BANANA REPUBLIC

bebe

Brooks Brothers

ANNA SUI

BALMAIN
PARIS

BOUCHERON

JIMMY CHOO

LANVIN
PARIS

MONT BLANC

Oscar de la Renta

Paul Smith

repetto
PARIS

SHANGHAI TANG
灘 海 上

S.T. Dupont
PARIS

Van Cleef & Arpels

interparfums, inc.

ANNUAL REPORT
two thousand thirteen
2013

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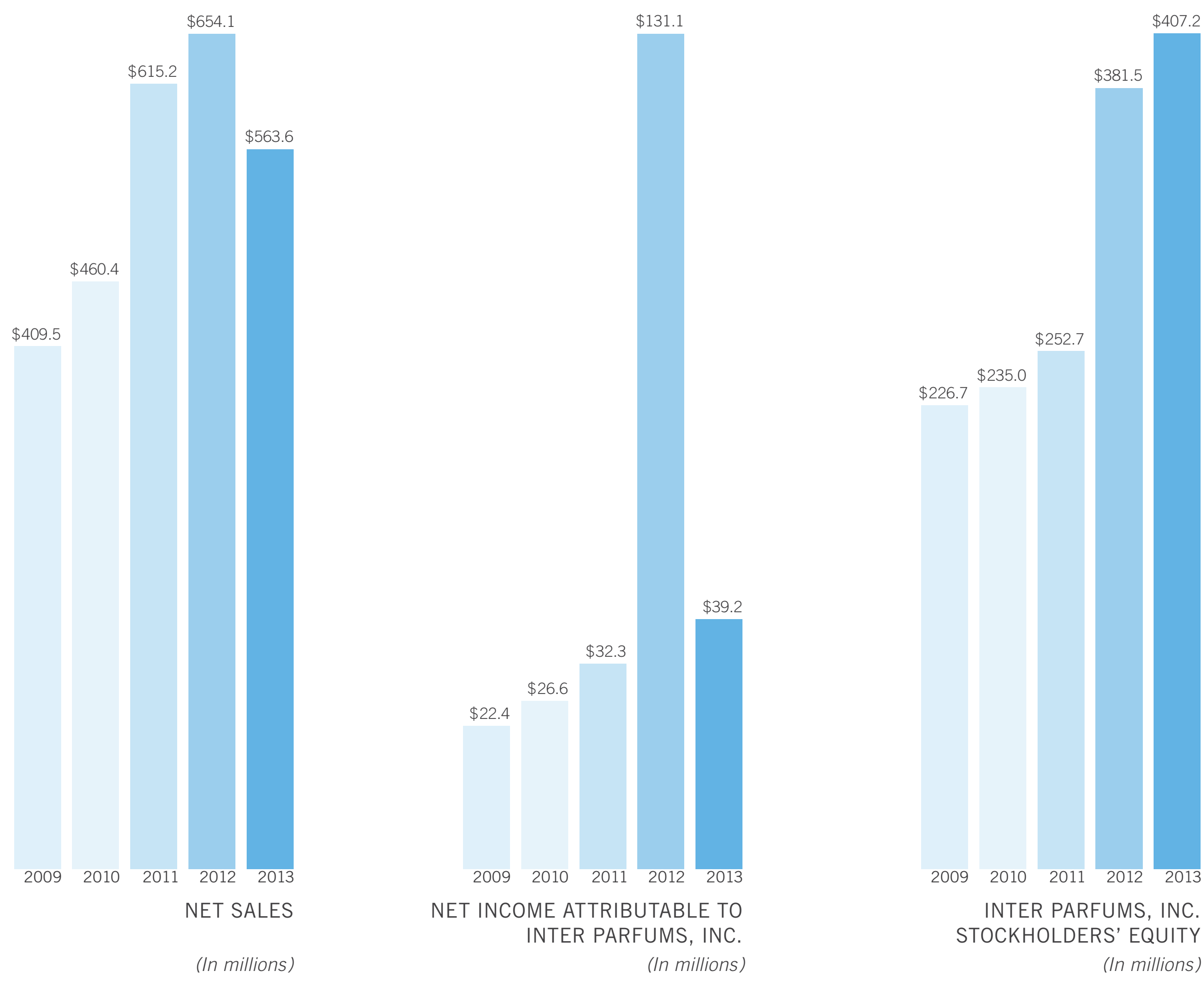
financial Highlights



SELECTED FINANCIAL DATA

The following selected financial data have been derived from our financial statements, and should be read in conjunction with those financial statements, including the related footnotes.

(In thousands, except per share data)

	2013	2012	2011	2010	2009
INCOME STATEMENT DATA:					
Net Sales	$563,579	$654,117	$615,220	$460,411	$409,464
Cost of Sales	234,800	246,931	231,746	187,501	175,296
Selling, General and Administrative	250,025	325,799	315,698	216,474	187,690
Operating Income	78,754	278,414	66,939	56,436	44,801
Income Before Taxes	80,646	274,765	67,393	53,840	46,348
Net Income Attributable to the Noncontrolling Interest	11,755	45,754	10,646	9,082	7,791
Net Income Attributable to Inter Parfums, Inc.	39,211	131,136	32,303	26,593	22,367
Net Income Attributable to Inter Parfums, Inc. Common Shareholders' per Share:					
Basic	1.27	4.29	1.06	0.88	0.74
Diluted	1.27	4.26	1.05	0.87	0.74
Average Common Shares Outstanding:					
Basic	30,764	30,575	30,515	30,361	30,100
Diluted	30,954	30,716	30,678	30,482	30,121
Depreciation and Amortization	11,110	15,554	13,073	9,188	10,963
BALANCE SHEET AND OTHER DATA:					
Cash and Cash Equivalents	125,650	307,335	35,856	37,548	100,467
Working Capital	399,344	366,680	205,730	183,594	197,663
Total Assets	664,058	759,920	516,034	438,105	419,088
Short-Term Bank Debt	6,104	27,776	11,826	5,250	5,021
Long-Term Debt (including current portion)	–	–	4,480	16,129	29,594
Inter Parfums, Inc. Stockholders' Equity	407,211	381,476	252,674	234,976	226,746
Dividends Declared per Share	0.96	0.32	0.32	0.26	0.133

2013 *letter to our* Shareholders

DEAR FELLOW SHAREHOLDERS,

2013 was a very successful and exciting year for Inter Parfums. Major highlights included:

- Our ongoing brands delivered excellent growth;
- We expanded our portfolio of brands, signing agreements with Shanghai Tang, Agent Provocateur and Oscar de la Renta;
- We introduced our first new fragrances for Boucheron and Repetto;
- We also launched new scents for Lanvin, Jimmy Choo, Van Cleef & Arpels, Paul Smith, and Anna Sui; and,
- We established a new subsidiary, Inter Parfums USA Hong Kong Limited, to support our expanding presence in Asia.

The strong performance of our business in 2013 was not apparent in our reported financial results, which were obscured by the termination of our license agreement with Burberry towards the end of 2012. After 20 years, over the course of which we grew the brand's fragrance sales to more than $300 million at a compounded annual growth rate of approximately 25%, Burberry decided to bring the business in-house and exercised its option to buy back the license. The termination of the agreement had a number of pronounced impacts on our financials that make a comparison of our 2013 reported results to those of 2012 somewhat difficult, including a:

- large one-time "above the line" gain on our income statement in the fourth quarter of 2012;
- significant boost to our gross and operating margins in the first quarter of 2013 as we sold Burberry inventory with minimal promotion and advertising cost; and,
- year-over-year decline in our consolidated net sales for the full year of 2013.

With our core portfolio of attractive brands, and the $236 million in proceeds we received from the termination augmenting our already strong balance sheet, we began 2013 well positioned for growth through a combination of investment in our existing business, and the addition of new brands. We were very successful on both fronts in 2013.

Jean Madar and Philippe Benacin

FINANCIAL OVERVIEW
2013 COMPARED TO 2012

- Net sales of ongoing brands (excluding Burberry brand sales) increased 22.8% to $433.3 million from $352.7 million.;
- Reported net sales were $563.6 million, which included $130.3 million of Burberry sales, predominantly in the first quarter, compared to $654.1 million, which included $301.4 million in Burberry brand sales.
- Sales of ongoing brands by European-based operations were $333.7 million, up 23.3% from $270.5 million.
- U.S.-based operations generated net sales of $99.3 million, up 20.5% from $82.3 million.
- Gross margin was 58.3%, compared with 62.2%.
- S, G & A expense as a percentage of sales was 44.4%, down from 49.8%.
- Operating margin was 14.0% compared to 12.2%, excluding a $198.8 million gain on the termination of the Burberry license.
- Net income attributable to Inter Parfums, Inc. common shareholders was $39.2 million, or $1.27 per diluted share, up from $38.1 million or $1.24 per diluted share in 2012, excluding the gain on the termination of the Burberry license.

Our business generated cash flows from operating activities of approximately $49 million in 2013. We entered 2014 with $399 million in working capital including approximately $307 million in cash and cash equivalents and short-term investments; and we continue to have no long-term debt. Our strong balance sheet and consistent cash flows enabled us to pay a special cash dividend of $0.48 per share in December 2013, on top of our regular quarterly cash dividend of $0.12 per share, or $0.48 per share annually. Given our substantial financial flexibility, we expect to continue to find ways to enhance returns to shareholders, while at the same time investing in growth opportunities.

BUSINESS OVERVIEW
EUROPEAN-BASED OPERATIONS

European-based product sales of our on-going brands experienced robust growth in 2013 reflecting a combination of continued momentum for existing fragrances, coupled with a number of successful new launches. Montblanc had another spectacular year, with sales rising 40% driven by the ongoing strength of the men's *Legend* line launched in 2011 and the increasing popularity of *Legend* for women introduced in 2012. Jimmy Choo sales rose 41%, propelled by demand for its signature scent, along with *Flash,* our second women's scent that we launched early in 2013. Lanvin, our largest brand, grew 11% as the spring 2013 launch of *Lanvin Me* added to impressively persistent gains by *Eclat d'Arpège,* a scent we introduced more than 10 years ago. The introduction of *Rêve* spurred an 11% improvement in Van Cleef & Arpels sales, while Boucheron grew 10% due largely to the launch of *Place Vendôme,* our first new product for the brand. Finally, our introduction of the first-ever fragrance for Repetto, its signature scent, far exceeded our expectations, generating a meaningful contribution to sales in only seven months in the market.

While 2013 was a busy year for new fragrance introductions for our European-based operations, 2014 is shaping up to be highly active as well, both for our established and newer brands. Our first major launch of 2014 was for Balmain, called *Extatic,* which we introduced through select distribution in Europe, the Middle East and the Far East. Later in the year, we will sell it into South America and in the second half, in the U.S. Also during the first quarter, we unveiled Karl Lagerfeld scents for men and women at Harrods, Macy's, BHV Marais and Galleries Lafayette, as well as Karl Lagerfeld boutiques with a worldwide rollout to ensue as the year unfolds. This should be our largest product launch of the year. We also have

Emblem, a new men's fragrance for Montblanc coming to market. S.T. Dupont has two new scents, one each for men and women during the summer, then in September 2014 we will embark on an exciting venture into the world of sports launching a men's fragrance line under a partnership with Europe's premiere football franchise, Paris Saint-Germain.

U.S.-BASED OPERATIONS

Our U.S.-based operations, which posted a 21% increase in sales for 2013, are becoming an increasingly prominent contributor to our success. The strong growth was driven in part by the highly successful rollout of Anna Sui's *La Vie de Bohème* during the spring and summer. In specialty retail, during the third quarter of 2013 we launched *Wildbloom Rouge* and *Wildblue Noir* for Banana Republic, and *Nouveau* for bebe. Additionally, we began marketing the legacy fragrances of Alfred Dunhill in the spring, and Agent Provocateur in the fall of 2013, which were incremental to our year-over-year sales comparison.

Our U.S. business is also having a busy 2014 with a number of new product introductions already underway and planned. We will have two new men's scents for Alfred Dunhill coming to market in phased launches through the year, which should be seen more prevalently on retail shelves in early 2015. Banana Republic will introduce a new collection called *Modern* for men and women.

Our U.S.-based operations added three promising brands in 2013 – Shanghai Tang, Agent Provocateur and Oscar de la Renta. In July we signed a 12-year exclusive worldwide license to create, produce and distribute perfumes and related products for Shanghai Tang. As China's leading luxury brand, Shanghai Tang champions the richness and beauty of the Chinese culture through its contemporary lifestyle offering of apparel and accessories for men, women and children, as well as home collections. We plan to launch an assortment of nine new fragrances for Shanghai Tang late in 2014 evoking the glamour of Shanghai in the 1940's.

In order to manage our global Shanghi Tang operations and cultivate this important relationship, we established a new subsidiary in Hong Kong, Inter Parfums USA Hong Kong Limited. Expansion in Asia is a strategic priority for us, and we expect this new office to serve as a growth platform for our other brands, particularly those that already have a meaningful presence in the region, such as Anna Sui.

In August 2013 we commenced a 10.5-year exclusive worldwide license agreement to create, produce and distribute perfumes and related products under London-based luxury lingerie brand, Agent Provocateur. Best known for its very upscale and edgy lingerie, Agent Provocateur also markets its swimwear, bridal specialties, bedding and accessories. We introduced our first new scents for Agent Provocateur, *Fatale* and *Fatale Pink,* during the spring of 2014.

In December 2013 we acquired certain assets of the fragrance division of Oscar de la Renta, LLC and entered into an exclusive worldwide licensing agreement to create, produce and distribute perfumes and cosmetics under the Oscar de la Renta brand. The world renowned house of Oscar de la Renta began in 1965, and over the decades has been a couturier of choice for celebrities of all varieties from actresses to many of America's first ladies. The designer has deep roots in the fragrance category; in 1977 he launched his namesake women's fragrance, OSCAR, which in 1991 won the Fragrance Foundation's Perennial Success Award and remains the brand's leading scent. In addition to fragrance and his signature ready-to-wear apparel collections, the world of Oscar de la Renta includes accessories, bridal, swimwear, sleepwear, shoes, jewelry, eyewear, and home collections. We plan to unveil our first new scent for Oscar in Spring 2015.

CONCLUSION

We had a very productive 2013 with our existing brands and the addition of new partnerships. With the opportunities before us, we remain highly enthusiastic about our prospects for growth. Our very solid financial position enables us to pursue untested and uncultivated fragrance brands, as well as established businesses with meaningful sales and earnings that we can further develop. With that said, as always, we will remain vigilant as we evaluate new opportunities, engaging with only those brands that fit our business model and offer the greatest potential to generate strong returns.

Finally, our deepest thanks go out to the more than 300 members of the Inter Parfums team. We are very fortunate to have such a talented, hardworking group of people committed to the success of our Company and to our growth in the years to come.

Sincerely yours,

Jean Madar
Chairman of the Board
Chief Executive Officer

Philippe Benacin
Vice Chairman of the Board
& President

Karl Lagerfeld

the Company

Oscar de la Renta *Oscar Signature*

WE ARE INTER PARFUMS, INC. WE OPERATE IN THE FRAGRANCE BUSINESS, AND MANUFACTURE, MARKET AND DISTRIBUTE A WIDE ARRAY OF FRAGRANCES AND FRAGRANCE RELATED PRODUCTS. ORGANIZED UNDER THE LAWS OF THE STATE OF DELAWARE IN MAY 1985 AS JEAN PHILIPPE FRAGRANCES, INC., WE CHANGED OUR NAME TO INTER PARFUMS, INC. IN JULY 1999. WE HAVE ALSO RETAINED OUR BRAND NAME, JEAN PHILIPPE FRAGRANCES, FOR SOME OF OUR MASS MARKET PRODUCTS.

Our worldwide headquarters and the office of our three (3) wholly-owned United States subsidiaries, Jean Philippe Fragrances, LLC and Inter Parfums USA, LLC, both New York limited liability companies, and IP Beauty, Inc. (formerly Nickel USA, Inc.), a Delaware corporation, are located at 551 Fifth Avenue, New York, New York 10176, and our telephone number is 212.983.2640. We also own 100% of Inter Parfums USA Hong Kong Limited indirectly through our 100% owned subsidiary, Inter Parfums USA, LLC.

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

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

Repetto

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

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. 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 Euronext. Prestige cosmetics and prestige skin care products represent less than 1% of consolidated net sales.

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

As with any business, many aspects of our operations are subject to influences outside our control. We discuss in greater detail risk factors relating to our business in Item 1A of this Annual Report on Form 10-K for the fiscal year ended December 31, 2013, and the reports that we file from time to time with the Securities and Exchange Commission.

EUROPEAN OPERATIONS

We produce and distribute prestige fragrance products primarily under license agreements with brand owners, and prestige product sales through our European operations represented approximately 82% of net sales for 2013. We have built a portfolio of prestige brands, which include

Lanvin, Montblanc, Jimmy Choo, Van Cleef & Arpels, Paul Smith, Boucheron, S.T. Dupont, Balmain, Karl Lagerfeld and *Repetto,* whose products are distributed in over 100 countries around the world.

Burberry was our most significant license, and net sales of Burberry products represented 23%, 46% and 50% of net sales for the years ended December 31, 2013, 2012 and 2011, respectively. As discussed below, Burberry exercised its option to buy-out the license rights effective December 31, 2012 and we entered into a transition agreement that provided for an extension of certain license rights and obligations for an additional three month period through March 31, 2013. In addition, we own the Lanvin brand name for our class of trade, and license the Montblanc and Jimmy Choo brand names; for the year ended December 31, 2013, sales of product for these brands represented 15%, 15% and 13% of net sales, respectively.

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

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

UNITED STATES OPERATIONS

Prestige brand and specialty retail fragrance and fragrance related products are marketed through our United States operations and represented 18% of sales for the year ended December 31, 2013. These fragrance products are sold under trademarks owned by us or pursuant to license or other agreements with the owners of brands, which include *Agent Provocateur, Alfred Dunhill, Anna Sui, Shanghai Tang, Oscar de la Renta, Gap, Banana Republic, Brooks Brothers, bebe, Betsey Johnson* and *Lane Bryant.*

BUSINESS STRATEGY

FOCUS ON PRESTIGE BEAUTY BRANDS

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

GROW PORTFOLIO BRANDS THROUGH NEW PRODUCT DEVELOPMENT AND MARKETING

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

CONTINUE TO ADD NEW BRANDS TO OUR PORTFOLIO THROUGH NEW LICENSES OR ACQUISITIONS

Prestige brands are the core of our business and we intend to add new prestige beauty brands to our portfolio. Over the past twenty years, we have built our portfolio of well-known prestige brands through acquisitions and new license agreements. We intend to further build on our success in prestige fragrances and pursue new licenses and acquire new brands to strengthen our position in the prestige beauty market. To that end, in December 2012, we received the Burberry exit payment of €181 million (approximately $239 million), which we believe should assist us in entering new brand licenses or outright acquisitions. However, we cannot assure you that we will be able to enter into any future agreements or acquire brands, assets on terms favorable to us, or if we do, that any such transaction will be successful. We

Jimmy Choo

identify prestige brands that can be developed and marketed into a full and varied product families and, with our technical knowledge and practical experience gained over time, take licensed brand names through all phases of concept, development, manufacturing, marketing and distribution.

EXPAND EXISTING PORTFOLIO INTO NEW CATEGORIES

We intend to continue to broaden our product offering beyond the fragrance category and offer other fragrance related products and personal care products under some of our existing brands. We believe such product offerings meet customer needs and further strengthen customer loyalty.

