INTER PARFUMS INC
Form 10-Q
August 07, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2018.

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 No

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

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

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

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

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

At August 7, 2018, there were 31,320,593 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, 2017 included in our annual report filed on Form 10-K.

The results of operations for the six months ended June 30, 2018 are not necessarily indicative of the results to be expected for the entire fiscal year.

INTER PARFUMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands except share and per share data)

(Unaudited)

ASSETS

	June 30, 2018	December 31, 2017
Current assets:		
Cash and cash equivalents	$145,318	$208,343
Short-term investments	77,562	69,899
Accounts receivable, net	140,026	120,749
Inventories	169,323	137,058
Receivables, other	2,424	2,405
Other current assets	7,797	7,356
Income taxes receivable	677	3,468
Total current assets	543,127	549,278
Equipment and leasehold improvements, net	10,117	10,330
Trademarks, licenses and other intangible assets, net	210,677	200,495
Deferred tax assets	10,851	9,658
Other assets	7,720	8,011
Total assets	$782,492	$777,772

LIABILITIES AND EQUITY

Current liabilities:		
Current portion of long-term debt	$23,610	$24,372
Accounts payable – trade	66,047	52,609
Accrued expenses	69,185	81,843
Income taxes payable	6,055	1,722
Dividends payable	6,577	6,561
Total current liabilities	171,474	167,107
Long–term debt, less current portion	34,501	36,207
Deferred tax liability	3,706	3,821

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 31,318,273 and 31,241,548 shares at June 30, 2018 and December 31, 2017, respectively	31	31
Additional paid-in capital	67,934	66,004
Retained earnings	436,605	422,570
Accumulated other comprehensive loss	(28,146)	(17,832)
Treasury stock, at cost, 9,864,805 shares at June 30, 2018 and December 31, 2017	(37,475)	(37,475)
Total Inter Parfums, Inc. shareholders' equity	438,949	433,298
Noncontrolling interest	133,862	137,339
Total equity	572,811	570,637
Total liabilities and equity	$782,492	$777,772

See notes to consolidated financial statements.

INTER PARFUMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In thousands except per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net sales	$149,367	$129,136	$321,133	$272,194
Cost of sales	53,713	45,193	119,851	98,181
Gross margin	95,654	83,943	201,282	174,013
Selling, general and administrative expenses	76,885	69,468	152,117	133,367
Income from operations	18,769	14,475	49,165	40,646
Other expenses (income):				
Interest expense	568	727	1,030	999
(Gain) loss on foreign currency	(1,500)	817	(1,295)	973
Interest income	(729)	(900)	(2,474)	(2,173)
	(1,661)	644	(2,739)	(201)
Income before income taxes	20,430	13,831	51,904	40,847
Income taxes	6,171	4,620	15,783	13,469
Net income	14,259	9,211	36,121	27,378
Less: Net income attributable to the noncontrolling interest	3,360	2,467	9,313	7,261
Net income attributable to Inter Parfums, Inc.	$10,899	$6,744	$26,808	$20,117
Earnings per share:				
Net income attributable to Inter Parfums, Inc. common shareholders:				
Basic	$0.35	$0.22	$0.86	$0.65

Diluted	$0.35	$0.22	$0.85	$0.64
Weighted average number of shares outstanding:				
Basic	31,299	31,169	31,283	31,157
Diluted	31,490	31,281	31,459	31,268
Dividends declared per share	$0.21	$0.17	$0.42	$0.34

See notes to consolidated financial statements.

INTER PARFUMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands except per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Comprehensive income (loss):				
Net income	$14,259	$9,211	$36,121	$27,378
Other comprehensive income (loss):				
Net derivative instrument gain, net of tax	20	279	(43)	621
Transfer from OCI into earnings	59	—	21	22
Translation adjustments, net of tax	(27,566)	27,529	(14,323)	33,572
Comprehensive income (loss)	(13,228)	37,019	21,776	61,593
Comprehensive income (loss) attributable to the noncontrolling interests:				
Net income	3,360	2,467	9,313	7,261
Other comprehensive income (loss):				
Net derivative instrument gain, net of tax	20	72	(6)	168
Transfer from OCI into earnings	8	—	—	5
Translation adjustments, net of tax	(7,795)	8,003	(4,025)	9,466
Comprehensive income (loss) attributable to the noncontrolling interests	(4,407)	10,542	5,282	16,900
Comprehensive income (loss) attributable to Inter Parfums, Inc.	$(8,821)	$26,477	$16,494	$44,693

See notes to consolidated financial statements.

INTER PARFUMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In thousands)

(Unaudited)

	Six months ended June 30, 2018	2017
Common stock, beginning and end of period	$31	$31
Additional paid-in capital, beginning of period	66,004	63,103
Shares issued upon exercise of stock options	1,938	625
Share based compensation	564	468
Purchase of subsidiary shares from noncontrolling interest	(572)	—
Additional paid-in capital, end of period	67,934	64,196
Retained earnings, beginning of period	422,570	402,714
Net income	26,808	20,117
Dividends	(13,146)	(10,598)
Share based compensation	373	347
Retained earnings, end of period	436,605	412,580
Accumulated other comprehensive loss, beginning of period	(17,832)	(57,982)
Foreign currency translation adjustment, net of tax	(10,298)	24,106
Transfer from other comprehensive income into earnings	21	17
Net derivative instrument gain (loss), net of tax	(37)	453
Accumulated other comprehensive loss, end of period	(28,146)	(33,406)
Treasury stock, beginning and end of period	(37,475)	(37,475)
Noncontrolling interest, beginning of period	137,339	113,267
Net income	9,313	7,261
Foreign currency translation adjustment, net of tax	(4,025)	9,466
Transfer from other comprehensive income into earnings	—	5
Net derivative instrument gain (loss), net of tax	(6)	168
Share based compensation	183	254
Purchase of subsidiary shares from noncontrolling interest	(236)	—
Dividends	(8,706)	(5,947)
Noncontrolling interest, end of period	133,862	124,474

Total equity	$572,811	$530,400

See notes to consolidated financial statements.

