. Our rights under the agreement commenced on January 1, 2012 when we took over production and distribution of the existing Anna Sui fragrance collections.

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INTER PARFUMS, INC. AND SUBSIDIARIES

For the Banana Republic brand, to complement the women's scent *Wildbloom*, introduced in 2011, we launched a brand extension *Wildbloom Vert,* in early 2012 and another men's fragrance, *Wildblue,* was introduced in the second quarter of 2012. Building upon the success of the Gap brand's fragrances, a new fragrance concept was created for Gap in an effort to capture the heritage of the brand. The new scents for men and women, *Gap Established 1969*, launched in March 2012 at over 650 Gap stores in the U. S. International distribution is planned for later in the year. We also introduced *Wishes & Dreams* for bebe and *Miss Madison* for Brooks Brothers during the second quarter of 2012. We are in the development stage for several new fragrance concepts and line extensions for our other specialty retail brands.

In addition, we are actively pursuing other new business opportunities. However, no assurance can be given that any new licenses, acquisitions or specialty retail agreements will be consummated.

Gross margin	Three months ended June 30,		Six months ended June 30,	
(In millions)	2012	2011	2012	2011
Net sales	$ 145.6	$ 121.1	$ 310.9	$ 254.4
Cost of sales	57.1	46.5	116.4	93.8
Gross margin	$ 88.5	$ 74.6	$ 194.5	$ 160.6
Gross margin as a percent of net sales	61 %	62 %	63 %	63 %

Gross profit margin was 61% and 63% for the three and six month periods ended June 30, 2012, respectively, as compared to 62% and 63% for the corresponding periods of the prior year. Now that it has been over a year since taking over prestige product distribution in the U.S. by our subsidiary, Interparfums Luxury Brands, Inc., gross margins from one period to the next should be much more comparable.

We carefully watch movements in foreign currency exchange rates as over 40% of our European based operations net sales are denominated in dollars, while our costs are incurred in euro. Therefore, from a profit standpoint, a stronger U.S. dollar has a positive effect on our gross margin. The average dollar/euro exchange rate was up approximately 11% and 7% for the three and six months ended June 30, 2012, respectively, as compared to the corresponding periods of the prior year. However, sales for the 2012 period included an unusually high level of value sets, which carry a much higher cost of goods than everyday single unit merchandise. These sales mitigated any gains obtained from currency fluctuation.

Generally, we do not bill customers for shipping and handling costs, and such costs, which aggregated $1.9 million and $3.9 million for the three and six month periods ended June 30, 2012, respectively, as compared to $1.6 million and $3.0 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.

INTER PARFUMS, INC. AND SUBSIDIARIES

Selling, general and administrative expenses	Three months ended June 30,		Six months ended June 30,	
(In millions)	2012	2011	2012	2011
Selling, general and administrative expenses	$ 75.8	$ 63.7	$ 150.2	$ 124.2
Selling, general and administrative expenses as a percent of net sales	52 %	53 %	48 %	49 %

Selling, general and administrative expenses increased 19% and 21% for the three and six-month periods ended June 30, 2012, respectively, as compared to the corresponding periods of the prior year. As a percentage of sales, selling, general and administrative expenses were 52% and 48% of sales for the three and six-month periods ended June 30, 2012, as compared to 53% and 49% for the corresponding periods of the prior year.

Promotion and advertising included in selling, general and administrative expenses aggregated $30.4 million and $57.1 million for the three and six-month periods ended June 30, 2012, respectively, as compared to $22.5 million and $40.9 million for the corresponding periods of the prior year. Promotion and advertising represented 21% and 18% of net sales for the three and six months ended June 30, 2012, as compared to 19% and 16% of sales for the corresponding period of the prior year. The global launch of *Burberry Body* continues to be supported by strong visuals on a scale without precedent. Although the level of spending is not near what we incurred during the third and fourth quarters of 2011, we significantly increased our overall advertising budget for all brands to maintain the positive sales momentum which we believe will contribute to sustained growth in market share.

Royalty expense included in selling, general and administrative expenses aggregated $12.4 million and $26.1 million for the three and six-month periods ended June 30, 2012, respectively, as compared to $10.8 million and $22.3 million for the corresponding periods of the prior year. As a percentage of sales, royalty expense represented 8.5% and 8.4% of net sales for the three and six months ended June 30, 2012, as compared to 8.9% and 8.8% of sales for the corresponding period of the prior year. In addition, service fees relating to the activities of our distribution subsidiaries aggregated $5.2 million and $10.9 million for the three and six-month periods ended June 30, 2012, respectively, as compared to $4.4 million and $9.2 million for the corresponding periods of the prior year.

