

INTER PARFUMS INC  
Form 10-Q  
November 07, 2007

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

( MARK ONE )

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2007.

OR

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

Commission File No. **0-16469**

**INTER PARFUMS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**13-3275609**

(I.R.S. Employer  
Identification No.)

**551 Fifth Avenue, New York, New York**

(Address of Principal Executive Offices)

**10176**

(Zip Code)

**(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  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

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

At November 6, 2007 there were 20,437,292 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. Therefore, such financial statements do not include all disclosures required by accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with our audited financial statements for the year ended December 31, 2006 included in our annual report filed on Form 10-K.

The results of operations for the nine months ended September 30, 2007 are not necessarily indicative of the results to be expected for the entire fiscal year.

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**INTER PARFUMS, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**  
(In thousands except share and per share data)

|  | September 30,<br>2007<br>(unaudited) | December 31,<br>2006 |
|--|--------------------------------------|----------------------|
| <b>ASSETS</b>  |                                      |                      |
| <b>Current assets:</b>                                       |                                      |                      |
| Cash and cash equivalents                                    | \$ 53,834                            | \$ 58,247            |
| Short-term investments                                       | —                                    | 12,800               |
| Accounts receivable, net                                     | 121,602                              | 110,251              |
| Inventories  | 101,372                              | 69,537               |
| Receivables, other   | 5,379                                | 2,481                |
| Other current assets   | 5,337                                | 6,137                |
| Income tax receivable  | 6                                    | 370                  |
| Deferred tax assets  | 6,623                                | 2,494                |
| <b>Total current assets</b>                                  | <b>294,153</b>                       | <b>262,317</b>       |
| <b>Equipment and leasehold improvements, net</b>             | <b>7,198</b>                         | <b>6,806</b>         |
| <b>Trademarks, licenses and other intangible assets, net</b> | <b>93,588</b>                        | <b>58,342</b>        |
| <b>Goodwill</b>  | <b>7,370</b>                         | <b>4,978</b>         |
| <b>Other assets</b>  | <b>637</b>                           | <b>602</b>           |
|  | <b>\$ 402,946</b>                    | <b>\$ 333,045</b>    |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                  |                                      |                      |
| <b>Current liabilities:</b>                                  |                                      |                      |
| Loans payable – banks  | \$ 12,112                            | \$ 6,033             |
| Current portion of long-term debt                            | 14,389                               | 4,214                |
| Accounts payable - trade                                     | 53,535                               | 58,748               |
| Accrued expenses   | 37,407                               | 52,637               |
| Income taxes payable   | 3,973                                | 1,325                |
| Dividends payable  | 1,022                                | 813                  |
| <b>Total current liabilities</b>                             | <b>122,438</b>                       | <b>123,770</b>       |
| <b>Long-term debt, less current portion</b>                  | <b>47,059</b>                        | <b>6,555</b>         |
| <b>Deferred tax liability</b>                                | <b>2,301</b>                         | <b>2,111</b>         |
| <b>Put option</b>  | <b>—</b>                             | <b>1,262</b>         |
| <b>Minority interest</b>                                     | <b>53,022</b>                        | <b>44,075</b>        |

**Shareholders' equity:**

Preferred stock, \$.001 par; authorized 1,000,000 shares; none issued

Common stock, \$.001 par; authorized 100,000,000 shares; outstanding 20,437,292 and 20,434,792

shares at September 30, 2007 and December 31, 2006, respectively

|  |          |          |
|--|----------|----------|
|  | 20       | 20       |
| Additional paid-in capital   | 38,285   | 38,096   |
| Retained earnings  | 140,437  | 127,834  |
| Accumulated other comprehensive income   | 25,232   | 15,170   |
| Treasury stock, at cost, 6,247,886 common shares at September 30, 2007 and December 31, 2006 | (25,848) | (25,848) |

|  |         |         |
|--|---------|---------|
|  | 178,126 | 155,272 |
|--|---------|---------|

|  |            |            |
|--|------------|------------|
|  | \$ 402,946 | \$ 333,045 |
|--|------------|------------|

*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<br>September 30, |           | Nine Months Ended<br>September 30, |            |
|--|-------------------------------------|-----------|------------------------------------|------------|
|  | 2007                                | 2006      | 2007                               | 2006       |
| <b>Net sales</b>   | \$ 102,320                          | \$ 89,690 | \$ 270,205                         | \$ 230,876 |
| <b>Cost of sales</b>                                       | 42,254                              | 41,002    | 110,057                            | 102,221    |
| <b>Gross margin</b>  | 60,066                              | 48,688    | 160,148                            | 128,655    |
| <b>Selling, general and administrative</b>                 | 47,682                              | 39,263    | 129,189                            | 103,664    |
| <b>Income from operations</b>                              | 12,384                              | 9,425     | 30,959                             | 24,991     |
| <b>Other expenses (income):</b>                            |                                     |           |                                    |            |
| Interest expense   | 945                                 | 311       | 2,160                              | 830        |
| (Gain) loss on foreign currency                            | (20)                                | (66)      | 104                                | (447)      |
| Interest and dividend (income)                             | (184)                               | (282)     | (1,773)                            | (1,297)    |
| (Gain) on subsidiary's issuance of stock                   | (113)                               | (5)       | (639)                              | (17)       |
|  | 628                                 | (42)      | (148)                              | (931)      |
| <b>Income before income taxes and minority interest</b>    | 11,756                              | 9,467     | 31,107                             | 25,922     |
| Income taxes   | 3,967                               | 3,192     | 10,415                             | 8,827      |
| <b>Income before minority interest</b>                     | 7,789                               | 6,275     | 20,692                             | 17,095     |
| Minority interest in net income of consolidated subsidiary | 2,129                               | 1,630     | 5,490                              | 4,838      |
| <b>Net income</b>  | \$ 5,660                            | \$ 4,645  | \$ 15,202                          | \$ 12,257  |
| <b>Net income per share:</b>                               |                                     |           |                                    |            |
| <b>Basic</b>   | \$ 0.28                             | \$ 0.23   | \$ 0.74                            | \$ 0.60    |
| <b>Diluted</b>   | \$ 0.27                             | \$ 0.23   | \$ 0.74                            | \$ 0.60    |
| <b>Weighted average number of shares outstanding:</b>      |                                     |           |                                    |            |
| <b>Basic</b>   | 20,437                              | 20,322    | 20,437                             | 20,302     |
| <b>Diluted</b>   | 20,678                              | 20,546    | 20,674                             | 20,551     |

See notes to consolidated financial statements.





