

INTER PARFUMS INC
Form 10-K
March 12, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark one)

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2011 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)

Registrant's telephone number, including area code:

212.983.2640

Securities registered pursuant to Section 12(b) of the Act:

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Title of each class Name of exchange on which registered

Common Stock, \$.001 par value per share The Nasdaq Stock Market

Securities registered pursuant to Section 12(g) of the Act:

Title of each class Name of exchange on which registered

None None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation SK is not contained herein and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10K or any other amendment to this Form 10K.

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

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Non-accelerated filer Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. \$375,824,083 of voting equity and \$-0- of non-voting equity.

Indicate the number of shares outstanding of the registrant's \$.001 par value common stock as of the close of business on the latest practicable date March 9, 2012: 30,554,711.

Documents Incorporated By Reference: None.

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FORWARD LOOKING STATEMENTS

This report includes forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, and if incorporated by reference into a registration statement under the Securities Act of 1933, as amended, within the meaning of Section 27A of such act. When used in this report, the words “anticipate,” “believe,” “estimate,” “will,” “should,” “could,” “may,” “intend,” “expect,” “plan,” “predict,” “potential,” or “continue” or similar expressions identify certain 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.

Actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking statements contained in this report. Important factors that could cause actual results to differ materially from our forward-looking statements are set forth in this report, including under the heading “Risk Factors”. Such factors include: dependence upon Burberry for a significant portion of our sales; continuation and renewal of existing license agreements for the Burberry brand and others; continuation and renewal of existing specialty retail agreements as well as sales and marketing efforts of specialty market retailers, such as The Gap, Inc.; potential reduction in sales of our fragrance and fragrance related products due to reduced consumer confidence as the result of a prolonged economic downturn or recession in the United States, Europe or any of the other countries in which we do significant business; uncertainties and continued deterioration in global credit markets could negatively impact suppliers, customers and consumers; protection of our intellectual property rights; effectiveness of our sales and marketing efforts and product acceptance by consumers; dependence upon third party manufacturers and distributors; dependence upon management; competition; currency fluctuation and international tariff and trade barriers; governmental regulation; and possible liability for improper comparative advertising or “Trade Dress”.

These factors are not intended to represent a complete list of the general or specific factors that may affect us. It should be recognized that other factors, including general economic factors and business strategies, may be significant, presently or in the future, and the factors set forth herein may affect us to a greater extent than indicated. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements set forth in this report. Except as may be required by law, we undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.

PART I

Item 1. Business

Introduction

We are Inter Parfums, Inc. We operate in the fragrance business, and manufacture, market and distribute a wide array of fragrances and fragrance related products. Organized under the laws of the State of Delaware in May 1985 as Jean Philippe Fragrances, Inc., we changed our name to Inter Parfums, Inc. in July 1999. We have also retained our brand name, Jean Philippe Fragrances, for some of our mass market products.

Our worldwide headquarters and the office of our three (3) wholly-owned United States subsidiaries, Jean Philippe Fragrances, LLC and Inter Parfums USA, LLC, both New York limited liability companies, and Nickel USA, Inc., a Delaware corporation, are located at 551 Fifth Avenue, New York, New York 10176, and our telephone number is 212.983.2640.

Our consolidated wholly-owned subsidiary, Inter Parfums Holdings, S.A., and its majority-owned subsidiary, Interparfums SA, maintain executive offices at 4, Rond Point des Champs Elysees, 75008 Paris, France. Our telephone number in Paris is 331.5377.0000. Interparfums SA is the majority owner of three (3) distribution subsidiaries, Inter Parfums Limited, Inter Parfums GmbH and Inter Parfums srl, covering territories in The United Kingdom, Germany and Italy, respectively, and is the sole owner of two (2) distribution subsidiaries, Inter España Parfums et Cosmetiques, SL, covering the territory of Spain and Interparfums Luxury Brands, Inc., a Delaware corporation, for distribution of prestige brands in the United States. Interparfums SA is also the sole owner of Interparfums (Suisse) SARL, a company formed to hold and manage certain brand names, and Interparfums Singapore Pte., Ltd., an Asian sales and marketing office.

Our common stock is listed on The Nasdaq Global Select Market under the trading symbol "IPAR". The common shares of our subsidiary, Interparfums SA, are traded on the Euronext Exchange.

We maintain our internet website at www.interparfumsinc.com which is linked to the SEC Edgar database. You can obtain through our website, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we have electronically filed them with or furnished them to the SEC.

Summary

The following summary is qualified in its entirety by and should be read together with the more detailed information and audited financial statements, including the related notes, contained or incorporated by reference in this report.

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General

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, Interparfums SA, which is also a publicly traded company as 26% of Interparfums SA shares trade on the Euronext. Prestige cosmetics and prestige skin care products represent less than 1% of consolidated net sales.

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 the finished product for us and deliver them back to one of our distribution centers.

As with any business, many aspects of our operations are subject to influences outside our control. We discuss in greater detail risk factors relating to our business in Item 1A of this Annual Report on Form 10-K for the fiscal year ended December 31, 2011, and the reports that we file from time to time with the Securities and Exchange Commission.