CONTINUE TO BUILD GLOBAL DISTRIBUTION FOOTPRINT

Our business is a global business and we intend to continue to build our global distribution footprint. In order to adapt to changes in the environment and our business, we have modified our distribution model and have formed and are operating joint ventures or distribution subsidiaries in the major markets of the United States, Italy, Spain and Germany for distribution of prestige fragrances. Although we may look into future joint ventures arrangements or acquire distribution companies within other key markets to distribute certain of our prestige brands, we must also take into consideration the effect of the termination of the Burberry license. Accordingly, we are presently in the process of liquidating our wholly-owned distributor in the United Kingdom. While building a global distribution footprint is part of our long-term strategy, we may need to make certain decisions based on the short-term needs of the business. We believe that in certain markets, vertical integration of our distribution network may be one of the keys to future growth of our Company, and ownership of such distribution should enable us to better serve our customers' needs in local markets and adapt more quickly as situations may determine.

BUILD SPECIALTY RETAIL BUSINESS

We believe that specialty retailers are growing their beauty business by partnering with companies like Inter Parfums. In that regard, we now have agreements in place for the following brands, Gap and Banana Republic, Brooks Brothers, bebe, Betsey Johnson and Lane Bryant. We are responsible for product development, formula creation, packaging and manufacturing under all of those brands. Gap, Banana Republic, Brooks Brothers, bebe Stores, Inc. and Lane Bryant are innovative specialty retailers which offer a variety of lifestyle merchandise to highly defined customer niches.

RECENT DEVELOPMENTS

BURBERRY

Burberry exercised its option to buy-out the license rights effective December 31, 2012. On October 11, 2012, the Company and Burberry entered into a transition agreement that provided for certain license rights and obligations to continue through March 31, 2013. The Company continued to operate certain aspects of the business for the brand including product development, testing, and distribution. The transition agreement provided for non-exclusivity for manufacturing, a cap on sales of Burberry products, a reduced advertising requirement and no minimum royalty amounts.

The transition agreement provided that Burberry inventories at March 31, 2013 should be less than $20.0 million in the aggregate. Actual Burberry inventory as of March 31, 2013 aggregated approximately $18 million. During the second quarter of 2013, the Company and Burberry reached an agreement regarding inventory and Burberry agreed to purchase $7.8 million of inventory at cost. Remaining inventories were sold off in the ordinary course of business pursuant to our sell-off rights, destroyed or given to Burberry at no charge.

As of September 30, 2013, the $10 million inventory reserve, recorded in December 2012 upon recognition of the license termination gain of $198.8 million, was fully consumed during 2013.

Accounts receivables and accounts payables were collected and paid in the ordinary course of business. In addition, Burberry purchased fixed assets for $2.8 million as agreed in the transition agreement.

SHANGHAI TANG

In July 2013, we created a wholly-owned Hong Kong subsidiary, Inter Parfums USA Hong Kong Limited, which entered into a 12-year exclusive worldwide license to create, produce and distribute perfumes and related products under China's leading luxury brand, Shanghai Tang. The agreement commenced on July 1, 2013 and is subject to certain minimum sales, advertising expenditures and royalty payments as are customary in our industry. We plan to launch the first fragrance collection under the Shanghai Tang brand in late 2014.

AGENT PROVOCATEUR

In July 2013, we entered into a 10.5-year exclusive worldwide license to create, produce and distribute perfumes and related products under London-based luxury lingerie brand, Agent Provocateur. The agreement commenced on August 1, 2013 and is subject to certain minimum advertising expenditures as is customary in our industry. We plan to launch the first fragrance under the Agent Provocateur brand, *Fatale* and *Fatale Pink*, in 2014. In addition, we have taken over distribution of selected fragrances within the brand's current perfume portfolio, and plan to revitalize the Agent Provocateur signature scent.

OSCAR DE LA RENTA

In October 2013, we entered into a 12-year exclusive worldwide license to create, produce and distribute perfumes and related products under the Oscar de la Renta brand, which closed in December 2013, and is subject to certain minimum advertising expenditures as are customary in our industry. We purchased certain inventories and paid an up-front entry fee of $5.0 million. We have taken over distribution of fragrances within the brand's current perfume portfolio, and plan to launch our first fragrance under the Oscar de la Renta brand in the Spring of 2015.

PRODUCTION AND SUPPLY

THE STAGES OF THE DEVELOPMENT AND PRODUCTION PROCESS FOR ALL FRAGRANCES ARE AS FOLLOWS:

- Simultaneous discussions with perfume designers and creators (includes analysis of esthetic and olfactory trends, target clientele and market communication approach);
- Concept choice;
- Produce mock-ups for final acceptance of bottles and packaging;
- Receive bids from component suppliers (glass makers, plastic processors, printers, etc.) and packaging companies;
- Choose suppliers;
- Schedule production and packaging;
- Issue component purchase orders;
- Follow quality control procedures for incoming components; and
- Follow packaging and inventory control procedures.

SUPPLIERS WHO ASSIST US WITH PRODUCT DEVELOPMENT INCLUDE:

- Independent perfumery design companies (Federico Restrepo, Fabien Baron, Aesthete, Ateliers Dinand);
- Perfumers (IFF, Firmenich, Robertet, Givaudan, Takasago) which create a fragrance consistent with our expectations and, that of the fragrance designers and creators;
- Contract manufacturers of components such as glassware (Saint Gobain, Saverglass, Pochet, Nouvelles Verreries de Momignie), caps (MT Packaging, Codiplas, Risdon, Newburgh) or boxes (Printor Packaging, Draeger);
- Production specialists who carry out packaging (MF Production, Brand, CCI, IKI Manufacturing) or logistics (SAGA for storage, order preparation and shipment).

For our prestige products, component and contract filling needs are purchased from many different suppliers located around the world. The suppliers' accounts for our European operations are primarily settled in euro and for our United States operations, suppliers' accounts are primarily settled in U.S. dollars. The components for our specialty retail products are sourced and our specialty retail products are primarily produced and filled in the United States, and our mass market products are primarily manufactured, produced or filled in the United States or China.

MARKETING AND DISTRIBUTION

PRESTIGE PRODUCTS

Our prestige products are distributed in over 100 countries around the world through a selective distribution network. For the majority of our international distribution of prestige products, we contract with independent distribution companies specializing in luxury goods. In each country, we designate anywhere from one to three distributors on an exclusive basis for one or more of our name brands. We also distribute our prestige products through a variety of duty-free operators, such as airports and airlines and select vacation destinations.

As our business is a global one, we intend to continue to build our global distribution footprint. For distribution of prestige brands of our European operations we presently operate through our distribution subsidiaries in the major markets of Italy, Spain and Germany for distribution of prestige fragrances. In addition we formed Interparfums Luxury Brands, Inc., a Delaware corporation and subsidiary of our French subsidiary Interparfums SA, for distribution of European based prestige brands in the United States. It has

***Banana Republic** Wildbloom Rouge*

also entered into an agreement with Clarins Fragrance Group US (a Division of Clarins Group) effective January 1, 2011 to share sales and distribution personnel and facilities.

Our third party distributors vary in size depending on the number of competing brands they represent. This extensive and diverse network together with our own distribution subsidiaries provides us with a significant presence in over 100 countries around the world.

Approximately 40% of our European based prestige fragrance net sales are denominated in U.S. dollars. We address certain financial exposures through a controlled program of risk management that includes the use of derivative financial instruments. We primarily enter into foreign currency forward exchange contracts to reduce the effects of fluctuating foreign currency exchange rates.

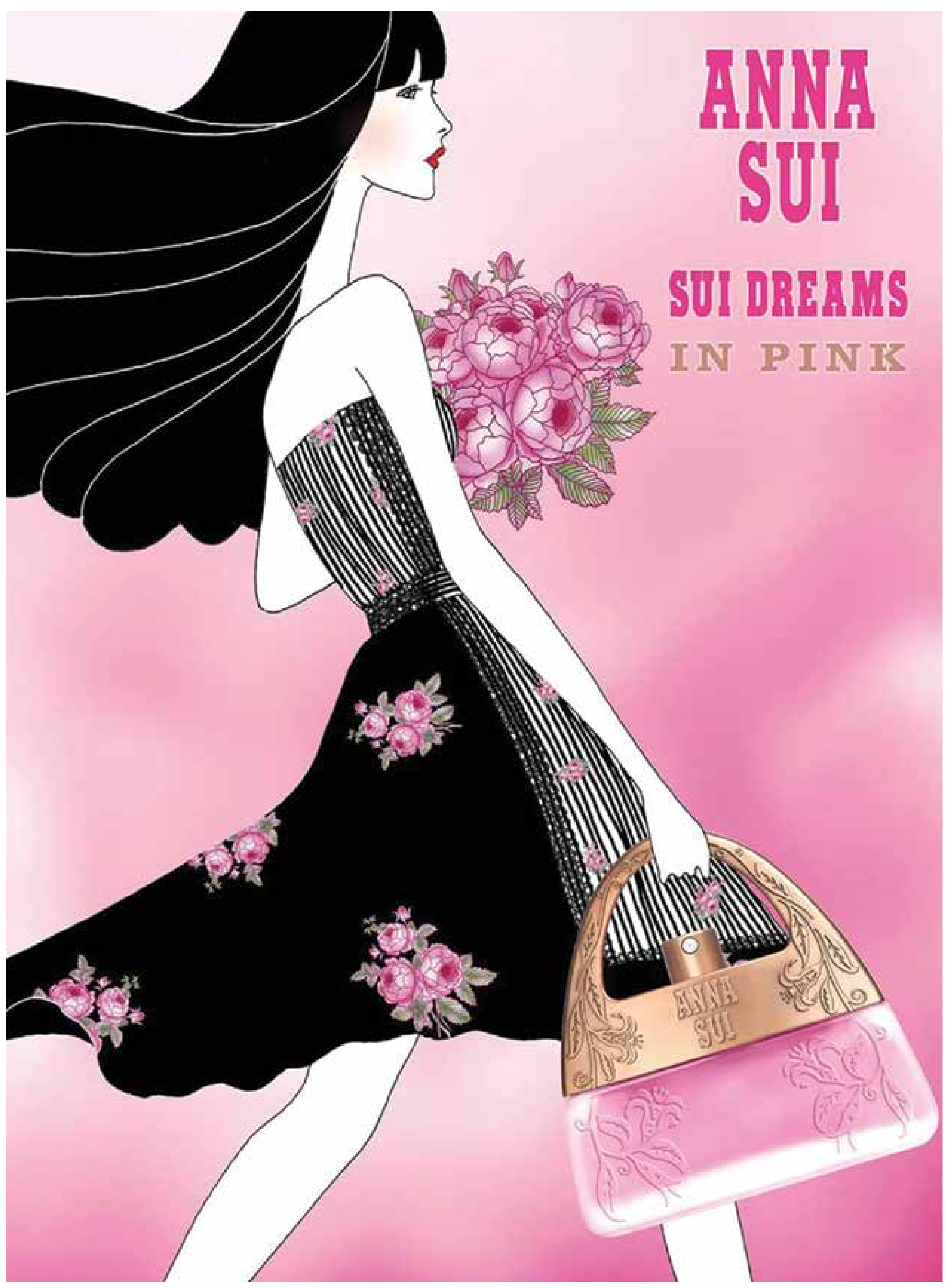
The business of our European operations has become increasingly seasonal due to the timing of shipments by our majority-owned distribution subsidiaries to their customers, which are weighted to the second half of the year.

SPECIALTY RETAIL AND MASS MARKET PRODUCTS

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

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

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



Anna Sui *Sui Dreams In Pink*

the Products

WE PRODUCE AND DISTRIBUTE OUR PRESTIGE FRAGRANCE PRODUCTS PRIMARILY UNDER LICENSE AGREEMENTS WITH BRAND OWNERS. UNDER LICENSE AGREEMENTS, WE OBTAIN THE RIGHT TO USE THE BRAND NAME, CREATE NEW FRAGRANCES AND PACKAGING, DETERMINE POSITIONING AND DISTRIBUTION, AND MARKET AND SELL THE LICENSED PRODUCTS, IN EXCHANGE FOR THE PAYMENT OF ROYALTIES. OUR RIGHTS UNDER LICENSE AGREEMENTS ARE ALSO GENERALLY SUBJECT TO CERTAIN MINIMUM SALES REQUIREMENTS AND ADVERTISING EXPENDITURES.

We have built a portfolio of licensed prestige brands which include *Montblanc, Jimmy Choo, Boucheron, Van Cleef & Arpels, Karl Lagerfeld, Paul Smith, S.T. Dupont, Balmain, Repetto, Agent Provocateur, Alfred Dunhill, Anna Sui, Shanghai Tang*, and *Oscar de la Renta.* In addition, we are the owner of the *Lanvin* brand name and trademark for our class of trade. Our exclusive worldwide licenses for these brands expire on the following dates:

Brand Name	Licensed Expiration Date
Jimmy Choo	December 31, 2021
Van Cleef & Arpels	December 31, 2018, plus a 5-year optional term if certain sales targets are met
Montblanc	December 31, 2020
Paul Smith	December 31, 2017
S.T. Dupont	December 31, 2016
Boucheron	December 31, 2025, plus a 5-year optional term if certain sales targets are met
Balmain	December 31, 2023
Repetto	December 31, 2024
Alfred Dunhill	September 30, 2023, subject to earlier termination on September 30, 2019, if certain minimum sales are not met
Anna Sui	December 31, 2021, plus two five-year optional terms if certain conditions are met
Karl Lagerfeld	October 31, 2032
Shanghai Tang	December 31, 2025, subject to earlier termination on December 31, 2019, if certain minimum sales are not met; subject to 2 year extensions unless 1 year advance notice not to renew is provided
Agent Provocateur	December 31, 2023
Oscar de la Renta	December 31, 2025, plus a 5-year optional term if certain sales targets are met

In connection with the acquisition of the Lanvin brand names and trademarks, we granted Lanvin the right to repurchase the brand names and trademarks in 2025 for the greater of €70 million (approximately $97 million) or one times the average of the annual sales for the years ending December 31, 2023 and 2024.

prestige Fragrances

***Lanvin** Me*

LANVIN

LANVIN

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

With sales in 2013 of $86.1 million, Lanvin fragrances occupy an important position in the selective distribution market in France, Europe and Asia. Current lines in distribution include: *Arpège* (1927), *Lanvin L'Homme* (1997), *Eclat d'Arpège* (2002), *Rumeur 2 Rose* (2007), *Jeanne Lanvin* (2008), *Marry Me!* (2010) and *Jeanne Lanvin Couture* (2012). During 2013, Lanvin fragrances sales increased 11% which was driven by continuing gains from the *Eclat d'Arpège* line and the launch of *Lanvin Me*, which was designed by Lanvin designer, Alber Elbaz.

MONT BLANC

MONTBLANC

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

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

In July 2010, we commenced distribution of Montblanc's legacy fragrances, which include: *Présence* (2001), *Présence D'une Femme* (2002), *Individuel* (2004), *Femme Individuelle* (2004), *Starwalker* (2005), *Femme de Montblanc* (2006) and *Homme Exceptionnel* (2006). In 2011, we launched a new Montblanc fragrance, *Legend*, which has become our best-selling men's line. In 2012, we launched our first women's fragrance under the Montblanc brand. Our second men's line, *Emblem*, is ready for launch in the Spring of 2014. Montblanc product sales increased 40% in 2013 to $83.2 million as compared to $59.3 million, which was 40% ahead of $42.5 million in 2011.

Montblanc *Emblem for Men*

***Jimmy Choo** Flash*

JIMMY CHOO

JIMMY CHOO

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

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

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

In January 2011, our first fragrance under the Jimmy Choo brand was initially launched in select distribution in the United Kingdom and the United States, and this signature scent rolled out globally in Spring 2011. Throughout 2011, Jimmy Choo product sales exceeded our expectations and sales topped $40 million in that year. Sales growth has continued, reaching $51.5 million in 2012 and $72.4 million in 2013, a year marked by the launch by our second Jimmy Choo line, *Flash*, in February. In 2014, we will introduce our first men's fragrance.

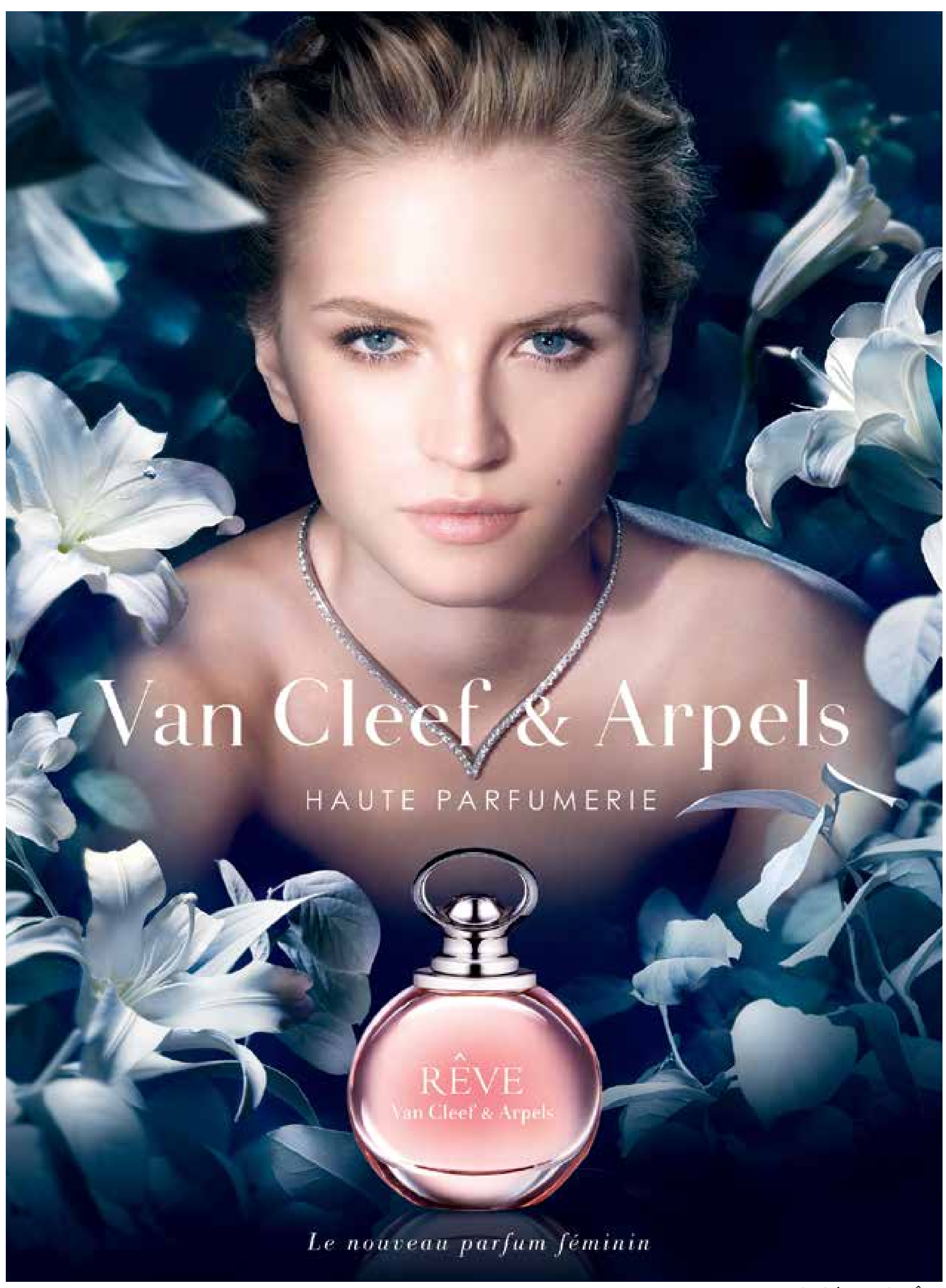
Van Cleef & Arpels

VAN CLEEF & ARPELS

In September 2006, we entered into an exclusive, worldwide license agreement for the creation, development and distribution of fragrance and related bath and body products under the Van Cleef & Arpels brand and related trademarks.