INTER PARFUMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six months ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net income	$36,121	$27,378
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	5,510	4,683
Provision for doubtful accounts	215	248
Share based compensation	1,082	1,022
Deferred tax provision (benefit)	(1,504)	609
Change in fair value of derivatives	(134)	(3,357)
Changes in:		
Accounts receivable	(23,928)	(7,103)
Inventories	(36,044)	(32,591)
Other assets	(1,082)	734
Accounts payable and accrued expenses	6,310	(1,925)
Income taxes, net	7,401	(396)
Net cash used in operating activities	(6,053)	(10,698)
Cash flows from investing activities:		
Purchases of short-term investments	(10,000)	(25,018)
Proceeds from sale of short-term investments	—	4,328
Purchases of equipment and leasehold improvements	(2,079)	(1,419)
Payment for intangible assets acquired	(8,041)	(402)
Proceeds from sale of trademark	—	5,886
Net cash used in investing activities	(20,120)	(16,625)
Cash flows from financing activities:		
Repayments of long-term debt	(12,120)	(10,679)
Proceeds from exercise of stock options	1,938	625
Purchase of subsidiary shares from noncontrolling interest	(808)	—
Dividends paid	(13,130)	(10,592)
Dividends paid to noncontrolling interest	(8,706)	(5,947)

Net cash (used in) financing activities	(32,826)	(26,593)
Effect of exchange rate changes on cash	(4,026)	8,860
Net decrease in cash and cash equivalents	(63,025)	(45,056)
Cash and cash equivalents - beginning of period	208,343	161,828
Cash and cash equivalents - end of period	$145,318	$116,772
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	$853	$896
Income taxes	12,451	10,905

See notes to consolidated financial statements.

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

1. Significant Accounting Policies:

The accounting policies we follow are set forth in the notes to our financial statements included in our Form 10-K, which was filed with the Securities and Exchange Commission for the year ended December 31, 2017. We also discuss such policies in Part I, Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations, included in this Form 10-Q.

2. Recent Accounting Pronouncements:

In August 2017, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standards Update (“ASU”) to improve accounting for hedging activities. The objective of the ASU is to improve the financial reporting of hedging relationships in order to better portray the economic results of an entity’s risk management activities in its financial statements and to make certain targeted improvements to simplify the application of hedge accounting guidance. This ASU is effective for annual and interim periods beginning after December 15, 2018 and early adoption is permitted. We are currently evaluating the standard to determine the impact of its adoption on our consolidated financial statements.

In February 2016, the FASB issued an ASU which requires lessees to recognize lease assets and lease liabilities arising from operating leases on the balance sheet. This ASU is effective for annual and interim reporting periods beginning after December 15, 2018. The Company anticipates the adoption of this new standard to result in a significant increase in lease-related assets and liabilities on our consolidated balance sheets and will require enhanced disclosures about the Company’s leasing arrangements. The impact on the Company’s consolidated statements of income is being evaluated. As the impact of this standard is non-cash in nature, we do not anticipate its adoption having an impact on the Company’s consolidated statement of cash flows.

In May 2014, the FASB issued an ASU which superseded the most current revenue recognition requirements. This 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. The new standard also includes enhanced disclosure requirements. This guidance is effective for annual and interim reporting periods beginning after December 15, 2017, with early adoption permitted for annual periods after December 31, 2016. We have adopted the standard as of December 31, 2017 and determined that other than a modification of our revenue recognition policy, there has been no material impact 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>Inventories:</u>

Inventories consist of the following:

(In thousands)	June 30, 2018	December 31, 2017
Raw materials and component parts	$69,077	$46,884
Finished goods	100,246	90,174
	$169,323	$137,058

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

4. <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.

		Fair Value Measurements at June 30, 2018		
	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	$77,562	$—	$ 77,562	$ —
Foreign currency forward exchange contracts not accounted for using hedge accounting	225		225	
	$77,787	$—	$ 77,787	$ —
Liabilities:				
Foreign currency forward exchange contracts accounted for using hedge accounting	$28	$—	$ 28	$ —
Interest rate swap	358	—	358	—
	$386	$—	$ 386	$ —

		Fair Value Measurements at December 31, 2017		
	Total	Quoted Prices in	Significant Other Observable	Significant Unobservable Inputs

		Active Markets for Identical Assets (Level 1)	Inputs (Level 2)	(Level 3)
Assets:				
Short-term investments	$69,899	$—	$ 69,899	$ —
Foreign currency forward exchange contracts accounted for using hedge accounting	26		26	
Foreign currency forward exchange contracts not accounted for using hedge accounting	119	—	119	—
	$70,044	$—	$ 70,044	$ —
Liabilities:				
Interest rate swap	$529	$—	$ 529	$ —

The carrying amount of cash and cash equivalents including money market funds, accounts receivable, other receivables, and 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. The fair value of the Company’s long-term debt was estimated based on the current rates offered to companies for debt with the same remaining maturities and is approximately equal to its carrying value.

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Foreign currency forward exchange contracts are valued based on quotations from financial institutions and the value of interest rate swaps are the discounted net present value of the swaps using third party quotes obtained from financial institutions.

