INTER PARFUMS INC
Form 10-Q
May 11, 2015

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 March 31, 2015.

OR

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

Commission File No. **0-16469**

INTER PARFUMS, INC.

(Exact name of registrant as specified in its charter)

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

551 Fifth Avenue, New York, New York 10176

(Address of Principal Executive Offices) (Zip Code)

(212) 983-2640

(Registrants telephone number, including area code)

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

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

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

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

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

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

At May 8, 2015, there were 30,983,441 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, 2014 included in our annual report filed on Form 10-K.

The results of operations for the three months ended March 31, 2015 are not necessarily indicative of the results to be expected for the entire fiscal year.

INTER PARFUMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands except share and per share data)

(Unaudited)

ASSETS

	March 31, 2015	December 31, 2014
Current assets:		
Cash and cash equivalents	$87,242	$90,138
Short-term investments	155,938	190,152
Accounts receivable, net	96,387	90,124
Inventories	104,554	102,326
Receivables, other	1,473	1,542
Other current assets	4,665	4,504
Income taxes receivable	333	929
Deferred tax assets	6,953	6,848
Total current assets	457,545	486,563
Equipment and leasehold improvements, net	8,253	9,187
Trademarks, licenses and other intangible assets, net	88,012	98,531
Other assets	9,953	10,225
Total assets	$563,763	$604,506
LIABILITIES AND EQUITY		
Current liabilities:		
Loans payable – banks	$425	$298
Accounts payable – trade	53,373	46,646
Accrued expenses	38,678	49,194
Income taxes payable	5,466	3,773
Dividends payable	4,028	3,717
Total current liabilities	101,970	103,628

Deferred tax liability	1,894	2,154
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 30,982,101 and 30,977,293 shares at March 31, 2015 and December 31, 2014, respectively	31	31
Additional paid-in capital	60,470	60,200
Retained earnings	380,100	374,121
Accumulated other comprehensive income (loss)	(51,059)	(15,823)
Treasury stock, at cost, 9,897,995 shares at March 31, 2015 and December 31, 2014, respectively	(36,464)	(36,464)
Total Inter Parfums, Inc. shareholders' equity	353,078	382,065
Noncontrolling interest	106,821	116,659
Total equity	459,899	498,724
Total liabilities and equity	$563,763	$604,506

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 March 31, 2015	2014
Net sales	$109,249	$121,730
Cost of sales	41,639	52,500
Gross margin	67,610	69,230
Selling, general and administrative expenses	46,544	51,807
Income from operations	21,066	17,423
Other expenses (income):		
Interest expense	158	273
Loss (gain) on foreign currency	2,006	(49)
Interest and dividend income	(1,196)	(1,111)
	968	(887)
Income before income taxes	20,098	18,310
Income taxes	6,793	6,160
Net income	13,305	12,150
Less: Net income attributable to the noncontrolling interest	3,298	3,256
Net income attributable to Inter Parfums, Inc.	$10,007	$8,894
Net income attributable to Inter Parfums, Inc. common shareholders:		
Basic	$0.32	$0.29
Diluted	$0.32	$0.29
Weighted average number of shares outstanding:		

Basic	30,979	30,900
Diluted	31,072	31,058
Dividends declared per share	$0.13	$0.12

See notes to consolidated financial statements.

INTER PARFUMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(Unaudited)

	Three months ended March 31, 2015	2014
Comprehensive income (loss):		
Net income	$ 13,305	$ 12,150
Other comprehensive income (loss):		
Net derivative instrument loss, net of tax	(608)	—
Translation adjustments, net of tax	(47,868)	(1,397)
Comprehensive income (loss)	(35,171)	10,753
Comprehensive income (loss) attributable to the noncontrolling interests:		
Net income	3,298	3,256
Other comprehensive income (loss):		
Net derivative instrument loss, net of tax	(165)	—
Translation adjustments, net of tax	(13,075)	(478)
Comprehensive income (loss) attributable to the noncontrolling interests	(9,942)	2,778
Comprehensive income (loss) attributable to Inter Parfums, Inc.	$ (25,229)	$ 7,975

See notes to consolidated financial statements.

