INTER PARFUMS INC
Form 10-Q
November 09, 2010

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 September 30, 2010.

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 x No ¨

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

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 November 8, 2010, there were 30,445,881 shares of common stock, par value $.001 per share, outstanding.

INTER PARFUMS, INC. AND SUBSIDIARIES

INDEX

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, 2009 included in our annual report filed on Form 10-K.

The results of operations for the nine months ended September 30, 2010 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)

	September 30, 2010 (unaudited)	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 48,670	$ 100,467
Short-term investments	61,996	—
Accounts receivable, net	113,816	101,334
Inventories	106,273	85,428
Receivables, other	1,411	3,229
Other current assets	8,003	8,090
Income tax receivable	45	—
Deferred tax assets	5,651	4,088
Total current assets	345,865	302,636
Equipment and leasehold improvements, net	9,545	9,191
Goodwill	3,729	3,927
Trademarks, licenses and other intangible assets, net	94,272	101,799
Other assets	1,457	1,535
Total assets	$ 454,868	$ 419,088
LIABILITIES AND EQUITY		
Current liabilities:		
Loans payable – banks	$ 6,548	$ 5,021
Current portion of long-term debt	11,273	11,732
Accounts payable – trade	57,987	48,138
Accrued expenses	56,932	37,440
Income taxes payable	6,236	1,646
Dividends payable	1,979	996
Total current liabilities	140,955	104,973
Long-term debt, less current portion	8,174	17,862
Deferred tax liability	7,337	8,840
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 30,445,881 and 30,171,952 shares at September 30, 2010 and December 31, 2009, respectively	30	30
Additional paid-in capital	48,674	45,126
Retained earnings	201,121	186,611
Accumulated other comprehensive income	18,306	30,000
Treasury stock, at cost, 10,009,492 and 10,056,966 common shares at September 30, 2010 and December 31, 2009, respectively	(34,151)	(33,043)
Total Inter Parfums, Inc. shareholders' equity	233,980	228,724
Noncontrolling interest	64,422	58,689
Total equity	298,402	287,413

Total liabilities and equity	$	454,868	$	419,088

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 September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net sales	$ 120,853	$ 117,542	$ 347,991	$ 296,555
Cost of sales	49,578	50,462	140,271	125,709
Gross margin	71,275	67,080	207,720	170,846
Selling, general and administrative expenses	54,692	53,169	163,630	139,812
Income from operations	16,583	13,911	44,090	31,034
Other expenses (income):				
Interest expense	529	482	1,627	2,192
(Gain) loss on foreign currency	(461)	(854)	2,435	(4,796)
Interest income	(382)	(135)	(977)	(745)
	(314)	(507)	3,085	(3,349)
Income before income taxes	16,897	14,418	41,005	34,383
Income taxes	5,488	4,807	13,663	11,763
Net income	11,409	9,611	27,342	22,620
Less: Net income attributable to the noncontrolling interest	2,961	2,349	6,988	5,704
Net income attributable to Inter Parfums, Inc.	$ 8,448	$ 7,262	$ 20,354	$ 16,916
Earnings per share:				
Net income attributable to Inter Parfums, Inc. common shareholders:				
Basic	$ 0.28	$ 0.24	$ 0.67	$ 0.56
Diluted	$ 0.28	$ 0.24	$ 0.67	$ 0.56
Weighted average number of shares outstanding:				
Basic	30,443	30,061	30,332	30,097
Diluted	30,564	30,065	30,441	30,098
Dividends declared per share	$ 0.065	$ 0.033	$ 0.195	$ 0.099

See notes to consolidated financial statements.

INTER PARFUMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In thousands)

	Inter Parfums, Inc. shareholders						
	Common stock	Additional paid-in Capital	Retained earnings	Accumulated other comprehensive income	Treasury stock	Noncontrolling interest	Total
Balance – January 1, 2009	$ 30	$ 41,950	$ 168,025	$ 25,515	$ (31,319)	$ 51,308	$ 255,509
Comprehensive income:							
Net income	—	—	16,916	—	—	5,704	22,620
Foreign currency translation adjustment	—	—	—	13,251	—	—	13,251
Net derivative instrument (loss), net of tax	—	—	—	(3,164)	—	(1,084)	(4,248)
Sale of subsidiary shares to noncontrolling interests	—	(53)	—	—	—	2,677	2,624
Dividends	—	—	(2,979)	—	—	(1,716)	(4,695)
Purchased treasury stock	—	—	—	—	(631)	—	(631)
Shares issued upon exercise of stock options	—	200	—	—	—	—	200
Stock compensation	—	381	149	—	—	79	609
Balance – September 30, 2009	$ 30	$ 42,478	$ 182,111	$ 35,602	$ (31,950)	$ 56,968	$ 285,239
Balance – January 1, 2010	$ 30	$ 45,126	$ 186,611	$ 30,000	$ (33,043)	$ 58,689	$ 287,413
Comprehensive income:							
Net income	—	—	20,354	—	—	6,988	27,342
Foreign currency translation adjustment	—	—	—	(12,423)	—	—	(12,423)
Net derivative instrument gain, net of tax	—	—	—	729	—	285	1,014
Shares issued upon exercise of stock options and warrants	—	3,654	—	—	493	—	4,147
Purchase of subsidiary shares from	—	(1,662)	—	—	—	(2,933)	(4,595)

noncontrolling interests							
Sale of subsidiary shares to noncontrolling interests	—	1,108	—	—	—	3,385	4,493
Dividends	—	—	(5,922)	—	—	(2,049)	(7,971)
Shares received as proceeds of option exercise	—	—	—	—	(1,601)	—	(1,601)
Stock compensation	—	448	78	—	—	57	583
Balance – September 30, 2010	$ 30	$ 48,674	$ 201,121	$ 18,306	$ (34,151)	$ 64,422	$ 298,402

See notes to consolidated financial statements.