5. <u>Derivative Financial Instruments:</u>

The Company enters into foreign currency forward exchange contracts to hedge exposure related to receivables denominated in a foreign currency and occasionally to manage risks related to future sales expected to be denominated in a foreign currency. Before entering into a derivative transaction for hedging purposes, it is determined that a high degree of initial effectiveness exists between the change in value of the hedged item and the change in the value of the derivative instrument from movement in exchange rates. High effectiveness means that the change in the cash flows of the derivative instrument will effectively offset the change in the cash flows of the hedged item. The effectiveness of each hedged item is measured throughout the hedged period and is based on the dollar offset methodology and excludes the portion of the fair value of the foreign currency forward exchange contract attributable to the change in spot-forward difference which is reported in current period earnings. Any hedge ineffectiveness is also recognized as a gain or loss on foreign currency in the income statement. For hedge contracts that are no longer deemed highly effective, hedge accounting is discontinued and gains and losses accumulated in other comprehensive income are reclassified to earnings. If it is probable that the forecasted transaction will no longer occur, then any gains or losses accumulated in other comprehensive income are reclassified to current-period earnings.

In connection with the May 2015 Rochas brand acquisition, $108 million of the purchase price was paid in cash on the closing date and was financed entirely through a 5-year term loan. As the payment at closing was due in dollars and we had planned to finance it with debt in euro, the Company entered into foreign currency forward contracts to secure the exchange rate for the $108 million purchase price at $1.067 per 1 euro. This derivative was designated and qualified as a cash flow hedge.

Gains and losses in derivatives designated as hedges are accumulated in other comprehensive income (loss) and gains and losses in derivatives not designated as hedges are included in (gain) loss on foreign currency on the accompanying income statements. Such gains and losses were immaterial for both six month periods ended June 30, 2018 and 2017. For the six months ended June 30, 2018 and 2017, interest expense includes a gain of $0.2 million and $0.3 million, respectively, relating to the interest rate swap.

All derivative instruments are reported as either assets or liabilities on the balance sheet measured at fair value. The valuation of interest rate swaps resulted in a liability which is included in long-term debt on the accompanying balance sheets. The valuation of foreign currency forward exchange contracts at June 30, 2018, resulted in an asset and is included in other current assets on the accompanying balance sheet.

At June 30, 2018, we had foreign currency contracts in the form of forward exchange contracts in the amount of approximately U.S. $29.0 million, GB £6.6 million and JPY ¥100.0 million which all have maturities of less than one year.

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

6. Share Based Payments:

The Company maintains stock option programs 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 for the six months ended June 30, 2018 and 2017 aggregated $0.04 million and $0.05 million, respectively. Compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. It is generally our policy to issue new shares upon exercise of stock options. The following table sets forth information with respect to nonvested options for the six month period ended June 30, 2018:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested options – beginning of period	431,235	$ 8.22
Nonvested options granted	14,000	$ 10.73
Nonvested options vested or forfeited	(13,045)	$ 7.87
Nonvested options – end of period	432,190	$ 8.32

Share based payment expense decreased income before income taxes by $0.57 million and $1.08 million for the three and six months ended June 30, 2018, respectively, as compared to $0.51 million and $1.02 million for the corresponding periods of the prior year. Share based payment expense decreased income attributable to Inter Parfums, Inc. by $0.36 million and $0.68 million for the three and six months ended June 30, 2018, respectively, as compared to $0.28 million and $0.56 million for the corresponding periods of the prior year.

The following table summarizes stock option information as of June 30, 2018:

	Shares	Weighted Average Exercise

		Price
Outstanding at January 1, 2018	730,980	$ 31.92
Options granted	14,000	46.44
Options forfeited	(7,140)	37.37
Options exercised	(76,725)	25.26
Outstanding at June 30, 2018	661,115	$ 32.95
Options exercisable	228,925	$ 28.19
Options available for future grants	923,125	

As of June 30, 2018, the weighted average remaining contractual life of options outstanding is 3.61 years (2.21 years for options exercisable), the aggregate intrinsic value of options outstanding and options exercisable is $13.6 million and $5.8 million, respectively, and unrecognized compensation cost related to stock options outstanding aggregated $3.0 million.

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Cash proceeds, tax benefits and intrinsic value related to stock options exercised during the six months ended June 30, 2018 and June 30, 2017 were as follows:

(In thousands)	June 30, 2018	June 30, 2017
Cash proceeds from stock options exercised	$1,938	$625
Tax benefits	157	135
Intrinsic value of stock options exercised	1,775	600

The weighted average fair values of the options granted by Inter Parfums, Inc. during the six months ended June 30, 2018 and 2017 were $10.73 and $7.67 per share, respectively, on the date of grant using the Black-Scholes option pricing model to calculate the fair value of options granted.

The assumptions used in the Black-Scholes pricing model for the periods ended June 30, 2018 and 2017 are set forth in the following table:

	June 30, 2018		June 30, 2017	
Weighted average expected stock-price volatility	28	%	29	%
Weighted average expected option life	5 years		5 years	
Weighted average risk-free interest rate	2.5	%	2.0	%
Weighted average dividend yield	2.0	%	2.1	%

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

In September 2016, Interparfums SA, our 73% owned subsidiary in Paris, approved a plan to grant an aggregate of 15,100 shares of its stock to employees with no performance condition requirement, and an aggregate of 133,000 shares to officers and managers, subject to certain corporate performance conditions. The shares will be distributed in September 2019 so long as the individual is employed by Interparfums SA at the time, and in the case of officers and managers, only to the extent that the performance conditions have been met. Once distributed, the shares will be unrestricted and the employees will be permitted to trade their shares.