European Operations

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

Burberry is our most significant license, as sales of Burberry products represented 50%, 53% and 57% of net sales for the years ended December 31, 2011, 2010 and 2009, respectively. In addition, we own the Lanvin brand name for our class of trade and sales of Lanvin product represented 13%, 15% and 14% of net sales for the years ended December 31, 2011, 2010 and 2009, respectively.

Our prestige products focus on niche brands with a devoted following. By concentrating in markets where the brands are best known, we have had many successful launches. We typically launch new fragrance families for our brands every year or two, with some frequent “seasonal” fragrances introduced as well.

The creation and marketing of each product family is intimately linked with the brand’s name, its past and present positioning, customer base and, more generally, the prevailing market atmosphere. Accordingly, we generally study the market for each proposed family of fragrance products for almost a full year before we introduce any new product into the market. This study is intended to define the general position of the fragrance family and more particularly its scent, bottle, packaging and appeal to the buyer. In our opinion, the unity of these four elements of the marketing mix makes for a successful product.

United States Operations

Our specialty retail and mass market fragrance and fragrance related products are marketed through our United States operations and represented 10% of sales for the year ended December 31, 2011. These fragrance products are sold under trademarks owned by us or pursuant to license or other agreements with the owners of brands which include the *Gap, Banana Republic, Anna Sui, Brooks Brothers, bebe, Betsey Johnson, Nine West, Lane Bryant and Jordache*.

Recent Developments

Burberry

In December 2011, the Company and Burberry Group began to explore ways to work more closely together to realize the brand's potential and we are currently in discussions regarding the potential establishment of a new operating structure for the Burberry fragrance and beauty business. As there can be no assurance that an agreement will be reached, Burberry has exercised its right to evaluate the purchase price for the unexpired term of the existing license. In this process, Burberry has until July 31, 2012 to determine whether it wishes to buy out the unexpired portion of the license as of December 31, 2012 or continue the existing contract which runs through December 31, 2017. As previously disclosed, if Burberry were to buy back the license, then the purchase price will be the greater of the fair market value of the unexpired term of the license or 70% of 2010 net wholesale sales of Burberry products. As of the date of this report, discussions are continuing.

Repetto

In December 2011 we entered into a thirteen-year exclusive worldwide license agreement to create, produce and distribute perfumes and ancillary products under the Repetto brand. Our rights under the agreement commenced on January 1, 2012. The agreement is subject to certain minimum advertising expenditures and royalty payments as are customary in our industry.

Pierre Balmain

In July 2011, we entered into a twelve-year exclusive worldwide license agreement to create, produce and distribute perfumes and ancillary products under the Balmain brand. Our rights under the agreement commenced on January 1,

2012 when we took over production and distribution of existing Balmain fragrances. The agreement is subject to certain minimum sales, advertising expenditures and royalty payments as are customary in our industry. We also paid an up front entry fee of €2.1 million (approximately \$2.7 million) for this license.

The Gap Inc.

In July 2011, we renewed our exclusive agreement with The Gap, Inc. to develop, produce, manufacture and distribute fragrances for Gap and Banana Republic brand names to be sold in Gap and Banana Republic retail stores in the United States and Canada. In July 2011, we also renewed our license agreement with The Gap Inc. for international distribution of fragrances through Gap and Banana Republic stores as well as select specialty and department stores outside the United States, including duty-free and other travel related retailers.

These renewal agreements, which took effect on January 1, 2012 and run through December 31, 2014, contain terms and conditions similar to those of the original agreements.

Anna Sui

In June 2011, we entered into a ten-year exclusive worldwide fragrance license agreement, with two five-year renewal options, to create, produce and distribute perfumes and fragrance-related products under the Anna Sui brand. Our rights under the agreement commenced on January 1, 2012 when we took over production and distribution of the existing Anna Sui fragrance collections. The agreement is subject to certain minimum sales, advertising expenditures and royalty payments as are customary in our industry. We have paid an upfront entry fee of \$2.0 million for this license and we agreed to purchase current inventory and certain other assets of the former licensee.

S. T. Dupont

In April 2011, we renewed our license agreement with S.T. Dupont for the creation, development and distribution of fragrance products through December 31, 2016. Our initial eleven-year license agreement with S.T. Dupont was signed in June 1997, and had previously been extended in 2006 for an additional three years until June 2011.

Lane Bryant

In March 2011, we entered into an exclusive agreement with a unit of Charming Shoppes, Inc. for its flagship brand, Lane Bryant. Under the agreement, Inter Parfums designs and manufactures personal care products for the Lane Bryant brand, while Lane Bryant is responsible for marketing, promoting and selling these products. The initial term of the contract, which may be extended by mutual consent, runs through December 31, 2015.