INTER PARFUMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Cash flows from operating activities:		
Net income	$ 27,342	$ 22,620
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,790	7,758
Provision for doubtful accounts	(116)	947
Noncash stock compensation	623	724
Deferred tax (benefit)	(2,664)	(2,385)
Change in fair value of derivatives	(201)	(713)
Changes in:		
Accounts receivable	(16,399)	(1,880)
Inventories	(23,577)	30,891
Other assets	2,872	(4,694)
Accounts payable and accrued expenses	32,770	(24,530)
Income taxes payable, net	3,857	4,851
Net cash provided by operating activities	31,297	33,589
Cash flows from investing activities:		
Purchases of equipment and leasehold improvements	(3,235)	(3,758)
Purchases of short-term investments	(67,629)	—
Maturities of short-term investments	7,891	—
Payment for intangible assets acquired	(1,987)	(622)
Payment for acquisition of noncontrolling interests	(4,595)	—
Proceeds from sale of stock of subsidiary	4,493	2,608
Net cash used in investing activities	(65,062)	(1,772)
Cash flows from financing activities:		
Proceeds (repayments) of loans payable – banks, net	1,483	(4,025)
Repayment of long-term debt	(8,015)	(10,360)
Proceeds from exercise of options and warrants	2,652	200
Dividends paid	(4,939)	(2,979)
Dividends paid to noncontrolling interest	(2,049)	(1,716)
Purchase of treasury stock	(106)	(631)
Net cash used in financing activities	(10,974)	(19,511)
Effect of exchange rate changes on cash	(7,058)	3,000
Net increase (decrease) in cash and cash equivalents	(51,797)	15,306

Cash and cash equivalents - beginning of period		100,467		42,404
Cash and cash equivalents - end of period	$	48,670	$	57,710
Supplemental disclosure of cash flow information:				
Cash paid for:				
Interest	$	1,671	$	2,000
Income taxes		10,296		9,746

See notes to consolidated financial statements.

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

1. Significant Accounting Policies:

The accounting policies we follow are set forth in the notes to our financial statements included in our Form 10-K which was filed with the Securities and Exchange Commission for the year ended December 31, 2009. 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 2010, IPSA formed and began operations of two new wholly-owned subsidiaries, Interparfums Singapore Pte. Ltd. and Interparfums Luxury Brands, Inc. All material intercompany balances and transactions have been eliminated.

2. New Accounting Pronouncements - adopted:

In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-06, "Fair Value Measurements and Disclosures (ASC Topic 820): Improving Disclosures about Fair Value Measurements" which amends ASC Subtopic 820, "Fair Value Measurements and Disclosures" ("ASU 2010-06") to add new requirements for disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. ASU 2010-06 also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The new disclosure and clarifications of existing disclosures are effective for interim and annual periods beginning after December 31, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward activity in Level 3 fair value measurements. Those disclosures are effective for interim and annual periods beginning after December 31, 2010. The adoption of the applicable provisions of this guidance did not have a material impact on our consolidated financial statements.

In June 2009, the FASB issued ASC topic 810 which amends the consolidation guidance applicable to variable interest entities and affects the overall consolidation analysis. ASC topic 810 is effective for fiscal years beginning after November 15, 2009. The adoption of ASC topic 810 did not have a material impact on our consolidated financial statements.

There are no other new accounting pronouncements issued but not yet adopted that would have a material effect on the Company's financial statements.

3. Inventories:

Inventories consist of the following:

(In thousands)	September 30, 2010	December 31, 2009
Raw materials and component parts	$ 38,990	$ 29,052
Finished goods	67,283	56,376
	$ 106,273	$ 85,428

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

4. Fair Value Measurement:

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

(In thousands)	Fair Value Measurements at September 30, 2010			
	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	$ 61,996	$ —	$ 61,996	$ —
Foreign currency forward exchange contracts accounted for using hedge accounting	1,291	—	1,291	—
Foreign currency forward exchange contracts not accounted for using hedge accounting	2,899	—	2,899	—
	$ 66,186	$ —	$ 66,186	$ —
Liabilities:				
Interest rate swaps	$ 441	$ —	$ 441	$ —

(In thousands)	Fair Value Measurements at December 31, 2009			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Foreign currency forward exchange contracts not accounted for using hedge accounting	$ 5,620	$ —	$ 5,620	$ —
Liabilities:				
Interest rate swaps	$ 752	$ —	$ 752	$ —

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. Short-term investments consist of certificates of deposit with maturities of approximately six months. The carrying amount of loans payable approximates fair value as the interest rates on the Company’s indebtedness approximate current market rates. The fair value of the Company’s long-term debt was estimated based on the current rates offered to companies for debt with the same remaining maturities and is approximately equal to its carrying value. Foreign currency forward exchange contracts are valued based on quotations of observable market transactions of spot and forward rates provided to us by financial institutions and the value of interest rate swaps are the discounted net present value of the swaps using quotes obtained from financial institutions. No transfers between Level 1 and Level 2 occurred during the nine months ended September 30, 2010.

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The following table presents gains and losses in derivatives designated as hedges and the location of those gains and losses in the financial statements (in thousands):

Derivatives Designated as Hedging Instuments	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Location of Gain (Loss) Recognized in Income on Derivative (Effective Portion)	Amount of Gain (Loss) Recognized in Income on Derivative (Effective Portion) (A)	
	Nine months ended September 30,			Nine months ended September 30,			Nine months ended September 30,	
	2010	2009		2010	2009		2010	2009
Foreign exchange contracts	$ 1,291	1,857	Gain (loss) on foreign currency	$ —	4,725	Gain (loss) on foreign currency	$ (2,725)	713
	Three months ended September 30,			Three months ended September 30,			Three months ended September 30,	
	2010	2009		2010	2009		2010	2009
Foreign exchange contracts	$ 1,291	2,295	Gain (loss) on foreign currency	$ —	1,534	Gain (loss) on foreign currency	$ —	11

(A) The amount of gain (loss) recognized in income represents the amount excluded from the assessment of hedge effectiveness.

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

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) recognized in Income on Derivative	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Interest rate swaps	Interest expense	$ 262	$ (62)
Foreign exchange contracts	Gain (loss) on foreign currency	$ (85)	$ 29

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) recognized in Income on Derivative	Three months ended September 30, 2010	Three months ended September 30, 2009
Interest rate swaps	Interest expense	$ 125	$ 43
Foreign exchange contracts	Gain (loss) on foreign currency	$ (16)	$ 5

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 interest rate swaps resulted in a liability which is included in long-term debt on the accompanying balance sheets. The valuation of foreign currency forward exchange contracts accounted for using hedge accounting and not accounted for using hedge accounting as of September 30, 2010 and December 31, 2009, resulted in an asset and are 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.