The fair value of the grant of €18.56 per share (approximately $22.00 per share) has been determined based on the quoted share price of Interparfums SA shares as reported by the NYSE Euronext on the date of grant. The estimated number of shares to be distributed of 157,840 has been determined taking into account employee turnover. The aggregate cost of the grant of €2.9 million (approximately $3.4 million) will be recognized as compensation cost by Interparfums SA on a straight-line basis over the requisite three year service period. For the six months ended June 30, 2018, $0.5 million of compensation cost has been recognized in connection with this plan.

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

To avoid dilution of the Company’s ownership of Interparfums SA, all shares to be distributed pursuant to this plan will be pre-existing shares of Interparfums SA, purchased in the open market by Interparfums SA. In 2016, 131,101 shares had been acquired in the open market at an aggregate cost of $2.9 million. During the six months ended June 30, 2018, an additional 18,899 shares were acquired in the open market at an aggregate cost of $0.8 million. All share purchases have been classified as equity transactions on the accompanying balance sheet.

7. 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 income attributable to Inter Parfums, Inc. by the weighted average number of shares outstanding. Net income 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)	Three months ended June 30, 2018	2017	Six months ended June 30, 2018	2017
Numerator:				
Net income attributable to Inter Parfums, Inc.	$10,899	$6,744	$26,808	$20,117
Denominator:				
Weighted average shares	31,299	31,169	31,283	31,157
Effect of dilutive securities:				
Stock options	191	112	176	111
Denominator for diluted earnings per share	31,490	31,281	31,459	31,268
Earnings per share:				
Net income attributable to Inter Parfums, Inc. common shareholders:				
Basic	$0.35	$0.22	$0.86	$0.65

Diluted	0.35	0.22	0.85	0.64

Not included in the above computations is the effect of antidilutive potential common shares which consist of outstanding options to purchase 0.18 million shares of common stock for both the three and six months ended June 30, 2018, as compared to 0.26 million shares of common stock for both the three and six months ended June 30, 2017.

Page 12

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

8. 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. Both European operations and United States operations primarily represent the sale of prestige brand name fragrances. Information on our operations by geographical areas is as follows:

(In thousands)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net sales:				
United States	$34,793	$22,598	$57,652	$46,287
Europe	115,638	106,806	265,152	226,533
Eliminations	(1,064)	(268)	(1,671)	(626)
	$149,367	$129,136	$321,133	$272,194
Net income attributable to Inter Parfums, Inc.:				
United States	$2,208	$594	$2,478	$1,466
Europe	8,691	6,150	24,330	18,651
	$10,899	$6,744	$26,808	$20,117

(In thousands)	June 30, 2018	December 31, 2017
Total Assets:		
United States	$135,731	$92,909
Europe	667,032	694,385
Eliminations of investment in subsidiary	(20,271)	(9,522)
	$782,492	$777,772

9. Other Matters:

GUESS:

In February 2018, the Company entered into an exclusive, 15-year worldwide license agreement with GUESS?, Inc. for the creation, development and distribution of fragrances under the GUESS brand. This license became effective on April 1, 2018, and our rights under such license agreement are subject to certain minimum advertising expenditures and royalty payments as are customary in our industry.

Graff:

In April 2018, the Company entered into an exclusive, 8-year worldwide license agreement with London-based Graff for the creation, development and distribution of fragrances under the Graff brand. Our rights under such license agreement are subject to certain advertising expenditures and royalty payments as are customary in our industry.

Van Cleef & Arpels:

In May 2018, the Company renewed its license agreement for an additional six years with Van Cleef & Arpels for creation, development, and distribution of fragrance products through December 2024, without any material changes in terms and conditions. Our initial 12-year license agreement with Van Cleef & Arpels was signed in 2006.

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,” “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, 2017 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 fragrance products primarily under license agreements with brand owners, and European based fragrance product sales represented approximately 83% of net sales for both the six months ended June 30, 2018 and 2017. We have built a portfolio of prestige brands, which include *Boucheron, Coach, Jimmy Choo, Karl Lagerfeld, Lanvin, Montblanc, Paul Smith, S.T. Dupont, Repetto, Rochas* and *Van Cleef & Arpels*, whose products are distributed in over 100 countries around the world.

Through our United States operations, we also market fragrance and fragrance related products. United States operations represented 17% of net sales for both the six months ended June 30, 2018 and 2017. These fragrance products are sold or to be sold primarily pursuant to license or other agreements with the owners of the *Abercrombie & Fitch, Agent Provocateur, Anna Sui, bebe, Dunhill, French Connection, Graff, GUESS, Hollister* and *Oscar de la Renta* brands.

INTER PARFUMS, INC. AND SUBSIDIARIES

Substantially all of our prestige fragrance brands are licensed from unaffiliated third parties, and our business is dependent upon the continuation and renewal of such licenses. With respect to the Company's largest brands, we own the Lanvin brand name for our class of trade, and license the Montblanc, Jimmy Choo and Coach brand names. As a percentage of net sales, product sales for the Company's largest brands were as follows:

	Six Months Ended June 30,	
	2018	2017
Montblanc.	21.6%	22.7%
Jimmy Choo.	16.1%	21.7%
Coach.	14.1%	6.3 %
Lanvin.	11.2%	12.1%

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 is more evident. We sell directly to retailers in France as well as through our own distribution subsidiaries in Italy, Spain and the United States.

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 by supporting new and established products through advertising, merchandising and sampling as well as phasing out underperforming products so we can devote greater resources to those products with greater potential. 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.

In years prior to 2017, the economic and political uncertainty and financial market volatility in Eastern Europe, the Middle East and China had a minor negative impact on our business, but our sales in these regions have been improving and we do not anticipate dramatic changes in business conditions 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 accordingly, our business. We believe general economic and other uncertainties still exist in select markets in which we do business, and we monitor these 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 over 45% 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. Conversely, a weak U.S. dollar has a favorable impact on our net sales while gross margins are negatively affected. 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. We are also carefully monitoring currency trends in the United Kingdom as a result of the volatility created from the United Kingdom's decision to exit the European Union. We have evaluated our pricing models and we do not expect any significant pricing changes. However, if the devaluation of the British pound worsens, it may affect future gross profit margins from sales in that territory.