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

(In thousands)

*(Unaudited)*

|   | Nine months ended<br>September 30, |           |
|---|------------------------------------|-----------|
|   | 2007                               | 2006      |
| <b>Cash flows from operating activities:</b>  |                                    |           |
| Net income  | \$ 15,202                          | \$ 12,257 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                                    |           |
| Depreciation and amortization   | 6,076                              | 3,750     |
| Provision for doubtful accounts   | 461                                | 45        |
| Noncash stock compensation  | 840                                | 686       |
| Loss on sale of trademark   | —                                  | 243       |
| Minority interest in net income of consolidated subsidiary                                  | 5,490                              | 4,838     |
| Deferred tax (benefit)  | (3,796)                            | (479)     |
| Change in fair value of put option  | —                                  | 369       |
| Gain on subsidiary's issuance of stock  | (639)                              | (17)      |
| Changes in:   |                                    |           |
| Accounts receivable   | (3,881)                            | (22,667)  |
| Inventories   | (26,920)                           | (19,381)  |
| Other assets and receivables  | (1,422)                            | (1,268)   |
| Accounts payable and accrued expenses   | (2,634)                            | 15,816    |
| Income taxes payable, net   | 2,553                              | (746)     |
| Net cash used in operating activities   | (8,670)                            | (6,554)   |
| <b>Cash flows from investing activities:</b>  |                                    |           |
| Purchases of short-term investments   | (300)                              | —         |
| Proceeds from sale of short-term investments  | 13,100                             | 4,100     |
| Purchase of equipment and leasehold improvements  | (1,835)                            | (2,793)   |
| Payment for intangible assets acquired  | (57,127)                           | (4,101)   |
| Proceeds from sale of trademark   | —                                  | 1,121     |
| Payment for acquisition of minority interest  | (4,673)                            | —         |
| Net cash used in investing activities   | (50,835)                           | (1,673)   |
| <b>Cash flows from financing activities:</b>  |                                    |           |
| Increase in loans payable – bank  | 5,709                              | 9,119     |
| Proceeds of long-term debt  | 53,808                             | —         |
| Repayment of long-term debt   | (6,510)                            | (2,990)   |
| Proceeds from sale of stock of subsidiary   | 2,588                              | 681       |
| Proceeds from exercise of options   | 20                                 | 657       |
| Dividends paid  | (2,857)                            | (2,434)   |
| Dividends paid to minority interest   | (1,594)                            | (1,218)   |
| Net cash provided by financing activities   | 51,164                             | 3,815     |

|  |           |           |
|--|-----------|-----------|
| <b>Effect of exchange rate changes on cash</b>           | 3,928     | 2,963     |
| <b>Net decrease in cash and cash equivalents</b>         | (4,413)   | (1,449)   |
| Cash and cash equivalents - beginning of period          | 58,247    | 42,132    |
| <b>Cash and cash equivalents - end of period</b>         | \$ 53,834 | \$ 40,683 |
| <b>Supplemental disclosure of cash flow information:</b> |           |           |
| Cash paid for:   |           |           |
| Interest   | \$ 2,334  | \$ 985    |
| Income taxes   | 10,248    | 10,228    |

*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 consolidated financial statements included in our Form 10-K which was filed with the Securities and Exchange Commission for the year ended December 31, 2006. 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.

The consolidated financial statements include the accounts of the Company and its subsidiaries, including majority-owned Inter Parfums, S.A. ("IPSA"), a subsidiary whose stock is publicly traded in France. In January 2007, IPSA formed and began operations of four new majority-owned distribution subsidiaries, Inter Parfums Limited, Inter Parfums Deutschland GMBH, Inter Parfums srl and Inter España Parfums et Cosmetiques, SL, covering territories in The United Kingdom, Germany, Italy and Spain, respectively. All material intercompany balances and transactions have been eliminated.

**2. New Accounting Pronouncements:**

In February 2007, the Financial Accounting Standards Board ("FASB") issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement 115." SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company does not believe that the adoption of SFAS 159 will have a material impact on our consolidated financial statements.

In September 2006, FASB issued SFAS 157, "Fair Value Measurements" ("SFAS 157"). While the statement does not expand the use of fair value in any new circumstances, it defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America and expands disclosures about fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company does not believe that the adoption of SFAS 157 will have a material impact on our consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB No. 109 ("FIN 48"), which prescribes accounting for and disclosure of uncertainty in tax positions. This interpretation defines the criteria that must be met for the benefits of a tax position to be recognized in the financial statements and the measurement of tax benefits recognized. The provisions of FIN 48 are effective as of the beginning of the Company's 2007 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The adoption by the Company of FIN 48 did not have a material impact on our consolidated financial statements.

In March 2006, the FASB released Statement of Financial Accounting Standards ("SFAS") 156, Accounting for Servicing of Financial Assets ("SFAS 156"), to simplify accounting for separately recognized servicing assets and servicing liabilities. SFAS 156 amends SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS 156 permits an entity to choose either the amortization method or the fair value measurement method for measuring each class of separately recognized servicing assets and servicing liabilities after they have been initially measured at fair value. SFAS 156 applies to all separately recognized servicing assets and liabilities acquired or issued after the beginning of an entity's fiscal year that begins after September 15, 2006. The adoption by the Company of SFAS 156 did not have any impact on our consolidated financial statements.