We 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. Before entering into a derivative transaction for hedging purposes, it is determined that a high degree of initial effectiveness exists between the change in value of the hedged item and the change in the value of the derivative instrument from movement in exchange rates. High effectiveness means that the change in the cash flows of the derivative instrument will effectively offset the change in the cash flows of the hedged item. The effectiveness of each hedged item is measured throughout the hedged period and is based on the dollar offset methodology and excludes the portion of the fair value of the foreign currency forward exchange contract attributable to the change in spot-forward difference which is reported in current period earnings. Any hedge ineffectiveness as defined by ASC topic 815-10-10 is also recognized as a gain or loss on foreign currency in the income statement. For hedge contracts that are no longer deemed highly effective, hedge accounting is discontinued and gains and losses accumulated in other comprehensive income are reclassified to earnings. If it is probable that the forecasted transaction will no longer occur, then any gains or losses accumulated in other comprehensive income are reclassified to current-period earnings. Cash-flow hedges were highly effective, in all material respects.

At September 30, 2010, we had foreign currency contracts in the form of forward exchange contracts in the amount of approximately U.S. $57 million and GB pounds 3 million which all have maturities of less than one year.

5. Goodwill and Other Intangible Assets:

We review goodwill and trademarks with indefinite lives for impairment at least annually, and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The following table presents our assets and liabilities that are measured at fair value on a nonrecurring basis and are categorized using the fair value hierarchy.

(In thousands)		Fair Value Measurements at September 30, 2010		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description				
Trademark - Nickel	$ 2,450	$ —	$ —	$ 2,450
Goodwill	$ 3,729	$ —	$ —	$ 3,729

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(In thousands)		Fair Value Measurements at December 31, 2009		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description				
Trademark – Nickel	$ 2,586	$ —	$ —	$ 2,586
Goodwill	$ 3,927	$ —	$ —	$ 3,927

The goodwill and trademarks referred to above relate to our Nickel skin care business, which is primarily a component of our European operations. Testing goodwill for impairment requires us to estimate the fair value of the reporting unit using significant estimates and assumptions. The assumptions we make will impact the outcome and ultimate results of the testing. In making our assumptions and estimates, we use industry accepted valuation models and set criteria that are reviewed and approved by management and, in certain instances, we engage third party valuation specialists to advise us. There was no change to the carrying amount of the intangible assets referred to above during the nine month period ended September 30, 2010 other than for the effect of changes in foreign currency translation rates.

6. Accrued Expenses:

Accrued expenses include approximately $22.1 million and $9.2 million in advertising liabilities as of September 30, 2010 and December 31, 2009, respectively.

7. Share-Based Payments:

We maintain 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 aggregated $0.04 million and $0.05 million during the nine months ended September 30, 2010 and 2009, 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 nine months ended September 30, 2010:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested options – beginning of year	480,598	$ 3.92
Nonvested options granted	10,500	$ 5.26
Nonvested options vested or forfeited	(16,595)	$ 3.66
Nonvested options – end of year	474,503	$ 3.96

Share-based payment expense decreased income before income taxes by $0.17 million and $0.65 million for the three and nine month periods ended September 30, 2010, respectively, as compared to $0.22 million and $0.72 million for the corresponding periods of the prior year. Share-based payment expense decreased income attributable to Inter Parfums, Inc. by $0.10 million and $0.37 million for the three and nine month periods ended September 30, 2010, respectively, as compared to $0.13 million and $0.41 million for the corresponding periods of the prior year. The following table summarizes stock option information as of September 30, 2010:

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	Number of Shares	Weighted Average Exercise Price
Outstanding at January 1, 2010	920,825	$ 11.32
Granted	10,500	14.65
Cancelled	(6,200)	11.27
Exercised	(226,455)	10.00
Outstanding at September 30, 2010	698,670	$ 11.80
Options exercisable at September 30, 2010	224,167	$ 12.49
Options available for future grants	932,025	

As of September 30, 2010, the weighted average remaining contractual life of options outstanding is 3.29 years (2.56 years for options exercisable), the aggregate intrinsic value of options outstanding and options exercisable is $4.0 million and $1.2 million, respectively and unrecognized compensation cost related to stock options outstanding on Inter Parfums, Inc. stock aggregated $1.2 million. The amount of unrecognized compensation cost related to stock options outstanding of our majority-owned subsidiary, Inter Parfums S.A., was €0.31 million. 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, 2010 and September 30, 2009 were as follows:

(In thousands)	2010	2009
Cash proceeds from stock options exercised	$ 771	$ 55
Tax benefits	162	145
Intrinsic value of stock options exercised	1,195	11

The weighted average fair values of the options granted by Inter Parfums, Inc. during the nine months ended September 30, 2010 and 2009 were $5.26 and $1.92 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 September 30, 2010 and 2009 are set forth in the following table:

	September 30, 2010	September 30, 2009
Weighted-average expected stock-price volatility	49%	46%
Weighted-average expected option life	4.18 years	3.75 years
Weighted-average risk-free interest rate	2.5%	1.7%
Weighted-average dividend yield	2.0%	2.2%

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Expected volatility is estimated based on historic volatility of our common stock. We use the simplified method in developing its estimate of the expected term of the option as historic data regarding employee exercise behavior is incomplete for the new vesting parameters we recently instituted. 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 in place at the time of stock-based award grant would continue with no anticipated increases.

8. Shareholders’ Equity:

As of December 31, 2009 we had 300,000 outstanding warrants for the purchase of 300,000 shares of our common stock. In May 2010, we received proceeds of $1.7 million upon the exercise of 150,000 of the warrants and in July 2010 the remaining 150,000 expired unexercised.

In April 2010, both the Chief Executive Officer and the President each exercised 75,000 outstanding stock options of the Company’s common stock. The aggregate exercise prices of $1.5 million were paid by them tendering to the Company an aggregate of 95,744 shares of the Company’s common stock, previously owned by them, valued at fair market value on the date of exercise. All shares issued pursuant to these option exercises were issued from treasury stock of the Company. In addition, the Chief Executive Officer tendered an additional 6,782 shares for payment of certain withholding taxes resulting from his option exercises.

9. Earnings Per Share:

Basic earnings per share is computed using the weighted average number of shares outstanding during each period. Diluted earnings per share is computed using the weighted average number of shares outstanding during each period, plus the incremental shares outstanding assuming the exercise of dilutive stock options and warrants using the treasury stock method. The following table sets forth the computation of basic and diluted earnings per share:

(In thousands)	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Numerator:				
Net income attributable to Inter Parfums, Inc.	$ 8,448	$ 7,262	$ 20,354	$ 16,916
Effect of dilutive securities of consolidated subsidiary	(34)	—	(51)	(18)
	$ 8,414	$ 7,262	$ 20,303	$ 16,898
Denominator:				
Weighted average shares	30,443	30,061	30,332	30,097
Effect of dilutive securities:				
Stock options and warrants	121	4	109	1
	30,564	30,065	30,441	30,098

Not included in the above computations is the effect of antidilutive potential common shares which consist of outstanding options to purchase 13,500 and 202,500 shares of common stock for the three and nine month periods ended September 30, 2010, and 1.0 million and 1.1 million shares of common stock for the three and nine month periods ended September 30, 2009, respectively, as well as outstanding warrants to purchase 300,000 shares of common stock for both the three and nine month periods ended September 30, 2009.