INTER PARFUMS, INC. AND SUBSIDIARIES

Recent Important Events

GUESS:

In February 2018, the Company entered into an exclusive, 15-year worldwide license agreement with GUESS?, Inc. for the creation, development and distribution of fragrances under the GUESS brand. This license became effective on April 1, 2018, and our rights under such license agreement are subject to certain minimum advertising expenditures and royalty payments as are customary in our industry.

Graff:

In April 2018, the Company entered into an exclusive, 8-year worldwide license agreement with London-based Graff for the creation, development and distribution of fragrances under the Graff brand. Our rights under such license agreement are subject to certain advertising expenditures and royalty payments as are customary in our industry.

Van Cleef & Arpels:

In May 2018, the Company renewed its license agreement for an additional six years with Van Cleef & Arpels for creation, development, and distribution of fragrance products through December 2024, without any material changes in terms and conditions. Our initial 12-year license agreement with Van Cleef & Arpels was signed in 2006.

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 stores, and domestic and international wholesalers and distributors. Our revenue contracts represent single performance obligations to sell our products to customers. 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 contract terms are met, the price is fixed and determinable, collectability is reasonably assured and product is shipped or risk of ownership has been transferred to and accepted by 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 as is customary in the industry. 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 and net realizable 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 results 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 6.22%. 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. 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.

At December 31, 2017 indefinite-lived intangible assets aggregated $129.0 million. The following table presents the impact a change in the following significant assumptions would have had on the calculated fair value in 2017 assuming all other assumptions remained constant:

$ in millions	Change	Increase (decrease) to fair value

Weighted average cost of capital	+10 %	$ (24.4)
Weighted average cost of capital	-10 %	$ 30.7
Future sales levels	+10 %	$ 22.3
Future sales levels	-10 %	$ (22.3)

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. In those cases where we determine that the useful life of long-lived assets should be shortened, we would amortize 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. We believe that the assumptions we have made in projecting future cash flows for the evaluations described above are reasonable.

INTER PARFUMS, INC. AND SUBSIDIARIES

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. Accrued interest and penalties are included within the related tax asset or liability in the accompanying financial statements. In addition, the Company follows the provisions of uncertain tax positions as addressed in ASC topic 740.

Results of Operations

Three and Six Months Ended June 30, 2018 as Compared to the Three and Six Months Ended June 30, 2017

Net Sales

(In millions)	**Three months ended June 30,**				**Six months ended June 30,**			
	2018	**2017**	**% Change**		**2018**	**2017**	**% Change**	
	(in millions)							
European based brand product sales	$115.6	$106.8	8.3	%	$265.1	$226.5	17.1	%
United States based product sales	33.8	22.3	50.8	%	56.0	45.7	22.5	%
Total net sales	$149.4	$129.1	15.7	%	$321.1	$272.2	18.0	%

Net sales for the three months ended June 30, 2018 increased 15.7% to $149.4 million, as compared to $129.1 million for the corresponding period of the prior year. At comparable foreign currency exchange rates, net sales increased

12.3%. Net sales for the six months ended June 30, 2018 increased 18.0% to $321.1 million, as compared to $272.2 million for the corresponding period of the prior year. At comparable foreign currency exchange rates, net sales increased 12.8% for the period.

European based product sales increased 8.3% and 17.1% for the three and six months ended June 30, 2018, respectively, as compared to the corresponding periods of the prior year. Top line growth in 2018, is primarily attributed to strong sales of established scents and brand extensions by several of our largest brands. Montblanc generated sales of $27.3 million and $69.2 million for the three and six months ended June 30, 2018, respectively. After turning in a 33% increase in the first quarter of 2018, second quarter sales declined 10% but are ahead nearly 12% for the first half, with continuing growth supported by the brand's *Legend* line's. Jimmy Choo generated sales of $27.4 million and $51.7 million for the three and six months ended June 30, 2018, respectively. After a 28% decline in the first quarter of 2018, due to a very difficult comparison with the first quarter of 2017, comparable quarter sales increased 8% in the second quarter of 2018 and are down only 12% for the first half. Continued improvement in Jimmy Choo brand sales is anticipated as the year unfolds with the roll-out of *Jimmy Choo Man Blue* and *Jimmy Choo Fever*. Coach fragrances have achieved remarkable growth with brand sales up 99% and 166% for the three and six months ended June 30, 2018, respectively, as compared to the corresponding periods of the prior year. Coach brand sales are driven both by the continuing success of the men's signature fragrance line launched at the end of 2017, and the 2018 debut of the women's line, *Coach Floral*.

INTER PARFUMS, INC. AND SUBSIDIARIES

United States based product sales increased 50.8% and 22.5% for the three and six months ended June 30, 2018, respectively, as compared to the corresponding periods of the prior year. The inclusion of legacy GUESS fragrances, which began late in the second quarter of 2018, factored into the increase in net sales. Also factoring into the second quarter sales growth was the successful launch of two brand extensions for the Abercrombie & Fitch *First Instinct* fragrance family. Additionally, Anna Sui, Dunhill, and Oscar de la Renta produced significant comparable quarter sales gains. For Anna Sui and Dunhill, we expanded existing collections with flankers, and for Oscar de la Renta, the new *Bella Blanca* scent helped grow brand sales.