**INTER PARFUMS, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****3. Comprehensive Income:**

| (In thousands)                                 | Three months ended |                 | Nine months ended |                  |
|--|--------------------|-----------------|-------------------|------------------|
|  | September 30,      |                 | September 30,     |                  |
|  | 2007               | 2006            | 2007              | 2006             |
| <b>Comprehensive income:</b>                   |                    |                 |                   |                  |
| Net income                                     | \$ 5,660           | \$ 4,645        | \$ 15,202         | \$ 12,257        |
| <b>Other comprehensive income, net of tax:</b> |                    |                 |                   |                  |
| Foreign currency translation adjustment        | 6,863              | (506)           | 10,062            | 6,931            |
| Change in fair value of derivatives            | (9)                | 26              | —                 | 28               |
| <b>Comprehensive income</b>                    | <b>\$ 12,514</b>   | <b>\$ 4,165</b> | <b>\$ 25,264</b>  | <b>\$ 19,216</b> |

**4. Segment and Geographic Areas:**

We manufacture and distribute one product line, fragrances and fragrance related products and we manage our business in two segments, European based operations and United States based operations. The European assets are primarily 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 the Company's operations by geographical areas is as follows.

| (In thousands)                     | Three months ended |           | Nine months ended |            |
|------------------------------------|--------------------|-----------|-------------------|------------|
|                                    | September 30,      |           | September 30,     |            |
|                                    | 2007               | 2006      | 2007              | 2006       |
| <b>Net Sales:</b>                  |                    |           |                   |            |
| United States                      | \$ 14,170          | \$ 13,624 | \$ 36,059         | \$ 31,174  |
| Europe                             | 89,352             | 76,506    | 235,772           | 200,788    |
| Eliminations of intercompany sales | (1,202)            | (440)     | (1,626)           | (1,086)    |
|                                    | \$ 102,320         | \$ 89,690 | \$ 270,205        | \$ 230,876 |
| <b>Net Income (Loss):</b>          |                    |           |                   |            |
| United States                      | \$ 466             | \$ 212    | \$ (444)          | \$ (1,111) |
| Europe                             | 5,237              | 4,404     | 15,638            | 13,349     |
| Eliminations                       | (43)               | 29        | 8                 | 19         |
|                                    | \$ 5,660           | \$ 4,645  | \$ 15,202         | \$ 12,257  |

|                      | September 30, | December 31, |
|----------------------|---------------|--------------|
|                      | 2007          | 2006         |
| <b>Total Assets:</b> |               |              |

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|  |    |          |    |         |
|--|----|----------|----|---------|
| United States                            | \$ | 55,294   | \$ | 61,435  |
| Europe                                   |    | 358,278  |    | 281,378 |
| Eliminations of investment in subsidiary |    | (10,626) |    | (9,768) |
|  | \$ | 402,946  | \$ | 333,045 |

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**INTER PARFUMS, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****5. Earnings Per Share:**

We computed basic earnings per share using the weighted average number of shares outstanding during each period. We computed diluted earnings per share using the weighted average number of shares outstanding during each period, plus the incremental shares outstanding assuming the exercise of dilutive stock options.

The following table sets forth the computation of basic and diluted earnings per share:

| (In thousands)                       | Three months ended<br>September 30, |          | Nine months ended<br>September 30, |           |
|--------------------------------------|-------------------------------------|----------|------------------------------------|-----------|
|                                      | 2007                                | 2006     | 2007                               | 2006      |
| <b>Numerator:</b>                    |                                     |          |                                    |           |
| Net income                           | \$ 5,660                            | \$ 4,645 | \$ 15,202                          | \$ 12,257 |
| <b>Denominator:</b>                  |                                     |          |                                    |           |
| Weighted average shares -<br>basic   | 20,437                              | 20,322   | 20,437                             | 20,302    |
| Effect of dilutive securities:       |                                     |          |                                    |           |
| Stock options and warrants           | 241                                 | 224      | 237                                | 249       |
| Weighted average shares -<br>diluted | 20,678                              | 20,546   | 20,674                             | 20,551    |

Not included in the above computations is the effect of antidilutive potential common shares which consist of outstanding options to purchase 357,000 and 297,000 shares of common stock for the three and nine month periods ended September 30 2007, respectively, and 202,000 and 215,000 shares for the three and nine month periods ended September 30 2006, respectively, as well as outstanding warrants to purchase 100,000 shares of common stock for all periods presented.

**6. Inventories:**

Inventories consist of the following:

| (In thousands)                    | September 30,<br>2007 | December 31,<br>2006 |
|-----------------------------------|-----------------------|----------------------|
| Raw materials and component parts | \$ 37,387             | \$ 27,179            |
| Finished goods                    | 63,985                | 42,358               |
|                                   | \$ 101,372            | \$ 69,537            |

Overhead included in inventory aggregated \$2.7 million and \$2.1 million as of September 30, 2007 and December 31, 2006, respectively.

**INTER PARFUMS, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****7. Long-term Debt:**

In September 2007, Inter Parfums, S.A. entered into a €22 million five-year credit agreement. The long-term credit facility, which bears interest at 0.40% above the three month EURIBOR rate or 5.19% as of September 30 2007, provides for principal to be repaid in 20 equal quarterly installments and requires the maintenance of certain financial covenants. In connection with this credit agreement, the Company entered into a swap transaction effectively exchanging the variable interest rate referred to above to a fixed rate of 4.42%. This derivative instrument is recorded at fair value and changes in fair value are reflected in the consolidated statements of income.

In January 2007, Inter Parfums, S.A. entered into an €18 million five-year credit agreement. The long-term credit facility, which bears interest at 4.1% provides for principal to be repaid in 20 equal quarterly installments and requires the maintenance of certain financial covenants.

In July 2004, Inter Parfums, S.A. entered into a €16 million five-year credit agreement. The long-term credit facility, which bears interest at 0.60% above the three month EURIBOR rate, provides for principal to be repaid in 20 equal quarterly installments and requires the maintenance of certain financial covenants. In connection with this credit agreement, the Company entered into a swap transaction effectively exchanging the variable interest rate referred to above to a variable rate based on the 12 month EURIBOR rate with a floor of 3.25% and a ceiling of 3.85%. This derivative instrument is recorded at fair value and changes in fair value are reflected in the consolidated statements of income.