U.S. Distribution of Prestige Products

Beginning January 1, 2011, Interparfums Luxury Brands, Inc., a U.S. subsidiary of our French subsidiary Interparfums SA, assumed all U.S. prestige fragrance distribution responsibilities. In addition, under the terms of a four-year agreement, Interparfums Luxury Brands, Inc. and Clarins Fragrance Group USA (a Division of Clarins Group in the U.S. responsible for the Thierry Mugler, Azzaro, Porsche Design, David Yurman and Swarovski brands) share and manage an expanded sales force. Logistical and administrative support is provided by Clarins Group USA from its Park Avenue offices in New York and its warehouse in Orangeburg, New York.

*Our Prestige Products**General*

We produce and distribute our prestige fragrance products primarily under license agreements with brand owners. Under license agreements, we obtain the right to use the brand name, create new fragrances and packaging, determine positioning and distribution, and market and sell the licensed products, in exchange for the payment of royalties. Our rights under license agreements are also generally subject to certain minimum sales requirements and advertising expenditures.

We have built a portfolio of licensed prestige brands, which include Burberry, Jimmy Choo, Van Cleef & Arpels, Montblanc, Paul Smith, S.T. Dupont, Boucheron, Balmain and Repetto. In addition, we are the owner of the Lanvin and Nickel brand names and trademarks for our class of trade. Our exclusive world-wide licenses for these brands expire on the following dates:

Brand Name	Expiration Date
Burberry	December 31, 2017, unless buyback option is exercised
Jimmy Choo	December 31, 2021
Van Cleef & Arpels	December 31, 2018, plus a 5-year optional term if certain sales targets are met
Montblanc	December 31, 2020
Paul Smith	December 31, 2017
S.T. Dupont	December 31, 2016
Boucheron	December 31, 2025, plus a 5-year optional term if certain sales targets are met
Balmain	December 31, 2023
Repetto	December 31, 2024

Prestige Fragrances

BURBERRY — Burberry is our leading prestige fragrance brand and we operate under an exclusive worldwide license with Burberry Group that was originally entered into in 1993 and replaced by a new agreement in 2004.

We have had significant success in introducing new fragrance families under the Burberry brand name. Lines currently in distribution include: *Burberry* (1995), *Burberry Week End* (1997), *Burberry Touch* (2000), *Burberry Brit* (2003/2004), *Burberry London* (2006), *Burberry The Beat* (2008), *Burberry Sport* (2010), a make-up line, *Burberry Beauty* (2010), and *Burberry Body* (2011). With sales for the first time surpassing the \$300 million milestone, Burberry fragrances continued its trajectory of sustained growth. Current year growth is the result of a solid performance by the brands historic lines and the highly successful launch of *Burberry Body*.

In December 2011, the Company and Burberry Group began to explore ways to work more closely together to realize the brand's potential and we are currently in discussions regarding the potential establishment of a new operating structure for the Burberry fragrance and beauty business. As there can be no assurance that an agreement will be reached, Burberry has exercised its right to evaluate the purchase price for the unexpired term of the existing license. In this process, Burberry has until July 31, 2012 to determine whether it wishes to buy out the unexpired portion of the license as of December 31, 2012 or continue the existing contract which runs through December 31, 2017.

LANVIN — In July 2007 we acquired the worldwide rights to the Lanvin brand names and international trademarks listed in Class 3 that we had previously licensed in June 2004. A synonym of luxury and elegance, the Lanvin fashion house, founded in 1889 by Jeanne Lanvin, expanded into fragrances in the 1920s.

Today, Lanvin fragrances occupy important positions in the selective distribution market in France, Europe and Asia. Current lines in distribution include: *Arpège* (1927), *Lanvin L'Homme* (1997), *Eclat d'Arpège* (2002), *Arpège pour Homme* (2005), *Rumeur* (2006), *Rumeur 2 Rose* (2007), *Jeanne Lanvin* (2008), *Lanvin L'Homme Sport* (2009), and *Marry Me!* (2010). With no new launches in 2011, sales of Lanvin fragrances continue to expand with steady contribution from its *Eclat d'Arpège* line combined with the continued growth in the *Jeanne Lanvin* and *Marry Me!* lines.

Jimmy Choo — In October 2009 we entered into an exclusive, worldwide license agreement that commenced on January 1, 2010 for the creation, development and distribution of fragrances under the Jimmy Choo brand.

With a heritage in luxury footwear, Jimmy Choo today encompasses a complete luxury lifestyle accessory brand with women's shoes, handbags, small leather goods, sunglasses and eyewear. Its products are available in the growing network of Jimmy Choo freestanding stores as well as in the most prestigious department, specialty and duty free stores worldwide.

We believe that this relationship with Jimmy Choo offers a perfect fit with our strategy of expanding our brand portfolio to include new universes and represents an important milestone in our development. This brand possesses the quintessential qualities to ensure the ambitious development of fragrance lines that will be supported by significant advertising commitments over the coming years.

In January 2011, our first fragrance under the Jimmy Choo brand was initially launched in select distribution in the United Kingdom and the United States, and this signature scent rolled out globally in Spring 2011. Throughout 2011, Jimmy Choo product sales exceeded our expectations with rapid reorders at the point of sale. Sales topped \$40 million in 2011 and we anticipate continued expansion in 2012.