Net Sales to Customers by Region	Six months ended June 30,	
(In millions)	2018	2017
North America	$85.7	$72.7
Western Europe	81.0	74.3
Asia	63.4	48.2
Middle East	34.6	28.3
Central and South America	29.9	26.5
Eastern Europe	20.7	16.7
Other	5.8	5.5
	$321.1	$272.2

Virtually all regions registered strong growth for the six months ended June 30, 2018, as compared to the corresponding period of the prior year. Some of the strongest performing regions were the laggards of recent years, namely Eastern Europe, the Middle East and Asia, which increased 24%, 23% and 31%, respectively.

Gross profit margin	Three months ended June 30,		Six months ended June 30,	
(In millions)	2018	2017	2018	2017
Net sales	$149.4	$129.1	$321.1	$272.2
Cost of sales	53.7	45.2	119.8	98.2
Gross margin	$95.7	$83.9	$201.3	$174.0
Gross margin as a percent of net sales	64 %	65 %	63 %	64 %

Gross profit margin was 64% and 63% of net sales for the three and six months ended June 30, 2018, respectively, as compared to 65% and 64% for the corresponding periods of the prior year. For European operations, gross profit margin was 68% and 65% for the three and six months ended June 30, 2018, respectively, as compared to 68% and 67% for the corresponding periods of the prior year.

INTER PARFUMS, INC. AND SUBSIDIARIES

We carefully monitor movements in foreign currency exchange rates as over 45% 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 profit margin while a weak U.S. dollar has a negative effect. The average dollar/euro exchange rates for the three and six months ended June 30, 2018 was 1.19 and 1.21, respectively, as compared to 1.10 and 1.08 for the corresponding periods of the prior year, accounting for most of the decline in gross margin as a percentage of sales for our European operations.

For U.S. operations, gross profit margin was 50% and 51% for the three and six months ended June 30, 2018, respectively, as compared to 48% and 49% for the corresponding periods of the prior year. Sales growth for our United States operations has primarily come from increased sales of higher margin prestige products under licenses while sales of lower margin fragrance products continue to decline.

Generally, we do not bill customers for shipping and handling costs, and such costs, which aggregated $2.0 million and $3.6 million for the three and six month periods ended June 30, 2018, respectively, as compared to $1.0 million and $2.5 million for the corresponding periods of the prior year, are included in selling, general and administrative expenses in the consolidated statements of income. As such, our Company’s gross profit may not be comparable to other companies, which may include these expenses as a component of cost of goods sold.

Selling, general and administrative expenses	Three months ended June 30,		Six months ended June 30,	
(In millions)	2018	2017	2018	2017
Selling, general and administrative expenses	$76.9	$69.5	$152.1	$133.4
Selling, general and administrative expenses as a percent of net sales	51 %	54 %	47 %	49 %

Selling, general and administrative expenses increased 11% and 14% for the three and six months ended June 30, 2018, respectively, as compared to the corresponding periods of the prior year. Selling, general and administrative expenses were 51% and 47% of net sales for the three and six months ended June 30, 2018, respectively, as compared to 54% and 49% for the corresponding periods of the prior year. For European operations sales increased 8% and 17% for the three and six months ended June 30, 2018, respectively, as compared to the corresponding periods of the prior year, while selling, general and administrative expenses of our European operations only increased 6% and 12% for the same periods, respectively. In addition, selling, general and administrative expenses of our European operations represented 54% and 48% of net sales for the three and six months ended June 30, 2018, respectively, as compared to 56% and 50% for the corresponding periods of the prior year.

For U.S. operations sales increased 51% and 23% for the three and six months ended June 30, 2018, respectively, as compared to the corresponding periods of the prior year. At the same time, selling, general and administrative expenses of our U.S. operations increased 41% and 23% for the three and six months ended June 30, 2018, as compared to the corresponding periods of the prior year and represented 41% and 45% of net sales for the three and six months ended June 30, 2018, respectively, as compared to 44% and 45% for the corresponding periods of the prior year.

INTER PARFUMS, INC. AND SUBSIDIARIES

Promotion and advertising included in selling, general and administrative expenses aggregated $32.5 million and $59.3 million for the three and six months ended June 30, 2018, respectively, as compared to $30.4 million and $53.3 million for the corresponding periods of the prior year. Promotion and advertising represented 22% and 18% of net sales for the three and six months ended June 30, 2018, respectively, as compared to 24% and 20% for the corresponding periods of the prior year. We continue to invest heavily in promotional spending to support new product launches and building brand awareness. We have significant promotion and advertising programs underway for 2018, and anticipate that on a full year basis, promotion and advertising expenditure will aggregate approximately 21% of 2018 net sales, which is in line with 2017 annual promotion and advertising expenditures as a percentage of sales.

Royalty expense included in selling, general and administrative expenses aggregated $10.7 million and $22.5 million for the three and six months ended June 30, 2018, respectively, as compared to $7.5 million and $18.0 million for the corresponding periods of the prior year. Royalty expense represented 7.2% and 7.0% of net sales for the three and six months ended June 30, 2017, as compared to 5.8% and 6.6% of net sales for the corresponding period of the prior year. The increase is directly related to new licenses and increased royalty based product sales.

As a result of the above analysis regarding net sales, gross profit margins and selling, general and administrative expenses, income from operations increased 30% to $18.8 million for the three months ended June 30, 2018, as compared to $14.5 million for the corresponding period of the prior year. Income from operations increased 21% to $49.2 million for the six months ended June 30, 2018, as compared to $40.6 million for the corresponding period of the prior year. Operating margins were 12.6% and 15.3% of net sales for the three and six months ended June 30, 2018, respectively, as compared to 11.2% and 14.9% for the corresponding periods of the prior year.