At September 30, 2007 exchange rates, maturities of long-term debt on a calendar year basis subsequent to September 30, 2007 are as follows (in thousands):

|      |          |
|------|----------|
| 2007 | \$ 2,694 |
| 2008 | 15,619   |
| 2009 | 13,552   |
| 2010 | 11,493   |
| 2011 | 11,712   |
| 2012 | 6,083    |

**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 vest over a period of four to five years and are exercisable for a period of up to six years. It is generally the Company's policy to issue new shares upon exercise of stock options.

Employee stock-based compensation reduced income before income taxes by \$0.28 million and \$0.84 million for the three and nine month periods ended September 30, 2007, respectively, as compared to \$0.24 million and \$0.69 million for the corresponding periods of the prior year. Employee stock-based compensation reduced net income by \$0.14 million and \$0.42 million for the three and nine month periods ended September 30, 2007, respectively, as compared to \$0.12 million and \$0.34 million for the corresponding periods of the prior year.





**INTER PARFUMS, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****8. Share-Based Payments (continued):**

The following table summarizes stock option information as of September 30, 2007 and does not include information relating to options of Inter Parfums, S.A. granted by Inter Parfums, S.A., our majority owned subsidiary:

|   | Shares  | Weighted<br>Average Exercise<br>Price |
|---|---------|---------------------------------------|
| Outstanding at January 1, 2007            | 867,600 | \$ 16.53                              |
| Granted                                   | 11,500  | 21.09                                 |
| Exercised                                 | (2,500) | 8.00                                  |
| Forfeited or expired                      | (7,400) | 18.91                                 |
| Outstanding at September 30, 2007         | 869,200 | \$ 16.59                              |
| Options exercisable at September 30, 2007 | 692,700 | \$ 15.79                              |
| Options available for future grants       | 870,329 |                                       |

As of September 30, 2007, the weighted average remaining contractual life of options outstanding is 2.1 years (1.6 years for options exercisable), the aggregate intrinsic value of options outstanding is \$6.2 million (\$5.5 million for options exercisable) and unrecognized compensation cost related to stock options outstanding on Inter Parfums, Inc. stock aggregated \$0.95 million. As of September 30, 2007, the amount of unrecognized compensation cost related to stock options outstanding of our majority owned subsidiary, Inter Parfums S.A., was 1.0 million euro. Options under Inter Parfums, S.A. plans vest over a four year period.

Cash proceeds, tax benefits and intrinsic value related to stock options exercised during the nine months ended September 30, 2007 and 2006 were as follows:

| (In thousands)                             | September 30,<br>2007 | September 30,<br>2006 |
|--|-----------------------|-----------------------|
| Cash proceeds from stock options exercised | \$ 20                 | \$ 509                |
| Tax benefits                               | —                     | —                     |
| Intrinsic value of stock options exercised | 29                    | 686                   |

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

The weighted average fair values of the options granted by Inter Parfums, Inc. during the nine months ended September 30, 2007 and 2006 were \$5.18 and \$6.63 per share, respectively, on the date of grant using the Black-Scholes option pricing model with the following assumptions: dividend yield 1.0% in 2007 and 0.9% in 2006; volatility of 26% in 2007 and 40% in 2006; risk-free interest rates at the date of grant, 5.0% in 2007 and 4.6% in 2006; and an expected life of the option of four years in 2007 and 2006. Expected volatility is estimated using historical volatility.



*INTER PARFUMS, INC. AND SUBSIDIARIES*

**Notes to Consolidated Financial Statements**

**8. Share-Based Payments (continued):**

Stock-based employee compensation determined under the fair value based method, net of related tax effects, includes compensation incurred by Inter Parfums, S.A., our majority owned subsidiary whose stock is publicly traded in France. There were no options granted by Inter Parfums, S.A. during the nine months ended September 30, 2007. The weighted average fair values of the options granted by Inter Parfums, S.A. during the nine months ended September 30, 2006 were 10.37 euro per share on the date of grant using the Black-Scholes option pricing model with the following assumptions: dividend yield 0.94%; volatility of 25%; risk-free interest rates at the date of grant, 4.6%; and an expected life of the option of four years in 2006.

**9. Entry Into Definitive Agreements:**

[1] In July 2007, we acquired the worldwide rights to the Lanvin brand names and international trademarks listed in Class 3 from Jeanne Lanvin, S.A. (“Lanvin”). Among other items, Class 3 of the international classification of trademarks goods and services include: soaps, perfumery, essential oils, cosmetics and hair lotions. In July, we paid €22 million (approximately \$29.7 million) in cash for the brand names and trademarks and simultaneously terminated our existing license agreement. We also agreed to pay to Lanvin a sales based fee for technical and creative assistance in new product development to be rendered by Lanvin in connection with our use of the trademarks through June 30, 2019. In addition, Lanvin has the right to repurchase the brand names and trademarks in 2025 for the greater of €70 million or one times the average of the annual sales for the years ending December 31, 2023 and 2024.

Prior to this acquisition, the amount paid to secure the license agreement with Lanvin was being amortized over the life of the license agreement. At June 30, 2007, that intangible asset, net of accumulated amortization aggregated €13.2 million. The €22 million paid in July 2007 for the brand names and trademarks together with the carrying value related to the license agreement represents the total cost of acquiring the brand names and trademarks. Such total amount is included in trademarks, licenses and other intangible assets on the Company’s consolidated balance sheet as of September 30, 2007.

Since the estimated residual value of the Lanvin brand names and trademarks exceeds its carrying amount, no further amortization expense has been, or is expected to be, recorded after June 30, 2007.

**INTER PARFUMS, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****9. Entry Into Definitive Agreements (continued):**

[2] In June 2007, the minority shareholders of Nickel S.A., a consolidated subsidiary of the Company, exercised their rights to sell their remaining 32.4% interest in Nickel S.A. to the Company for approximately \$4.7 million in cash. The acquisition was accounted for under the purchase method. The allocation of the additional purchase price was as follows (in thousands):

|   |          |
|---|----------|
| Purchase price                                | \$ 4,673 |
| Less amount recorded for put option liability | 1,273    |
| Subtotal                                      | \$ 3,400 |
| Allocated as follows:                         |          |
| Trademarks                                    | \$ 921   |
| Minority interest                             | 587      |
| Goodwill                                      | 1,892    |
| Total   | \$ 3,400 |

[3] In April 2007, we entered into an exclusive agreement with New York & Company, Inc. under which we design and manufacture personal care products to be sold at the New York & Company retail locations and on their website. We are responsible for product development, formula creation, packaging and manufacturing while New York & Company is responsible for marketing and selling in its stores.