INTER PARFUMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In thousands)

(Unaudited)

	Three months ended March 31, 2015	2014
Common stock, beginning and end of period	$31	$31
Additional paid-in capital, beginning of period	60,200	57,877
Shares issued upon exercise of stock options	82	908
Stock-based compensation	194	168
Sale of subsidiary shares to noncontrolling interest	(6)	(319)
Additional paid-in capital, end of period	60,470	58,634
Retained earnings, beginning of period	374,121	359,459
Net income	10,007	8,894
Dividends	(4,028)	(3,712)
Stock-based compensation	—	29
Retained earnings, end of period	380,100	364,670
Accumulated other comprehensive income (loss), beginning of period	(15,823)	25,860
Foreign currency translation adjustment	(34,793)	(919)
Net derivative instrument loss, net of tax	(443)	—
Accumulated other comprehensive income (loss), end of period	(51,059)	24,941
Treasury stock, beginning of period	(36,464)	(36,016)
Shares issued upon exercise of stock options	—	101
Shares received as proceeds of option exercises	—	(351)
Treasury stock, end of period	(36,464)	(36,266)
Noncontrolling interest, beginning of period	116,659	128,145
Net income	3,298	3,256
Foreign currency translation adjustment	(13,075)	(478)
Net derivative instrument loss, net of tax	(165)	—
Sale of subsidiary shares to noncontrolling interest	104	1,309
Stock-based compensation	—	10
Noncontrolling interest, end of period	106,821	132,242

Total equity	$459,899	$544,252

See notes to consolidated financial statements.

INTER PARFUMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three months ended March 31, 2015	Three months ended March 31, 2014
Cash flows from operating activities:		
Net income	$13,305	$12,150
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	2,228	2,545
Provision for doubtful accounts	47	8
Noncash stock compensation	194	230
Deferred tax expense (benefit)	(503)	447
Changes in:		
Accounts receivable	(14,397)	(20,927)
Inventories	(11,679)	(850)
Other assets	(1,564)	(1,821)
Accounts payable and accrued expenses	8,480	(17,616)
Income taxes, net	2,578	(1,425)
Net cash used in operating activities	(1,311)	(27,259)
Cash flows from investing activities:		
Purchases of short-term investments	(56,437)	(142,110)
Proceeds from sale of short-term investments	69,593	96,146
Purchases of equipment and leasehold improvements	(687)	(709)
Payment for intangible assets acquired	(774)	(522)
Net cash provided by (used in) investing activities	11,695	(47,195)
Cash flows from financing activities:		
Proceeds from (repayments of) loans payable – banks, net	168	(2,866)
Proceeds from exercise of options	82	695
Proceeds from sale of stock of subsidiary	98	990
Dividends paid	(3,717)	(3,704)
Purchase of treasury stock	—	(37)
Net cash used in financing activities	(3,369)	(4,922)
Effect of exchange rate changes on cash	(9,911)	(680)
Net decrease in cash and cash equivalents	(2,896)	(80,056)
Cash and cash equivalents - beginning of period	90,138	125,650
Cash and cash equivalents - end of period	$87,242	$45,594
Supplemental disclosure of cash flow information:		
Cash paid for:		

Interest	$168	$248
Income taxes	7,365	5,086

See notes to consolidated financial statements.

Page 6

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

1. <u>Significant Accounting Policies:</u>

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, 2014. We also discuss such policies in Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, included in this Form 10-Q.

2. <u>Recent Accounting Pronouncements:</u>

In May 2014, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update which supersedes the most current revenue recognition requirements. The new revenue recognition standard requires entities to recognize revenue in a way that depicts the transfer of goods or services to customers in an amount that reflects the consideration which the entity expects to be entitled to in exchange for those goods or services. This guidance is effective for annual and interim reporting periods beginning after December 15, 2016, with early adoption not permitted. We are currently evaluating the standard to determine the impact of its adoption on our consolidated financial statements.

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

3. <u>New Agreements:</u>

In March 2015, the Company, through its majority owned Paris-based subsidiary, Interparfums SA, entered into an agreement with The Procter & Gamble Company to acquire the Rochas brand. This transaction will cover all brand names and registered trademarks for Rochas (*Femme, Madame, Eau de Rochas*, etc.), mainly for class 3 (cosmetics) and class 25 (fashion). The cost of the acquisition of $108 million is payable in cash on the closing date and is expected to be financed entirely through a medium term loan. This transaction is expected to be completed within the first half of 2015, subject to customary closing conditions.

In April 2015, the Company, through its majority owned Paris-based subsidiary, Interparfums SA, entered into an 11-year exclusive worldwide license with Coach, Inc. to create, produce and distribute new perfumes and fragrance related products, including new men's and women's scents under the Coach brand name. Interparfums SA will distribute these fragrances globally to department stores, specialty stores and duty free shops, as well as in Coach retail stores beginning in 2016. The agreement is subject to certain minimum sales, advertising expenditures and royalty payments as are customary in our industry.