VAN CLEEF & ARPELS — In September 2006, we entered into an exclusive, worldwide license agreement 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 fragrances in current distribution include: *First* (1976), *Van Cleef pour Homme* (1978), *Tsar* (1989), *Van Cleef* (1994), *First 1^{er} Bouquet* (2008), *Féerie* (2008), *Collection Extraordinaire* (2009), *Oriens* (2010), *Midnight in Paris* (2010).

For the past two years we have been fine tuning the product range and repositioning our Van Cleef & Arpels fragrances in the exclusive high-end segment. With two new product launches in 2010 and no new launches in 2011, we saw sales decline of approximately 21% in local currency in 2011. We hope to reverse that trend with a new line for Van Cleef & Arpels, which is under development with an expected launch in 2013.

Montblanc — In January 2010 we entered into an exclusive, worldwide license agreement, commencing on July 1, 2010, for the creation, development and distribution of fragrances and fragrance related products under the Montblanc brand.

Montblanc has achieved a world-renowned position in the luxury segment and has become a purveyor of exclusive products which reflect today's exacting demands for timeless design, tradition and master craftsmanship. Through its leadership positions in writing instruments, watches and leather goods, promising growth outlook in women's jewelry, active presence in more than 70 countries, network of more than 350 boutiques worldwide and high standards of product design and quality, Montblanc offers our company growth potential for development in fragrances and ancillary products.

On July 1, 2010 we commenced distribution of Montblanc's legacy fragrances, which include: *Présence* (2001), *Présence D'une Femme* (2002), *Individuel* (2004), *Femme Individuelle* (2004), *Starwalker* (2005), *Femme de Montblanc* (2006) and *Homme Exceptionnel* (2006).

In the Spring 2011 we launched a new Montblanc fragrance, *Legend*, the success of which significantly exceeded our initial expectations. For 2011, Montblanc fragrance sales aggregated \$42.5 million. For 2012, we are developing our first women's fragrance under the Montblanc brand.

PAUL SMITH — We signed an exclusive license agreement with Paul Smith in December 1998, for the creation, development and worldwide distribution of Paul Smith perfumes and cosmetics. In July 2008 we extended this license

for an additional seven years through December 31, 2017.

Paul Smith is an internationally renowned British designer who creates fashion with a clear identity. Paul Smith has a modern style which combines elegance, inventiveness and a sense of humor and enjoys a loyal following, especially in the UK and Japan. Fragrances include: *Paul Smith (2000)*, *Paul Smith Extrême (2002)*, *Paul Smith Story (2006)*, *Paul Smith Rose (2007)* *Paul Smith Man (2009)*, *Paul Smith Man 2 (2010)* and *Optimistic (2011)*.

S.T. DUPONT — In June 1997 we signed an exclusive license agreement with S.T. Dupont for the creation, manufacture and worldwide distribution of S.T. Dupont perfumes. In 2011 the agreement was renewed and now runs through December 31, 2016. S.T. Dupont is a French luxury goods house founded in 1872, which is known for its fine writing instruments, lighters and leather goods.

S.T. Dupont fragrances include: *S.T. Dupont* (1998), *S.T. Dupont Essence Pure* (2002), *L'Eau de S.T. Dupont* (2004), *S.T. Dupont Noir* (2006), *S.T. Dupont Blanc* (2007), *S.T. Dupont Passenger* (2008), *S.T. Dupont Rose* (2009), *S.T. Dupont Intense* (2009), *Miss Dupont* (2010), *S.T. Dupont Passenger Cruise* (2011).

Boucheron – In December 2010, we entered into an exclusive, worldwide license agreement for the creation, development and distribution of fragrance and related bath and body products under the Boucheron brand.

Boucheron is the French jeweler "par excellence". Founded by Frederic Boucheron in 1858, the House has produced some of the world's most beautiful and precious creations. Today Boucheron creates jewelry and timepieces and, under license from global brand leaders, fragrances and sunglasses. Currently Boucheron operates through over 40 boutiques worldwide as well as an e-commerce site.

The transfer of existing inventory from the former licensee was completed early in 2011, and we then commenced distribution of Boucheron's legacy fragrances. We have completed development of our first new fragrance under the Boucheron brand, which is scheduled for a 2012 launch.

BALMAIN

In July 2011 we entered into a twelve-year exclusive worldwide license agreement to create, produce and distribute perfumes and ancillary products under the Balmain brand. Our rights under the agreement commenced on January 1, 2012 when we took over the production and distribution of existing Balmain fragrances for men and women.

The Balmain couture house was founded in 1945 by Pierre Balmain. In recent years, Balmain has undergone a significant transformation. With the redefinition of its image in ready-to-wear, the brand has become a reference for style, while retaining its distinctive design codes from the haute couture universe. On the strength of its creativity and know-how, the brand has become a major trendsetter.

REPETTO

In December 2011 we entered into a thirteen-year exclusive worldwide license agreement to create, produce and distribute perfumes and ancillary products under the Repetto brand. Our rights under the agreement commenced on January 1, 2012.

