INTER PARFUMS INC
Form 10-Q
August 11, 2014

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, 2014.

OR

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

Commission File No. **0-16469**

INTER PARFUMS, INC.

(Exact name of registrant as specified in its charter)

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

551 Fifth Avenue, New York, New York 10176

(Address of Principal Executive Offices) (Zip Code)

(212) 983-2640

(Registrants telephone number, including area code)

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

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

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

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

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

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

At August 8, 2014, there were 30,939,928 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, 2013 included in our annual report filed on Form 10-K.

The results of operations for the six months ended June 30, 2014 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, 2014	December 31, 2013
Current assets:		
Cash and cash equivalents	$60,151	$ 125,650
Short-term investments	214,637	181,677
Accounts receivable, net	96,118	79,932
Inventories	125,530	117,347
Receivables, other	1,718	2,418
Other current assets	6,180	4,775
Income tax receivable	870	6,435
Deferred tax assets	5,274	7,257
Total current assets	510,478	525,491
Equipment and leasehold improvements, net	9,753	10,444
Trademarks, licenses and other intangible assets, net	112,562	116,243
Other assets	12,341	11,880
Total assets	$645,134	$ 664,058
LIABILITIES AND EQUITY		
Current liabilities:		
Loans payable – banks	$265	$ 6,104
Accounts payable, trade	58,329	56,736
Accrued expenses	37,046	58,333
Income taxes payable	2,580	1,270
Dividends payable	3,713	3,704
Total current liabilities	101,933	126,147
Deferred tax liability	2,584	2,555
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 30,938,648 and 30,863,421 shares at June 30, 2014 and December 31, 2013, respectively	31	31
Additional paid-in capital	58,907	57,877
Retained earnings	367,093	359,459
Accumulated other comprehensive income	22,740	25,860
Treasury stock, at cost, 9,924,500 and 9,940,977 common shares at June 30, 2014 and December 31, 2013 respectively	(36,266)	(36,016)
Total Inter Parfums, Inc. shareholders' equity	412,505	407,211
Noncontrolling interest	128,112	128,145
Total equity	540,617	535,356
Total liabilities and equity	$645,134	$ 664,058

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, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Net sales	$118,192	$117,485	$239,923	$331,296
Cost of sales	50,076	53,878	102,577	133,045
Gross margin	68,116	63,607	137,346	198,251
Selling, general and administrative expenses	55,265	55,708	107,073	123,376
Income from operations	12,851	7,899	30,273	74,875
Other expenses (income):				
Interest expense	574	416	847	874
(Gain) loss on foreign currency	122	(461)	72	982
Interest income	(948)	(1,064)	(2,059)	(2,254)
	(252)	(1,109)	(1,140)	(398)
Income before income taxes	13,103	9,008	31,413	75,273
Income taxes	5,436	4,487	11,596	27,810
Net income	7,667	4,521	19,817	47,463
Less: Net income attributable to the noncontrolling interest	1,558	706	4,814	11,952
Net income attributable to Inter Parfums, Inc.	$6,109	$3,815	$15,003	$35,511

Earnings per share:

Net income attributable to Inter Parfums, Inc. common shareholders:

Basic	$0.20	$0.12	$0.49	$1.16
Diluted	$0.20	$0.12	$0.48	$1.14
Weighted average number of shares outstanding:				
Basic	30,938	30,748	30,919	30,717
Diluted	31,069	30,953	31,063	30,900
Dividends declared per share	$0.12	$0.12	$0.24	$0.24

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,	
	2014	2013	2014	2013
Comprehensive income:				
Net income	$ 7,667	$ 4,521	$ 19,817	$ 47,463
Other comprehensive income:				
Net derivative instrument loss, net of tax	--	(9)	--	--
Reclassification from OCI into earnings, net	--	(327)	--	(327)
Translation adjustments, net of tax	(1,723)	9,392	(3,120)	(4,979)
Comprehensive income	5,944	13,577	16,697	42,157
Comprehensive income attributable to the noncontrolling interests:				
Net income	1,558	706	4,814	11,952
Other comprehensive income:				
Net derivative instrument loss, net of tax	--	(5)	--	--
Reclassification from OCI into earnings, net	--	(87)	--	(87)
Translation adjustments, net of tax	(1,032)	2,889	(1,510)	(1,098)
Comprehensive income attributable to the noncontrolling interests	526	3,503	3,304	10,767
Comprehensive income attributable to Inter Parfums, Inc.	$ 5,418	$ 10,074	$ 13,393	$ 31,390

See notes to consolidated financial statements.