4. <u>Inventories:</u>

Inventories consist of the following:

(In thousands)	March 31, 2015	December 31, 2014
Raw materials and component parts	$ 31,282	$ 36,383
Finished goods	73,272	65,943
	$ 104,554	$ 102,326

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

The following tables present our financial assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy. 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 March 31, 2015		
	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	$155,938	$ —	$ 155,938	$ —
Liabilities:				
Foreign currency forward exchange contracts accounted for using hedge accounting	$981	$ —	$ 981	$ —
Foreign currency forward exchange contracts not accounted for using hedge accounting	1,241	—	1,241	—
	$2,222	$ —	$ 2,222	$ —

		Fair Value Measurements at December 31, 2014		
		Quoted Prices in Active Markets	Significant Other Observable	Significant Unobservable

	Total	for Identical Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)
Assets:				
Short-term investments	$190,152	$ —	$ 190,152	$ —
Liabilities:				
Foreign currency forward exchange contracts not accounted for using hedge accounting	$355	$ —	$ 355	$ —

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

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

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

6. Derivative Financial Instruments:

The Company enters into foreign currency forward exchange contracts to hedge exposure related to receivables denominated in a foreign currency and occasionally to manage risks related to future transactions expected to be denominated in a foreign currency. In connection with the Rochas acquisition, the purchase price of $108 million is payable in cash on the closing date and is expected to be financed entirely through a medium term loan. As the payment at closing is due in dollars and we plan to finance it with debt in euro, the Company entered into foreign currency exchange contracts to secure the exchange rate for the $108 million purchase price at $1.067 per 1 euro. This derivative has been designated and qualifies as a cash flow hedge. The Company did not have any other cash flow hedges during the three months ended March 31, 2015 and 2014. Gains and losses in derivatives not designated as hedges are included in (loss) gain on foreign currency on the accompanying income statement and were immaterial for the three months ended March 31, 2015 and 2014.

All derivative instruments are reported as either assets or liabilities on the balance sheet measured at fair value. The valuation of all foreign currency forward exchange contracts as of March 31, 2015 and December 31, 2014 resulted in a liability that is included in accrued expenses on the accompanying balance sheets. Generally, increases or decreases in the fair value of derivative instruments will be recognized as gains or losses in earnings in the period of change. If the derivative instrument is designated and qualifies as a cash flow hedge, the change in fair value of the derivative instrument is recorded as a separate component of shareholders' equity.

At March 31, 2015, we had foreign currency contracts in the form of forward exchange contracts in the amount of approximately U.S. $126.7 million, GB pounds £2.2 million and JPY ¥220.7 million which all have maturities of less than one year.

7. Share-Based Payments:

The Company maintains a stock option program for key employees, executives and directors. The plans, all of which have been approved by shareholder vote, provide for the granting of both nonqualified and incentive options. Options granted under the plans typically have a six-year term and vest over a four to five-year period. The fair value of shares vested during both the three months ended March 31, 2015 and 2014 aggregated $0.03 million. 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 three month period ended March 31, 2015:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested options – beginning of period	385,505	$ 7.14
Nonvested options granted	14,000	$ 6.73
Nonvested options vested or forfeited	(7,085)	$ 6.39
Nonvested options – end of period	392,420	$ 7.14

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Share-based payment expense decreased income before income taxes by $0.19 million and $0.23 million for the three months ended March 31, 2015 and 2014, respectively, and decreased net income attributable to Inter Parfums, Inc. by $0.12 million and $0.11 million for the three months ended March 31, 2015 and 2014, respectively.

The following table summarizes stock option information as of March 31, 2015:

	Shares	Weighted Average Exercise Price
Outstanding at January 1, 2015	639,495	$ 23.19
Options granted	14,000	25.67
Options cancelled	(2,170)	25.49
Options exercised	(4,808)	17.14
Outstanding at March 31, 2015	646,517	$ 23.28
Options exercisable	254,097	$ 18.50
Options available for future grants	316,705	

As of March 31, 2015, the weighted average remaining contractual life of options outstanding is 3.69 years (2.39 years for options exercisable), the aggregate intrinsic value of options outstanding and options exercisable is $6.4 million and $3.7 million, respectively, and unrecognized compensation cost related to stock options outstanding of Inter Parfums, Inc. aggregated $2.5 million.

Cash proceeds, tax benefits and intrinsic value related to stock options exercised during the three months ended March 31, 2015 and March 31, 2014 were as follows:

(In thousands)	March 31, 2015	March 31, 2014
Cash proceeds from stock options exercised	$ 82	$ 695

Tax benefits	0	0
Intrinsic value of stock options exercised	66	1,455

The weighted average fair values of the options granted by Inter Parfums, Inc. during the three months ended March 31, 2015 and 2014 were $6.73 and $8.37 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 March 31, 2015 and 2014 are set forth in the following table:

	March 31, 2015		March 31, 2014	
Weighted average expected stock-price volatility	34	%	37	%
Weighted average expected option life	5 years		5 years	
Weighted average risk-free interest rate	1.28	%	1.55	%
Weighted average dividend yield	1.8	%	2.8	%

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

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

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

(In thousands, except per share data)	March 31,	
	2015	2014
Numerator:		
Net income attributable to Inter Parfums, Inc.	$10,007	$8,894
Denominator:		
Weighted average shares	30,979	30,900
Effect of dilutive securities:		
Stock options	93	158
Denominator for diluted earnings per share	31,072	31,058
Earnings per share:		
Net income attributable to Inter Parfums, Inc. common shareholders:		
Basic	$0.32	$0.29
Diluted	0.32	0.29

Not included in the above computations is the effect of antidilutive potential common shares which consist of outstanding options to purchase 0.27 million and 0.13 million shares of common stock for the three months ended

March 31, 2015 and 2014, respectively.