Created in 1947 by Rose Repetto at the request of her son, dancer and choreographer Roland Petit, Repetto is today a legendary name in the world of dance. For a number of years it has developed timeless and must-have collections with a fully modernized signature style ranging from dance shoes, ballet slippers, flat shoes, and sandals to more recently handbags and high-end accessories.

With an ambitious plan of international expansion (27 new stores opened in 2011, 22 new points of sale planned for 2012) focusing mainly on Europe, the brand is now branching out into Asia, notably South Korea and Japan where its mix of cross-generational appeal and French chic has met with unprecedented enthusiasm. We expect our first fragrance line to be launched in 2013.

Prestige Skin Care & Cosmetics

BURBERRY — In July 2010, *Burberry Beauty*, the nearly 100 SKU color cosmetic collection, began its rollout to approximately 30 major retail locations globally, including Harrods in London and five Nordstrom locations in the U.S., Holt Renfrew in Canada, Galeries Lafayette in France and Lane Crawford in Hong Kong. The launch of this cosmetics line required a significant investment in its first year to develop the product, build cosmetic counters, hire and train personnel. We believe the *Burberry Beauty* line is an important step to reach new customers and increase brand exposure worldwide.

We rolled out additional products throughout 2011 and distribution was expanded by approximately sixty additional retail outlets for a current total of approximately ninety. We are currently reviewing *Burberry Beauty* results as well as the anticipated financial commitment which may be necessary in order to determine the appropriate level of distribution for *Burberry Beauty* in the years to come.

NICKEL — Established in 1996, Nickel has developed two innovative concepts in the world of cosmetics: spas exclusively for male customers and skin care products for men. The Nickel skin care products for the face and body are sold through prestige department and specialty stores primarily in Western Europe and the United States, as well as through our men's spas in Paris and New York and our licensed spa in London.

Our current focus is on skin care products and we have launched several new skin care categories under the brand name. We intend to continue to develop new and innovative skincare products under the Nickel brand in an attempt to grow the business.

Specialty Retail and Designer Products

Specialty retail has become an important part of our overall business, and our United States operations are continuing to expand the global distribution of the specialty retail brands with which we have partnered. In addition, we have been approached by other specialty retailers to determine if there is interest in establishing a relationship whereby we would design, produce and manufacture fragrance and fragrance related products similar to our existing relationships. However, we cannot assure you that we will be able to enter into any similar future arrangements, or if we do, that any such arrangement would be on terms favorable to us or would be successful.

In connection with our specialty retail agreements in our United States operations, we design, produce and manufacture fragrance and fragrance related products for brand name specialty retailers, primarily for sale in their retail stores. This specialty retail business began in 2005 with the signing of an exclusive agreement with The Gap, Inc. covering the Gap and Banana Republic brands in the United States and Canada. We have expanded this business through the years and currently have agreements in place with Brooks Brothers, bebe Stores, Nine West, Betsey Johnson, Lane Bryant and Anna Sui. Our exclusive agreements for specialty retail brands and their expiration dates are as follows:

Brand Name	Expiration Date
The Gap Inc.	December 31, 2014 December 31, 2013, plus a 5-year optional term if certain sales targets are met
Brooks Brothers	October 8, 2012 June 30, 2014, plus three, 3-year optional terms, if certain sales targets are met
New York & Company	December 31, 2016, plus two consecutive 3-year optional terms if certain conditions are met
bebe Stores	December 31, 2015, plus a 5-year optional term if certain conditions are met
Nine West	December 31, 2015 December 31, 2021, plus two five-year optional terms if certain conditions are met
Betsey Johnson	
Lane Bryant	
Anna Sui	

In addition, our agreements for the Gap, Banana Republic, Brooks Brothers, bebe, Nine West, Betsey Johnson and Ana Sui brands include a license component for worldwide sales to select third party retailers and distributors, in return for royalty payments and certain advertising expenditures as are customary in our industry.

Gap and Banana Republic

In July 2005, we entered into an exclusive agreement with The Gap, Inc. to develop, produce, manufacture and distribute fragrance and fragrance related products for Gap and Banana Republic brand names to be sold in Gap and Banana Republic retail stores in the United States and Canada. In March 2006, the agreement was amended to include fragrance and fragrance related products for Gap Outlet and Banana Republic Factory Stores in the United States and Canada.

In 2008 we expanded our relationship with Gap Inc. to include a licensing agreement for international distribution of personal care products created for the Gap and Banana Republic brands. We entered into this license agreement to capitalize on cross-border brand awareness of Gap's iconic American style and Banana Republic's affordable luxury, which we have interpreted into a brand-specific assortment of fragrance and fragrance related products. In addition, our long-established relationships with distributors in over 120 countries, and our current infrastructure enabled us to rollout Gap and Banana Republic products to select department stores, perfumeries, travel retailers, military bases and other appropriate retail outlets around the world.