INTER PARFUMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In thousands)

(Unaudited)

	Six months ended June 30, 2014	2013
Common stock, beginning and end of period	$31	$31
Additional paid-in capital, beginning of period	57,877	54,679
Shares issued upon exercise of stock options	1,014	1,198
Sale of subsidiary shares to noncontrolling interests	(319)	--
Stock-based compensation	335	245
Additional paid-in capital, end of period	58,907	56,122
Retained earnings, beginning of period	359,459	349,672
Net income	15,003	35,511
Dividends	(7,424)	(7,378)
Stock-based compensation	55	82
Retained earnings, end of period	367,093	377,887
Accumulated other comprehensive income, beginning of period	25,860	12,498
Foreign currency translation adjustment	(3,120)	(3,881)
Net derivative instrument loss, net of tax	--	(240)
Accumulated other comprehensive income, end of period	22,740	8,377
Treasury stock, beginning of period	(36,016)	(35,404)
Shares issued upon exercise of stock options	101	--
Shares received as proceeds of option exercises	(351)	--
Treasury stock, end of period	(36,266)	(35,404)
Noncontrolling interest, beginning of period	128,145	118,505
Net income	4,814	11,952
Foreign currency translation adjustment	(1,510)	(1,098)
Net derivative instrument loss, net of tax	--	(87)
Sale of subsidiary shares to noncontrolling interest	1,309	--
Dividends	(4,667)	(8,341)
Stock-based compensation	21	30
Noncontrolling interest, end of period	128,112	120,961

Total equity	$540,617	$527,974

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, 2014	2013
Cash flows from operating activities:		
Net income	$19,817	$47,463
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	5,143	6,003
Provision for doubtful accounts	37	118
Noncash stock compensation	457	421
Deferred tax provision	1,976	5,560
Changes in:		
Accounts receivable	(17,157)	24,181
Inventories	(9,049)	29,212
Other assets	(1,336)	876
Accounts payable and accrued expenses	(18,127)	(39,465)
Income taxes, net	6,799	(75,437)
Net cash used in operating activities	(11,440)	(1,068)
Cash flows from investing activities:		
Purchases of short-term investments	(233,794)	(199,722)
Proceeds from sale of short-term investments	198,968	79,098
Purchases of equipment and leasehold improvements	(1,144)	(2,328)
Proceeds from sale of equipment	--	2,801
Payment for intangible assets acquired	(704)	(1,804)
Net cash used in investing activities	(36,674)	(121,955)
Cash flows from financing activities:		
Repayments of loans payable – banks, net	(5,836)	(27,356)
Proceeds from exercise of options	801	1,197
Proceeds from sale of stock of subsidiary	990	--
Dividends paid	(7,415)	(6,137)
Dividends paid to noncontrolling interest	(4,667)	(8,341)

Purchase of treasury stock	(37)	--
Net cash used in financing activities	(16,164)	(40,637)
Effect of exchange rate changes on cash	(1,221)	(1,558)
Net decrease in cash and cash equivalents	(65,499)	(165,218)
Cash and cash equivalents - beginning of period	125,650	307,335
Cash and cash equivalents - end of period	$60,151	$142,117
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	$699	$887
Income taxes	6,453	96,604

See notes to consolidated financial statements.

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INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

1. Significant Accounting Policies:

The accounting policies we follow are set forth in the notes to our financial statements included in our Form 10-K, which was filed with the Securities and Exchange Commission for the year ended December 31, 2013. 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, 2016, with early adoption not permitted. 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. Termination of Burberry License:

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

4. Inventories:

Inventories consist of the following:

(In thousands)	June 30, 2014	December 31, 2013
Raw materials and component parts	$40,798	$ 47,800
Finished goods	84,732	69,547
	$125,530	$ 117,347

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.