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

**Item MANAGEMENT'S DISCUSSION AND ANALYSIS OFFINANCIAL CONDITION AND RESULTS  
2: 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, 2006, 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. Our prestige fragrance products are produced and marketed by our European operations through our 71% owned subsidiary in Paris, Inter Parfums, S.A., which is also a publicly traded company as 29% of Inter Parfums, S.A. shares trade on the Euronext.

We produce and distribute our prestige products primarily under license agreements with brand owners and prestige product sales represented approximately 87% of net sales for the nine month period ended September 30, 2007. We have built a portfolio of brands, which include *Burberry*, *Lanvin*, *Paul Smith*, *S.T. Dupont*, *Christian Lacroix*, *Quiksilver/Roxy*, *Van Cleef & Arpels* and *Nickel* whose products are distributed in over 120 countries around the world. Burberry is our most significant license; sales of Burberry products represented 56% and 59% of net sales for the nine month periods ended September 30, 2007 and 2006, respectively. Prestige cosmetics and prestige skin care products represent less than 3% of consolidated net sales.

Our specialty retail and mass-market fragrance and fragrance related products are marketed through our United States operations and represented 13% of sales for the nine month period ended September 30, 2007. These products are sold under trademarks owned by us or pursuant to license or other agreements with the owners of the *Gap*, *Banana Republic*, *New York & Company*, *Aziza* and *Jordache* trademarks.

We grow our business in two distinct ways. First, we grow by adding new brands to our portfolio, either through new licenses or out-right acquisitions of brands. Second, we grow through the creation of fragrance family extensions within the existing brands in our portfolio. Every two to three years, we create a new family of fragrances for each brand in our portfolio.

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

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

**Recent Important Events**

***Lanvin***

In July 2007, we acquired the worldwide rights to the Lanvin brand names and international trademarks listed in Class 3 from Lanvin. Among other items, Class 3 of the international classification of trademarks goods and services include: soaps, perfumery, essential oils, cosmetics and hair lotions. We paid €22 million (approximately \$29.7 million) in cash for the brand names and trademarks and simultaneously terminated our existing license agreement. We also agreed to pay to Lanvin a sales based fee for technical and creative assistance in new product development to be rendered by Lanvin in connection with our use of the trademarks through June 30, 2019. In addition, Lanvin has the right to repurchase the brand names and trademarks in 2025 for the greater of €70 million or one times the average of the annual sales for the years ending December 31, 2023 and 2024.

In September 2007, in connection with the acquisition, we entered into a €22 million five-year credit agreement. The long-term credit facility, which bears interest at 0.40% above the three month EURIBOR rate provides for principal to be repaid in 20 equal quarterly installments.

***New York & Company***

In April 2007, we entered into an exclusive agreement with New York & Company, Inc. under which we design and manufacture personal care products to be sold at the New York & Company retail locations and on their website. We are responsible for product development, formula creation, packaging and manufacturing while New York & Company is responsible for marketing and selling in its stores.

***Van Cleef & Arpels***

In September 2006, we entered into an exclusive, worldwide license agreement with Van Cleef & Arpels Logistics SA, for the creation, development and distribution of fragrance and related bath and body products under the Van Cleef & Arpels brand and related trademarks. Van Cleef & Arpels is a prestigious and legendary world-renowned jewelry designer. The agreement runs through December 31, 2018. As an inducement to enter into this license agreement, in January 2007 we paid €18 million (approximately \$23.8 million) to Van Cleef & Arpels Logistics SA in a lump sum, up front payment, which amount is included in trademarks, licenses, and other intangible assets in the accompanying consolidated balance sheets, and we purchased existing inventory held by YSL Beauté, the former licensee. The license agreement became effective on January 1, 2007.

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

In January 2007, the up front payment was financed with an €18 million five-year credit agreement. The long-term credit facility, which bears interest at 4.1% provides for principal to be repaid in 20 equal quarterly installments.

**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. The following is a brief discussion of the more critical accounting policies that we employ.

***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 Euros or U.S. dollars. Accounts receivable reflect the granting of credit to these customers. We generally grant credit based upon our analysis of the customer's financial position as well as previously established buying patterns. 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, and trade discounts and allowances.

***Sales Returns***

Generally, we do not permit customers to return their unsold products. However, on a case-by-case basis we occasionally allow customer returns. 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. 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 the Company incurs for performance based arrangements, shelf replacement costs and slotting fees are netted against revenues on the 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.

Long-lived assets, including trademarks, licenses, goodwill and other rights, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of any such asset may not be recoverable. If the sum of the undiscounted cash flows (excluding interest) is less than the carrying value, then we recognize an impairment loss, measured as the amount by which the carrying value exceeds the fair value of the asset. The estimate of undiscounted cash flows is based upon, among other things, certain assumptions about expected future operating performance. Our estimates of undiscounted cash flows may differ from actual cash flows due to, among other things, economic conditions, changes to our business model or changes in consumer acceptance of our products. 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.

***Income Taxes***

Deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to the difference between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Tax benefits recognized are reduced by a valuation allowance where it is more likely than not that the benefits may not be realized.

## INTER PARFUMS, INC. AND SUBSIDIARIES

**Results of Operations****Three and Nine Months Ended September 30, 2007 as Compared to the Three and Nine Months Ended September 30, 2006**

|                                   | Three months ended<br>September 30, |         |                              | Nine months ended<br>September 30, |          |             |
|-----------------------------------|-------------------------------------|---------|------------------------------|------------------------------------|----------|-------------|
|                                   | 2007                                | 2006    | %<br>Change<br>(in millions) | 2007                               | 2006     | %<br>Change |
| European based product sales      | \$ 88.1                             | \$ 76.1 | 16%                          | \$ 234.1                           | \$ 199.7 | 17%         |
| United States based product sales | 14.2                                | 13.6    | 4%                           | 36.1                               | 31.2     | 16%         |
|                                   | \$ 102.3                            | \$ 89.7 | 14%                          | \$ 270.2                           | \$ 230.9 | 17%         |

Consolidated net sales for the three months ended September 30, 2007 increased 14% to \$102.3 million, as compared to \$89.7 million for the corresponding period of the prior year. At comparable foreign currency exchange rates, net sales increased 9% for the period.