Van Cleef & Arpels fragrances in current distribution include: *First* (1976), *Van Cleef pour Homme* (1978), *Tsar* (1989), *Van Cleef* (1994), *First 1er Bouquet* (2008), *Féerie* (2008), *Collection Extraordinaire* (2009), *Oriens* (2010), *Midnight in Paris* (2010).

For the past two years we have been fine tuning the product range and repositioning our Van Cleef & Arpels fragrances in the exclusive high-end segment. With two new product launches in 2010 and no new launches in 2011 or 2012, we saw a sales decline of approximately 19% and 17% in 2012 and 2011, respectively. Sales growth resumed in 2013 with 11% year-over-year improvement due to the promising start to the new *Rêve* line and steady performances by the *First* and *Collection Extraordinaire.*



Van Cleef & Arpels *RÊVE*

***Boucheron** Place Vendome*

BOUCHERON

BOUCHERON

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

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

The transfer of existing inventory from the former licensee was completed early in 2011, and we then commenced distribution of Boucheron's legacy fragrances. Our first new fragrance under the Boucheron brand, *Jaïpur Bracelet,* debuted in 2012, and we were pleased with its results. Our second line, *Boucheron Place Vendôme,* which has a beautiful glasswork bottle with a cabochon, the emblematic stone of House Boucheron, was released in Fall 2013. Despite a difficult 2012 base comparison from the reintroduction of the brand's classic lines and a one-time special edition fragrance in the *Jaïpur Bracelet* line, Boucheron fragrances sales increased 10% to of $23.1 million in 2013, as compared to $21.1 million in 2012, driven in particular by the launch of the Boucheron *Place Vendôme* line.

Paul Smith

PAUL SMITH

We signed an exclusive worldwide license agreement with Paul Smith in December 1998 for the creation, development and distribution of Paul Smith perfumes. In July 2008, we extended this license for an additional seven years through December 31, 2017.

Paul Smith is an internationally renowned British designer who creates fashion with a clear identity. Paul Smith has a modern style which combines elegance, inventiveness and a sense of humor and enjoys a loyal following, especially in the UK and Japan. Fragrances include: *Paul Smith* (2000), *Paul Smith Extrême* (2002), *Paul Smith Rose* (2007), *Paul Smith Man 2* (2010) and *Optimistic* (2011). A new men's and women's line, *Portrait*, was released in Spring 2013.

Paul Smith *Extreme Sport*

S.T. Dupont *58 Avenue Montaigne*

S.T. DUPONT

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

S.T. Dupont fragrances include: *S.T. Dupont* (1998), *S.T. Dupont Essence Pure* (2002), *S.T. Dupont Noir* (2006), *S.T. Dupont Blanc* (2007), *S.T. Dupont Passenger* (2008), S*.T. Dupont Intense* (2009), *S.T. Dupont Passenger Cruise* (2011), and *58 avenue Montaigne* (2012). Our plans call for a new men's and women's line for 2014.

BALMAIN
PARIS

BALMAIN

In July 2011, we entered into a 12-year exclusive worldwide license agreement to create, produce and distribute perfumes and ancillary products under the Balmain brand. Our rights under the agreement commenced on January 1, 2012 when we took over the production and distribution of existing Balmain fragrances for men and women.

The Balmain couture house was founded in 1945 by Pierre Balmain. In recent years, Balmain has undergone a significant transformation. With the redefinition of its image in ready-to-wear, the brand has become a reference for style, while retaining its distinctive design codes from the haute couture universe. In doing so, the brand has become a major trend-setter. Our first new Balmain women's fragrance, *Extatic*, is scheduled to make its debut in 2014 in selective distribution.

Balmain *Extatic*

Repetto

Repetto

PARIS

REPETTO

In December 2011, we entered into a 13-year exclusive worldwide license agreement to create, produce and distribute perfumes and ancillary products under the Repetto brand. Our rights under the agreement commenced on January 1, 2012.

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

With an ambitious plan of international expansion focusing mainly on Europe, the brand is now branching out into Asia, notably South Korea and Japan where its mix of cross-generational appeal and French chic has met with unprecedented enthusiasm. Our first fragrance line was launched in 2013, and with sales of $12.0 million for just seven months of activity, Repetto fragrances achieved much higher performances in Europe and Asia than expected. This line was among the year's top successes, with the second best women's fragrance launch in France for 2013.

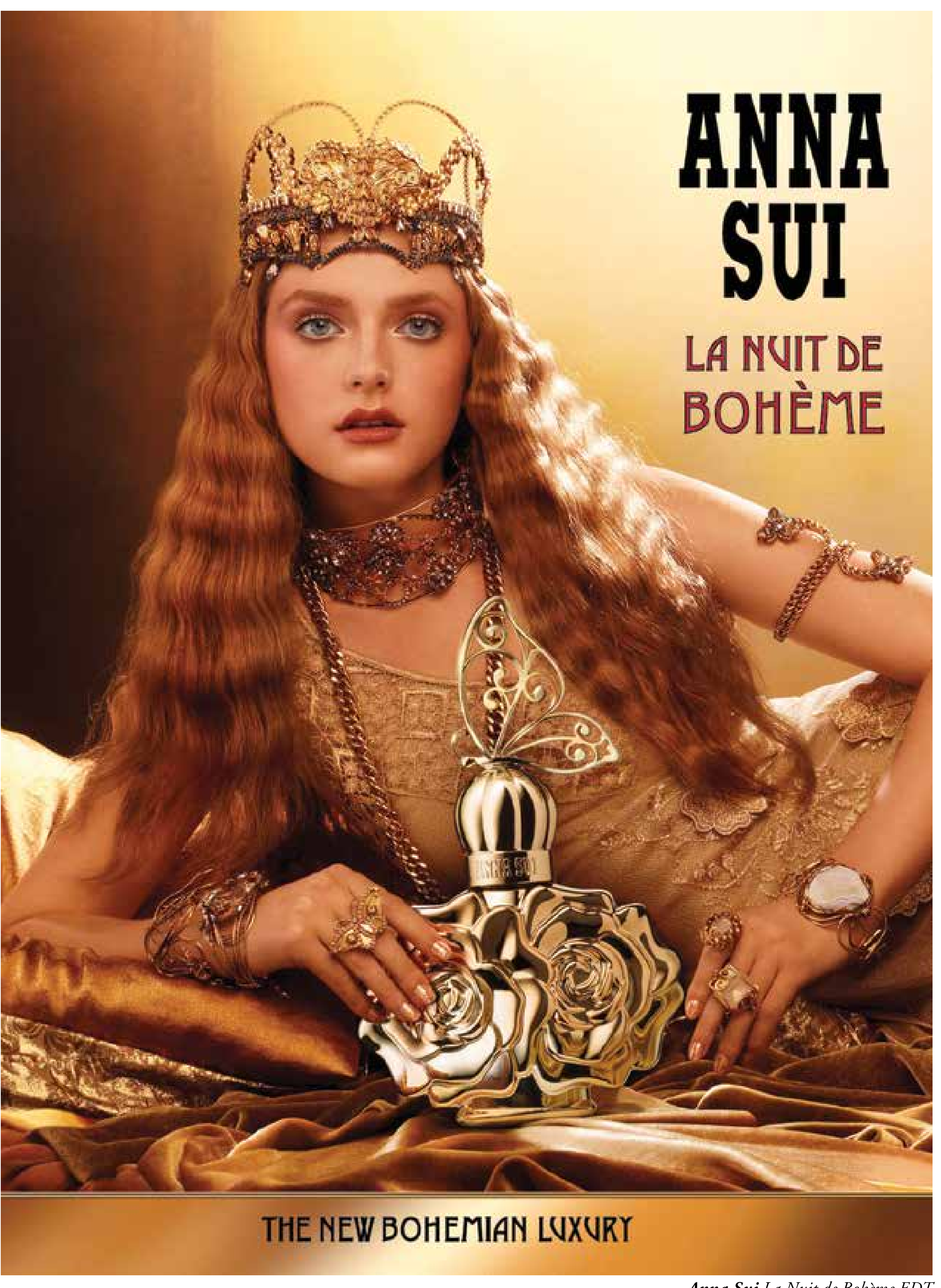
ANNA
SUI

ANNA SUI

In June 2011, we entered into a 10-year exclusive worldwide fragrance license agreement to produce and distribute perfumes and fragrance related products under the Anna Sui brand. Our rights under the agreement commenced on January 1, 2012 when we took over production and distribution of the existing Anna Sui fragrance collections.

We are working in partnership with American designer, Anna Sui, and her creative team to build upon the brand's growing customer appeal, and develop new fragrances that capture the brand's very sweet feminine girly aspect, combined with touch of nostalgia, hipness and rock-and-roll. Anna Sui's devoted customer base, which spans the world, is especially strong in Asia.

We have high expectations for growing the Anna Sui fragrance franchise by developing new products and expanding the brand's fragrance presence in North America, Europe and the Middle East. With help from the Fall 2013 launch of *La Vie de Bohème,* sales of Anna Sui products were up 29% in 2013, reaching approximately $25.8 million. A new Anna Sui fragrance family is in the works for 2015.



Anna Sui *La Nuit de Bohème EDT*

Dunhill *Desire Black*

DUNHILL

In December 2012, we entered into a 10-year exclusive worldwide fragrance license to create, produce and distribute perfumes and fragrance related products under the Alfred Dunhill brand, which commenced on April 3, 2013.

The house of Alfred Dunhill was established in 1893 and since that time has been dedicated to providing high quality men's luxury products, with core collections offered in menswear, leather goods and accessories. The brand has global reach through a premium mix of self-managed retail outlets, high-level department stores and specialty retailers. Known for its commitment to elegance and innovation and being a leader of British men's style, the brand continues to blend innovation and creativity with traditional craftsmanship.

Inter Parfums USA, LLC took over production and distribution of Alfred Dunhill legacy fragrances beginning in April 2013, and we plan to introduce a new men's scent in the Fall of 2014. We plan to support the new men's scent with a distribution strategy that recognizes and utilizes Alfred Dunhill's luxury positioning, along with brand appropriate marketing materials and a media campaign.

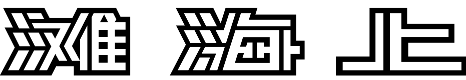
KARL LAGERFELD

In October 2012 we entered into a 20-year exclusive worldwide license agreement with Karl Lagerfeld B.V., the internationally renowned haute couture fashion house, to create, produce and distribute perfumes under the Karl Lagerfeld brand.

Under the creative direction of Karl Lagerfeld, one of the world's most influential and iconic designers, the Lagerfeld Portfolio represents a modern approach to distribution, an innovative digital strategy and a global 360 degree vision that reflects the designer's own style and soul. Our first new line, a premium scent for both men and women, is scheduled to be launched in the Spring of 2014.

Karl Lagerfeld

SHANGHAI TANG



SHANGHAI TANG

In July 2013, we created a wholly-owned Hong Kong subsidiary, Inter Parfums USA Hong Kong Limited, which entered into a 12-year exclusive worldwide license to create, produce and distribute perfumes and related products under China's leading luxury brand, Shanghai Tang. The agreement commenced on July 1, 2013 and is subject to certain minimum sales, advertising expenditures and royalty payments as are customary in our industry. We plan to launch the first fragrance collection under the Shanghai Tang brand in late 2014. Founded in 1994, Shanghai Tang is the leading Chinese luxury brand with international recognition and distribution. As the global curator of modern Chinese chic, Shanghai Tang champions the richness and beauty of the Chinese culture through its contemporary lifestyle offer of apparel and accessories for men, women and children, as well as home collections. Shanghai Tang supports an international network of 45 boutiques, including the world's largest lifestyle flagship – The Shanghai Tang Mansion in Hong Kong and its largest flagship boutique, The Cathay Mansion in Shanghai, China and on-line.

AGENT PROVOCATEUR

In July 2013, we entered into a 10.5-year exclusive worldwide license to create, produce and distribute perfumes and related products under London-based luxury lingerie brand, Agent Provocateur. The agreement commenced on August 1, 2013 and is subject to certain minimum advertising expenditures as is customary in our industry. We plan to launch the first fragrances under the Agent Provocateur brand, *Fatale* and *Fatale Pink,* in the Spring of 2014. In addition, we have taken over distribution of selected fragrances within the brand's current perfume portfolio, and plan to revitalize the Agent Provocateur signature scent.

Founded in 1994 by Joseph Corré, and Serena Rees and acquired by the private equity firm, 3i Group plc in 2007, Agent Provocateur is an iconic, globally-recognized brand, breaking new ground with every collection and rightfully earning its place as a benchmark brand in the world of lingerie. It is a brand that is confident, sensual and irreverent. Agent Provocateur celebrates and empowers women with a unique brand image renowned for being provocative and yet always leaving something to the imagination.

In recent years, Agent Provocateur has been opening doors at a steady growth and plans to continue to grow its door count, especially in Asia. Currently, its products which extend into swimwear, bridal and accessories, are sold globally at nearly 80 doors in 26 countries, which include its own boutiques, shop-in-shops within the finest department stores and specialty retailers, as well as on-line.

***Agent Provocateur** Fatale*

***Oscar de la Renta** Something Blue*

OSCAR DE LA RENTA

In October 2013, we entered into a 12-year exclusive worldwide license to create, produce and distribute perfumes and related products under the Oscar de la Renta brand, which closed in December 2013, and is subject to certain minimum advertising expenditures as are customary in our industry. We have taken over distribution of fragrances within the brand's current perfume portfolio, and plan to launch our first fragrance under the Oscar de la Renta brand in the Spring of 2015.

Oscar de la Renta is one of the world's leading luxury goods firms. The New York-based company was established in 1965, and encompasses a full line of women's accessories, bridal, childrenswear, fragrance, beauty and home goods, in addition to its internationally renowned signature women's ready to wear collection. Oscar de la Renta products are sold globally in fine department and specialty stores, oscardelarenta.com and wholesale channels. There are currently eight Oscar de la Renta retail stores in the United States. There are five international retail stores located in London, Athens, the Dominican Republic, Dubai and Riyadh.

Specialty Retail

***Gap** bright, electric, inspire and imagine*

SPECIALTY RETAIL

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

Brand Name	Expiration Date
The Gap Inc.	December 31, 2014
Brooks Brothers	December 31, 2014, plus a 5-year optional term if certain sales targets are met
bebe Stores	June 30, 2017, plus three, 3-year optional terms, if certain sales targets are met
Betsey Johnson	December 31, 2015, plus a 5-year optional term if certain conditions are met
Lane Bryant	December 31, 2015

bebe *bebe Love*

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

GAP AND BANANA REPUBLIC

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

In 2008, we expanded our relationship with Gap Inc. to include a licensing agreement for international distribution of personal care products created for the Gap and Banana Republic brands. We entered into this license agreement to capitalize on cross-border brand awareness of Gap's iconic American style and Banana Republic's affordable luxury, which we have interpreted into a brand-specific assortment of fragrance and fragrance related products. In addition, our long-established relationships with distributors in over 100 countries, and our current infrastructure enabled us to roll-out Gap and Banana Republic products to select department stores, perfumeries, travel retailers, military bases and other appropriate retail outlets around the world.

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

effective on January 1, 2012, run through December 31, 2014. Commencing in 2015, our current plans are to continue to distribute Gap fragrances internationally and through their Outlet division in North America only, and distribute Banana Republic fragrances to Banana Republic stores and Banana Republic Factory Stores in North America as well as through international distribution.

Gap scents in current distribution include: *Close* (2009), *Stay* (2010), *Core* (2010), *Deep* (2011) and *Near* (2011). Building upon the success of the Gap brand's fragrances, in 2012 we launched a new fragrance concept for Gap in an effort to capture the heritage of the brand. *Gap Established 1969* launched in March 2012 at Gap stores in the U.S. and international distribution commenced in June 2012. During 2013, we brought to market *Gap Established 1969 Bright* and *Electric* and in 2014, *Gap Established 1969 Inspire* and *Imagine* comes to market.

Banana Republic products currently available include: *Classic* (1995), *W* (1995), *Alabaster* (2006), *Jade* (2006), *Rosewood* (2006), *Slate* (2006), *Black Walnut* (2006), *Cordovan* (2007), *Malachite* (2007), *Republic of Women* (2009), *Republic of Men* (2009) and *Wildbloom* (2011). To complement the women's scent *Wildbloom,* introduced in 2011, we launched a brand extension, *Wildbloom Vert,* in early 2012 followed later in the year with Wildblue. In 2013, we brought new fragrances to market: *Banana Republic's Wildbloom Rouge* and *Wildblue Noir*. In the Fall of 2014, *Modern*, a new collection for men and women is scheduled to launch.

bebe STORES

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

Our bebe signature fragrance was unveiled at more than 200 bebe stores in the U.S. in August 2009, which was followed by worldwide distribution shortly thereafter. Scents currently available for domestic and international markets include: *bebe* (2009), *bebe Sheer* (2010) and *bebe gold* (2011). In 2012, we introduced a new bebe scent, *Wishes & Dreams* and we introduced two other scents, *bebe desire* and *bebe Nouveau* in 2013.

BETSEY JOHNSON

In July 2010, we entered into an exclusive worldwide agreement for the Betsey Johnson brand, under which we design, manufacture and sell fragrance, color cosmetics as well as other personal care products across a broad retail spectrum. The agreement includes a licensing component, enabling us to sell these fragrance and beauty products to specialty and department stores as well as other retail outlets worldwide.

Our first product launch under the Betsey Johnson brand occurred in 2010 with a new take on the designer's vintage fragrance. In 2011, we launched of our first new Betsey Johnson scent, *Too Too*, with initial distribution in select department stores as well as Sephora stores in the U.S. In 2012, we added *Too Too Pretty* to the Betsy Johnson lineup.

BROOKS BROTHERS

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

Brooks Brothers product lines currently available include: *Brooks Brothers New York* (2008), *Black Fleece* (2009), *Brooks Brothers Madison* (2010), and a trio of scents *Black Fleece Red, White, & Blue* (2010). In 2012, we introduced a new Brooks Brothers fragrance, *Miss Madison*. A new master brand for the Brook Brothers brand is scheduled for launch in the Fall of 2014.

LANE BRYANT

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

In Spring 2011, we commenced shipments of a line of performance-based bath, body and specialty products, to be sold under Lane Bryant's Cacique® brand. This line was not successful and has since been discontinued. In 2012, we created a signature scent for Lane Bryant stores which is currently being sold chain-wide.