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(In thousands)		Fair Value Measurements at June 30, 2014		
	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	$214,637	$ —	$ 214,637	$ —
Liabilities:				
Foreign currency forward exchange contracts not accounted for using hedge accounting	$117	$ —	$ 117	$ —

(In thousands)		Fair Value Measurements at December 31, 2013		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Short-term investments	$181,677	$—	$ 181,677	$ —
Foreign currency forward exchange contracts not accounted for using hedge accounting	157	—	157	—

$181,834	$—	$ 181,834	$ —

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

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

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 sales expected to be denominated in a foreign currency. The Company had no cash flow hedges during the three and six months ended June 30, 2014 and 2013. Gains and losses in derivatives not designated as hedges are included in gain (loss) on foreign currency on the accompanying income statement and were immaterial for the three and six months ended June 30, 2014 and 2013.

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

All derivative instruments are reported as either assets or liabilities on the balance sheet measured at fair value. The valuation of foreign currency forward exchange contracts not accounted for using hedge accounting as of June 30, 2014 resulted in a liability and is included in accrued expenses and, as of December 31, 2013, resulted in an asset and is included in other current assets on the accompanying balance sheets. Generally, increases or decreases in the fair value of derivative instruments will be recognized as gains or losses in earnings in the period of change. If the derivative instrument is designated and qualifies as a cash flow hedge, the changes in fair value of the derivative instrument will be recorded as a separate component of shareholders' equity.

At June 30, 2014, we had foreign currency contracts in the form of forward exchange contracts in the amount of approximately U.S. $16.6 million, GB pounds £3.0 million and JPY ¥100.0 million which all have maturities of less than one year.

7. Accrued Expenses:

Accrued expenses include approximately $10.3 million and $22.4 million in advertising liabilities as of June 30, 2014 and December 31, 2013, 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 during the six months ended June 30, 2014 and 2013 aggregated $0.03 million and $0.04 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, 2014:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested options – beginning of period	367,470	$ 6.68
Nonvested options granted	3,500	$ 8.37
Nonvested options vested or forfeited	(10,535)	$ 5.71
Nonvested options – end of period	360,435	$ 6.72

Share-based payment expense decreased income before income taxes by $0.23 million and $0.46 million for the three and six month periods ended June 30, 2014, respectively, as compared to $0.21 million and $0.42 million for the corresponding periods of the prior year. Share-based payment expense decreased income attributable to Inter Parfums, Inc. by $0.15 million and $0.26 million for the three and six month periods ended June 30, 2014, respectively, as compared to $0.11 million and $0.23 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, 2014:

	Shares	Weighted Average Exercise Price
Outstanding at January 1, 2014	643,595	$ 19.58
Options granted	3,500	32.12
Options cancelled	(5,110)	18.99
Options exercised	(86,500)	12.88
Outstanding at June 30, 2014	555,485	$ 20.70
Options exercisable	195,050	$ 14.30
Options available for future grants	462,685	

As of June 30, 2014, the weighted average remaining contractual life of options outstanding is 3.55 years (2.23 years for options exercisable), the aggregate intrinsic value of options outstanding and options exercisable is $5.7 million and $3.0 million, respectively and unrecognized compensation cost related to stock options outstanding of Inter Parfums, Inc. aggregated $2.0 million. The amount of unrecognized compensation cost related to stock options outstanding of our majority-owned subsidiary, Interparfums SA, was $0.06 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, 2014 and June 30, 2013 were as follows:

(In thousands)	June 30, 2014	June 30, 2013
Cash proceeds from stock options exercised	$ 801	$ 1,197
Tax benefits	--	275
Intrinsic value of stock options exercised	1,568	1,785

The weighted average fair values of the options granted by Inter Parfums, Inc. during the six months ended June 30, 2014 and 2013 were $8.37 and $6.17 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, 2014 and 2013 are set forth in the following table:

	June 30, 2014		June 30, 2013	
Weighted-average expected stock-price volatility	37	%	38	%
Weighted-average expected option life	5 years		5 years	
Weighted-average risk-free interest rate	1.55	%	0.89	%
Weighted-average dividend yield	2.8	%	2.0	%

INTER PARFUMS, INC. AND SUBSIDIARIES

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. <u>Net Income Attributable to Inter Parfums, Inc. Common Shareholders:</u>

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

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Numerator :				
Net income attributable to Inter Parfums, Inc.	$6,109	$3,815	$15,003	$35,511
Effect of dilutive securities of consolidated subsidiary	—	(176)	—	(176)
Numerator for diluted earnings per share	$6,109	$3,639	$15,003	$35,335
Denominator:				
Weighted average shares	30,938	30,748	30,919	30,717
Effect of dilutive securities:				
Stock options	131	205	144	183
Denominator for diluted earnings per share	31,069	30,953	31,063	30,900