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

10. Comprehensive Income:

(In thousands)	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Comprehensive income:				
Net income	$ 11,409	$ 9,611	$ 27,342	$ 22,620
Other comprehensive income, net of tax:				
Foreign currency translation adjustment	27,341	9,049	(12,423)	13,251
Change in fair value of derivatives	968	(1,148)	1,014	(1,919)
Net gains reclassified into earnings from equity	—	(751)	—	(2,329)
Comprehensive income:	39,718	16,761	15,933	31,623
Less comprehensive income attributable to the noncontrolling interest	3,198	1,832	7,273	4,620
Comprehensive income attributable to Inter Parfums, Inc.	$ 36,520	$ 14,929	$ 8,660	$ 27,003

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

(In thousands)	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Net income attributable to Inter Parfums, Inc.	$ 8,448	$ 7,262	$ 20,354	$ 16,916
Decrease in Inter Parfums, Inc.'s additional paid-in capital for subsidiary share transactions	(530)	(36)	(554)	(53)
Change from net income attributable to Inter Parfums, Inc. and transfers from noncontrolling interest	$ 7,918	$ 7,226	$ 19,800	$ 16,863

12. 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 our operations by geographical areas is as follows:

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(In thousands)	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Net sales:				
United States	$ 11,645	$ 13,541	$ 38,561	$ 31,150
Europe	109,208	104,001	309,430	265,405
Eliminations of intercompany sales	—	—	—	—
	$ 120,853	$ 117,542	$ 347,991	$ 296,555
Net income (loss) attributable to Inter Parfums, Inc.:				
United States	$ (266)	$ 288	$ (444)	$ (1,057)
Europe	8,714	6,969	20,776	17,941
Eliminations of intercompany profits	—	5	22	32
	$ 8,448	$ 7,262	$ 20,354	$ 16,916

	September 30, 2010	December 31, 2009
Total Assets:		
United States	$ 44,642	$ 45,580
Europe	419,537	382,628
Eliminations of investment in subsidiary	(9,311)	(9,120)
	$ 454,868	$ 419,088

13. Entry into Definitive Agreements:

Nine West

In July 2010, we entered into an exclusive worldwide license agreement with Nine West Development Corporation for the creation, production, marketing and global distribution of women’s fragrances under the Nine West brand. The agreement, which runs through December 31, 2016, contains a provision for further renewal if certain conditions are met. The agreement also provides for direct sales to Nine West retail stores in the United States, as well as a licensing component, enabling us to sell women's fragrances to better department stores and specialty retailers worldwide. Our rights under such license agreement are subject to certain minimum sales, advertising expenditures and royalty payments as are customary in our industry.

Betsey Johnson

In July 2010, we entered into an exclusive worldwide agreement with Betsey Johnson LLC under which we will design, manufacture and sell fragrance, color cosmetics as well as other personal care products across a broad retail spectrum. The agreement, which runs through December 31, 2015 with a five year optional term if certain conditions are met, encompasses both direct sales to global Betsey Johnson stores and e-commerce site, as well as a licensing component, enabling us to sell these fragrance and beauty products to specialty and department stores as well as other retail outlets worldwide. Our rights under such license agreement are subject to certain minimum sales, advertising expenditures and royalty payments as are customary in our industry.

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, 2009 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 74% owned subsidiary in Paris, Inter Parfums, S.A., which is also a publicly traded company as 26% of Inter Parfums, S.A. shares trade on the Euronext. Prestige cosmetics and prestige skin care products represent less than 3% of consolidated net sales.

We produce and distribute our prestige products primarily under license agreements with brand owners, and prestige product sales represented approximately 89% of net sales for both nine month periods ended September 30, 2010 and 2009. We have built a portfolio of brands, which include Burberry, Lanvin, Van Cleef & Arpels, Jimmy Choo, Montblanc, Paul Smith, S.T. Dupont and Nickel whose products are distributed in over 120 countries around the world. Burberry is our most significant license, as sales of Burberry products represented 56% and 58% of net sales for the nine months ended September 30, 2010 and 2009, respectively.

Our specialty retail and mass-market fragrance and fragrance related products are marketed through our United States operations and represented 11% of sales for both nine month periods ended September 30, 2010 and 2009. Trademarks used pursuant to license or other agreements with the brand owners include Gap, Banana Republic, New York & Company, Brooks Brothers, bebe, Betsey Johnson, Nine West 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, new specialty retail agreements or out-right acquisitions of brands. Second, we grow through the introduction of new products and supporting new and established products through advertising, merchandising and sampling as well as phasing out existing products that no longer meet the needs of our consumers. The economics of developing, producing, launching and supporting products influence our sales and operating performance each year. Our introduction of new products may have some cannibalizing effect on sales of existing products, which we take into account in our business planning.

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

As with any business, many aspects of our operations are subject to influences outside our control. The economic challenges and uncertainties in a number of countries where we do business impacted our business in early 2009. However, improving sales trends which began in the second half of 2009 have continued thus far into 2010.

Our reported net sales are impacted by changes in foreign currency exchange rates. A stronger U.S. dollar has an adverse impact on our net sales. However, earnings are less affected by a stronger dollar because in excess of 35% 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.

Recent Important Events

Nine West

In July 2010, we entered into an exclusive worldwide license agreement with Nine West Development Corporation for the creation, production, marketing and global distribution of women’s fragrances under the Nine West brand. The agreement, which runs through December 31, 2016, contains a provision for further renewal if certain conditions are met. The agreement also provides for direct sales to Nine West retail stores in the United States, as well as a licensing component, enabling us to sell women's fragrances to better department stores and specialty retailers worldwide. Our rights under such license agreement are subject to certain minimum sales, advertising expenditures and royalty payments as are customary in our industry. Plans call for our first Nine West fragrance launch in 2011.