In July 2011, we renewed our exclusive agreement with The Gap, Inc. to develop, produce, manufacture and distribute fragrances for Gap and Banana Republic brand names to be sold in Gap and Banana Republic retail stores in the United States and Canada. In July 2011, we also renewed our license agreement with The Gap Inc. for international distribution of fragrances through Gap and Banana Republic stores as well as select specialty and department stores outside the United States, including duty-free and other travel related retailers. These renewal agreements, which became effective on January 1, 2012, run through December 31, 2014.

Gap scents in current distribution include: *Close* (2009), *Stay* (2010), *Core* (2010), *Deep* (2011) and *Near* (2011). International distribution began in the Fall of 2009, including an exclusive launch at 240 Sephora doors in Europe. Banana Republic products currently available include: *Classic* (1995), *W* (1995), *Alabaster* (2006), *Jade* (2006), *Rosewood* (2006), *Slate* (2006), *Black Walnut* (2006), *Cordovan* (2007), *Malachite* (2007), *Republic of Women* (2009), *Republic of Men* (2009) and *Wildbloom* (2011).

For 2012, we also have several new products and new product extensions in the works.

bebe Stores

In July 2008, we entered into an exclusive six-year worldwide agreement with bebe Stores, Inc., under which we design, manufacture and supply fragrance, bath and body products and color cosmetics for company-owned bebe stores in the United States and Canada, as well as select specialty and department stores worldwide. We have incorporated bebe's signature look into fragrance and cosmetics for the brand's strong, hip, sexy, and sophisticated clientele.

Our bebe signature fragrance was unveiled at more than 200 bebe stores in the U.S. in August 2009, which was followed by worldwide distribution shortly thereafter. Scents currently available for domestic and international markets include: bebe (2009), bebe Sheer (2010) and bebe gold (2011).

We are currently working on new products and new product extensions for the bebe brand.

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 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.

Under the agreement, the initial Nine West signature fragrance will be marketed and sold globally in better department stores, specialty retailers and Nine West retail stores. Nine West is currently sold in 59 countries with flagship stores in leading cities, including New York, Toronto, London, Paris, Tokyo, Hong Kong, Shanghai and Beijing.

Nine West is a subsidiary of Jones Apparel Group, Inc., and a leading designer, marketer and wholesaler of branded apparel, footwear and accessories. Our first fragrance for Nine West *Love Fury* launched in the first quarter of 2012.

Betsey Johnson

In July 2010, we entered into an exclusive worldwide agreement for the Betsey Johnson brand, under which we 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.

New York designer Betsey Johnson joined forces with Chantal Bacon in 1978 and started the Betsey Johnson label, as it is known today. Beginning in 2004, the Betsey Johnson label expanded as a lifestyle brand with the introduction of intimates, handbags and leather goods, footwear, watches, jewelry, eyewear, swimwear, legwear and outerwear. Today there are over sixty-five Betsey Johnson stores worldwide as well as an established wholesale business in international markets.

We believe Betsey Johnson fashion is forever feminine, sometimes whimsical but always recognizable. We envision building an upscale fragrance and beauty enterprise around the qualities that have defined and redefined the Betsey Johnson label for over 30 years. Our first product launch under the Betsey Johnson brand occurred in the second half of 2010 with a new take on the designer's vintage fragrance exclusively for Betsey Johnson. In the second half of the 2011, we launched our first new Betsey Johnson scent, *Too Too*, with initial distribution in the designer's stores as well as Sephora stores in the U.S. In 2012, we plan to continue to roll-out distribution of Betsey Johnson *Too Too*.

Lane Bryant

In March 2011, we entered into an exclusive agreement with a unit of Charming Shoppes, Inc. for its flagship brand, Lane Bryant. Under the agreement, Inter Parfums designs and manufactures personal care products for the Lane Bryant brand to be sold in Lane Bryant stores. Lane Bryant is responsible for marketing, promoting and selling these

products.

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In Spring 2011, we commenced shipments of a line of performance-based bath, body and specialty products, to be sold under Lane Bryant's Cacique® brand at approximately 130 Lane Bryant stores. Chain wide rollout is anticipated in early 2012. In addition, a signature fragrance was launched in time for the 2011 holiday season.

Anna Sui

In June 2011, we entered into a ten-year exclusive worldwide fragrance license agreement to produce and distribute perfumes and fragrance-related products under the Anna Sui brand. Our rights under the agreement commenced on January 1, 2012 when we took over production and distribution of the existing Anna Sui fragrance collections.

We will work in partnership with American designer, Anna Sui, and her creative team to build upon the brand's growing customer appeal, and develop new fragrances that capture the brand's very sweet feminine girly aspect, combined with touch of nostalgia, hipness and rock-and-roll. Anna Sui's devoted customer base, which spans the world, is especially strong in Asia. We have high expectations for growing the Anna Sui fragrance franchise by developing new products and expanding the brand's fragrance presence in North America, Europe and the Middle East.

Our first new women's scent for Anna Sui is planned for Fall 2012.

Brooks Brothers

In November 2007, we entered into an exclusive agreement with Retail Brand Alliance, Inc. covering the design, manufacture and supply of personal care products for men and women to be sold at Brooks Brothers locations in the United States as well as a licensing agreement covering Brooks Brothers stores and specialty and department stores outside the United States and duty free and other travel-related retailers.