Earning per share:				
Net income attributable to Inter Parfums, Inc. common shareholders:				
Basic	$0.20	$0.12	$0.49	$1.16
Diluted	0.20	0.12	0.48	1.14

Not included in the above computations is the effect of antidilutive potential common shares which consist of outstanding options to purchase 0.13 million shares and 0.07 million shares of common stock for the six months ended June 30, 2014 and 2013, respectively, and 0.13 million shares of common stock for the three months ended June 30, 2014.

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

(In thousands)	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Net income attributable to Inter Parfums, Inc.	$6,109	$3,815	$15,003	$35,511
Decrease in Inter Parfums, Inc.'s additional paid-in capital for subsidiary share transactions	--	--	319	--
Change from net income attributable to Inter Parfums, Inc. and transfers from noncontrolling interest	$6,109	$3,815	$14,684	$35,511

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

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

(In thousands)	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Net sales:				
United States	$23,540	$24,805	$42,933	$43,354
Europe	94,673	92,778	197,049	287,981
Eliminations	(21)	(98)	(59)	(39)
	$118,192	$117,485	$239,923	$331,296
Net income attributable to Inter Parfums, Inc.:				
United States	$1,405	$1,541	$1,338	$2,203
Europe	4,704	2,274	13,665	33,295

Eliminations of intercompany profits	--	--	--	13
	$6,109	$3,815	$15,003	$35,511

	June 30, 2014	December 31, 2013
Total Assets:		
United States	$79,909	$76,980
Europe	574,378	596,153
Eliminations of investment in subsidiary	(9,153)	(9,075)
	$645,134	$664,058

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, 2013 and the reports Inter Parfums files from time to time with the Securities and Exchange Commission. Inter Parfums does not intend to and undertakes no duty to update the information contained in this report.

Regulation S-K Item 10(e)

Regulation S-K Item 10(e), “Use of Non-GAAP Financial Measures in commission filings,” prescribes the conditions for use of non-GAAP financial information in commission filings. We believe that our presentation of the non-GAAP financial information included in this Form 10-Q is important supplemental measures of operating performance to investors as comparable sales information excluding sales related to a terminated license provides investors with a more accurate picture of current sales trends.

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 82% and 87% of net sales for the six months ended June 30, 2014 and 2013, respectively. Burberry was our most significant license, as sales of Burberry products represented 39% of net sales for the six months ended June 30, 2013. (See Note 3 “Termination of Burberry License” in notes to consolidated financial statements on page 7 of this Form 10-Q). In addition, we own the Lanvin brand name for our class of trade, and license the Montblanc and Jimmy Choo brand names; for the six months ended June 30, 2014, sales of product for these brands represented 17%, 25% and 12% of net sales, respectively.

INTER PARFUMS, INC. AND SUBSIDIARIES

Through our United States operations we also market prestige brand as well as specialty retail fragrance and fragrance related products. United States operations represented 18% and 13% of net sales for the six months ended June 30, 2014 and 2013. These fragrance products are sold under trademarks owned by us or pursuant to license or other agreements with the owners of the *Anna Sui, Alfred Dunhill, Shanghai Tang, Agent Provocateur, Gap*, *Banana Republic, Brooks Brothers, bebe and Betsey Johnson* brands.

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

We grow our business in two distinct ways. First, we grow by adding new brands to our portfolio, either through new licenses, other arrangements or outright 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, 2014, the economic uncertainty and financial market volatility taking place in certain European countries did not have a significant impact on our business, and at this time we do not believe it will have a significant impact on our business for the foreseeable future. However, if the degree of uncertainty or volatility worsens or is prolonged, then there will likely be a negative effect on ongoing consumer confidence, demand and spending and as a result, our business. Currently, we believe general economic and other uncertainties still exist in select markets in which we do business and we continue to monitor global economic uncertainties and other risks that may affect our business.