Betsey Johnson

In July 2010, we entered into an exclusive worldwide agreement with Betsey Johnson LLC of New York, NY, under which we will design, manufacture and sell fragrance, color cosmetics as well as other personal care products across a broad retail spectrum. The agreement, which runs through December 31, 2015 with a five year optional term if certain conditions are met, encompasses both direct sales to global Betsey Johnson stores and e-commerce site, as well as a licensing component, enabling us to sell these fragrance and beauty products to specialty and department stores as well as other retail outlets worldwide. Our rights under such license agreement are subject to certain minimum sales, advertising expenditures and royalty payments as are customary in our industry. While we introduced a new twist on a vintage Betsey Johnson fragrance in August 2010, plans call for our first new Betsey Johnson product launch in 2011.

Gap and Banana Republic

Although the initial term of our agreement with The Gap, Inc. covering the Gap and Banana Republic brands in the United States and Canada expired on August 31, 2009, we had entered into a series of short-term extension agreements to continue the relationship as it previously existed while we were in discussions with The Gap, Inc. for a formal extension of the agreement. In March 2010, we signed a new specialty retail agreement with The Gap, Inc. covering the Gap and Banana Republic brands in the United States and Canada, with terms and conditions similar to those of the original agreement. This new agreement expires December 31, 2011.

Montblanc

In January 2010, we announced that we had entered into an exclusive worldwide license agreement with Montblanc International GMBH to create, produce and distribute perfumes and ancillary products under the Montblanc brand. Our rights under such license agreement, which took effect on July 1, 2010 and runs through December 31, 2020, are subject to certain minimum sales, advertising expenditures and royalty payments as are customary in our industry. We also paid an upfront entry fee of €1 million for this license, and purchased inventory from the former licensee which aggregated approximately €2.9 million. Plans call for our first new Montblanc fragrance launch in 2011.

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 judgments used by management in applying critical accounting policies could be affected by a prolonged general deterioration in the economic environment, which could negatively influence future financial results and availability of continued financing. Specifically, subsequent evaluations of our accounts receivable, inventories, and deferred tax assets in light of the factors then prevailing, could result in significant changes in our allowance and reserve accounts in future periods, which in turn could generate significant charges. Similarly, the valuation of certain intangible assets could be negatively impacted by prolonged and severely depressed market conditions thus leading to the recognition of impairment losses. 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 euro 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, 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 our Company incurs for performance-based arrangements, shelf replacement costs and slotting fees are netted against revenues on our Company’s consolidated statement of income. Estimated accruals for promotions and advertising programs are recorded in the period in which the related revenue is recognized. We review and revise the estimated accruals for the projected costs for these promotions. Actual costs incurred may differ significantly, either favorably or unfavorably, from estimates if factors such as the level and success of the retailers’ programs or other conditions differ from our expectations.

Inventories

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

INTER PARFUMS, INC. AND SUBSIDIARIES

Equipment and Other Long-Lived Assets

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

We evaluate goodwill and indefinite-lived intangible assets for impairment at least annually during the fourth quarter, or more frequently when events occur or circumstances change, such as an unexpected decline in sales, that would more likely than not (i) reduce the fair value of the reporting unit below its fair value or (ii) indicate that the carrying value of an indefinite-lived intangible asset may not be recoverable. Impairment of goodwill is evaluated using a two step process. The first step involves a comparison of the estimated fair value of the reporting unit to the carrying value of that unit. If the carrying value of the reporting unit exceeds the fair value of the reporting unit, the second step of the process involves comparison of the implied fair value of goodwill (based on industry purchase and sale transaction data) with its carrying value. If the carrying value of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized as an amount equal to the excess. For indefinite-lived intangible assets, the evaluation requires a comparison of the estimated fair value of the asset to the carrying value of the asset. If the carrying value of an indefinite-lived intangible asset exceeds its fair value, impairment is recorded.

Goodwill relates to our Nickel skin care business, which is primarily a component of our European operations. Testing goodwill for impairment requires us to estimate the fair value of the reporting unit using significant estimates and assumptions. The assumptions we make will impact the outcome and ultimate results of the testing. In making our assumptions and estimates, we use industry accepted valuation models and set criteria that are reviewed and approved by management and, in certain instances, we engage third party valuation specialists to advise us. In prior years, the first step of our goodwill impairment evaluation has given rise to potential impairment indicators and, as a result, we have been testing for impairment of goodwill on a quarterly basis. We have determined that we may be inclined to sell the Nickel business within the next few years. As of December 31, 2009, we measured fair value of the business to be equal to the average amount offered by several potential purchasers of the Nickel business. As a result, the carrying amount of the goodwill exceeded its implied fair value resulting in an impairment loss of $1.7 million in 2009. We expect Nickel brand sales to remain steady over the next few years as the result of new product launches in combination with an expected economic recovery. In estimating future sales, we use our internal budgets developed from recent sales data for existing products and planned timing of new product launches. If sales for the reporting unit decreased 10% we could incur an additional goodwill impairment charge of $0.5 million. No further impairment charges were required during the nine months ended September 30, 2010.

To determine fair value of indefinite-lived intangible assets, we use an income approach, including the relief-from-royalty method. This method assumes that, in lieu of ownership, a third party would be willing to pay a royalty in order to obtain the rights to use the comparable asset. The relief-from-royalty calculations require us to make a number of assumptions and estimates concerning future sales levels, market royalty rates, future tax rates and discount rates. We use this method to determine if an impairment charge is required relating to our Nickel brand trademarks. For the year ended December 31, 2009, an impairment charge relating to the Nickel trademark in the amount of $0.54 million was recorded. No further impairment charges were required during the nine months ended September 30, 2010. We assumed a market royalty rate of 6% and a discount rate of 7.8%. The following table presents the impact a change in the following significant assumptions would have had on our impairment charge recognized for the year ended December 31, 2009 assuming all other assumptions remained constant:

INTER PARFUMS, INC. AND SUBSIDIARIES

(In thousands)	Change	Increase (decrease) to impairment charge
Weighted average cost of capital	+10%	$ (246)
Weighted average cost of capital	-10%	$ 307
Future sales levels	+10%	$ 244
Future sales levels	-10%	$ (244)

The fair values used in our evaluations are also estimated based upon discounted future cash flow projections using a weighted average cost of capital ranging from 8% to 9.5%. 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 that 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 assets other than the Nickel trademarks referred to above. However, if future actual results do not meet our expectations, we may be required to record an impairment charge, the amount of which could be material to our results of operations.