As a result of the above analysis, income from operations increased 16.4% to $12.6 million for the three-month period ended June 30, 2012, as compared to $10.8 million for the corresponding period of the prior year. Income from operations increased 22% to $44.4 million for the six month period ended June 30, 2012, as compared to $36.4 million for the corresponding period of the prior year. Operating margins were 8.7% and 14.3% of net sales for the three and six month periods ended June 30, 2011, respectively, as compared to 9.0% and 14.3% for the corresponding periods of the prior year.

Interest expense aggregated $0.4 million and $0.8 million for the three and six-month periods ended June 30, 2012, respectively, as well as for the corresponding periods of the prior year. We use the credit lines available to us, as needed, to finance our working capital needs. Loans payable – banks and long-term debt including current maturities aggregated $16.3 million as of December 31, 2011, as compared to $21.4 million as of December 31, 2010.

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Foreign currency losses aggregated $0.9 million and $1.2 million for the three and six-month periods ended June 30, 2012, respectively, as compared to $0.6 million and $0.1 million for the corresponding periods of the prior year. We enter into foreign currency forward exchange contracts to manage exposure related to certain foreign currency commitments.

Our effective income tax rate was 35% and 36% for the three and six-month periods ended June 30, 2012, respectively, as compared to 37% and 34% for the corresponding periods of the prior year. Our effective tax rates differ from statutory rates due to the effect of state and local taxes and tax rates in foreign jurisdictions. The high rate for the three months ended June 30, 2011 is the result of not recording tax benefits to offset operating losses incurred in certain distribution subsidiaries as future profitability cannot be assured. The high rate for the six months ended June 30, 2012 is the result of a tax rate increase enacted by the French Government retroactive to 2011. The impact of such rate increase for the year ended December 31, 2011, was recorded during the fourth quarter of 2011. The tax rate for our French operations increased from 34.4% to 36.1%. Other than as discussed above, we did not experience any significant changes in tax rates, and none were expected in jurisdictions where we operate.

Net income and earnings per share

(In thousands except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	$ 7,481	$ 6,428	$ 27,735	$ 23,768
Less: Net income attributable to the noncontrolling interest	1,473	1,435	6,230	6,016
Net income attributable to Inter Parfums, Inc.	$ 6,008	$ 4,993	$ 21,505	$ 17,752
Earnings per share:				
Net income attributable to Inter Parfums, Inc. common shareholders:				
Basic	$ 0.20	$ 0.16	$ 0.70	$ 0.58
Diluted	$ 0.20	$ 0.16	$ 0.70	$ 0.58
Weighted average number of shares outstanding:				
Basic	30,563	30,506	30,557	30,490
Diluted	30,688	30,695	30,687	30,664

Net income increased 16% to $7.5 million for the three months ended June 30, 2012, as compared to $6.4 million for the corresponding period of the prior year. Net income increased 17% to $27.7 million for the six-months ended June 30, 2012, as compared to $23.8 million for the corresponding period of the prior year.

Net income attributable to the noncontrolling interest aggregated 20% and 22% of net income for the three and six month periods ended June 30, 2012, respectively, as compared to 22% and 25% for both corresponding periods of the prior year. The decline is primarily the effect of increased profits from our 100% owned U.S. operating segment.

INTER PARFUMS, INC. AND SUBSIDIARIES

Net income attributable to Inter Parfums, Inc. increased 20% to $6.0 million for the three months ended June 30, 2012, as compared to $5.0 million for the corresponding period of the prior year. Net income attributable to Inter Parfums, Inc. increased 21% to $21.5 million for the six months ended June 30, 2012, as compared to $17.8 million for the corresponding period of the prior year.

Diluted earnings per share were $0.20 and $0.16 for the three months ended June 30, 2012 and 2011, respectively, and diluted earnings per share were $0.70 and $0.58 for the six months ended June 30, 2012 and 2011, respectively. Weighted average shares outstanding aggregated 30.6 million for both the three and six-months ended June 30, 2012, respectively, as compared to 30.5 million for both corresponding periods of the prior year. On a diluted basis, average shares outstanding were 30.7 million for both the three and six-month periods ended June 30, 2012 as well as for the corresponding periods of the prior year.

Liquidity and Capital Resources

Our financial position remains strong. At June 30, 2012, working capital aggregated $223 million and we had a working capital ratio of 2.7 to 1. Cash and cash equivalents aggregated $23 million.

As previously mentioned, on July 16, 2012, while discussions were still underway, Burberry exercised its option to buy out our license rights effective December 31, 2012. On July 26, 2012, discussions with Burberry on the creation of a new operating model for the fragrance and beauty business were discontinued, as we were unable to agree on final terms. As such, on December 31, 2012 Burberry will buy out our license rights for €181 million (approximately $220 million at current exchange rates excluding receivables, inventories and other tangible assets).