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

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

Shanghai Tang

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

Agent Provocateur

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

Oscar de la Renta

In October 2013, the Company entered into a 12-year exclusive worldwide license to create, produce and distribute perfumes and related products under the Oscar de la Renta brand. The agreement closed on December 2, 2013 and is subject to certain minimum advertising expenditures as is customary in our industry. We purchased certain inventories and paid an up-front entry fee of $5.0 million. The Company has taken over distribution of fragrances within the brand's current perfume portfolio, and plans to launch its first fragrance under the Oscar de la Renta brand in 2015.

INTER PARFUMS, INC. AND SUBSIDIARIES

Discussion of Critical Accounting Policies

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

Revenue Recognition

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

Accounts Receivable

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

Sales Returns

Generally, we do not permit customers to return their unsold products. However, in 2011 we took over U.S. distribution of our European based prestige products, and for U.S. based customers, 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.

INTER PARFUMS, INC. AND SUBSIDIARIES

Promotional Allowances

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

Inventories

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

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.

INTER PARFUMS, INC. AND SUBSIDIARIES

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 2013 assuming all other assumptions remained constant:

In millions	Change	Increase (decrease) to fair value
Weighted average cost of capital	+10 %	$ (1.32)
Weighted average cost of capital	-10 %	$ 1.67
Future sales levels	+10 %	$ 1.27
Future sales levels	-10 %	$ (1.27)

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.

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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.

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, 2014 as Compared to the Three and Six Months Ended June 30, 2013

See information regarding Regulation S-K Item 10(e), “Use of Non-GAAP Financial Measures in commission filings,” on page 13 of this Form 10-Q.

Net sales for the three and six months ended June 30, 2014 aggregated \$118.2 million and \$239.9 million, respectively, as compared to \$117.5 million and \$331.3 million, for the corresponding periods of the prior year. Our Burberry brand license terminated as of December 31, 2012 and pursuant to a transition agreement with Burberry, the three and six months ended June 30, 2013 included \$20.7 million and \$130.3 million, respectively, in Burberry brand sales.

INTER PARFUMS, INC. AND SUBSIDIARIES

Net Sales

	Three months ended June 30,				Six Months Ended June 30,			
	2014	**2013**	**% Change**		**2014**	**2013**	**% Change**	
	($ in millions)							
European-based ongoing brand product sales	$94.7	$72.1	31.2	%	$197.0	$ 157.6	25.0	%
United States-based product sales	23.5	24.7	-4.7	%	42.9	43.4	-1.0	%
Total ongoing brand net sales	118.2	96.8	22.1	%	239.9	201.0	19.4	%
Burberry brand net sales	--	20.7	n/a		--	130.3	n/a	
Total net sales	$118.2	$117.5	0.6	%	$239.9	$ 331.3	-27.6	%

Net sales for the three months ended June 30, 2014 of the Company’s ongoing brands (excluding Burberry brand sales) increased 22.1% to $118.2 million, as compared to $96.8 million for the corresponding period of the prior year. At comparable foreign currency exchange rates, net sales from ongoing brands in 2014 increased 20.0%. Net sales for the six months ended June 30, 2014 increased 19.4% to $239.9 million, as compared to $201.0 million for the corresponding period of the prior year. At comparable foreign currency exchange rates, net sales increased 17.8% for the period.

Ongoing European-based prestige product sales increased 31% and 25% for the three and six months ended June 30, 2014, respectively as compared to the corresponding periods of the prior year. New product launches were the primary catalyst for the strong start in 2014. Karl Lagerfeld’s signature scents for both men and women yielded more than $4 million and $17 million in incremental sales for the three and six months ended June 30, 2014, respectively. As a result of steady gains from *Legend* fragrances along with the recent launch of *Emblem*, Montblanc brand sales continued to outperform expectations with sales reaching $59.6 million in 2014, up 88% and 60% for the three and six months ended June 30, 2014, respectively, as compared to the corresponding periods of the prior year. Our top line also benefitted from solid performances by Repetto’s signature scent, along with improving sales of existing collections from S.T. Dupont and Paul Smith. In last year’s second quarter, Jimmy Choo brand sales rose more than 40% driven by the launch of *Flash*, which helps to understand why Jimmy Choo sales declined 6% in the current second quarter when no new products were introduced. However, based on a higher than expected backorder log for Jimmy Choo *Man* to be launched in the fall, more robust sales are anticipated for the second half of 2014. Lanvin also faced a difficult comparison against the launch of *Lanvin Me* in the prior year period; however, a strong performance by the *Eclat d’Arpège* enabled the brand to slightly exceed its 2013 second quarter sales.