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

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

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

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 occasionally 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

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, 2010 as Compared to the Three and Nine Months Ended September 30, 2009

	Three months ended September 30,			Nine Months Ended September 30,		
	2010	2009	% Change	2010	2009	% Change
	($ in millions)					
European-based product sales	$ 109.2	$ 104.0	5.0%	$ 309.4	$ 265.4	16.6%
United States-based product sales	11.7	13.5	(14.0)%	38.6	31.2	23.8%
	$ 120.9	$ 117.5	2.8%	$ 348.0	$ 296.6	17.3%

Net sales for the three months ended September 30, 2010 increased 3% to $120.9 million, as compared to $117.5 million for the corresponding period of the prior year. At comparable foreign currency exchange rates, net sales increased 13% for the period. Net sales for the nine months ended September 30, 2010 increased 17% to $348.0 million, as compared to $296.6 million for the corresponding period of the prior year. At comparable foreign currency exchange rates, net sales increased 23% for the period. The strength of the U.S. dollar relative to the euro in 2010 as compared to the 2009 periods gave rise to the difference between constant dollar and reported net sales.

Reported European based prestige product sales increased 5% and 17% for the three and nine months ended September 30, 2010, respectively, as compared to the corresponding periods of the prior year. However, in local currency, European based prestige product sales were up 17% and 21% for the three and nine months ended September 30, 2010, respectively, as compared to the corresponding periods of the prior year. This continued sales growth was due in great part to the launch and global rollout of Burberry Sport fragrances for men and women, as well as the continued strong performance of established Burberry scents. In local currency, Burberry fragrance sales increased 18% to €149 million for the nine months ended September 30, 2010, as compared to €126 million for the corresponding periods of the prior year. All of our prestige fragrance brands contributed to sales growth with double digit comparable increases. Lanvin, our second largest prestige brand, performed very well with year-to-date sales in local currency aggregating €38.4 million, 31% ahead of last year lead by the continued strength of Eclat d’Arpège and Jeanne Lanvin. The 2010 launch of Oriens by Van Cleef & Arpels boosted that brand’s local currency year to date sales by 33% to €19.5 million as compared to €14.6 million for the corresponding period of the prior year.

We continue to see our European based prestige fragrance business recover in many geographic markets, especially Asia, South America, the Middle East and Eastern Europe where comparable local currency year-to-date sales rose 27%, 44%, 19% and 62%, respectively. Western Europe and North America also saw positive results with local currency year-to-date sales up 13% and 14% respectively.

INTER PARFUMS, INC. AND SUBSIDIARIES

Our plans for 2010 are far along in their execution. In addition to Burberry Sport fragrances for men and women which launched during the first quarter of 2010, we have committed capital to further grow our largest brand through the launch of a cosmetics line for women in about 30 to 40 shops around the world. The Burberry cosmetics collection includes nearly 100 products for skin, lips and eyes. The launch of this cosmetics line, which commenced during the third quarter of 2010, requires a significant investment in its first year to develop products, build cosmetic counters, hire and train personnel. While approximately one-third of these expenses have already been absorbed, we expected the launch to reduce total 2010 net income attributable to Inter Parfums, Inc. by approximately $1.5 million or $0.05 per diluted share. We believe that this is an essential development opportunity which will bring Burberry to the next level of growth.

In 2010, we have also created new women's scents for our Lanvin, S.T. Dupont and Paul Smith brands. Oriens, a women's scent for Van Cleef & Arpels launched in the first half of 2010 and we debuted a new men's fragrance, Midnight in Paris, for the brand during the third quarter of 2010.

With respect to our United States specialty retail and mass-market products, net sales for the three months ended September 30, 2010 declined 14% to $11.7 million, as compared to $13.5 million for the corresponding period of the prior year. Net sales for the nine months ended September 30, 2010 increased 24% to $38.6 million, as compared to $31.2 million for the corresponding period of the prior year. Following the 71% increase in second quarter sales, we experienced certain inventory shortfalls during the third quarter. As such, certain shipments that were planned for the third quarter of 2010 are now expected to be included in fourth quarter 2010 sales.

International distribution of specialty retail products suffered in early 2009 as a result of the global economic recession. In 2010, international distribution benefitted from the economic recovery which coincided with further expansion of new products into new territories. In addition, our bebe signature fragrance has done especially well in overseas markets and we expanded bebe distribution into additional third party retail outlets throughout the United States.

In 2010, we introduced two new Gap scents for distribution in Gap and Gap Body stores nationwide. International distribution of these new Gap scents began in April 2010 and is expected to reach approximately 5,000 doors by the end of 2011. Additional products for Gap and Banana Republic including ancillary products, line extensions and holiday gift sets are launching later in 2010.

New Brooks Brothers fragrances, Madison, a scent for young women, and a trio of scents, Black Fleece Red, White & Blue, make their 2010 debut domestically in November and international distribution is in process. Our bebe signature fragrance which debuted in bebe stores and several U.S. department stores in 2009, has also done especially well in overseas markets. Distribution of the bebe signature scent has further expanded into additional third party retail outlets throughout the U.S. A similar distribution strategy is being implemented for bebe Sheer, which was unveiled this past summer. Several color cosmetic products and holiday gift sets, are ready for the holiday season.

INTER PARFUMS, INC. AND SUBSIDIARIES

We have been actively pursuing other new business opportunities and in July 2010, we entered into exclusive worldwide agreement for both the Betsey Johnson and Nine West brands. For Betsey Johnson we will design, manufacture and sell fragrance, color cosmetics as well as other personal care products across a broad retail spectrum. The agreement encompasses both direct sales to global Betsey Johnson stores and e-commerce site, as well as a licensing component, enabling us to sell these fragrance and beauty products to specialty and department stores as well as other retail outlets worldwide. For Nine West, we are charged with the creation, production, marketing and global distribution of women's fragrances under the Nine West brand. The agreement also provides for direct sales to Nine West retail stores in the United States, as well as a licensing component, enabling us to sell women's fragrances to better department stores and specialty retailers worldwide. Plans for both brands call for new fragrance launches in 2011.

Gross margin (In millions)	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Net sales	$ 120.9	$ 117.5	$ 348.0	$ 296.6
Cost of sales	49.6	50.4	140.3	125.7
Gross margin	$ 71.3	$ 67.1	$ 207.7	$ 170.9
Gross margin as a percent of net sales	59%	57%	60%	58%

Gross profit margin was 59% and 60% for the three and nine month periods ended September 30, 2010, as compared to 57% and 58% for the corresponding periods of the prior year. The gross margin improvement is primarily the result of product mix within our European based brand assortment.