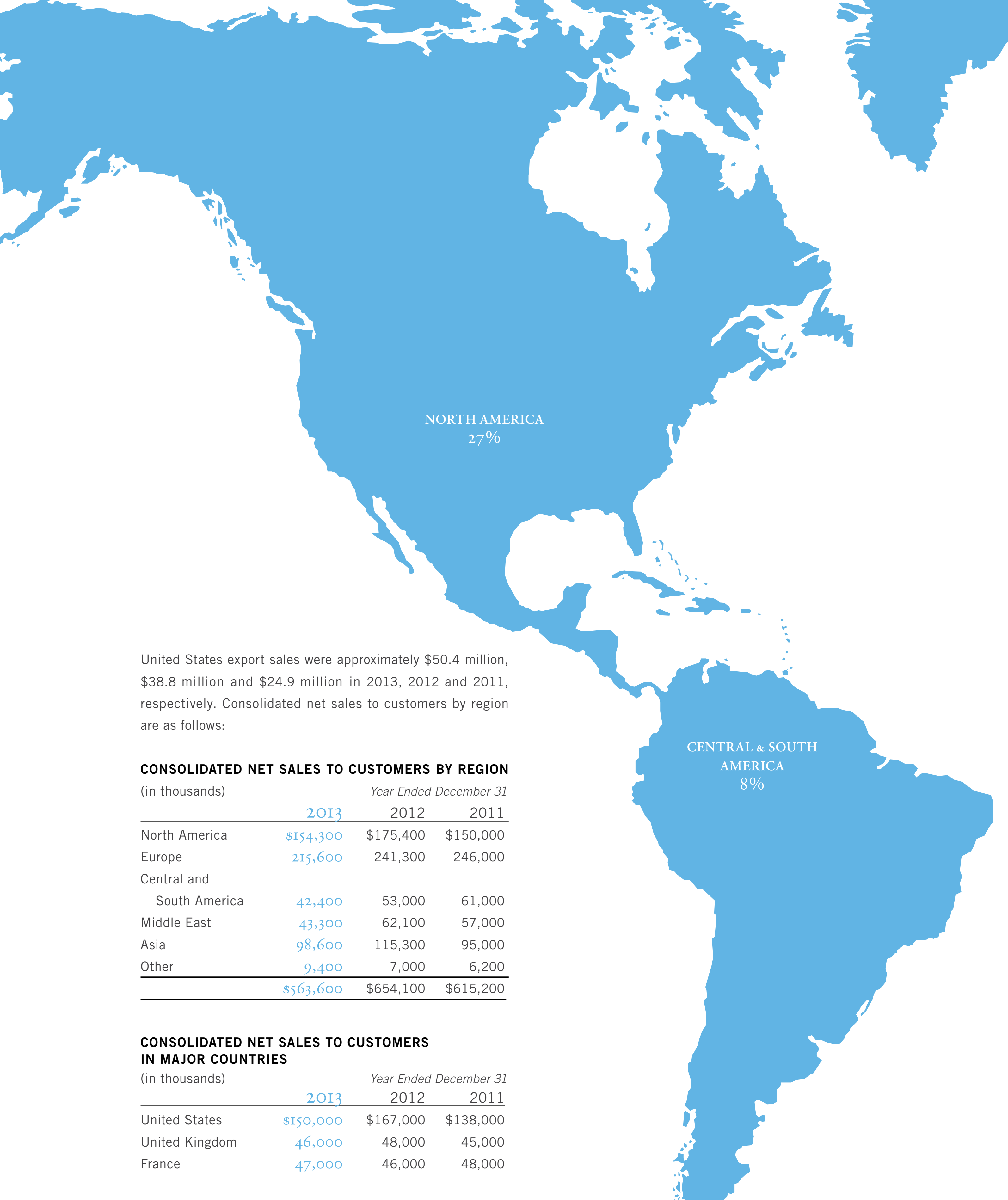
bebe *Nouveau*

QUARTERLY FINANCIAL DATA: (UNAUDITED)

(In thousands, except per share data)

2013	Q1	Q2	Q3	Q4	Full Year
Net Sales	$213,810	$117,485	$126,753	$105,531	$563,579
Gross Margin	134,643	63,607	70,007	60,522	328,779
Net Income (Loss)	42,942	4,521	9,903	(6,400)	50,966
Net Income (Loss) Attributable to					
Inter Parfums, Inc.	31,696	3,815	7,854	(4,154)	39,211
Net Income (Loss) Attributable to					
Inter Parfums, Inc. per Share:					
Basic	$1.03	$0.12	$0.26	$(0.13)	$1.27
Diluted	1.03	0.12	0.25	(0.13)	1.27
Average Common Shares Outstanding:					
Basic	30,687	30,748	30,796	30,826	30,764
Diluted	30,847	30,953	30,986	30,826	30,954

2012	Q1	Q2	Q3	Q4	Full Year
Net Sales	$165,368	$145,555	$166,264	$176,930	$654,117
Gross Margin	106,678	87,856	101,118	111,534	407,186
Net Income	20,254	7,481	13,177	135,978	176,890
Net Income Attributable to					
Inter Parfums, Inc.	15,497	6,008	10,018	99,613	131,136
Net Income Attributable to					
Inter Parfums, Inc. per Share:					
Basic	$0.51	$0.20	$0.33	$3.25	$4.29
Diluted	0.51	0.20	0.33	3.24	4.26
Average Common Shares Outstanding:					
Basic	30,551	30,563	30,570	30,615	30,575
Diluted	30,686	30,688	30,717	30,772	30,716



United States export sales were approximately $50.4 million, $38.8 million and $24.9 million in 2013, 2012 and 2011, respectively. Consolidated net sales to customers by region are as follows:

CONSOLIDATED NET SALES TO CUSTOMERS BY REGION

(in thousands) *Year Ended December 31*

	2013	2012	2011
North America	$154,300	$175,400	$150,000
Europe	215,600	241,300	246,000
Central and South America	42,400	53,000	61,000
Middle East	43,300	62,100	57,000
Asia	98,600	115,300	95,000
Other	9,400	7,000	6,200
	$563,600	$654,100	$615,200

CONSOLIDATED NET SALES TO CUSTOMERS IN MAJOR COUNTRIES

(in thousands) *Year Ended December 31*

	2013	2012	2011
United States	$150,000	$167,000	$138,000
United Kingdom	46,000	48,000	45,000
France	47,000	46,000	48,000

EUROPE
38%
MIDDLE EAST
8%
ASIA
17%

the Organization

ALL CORPORATE FUNCTIONS,

Including product analysis and development, production and sales, and finance are coordinated at the Company's corporate headquarters in New York and at the corporate offices of Interparfums SA in Paris. Each company is organized into two operational units that report directly to general management, and European operations ultimately report to Mr. Benacin and United States operations ultimately report to Mr. Madar.

FINANCE, INVESTOR RELATIONS AND ADMINISTRATION:

Russell Greenberg in the United States and Philippe Santi in France:

- Financial policy and communication, investor relations;
- Financial accounting, cost accounting, budgeting and cash flow management;
- Disclosure requirements of the Securities and Exchange Commission and Commission des Operations de Bourse;
- Labor relations, tax and legal matters and management information systems.

OPERATIONS:

Henry B. Clarke and Alex Canavan in the United States and Axel Marot in France:

- Product development;
- Logistics and transportation;
- Purchasing and industrial relations;
- Quality control and inventory cost supervision.

EXPORT SALES:

Herve Bouillonnec in the United States and Frédéric Garcia-Pelayo in France:

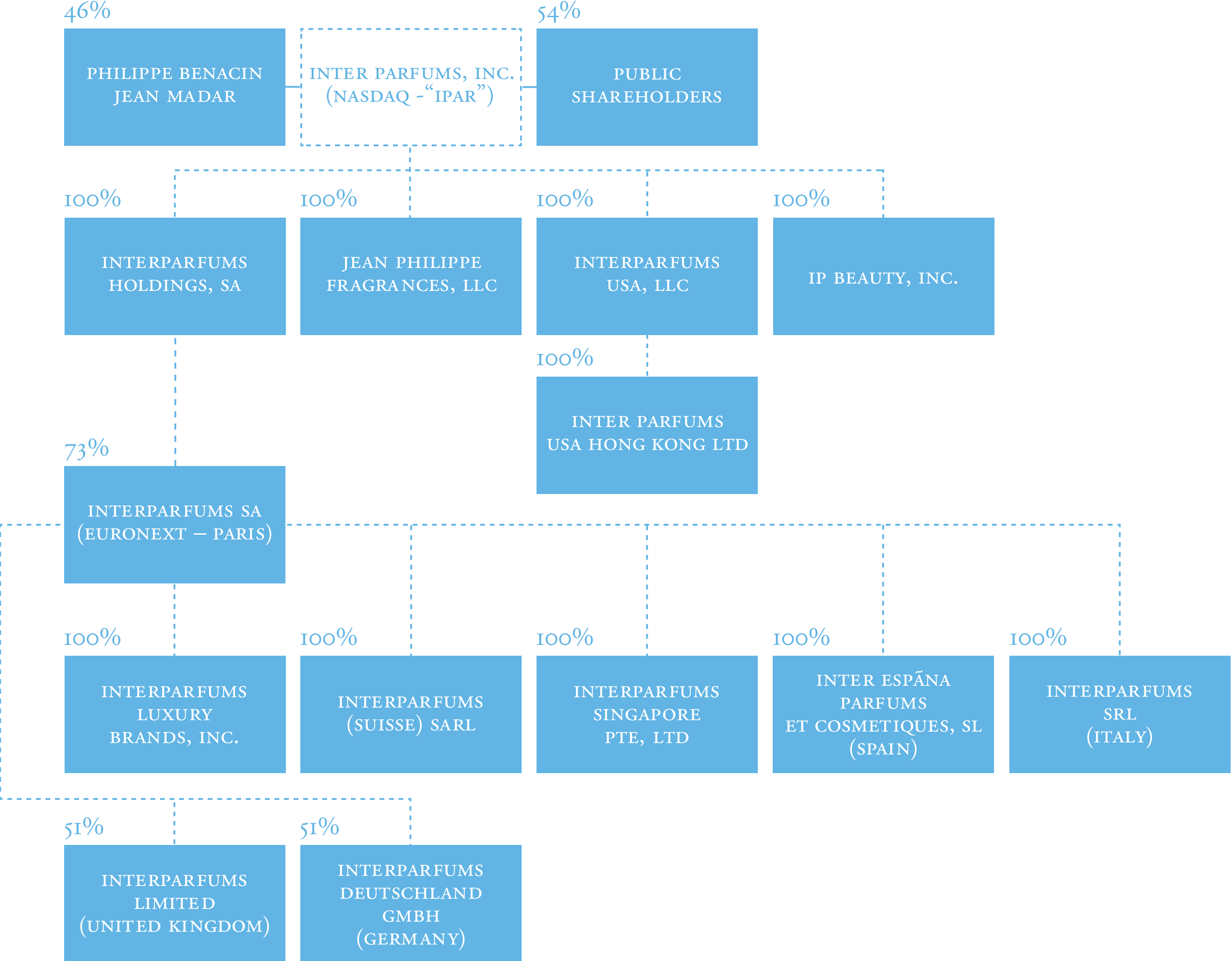
- International development strategy;
- Establishment of distributor networks and negotiation of contracts;
- Monitoring of profit margins and advertising expenditures.

DOMESTIC (HOME COUNTRY) SALES:

Michel Bes in the United States and Jérôme Thermoz in France:

- Establish and apply domestic sales strategy and distribution policy;
- Sales team management and development;
- Monitoring of profit margins and advertising expenditures.

SIMPLIFIED CHART OF THE ORGANIZATION



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management's discussion and analysis of financial condition and Results of Operations

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

REGULATION S-K ITEM 10(e)

Regulation S-K, Item 10(e), "Use of Non-GAAP Financial Measures in commission filings," prescribes the conditions for use of non-GAAP financial information in filings with the Securities and Exchange Commission.

On July 16, 2012, Burberry exercised its option to buy-out our license rights effective December 31, 2012. Due to the significance of this transaction as well as its non-recurring nature, exclusion of such gain in the non-GAAP financial measures provides a more complete disclosure and facilitates a more accurate comparison of current results to historic results. In addition, providing comparable sales information excluding sales relating to a terminated license provides investors with a more accurate picture of current sales trends. Based upon the foregoing, we believe that our presentation of the non-GAAP financial information is important supplemental measures of operating performance to investors.

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. Prestige cosmetics and prestige skin care products represent less than 1% of consolidated net sales.

We produce and distribute our European based prestige products primarily under license agreements with brand owners, and European based prestige product sales represented approximately 82%, 87% and 90% of net sales for 2013, 2012 and 2011, respectively. We have built a portfolio of prestige brands, which include *Lanvin, Montblanc, Jimmy Choo, Van Cleef & Arpels, Paul Smith, Boucheron, S.T. Dupont, Balmain, Karl Lagerfeld* and *Repetto,* whose products are distributed in over 100 countries around the world.

Burberry was our most significant license, and net sales of Burberry products represented 23%, 46% and 50% of net sales for the years ended December 31, 2013, 2012 and 2011, respectively. (See Note 2 "Termination of Burberry License" in notes to consolidated financial statements on page 81 of this annual report). In addition, we own the Lanvin brand name for our class of trade, and license the Montblanc and Jimmy Choo brand names; for the year ended December 31, 2013, sales of product for these brands represented 15%, 15% and 13% 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 18%,

13% and 10% of net sales in 2013, 2012 and 2011, respectively. These fragrance products are sold under trademarks owned by us or pursuant to license or other agreements with the owners of the *Anna Sui, Alfred Dunhill, Oscar de la Renta, Shanghai Tang, Agent Provocateur, Gap, Banana Republic, Brooks Brothers, bebe* and *Betsey Johnson* brands.

Historically, seasonality has not been a major factor for our Company as quarterly sales fluctuations were more influenced by the timing of new product launches than by the third and fourth quarter holiday season. However, in certain markets where we now sell directly to retailers, seasonality is more evident. We have operated our European distribution subsidiaries in Italy, Germany, Spain and the United Kingdom since 2007, and in January 2011, we commenced operations of our U.S. distribution subsidiary. In addition, our specialty retail product lines sold to U.S. retailers is also concentrated in the second half of the year.

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 2013, the economic uncertainty and financial market volatility taking place in certain European countries 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. This is due in part to our belief that we are well positioned as a result of our strategy to manage our business effectively and efficiently. 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 and other uncertainties still exist in select markets in which we do business and we continue to monitor global economic uncertainties and other risks that may affect our business.

Our reported net sales are impacted by changes in foreign currency exchange rates. A weak U.S. dollar has a positive impact on our net sales. However, earnings are negatively affected by a weak dollar because approximately 40% of net sales of our European operations are denominated in U.S. dollars, while all costs of our European operations are incurred in euro. Our Company addresses certain financial exposures through a controlled program of risk management that includes the use of derivative financial instruments. We primarily enter into foreign currency forward exchange contracts to reduce the effects of fluctuating foreign currency exchange rates.

RECENT IMPORTANT EVENTS

BURBERRY

Burberry exercised its option to buy-out the license rights effective December 31, 2012. On October 11, 2012, the Company and Burberry entered into a transition agreement that provided for certain license rights and obligations to continue through March 31, 2013. The Company continued to operate certain aspects of the business for the brand including product development, testing, and distribution. The transition agreement provided for non-exclusivity for manufacturing, a cap on sales of Burberry products, a reduced advertising requirement and no minimum royalty amounts.

The transition agreement provided that Burberry inventories at March 31, 2013 should be less than $20.0 million in the aggregate. Actual Burberry inventory as of March 31, 2013 aggregated approximately $18 million. During the second quarter of 2013, the Company and Burberry reached an agreement regarding inventory and Burberry agreed to purchase $7.8 million of inventory at cost. Remaining inventories were sold off in the ordinary course of business pursuant to our sell-off rights, destroyed or given to Burberry at no charge.

As of September 30, 2013, the $10 million inventory reserve, recorded in December 2012 upon recognition of the license termination gain of $198.8 million, was fully con-

sumed during 2013.

Accounts receivables and accounts payables were collected and paid in the ordinary course of business. In addition, Burberry purchased fixed assets for $2.8 million as agreed in the transition agreement.

SHANGHAI TANG

In July 2013, the Company created a wholly-owned Hong Kong subsidiary, Inter Parfums USA Hong Kong Limited, which entered into a 12-year exclusive worldwide license to create, produce and distribute perfumes and related products under China's leading luxury brand, Shanghai Tang. The agreement commenced on July 1, 2013 and is subject to certain minimum sales, advertising expenditures and royalty payments as are customary in our industry. The Company plans to launch its first fragrance collection under the Shanghai Tang brand in late 2014.

AGENT PROVOCATEUR

In July 2013, the Company entered into a 10.5-year exclusive worldwide license to create, produce and distribute perfumes and related products under London-based luxury lingerie brand, Agent Provocateur. The agreement commenced on August 1, 2013 and is subject to certain minimum advertising expenditures as is customary in our industry. The Company plans to launch its first fragrance under the Agent Provocateur brand in 2014. In addition, the Company has taken over distribution of selected fragrances within the brand's current perfume portfolio, and plans to revitalize the Agent Provocateur signature scent.

OSCAR DE LA RENTA

In October 2013, the Company entered into a 12-year exclusive worldwide license to create, produce and distribute perfumes and related products under the Oscar de la Renta brand, The agreement closed on December 2, 2013 and is subject to certain minimum advertising expenditures as is customary in our industry. We purchased certain inventories and paid an up-front entry fee of $5.0 million. The Company has taken over distribution of fragrances within the brand's current perfume portfolio, and plans to launch its first fragrance under the Oscar de la Renta brand in 2015.

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.

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, in 2011 we took over U.S. distribution of our European based prestige products, and for U.S. based customers, 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.

PROMOTIONAL ALLOWANCES

We have various performance-based arrangements with certain retailers. These arrangements primarily allow customers to take deductions against amounts owed to us for product purchases. The costs that we incur for performance-based arrangements, shelf replacement costs and slotting fees are netted against revenues on our Company's consolidated statement of income. Estimated accruals for promotions and advertising programs are recorded in the period in which the related revenue is recognized. We review and revise the estimated accruals for the projected costs for these promotions. Actual costs incurred may differ significantly, either favorably or unfavorably, from estimates if factors such as the level and success of the retailers' programs or other conditions differ from our expectations.

INVENTORIES

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

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 2013 assuming all other assumptions remained constant:

(In millions)	**Change**	**Increase (decrease) to fair value**
Weighted average cost of capital	+10%	$(1.32)
Weighted average cost of capital	-10%	1.67
Future sales levels	+10%	1.27
Future sales levels	-10%	(1.27)

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.

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 earnings at that time. In addition, the Company follows the provisions of uncertain tax positions as addressed in ASC topic 740-10-65-1.

QUANTITATIVE ANALYSIS

During the three-year period ended December 31, 2013 we have not made any material changes in our assumptions underlying these critical accounting policies or to the related significant estimates. The results of our business underlying these assumptions have not differed significantly from our expectations.

While we believe the estimates we have made are prop-

er and the related results of operations for the period are presented fairly in all material respects, other assumptions could reasonably be justified that would change the amount of reported net sales, cost of sales, and selling, general and administrative expenses as they relate to the provisions for anticipated sales returns, allowance for doubtful accounts and inventory obsolescence reserves. For 2013, had these estimates been changed simultaneously by 5% in either direction, our reported gross profit would have increased or decreased by approximately $0.5 million and selling, general and administrative expenses would have changed by approximately $0.03 million. The collective impact of these changes on operating income, net earnings attributable to Inter Parfums, Inc., and net earnings attributable to Inter Parfums, Inc. per diluted common share would be an increase or decrease of approximately $0.6 million, $0.27 million and $0.01, respectively.

RESULTS OF OPERATIONS

NET SALES

(In millions) *Year Ended December 31*

	2013	% Change	2012	% Change	2011
European based product sales	$464.3	(19%)	$571.8	4%	$552.4
United States based product sales	99.3	21%	82.3	31%	62.8
Total net sales	$563.6	(14%)	$654.1	6%	$615.2

After increasing 6% in 2012, net sales for the year ended December 31, 2013 decreased 14% to $563.6 million. At comparable foreign currency exchange rates, net sales declined 14% in 2013 and increased 9% in 2012. While there was no discernible effect of currency rates on net sales in 2013, the strength of the U.S. dollar in 2012 as compared to 2011 had a negative effect on reported net sales in 2012. The average dollar/euro exchange rates for the years ended December 31, 2013, 2012 and 2011 were 1.33, 1.28 and 1.39, respectively. Our association with Burberry concluded during the second quarter of 2013. Burberry brand product sales aggregated $130.3 million in 2013, as compared to $301.4 million in 2012.