United States prestige brand and specialty retail product sales declined modestly for the three and six months ended June 30, 2014, as compared to the corresponding periods of the prior year due to a challenging comparison with the prior year period. A difficult Asian market during the six months ended June 30, 2014 resulted in a decline in Anna Sui brand sales of 14% to $10.7 million, as compared to $12.4 million for the corresponding period of the prior year. Mitigating this decline were incremental sales of Alfred Dunhill legacy scents, which aggregated $6.5 million for the six months ended June 30, 2014. We are growing that brand and the others we added in late 2012 and 2013 by launching new products and pursuing expanded distribution. In that regard, we will begin shipping our first all new Dunhill fragrance called *Icon* during the fourth quarter of 2014, which will be in selective distribution until early 2015. Our early spring launches, *Fatale* and *Fatale Pink* for Agent Provocateur, have been well received in international markets, and we expect momentum to continue with the commencement of U.S. sales in the fall. Initial distribution of *La Nuit de Bohème* for Anna Sui began in June, and will culminate late this year with its debut in China. We also plan to launch our inaugural fragrance collection for Shanghai Tang in China later this year, followed by a select international roll-out in 2015.

INTER PARFUMS, INC. AND SUBSIDIARIES

Ongoing Brand Net Sales to Customers by Region

(In millions)

	Six months ended June 30, 2014	2013
North America	$59.2	$49.6
Western Europe	63.5	49.6
Eastern Europe	16.8	18.1
Central and South America	26.7	17.6
Middle East	25.2	19.4
Asia	42.9	42.4
Other	5.6	4.3
	$239.9	$201.0

For the six months ended June 30, 2014, top line growth was strong in all major markets other than Eastern Europe and Asia. A difficult Russian market and a depreciating currency accounted for the decline in Eastern Europe and a less buoyant growth rate resulted in the weak performance in Asia.

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.

Gross margin (In millions)	Three months ended June 30, 2014	2013	Six months ended June 30, 2014	2013
Net sales	$118.2	$117.5	$239.9	$331.3
Cost of sales	50.1	53.9	102.6	133.0
Gross margin	$68.1	$63.6	$137.3	$198.3
Gross margin as a percent of net sales	58 %	54 %	57 %	60 %

Gross profit margin was 58% and 57% for the three and six month periods ended June 30, 2014, respectively, as compared to 54% and 60% for the corresponding periods of the prior year. For European operations, gross profit margin was 60% for both the three and six months ended June 30, 2014, as compared to 57% and 62% for the corresponding periods of the prior year. The gross margin decline for the six months ended June 30, 2014 is directly related to the termination of the Burberry license and resulting discontinuance of Burberry product sales. During the first three months of 2013 Burberry products continued to be sold pursuant to the transition agreement and generated higher margins than ongoing brand sales. The unusually low gross margin for the three months ended June 30, 2013, is directly related to the resolution of the Burberry inventory during that period. Although reserves were established and used to cover losses on the disposition of inventory, the sale to Burberry of inventory at cost, resulted in lower gross margin during the period.

INTER PARFUMS, INC. AND SUBSIDIARIES

For U.S. operations, gross profit margin was 49% and 46% for the three and six months ended June 30, 2014, respectively, as compared to 46% for both corresponding periods of the prior year, with product mix accounting for the slight fluctuation in the second quarter of 2014.

We carefully monitor movements in foreign currency exchange rates as over 40% of our European based operations net sales are denominated in U.S. dollars, while our costs are incurred in euro. From a profit standpoint, a stronger U.S. dollar has a positive effect on our gross margin while a weak dollar has a negative effect. The average dollar/euro exchange rate for the six months ended June 30, 2014 was 1.37, as compared to 1.32 for the 2013 period. As such, there was no material effect on gross margin in 2013 from changes in currency exchange rates.

Generally, we do not bill customers for shipping and handling costs, and such costs, which aggregated $1.2 million and $2.4 million for the three and six month periods ended June 30, 2014, respectively, as compared to $1.1 million and $3.1 million for the corresponding periods of the prior year, are included in selling, general and administrative expenses in the consolidated statements of income. As such, our Company's gross profit may not be comparable to other companies, which may include these expenses as a component of cost of goods sold.