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

9. Segment and Geographic Areas:

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

(In thousands)	Three months ended March 31, 2015	2014
Net sales:		
United States	$22,479	$19,392
Europe	86,787	102,376
Eliminations	(17)	(38)
	$109,249	$121,730
Net income attributable to Inter Parfums, Inc.:		
United States	$1,109	$(67)
Europe	8,898	8,961
Eliminations	—	—
	$10,007	$8,894

	March 31, 2015	March 31, 2014
Total Assets:		
United States	$75,648	$71,014
Europe	497,294	589,481
Eliminations of investment in subsidiary	(9,179)	(9,217)
	$563,763	$651,278

10. Accrued Expenses:

Accrued expenses include approximately $8.4 million and $16.5 million in advertising liabilities as of March 31, 2015 and December 31, 2014, respectively.

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, 2014 and the reports Inter Parfums files from time to time with the Securities and Exchange Commission. Inter Parfums does not intend to and undertakes no duty to update the information contained in this report.

Overview

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

We produce and distribute our European based prestige products primarily under license agreements with brand owners, and European based prestige product sales represented approximately 79% and 84% of net sales for the three months ended March 31, 2015 and 2014, respectively. We have built a portfolio of prestige brands, which include *Balmain, Boucheron, Coach, Jimmy Choo, Karl Lagerfeld, Lanvin, Montblanc, Paul Smith, S.T. Dupont, Repetto and Van Cleef & Arpels*, whose products are distributed in over 100 countries around the world. We own the Lanvin brand name for our class of trade, and license the Montblanc and Jimmy Choo brand names; for the three months ended March 31, 2015, sales of product for these brands represented 15%, 25%, and 20% of net sales, respectively.

Through our United States operations we also market prestige brand as well as specialty retail fragrance and fragrance related products. United States operations represented 21% and 16% of net sales for the three months ended March 31, 2015 and 2014, respectively. These fragrance products are sold or to be sold under trademarks owned by us or pursuant to license or other agreements with the owners of the *Abercrombie & Fitch, Agent Provocateur, Anna Sui, Banana Republic, bebe, Dunhill, Gap, Hollister, Oscar de la Renta, and Shanghai Tang* brands.

Quarterly sales fluctuations are influenced by the timing of new product launches as well as the third and fourth quarter holiday season. In certain markets where we sell directly to retailers, seasonality has been more evident in the past few years. We operate distribution subsidiaries in Italy, Germany, Spain, and the United States. In addition, our specialty retail product lines sold to U.S. retailers are also concentrated in the second half of the year.

INTER PARFUMS, INC. AND SUBSIDIARIES

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

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

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

During the three months ended March 31, 2015, the economic and political uncertainty and financial market volatility taking place in certain European countries and the Middle East did not have a significant impact on our business, and at this time we do not believe it will have a significant impact on our business for the foreseeable future. However, if the degree of uncertainty or volatility worsens or is prolonged, then there will likely be a negative effect on ongoing consumer confidence, demand and spending and as a result, our business. Currently, we believe general economic, political and other uncertainties still exist in select markets in which we do business, and we continue to monitor global economic and political uncertainties and other risks that may affect our business.

Our reported net sales are impacted by changes in foreign currency exchange rates. A strong U.S. dollar has a negative impact on our net sales. However, earnings are positively affected by a strong dollar, because almost 50% of net sales of our European operations are denominated in U.S. dollars, while almost all costs of our European operations are incurred in euro. Our Company addresses certain financial exposures through a controlled program of risk management that includes the use of derivative financial instruments. We primarily enter into foreign currency forward exchange contracts to reduce the effects of fluctuating foreign currency exchange rates.

INTER PARFUMS, INC. AND SUBSIDIARIES

Recent Important Events

Coach

In April 2015, the Company, through its majority owned Paris-based subsidiary, Interparfums SA, entered into an 11-year exclusive worldwide license with Coach, Inc. to create, produce and distribute new perfumes and fragrance related products, including new men's and women's scents under the Coach brand name. Interparfums SA will distribute these fragrances globally to department stores, specialty stores and duty free shops, as well as in Coach retail stores beginning in 2016. The agreement is subject to certain minimum sales, advertising expenditures and royalty payments as are customary in our industry.