Consolidated net sales for the nine months ended September 30, 2007 increased 17% to \$270.2 million, as compared to \$230.9 million for the corresponding period of the prior year. At comparable foreign currency exchange rates, net sales increase 12% for the period. The continued weakness of the US dollar relative to the euro gave rise to the difference between constant dollar and reported net sales.

European based prestige product sales increased 16% for the three months ended September 30, 2007 and 17% for the nine months ended September 30, 2007, as compared to the corresponding periods of the prior year. Sales growth for the three months ended September 30, 2007 was driven by launches of our first *Roxy* fragrance and our new *Paul Smith Rose* fragrance line. Despite the high threshold set in 2006 with the launch of *Burberry London*, Burberry fragrance achieved sales growth of 5% and 11% (0% and 4% in constant dollars) for the three and nine months ended September 30, 2007, respectively, as compared to the corresponding periods of the prior year.

In January 2007, we began operations pursuant to our exclusive, worldwide license with Van Cleef & Arpels Logistics SA, a prestigious and legendary world-renowned jewelry designer. The agreement runs through December 31, 2018, and the integration of the brand is now underway. Sales of existing products under the Van Cleef & Arpels brand aggregated approximately \$4.0 million and \$10.1 million for the three and nine month periods ended September 30, 2007, respectively.

During the first half of 2007 we began operations of our four newly established majority-owned European distribution subsidiaries. Shipments to these subsidiaries are not recognized as sales until that merchandise is sold by the distribution subsidiary to its customers. Sales have been slightly below expectations due to a slower than expected startup of our distribution subsidiaries and their build-up inventory in preparation for the new product launches and the holiday season.

**INTER PARFUMS, INC. AND SUBSIDIARIES**

We are now preparing for a very active launch schedule for 2008 which begins in the first quarter of 2008, with a new fragrance family for Burberry fragrances. Our license with Quiksilver was recently amended to include men's fragrance; the debut of the first Quiksilver fragrance is scheduled for September 2008. Other brands expecting new products include: Lanvin, Roxy, Paul Smith and Van Cleef & Arpels.

With respect to our United States specialty retail and mass-market products, net sales were up 4% and 16% for the three and nine month periods ended September 30, 2007, respectively, as compared to the corresponding periods of the prior year. In early 2006, we began shipping Gap, Gap Outlet, Banana Republic and Banana Republic Factory Stores, their existing fragrance and personal care products. In August 2006 we launched the Banana Republic Discover Collection, a family of five fragrances which debuted in all Banana Republic North American stores in September. The initial collection consisted of three scents for women and two for men. Bath and body products as well as home fragrance products were also created to complement the fragrance selection. The Discover Collection was enlarged by two new scents in the fall of 2007, and the Banana Republic product selection continues to grow

In May 2007, over 150 Gap Body stores in the United States and Canada unveiled the more than 70 new bath and body products we created for them. The bath and body line was followed in the third quarter by new Gap eau de toilette products and men's fragrance and grooming products. All product lines were rolled-out to approximately 200 Gap stores in August and approximately 300 Gap stores in October. Finally, we are in process of shipping a complete assortment of holiday programs for both Gap and Banana Republic North American stores.

Sales of mass market fragrances and fragrance related products have been in a decline for several years. We believe that rising oil and gas prices are a significant cause for declining sales in the dollar store markets, as dollar store customers have less disposable cash. Although we have no plans to discontinue sales to this market, we have been and continue to consolidate our product offerings.

In April 2007, we entered into an exclusive agreement with New York & Company, Inc. under which we design and manufacture personal care products to be sold at the New York & Company retail locations and on their website. The initial line of bath and body products designed and developed for New York & Company stores will be in their stores for the 2007 Holiday season.

In addition, we are actively pursuing other new business opportunities. However, we cannot assure you that any new license or acquisitions will be consummated.

|  | <b>Three months ended</b> |             | <b>Nine months ended</b> |             |
|--|---------------------------|-------------|--------------------------|-------------|
|  | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|  | <b>2007</b>               | <b>2006</b> | <b>2007</b>              | <b>2006</b> |
|  | <b>(in millions)</b>      |             |                          |             |
| Net sales                              | \$ 102.3                  | \$ 89.7     | \$ 270.2                 | \$ 230.9    |
| Cost of sales                          | 42.2                      | 41.0        | 110.1                    | 102.2       |
| Gross margin                           | \$ 60.1                   | \$ 48.7     | \$ 160.1                 | \$ 128.7    |
| Gross margin as a percent of net sales | 59%                       | 54%         | 59%                      | 56%         |

**INTER PARFUMS, INC. AND SUBSIDIARIES**

Gross profit margin was 59% for the three and nine month periods ended September 30, 2007, respectively, as compared to 54% and 56% for the three and nine month periods ended September 30, 2006, respectively. The gross margin increases for both the three and nine month periods ended September 30, 2007 are the result of the commencement of operations of our newly established majority-owned European distribution subsidiaries. Sales of products from our European based prestige fragrances generate significantly higher gross profit margins than sales of our United States based specialty retail and mass-market products.

Generally, we do not bill customers for shipping and handling costs and such costs, which aggregated \$1.8 million and \$4.6 million for the three and nine month periods ended September 30, 2007, respectively, as compared to \$1.4 million and \$3.5 million for the corresponding period of the prior year, are included in selling, general and administrative expense 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.

|   | Three months ended<br>September 30, |         | Nine months ended<br>September 30, |          |
|---|-------------------------------------|---------|------------------------------------|----------|
|   | 2007                                | 2006    | 2007                               | 2006     |
|   | (in millions)                       |         |                                    |          |
| Selling, general & administrative                           | \$ 47.7                             | \$ 39.3 | \$ 129.2                           | \$ 103.7 |
| Selling, general & administrative as a percent of net sales | 47%                                 | 44%     | 48%                                | 45%      |

Selling, general and administrative expense increased 21% and 25% for the three and nine-month periods ended September 30, 2007, respectively, as compared to the corresponding periods of the prior year. As a percentage of sales, selling, general and administrative expense was 47% and 48% of sales for the three and nine-month periods ended September 30, 2007, respectively, as compared to 44% and 45% for the corresponding periods of the prior year.