See information regarding Regulation S-K Item 10(e), “Use of Non-GAAP Financial Measures”, on page 59 of this annual report. European based prestige product sales, excluding Burberry brand product sales, increased 23% in 2013, as compared to 2012. Our major ongoing brands have performed very well in 2013. For Jimmy Choo we introduced its second fragrance line, Jimmy Choo *Flash*, which contributed to the 41% increase in brand sales for 2013. Sales of Montblanc *Legend* fragrances also performed exceptionally well with 2013 brand sales increasing 40%. With the continued growth of *Eclat d’ Arpège* along with the launch of *Lanvin Me* and the steady performance of the *Jeanne Lanvin* line, Lanvin product sales increased 11% in 2013. In addition, the recent launches of the Repetto signature scent, along with *Place Vendôme* from Boucheron have exceeded our expectations and were meaningful contributors to our growth in sales of ongoing brands in 2013.

Future sales within our European operations will be significantly affected as a result of the termination of the Burberry license. However, we are confident in our future as this new situation has allowed us to strengthen investments supporting all portfolio brands and to accelerate brand development. Our expectations reflect our plans to continue to build upon the strength of our brands and our worldwide distribution network. For 2014, we expect continued strong performances from the existing scents within the Lanvin, Jimmy Choo, Montblanc and Boucheron brands. In addition, our plans call for 2014 to be one of our largest new product launch years in our history, with new scents rolling out for Balmain, Karl Lagerfeld, Jimmy Choo, Montblanc and S.T. Dupont. Lastly, the Company hopes to benefit from its substantial resources to potentially acquire one or more brands, either on a proprietary basis or as a licensee.

European based product sales increased 4% in 2012 after an increase of 36% in 2011. The global launch of Burberry *Body* in 2011 made for a very difficult sales comparison. Burberry product sales declined 2% to $301.4 million in 2012 as compared to $307.7 million in 2011. Although Lanvin product sales declined 3% to $77.6 million in the absence of a major launch, other brands in our portfolio performed extremely well. Montblanc fragrance sales increased 40% to $59.3 million due in great part to the continued success of the men’s line, *Legend*. *Jimmy Choo* fragrances continued to build upon the success of the brand’s signature scent as sales increased 26% to $51.5 million. Boucheron,

in its first full year under license, also contributed to 2012 growth, as fragrance sales increased 82% to $21.1 million, as compared to 2011.

With respect to our United States prestige brand and specialty retail products, sales rose 21% and benefited from strong consumer demand and expanded retail distribution for Anna Sui fragrances. Initial sales of Anna Sui fragrances began in 2012 and gained further momentum following the launch of *La Vie de Bohème* in 2013. Anna Sui fragrance sales increased 29% to $25.8 million in 2013, as compared to $20.0 in 2012. In April 2013, our U.S. based operations took over the manufacture and distribution of legacy Alfred Dunhill fragrances, and brand sales aggregated $13.0 million, providing an incremental contribution to 2013 growth for our U.S. business. Finally we are very excited about our three recent fragrance license agreements:

i) internationally renowned fashion house, Oscar de la Renta,
ii) one of China's leading fashion brands, Shanghai Tang,
iii) London-based luxury lingerie brand, Agent Provocateur.

We expect each of these brands to further enhance the performance of our U.S.-based operations in the coming year.

United States prestige brand and specialty retail product sales increased 31% in 2012. The initial launch of our first Nine West fragrance and the commencement of sales pursuant to our Anna Sui license were the primary contributors to 2012 sales growth. With a high concentration of customers in the Far East, first year sales of Anna Sui products reached approximately $20.0 million. In January 2012, *Love Fury,* a women's fragrance created for Nine West launched at Macy's stores and Nine West stores in the U.S. and internationally. As this line was met with mixed reviews, it was discontinued in 2013.

CONSOLIDATED NET SALES TO CUSTOMERS BY REGION

(In millions)

	Year Ended December 31		
	2013	2012	2011
North America	$154.3	$175.4	$150.0
Western Europe	159.8	188.0	194.0
Eastern Europe	55.8	53.3	52.0
Central & South America	42.4	53.0	61.0
Middle East	43.3	62.1	57.0
Asia	98.6	115.3	95.0
Other	9.4	7.0	6.2
	$563.6	$654.1	$615.2

In 2013, the declines are primarily the result of the termination of the Burberry license. However, sales of ongoing brands remained strong in North America, Latin America, Asia and Eastern Europe, while weakness continued in Western Europe.

In 2012, top line growth was especially strong in North America where sales ran 17% ahead of 2011. Growth continued in the Middle East which saw a 9% increase in sales, while sales were down 3% and 13% in Western Europe and Central and South America, respectively. With the addition of the Anna Sui brand in our portfolio, the Asian market grew 21% in 2012.

GROSS PROFIT MARGINS

(In millions)

	Year Ended December 31		
	2013	2012	2011
Net sales	$563.6	$654.1	$615.2
Cost of sales	234.8	246.9	231.7
Gross margin	$328.8	$407.2	$383.5
Gross margin as a percent of net sales	58.3%	62.2%	62.3%

As a percentage of net sales, gross profit margins were 58.3%, 62.2%, and 62.3% in 2013, 2012 and 2011, respectively. For European operations, gross profit margin was 61%, 64% and 65% in 2013, 2012 and 2011, respectively. The gross margin decline in 2013 is directly related to the resolution of the Burberry inventory and the termination of the Burberry license. Although reserves were established and used to cover losses on the disposition of inventory, the sale of certain inventory to Burberry at cost, resulted in a lower gross margin. In addition, the discontinuance of Burberry product sales, which were sold at higher margins than ongoing brand sales, had a negative effect on margins. For U.S. operations, gross profit margin was 46% for both 2013 and 2012 and 40% in 2011. The increase since 2011 is the result of prestige product sales for the Anna Sui and Alfred Dunhill fragrance brands.

We carefully watch movements in foreign currency exchange rates as approximately 40% of our European based operations net sales are denominated in dollars, while our costs are incurred in euro. From a profit standpoint, a stronger U.S. dollar has a positive effect on our gross margin while a weak dollar has a negative effect. The average dollar/euro exchange rate was 1.33 in 2013, as compared to 1.28 in 2012. As such, there was only a minor effect on gross margin in 2013 from changes in currency exchange rates.

Costs relating to purchase with purchase and gift with purchase promotions are reflected in cost of sales and aggregated $25.7 million, $46.5 million and $48.4 million in 2013, 2012 and 2011, respectively, and represented 4.6%, 7.1% and 7.9% of net sales, respectively. The decline in 2013 is the result of the discontinuance of Burberry product sales.

Generally, we do not bill customers for shipping and handling costs and such costs, which aggregated $6.1 million, $8.4 million and $8.8 million in 2013, 2012 and 2011, respectively, and are included in selling, general and administrative expenses in the consolidated statements of income. As such, our Company's gross margins 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)

	Year Ended December 31		
	2013	2012	2011
Selling, general & administrative expenses	$250.0	$325.8	$315.7
Selling, general & administrative expenses as a percent of net sales	44%	50%	51%

Selling, general and administrative expenses decreased 23% for the year ended December 31, 2013, as compared to 2012 and increased 3% for the year ended December 31, 2012 as compared to 2011. As a percentage of sales, selling, general and administrative expenses were 44%, 50% and 51% for the years ended December 31, 2013, 2012 and 2011, respectively. For European operations, selling, general and administrative expenses decreased 27% in 2013, as compared to 2012 and represented 46% of sales in 2013 as compared to 52% in 2012. For U.S. operations, while sales increased 21% in 2013, as compared to 2012, selling, general and administrative expenses increased 16% for the same period and represented 34% of sales, as compared to 36% in 2012.

Promotion and advertising included in selling, general and administrative expenses aggregated $94.0 million, $132.7 million and $127.8 million for the years ended December 31, 2013, 2012 and 2011, respectively. Promotion and advertising as a percentage of sales represented 16.7%, 20.3% and 20.8% of net sales for the years ended December 31, 2013, 2012 and 2011, respectively. In 2013, pursuant to the requirements of the transition agreement with Burberry, advertising requirements were reduced. Almost all promotional spending in 2013 was for continuing brands and represented approximately 22% of continuing brand sales. As planned, we invested heavily in promotional spending in the latter part of 2013 to support new product launches and continued worldwide development of our brand portfolio.

Royalty expense included in selling, general and administrative expenses aggregated $40.5 million, $58.8 million and $51.3 million for the years ended December 31, 2013, 2012 and 2011, respectively. Royalty expense as a percentage of sales represented 7.2%, 9.0% and 8.3% of net sales for the years ended December 31, 2013, 2012 and 2011, respectively. In addition service fees, which are fees paid to third parties relating to the activities of our distribution subsidiaries, aggregated $15.1 million, $26.3 million and $25.3 million for the years ended December 31, 2013, 2012 and 2011, respectively. The decline in both royalties and service fees in 2013 are directly related to the termination of the Burberry license.

The impairment loss in 2012 related to our Nickel business. In December 2013, the Company sold its Nickel brand and trademark for $3.5 million, which was approximately equal to the then current book value of the goodwill and trademark; therefore, there was no material gain or loss as a result of the sale.

See information regarding Regulation S-K Item 10(e), "Use of Non-GAAP Financial Measures", on page 59 of this annual report. As a result of the termination of the Burberry license, the Company recognized a gain of $198.8 million as of December 31, 2012. On an after tax basis and after allocation to the noncontrolling interests on an after tax basis, the net gain on termination of license attributable to Inter Parfums, Inc. common shareholders' aggregated $93.0 million. Therefore, excluding the 2012 net gain on termination of license, income from operations decreased 1% to $78.8 million in 2013 and income from operations increased 19% to $79.6 million in 2012, as compared to $66.9 million in 2011. Operating margins aggregated 14.0%, 12.2% and 10.9% for the years ended December 31, 2013, 2012 and 2011, respectively. Results for 2013 were influenced by an exceptional first quarter where profits were extraordinarily strong due to a substantial increase in sales, coupled with low promotional expenses. The remainder of the year was influenced by lower sales and profitability relating to the termination of the Burberry license. Lower gross margins were partially offset by lower promotional spending. However, as we build our business in the post Burberry era, we plan to continue investing in our ongoing brands.

With only limited reorganization measures needed, the

Company's business model is expected to continue to demonstrate effectiveness. A significant portion of the expenses associated with the Burberry brand were variable in nature. The Company currently plans to continue to absorb substantially all of the fixed costs through increased sales of other brands in our European prestige fragrance portfolio as well as with the sale of products of new brands recently licensed.

Interest expense aggregated $1.4 million, $1.7 million and $2.2 million for the years ended December 31, 2013, 2012 and 2011, respectively. We use the credit lines available to us, as needed, to finance our working capital needs as well as our financing needs for acquisitions. Loans payable – banks and long-term debt including current maturities aggregated $6.1 million, $27.8 million and $16.3 million as of December 31, 2013, 2012 and 2011, respectively. In October 2012, the Company entered into a one year, €20 million credit facility to finance payments required pursuant to the Karl Lagerfeld license. This credit facility was repaid in full in 2013 and we had no long term debt as of December 31, 2013.

Interest income aggregated $4.4 million in 2013 and $1.1 million in 2012 and 2011. Cash and cash equivalents and short-term investments are primarily invested in certificates of deposit.

Foreign currency gains or (losses) aggregated ($1.2) million, ($3.1) million and $1.5 million for the years ended December 31, 2013, 2012 and 2011, respectively. We enter into foreign currency forward exchange contracts to manage exposure related to receivables denominated in a foreign currency. Approximated 40% of net sales of our European operations are denominated in U.S. dollars. The strengthening euro relative to the dollar in 2011 accounts for most of the foreign currency gains in 2011 and the weakening euro relative to the dollar in 2012 and 2013 accounts for most of the foreign currency losses in 2012 and 2013.

Our effective income tax rate was 36.8%, 35.6% and 36.3% for the years ended December 31, 2013, 2012 and 2011, respectively. Our effective tax rates differ from statutory rates due to the effect of state and local taxes and tax rates in foreign jurisdictions. In 2013, the Company incurred a new tax levied by the French Government equal to 3% on any dividend paid by a French company to its shareholders. This new tax aggregated approximately $1.6 million in 2013. Excluding this new tax, our effective income tax rate was 35% in 2013. We would expect our effective tax rate to be declining as a result of the 2008 formation of Interparfums (Suisse) SARL, which receives a favorable tax rate on a portion of Interparfums SA taxable income. However, tax rate increases enacted by the French Government have mitigated any savings. 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 (AS REPORTED)

(In thousands, except share and per share data)

		Year Ended December 31	
	2013	2012	2011
Net income attributable to European operations	$44,147	$171,799	$40,841
Net income attributable to United States operations	6,819	5,091	2,108
Net income	$50,966	$176,890	$42,949
Less: Net income attributable to the noncontrolling interest	11,755	45,754	10,646
Net income attributable to Inter Parfums, Inc.	$39,211	$131,136	$32,303
Net income attributable to Inter Parfums, Inc. common shareholders:			
Basic	$1.27	$4.29	$1.06
Diluted	$1.27	$4.26	$1.05
Weighted average number of shares outstanding:			
Basic	30,763,955	30,574,772	30,514,529
Diluted	30,953,882	30,715,684	30,677,825

ON AN AFTER TAX BASIS (THE TAX RATE OF INTERPARFUMS SA IS 36.1%) AND AFTER ALLOCATION TO THE NONCONTROLLING INTEREST (26.77%) OF THE AFTER TAX GAIN, THE 2012 NET GAIN ON TERMINATION OF LICENSE ATTRIBUTABLE TO INTER PARFUMS, INC. COMMON SHAREHOLDERS AGGREGATED $93.0 MILLION. THEREFORE, HAD THIS TRANSACTION NOT OCCURRED, NET INCOME AND EARNINGS PER SHARE WOULD HAVE BEEN AS FOLLOWS:

(In thousands, except share and per share data)		*Year Ended December 31*	
	2013	2012	2011
Net income attributable to European operations	$44,147	$44,742	$40,841
Net income attributable to United States operations	6,819	5,091	2,108
Net income	$50,966	$49,833	$42,949
Less: Net income attributable to the noncontrolling interest	11,755	11,741	10,646
Net income attributable to Inter Parfums, Inc.	$39,211	$38,092	$32,303
Net income attributable to Inter Parfums, Inc. common shareholders:			
Basic	$1.27	$1.25	$1.06
Diluted	$1.27	$1.24	$1.05

Excluding the 2012 net gain on termination of license, on a consolidated basis, and after its allocation to the noncontrolling interests on an after tax basis, net income increased 2% to $51.0 million in 2013, as compared to $49.8 million in 2012 which was 16% ahead of $42.9 million in 2011. Net income attributable to European operations was $44.1 million, $44.7 million and $40.8 million in 2013, 2012 and 2011, respectively, while net income attributable to United States operations was $6.8 million, $5.1 million and $2.1 million in 2013, 2012 and 2011, respectively. 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. For European operations, the absence of Burberry brand sales and related decline in gross margin as a percentage of sales were partially mitigated by the decline in Burberry related selling, general and administrative expenses. For United States operations, the 21% increase in sales and only a 16% increase in selling, general and administrative expense is the primary contributor to the increase in net income. 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 26.6%, 26.4% and 26.1% of European operations net income in 2013, 2012 and 2011, respectively. Net income attributable to Inter Parfums, Inc. increased 3% to $39.2 million in 2013, as compared to $38.1 million in 2012 which was 18% ahead of $32.3 million in 2011. Net margins attributable to Inter Parfums, Inc. aggregated 7.0%, 5.8% and 5.3% for the years ended December 31, 2013, 2012 and 2011, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Having received the proceeds in December 2012 from the termination of the Burberry license, our financial position remains strong. At December 31, 2013, working capital aggregated $399 million and we had a working capital ratio of over 4.0 to 1. Cash and cash equivalents and short-term investments aggregated $307 million all 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 90% 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 $104 million of trademarks, licenses and other intangible assets are held by European operations.

As previously disclosed, Burberry exercised its option to buy-out the license rights effective December 31, 2012. On October 11, 2012, the Company and Burberry entered into a transition agreement that provided for certain license rights and obligations to continue through March 31, 2013. The Company continued to operate certain aspects of the business for the brand including product development, testing, and distribution. The transition agreement provided for

non-exclusivity for manufacturing, a cap on sales of Burberry products, a reduced advertising requirement and no minimum royalty amounts.

The transition agreement provided that Burberry inventories at March 31, 2013 should be less than $20.0 million in the aggregate. Actual Burberry inventory as of March 31, 2013 aggregated approximately $18 million. During the second quarter of 2013, the Company and Burberry reached an agreement regarding inventory and Burberry agreed to purchase $7.8 million of inventory at cost. Remaining inventories were sold off in the ordinary course of business pursuant to our sell-off rights, destroyed or given to Burberry at no charge.

As of September 30, 2013, the $10 million inventory reserve, recorded in December upon recognition of the license termination gain of $198.8 million, was fully consumed during 2013.

Accounts receivables and accounts payables were collected and paid in the ordinary course of business. In addition, Burberry purchased fixed assets for $2.8 million as agreed in the transition agreement.

With only limited reorganization measures needed, the Company's business model is expected to continue to demonstrate its effectiveness. This new situation has allowed us to strengthen investments supporting all portfolio brands and to accelerate their development. In addition, the Company hopes to benefit from its substantial resources to potentially acquire one or more brands, either on a proprietary basis or as a licensee. Opportunities for external growth are 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.

Cash provided by (used in) operating activities aggregated $49.2 million, $60.6 million and ($23.7) million for the years ended December 31, 2013, 2012 and 2011, respectively. In 2013, working capital items used $18 million in cash from operating activities as compared to $72 million being provided by operating activities in 2012. The primary factor contributing to this use in 2013 is the payment of taxes relating to the gain on termination of license. The decline in accounts receivable, inventories and payables reflect the wind down associated with the termination of the Burberry license. The accounts receivable balances in 2013 and 2012 reflect favorable collection activity as day's sales outstanding declined to 73 days in 2013 as compared to 90 days in 2012. Inventory day's on hand has also shown improvement and aggregated 199 in 2013, down from 225 in 2012.

Cash flows used in investing activities in 2013 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 $53 million of such certificates of deposit contain penalties where we would forfeit a portion of the interest earned in the event of early withdrawal.

Purchases of equipment and leasehold improvements aggregated $5.0 million, $9.5 million and $9.9 million in 2013, 2012 and 2011, respectively. In both 2012 and 2011 the amounts include the purchase of stands and counters for the Burberry cosmetic lines some of which were sold for $2.8 million in 2013. Investing activities in 2012 reflects the proceeds from the termination of the Burberry license received in December 2012. Our business is not capital intensive as we do not own any manufacturing facilities. We typically spend upwards of $4 million per year on tools and molds, depending on our new product development calendar. The balance of capital expenditures is for office fixtures, computer equipment and industrial equipment needed at our distribution centers.

Payments for intangible assets aggregated $7.8 million, $19.7 million and $4.6 million in 2013, 2012 and 2011, respectively. When acquiring new licenses for brands that have current distribution, we may pay an entry fee in connection with securing the license rights.

In December 2013, the Company sold its Nickel brand and trademarks for $3.5 million, which was approximately equal to the then current book value of the goodwill and trademark; therefore, there was no material gain or loss as a result of the sale.