Selling, general and administrative expenses	Three months ended June 30,		Six months ended June 30,	
(In millions)	2014	2013	2014	2013
Selling, general and administrative expenses	$55.3	$55.7	$107.1	$123.4
Selling, general and administrative expenses as a percent of net sales	47 %	47 %	45 %	37 %

Selling, general and administrative expenses decreased 1% and 13% for the three and six months ended June 30, 2014, respectively, as compared to the corresponding periods of the prior year. Selling, general and administrative expenses were 47% and 45% of net sales for the three and six months ended June 30, 2014, as compared to 47% and 37% for the corresponding periods of the prior year.

Promotion and advertising included in selling, general and administrative expenses aggregated $20.3 million and $34.8 million for the three and six months ended June 30, 2014, respectively, as compared to $22.4 million and $37.1 million for the corresponding periods of the prior year. Promotion and advertising represented 17% and 14% of net sales for the three and six months ended June 30, 2014, as compared to 19% and 11% of net sales for the corresponding period of the prior year. In 2013, pursuant to the requirements of the transition agreement with

Burberry, advertising requirements were eliminated. As experienced in 2013, a significant portion of our annual advertising budget is expected to be incurred during the final quarter of the year.

Royalty expense included in selling, general and administrative expenses aggregated $8.0 million and $15.8 million for the three and six months ended June 30, 2014, respectively, as compared to $6.8 million and $24.8 million for the corresponding periods of the prior year. Royalty expense represented 6.8% and 6.6% of net sales for the three and six months ended June 30, 2014, as compared to 5.8% and 7.5% of net sales for the corresponding period of the prior year. The increase in royalties for the three months ended June 30, 2014 is the result of product mix, and the decline for the six months period is directly related to the termination of the Burberry license. In addition, service fees relating to the activities of our distribution subsidiaries aggregated $2.4 million and $5.7 million for the three and six month periods ended June 30, 2014, respectively, as compared to $2.8 million and $9.4 million for the corresponding periods of the prior year. The decline in service fees is directly related to the termination of the Burberry license.

INTER PARFUMS, INC. AND SUBSIDIARIES

As a result of the above analysis, income from operations increased 63% to $12.9 million for the three-months ended June 30, 2014, as compared to $7.9 million for the corresponding period of the prior year. Income from operations decreased to $30.3 million for the six month period ended June 30, 2014, as compared to $74.9 million for the corresponding period of the prior year. Operating margins were 10.9% and 12.6% of net sales for the three and six months ended June 30, 2014, respectively, as compared to 6.7% and 22.6% for the corresponding periods of the prior year. Second quarter 2014 results reflect increased European-based ongoing brand sales and a higher gross margin. Results for the six months ended June 30, 2013 were influenced by an exceptional 2013 first quarter where profits were extraordinarily strong due to substantial sales of Burberry product, coupled with low promotional expenses.

Interest expense aggregated $0.6 million and $0.8 million for the three and six months ended June 30, 2014, respectively, as compared to $0.4 million and $0.9 million for the corresponding periods of the prior year. We use the credit lines available to us, as needed, to finance our working capital needs as well as our financing needs for brand acquisitions.

Interest income aggregated $0.9 million and $2.1 million for the three and six months ended June 30, 2014, respectively, as compared to $1.1 million and $2.3 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.

Our effective income tax rate was 41% and 37% for the three and six-month periods ended June 30, 2014, respectively, as compared to 50% and 37% for the corresponding periods of the prior year. Beginning in 2013, the company incurred a new tax levied by the French Government equal to 3% on any dividend paid by a French company to its shareholders. This new tax aggregated approximately $0.8 million for the three and six months ended June 30, 2014, as compared to $1.3 million for the corresponding periods of the prior year. Excluding this new tax our effective income tax rate was 34% and 35% for the six months ended June 30, 2014 and 2013, respectively. Our effective tax rates differ from statutory rates due to the effect of state and local taxes and tax rates in foreign jurisdictions.