Rochas

In March 2015, the Company, through its majority owned Paris-based subsidiary, Interparfums SA, entered into an agreement with The Procter & Gamble Company to acquire the Rochas brand. This transaction will cover all brand names and registered trademarks for Rochas (*Femme, Madame, Eau de Rochas*, etc.), mainly for class 3 (cosmetics) and class 25 (fashion). The cost of the acquisition of $108 million is payable in cash on the closing date and is expected to be financed entirely through a medium term loan. This transaction is expected to be completed within the first half of 2015, subject to customary closing conditions.

Abercrombie & Fitch and Hollister

In December 2014, the Company entered into a 7-year exclusive worldwide license to create, produce and distribute new perfumes and fragrance related products under the Abercrombie & Fitch and Hollister brand names. The Company will distribute these fragrances internationally in specialty retailers, high-end department stores and duty free shops, and in the U.S., in duty free shops and potentially in Abercrombie & Fitch and Hollister retail stores. The agreement is subject to certain minimum sales, advertising expenditures and royalty payments as are customary in our industry. New men's and women's scents are planned for both Abercrombie & Fitch and Hollister for 2016.

Discussion of Critical Accounting Policies

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

INTER PARFUMS, INC. AND SUBSIDIARIES

Revenue Recognition

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

Accounts Receivable

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

Sales Returns

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

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 indefinite-lived intangible assets for impairment at least annually during the fourth quarter, or more frequently when events occur or circumstances change, such as an unexpected decline in sales, that would more likely than not indicate that the carrying value of an indefinite-lived intangible asset may not be recoverable. When testing indefinite-lived intangible assets for impairment, the evaluation requires a comparison of the estimated fair value of the asset to the carrying value of the asset. The fair values used in our evaluations are estimated based upon discounted future cash flow projections using a weighted average cost of capital of 6.7%. The cash flow projections are based upon a number of assumptions, including, future sales levels and future cost of goods and operating expense levels, as well as economic conditions, changes to our business model or changes in consumer acceptance of our products which are more subjective in nature. If the carrying value of an indefinite-lived intangible asset exceeds its fair value, an impairment charge is recorded.

We believe that the assumptions we have made in projecting future cash flows for the evaluations described above are reasonable and currently no impairment indicators exist for our indefinite-lived intangible assets. However, if future actual results do not meet our expectations, we may be required to record an impairment charge, the amount of which could be material to our results of operations. The following table presents the impact a change in the following significant assumptions would have had on the calculated fair value in 2014 assuming all other assumptions remained constant:

In millions	Change		Increase (decrease) to fair value	
Weighted average cost of capital	+10	%	$	(1.0	)
Weighted average cost of capital	-10	%	$	1.3	
Future sales levels	+10	%	$	1.0	
Future sales levels	-10	%	$	(1.0	)

INTER PARFUMS, INC. AND SUBSIDIARIES

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

INTER PARFUMS, INC. AND SUBSIDIARIES

Income Taxes

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

Results of Operations

Three Months Ended March 31, 2015 as Compared to the Three Months Ended March 31, 2014

Net Sales	Three months ended March 31,							
(in millions)	2015	% Change		2014	% Change		2013
European based ongoing brand product sales	$86.7	(15	)%	$102.3	20	%	$85.4
United States based product sales	22.5	16	%	19.4	4	%	18.7
Total ongoing brand net sales	109.2	(10	)%	121.7	17	%	104.1
Burberry brand net sales	—0—	n/a		—0—	n/a		109.7
Total net sales	$109.2	(10	)%	$121.7	(43	)%	$213.8

Net sales for the three months ended March 31, 2015 declined 10% to $109.2 million, as compared to $121.7 for the corresponding period of the prior year. At comparable foreign currency exchange rates, net sales decreased 3%.

European based prestige product sales decreased 15% to $86.7 million for the three months ended March 31, 2015, as compared to $102.3 million for the corresponding period of the prior year. At comparable foreign currency exchange rates, European based prestige product sales decreased 6% due in large part to the difficult comparison for the Karl Lagerfeld brand. The 2014 launch of Karl Lagerfeld's signature scents for both men and women yielded more than $13 million in sales in 2014, as compared to $2.5 million in 2015. The nearly 20% depreciation of the euro against the U.S. dollar masked several of the gains in comparable quarter sales volume. Montblanc fragrance sales increased 19% in local currency, as compared to a 2% decline in dollars with Montblanc *Legend* and *Emblem* as the two main sales drivers. Jimmy Choo fragrances also performed exceptionally well with sales up 52% in local currency but up only 25% in dollars reflecting the continued momentum of the Jimmy Choo *Man* scent launched late last year and the recent launch of Jimmy Choo *Blossom*. Our third largest brand, Lanvin, had a modest 3% decline in sales in local currency.