Our short-term financing requirements are expected to be met by available cash on hand at December 31, 2013, cash generated by operations and a short-term credit lines provided by domestic and foreign banks. The principal credit facilities for 2014 consist of a $15.0 million unsecured revolving line of credit provided by a domestic commercial bank and approximately $25.0 million in credit lines provided by a consortium of international financial institutions. As of December 31, 2013 and 2012, short-term borrowings aggregated $6.1 million and $27.8 million, respectively.

Proceeds from sale of stock of subsidiary reflect the proceeds from shares issued by our French subsidiary, Interparfums SA, pursuant to options exercised and payment for acquisition of minority interests represents repurchases of shares of Interparfums SA in an effort to offset the dilution from options exercised.

In January 2011, the Board of Directors authorized a 31% increase in the annual dividend to $0.32 per share. In January

2013, the Board of Directors authorized a 50% increase in the annual dividend to $0.48 per share. In January 2014, the Board of Directors authorized the continuation of the $0.48 per share dividend for 2014. The next quarterly cash dividend of $0.12 per share is payable on April 15, 2014 to shareholders of record on March 31, 2014. In addition, in 2013 our Board of Directors authorized a special cash dividend of $0.48 per share, payable in one lump sum on December 16, 2013 to shareholders of record on December 2, 2013. Dividends paid, including dividends paid once per year to noncontrolling stockholders of Interparfums SA, aggregated $36.7 million, $13.1 million and $12.5 million for the years ended December 31, 2013, 2012 and 2011, respectively. The cash dividends to be paid in 2014 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 year ended December 31, 2013.

CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual obligations over the periods indicated, as well as our total contractual obligations ($ in thousands).

Contractual Obligations	Total	Less than 1 year	Years 2-3	Years 4-5	More than 5 years
Long-term debt	—	—	—	—	—
Captial lease obligations	—	—	—	—	—
Operating leases	$33,491	$4,993	$9,790	$8,684	$10,024
Purchase obligations (1)	1,119,360	102,123	236,243	240,785	540,209
Other long-term liabilities reflected on the registrant's balance sheet under GAAP	—	—	—	—	—
Total	$1,152,851	$107,116	$246,033	$249,469	$550,233

(1) Consists of purchase commitments for advertising and promotional items, minimum royalty guarantees, including fixed or minimum obligations, and estimates of such obligations subject to variable price provisions. Future advertising commitments were estimated based on planned future sales for the license terms that were in effect at December 31, 2013, without consideration for potential renewal periods and do not reflect the fact that our distributors share our advertising obligations.

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 December 31, 2013, we had foreign currency contracts in the form of forward exchange contracts in the amount of approximately U.S. $8.3 million and GB £2.1 million which all have maturities of less than one year. We believe that our risk of loss as the result of nonperformance by any of such financial institutions is remote.

INTEREST RATE RISK MANAGEMENT

We mitigate interest rate risk by monitoring interest rates, and then determining whether fixed interest rates should be swapped for floating rate debt, or if floating rate debt should be swapped for fixed rate debt. We entered into an interest rate swap in September 2007 on €22 million of debt, effectively exchanging the variable interest rate of 0.6% above the three month EURIBOR to a fixed rate of 4.42%. As of December 31, 2012, this loan had been paid in full. The derivative instrument had been recorded at fair value and changes in fair value are reflected in the accompanying consolidated statements of income.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Inter Parfums, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting for the company. With the participation of the Chief Executive Officer and the Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2013.

Our independent auditor, WeiserMazars LLP, a registered public accounting firm, has issued its report on its audit of our internal control over financial reporting. This report appears below.

Jean Madar
Chief Executive Officer,
Chairman of the
Board of Directors

Russell Greenberg
Executive Vice President
and Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS INTER PARFUMS, INC.

We have audited Inter Parfums, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Inter Parfums, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable as-

surance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of the changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Inter Parfums, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control – Integrated Framework issued by the (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Inter Parfums, Inc. as of December 31, 2013 and the related consolidated statements of income, changes in shareholders' equity, comprehensive income, and cash flows for the year ended December 31, 2013 and our report dated March 11, 2014 expressed an unqualified opinion thereon.

WeiserMazars LLP

WeiserMazars LLP

New York, New York
March 11, 2014

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

BOARD OF DIRECTORS AND SHAREHOLDERS
INTER PARFUMS, INC.
NEW YORK, NEW YORK

We have audited the accompanying consolidated balance sheets of Inter Parfums, Inc. and subsidiaries (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Inter Parfums, Inc. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013, in conformity U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Inter Parfums, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 11, 2014 expressed an unqualified opinion thereon.

WeiserMazars LLP

WeiserMazars LLP

New York, New York
March 11, 2014

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	December 31 2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents	$125,650	$307,335
Short-term investments	181,677	–
Accounts receivable, net	79,932	149,340
Inventories	117,347	142,614
Receivables, other	2,418	2,534
Other current assets	4,775	5,897
Income taxes receivable	6,435	1,968
Deferred tax assets	7,257	13,132
Total current assets	525,491	622,820
Equipment and leasehold improvements, net	10,444	12,289
Trademarks, licenses and other intangible assets, net	116,243	113,041
Other assets	11,880	11,770
Total assets	$664,058	$759,920
LIABILITIES AND EQUITY		
Current liabilities:		
Loans payable – banks	$6,104	$27,776
Accounts payable - trade	56,736	73,113
Accrued expenses	58,333	68,768
Income taxes payable	1,270	84,030
Dividends payable	3,704	2,453
Total current liabilities	126,147	256,140
Deferred tax liability	2,555	3,799
Commitments and contingencies		
Equity:		
Inter Parfums, Inc. shareholders' equity:		
Preferred stock, $0.001 par value. Authorized 1,000,000 shares; none issued		
Common stock, $0.001 par value. Authorized 100,000,000 shares; outstanding, 30,863,421 and 30,680,634 shares, at December 31, 2013 and 2012, respectively	31	31
Additional paid-in capital	57,877	54,679
Retained earnings	359,459	349,672
Accumulated other comprehensive income	25,860	12,498
Treasury stock, at cost, 9,940,977 and 9,976,524 common shares at December 31, 2013 and 2012	(36,016)	(35,404)
Total Inter Parfums, Inc. shareholders' equity	407,211	381,476
Noncontrolling interest	128,145	118,505
Total equity	535,356	499,981
Total liabilities and equity	$664,058	$759,920

(See accompanying notes to consolidated financial statements.)

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except share and per share data)

	Year Ended December 31		
	2013	2012	2011
Net sales	$563,579	$654,117	$615,220
Cost of sales	234,800	246,931	231,746
Gross margin	328,779	407,186	383,474
Selling, general, and administrative expenses	250,025	325,799	315,698
Gain of termination of license	–	(198,838)	–
Impairment of goodwill	–	1,811	837
Total operating expenses	250,025	128,772	316,535
Income from operations	78,754	278,414	66,939
Other expenses (income):			
Interest expense	1,380	1,654	2,197
(Gain) loss on foreign currency	1,168	3,128	(1,546)
Interest and dividend income	(4,440)	(1,133)	(1,105)
	(1,892)	3,649	(454)
Income before income taxes	80,646	274,765	67,393
Income taxes	29,680	97,875	24,444
Net income	50,966	176,890	42,949
Less: Net income attributable to the noncontrolling interest	11,755	45,754	10,646
Net income attributable to Inter Parfums, Inc.	$39,211	$131,136	$32,303
Net income attributable to Inter Parfums, Inc. common shareholders':			
Basic	$1.27	$4.29	$1.06
Diluted	$1.27	$4.26	$1.05
Weighted average number of shares outstanding:			
Basic	30,763,955	30,574,772	30,514,529
Diluted	30,953,882	30,715,684	30,677,825
Dividends declared per share	$0.96	$0.32	$0.32

(See accompanying notes to consolidated financial statements.)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, except share and per share data)

Year Ended December 31	2013	2012	2011
Net income	$50,966	$176,890	$42,949
Other comprehensicve income:			
Net derivative instrument gain, net of tax	–	22	18
Transfer from OCI into earnings	(327)	–	–
Translation adjustments, net of tax	19,027	6,419	(9,680)
	18,700	6,441	(9,662)
Comprehensive income	69,666	183,331	33,287
Comprehensive income attributable to noncontrolling interests:			
Net income	11,755	45,754	10,646
Net derivative instrument gain, net of tax	–	6	7
Transfer from OCI into earnings	(87)	–	–
Translation adjustments, net of tax	5,425	1,684	(2,659)
	17,093	47,444	7,994
Comprehensive income attributable to Inter Parfums, Inc.	$52,573	$135,887	$25,293

(See accompanying notes to consolidated financial statements.)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands except share and per share data)

	Year Ended December 31		
	2013	2012	2011
Common stock, beginning of period:	$31	$31	$30
Shares issued upon exercise of stock options	–	–	1
Common stock, end of period:	31	31	31
Additional paid-in capital, beginning of period:	54,679	50,883	48,887
Shares issued upon exercise of stock options	2,882	2,568	1,092
Sales of subsidiary shares to noncontrolling interests	(173)	737	626
Purchase of subsidiary shares from noncontrolling interests	–	–	(417)
Stock compensation	489	491	695
Additional paid-in capital, end of period:	57,877	54,679	50,883
Retained Earnings, beginning of period:	349,672	228,164	205,453
Net Income	39,211	131,136	32,303
Dividends	(29,582)	(9,789)	(9,768)
Stock Compensation	158	161	176
Retained Earnings, end of period:	359,459	349,672	228,164
Accumulated other comprehensive income, beginning of period:	12,498	7,747	14,757
Foreign currency translation adjustment	13,602	4,735	(7,021)
Transfer from OCI into earnings	(240)	–	–
Net derivative instrument gain, net of tax	–	16	11
Accumulated other comprehensive income, end of period:	25,860	12,498	7,747
Treasury stock, beginning of period:	(35,404)	(34,151)	(34,151)
Shares issued upon exercise of stock options	203	409	–
Shares received as proceeds of option exercises	(815)	(1,662)	–
Treasury stock, end of period:	(36,016)	(35,404)	(34,151)
Noncontrolling interest, beginning of period:	118,505	71,676	64,970
Net Income	11,755	45,754	10,646
Foreign currency translation adjustment	5,425	1,684	(2,659)
Net derivative instrument gain, net of tax	–	6	7
Transfer from OCI into earnings	(87)	–	–
Sales of subsidiary shares to noncontrolling interest	830	2,659	2,130
Dividends	(8,341)	(3,333)	(3,149)
Purchase of subsidiary shares from noncontrolling interest	–	–	(333)
Stock-based compensation	58	59	64
Noncontrolling interest, end of period:	128,145	118,505	71,676
Total Equity	$535,356	$499,981	$324,350

(See accompanying notes to consolidated financial statements.)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31		
	2013	2012	2011
Cash flows from operating activities:			
Net income	$50,966	$176,890	$42,949
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	11,110	15,554	13,073
Impairment of goodwill	–	1,811	837
Provision for doubtful accounts	574	914	2,838
Noncash stock compensation	838	832	1,060
Gain on termination of license	–	(198,838)	–
Excess tax benefits from stock-based compensation arrangements	(700)	(100)	(110)
Deferred tax expense (benefit)	4,844	(7,903)	(1,009)
Change in fair value of derivatives	–	(68)	(272)
Changes in:			
Accounts receivable	71,776	27,302	(88,915)
Inventories	29,240	13,568	(60,494)
Other assets	426	(9,611)	993
Accounts payable and accrued expenses	(33,156)	(40,773)	72,664
Income taxes, net	(86,724)	81,063	(7,335)
Net cash provided by (used in) operating activities	49,194	60,641	(23,721)
Cash flows from investing activities:			
Purchases of short-term investments	(381,843)	–	(10,823)
Proceeds from sale of short-term investments	207,082	–	62,111
Proceeds from termination of license, net of transaction fees and other settlements	–	235,650	–
Purchase of equipment and leasehold improvements	(5,015)	(9,474)	(9,946)
Payment for intangible assets acquired	(7,769)	(19,717)	(4,605)
Proceeds from sale of equipment	2,801	–	–
Proceeds from sale of trademark	3,481	–	–
Net cash provided by (used in) investing activities	(181,263)	206,459	36,737
Cash flows from financing activities:			
Proceeds from (repayments of) loans payable – banks	(21,835)	15,300	7,230
Repayment of long-term debt	–	(4,379)	(11,673)
Purchase of treasury stock	(98)	(90)	–
Proceeds from exercise of options including tax benefits	1,668	1,305	983
Excess tax benefits from stock-based compensation arrangements	700	100	110
Proceeds from sale of stock of subsidiary	657	3,396	2,756
Payment for acquisition of noncontrolling interests	–	–	(750)
Dividends paid	(28,331)	(9,780)	(9,304)
Dividends paid to noncontrolling interests	(8,341)	(3,333)	(3,149)
Net cash provided by (used in) financing activities	(55,580)	2,519	(13,797)
Effect of exchange rate changes on cash	5,964	1,860	(911)
Net Increase (decrease) in cash and cash equivalents	(181,685)	271,479	(1,692)
Cash and cash equivalents – beginning of year	307,335	35,856	37,548
Cash and cash equivalents – end of year	$125,650	$307,335	$35,856
Supplemental disclosures of cash flow information:			
Cash paid for:			
Interest	$1,524	$1,799	$1,972
Income taxes	104,992	20,584	32,716

(See accompanying notes to consolidated financial statements.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) The Company and it's Significant Accounting Policies

BUSINESS OF THE COMPANY

Inter Parfums, Inc. and its subsidiaries (the "Company") are in the fragrance business, and manufacture and distribute a wide array of fragrances and fragrance related products.

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. Burberry was our most significant license and net sales of Burberry products represented 23%, 46% and 50% of net sales in 2013, 2012 and 2011, respectively (see Note (2) "Termination of Burberry License"). In addition, the Company owns the Lanvin brand name for its class of trade and licenses the Montblanc and Jimmy Choo brand names. As a percentage of net sales, product sales for each of these brands were as follows:

	Year Ended December 31		
	2013	2012	2011
Lanvin	15%	12%	13%
Montblanc	15%	9%	7%
Jimmy Choo	13%	8%	7%

No other brand represented 10% or more of consolidated net sales.

BASIS OF PREPARATION

The consolidated financial statements include the accounts of the Company, including 73% owned Interparfums SA ("IPSA"), a subsidiary whose stock is publicly traded in France. In 2013, the Company formed a wholly-owned Hong Kong subsidiary, Inter Parfums USA Hong Kong Limited for the purpose of entering into a license with one of China's leading luxury brands and to operate an Asian sales and marketing office. All material intercompany balances and transactions have been eliminated.

MANAGEMENT ESTIMATES

Management makes assumptions and estimates to prepare financial statements in conformity with accounting principles generally accepted in the United States of America. Those assumptions and estimates directly affect the amounts reported and disclosures included in the consolidated financial statements. Actual results could differ from those assumptions and estimates. Significant estimates for which changes in the near term are considered reasonably possible and that may have a material impact on the financial statements are disclosed in these notes to the consolidated financial statements.

FOREIGN CURRENCY TRANSLATION

For foreign subsidiaries with operations denominated in a foreign currency, assets and liabilities are translated to U.S. dollars at year end exchange rates. Income and expense items are translated at average rates of exchange prevailing during the year. Gains and losses from translation adjustments are accumulated in a separate component of shareholders' equity.

CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

All highly liquid investments purchased with a maturity of three months or less are considered to be cash equivalents. From time to time, the Company has short-term investments which consist of certificates of deposit with maturities greater than three months. The Company monitors concentrations of credit risk associated with financial institutions with which the Company conducts significant business. The Company believes its credit risk is minimal, as the Company primarily conducts business with large, well-established financial institutions. Substantially all cash and cash equivalents are held at financial institutions outside the United States and are readily convertible into U.S. dollars.

ACCOUNTS RECEIVABLE

Accounts receivable represent payments due to the Company for previously recognized net sales, reduced by allowances for sales returns and doubtful accounts or balances which are estimated to be uncollectible, which aggregated $6.4 million and $10.6 million as of December 31, 2013 and 2012, respectively. 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.

INVENTORIES

Inventories, including promotional merchandise, only include inventory considered saleable or usable in future periods, and is stated at the lower of cost or market, with cost being determined on the first-in, first-out method. Cost components include raw materials, components, direct labor and overhead (e.g., indirect labor, utilities, depreciation, purchasing, receiving, inspection and warehousing) as well as inbound freight. Promotional merchandise is charged to cost of sales at the time the merchandise is shipped to the Company's customers.

Overhead included in inventory aggregated $3.6 million, $4.0 million and $4.4 million as of December 31, 2013, 2012 and 2011, respectively. Included in inventories is an inventory reserve, which represents the difference between the cost of the inventory and its estimated realizable value, based upon sales forecasts and the physical condition of the inventories. In addition, and as necessary, specific reserves for future known or anticipated events may be established. Inventory reserves aggregated $6.8 million and $19.9 million as of December 31, 2013 and 2012, respectively. The inventory reserves as of December 31, 2012, included a reserve of approximately $10.0 million on the Burberry inventories as reported in Note 2 of these Notes to Consolidated Financial Statements.

DERIVATIVES

All derivative instruments are recorded as either assets or liabilities and measured at fair value. The Company uses derivative instruments to principally manage a variety of market risks. For derivatives designated as hedges of the exposure to changes in fair value of the recognized asset or liability or a firm commitment (referred to as fair value hedges), the gain or loss is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributable to the risk being hedged. The effect of that accounting is to include in earnings the extent to which the hedge is not effective in achieving offsetting changes in fair value. For cash flow hedges, the effective portion of the derivative's gain or loss is initially reported in equity (as a component of accumulated other comprehensive income) and is subsequently reclassified into earnings in the same period or periods during which the hedged forecasted transaction affects earnings. The ineffective portion of the gain or loss of a cash flow hedge is reported in earnings immediately. The Company also holds certain instruments for economic purposes that are not designated for hedge accounting treatment. For these derivative instruments, changes in their fair value are recorded in earnings immediately.

EQUIPMENT AND LEASEHOLD IMPROVMENTS

Equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are provided using the straight line method over the estimated useful lives for equipment, which range between three and ten years and the shorter of the lease term or estimated useful asset lives for leasehold improvements. Depreciation provided on equipment used to produce inventory, such as tools and molds, is included in cost of sales.

LONG-LIVED ASSETS

Indefinite-lived intangible assets principally consist of trademarks which are not amortized. The Company evaluates 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.

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.

CONCENTRATION OF CREDIT RISK

The Company is a worldwide manufacturer, marketer and distributor of fragrance and fragrance related products, and sells its products to department stores, perfumeries, specialty retailers, mass-market retailers, supermarkets and domestic and international wholesalers and distributors. The Company grants credit to all qualified customers and does not believe it is exposed significantly to any undue concentration of credit risk.

No one customer represented 10% or more of net sales in 2013, 2012 or 2011.

REVENUE RECOGNITION

The Company sells its 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. The Company recognizes 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. The Company does not bill its customers' freight and handling charges. All shipping and handling costs, which aggregated $6.1 million, $8.4 million and $8.8 million in 2013, 2012 and 2011, respectively, are included in selling, general and administrative expenses in the consolidated statements of income.

SALES RETURNS

Generally, the Company does not permit customers to return their unsold products. However, in 2011, we took over U.S. distribution of our European based prestige products, and for U.S. based customers, we allow returns if properly requested, authorized and approved. The Company regularly reviews and revises, as deemed necessary, its 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. The Company records 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.