Brooks Brothers product lines currently available include: Brooks Brothers New York (2008), Black Fleece (2009), Brooks Brothers Madison (2010), and a trio of scents Black Fleece Red, White, & Blue (2010).

New York & Company

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

We developed products designed for the target New York & Company customer, the fashion-conscious, value-sensitive women. Unfortunately the line was not successful and was subsequently discontinued. We have also launched a fragrance for New York & Company and supplied their stores with color cosmetic products. However, with no new product development in process, we anticipate that this agreement will end at its expiration in October 2012.

Other Specialty Retail

During 2010, we also developed two programs for Anthropologie stores, *Happ & Stahns* and the *LeLabo* collection, both of which have made their debut in 2010. In July 2011 *Happ + Stahns 1842 Rosa Alba* won the 2011 HBA International Packaging Design Award in the Prestige Fragrance category. The winner in this category was voted on by 100 industry professionals.

Mass Market Products

Our mass market products are comprised of fragrances and fragrance related products. We produce a variety of alternative designer fragrances and personal care products that sell at a substantial discount from their brand name counterparts. Our alternative designer fragrances are similar in scent to highly advertised designer fragrances that are marketed at a higher retail price. Our mass market fragrance brands include several proprietary brand names as well as a license for the *Jordache* brand. We also market our *Aziza* line of low priced eye shadow kits, mascara, and pencils, focusing on the young teen market and a line of health and beauty aids under our *Intimate* and *Johnson Parker* brands, including shampoo, conditioner, hand lotion and baby oil. All of these products are distributed to the same mass market retailers and discount chains.

Business Strategy

Focus on prestige beauty brands. Prestige beauty brands are expected to contribute significantly to our growth as it represented 90% of total business in 2011. We focus on developing and launching quality fragrances utilizing internationally renowned brand names. By identifying and concentrating in the most receptive market segments and territories where our brands are known, and executing highly targeted launches that capture the essence of the brand, we have had a history of successful launches. Certain fashion designers and other licensors choose Inter Parfums as a partner because our Company's size enables us to work more closely with them in the product development process as well as our successful track record.

Grow portfolio brands through new product development and marketing. We grow through the creation of fragrance family extensions within the existing brands in our portfolio. Every year or two we create a new family of fragrances for each brand in our portfolio. We frequently introduce "seasonal" fragrances as well. With new introductions, we leverage our ability and experience to gauge trends in the market and further leverage the brand name into different product families in order to maximize sales and profit potential. We have had success in introducing new fragrance families (sub-brands, or flanker brands) within our brand franchises. Furthermore, we promote the smooth and consistent performance of our prestige perfume operations through knowledge of the market, detailed analysis of the image and potential of each brand name, a "good dose" of creativity and a highly professional

approach to international distribution channels.

Continue to add new brands to our portfolio, through new licenses or acquisitions. Prestige brands are the core of our business and we intend to add new prestige beauty brands to our portfolio. Over the past twenty years, we have built our portfolio of well-known prestige brands through acquisitions and new license agreements. We intend to further build on our success in prestige fragrances and pursue new licenses and acquire new brands to strengthen our position in the prestige beauty market. We identify prestige brands that can be developed and marketed into a full and varied product families and, with our technical knowledge and practical experience gained over time, take licensed brand names through all phases of concept, development, manufacturing, marketing and distribution.

Expand existing portfolio into new categories. We intend to continue to broaden our product offering beyond the fragrance category and offer other fragrance related products and personal care products such as skin care, cosmetics and hair care under some of our existing brands. We believe such product offerings meet customer needs and further strengthen customer loyalty. We also plan to draw upon the skin care product expertise that the Nickel team brings, as we explore other opportunities in the treatment side of the beauty business beyond the Nickel brand.

Continue to build global distribution footprint. Our business is a global business and we intend to continue to build our global distribution footprint. In order to adapt to changes in the environment and our business, we have modified our distribution model and have formed and are operating joint ventures or distribution subsidiaries in the major markets of the United States, United Kingdom, Italy, Spain and Germany for distribution of prestige fragrances.

We might enter into future joint ventures arrangements or acquire distribution companies within other key markets to distribute certain of our prestige brands. However, we cannot assure you that we will be able to enter into any future joint venture arrangements or acquire distribution companies on terms favorable to us, or if we do, that any such transaction will be successful. We believe that in certain markets vertical integration of our distribution network is one of the keys to future growth of our company, and ownership of such distribution should enable us to better serve our customers' needs in local markets and adapt more quickly as situations may determine.

Build specialty retail business. We believe the beauty industry has experienced a significant growth in specialty retail, and we now have agreements in place for the following brands, Gap and Banana Republic, New York & Company, Brooks Brothers, bebe, Nine West, Betsey Johnson, Lane Bryant and Anna Sui. We are responsible for product development, formula creation, packaging and manufacturing under all of those brands. We also develop product and supply fragrances for Anthropologie stores, catalog and its internet business on an as needed and when ordered basis. Gap, Banana Republic, New York & Company, Retail Brand Alliance (for Brooks Brothers), bebe Stores, Inc., Anthropologie, Nine West, Betsey Johnson, Lane Bryant and Anna Sui are innovative specialty retailers which offer a variety of lifestyle merchandise to highly defined customer niches.