Despite the severe and anticipated continuing change in currency exchange rates, we maintain confidence in our future as we have strengthened advertising and promotional investments supporting all portfolio brands and accelerated brand development. Our expectations reflect plans to continue to build upon the strength of our brands and our worldwide distribution network. For the remainder of 2015, we expect strong performances from the existing scents within our major European based prestige brands. In addition, our plans call for a number of new product launches including new scents for Montblanc, Boucheron, Lanvin, Balmain and Van Cleef & Arpels.

INTER PARFUMS, INC. AND SUBSIDIARIES

United States based prestige product sales increased 16% to $22.5 million for the three months ended March 31, 2015, as compared to $19.4 million for the corresponding period of the prior year. This increase reflects two first quarter 2015 new product launches, *Extraordinary* by Oscar de la Renta and *Icon* by Dunhill. Both of these launches have exceeded our expectations, Oscar de la Renta brand sales increased 262% to $4.5 million for the three months ended March 31, 2015, as compared to $1.2 million for the corresponding period of the prior year. Dunhill brand sales increased 72% in the period to $5.7 million, as compared to $3.3 million for the corresponding period of the prior year. The Asian market continues to be a challenge and with no new product launches, Anna Sui brand sales was $2.3 million for the period, as compared to $4.6 million for the corresponding period of the prior year.

Net Sales to Customers by Region

(in millions)

	Three months ended March 31,	
	2015	2014
North America	$ 30.8	$ 31.0
Western Europe	24.5	33.3
Eastern Europe	6.4	9.0
Central and South America	12.1	12.2
Middle East	12.7	12.9
Asia	20.1	20.7
Other	2.6	2.6
	$ 109.2	$ 121.7

For the three months ended March 31, 2015, the sales decreases in Eastern and Western Europe primarily reflect the decline in Karl Lagerfeld brand sales.

Gross margin	**Three months ended March 31,**	
(in millions)	2015	2014
Net sales	$ 109.2	$ 121.7
Cost of sales	41.6	52.5
Gross margin	$ 67.6	$ 69.2
Gross margin as a % of net sales	61.9 %	56.9 %

Gross margin was 61.9% of net sales for the three months ended March 31, 2015, as compared to 56.9% for the corresponding period of the prior year. For European operations, gross profit margin was 64.7% and 59.6% in 2015 and 2014, respectively. The margin fluctuation for European operations is directly related to currency fluctuation. We carefully monitor movements in foreign currency exchange rates as almost 50% of our European based operations net sales are denominated in U.S. dollars, while most of our costs are incurred in euro. From a margin standpoint, a strong U.S. dollar has a positive effect on our gross margin while a weak U.S. dollar has a negative effect. The average dollar/euro exchange rate for the three months ended March 31, 2015 was 1.13, as compared to 1.37 for the 2014 period.

INTER PARFUMS, INC. AND SUBSIDIARIES

For U.S. operations, gross profit margin was 51.1% and 42.5% in 2015 and 2014, respectively. The increase is primarily the result of a shift in product mix during the period as sales growth for our U.S. operations has primarily come from our newest, higher margin prestige product licenses, such as Oscar de la Renta and Dunhill, while sales of lower margin specialty retail and mass market products have been in a decline. This trend is expected to continue throughout 2015.

Generally, we do not bill customers for shipping and handling costs and such costs, which aggregated $1.1 million and $1.2 million for the three months ended March 31, 2015 and 2014, respectively, 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 March 31,	
	2015	2014
Selling, general and administrative expenses	$ 46.5	$ 51.8
Selling, general and administrative expenses as a % of net sales	43 %	43 %

Selling, general and administrative expenses decreased 10% for the three months ended March 31, 2015, as compared to the corresponding period of the prior year. As a percentage of sales, selling, general and administrative expenses were 43% for both the three months ended March 31, 2015 and 2014. For European operations, selling, general and administrative expenses decreased 15% in 2015, as compared to 2014 and represented 43% of sales in both 2015 and 2014. For U.S. operations, while sales increased 16% for the three months ended March 31, 2015, as compared to the corresponding period of the prior year, selling, general and administrative expenses also increased 16% for the same period and also represented 43% of sales in 2015 and 2014.

Promotion and advertising included in selling, general and administrative expenses aggregated approximately $12.6 million (11.5% of net sales) and $14.5 million (11.9% of net sales) for the three months ended March 31, 2015 and 2014, respectively. As a percentage of sales, promotion and advertising expenditures was practically the same for both periods.

Royalty expense included in selling, general and administrative expenses aggregated $8.6 million (7.8% of net sales) and $7.8 million (6.4% of net sales), for the three month periods ended March 31, 2015 and 2014, respectively. In the 2015 period, an additional $0.6 million has been accrued in an effort to settle our royalty liability with Burberry.