We are carefully watching foreign currency exchange rates as a result of the effect that a stronger U.S. dollar relative to the euro has on our European based product sales denominated in U.S. dollars. Sales to these customers, while denominated in dollars, our costs are incurred in euro. Therefore, from a profit standpoint, a stronger U.S. dollar benefits our gross margin. While the use of foreign currency forward exchange contracts benefited our gross margins in the 2009 period, the strength of the U.S dollar relative to the euro through September 30, 2010 has provided a similar benefit so far in 2010. However, as the dollar began to weaken during the third quarter of 2010 and in an effort to protect our gross margin for the remainder of 2010, we entered into foreign currency forward exchange contracts to hedge approximately 90% of our fourth quarter 2010 European based product sales expected to be invoiced in U.S. dollars.

Generally, we do not bill customers for shipping and handling costs and such costs, which aggregated $1.4 million and $4.0 million for the three and nine months ended September 30, 2010, respectively, as compared to $1.3 million and $3.7 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 (In millions)	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
	$ 54.7	$ 53.2	$ 163.6	$ 139.8

Selling, general and administrative expenses				
Selling, general and administrative expenses as a percent of net sales	45%	45%	47%	47%

INTER PARFUMS, INC. AND SUBSIDIARIES

Selling, general and administrative expenses increased 3% and 17% for the three and nine months ended September 30, 2010, respectively, as compared to the corresponding periods of the prior year. As a percentage of sales, selling, general and administrative expenses were 45% and 47% of sales for the three and nine month periods ended September 30, 2010 and 2009.

Promotion and advertising included in selling, general and administrative expenses aggregated $19.2 million and $58.5 million for the three and nine months ended September 30, 2010, respectively, as compared to $18.4 million and $46.3 million for the corresponding periods of the prior year. Promotion and advertising represented 16% and 17% of net sales for the three and nine months ended September 30, 2010, as compared to 16% of sales for both of the corresponding periods of the prior year.

Royalty expense, included in selling, general and administrative expenses, aggregated $10.8 million and $31.5 million for the three and nine months ended September 30, 2010, respectively, as compared to $10.1 million and $26.5 million for the corresponding periods of the prior year. As a percentage of sales, royalty expense represented approximately 9% of net sales for all income statement periods presented.

Income from operations increased 19% to $16.6 million for the three months ended September 30, 2010, as compared to $13.9 million for the corresponding period of the prior year. Income from operations increased 42% to $44.1 million for the nine months ended September 30, 2010, as compared to $31.0 million for the corresponding period of the prior year. Operating margins were 13.7% and 12.7% of net sales for the three and nine months ended September 30, 2010, respectively, as compared to 11.8% and 10.4% for the corresponding periods of the prior year.

Interest expense aggregated $0.5 million and $1.6 million for the three and nine months ended September 30, 2010, respectively, as compared to $0.5 million and $2.2 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. Loans payable – banks and long-term debt including current maturities aggregated $26.0 million as of September 30, 2010, as compared to $34.6 million as of December 31, 2009 and $55.0 million as of December 31, 2008.

Foreign currency gains (losses) aggregated $0.5 million and ($2.4) million for the three and nine months ended September 30, 2010, respectively, as compared to $0.8 million and $4.8 million for the corresponding periods of the prior year. We enter into foreign currency forward exchange contracts to manage exposure related to certain foreign currency commitments. During 2009, we were party to foreign currency forward exchange contracts to hedge approximately 80% of our 2009 European based product sales expected to be invoiced in U.S. dollars. Hedge effectiveness excludes the portion of the fair value of the foreign currency forward exchange contract attributable to the change in spot-forward difference which is reported in current period earnings and resulted in most of the gains and losses referred to above.

Our effective income tax rate was 32.5% and 33.2% for the three and nine months ended September 30, 2010, respectively, as compared to 33.3% and 34.2% for the corresponding periods of the prior year. Our effective tax rates differ from statutory rates due to the effect of state and local taxes and tax rates in foreign jurisdictions. Our effective tax rate is usually around 35%. The lower rates achieved during the three and nine months ended September 30, 2010 is due to losses in our United States segment which carry a higher effective rate due to state and local taxes. No significant changes in tax rates were experienced nor were any expected in jurisdictions where we operate.

INTER PARFUMS, INC. AND SUBSIDIARIES

Net income and earnings per share

(In thousands except per share data)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net income	$ 11,409	$ 9,611	$ 27,342	$ 22,620
Less: Net income attributable to the noncontrolling interest	2,961	2,349	6,988	5,704
Net income attributable to Inter Parfums, Inc.	$ 8,448	$ 7,262	$ 20,354	$ 16,916
Earnings per share:				
Net income attributable to Inter Parfums, Inc. common shareholders:				
Basic	$ 0.28	$ 0.24	$ 0.67	$ 0.56
Diluted	$ 0.28	$ 0.24	$ 0.67	$ 0.56
Weighted average number of shares outstanding:				
Basic	30,443	30,061	30,332	30,097
Diluted	30,564	30,065	30,441	30,098

Net income increased 19% to $11.4 million for the three months ended September 30, 2010, as compared to $9.6 million for the corresponding period of the prior year. Net income increased 21% to $27.3 million for the nine months ended September 30, 2010, as compared to $22.6 million for the corresponding period of the prior year.

Net income attributable to the noncontrolling interest aggregated 26% of net income for both the three and nine months ended September 30, 2010, as compared to 24% and 25% for the corresponding periods of the prior year. Shares issued by our French subsidiary Inter Parfums, S.A. pursuant to options exercised in 2010 diluted our ownership from approximately 75% as of December 31, 2009 to 74% as of September 30, 2010.

Net income attributable to Inter Parfums, Inc. increased 16% to $8.4 million for the three months ended September 30, 2010, as compared to $7.3 million for the corresponding period of the prior year. Net income attributable to Inter Parfums, Inc. increased 20% to $20.4 million for the nine months ended September 30, 2010, as compared to $16.9 million for the corresponding period of the prior year.

Diluted earnings per share were $0.28 and $0.24 for the three months ended September 30, 2010 and 2009, respectively, and diluted earnings per share were $0.67 and $0.56 for the nine months ended September 30, 2010 and 2009, respectively. Weighted average shares outstanding aggregated 30.4 million and 30.3 million for the three and nine months ended September 30, 2010, respectively, as compared to 30.1 million for the corresponding periods of the prior year. On a diluted basis, average shares outstanding were 30.6 million and 30.4 million for the three and nine months ended September 30, 2010, as compared to 30.1 million for both the three and nine months ended September 30, 2009. The increase in shares outstanding is primarily the result of shares issued pursuant to option and warrant exercises.

