EST. 1892
Abercrombie & Fitch
NEW YORK

Agent Provocateur

ANNA SUI

bebe

dunhill
LONDON

HOLLISTER
CALIFORNIA

Oscar de la Renta

SHANGHAI TANG
上海灘

BOUCHERON

COACH
NEW YORK

JIMMY CHOO

KARL LAGERFELD

LANVIN
PARIS

MONT BLANC

Paul Smith

repetto
PARIS

ROCHAS
PARIS

S.T. Dupont
PARIS

Van Cleef & Arpels

# interparfums, inc.

## ANNUAL REPORT
# two thousand sixteen
# 2016

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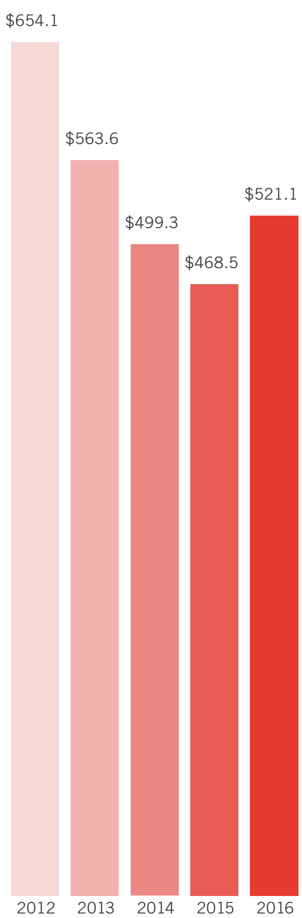
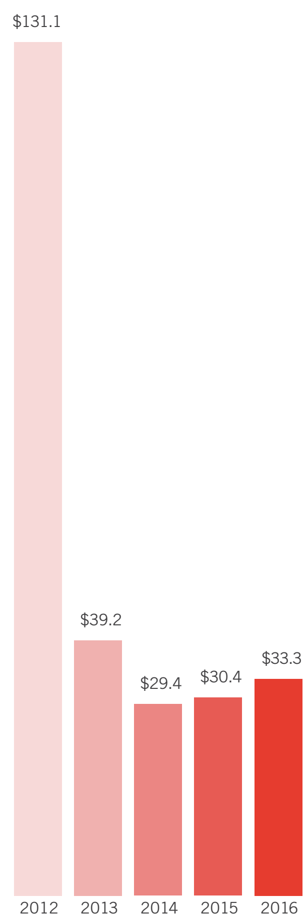
# *financial* Highlights



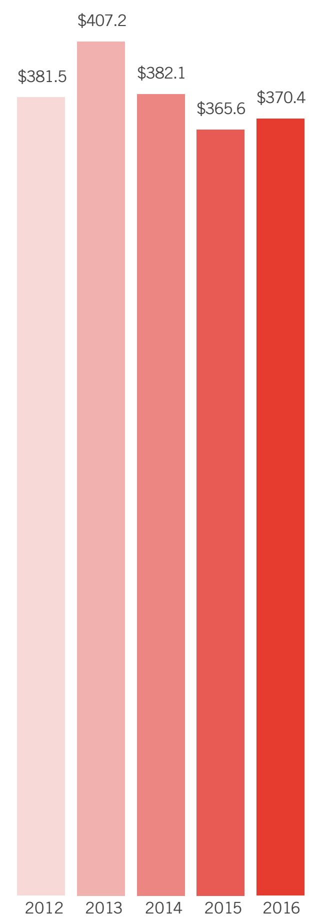

NET SALES

*(In millions)*




NET INCOME ATTRIBUTABLE TO INTER PARFUMS, INC.