With only limited reorganization measures needed, the Company’s business model is expected to continue to demonstrate its effectiveness. This new situation will allow us to strengthen investments supporting all portfolio brands and to accelerate their development. In addition, the Company will benefit from its substantial resources to potentially acquire one or more brands, either on a proprietary basis or as a licensee. Opportunities for external growth will be examined without urgency, with the priority of maintaining the quality and homogeneous nature of our portfolio.

Cash provided by (used in) operating activities aggregated $11.3 million and ($22.3) million for the six months ended June 30, 2012 and 2011, respectively. For the six months ended June 30, 2012, working capital items used $23.4

million in cash from operating activities, as compared to $53.0 million in the 2011 period. The 18% decline in accounts receivable reflects strong collection activity as days' sales outstanding continues to hover around the 90 day mark. The $15.9 million increase in inventories for the six months ended June 30, 2012, as shown on the statement of cash flows, reflects the inventory build needed to support our sales growth and new licensing activities in both European operations and U.S. operations.

INTER PARFUMS, INC. AND SUBSIDIARIES

Cash flows used in investing activities through June 30, 2012 reflects $6.0 million spent for capital items, most of which relates to stands used for the *Burberry Beauty* line. Our business is not capital intensive as we do not own any manufacturing facilities. However, on a full year basis, we spend upwards of $4 million on tools and molds, depending on our new product development calendar. Capital expenditures also include amounts for office fixtures, computer equipment and industrial equipment needed at our distribution centers. Payments for intangible assets aggregated $2.3 million in the first half of 2012 which is primarily the entry fee paid for the Anna Sui license. When acquiring new licenses for brands that have current distribution we may agree to pay an entry fee in connection with securing the license rights.

Our short-term financing requirements are expected to be met by available cash on hand at June 30, 2012, cash generated by operations and short-term credit lines provided by domestic and foreign banks. The principal credit facilities for 2012 consist of a $15.0 million unsecured revolving line of credit provided by a domestic commercial bank and approximately $25.0 million in credit lines provided by a consortium of international financial institutions. As of June 30, 2012, short-term borrowings aggregated $4.4 million. As of June 30, 2012, total long-term debt including current maturities aggregated $1.5 million.

In December 2011, our board of directors authorized the continuation of our cash dividend on an annual basis to $.32 per share for 2012. The next quarterly dividend of $0.08 per share will be paid on October 15, 2012 to shareholders of record on September 28, 2012. The annual cash dividend for 2012 represents a small part of our cash position and is not expected to have any significant impact on our financial position.

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

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

INTER PARFUMS, INC. AND SUBSIDIARIES

Contractual Obligations

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

($ in thousands).

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

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

(2) Consists of purchase commitments for advertising and promotional items, minimum royalty guarantees, including fixed or minimum obligations, and estimates of such obligations subject to variable price provisions. Future advertising commitments were estimated based on planned future sales for the license terms that were in effect at December 31, 2011, without consideration for potential renewal periods and do not reflect the fact that our distributors share our advertising obligations.

Item 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General

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

Foreign Exchange Risk Management

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

INTER PARFUMS, INC. AND SUBSIDIARIES

All derivative instruments are required to be reflected as either assets or liabilities in the balance sheet measured at fair value. Generally, increases or decreases in fair value of derivative instruments will be recognized as gains or losses in earnings in the period of change. If the derivative is designated and qualifies as a cash flow hedge, then the changes in fair value of the derivative instrument will be recorded in other comprehensive income.

Before entering into a derivative transaction for hedging purposes, we determine that the change in the value of the derivative will effectively offset the change in the fair value of the hedged item from a movement in foreign currency rates. Then, we measure the effectiveness of each hedge throughout the hedged period. Any hedge ineffectiveness is recognized in the income statement.

At June 30, 2012, we had foreign currency contracts in the form of forward exchange contracts in the amount of approximately U.S. $57 million and GB pounds 1.0 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 September 2007 on €22 million of debt, effectively exchanging the variable interest rate of 0.6% above the three month EURIBOR to a fixed rate of 4.42%. The remaining balance owed pursuant to this facility is €1.1 million as of June 30, 2012. This derivative instrument is recorded at fair value and changes in fair value are reflected in the accompanying consolidated statements of income.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

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

INTER PARFUMS, INC. AND SUBSIDIARIES

Part II. Other Information

Items 1. Legal Proceedings, 1a. Risk Factors, 2. Unregistered Sales of Equity Securities and Use of Proceeds, 3. Defaults Upon Senior Securities, 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	32
31.2	Certifications required by Rule 13a-14(a) of Chief Financial Officer	33
32.1	Certification required by Section 906 of the Sarbanes-Oxley Act of Chief Executive Officer	34
32.1	Certification required by Section 906 of the Sarbanes-Oxley Act of Chief Financial Officer	35
101*	Interactive data files	

* XBRL (Extensible Business Reporting Language) information is to be furnished under an amendment to this Quarterly Report on Form 10-Q.

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 8th day of August 2012.

INTER PARFUMS, INC.

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