Negotiations with Burberry are ongoing and the Company does not anticipate any further increases to the royalty liability. The remaining increase is the result of increased sales of licensed brand product combined with lower sales of Lanvin brand product for which no royalties are due. Service fees paid to third parties relating to the activities of our distribution subsidiaries, aggregated $2.5 million (2.3% of net sales) and $3.3 million (2.7% of net sales), for the three month periods ended March 31, 2015 and 2014, respectively.

As a result of the above analysis regarding margins and selling, general and administrative expenses, income from operations increased 21% to $21.1 million for the three months ended March 31, 2015, as compared to $17.4 million for the corresponding period of the prior year. Operating margins were 19.3% of net sales in the current period as compared to 14.3% for the corresponding period of the prior year.

INTER PARFUMS, INC. AND SUBSIDIARIES

Other Income and Expense

Interest expense aggregated $0.2 million and $0.3 million for the three months ended March 31, 2015 and 2014, respectively. We use the credit lines available to us, as needed, to finance our working capital needs as well as our financing needs for brand acquisitions.

Foreign currency gains and (losses) aggregated $(2.0) million and $0.1 million for the three months ended March 31, 2015 and 2014, respectively. The recent volatility in currency exchange rates has not been seen in many years. The loss incurred for the three months ended March 31, 2015, primarily represents losses from intercompany accounts between our majority owned subsidiary, Interparfums SA, and its other foreign subsidiaries, which were not hedged by the use of foreign currency forward exchange contracts. We typically enter into foreign currency forward exchange contracts to manage exposure related to receivables from unaffiliated third parties denominated in a foreign currency and occasionally to manage risks related to future sales expected to be denominated in a foreign currency. Almost 50% of net sales of our European operations are denominated in U.S. dollars.

Income Taxes

Our effective income tax rate was 34% for both the three months ended March 31, 2015 and 2014. Our effective tax rates differ from statutory rates due to the effect of state and local taxes and tax rates in foreign jurisdictions. We did not experience any significant changes in tax rates during the period, and none were expected in jurisdictions where we operate.

Net Income and Earnings per Share

(in thousands except per share data)	Three months ended March 31,	
	2015	2014
Net income attributable to European operations	$ 12,197	$ 12,217
Net income (loss) attributable to United States operations	1,108	(67)
Net Income	13,305	12,150

Less: Net income attributable to the noncontrolling interest	3,298	3,256
Net income attributable to Inter Parfums, Inc.	$ 10,007	$ 8,894
Net income attributable to Inter Parfums, Inc. common shareholders:		
Basic	$ 0.32	$ 0.29
Diluted	$ 0.32	$ 0.29
Weighted average number of shares outstanding:		
Basic	30,979	30,900
Diluted	31,072	31,058

INTER PARFUMS, INC. AND SUBSIDIARIES

Net income increased 9.5% to $13.3 million for the three months ended March 31, 2015, as compared to $12.2 million for the corresponding period of the prior year. The reasons for significant fluctuations in net income for both European operations and United States operations are directly related to the previous discussions relating to changes in sales, gross margin and selling, general and administrative expenses. As previously discussed, our European operations reported net sales are affected by changes in foreign currency exchange rates, as a strong U.S. dollar has a negative impact on reported net sales. However, earnings are positively affected by a strong U.S. dollar, because almost 50% of net sales of our European operations are denominated in U.S. dollars, while almost all costs of our European operations are incurred in euro. For United States operations, as both sales and selling, general and administrative expenses increased 16%, the increase in net income is primarily the result of the 39% increase in gross margin.

The noncontrolling interest arises from our 73% owned subsidiary in Paris, Interparfums SA, which is also a publicly traded company as 27% of Interparfums SA shares trade on the NYSE Euronext. Net income attributable to the noncontrolling interest is directly related to the profitability of our European operations, and aggregated 27% of European operations net income in both 2015 and 2014. Net income attributable to Inter Parfums, Inc. increased 12.5% to $10.0 million in 2015, as compared to $8.9 million in 2014. Net margins attributable to Inter Parfums, Inc. aggregated 9.2% and 7.3% in the first quarters of 2015 and 2014, respectively.

Liquidity and Capital Resources

The Company’s financial position remains strong. At March 31, 2015, working capital aggregated $356 million and we had a working capital ratio of almost 4.5 to 1. Cash and cash equivalents and short-term investments aggregated $243 million, most of which is held in euro by our European operations and is readily convertible into U.S. dollars. We have not had any liquidity issues to date, and do not expect any liquidity issues relating to such cash and cash equivalents and short-term investments held by our European operations. Approximately 88% of the Company’s total assets are held by European operations. In addition to the cash and cash equivalents and short-term investments referred to above, approximately $76 million of trademarks, licenses and other intangible assets are held by European operations.