Promotion and advertising included in selling, general and administrative expenses aggregated \$15.9 million and \$41.6 million for the three and nine month periods ended September 30, 2007, respectively, as compared to \$13.1 million and \$35.1 million, respectively, for the corresponding periods of the prior year. Royalty expense, included in selling, general, and administrative expenses, aggregated \$9.1 million and \$26.6 million for the three and nine month periods ended September 30, 2007, respectively, as compared to \$10.5 million and \$23.4 million, respectively, for the corresponding periods of the prior year. As previously reported, royalty expense for the three months ended September 30, 2006 includes a catch up amount of approximately \$1.5 million resulting from the September 2006 Burberry license amendment which, among other matters, simplified the method of calculating royalties retroactive to January 1, 2006.

The balance of the increase in selling, general and administrative expenses as a percentage of sales for the 2007 periods as compared to the 2006 periods is the result of operating expenses related to our newly established majority-owned European distribution subsidiaries.

Income from operations increased 31% to \$12.4 million for the for the three month period ended September 30, 2007, as compared to \$9.4 million for the corresponding period of the prior year. Income from operations increased 24% to \$31.0 million for the nine month period ended September 30, 2007, as compared to \$25.0 million for the corresponding period of the prior year. Operating margins were 12.1% and 11.5% of net sales for the three and nine month periods ended September 30, 2007, respectively, as compared to 10.5% and 10.8% for the corresponding periods of the prior year.



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

Interest expense aggregated \$0.9 million and \$2.2 million for the three and nine month periods ended September 30, 2007, as compared to \$0.3 million and \$0.8 million for the corresponding periods of the prior year. We use the credit lines available to us, as needed, to finance our working capital needs. In addition, an €18 million and a €22 million long-term credit agreements were entered into in January 2007 and September 2007, respectively to finance payments required for the Van Cleef & Arpels license agreement and the acquisition of the Lanvin trademarks.

Foreign currency gains or (losses) aggregated \$0.02 million and (\$0.10) million for the three and nine month periods ended September 30, 2007, respectively, as compared to gains of \$0.07 million and \$0.40 million for the three and nine month periods ended September 30, 2006, respectively. We enter into foreign currency forward exchange contracts to manage exposure related to certain foreign currency commitments.

Our effective income tax rate was 34% and 33% for the three and nine month periods ended September 30, 2007, respectively, as compared to 34% for both the three and nine month periods ended September 30, 2006. Jurisdictions in which our new distribution subsidiaries operate carry slightly lower effective tax rates than France and the United States thereby reducing our overall effective tax rate. No significant changes in tax rates were experienced nor were any expected in the jurisdictions where we operate.

Net income increased 22% to \$5.7 million for the three month period ended September 30, 2007, as compared to \$4.6 million for the corresponding period of the prior year. Net income increased 24% to \$15.2 million for the nine month period ended September 30, 2007, as compared to \$12.3 million for the corresponding period of the prior year.

Diluted earnings per share were \$0.27 and \$0.23 for the three month periods ended September 30, 2007 and 2006, respectively and diluted earnings per share were \$0.74 and \$0.60 for the nine month periods ended September 30, 2007 and 2006, respectively. Weighted average shares outstanding aggregated 20.4 million for both the three and nine month periods ended September 30, 2007, as compared to 20.3 million for both corresponding periods of the prior year. On a diluted basis, average shares outstanding were 20.7 million for both the three and nine month periods ended September 30, 2007, as compared to 20.5 million and 20.6 million for the corresponding periods of the prior year.

**Liquidity and Capital Resources**

Our financial position remains strong. At September 30, 2007, working capital aggregated \$172 million and we had a working capital ratio of 2.4 to 1. Cash and cash equivalents aggregated \$54 million.

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

In July 2007, we acquired the worldwide rights to the Lanvin brand names and international trademarks listed in Class 3 from Lanvin. Among other items, Class 3 of the international classification of trademarks goods and services include: soaps, perfumery, essential oils, cosmetics and hair lotions. We paid €22 million (approximately \$29.7 million) in cash for the brand names and trademarks and simultaneously terminated our existing license agreement. We also agreed to pay to Lanvin a sales based fee for technical and creative assistance in new product development to be rendered by Lanvin in connection with our use of the trademarks through June 30, 2019. In addition, Lanvin has the right to repurchase the brand names and trademarks in 2025 for the greater of €70 million or one times the average of the annual sales for the years ending December 31, 2023 and 2024. In September 2007, in connection with the acquisition, we entered into a €22 million five-year credit agreement. The long-term credit facility, which bears interest at 0.40% above the three month EURIBOR rate provides for principal to be repaid in 20 equal quarterly installments.

In June 2007, the minority shareholders of Nickel S.A., a consolidated subsidiary of the Company, exercised their rights to sell their remaining 32.5% interest in Nickel S.A. to the Company for approximately \$4.7 million in cash. The acquisition was accounted for under the purchase method.

In September 2006, we entered into an exclusive, worldwide license agreement with Van Cleef & Arpels Logistics SA, for the creation, development and distribution of fragrance and related bath and body products under the Van Cleef & Arpels brand and related trademarks. As an inducement to enter into this license agreement, in January 2007 we paid €18 million (approximately \$23.8 million) to Van Cleef & Arpels Logistics SA in a lump sum, up front payment and we purchased existing inventory of approximately \$2.1 million held by YSL Beauté, the former licensee. In January 2007, the up front payment was financed with an €18 million five-year credit agreement. The long-term credit facility, which bears interest at 4.1% provides for principal to be repaid in 20 equal quarterly installments.