PAYMENTS TO CUSTOMERS

The Company records revenues generated from purchase with purchase and gift with purchase promotions as sales and the costs of its purchase with purchase and gift with purchase promotions as cost of sales. Certain other incentive arrangements require the payment of a fee to customers based on their attainment of pre-established sales levels. These fees have been recorded as a reduction of net sales.

ADVERTISING AND PROMOTION

Advertising and promotional costs are expensed as incurred and recorded as a component of cost of goods sold (in the case of free goods given to customers) or selling, general and administrative expenses. Advertising and promotional costs included in selling, general and administrative expenses were $94.0 million, $132.7 million and $127.8 million for 2013, 2012 and 2011, respectively. Costs relating to purchase with purchase and gift with purchase promotions that are reflected in cost of sales aggregated $25.7 million, $46.5 million and $48.4 million in 2013, 2012 and 2011, respectively. Accrued expenses include approximately $22.4 million and $24.4 million in advertising liabilities as of December 31, 2013 and 2012, respectively.

PACKAGE DEVELOPMENT COSTS

Package development costs associated with new products and redesigns of existing product packaging are expensed as incurred.

OPERATING LEASES

The Company recognizes rent expense from operating leases with various step rent provisions, rent concessions and escalation clauses on a straight-line basis over the applicable lease term. The Company considers lease renewals in the useful life of its leasehold improvements when such renewals are reasonably assured. In the event the Company receives capital improvement funding from its landlord, these amounts are recorded as deferred liabilities and amortized over the remaining lease term as a reduction of rent expense.

LICENSE AGREEMENTS

The Company's license agreements provide the Company with worldwide rights to manufacture, market and sell fragrance and fragrance related products using the licensors' trademarks. The licenses typically have an initial term of approximately 5 years to 15 years, and are potentially renewable subject to the Company's compliance with the license agreement provisions. The remaining terms, including the potential renewal periods, range from approximately 1 year to 14 years. Under each license, the Company is required to pay royalties in the range of 5% to 10% to the licensor, at

least annually, based on net sales to third parties.

In certain cases, the Company may pay an entry fee to acquire, or enter into, a license where the licensor or another licensee was operating a pre-existing fragrance business. In those cases, the entry fee is capitalized as an intangible asset and amortized over its useful life.

Most license agreements require minimum royalty payments, incremental royalties based on net sales levels and minimum spending on advertising and promotional activities. Royalty expenses are accrued in the period in which net sales are recognized while advertising and promotional expenses are accrued at the time these costs are incurred.

In addition, the Company is exposed to certain concentration risk. 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.

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 earnings at that time.

ISSUANCE OF COMMON STOCK BY CONSOLIDATED SUBSIDIARY

The difference between the Company's share of the proceeds received by the subsidiary and the carrying amount of the portion of the Company's investment deemed sold, is reflected as an equity adjustment in the consolidated balance sheets

TREASURY STOCK

The Board of Directors may authorize share repurchases of the Company's common stock (Share Repurchase Authorizations). Share repurchases under Share Repurchase Authorizations may be made through open market transactions, negotiated purchase or otherwise, at times and in such amounts within the parameters authorized by the Board. Shares repurchased under Share Repurchase Authorizations are held in treasury for general corporate purposes, including issuances under various employee stock option plans. Treasury shares are accounted for under the cost method and reported as a reduction of equity. Share Repurchase Authorizations may be suspended, limited or terminated at any time without notice.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2013, new accounting guidance was issued regarding financial statement presentation of an unrecognized tax benefit when a net operating loss carry-forward, a similar tax loss, or a tax credit exists. This guidance is effective for interim and annual periods beginning after December 15, 2014. The adoption of this new guidance is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

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

(2) Termination of Burberry License

Burberry exercised its option to buy-out the license rights effective December 31, 2012. On October 11, 2012, the Company and Burberry entered into a transition agreement that provided for certain license rights and obligations to continue through March 31, 2013. The Company continued to operate certain aspects of the business for the brand including product development, testing, and distribution. The transition agreement provided for non-exclusivity for manufacturing, a cap on sales of Burberry products, a reduced advertising requirement and no minimum royalty amounts.

The Company had determined that the transaction was substantially completed as of December 31, 2012. The following table sets forth a summary of the gain on termination of license which is included in income from operations on the accompanying statement of income for the year ended December 31, 2012:

Exit payment (received December 21, 2012)	$239,075
Expenses of termination:	
Inventory reserves	10,037
Wages including $13.8 million in Interparfums SA profit sharing requirements	14,391
Write-off of intangible assets	7,675
Writedown of fixed assets	3,483
Write-off of unused modeling rights	1,226
Legal, professional and other agreed settlements	3,425
	40,237
Gain on termination of license	$198,838

The transition agreement provided that Burberry inventories at March 31, 2013 should be less than $20.0 million in the aggregate. Actual Burberry inventory as of March 31, 2013 aggregated approximately $18 million. During the second quarter of 2013, the Company and Burberry reached an agreement regarding inventory and Burberry agreed to purchase $7.8 million of inventory at cost. Remaining inventories were sold off in the ordinary course of business pursuant to our sell-off rights, destroyed or given to Burberry at no charge.

As of September 30, 2013, the $10 million inventory reserve, recorded in 2012 upon recognition of the gain on termination of license, was fully consumed during 2013.

Accounts receivables and accounts payables were collected and paid in the ordinary course of business. In addition, Burberry purchased fixed assets for $2.8 million as agreed in the transition agreement.

3) Recent Agreements

OSCAR DE LA RENTA

In October 2013, the Company entered into a 12-year exclusive worldwide license to create, produce and distribute perfumes and related products under the Oscar de la Renta brand. The agreement closed on December 2, 2013 and is subject to certain minimum advertising expenditures as is customary in our industry. The Company has purchased certain inventories and paid an up-front entry fee of $5.0 million. The Company has taken over distribution of fragrances within the brand's current perfume portfolio, and plans to launch its first fragrance under the Oscar de la Renta brand in 2015.

AGENT PROVOCATEUR

In July 2013, the Company entered into a 10.5-year exclusive worldwide license to create, produce and distribute perfumes and related products under London-based luxury lingerie brand, Agent Provocateur. The agreement commenced on August 1, 2013 and is subject to certain minimum advertising expenditures as is customary in our industry. The Company plans to launch its first fragrance under the Agent Provocateur brand in 2014. In addition, Inter Parfums has taken over distribution of selected fragrances within the brand's current perfume portfolio, and plans to revitalize the Agent Provocateur signature scent.

SHANGHAI TANG

In July 2013, the Company created a wholly-owned Hong Kong subsidiary, Inter Parfums USA Hong Kong Limited, which entered into a 12-year exclusive worldwide license to create, produce and distribute perfumes and related products under China's leading luxury brand, Shanghai Tang. The agreement commenced on July 1, 2013 and is subject to certain minimum sales, advertising expenditures and royalty payments as are customary in our industry. The Company plans to launch its first fragrance collection under the Shanghai Tang brand in late 2014.

DUNHILL

In December 2012, we entered into a 10-year exclusive worldwide license to create, produce and distribute perfumes and fragrance-related products under the Alfred Dunhill Limited ("Dunhill") brand. Our rights under the agreement commenced on April 3, 2013 when we took over production and distribution of the existing Dunhill fragrance collections. The agreement is subject to certain minimum sales, advertising expenditures and royalty payments as are customary in our industry. The Company paid an upfront entry fee of $0.9 million.

KARL LAGERFELD

In October 2012, we entered into a 20-year exclusive worldwide license agreement to create, produce and distribute perfumes under the Karl Lagerfeld brand. Our rights under such license agreement are subject to certain minimum sales, advertising expenditures and royalty payments as are customary in our industry. In connection with our entry into this license, the Company paid a license entry fee to the licensor of €9.6 million, (approximately $12.5 million). In addition, the Company has made an advance royalty payment to the licensor of €9.6 million, (approximately $12.5 million). This advance royalty payment is to be credited against future royalty payments as follows: every year in which the royalties due are higher than €0.5 million, the amount of royalties exceeding €0.5 million will be credited up to €0.5 million in each such year. The advance royalty has been discounted to its net present value which is included in other assets on the accompanying balance sheet and the resulting discount of approximately $4.4 million has been added to intangible assets and will be amortized together with the license entry fee, over the initial term of the license.

REPETTO

In December 2011, we entered into a 13-year exclusive worldwide license agreement to create, produce and distribute perfumes and ancillary products under the Repetto brand. Our rights under the agreement commenced on January 1, 2012. The agreement is subject to certain minimum advertising expenditures and royalty payments as are customary in our industry.

THE GAP, INC.

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

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

PIERRE BALMAIN

In July 2011, we entered into a 12-year exclusive worldwide license agreement to create, produce and distribute perfumes and ancillary products under the Balmain brand. Our rights under the agreement commenced on January 1, 2012 when we took over the production and distribution of existing Balmain fragrances. The agreement is subject to certain minimum sales, advertising expenditures and royalty payments as are customary in our industry. The Company paid an up front entry fee of €2.1 million (approximately $2.7 million) for this license.

ANNA SUI

In June 2011, we entered into a 10-year exclusive worldwide fragrance license agreement, with two five-year renewal options, to create, produce and distribute perfumes and fragrance-related products under the Anna Sui brand. Our rights under the agreement commenced on January 1, 2012 when we took over production and distribution of the existing Anna Sui fragrance collections. The agreement is subject to certain minimum sales, advertising expenditures and royalty payments as are customary in our industry. The Company paid an upfront entry fee of $2.0 million for this license which was recorded and paid in 2012.

S.T. DUPONT

In April 2011, we renewed our license agreement with S.T. Dupont for the creation, development and distribution of fragrance products through December 31, 2016. Our initial 11-year license agreement with S.T. Dupont was signed in June 1997, and had previously been extended in 2006 for an additional three years until June 2011.

LANE BRYANT

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

(4) Inventories

	Year Ended December 31	
	2013	2012
Raw materials and component parts	$47,800	$47,732
Finished goods	69,547	94,882
	$117,347	$142,614

(5) Fair Value of Financial Instruments

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 DECEMBER 31, 2013

	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	$181,677	–	$181,677	–
Foreign currency forward exchange contracts not accounted for using hedge accounting	157	–	157	–
	$181,834	–	$181,834	–

FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2012

	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:				
Foreign currency forward exchange contracts not accounted for using hedge accounting	$784	–	$784	–

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.

(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 sales expected to be denominated in a foreign currency. The Company did not enter into any cash flow hedges during the three-year period ended December 31, 2013.

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

Derivatives not Designated as Hedging Instruments	**Location of Gain (Loss) recognized in Income on Derivative**	*December 31* 2013	*December 31* 2012
Interest rate swaps	Interest Expense	$–	$68
Foreign exchange contracts	Gain (loss) on foreign currency	$11	$153

All derivative instruments are reported as either assets or liabilities on the balance sheet measured at fair value. The valuation of foreign currency forward exchange contracts not accounted for using hedge accounting in 2013 and 2012 resulted in an asset and is included in other current assets on the accompanying balance sheets. Generally, increases or decreases in the fair value of derivative instruments will be recognized as gains or losses in earnings in the period of change. If the derivative instrument is designated and qualifies as a cash flow hedge, the changes in fair value of the derivative instrument will be recorded as a separate component of shareholders' equity.

At December 31, 2013, the Company had foreign currency contracts in the form of forward exchange contracts in the amount of approximately U.S. $8.3 million and GB £2.1 million which all have maturities of less than one year.

(7) Equipment and Leasehold Improvements

	Year Ended December 31	
	2013	2012
Equipment	$25,597	$41,447
Leasehold Improvements	2,952	2,465
	28,549	43,912
Less accumulated depreciation and amortization	18,105	31,623
	$10,444	$12,289

Depreciation and amortization expense was $4.9 million, $8.6 million and $6.0 million for 2013, 2012 and 2011, respectively.

(8) Trademarks, Licenses and Other Intangible Assets

2013

	Gross Amount	Accumulated Amortization	Net Book Value
Trademarks (indefinite lives)	$4,257	$—	$4,257
Trademarks (finite lives)	53,319	102	53,217
Licenses (finite lives)	80,842	24,747	56,095
Other intagible assets (finite lives)	11,964	9,290	2,674
Subtotal	146,125	34,139	111,986
Total	$150,382	$34,139	$116,243

2012

	Gross Amount	Accumulated Amortization	Net Book Value
Trademarks (indefinite lives)	$6,631	$–	$6,631
Trademarks (finite lives)	53,115	382	52,733
Licenses (finite lives)	69,373	18,387	50,986
Other intagible assets (finite lives)	15,469	12,778	2,691
Subtotal	137,957	31,547	106,410
Total	$144,588	$31,547	$113,041

Amortization expense was $6.2 million, $7.0 million and $7.9 million for 2013, 2012 and 2011, respectively. Amortization expense is expected to approximate $6.9 million in 2014 and 2015, and $5.9 million in 2016, 2017 and 2018. The weighted average amortization period for trademarks, licenses and other intangible assets with finite lives are 18 years, 13 years and 2 years, respectively, and 14 years in the aggregate.

There were no impairment charges for trademarks with indefinite useful lives in 2013, 2012 and 2011. 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. The Company believes that the assumptions the Company has made in projecting future cash flows for the evaluations described above are reasonable and currently no impairment indicators exist for our indefinite-lived assets. However, if future actual results do not meet our expectations, the Company may be required to record an impairment charge, the amount of which could be material to our results of operations.

The cost of trademarks, licenses and other intangible assets with finite lives is being amortized by the straight line method over the term of the respective license or the intangible assets estimated useful life which range from three to twenty years. If the residual value of a finite life intangible asset exceeds its carrying value, then the asset is not amor-

tized. The Company reviews intangible assets with finite lives for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Trademarks (finite lives) primarily represents Lanvin brand names and trademarks and in connection with their purchase, Lanvin was granted the right to repurchase the brand names and trademarks in 2025 for the greater of €70 million (approximately $97 million) or one times the average of the annual sales for the years ending December 31, 2023 and 2024 (residual value). Because the residual value of the intangible asset exceeds its carrying value, the asset is not amortized.

In December 2013, the Company sold its Nickel brand and trademarks for $3.5 million, which was approximately equal to the then current book value of the goodwill and trademark; therefore, there was no material gain or loss as a result of the sale.

(9) Loans Payable – Banks

Loans payable – banks consist of the following:

The Company and its domestic subsidiaries have available a $15 million unsecured revolving line of credit due on demand, which bears interest at the prime rate minus 0.5% (the prime rate was 3.25% as of December 31, 2013). The line of credit which has a maturity date of May 1, 2014 is expected to be renewed on an annual basis. Borrowings outstanding pursuant to this line of credit were approximately $6.1 million as of December 31, 2013 and zero as of December 31, 2012.

The Company's foreign subsidiaries have available credit lines, including several bank overdraft facilities totaling approximately $25 million. These credit lines bear interest at EURIBOR plus 0.6%, 0.7% or 0.8% (EURIBOR was 0.3% at December 31, 2013). Outstanding amounts were zero as of December 31, 2013 and $27.8 million as of December 31, 2012.

The weighted average interest rate on short-term borrowings was 2.8% and 0.8% as of December 31, 2013 and 2012, respectively.

(10) Commitments

LEASES

The Company leases its office and warehouse facilities under operating leases which are subject to various step rent provisions, rent concessions and escalation clauses expiring at various dates through 2023. Escalation clauses are not material and have been excluded from minimum future annual rental payments. Rental expense, which is calculated on a straight-line basis, amounted to $10.8 million, $11.8 million and $12.7 million in 2013, 2012 and 2011, respectively.

Minimum future annual rental payments are as follows:

2014	$4,993
2015	$4,888
2016	$4,902
2017	$4,581
2018	$4,103
Thereafter	$10,024
	$33,491

LICENSE AGREEMENTS

The Company is party to a number of license and other agreements for the use of trademarks and rights in connection with the manufacture and sale of its products expiring at various dates through 2032. In connection with certain of these license agreements, the Company is subject to minimum annual advertising commitments, minimum annual royalties and other commitments as follows:

2014	$102,123
2015	$115,400
2016	$120,843
2017	$119,158
2018	$121,627
Thereafter	$540,209
	$1,119,360

Future advertising commitments are estimated based on planned future sales for the license terms that were in effect at December 31, 2013, without consideration for potential renewal periods. The above figures do not reflect the fact that our distributors share our advertising obligations. Royalty expense included in selling, general, and administrative expenses, aggregated $40.5 million, $58.8 million and $51.3 million, in 2013, 2012 and 2011, respectively, and represented 7.2%, 9.0% and 8.3% of net sales for the years ended December 31, 2013, 2012 and 2011.

(11) Equity

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 in 2013 and 2012 aggregated $0.5 million and $0.9 million, respectively. Compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. It

is generally the Company's policy to issue new shares upon exercise of stock options.

The following table sets forth information with respect to nonvested options for 2013:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested options – beginning of year	346,075	$5.02
Nonvested options granted	136,350	9.20
Nonvested options vested or forfeited	(114,955)	4.67
Nonvested options – end of year	367,470	$6.68

Share-based payment expenses decreased income before income taxes by $0.8 million in 2013 and 2012 and $1.1 million in 2011, decreased net income attributable to Inter Parfums, Inc. by $0.50 million in 2013 and 2012 and $0.60 million in 2011, respectively, and reduced diluted earnings per share by $0.01 in 2013 and 2012, and $0.02 in 2011.

The following table summarizes stock option activity and related information for the years ended December 31, 2013, 2012 and 2011 and does not include information relating to options of IPSA granted by IPSA, our majority-owned subsidiary:

Year Ended December 31

2013	Options	Weighted Average Exercise Price
Shares under option- beginning of year	716,235	$14.41
Options granted	136,350	34.84
Options exercised	(204,240)	11.68
Options cancelled	(4,750)	17.47
Shares under option- end of year	643,595	$19.58

Year Ended December 31

2012	Options	Weighted Average Exercise Price
Shares under option- beginning of year	823,275	$13.20
Options granted	128,850	19.25
Options exercised	(226,160)	12.72
Options cancelled	(9,730)	15.37
Shares under option- end of year	716,235	$14.41

Year Ended December 31

2011	Options	Weighted Average Exercise Price
Shares under option- beginning of year	807,620	$12.78
Options granted	118,900	15.66
Options exercised	(95,625)	12.66
Options cancelled	(7,620)	14.37
Shares under option- end of year	823,275	$13.20

At December 31, 2013, options for 461,075 shares were available for future grant under the plans. The aggregate intrinsic value of options outstanding is $10.4 million as of December 31, 2013 and unrecognized compensation cost related to stock options outstanding on Inter Parfums, Inc. common stock aggregated $2.3 million, which will be recognized over the next five years. The amount of unrecognized compensation cost related to stock options outstanding of our majority-owned subsidiary, IPSA, was €0.1 million (approximately $0.15 million). Options under IPSA plans vest four years after grant.

The weighted average fair values of options granted by Inter Parfums, Inc. during 2013, 2012 and 2011 were $9.20, $5.54 and $4.59 per share, respectively, on the date of grant using the Black-Scholes option pricing model to calculate the fair value. The assumptions used in the Black-Scholes pricing model for the years ended December 31, 2013, 2012 and 2011 are set forth in the following table:

Year Ended December 31

	2013	2012	2011
Weighted average expected stock-price volatility	37%	38%	40%
Weighted average expected option life	5.0 yrs	5.0 yrs	4.5 yrs
Weighted average risk-free interest rate	1.7%	0.7%	0.9%
Weighted average dividend yield	2.7%	1.7%	1.7%

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 maintain its current payout ratio as a percentage of earnings.