INTER PARFUMS, INC. AND SUBSIDIARIES

Liquidity and Capital Resources

Our financial position remains strong. At September 30, 2010, working capital aggregated $205 million and we had a working capital ratio of 2.5 to 1. Cash and cash equivalents and short-term investments aggregated $111 million.

Cash provided by operating activities aggregated $31.3 million and $33.6 million for the nine months ended September 30, 2010 and 2009, respectively. For the nine months ended September 30, 2010, working capital items used less than $1.0 million in cash from operating activities as increases in inventories and accounts receivable were offset by increases in accounts payable and accrued expenses. The $16 million increase in accounts receivable for the nine months ended September 30, 2010, as shown on the statement of cash flows, reflects favorable collection activity as days receivable outstanding declined from 111 days sales as of September 30, 2009 to 85 days as of September 30, 2010. The $24 million increase in inventories for the nine months ended September 30, 2010, as shown on the statement of cash flows, reflects the needed inventory build to support sales growth and upcoming product launches.

Cash flows used in investing activities in 2010 reflects net purchases of $68 million in short-term investments which are certificates of deposit with maturities greater than three months. We also spent approximately $3.2 million for capital items. Our business is not capital intensive as we do not own any manufacturing facilities. However, we typically spend between $2.5 million and $3.5 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 2010 are expected to be in the range of $5.0 million to $5.5 million, considering our 2010 launch schedule. Proceeds from sale of stock of subsidiary reflect the proceeds from shares issued by our French subsidiary Inter Parfums, S.A. pursuant to options exercised in 2010, and payment for acquisition of minority interests represents repurchases of shares of our French subsidiary Inter Parfums, S.A. in an effort to offset the dilution from options exercised.

Our short-term financing requirements are expected to be met by available cash on hand at September 30, 2010, cash generated by operations and short-term credit lines provided by domestic and foreign banks. The principal credit facilities for 2010 consist of a $15.0 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. As of September 30, 2010, short-term borrowings aggregated $6.5 million.

Our long-term credit facilities provides for principal and interest to be repaid in 20 quarterly installments. As of September 30, 2010, total long-term debt including current maturities aggregated $19.4 million.

In January 2010, the board of directors authorized an approximate 100% increase in the annual dividend to $0.26 per share. The next quarterly dividend of $0.065 per share will be paid on January 14, 2011 to shareholders of record on December 31, 2010. Dividends paid, including dividends paid once per year to noncontrolling stockholders of Inter Parfums, S.A., aggregated $7.0 million for the nine months ended September 30, 2010. The cash dividends for 2010 are not expected to have any significant impact on our financial position.

INTER PARFUMS, INC. AND SUBSIDIARIES

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

Inflation rates in the U.S. and foreign countries in which we operate did not have a significant impact on operating results for the nine month period ended September 30, 2010.

Contractual Obligations

The following table sets for a schedule of our contractual obligations over the periods indicated in the table, 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 (2)	$ 29,600	$ 11,700	$ 17,900		
Capital Lease Obligations					
Operating Leases	$ 19,800	$ 7,500	$ 8,600	$ 2,300	$ 1,400
Purchase obligations(1)	$ 1,210,700	$ 134,700	$ 313,300	$ 327,400	$ 435,300
Other Long-Term Liabilities Reflected on the Registrant's Balance Sheet under GAAP					
Total	$ 1,260,100	$ 153,900	$ 339,800	$ 329,700	$ 436,700

(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, 2009, without consideration for potential renewal periods and do not reflect the fact that our distributors share our advertising obligations.

(2) Interest due on the Company’s long-term debt is payable $0.70 million, $0.40 million and $0.07 million in 2010, 2011 and 2012, respectively.

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 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, then the changes in fair value of the derivative instrument will be recorded in other comprehensive income.

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

As the dollar began to weaken during the third quarter of 2010 and in an effort to protect our gross margin for the remainder of 2010, we entered into foreign currency forward exchange contracts to hedge approximately 90% of our fourth quarter 2010 European based sales expected to be invoiced in U.S. dollars. At September 30, 2010, we had foreign currency contracts in the form of forward exchange contracts in the amount of approximately U.S. $57 million and GB pounds 3 million which all have maturities of less than one year. We believe that our risk of loss as the result of nonperformance by any of such financial institutions is remote.

Interest Rate Risk Management

We mitigate interest rate risk by monitoring interest rates, and then determining whether fixed interest rates should be swapped for floating rate debt, or if floating rate debt should be swapped for fixed rate debt. We entered into an interest rate swap in September 2007 on €22 million of debt, effectively exchanging the variable interest rate of 0.6% above the three month EURIBOR to a fixed rate of 4.42%. The remaining balance owed pursuant to this facility is as of September 30, 2010 was €8.8 million. This derivative instrument is 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 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 and 5. Other Information, are omitted as they are either not applicable or have been included in Part I.

Item 6. Exhibits.

The following documents are filed herewith:

Exhibit No.	Description	Page Number
10.143	Collaboration Agreement between Clarins U.S.A., Inc., and Interparfums Luxury Brands Inc. (Certain confidential information in this Exhibit 10.143 was omitted and filed separately with the Securities and Exchange Commission with a request for confidential treatment by Inter Parfums, Inc).	35
10.144	Contrat de Bail Commercial et GEMFI and Inter Parfums, S.A. - French original - (Certain confidential information in this Exhibit 10.144 was omitted and filed separately with the Securities and Exchange Commission with a request for confidential treatment by Inter Parfums, Inc.).	52
10.144.1	Commercial Lease Agreement between GEMFI and Inter Parfums, S.A. - English translation- (Certain confidential information in this Exhibit 10.144.1 was omitted and filed separately with the Securities and Exchange Commission with a request for confidential treatment by Inter Parfums, Inc.).	98
31.1	Certifications required by Rule 13a-14(a) of Chief Executive Officer	144
31.2	Certifications required by Rule 13a-14(a) of Chief Financial Officer	145

32.1	Certification required by Section 906 of the Sarbanes-Oxley Act of Chief Executive Officer	146
32.1	Certification required by Section 906 of the Sarbanes-Oxley Act of Chief Financial Officer	147

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 9th day of November 2010.

INTER PARFUMS, INC.

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