In addition, we have been approached by other specialty retailers to determine if there is interest in establishing a relationship whereby we would design, produce and manufacture fragrance and fragrance related products similar to our existing relationships with specialty retailers. However, we cannot assure you that we will be able to enter into any

similar future arrangements on terms favorable to us, or if we do, that any such arrangements will be successful.

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Contract manufacturers of components such as glassware (Saint Gobain, Saverglass, Pochet, Nouvelles Verreries de Momignie), caps (MT Packaging, Codiplas, Risdon, Newburgh) or boxes (Printor Packaging, Draeger);

Production specialists who carry out packaging (MF Production, Brand, CCI, IKI Manufacturing) or logistics (SAGA for storage, order preparation and shipment).

For our prestige products, approximately 80% of component and production needs are purchased from approximately 50 suppliers out of a total of over 180 active suppliers. The suppliers' accounts for our European operations are primarily settled in euro and for our United States operations, suppliers' accounts are primarily settled in U.S. dollars. The components for our specialty retail products are sourced and our specialty retail products are primarily produced and filled in the United States, and our mass market products are manufactured, produced or filled in the United States or China.

Marketing and Distribution

Prestige Products

Our prestige products are distributed in over 120 countries around the world through a selective distribution network. For the majority of our international distribution of prestige products, we contract with independent distribution companies specializing in luxury goods. In each country, we designate anywhere from one to three distributors on an exclusive basis for one or more of our name brands. We also distribute our prestige products through a variety of duty-free operators, such as airports and airlines and select vacation destinations.

As our business is a global business, we intend to continue to build our global distribution footprint. We presently operate through our distribution subsidiaries in the major markets of the United Kingdom, Italy, Spain and Germany for distribution of prestige fragrances. In addition, during 2010 we formed Interparfums Luxury Brands, Inc., a Delaware corporation and subsidiary of our French subsidiary Interparfums SA, for distribution of prestige brands in the United States. It has also entered into an agreement with Clarins Fragrance Group US (a Division of Clarins Group) effective January 1, 2011. Shipments to these subsidiaries are not recognized as sales until that merchandise is sold by our distribution subsidiary to its customers.

Further, we may enter into future joint ventures arrangements or acquire distribution companies within other key markets to distribute certain of our licensed prestige brands. However, we cannot assure you that we will be able to enter into any future joint venture arrangements or acquire distribution companies on terms favorable to us, or if we do, that any such transaction will be successful. We believe that in certain markets vertical integration of our distribution network is one of the keys to future growth of our company, and ownership of such distribution should enable us to better serve our customers' needs in local markets and adapt more quickly as situations may determine.

Our third party distributors vary in size depending on the number of competing brands they represent. This extensive and diverse network together with our own distribution subsidiaries provides us with a significant presence in over 120 countries around the world.

Approximately 40% of our prestige fragrance net sales are denominated in U.S. dollars. We address 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.

The business of our European operations has become increasingly seasonal due to the timing of shipments by our majority-owned distribution subsidiaries to their customers, which are weighted to the second half of the year.

Specialty Retail and Mass Market Products

We do not presently market and distribute Gap, Banana Republic, New York & Company, Brooks Brothers or Lane Bryant specialty retail products to third parties in the United States. Marketing and distribution for such brands are the responsibility of the brand owners which market and sell the products we produce in their own retail locations. However, with respect to our agreements with bebe Stores, Inc., Nine West, Betsey Johnson and Anna Sui, we distribute or plan to distribute product to their stores as well as to other retail outlets and department stores within the United States.

With respect to Gap, Banana Republic, Brooks Brothers, bebe brands, Nine West, Betsey Johnson and Anna Sui, we also distribute or plan to distribute product to specialty retailers and department stores outside the United States including duty free and other travel-related retailers. We utilize our in house sales team to reach our distributors and customers outside the United States.

In addition, the business of our United States operations has become increasingly seasonal as shipments to our specialty retail customers are weighted toward the second half of the year.

Mass merchandisers are the target customers for our mass market products. In addition, our mass market products are sold to wholesale distributors, specialty store chains, and to multiple locations of accessory, jewelry and clothing outlets. These products are sold through a highly efficient and dedicated in-house sales team and reach approximately 10,000 retail outlets throughout the United States and abroad.

Geographic Areas

United States export sales were approximately \$24.9 million, \$25.7 million and \$14.0 million in 2011, 2010 and 2009, respectively. Consolidated net sales to customers by region are as follows:

(in thousands)	Year ended December 31,		
	2011	2010	2009
North America	\$ 150,000	\$ 91,200	\$ 96,800
Europe	246,000	211,800	184,900
Central and South America	61,000	41,900	29,300
Middle East	57,000	45,500	42,300
Asia	95,000	66,500	53,600

Other	6,200	3,500	2,600
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