Cash proceeds, tax benefits and intrinsic value related to stock options exercised were as follows:

	Year Ended December 31		
	2013	2012	2011
Cash prodceeds from stock options exercised	$1,668	$1,305	$1,210
Tax benefits	700	100	—
Intinsic value of stock options exercised	$4,088	1,359	720

The following table summarizes additional stock option information as of December 31, 2013:

Excercise Prices	Number Outstanding	Options Outstanding Weighted Average Remaining Contractual Life	Options Exercisable
$ 6.15 - $ 6.93	47,930	0.99 Years	47,930
11.30 - 11.41	39,225	0.12 Years	39,225
12.14	78,120	2.00 Years	60,010
13.45	3,000	1.08 Years	1,875
15.59 - 15.62	113,010	3.90 Years	44,550
17.07 - 17.94	6,750	2.68 Years	1,625
19.03 - 19.33	219,210	4.11 Years	80,910
21.76	5,000	4.09 Years	—
22.20	4,000	5.09 Years	—
35.75	127,350	6.00 Years	—
Totals	643,595	3.69 Years	276,125

As of December 31, 2013, the weighted average exercise price of options exercisable was $13.76 and the weighted average remaining contractual life of options exercisable is 2.32 years. The aggregate intrinsic value of options exercisable at December 31, 2013 is $6.1 million.

The Chief Executive Officer and the President each exercised 13,875, 28,500 and 60,000 outstanding stock options of the Company's common stock in 2014, 2013 and 2012, respectively. The aggregate exercise prices of $0.3 million in 2014, $0.7 million in 2013 and $1.6 million in 2012 were paid by them tendering to the Company in 2014, 2013 and 2012, an aggregate of 10,080, 18,880 and 82,322 shares, respectively, of the Company's common stock, previously owned by them, valued at fair market value on the dates of exercise. All shares issued pursuant to these option exercises were issued from treasury stock of the Company. In addition, the Chief Executive Officer tendered in 2014, 2013 and 2012 an additional 1,193, 2,573 and 4,710 shares, respectively, for payment of certain withholding taxes resulting from his option exercises.

DIVIDENDS:

The quarterly dividend of $3.7 million ($0.12 per share) declared in December 2013 was paid in January 2014. The next quarterly dividend of $0.12 per share will be paid on April 15, 2014 to shareholders of record on March 31, 2014.

(12) 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 and warrants using the treasury stock method.

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

			Year Ended December 31
	2013	2012	2011
Numerator:			
Net income attributable to Inter Parfums, Inc.	$39,211	$131,136	$32,303
Effect of dilutive securities of consolidated subsidiary	—	(168)	(82)
Numerator for diluted earnings per share	39,211	130,968	32,221
Denominator:			
Weighted average shares	30,763,955	30,574,772	30,514,529
Effect of dilutive securities: stock options and warrents	189,927	140,912	163,296
Denominator for diluted earnings per share	30,953,882	30,715,684	30,677,825
Net income attributable to Inter Parfums, Inc.common shareholders:			
Basic	$1.27	$4.29	$1.06
Diluted	1.27	4.26	1.05

Not included in the above computations is the effect of anti dilutive potential common shares which consist of outstanding options to purchase 32,000, 230,000, and 118,000 shares of common stock for 2013, 2012, and 2011, respectively.

(13) Segments 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 the prestige brand name fragrances, and United States operations represent the sale of specialty retail and prestige brand name fragrances. Information on the Company's operations by segments is as follows:

SEGMENTS AND GEOGRAPHICAL AREAS

			Year Ended December 31
	2013	2012	2011
Net sales:			
United States	$99,158	$83,106	$62,976
Europe	464,562	571,877	552,415
Eliminations of intercompany sales	(141)	(866)	(171)
Total	$563,579	$654,117	$615,220
Net income attributable to Inter Parfums, Inc:			
United States	$6,806	$5,078	$2,108
Europe	$32,392	126,045	30,217
Eliminations	13	13	(22)
Total	$39,211	$131,136	$32,303
Depreciation and amortization expense:			
United States	$1,216	$958	$507
Europe	9,894	14,596	12,566
Total	$11,110	$15,554	$13,073
Interest and dividend income			
United States	$16	$7	$10
Europe	4,424	1,126	1,095
Total	$4,440	$1,133	$1,105
Interest expense:			
United States	$13	$38	$11
Europe	1,367	1,616	2,186
Total	$1,380	$1,654	$2,197
Income tax expense (benefit):			
United States	$4,512	$3,804	$1,405
Europe	25,159	94,063	23,053
Eliminations	9	8	(14)
Total	$29,680	$97,875	$24,444
Total assets:			
United States	$76,980	$64,278	$59,841
Europe	596,153	704,464	465,747
Eliminations of investment in subsidiary	(9,075)	(8,822)	(9,554)
Total	$664,058	$759,920	$516,034
Additions to long-lived assets:			
United States	$7,629	$3,131	$572
Europe	5,155	26,060	13,979
Total	$12,784	$29,191	$14,551
Total long-lived assets:			
United States	$13,823	$7,572	$5,400
Europe	112,864	118,712	117,638
Total	$126,687	$126,284	$123,038
Deferred tax assets:			
United States	$341	$762	$1,505
Europe	6,916	12,361	5,748
Eliminations	–	9	17
Total	$7,257	$13,132	$7,270

SEGMENTS AND GEOGRAPHICAL AREAS *continued*

United States export sales were approximately $50.4 million, $38.8 million and $24.9 million in 2013, 2012 and 2011, respectively. Consolidated net sales to customers by region are as follows:

	Year Ended December 31		
	2013	2012	2011
North America	$154,300	$175,400	$150,000
Europe	215,600	241,300	246,000
Central and South America	42,400	53,000	61,000
Middle East	43,300	62,100	57,000
Asia	98,600	115,300	95,000
Other	9,400	7,000	6,200
Total	$563,600	$654,100	$615,200

Consolidated net sales to customers in major countries is as follows:

	2013	2012	2011
United States	$150,000	$167,000	$138,000
United Kingdom	46,000	48,000	45,000
France	47,000	46,000	48,000

(14) Income Taxes

The Company or its subsidiaries file income tax returns in the U.S. federal, and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state, and local or non-U.S. income tax examinations by tax authorities for years before 2009.

The Company follows the provisions of uncertain tax positions as addressed in FASB Accounting Standards Codification 740-10-65-1. The Company did not recognize any increase in the liability for unrecognized tax benefits and has no uncertain tax position at December 31, 2013. The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties as a component of the provision for income taxes. No interest or penalties were recognized during the periods presented and there is no accrual for interest and penalties at December 31, 2013.

The components of income before income taxes consist of the following:

	Year Ended December 31		
	2013	2012	2011
U.S. operations	$11,340	$8,904	$3,478
Foreign operations	69,306	265,861	63,915
Total	$80,646	$274,765	$67,393

The provision for current and deferred income tax expense (benefit) consists of the following:

	Year Ended December 31		
	2013	2012	2011
Current:			
Federal	$3,638	$2,511	$1,269
State and local	454	558	286
Foreign	20,744	102,717	23,898
Total	24,836	105,786	25,453
Deferred:			
Federal	370	703	(170)
State and local	59	40	3
Foreign	4,415	(8,654)	(842)
Total	4,844	(7,911)	(1,009)
Total income tax expense:	$29,680	$97,875	$24,444

The tax effects of temporary diffrences that give rise to significant portions of the federal tax assets and deferred tax liabilities are as follows:

	Year Ended December 31	
	2013	2012
Defered tax assets:		
Foreign net operating loss carry-forwards	707	591
Inventory and accounts receivable	626	703
Profit sharing	4,805	6,352
Stock option compensation	526	540
Effect of inventory profit elimination	1,710	5,560
Other	(410)	(23)
Total gross deferred tax assets	7,964	13,723
Valuation allowance	(707)	(591)
Net deferred tax assets	7,257	13,132
Deferred tax liabilities (long-term):		
Trademarks and licenses	(2,555)	(3,502)
Other	–	(297)
Total deferred tax liabilities	(2,555)	(3,799)
Net deferred tax assets	$4,702	$9,333

Valuation allowances are provided for foreign net operating loss carry-forwards, as future profitable operations from certain foreign subsidiaries might not be sufficient to realize the full amount of net operating loss carry-forwards.

No other valuation allowances have been provided as management believes that it is more likely than not that the asset will be realized in the reduction of future taxable income.

The Company has not provided for U.S. deferred income taxes on $329 million of undistributed earnings of its non-U.S. subsidiaries as of December 31, 2013 since the Company intends to reinvest most of these earnings in its foreign operations indefinitely and the Company believes it has sufficient foreign tax credits available to offset any potential tax on amounts that have been and are planned to be repatriated.

Differences between the United States Federal statutory income tax rate and the effective income tax rate were as follows:

	Year Ended December 31		
	2013	2012	2011
Statutory rates	34.0%	34.0%	34.0%
State and local taxes, net of Federal benefit	0.4	0.1	0.3
Effect of foreign taxes greater then (less then) U.S. statutory rates	2.0	1.4	2.0
Other	0.4	0.1	–
Effective rates	36.8%	35.6%	36.3%

(15) Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income consists of the following:

	Year Ended December 31		
	2013	2012	2011
Net derivative instruments, beginning of year	$240	$224	$213
Transfer from OCI into earnings	(240)	–	–
Gain on derivative instruments	–	16	11
Net derivative instruments, end of year	–	240	224
Cumulative translation adjustments, beginning of year	12,258	7,523	14,544
Translation adjustments	13,602	4,735	(7,021)
Cumulative translation adjustments, end of year	25,860	12,258	7,523
Accumulated other comprehensive income	$25,860	$12,498	$7,747

(16) Net Income Attributable to Inter Parfums, Inc. and Transfers from the Noncontrolling Interest

	Year Ended December 31		
	2013	2012	2011
Net income attributable to Inter Parfums, Inc.	$39,211	$131,136	$32,303
Increase (decrease) in Inter Parfums, Inc.'s additional paid-in capital for subsidiary share transactions	(173)	737	209
Change from net income attributable to Inter Parfums, Inc. and transfers from noncontrolling interest	$39,038	$131,873	$32,512

DIRECTORS AND EXECUTIVE OFFICERS

DIRECTORS:

Jean Madar
Chief Executive Officer,
and Chairman of the Board of Directors
Inter Parfums, Inc.

Philippe Benacin
President, and Vice Chairman of the
Board of Directors, Inter Parfums, Inc.
Chief Executive Officer,
Interparfum SA

Russell Greenberg
Executive Vice President,
and Chief Financial Officer
Inter Parfums, Inc.

Philippe Santi
Executive Vice President
Director General Delegue
Interparfum SA

Francois Heilbronn
Managing Partner M.M. Friedrich,
Heilbronn & Fiszer

Jean Levy
Business Consultant - Former President
and Chief Executive Officer, Cosmair
Former President and Chief Executive
Officer, Sanofi Beauté (France)

Robert Bensoussan-Torres
Co-founder of Sirius Equity, a retail
and branded luxury goods
investment company and Former
Chief Executive Officer,
Jimmy Choo Ltd.

Patrick Choël
Business Consultant and Former
President and Chief Executive Officer
Parfums Christian Dior
and the LVMH Perfume and
Cosmetics Division

EXECUTIVE OFFICERS:

Jean Madar
Chief Executive Officer,
and Chairman of the Board of Directors
Inter Parfums, Inc.

Philippe Benacin
President, and Vice Chairman of the
Board of Directors, Inter Parfums, Inc.
Chief Executive Officer,
Interparfum SA

Russell Greenberg
Executive Vice President,
and Chief Financial Officer
Inter Parfums, Inc.

Henry B. Clarke
President,
Inter Parfums USA, LLC
Specialty Retail Division

Philippe Santi
Executive Vice President
Director General Delegue
Interparfum SA

Frédéric Garcia-Pelayo
Director of Export Sales
Interparfum SA

Axel Marot
Director of Production & Logistics
Interparfum SA

CORPORATE INFORMATION:

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Tel. (1) 53-77-00-00
Fax: (1) 40-76-08-65

Auditors
WeiserMazars, LLP
135 West 50th Street
New York, NY 10020

Transfer Agent
American Stock Transfer
and Trust Company
6201 15th Avenue
Brooklyn, NY 11219

THE MARKET FOR OUR COMMON STOCK

Our Company's common stock, $.001 par value per share, is traded on The Nasdaq Global Select Market under the symbol "IPAR". The following table sets forth in dollars, the range of high and low closing prices for the past two fiscal years for our common stock.

2013	High	Low
Fourth Quarter	$38.94	$28.94
Third Quarter	34.96	26.02
Second Quarter	33.19	24.43
First Quarter	25.71	19.55

2012	High	Low
Fourth Quarter	$20.79	$17.17
Third Quarter	18.47	15.99
Second Quarter	17.33	15.20
First Quarter	17.85	15.11

As of February 18, 2014, the number of record holders, which include brokers and broker's nominees, etc., of our common stock was 45. We believe there are approximately 6,300 beneficial owners of our common stock.

DIVIDENDS

In January 2013, our Board of Directors authorized a 50% increase in the cash dividend to $0.48 per share on an annual basis. In November 2013 our Board of Directors declared a special cash dividend of $0.48 per share, which was payable in one lump sum on December 16, 2013 to shareholders of record on December 2, 2013. This special dividend was in addition to our company's regular quarterly cash dividend of $0.12 per share.

In January 2014, our Board of Directors determined to maintain the present quarterly dividend or $0.12 per share, or $0.48 on an annual basis. The next quarterly cash dividend of $0.12 per share is payable on April 15, 2014 to shareholders of record on March 31, 2014.

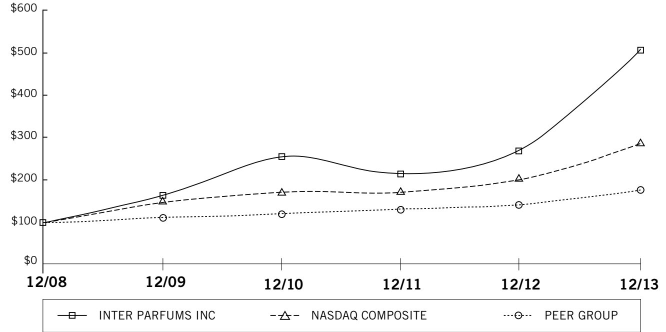
FORM 10K

A copy of the company's 2013 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, is available without charge to shareholders upon request (except for exhibits) To: Inter Parfums, Inc. 551 Fifth Avenue New York, NY 10176 Attention: Corporate Secretary.

CORPORATE PERFORMANCE GRAPH

The following graph compares the performance for the periods indicated in the graph of our common stock with the performance of the Nasdaq Market Index and the average performance of a group of the Company's peer corporations consisting of: Avon Products Inc., Blyth Inc., CCA Industries, Inc., Colgate-Palmolive Co., Elizabeth Arden, Inc., Estee Lauder Cosmetics, Inc., Inter Parfums, Inc., Kimberly Clark Corp., Natural Health Trends Corp., Revlon, Inc., Spectrum Brands, Inc., Stephan Company, Summer Infant, Inc., The Procter & Gamble Company and United Guardian, Inc. The graph assumes that the value of the investment in our common stock and each index was $100 at the beginning of the period indicated in the graph, and that all dividends were reinvested.

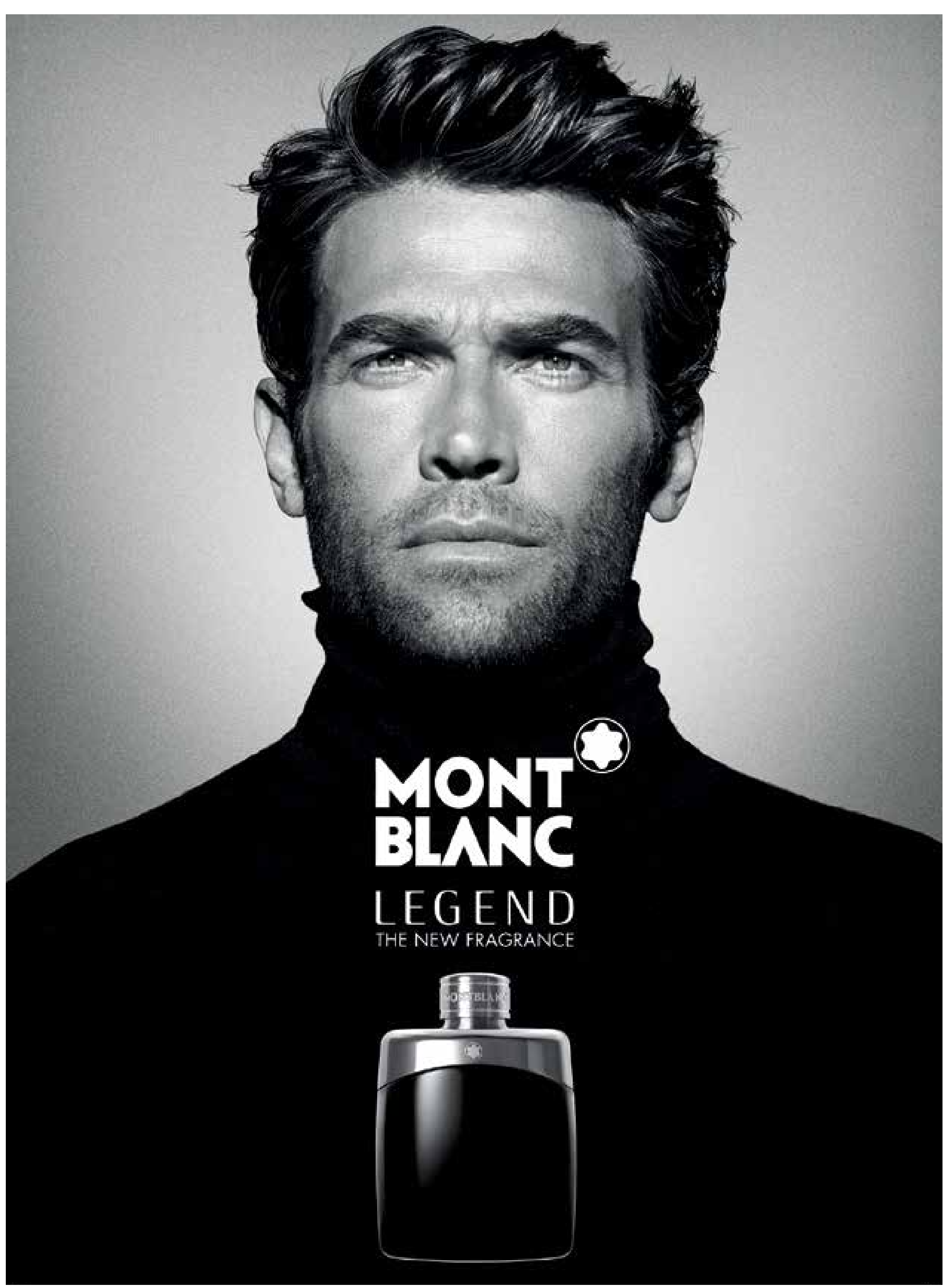
COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Inter Parfums, Inc., The NASDEQ Composite Index and a Peer Group



*$100 INVESTED ON DECEMBER 31, 2008 IN STOCK OR INDEX, INCLUDING REINVESTMENT OF DIVIDENDS.
FISCAL YEAR ENDING DECEMBER 31.

Below is the list of the data points for each year that corresponds to the lines on the above graph

	12/08	12/09	12/10	12/11	12/12	12/13
Inter Parfums, Inc.	100.00	161.00	253.31	213.01	271.31	514.22
NASDAQ Composite	100.00	144.88	170.58	171.30	199.99	283.39
Peer Group	100.00	109.30	118.03	128.95	139.55	174.76



***Montblanc** Legend*

Jimmy Choo

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