Other Income and Expense

Interest expense aggregated $0.6 million and $1.0 million for the three and six months ended June 30, 2018, respectively, as compared to $0.7 million and $1.0 million for the corresponding periods of the prior year. Interest expense is primarily related to the financing of the Rochas brand acquisition and includes gains relating to the interest rate swap of $0.2 million and $0.3 million for the six months ended June 30, 2018 and 2017, respectively. We also use the credit lines available to us, as needed, to finance our working capital needs as well as our financing needs for acquisitions.

Foreign currency gain or (loss) aggregated $1.5 million and $1.3 million for the three and six months ended June 30, 2018, respectively, as compared to ($0.8) million and ($1.0) million for the corresponding periods of the prior year. 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. Over 45% of net sales of our European operations are denominated in U.S. dollars.

Interest income aggregated $0.7 million and $2.5 million for the three and six months ended June 30, 2018, respectively, as compared to $0.9 million and $2.2 million for the corresponding periods of the prior year. Cash and cash equivalents and short-term investments are primarily invested in certificates of deposit with varying maturities.

INTER PARFUMS, INC. AND SUBSIDIARIES

Income Taxes

On December 22, 2017, the U.S. government passed the Tax Cuts and Jobs Act ("the Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to: (i) reducing the future U.S. federal corporate tax rate from 35% to 21%; (ii) requiring companies to pay a one-time transition tax on certain unremitted earnings of foreign subsidiaries; and (iii) bonus depreciation that will allow for full expensing of qualified property.

The Tax Act also established new tax laws that will affect 2018, including, but not limited to: (i) the reduction of the U.S. federal corporate tax rate discussed above; (ii) a general elimination of U.S. federal income taxes on dividends from foreign subsidiaries; (iii) a new provision designed to tax global intangible low-taxed income ("GILTI"); (iv) limitations on the deductibility of certain executive compensation; (v) limitations on the use of foreign tax credits to reduce the U.S. income tax liability; and (vi) a new provision that allows a domestic corporation an immediate deduction for a portion of its foreign derived intangible income ("FDII").

The Securities and Exchange Commission staff issued Staff Accounting Bulletin ("SAB") 118, which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the related accounting under ASC 740, Accounting for Income Taxes. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for a certain income tax effect of the Tax Act is incomplete, but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements.

The Company made reasonable estimates of the effects and recorded provisional estimates for these items as of December 31, 2017. While the Company was able to make a reasonable estimate of the transition tax, it is continuing to gather additional information to more precisely compute the final amount. Likewise, while the Company was able to make a reasonable estimate of the impact of the reduction to the corporate tax rate, it may be affected by other analyses related to the Tax Act, including, but not limited to, the state tax effect of adjustments made to federal temporary differences. The impact of the Tax Act may differ from the current estimate, possibly materially, due to changes in interpretations and assumptions the Company has made, future guidance that may be issued and actions the Company may take as a result of the law.

As a result of the Tax Act, our effective income tax rate was 30% for both the three and six months ended June 30, 2018, as compared to 33% for both corresponding periods of the prior year. Our effective tax rates differ from statutory rates due to the effect of state and local taxes and tax rates in foreign jurisdictions.

The French government had introduced a 3% tax on dividends or deemed dividends for entities subject to French corporate income tax in 2012. In 2017, the French Constitutional Court released a decision declaring that the 3% tax on dividends or deemed dividends is unconstitutional. As a result of that decision, the Company filed a claim for refund of approximately $3.9 million (€3.2 million) for these taxes paid since 2015 including accrued interest of approximately $0.4 million. The Company recorded the refund claim as of December 31, 2017 and has received the entire refund as of June 30, 2018.

INTER PARFUMS, INC. AND SUBSIDIARIES

Other than as discussed above, we did not experience any significant changes in tax rates, and none were expected in jurisdictions where we operate.

Net Income and Earnings per Share

(In thousands except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income European operations	$12,051	$8,617	$33,643	$25,912
Net income U.S. operations	2,208	594	2,478	1,466
Net income	14,259	9,211	36,121	27,378
Less: Net income attributable to the noncontrolling interest	3,360	2,467	9,313	7,261
Net income attributable to Inter Parfums, Inc.	$10,899	$6,744	$26,808	$20,117
Earnings per share:				
Net income attributable to Inter Parfums, Inc. common shareholders:				
Basic	$0.35	$0.22	$0.86	$0.65
Diluted	$0.35	$0.22	$0.85	$0.64
Weighted average number of shares outstanding:				
Basic	31,299	31,169	31,283	31,157
Diluted	31,490	31,281	31,459	31,268

Net income was $14.3 million for the three months ended June 30, 2018, as compared to $9.2 million for the corresponding period of the prior year. Net income was $36.1 million for the six months ended June 30, 2018, as compared to $27.4 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 discussed, slightly lower gross profit margins within our European operations due to changes in foreign currency exchange rates were more than offset by lower selling general and administrative expenses as a percentage of sales. This decrease is the result of less promotional spending as a percentage of sales and increased leverage of our fixed expenses. For United States operations, in summary, first half 2018 net sales increased 22.5%, gross margin increased 25.9% and selling, general and administrative expenses increased 23.3%, as compared to the corresponding period of the prior year.

The noncontrolling interest arises from our 73% owned subsidiary, Interparfums SA, which is also a publicly traded company as 27% of Interparfums SA shares trade on the NYSE Euronext. The noncontrolling interest is also affected by the profitability of Interparfums SA's 51% owned distribution subsidiaries in Spain. Net income attributable to the noncontrolling interest aggregated 28% of European operations' net income for both three and six months ended June 30, 2018, respectively, as compared to 29% and 28% for the corresponding periods of the prior year.