INTER PARFUMS, INC. AND SUBSIDIARIES

Net income and earnings per share

(In thousands except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income European operations	$6,262	$2,980	$18,479	$45,247
Net income U.S. operations	1,405	1,541	1,338	2,216
Net income	7,667	4,521	19,817	47,463
Less: Net income attributable to the noncontrolling interest	1,558	706	4,814	11,952
Net income attributable to Inter Parfums, Inc.	$6,109	$3,815	$15,003	$35,511
Earnings per share:				
Net income attributable to Inter Parfums, Inc. common shareholders:				
Basic	$0.20	$0.12	$0.49	$1.16
Diluted	$0.20	$0.12	$0.48	$1.14
Weighted average number of shares outstanding:				
Basic	30,938	30,748	30,919	30,717
Diluted	31,069	30,953	31,063	30,900

Net income increased 70% to $7.7 million for the three months ended June 30, 2014, as compared to $4.5 million for the corresponding period of the prior year. Net income decreased to $19.8 million for the six months ended June 30, 2014, as compared to $47.5 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. In summary, for the six months ended June 30, 2014, results for our European operations reflect the absence of Burberry brand sales and the related decline in gross margin as a percentage of sales were partially mitigated by the decline in Burberry related selling, general and administrative expenses. For United States operations, the slight decline in sales and 8% increase in selling, general and administrative expense are the primary contributors to the decline in net income.

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 25% and 26% of European operations net income for the three and six month periods ended June 30, 2014, respectively, as compared to 24% and 26% for the corresponding periods of the prior year.

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Liquidity and Capital Resources

The Company’s financial position remains strong. At June 30, 2014, working capital aggregated $409 million and we had a working capital ratio of 5.0 to 1. Cash and cash equivalents and short-term investments aggregated $275 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 $101 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 one or more brands, either on a proprietary basis or as a licensee. Opportunities for external growth continue to be examined, 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 aggregated $11.4 million and $1.1 million for the six months ended June 30, 2014 and 2013, respectively. For the 2014 period, working capital items used $38.9 million in cash from operating activities, as compared to $60.6 million in the 2013 period. The 21% increase in accounts receivable is consistent with the increase in sales and the 8% increase in inventories reflect levels needed to support upcoming new product launches. The decline in accrued expenses primarily reflects the payments of advertising liabilities from 2013.

Cash flows used in investing activities in 2014 reflect the purchase and sales, by our European operations, of short-term investments. These investments are primarily certificates of deposit with maturities greater than three months. Approximately $107 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.

Our short-term financing requirements are expected to be met by available cash on hand at June 30, 2014, cash generated by operations and short-term credit lines provided by domestic and foreign banks. The principal credit facilities for 2014 consist of a $20.0 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, 2014, short-term borrowings aggregated $0.3 million.

In January 2014, the Board of Directors authorized the continuation of the $0.48 per share dividend for 2014. The next quarterly cash dividend of $0.12 per share is payable on October 15, 2014 to shareholders of record on September 30, 2014. The annual cash dividend for 2014 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.

INTER PARFUMS, INC. AND SUBSIDIARIES

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, 2014.

Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2013 over the periods indicated, as well as our total contractual obligations ($ in thousands).

Contractual Obligations	Payments due by period				
	Total	Less than 1 year	Years 2-3	Years 4-5	More than 5 years
Long-Term Debt					
Capital Lease Obligations					
Operating Leases	$33,491	$4,993	$9,790	$8,684	$10,024
Purchase obligations[1]	$1,119,360	$102,123	$236,243	$240,785	$540,209
Other Long-Term Liabilities Reflected on the Registrant's Balance Sheet under GAAP					
Total	$1,152,851	$107,116	$246,033	$249,469	$550,233

(1) Consists of purchase commitments for advertising and promotional items, minimum royalty guarantees, including fixed or minimum obligations, and estimates of such obligations subject to variable price provisions. Future advertising commitments were estimated based on planned future sales for the license terms that were in effect at December 31, 2013, 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.

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, 2014, we had foreign currency contracts in the form of forward exchange contracts in the amount of approximately U.S. $16.6 million, GB pounds £3.0 million and JPY ¥100.0 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.

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.

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.

INTER PARFUMS, INC. AND SUBSIDIARIES

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	31
31.2	Certifications required by Rule 13a-14(a) of Chief Financial Officer	32
32.1	Certification required by Section 906 of the Sarbanes-Oxley Act of Chief Executive Officer	33
32.2	Certification required by Section 906 of the Sarbanes-Oxley Act of Chief Financial Officer	34
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 11th day of August 2014.

INTER PARFUMS, INC.

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