In March 2015, the Company, through its majority owned Paris-based subsidiary, Interparfums SA, entered into an agreement with The Procter & Gamble Company to acquire the Rochas brand. This transaction will cover all brand names and registered trademarks for class 3 (cosmetics) and class 25 (fashion). The cost of the acquisition of $108 million is payable in cash on the closing date and is expected to be financed entirely through a medium term loan. As the payment at closing is due in dollars and we plan to finance it with debt in euro, the Company entered into foreign currency exchange contracts to secure the exchange rate of the $108 million purchase price at $1.067 per 1 euro. This transaction is expected to be completed within the first half of 2015.

The Company hopes to benefit from its substantial resources to potentially acquire additional brands, either on a proprietary basis or as a licensee. Opportunities for external growth continue to be examined without urgency, with the priority of maintaining the quality and homogeneous nature of our portfolio. However, we cannot assure you that any new license or acquisition agreements will be consummated.

INTER PARFUMS, INC. AND SUBSIDIARIES

Cash used in operating activities aggregated $1.3 million and $27.3 million for the three months ended March 31, 2015 and 2014, respectively. For the three months ended March 31, 2015, working capital items used $16.6 million in cash from operating activities, as compared to $42.6 million in the 2014 period. Although accounts receivable is up 18%, the balance is reasonable based on first quarter 2015 sales levels and reflects continued strong collection activity as day's sales outstanding is 79 days, as compared to the 74 days for the corresponding period of the prior year. Inventory levels are up approximately 11% from year end and reflect levels needed to support upcoming launches. The decline in accrued expenses primarily reflects the payments of advertising liabilities from 2014.

Cash flows used in investing activities in 2015 reflect the purchase and sales, in our European operations, of short-term investments. These investments are primarily certificates of deposit with maturities greater than three months. Approximately $85 million of such certificates of deposit contain penalties where we would forfeit a portion of the interest earned in the event of early withdrawal.

Our business is not capital intensive as we do not own any manufacturing facilities. However, on a full year basis, we spend approximately $3.0 million to $4.0 million on tools and molds, depending on our new product development calendar. Capital expenditures also include amounts for office fixtures, computer equipment and industrial equipment needed at our distribution centers.

Our short-term financing requirements are expected to be met by available cash on hand at March 31, 2015, cash generated by operations and short-term credit lines provided by domestic and foreign banks. The principal credit facilities for 2015 consist of a $20.0 million unsecured revolving line of credit provided by a domestic commercial bank and approximately $30.0 million in credit lines provided by a consortium of international financial institutions.

In January 2015, the Board of Directors authorized an 8% increase in the annual dividend to $0.52 per share. The next quarterly cash dividend of $0.13 per share is payable on July 15, 2015 to shareholders of record on June 29, 2015. The annual cash dividend for 2015 represents a small part of our cash position and is not expected to have any significant impact on our financial position.

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

Inflation rates in the U.S. and foreign countries in which we operate did not have a significant impact on operating results for the three month period ended March 31, 2015.

INTER PARFUMS, INC. AND SUBSIDIARIES

Item 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General

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

Foreign Exchange Risk Management

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

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

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

At March 31, 2015, we had foreign currency contracts in the form of forward exchange contracts in the amount of approximately U.S. $126.7 million, GB pounds £2.2 million and JPY ¥220.7 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.

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. In 2015, the Company has implemented *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Part II. Other Information

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

In March 2015, one of our non-employee directors exercised stock options granted under out Non-Employee Director Stock Option Plan to purchase an aggregate of 875 shares of restricted common stock. The director agreed to purchase the shares for investment and not for resale to the public. Such transaction was exempt from the registration requirements of Section 5 of the Securities Act under Sections 4(2) and 4(6) of the Securities Act.

Items 1. Legal Proceedings, 1a. Risk Factors, 3. Defaults Upon Senior Securities, 4. Mine Safety Disclosures and 5. Other Information, are omitted as they are either not applicable or have been included in Part I.

INTER PARFUMS, INC. AND SUBSIDIARIES

Item 6. Exhibits.

The following documents are filed herewith:

Exhibit No.	Description	Page Number
2.1	Asset Purchase Agreement dated March 18, 2015 among The Procter & Gamble Company and two of its subsidiaries, Parfums Rochas SAS and Procter & Gamble International Operations SA, and Interparfums SA*	31
31.1	Certifications required by Rule 13a-14(a) of Chief Executive Officer	112
31.2	Certifications required by Rule 13a-14(a) of Chief Financial Officer	113
32.1	Certification required by Section 906 of the Sarbanes-Oxley Act of Chief Executive Officer	114
32.2	Certification required by Section 906 of the Sarbanes-Oxley Act of Chief Financial Officer	115
101	Interactive data files	

*Schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule will be furnished supplementally to the Securities and Exchange Commission upon request; provided, however that the Company may request confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934 for any schedule or exhibit so furnished.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on the 11th day of May 2015.

INTER PARFUMS, INC.

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