INTER PARFUMS, INC. AND SUBSIDIARIES

Liquidity and Capital Resources

The Company's financial position remains strong. At June 30, 2018, working capital aggregated $372 million and we had a working capital ratio of almost 3.2 to 1. Cash and cash equivalents and short-term investments aggregated $223 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 cash and cash equivalents and short-term investments held by our European operations. Approximately 84% of the Company's total assets are held by European operations and approximately $186 million of trademarks, licenses and other intangible assets are held by European operations.

The Company hopes to benefit from its strong financial position to potentially acquire one or more brands, either on a proprietary basis or as a licensee. Opportunities for external growth continue to be examined, with the priority of maintaining the quality and homogeneous nature of our portfolio. However, we cannot assure you that any new license or acquisition agreements will be consummated.

Cash used in operating activities aggregated $6.1 million and $10.7 million for the six months ended June 30, 2018 and 2017, respectively. For the six months ended June 30, 2018, working capital items used $47.3 million in cash from operating activities, as compared to $41.3 million in the 2017 period. Although accounts receivable is up 19.8% from year end, the balance is reasonable based on second quarter 2018 sales levels and reflects continued strong collection activity as day's sales outstanding is 84 days, as compared to 83 days for the corresponding period of the prior year. We continue to monitor collection activities actively and adjust customer credit limits as needed. Inventory levels are up approximately 26% from year end and reflect levels needed to support second half sales expectations and our new product launches.

Cash flows used in investing activities in 2018 reflect the purchases within our European operations, of short-term investments. These investments are primarily certificates of deposit with maturities greater than three months. Approximately $76 million of such certificates of deposit contain penalties where we would forfeit a portion of the interest earned in the event of early withdrawal.

Our business is not capital intensive as we do not own any manufacturing facilities. However, on a full year basis, we spend approximately $4.0 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. Payments for licenses, trademarks and other intangible assets primarily represent upfront entry fees incurred in connection with new license agreements.

In 2015, in connection with the acquisition of the Rochas brand, we entered into a 5-year term loan payable in equal quarterly installments of €5.0 million ($5.8 million) plus interest. In order to reduce exposure to rising variable interest rates, the Company entered into a swap transaction effectively exchanging the variable interest rate to a fixed rate of approximately 1.2%. The swap is a derivative instrument and is therefore recorded at fair value and changes in fair value are reflected in the accompanying consolidated statements of income.

INTER PARFUMS, INC. AND SUBSIDIARIES

Our short-term financing requirements are expected to be met by available cash on hand at June 30, 2018, cash generated by operations and short-term credit lines provided by domestic and foreign banks. The principal credit facilities for 2018 consist of a $20.0 million unsecured revolving line of credit provided by a domestic commercial bank and approximately $29.0 million in credit lines provided by a consortium of international financial institutions. There were no short-term borrowings outstanding as of both June 30, 2018 and June 30, 2017.

Purchase of subsidiary shares from noncontrolling interest which aggregated $0.8 million for the six months ended June 30, 2018, represents the purchase of treasury shares of Interparfums SA, which are expected to be issued to Interparfums SA employees in 2019 pursuant to its Free Share Plan.

In October 2017, the Board of Directors authorized a 24% increase in the annual dividend to $0.84 per share. The next quarterly cash dividend of $0.21 per share is payable on October 15, 2018 to shareholders of record on September 28, 2018. Dividends paid also include dividends paid once per year to the noncontrolling shareholders of Interparfums SA, which aggregated $8.7 million and $5.9 million for the six months ended June 30, 2018 and 2017, respectively. The annual cash dividends represent a small part of our cash position and are 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 six months ended June 30, 2018.

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.

INTER PARFUMS, INC. AND SUBSIDIARIES

Foreign Exchange Risk Management

We periodically enter into foreign currency forward exchange contracts to hedge exposure related to receivables denominated in a foreign currency and to manage risks related to future sales expected to be denominated in a 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, 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 June 30, 2018, we had foreign currency contracts in the form of forward exchange contracts in the amount of approximately U.S. $29.0 million, GB £6.6 million and JPY ¥100 million which all have maturities of less than one year. We believe that our risk of loss as the result of nonperformance by any of such financial institutions is remote.

Interest Rate Risk Management

We mitigate interest rate risk by monitoring interest rates, and then determining whether fixed interest rates should be swapped for floating rate debt, or if floating rate debt should be swapped for fixed rate debt. We entered into an interest rate swap in June 2015 on €100 million of debt, effectively exchanging the variable interest rate to a fixed rate of approximately 1.2%. This derivative instrument is recorded at fair value and changes in fair value are reflected in the accompanying consolidated statements of income.

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.

INTER PARFUMS, INC. AND SUBSIDIARIES

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934) that occurred during the quarterly period covered by this report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Part II. Other Information

Items 1. Legal Proceedings, 1A. Risk Factors, 2. Unregistered Sales of Equity Securities and Use of Proceeds, 3. Defaults Upon Senior Securities, 4. Mine Safety Disclosures and 5. Other Information, are omitted as they are either not applicable or have been included in Part I.

Item 6. Exhibits.

The following documents are filed herewith:

Exhibit No.	Description	Page Number
31.1	Certifications required by Rule 13a-14(a) of Chief Executive Officer	31
31.2	Certifications required by Rule 13a-14(a) of Chief Financial Officer and Principal Accounting Officer	32
32.1	Certification required by Section 906 of the Sarbanes-Oxley Act of Chief Executive Officer	33
32.2	Certification required by Section 906 of the Sarbanes-Oxley Act of Chief Financial Officer and Principal Accounting Officer	34
101	Interactive data files	

INTER PARFUMS, INC. AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on the 7th day of August 2018.

INTER PARFUMS, INC.

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