Cash used in operating activities aggregated \$8.7 million and \$6.6 million for the nine-month periods ended September 30, 2007 and 2006, respectively. A significant inventory build up during the first nine months of 2007 (up 39% from December 31, 2006 without currency effect) is required to support the 2007 product launch schedule as well as the anticipated debut of the newest Burberry fragrance planned for the first quarter of 2008.

Cash flows used in investing activities in 2007, reflects the payment of \$4.7 million for the remaining portion of Nickel S.A. and the \$57.1 million payments required in connection with our acquisition of the Van Cleef & Arpels license agreement and the Lanvin trademarks. The proceeds from long-term debt facilities entered into in connection with these acquisitions are reflected in financing activities.

Cash flows used in investing activities in 2007 also reflects net proceeds of approximately \$13 million from the sale of short-term investments which was used to finance our working capital needs. Approximately \$1.8 million was spent for capital items. Our business is not capital intensive as we do not own any manufacturing facilities. We typically spend between \$2.0 and \$3.0 million per year on tools and molds, depending on our new product development calendar. The balance of capital expenditures is for office fixtures, computer equipment and industrial equipment needed at our distribution centers. Capital expenditures in 2007 are expected to be in the range of \$2.5 million to \$3.5 million, considering our 2007 launch schedule and the renovation of our United States corporate offices.

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

In December 2006, our board of directors authorized an increase of our cash dividend for 2007 from \$0.16 to \$0.20 per share, aggregating approximately \$4.1 million per annum, payable \$0.05 per share on a quarterly basis. Our next cash dividend of \$0.05 per share will be paid on January 15, 2008 to shareholders of record on December 31, 2007. Dividends paid, including dividends paid once per year to minority shareholders of Inter Parfums, S.A., aggregated \$4.5 million and \$3.7 million for the nine month periods ended September 30, 2007 and 2006, respectively. The cash dividend for 2007 represents a small part of our cash position and is not expected to have any significant impact on our financial position.

Our short-term financing requirements are expected to be met by available cash on hand at September 30, 2007, cash generated by operations and short-term credit lines provided by domestic and foreign banks. The principal credit facilities for 2007 consist of a \$12.0 million unsecured revolving line of credit provided by a domestic commercial bank and approximately \$45.0 million in credit lines provided by a consortium of international financial institutions.

We believe that funds generated from operations, supplemented by our present cash position and available credit facilities, 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 nine month period ended September 30, 2007.

***Contractual Obligations***

We lease our office and warehouse facilities under operating leases expiring through 2013. Obligations pursuant to these leases for the years ended December 31, 2007, 2008, 2009, 2010, 2011 and thereafter are \$6.0 million, \$6.1 million, \$6.2 million, \$6.0 million, \$4.6 million and \$2.8 million, respectively.

We are obligated under a number of license agreements for the use of trademarks and rights in connection with the manufacture and sale of our products. Royalty obligations pursuant to these license agreements for the years ended December 31, 2007, 2008, 2009, 2010, 2011 and thereafter are \$32.2 million, \$33.3 million, \$34.9 million, \$35.4 million, \$34.3 million and \$201.0 million, respectively. Advertising commitments pursuant to license agreements for the years ended December 31, 2007, 2008, 2009, 2010, 2011 and thereafter are \$103.1 million, \$111.5 million, \$118.0 million, \$114.0 million, \$112.0 million and \$707.3 million, respectively. Future advertising commitments were estimated based on planned future sales for the license terms that were in effect at December 31, 2006, without consideration for potential renewal periods. The figures included above do not reflect the fact that historically our distributors have shared our advertising obligations on an approximate 50/50 basis.

**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. Our French subsidiary primarily enters 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.



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

***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 foreign 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 Inter Parfums, S.A., 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, 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.

We believe that our risk of loss as the result of nonperformance by any of such financial institutions is remote and in any event would not be material. The contracts have varying maturities with none exceeding one year. Costs associated with entering into such contracts have not been material to our financial results. At September 30, 2007, we had foreign currency contracts in the form of forward exchange contracts in the amount of approximately U.S. \$40.1 million and GB Pounds 3.1 million.

***Interest Rate Risk Management***

We mitigate interest rate risk by continually 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 have entered into two (2) interest rate swaps to reduce exposure to rising variable interest rates. The first swap, entered into in 2004, effectively exchanged the variable interest rate of 0.6% above the three month EURIBOR to a variable rate based on the 12 month EURIBOR rate with a floor of 3.25% and a ceiling of 3.85%. The remaining balance owed pursuant to this facility is €5.6 million. The second swap entered into in September 2007 on €22 million of debt, effectively exchanged the variable interest rate of 0.6% above the three month EURIBOR to a fixed rate of 4.42%. These derivative instruments are recorded at fair value and changes in fair value are reflected in the accompanying consolidated statements of income.

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

**Item 4. CONTROLS AND PROCEDURES**

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

Our Chief Executive Officer and Chief Financial Officer have reviewed and evaluated the effectiveness of our disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rule 13a-15(e)) as of the end of the period covered by this quarterly report on Form 10-Q (the "Evaluation Date"). Based on their review and evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, our Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to our Company and its consolidated subsidiaries would be made known to them by others within those entities, so that such material information is recorded, processed and reported in a timely manner, particularly during the period in which this quarterly report on Form 10-Q was being prepared, and that no changes were required at this time.

***Changes in Internal Controls***

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) 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, Submission of Matters to a Vote of Security Holders and 5, Other Information,** are omitted as they are either not applicable or have been included in **Part I.**

**Item 6. Exhibits.**

The following document is filed herewith:

| Exhibit No. | Description  |
|-------------|--|
| 4.21.2      | Amendment to the Company's 2004 Nonemployee Director Stock Option Plan |
| 31.1        | Certifications required by Rule 13a-14(a) of Chief Executive Officer   |
| 31.2        | Certifications required by Rule 13a-14(a) of Chief Financial Officer   |
| 32          | Certification required by Section 906 of the Sarbanes-Oxley Act        |

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

**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 6th day of November 2007.

**INTER PARFUMS,  
INC.**

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