*(In millions)*




INTER PARFUMS, INC. STOCKHOLDERS' EQUITY

*(In millions)*

**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)*

| *Years Ended December 31,* | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| **INCOME STATEMENT DATA:** | | | | | |
| Net Sales | $521,072 | $468,540 | $499,261 | $563,579 | $654,117 |
| Cost of Sales | 194,601 | 179,069 | 212,224 | 234,800 | 246,931 |
| Selling, General and Administrative | | | | | |
| Expenses | 258,787 | 228,268 | 233,634 | 250,025 | 325,799 |
| Operating Income | 66,678 | 61,203 | 53,403 | 78,754 | 278,414 |
| Income Before Taxes | 67,074 | 60,496 | 56,715 | 80,646 | 274,765 |
| Net Income Attributable to the | | | | | |
| Noncontrolling Interest | 9,917 | 8,532 | 7,909 | 11,755 | 45,754 |
| Net Income Attributable to Inter Parfums, Inc. | 33,331 | 30,437 | 29,436 | 39,211 | 131,136 |
| Net Income Attributable to Inter Parfums, Inc. | | | | | |
| Common Shareholders' per Share: | | | | | |
| Basic | 1.07 | 0.98 | 0.95 | 1.27 | 4.29 |
| Diluted | 1.07 | 0.98 | 0.95 | 1.27 | 4.26 |
| Weighted Average Common Shares Outstanding: | | | | | |
| Basic | 31,072 | 30,996 | 30,931 | 30,764 | 30,575 |
| Diluted | 31,176 | 31,100 | 31,060 | 30,954 | 30,716 |
| Depreciation and Amortization | 15,341 | 9,078 | 10,166 | 11,110 | 15,554 |
| **BALANCE SHEET AND OTHER DATA:** | | | | | |
| Cash and Cash Equivalents | 161,828 | 176,967 | 90,138 | 125,650 | 307,335 |
| Short-Term Investments | 94,202 | 82,847 | 190,152 | 181,677 | —0— |
| Working Capital | 337,977 | 337,674 | 382,935 | 399,344 | 366,680 |
| Total Assets | 682,409 | 687,659 | 604,506 | 664,058 | 759,920 |
| Short-Term Bank Debt | –0– | –0– | 298 | 6,104 | 27,776 |
| Long-Term Debt (including current portion) | 74,562 | 98,606 | –0– | –0– | –0– |
| Inter Parfums, Inc. Shareholders' Equity | 370,391 | 365,587 | 382,065 | 407,211 | 381,476 |
| Dividends Declared per Share | 0.62 | 0.52 | 0.48 | 0.96 | 0.32 |

# 2016 *letter to our* Shareholders

**DEAR FELLOW SHAREHOLDERS,**

2016 was another year of growth and accomplishment and one in which we continued to build a strong foundation to support future growth. Among the highlights of the past year are:

- Strong top line growth across all but one geographic market;
- Market share gain;
- Improved profitability; and,
- Better than expected initial results from new portfolio brand launches including Coach, Abercrombie & Fitch and Hollister.

**FINANCIAL OVERVIEW**

- Net sales rose 11.2% to $521.1 million from $468.5 million in 2015, at comparable foreign currency exchange rates, net sales rose 12.1% year-over-year.
- Sales by European based operations were $404.0 million, up 11% from $362.7 million in 2015, in comparable foreign currency exchange rates, net sales for European based operations were up 12.5%.
- U.S. based operations generated net sales of $117.1 million, up 11% from $105.8 million in 2015.
- Gross margin was 62.7% compared to 61.8% in 2015.
- S, G & A expense as a percentage of sales was 49.7% compared to 48.7%.
- Net income attributable to Inter Parfums, Inc. was $33.3 million or $1.07 per diluted share compared to $30.4 million or $0.98 per diluted share in 2015.
- Our business generated cash flows from operating activities of approximately $54.6 million, up from $50.1 million in 2015.
- We closed the year with working capital of $338 million including approximately $256 million in cash, cash equivalents and short-term investments, resulting in a working capital ratio of nearly 3.4 to 1.
- At year-end, long-term debt including current maturities aggregated $74.6 million, which related to the remainder of the debt incurred in connection with the May 2015 acquisition of the Rochas brand.

With expectations for continued growth and consistent cash flows, coupled with an exceptionally strong balance sheet, in October 2016, our Board of Directors deemed it appropriate to increase our regular quarterly cash dividend,

*Philippe Benacin and Jean Madar*

this time by 13% to $0.17 per share, or $0.68 per share annually. This marks the fifth increase in our quarterly cash dividend since 2010.

Our two largest markets achieved exceptional growth in 2016. In Western Europe, sales grew by 23.5%, and in North America, sales increased 19% year-over-year. In Asia, our third largest market, sales were 4% ahead of 2015, with Korea and Japan making up some of the shortfall in China, where the market remains depressed. Aggregate sales in Central and South America and the Middle East ran ahead of 2015, and the only market in which our sales declined was Eastern Europe, owing to Russia's economic problems resulting from lower oil prices and a devalued currency.

**LOOKING BACK AND AHEAD**
**EUROPEAN BASED OPERATIONS**

One of 2016's most promising and well-timed events for our European operations was the introduction of our first Coach scent for women. Launched mid-year, the brand generated $23 million in sales in the second half, well ahead of expectations. The Coach signature scent rollout in France, Germany, and Spain continues in 2017 as well as in important markets for the brand such as China and Japan. In the fall, we are unveiling a new men's scent. Our timing couldn't be better as the Coach brand has successfully undergone a major transformation, revitalization and repositioning, and as is now emblematic of one of the most important industry trends known as "democratic luxury," which translates into expensive, but not jet-setting over-the-top extravagant. Every indicator points to Coach becoming one of our largest brands and therefore an important addition to our brand portfolio.

Another new brand, Rochas, achieved 2016 sales of $32.3 million selling only legacy scents. *Mademoiselle Rochas*, our first new fragrance under the Rochas brand, launches in 2017 where we plan to unlock the untapped potential of this sleeping beauty of a brand. Our ad campaign features Swiss born actress Noémie Schmidt, currently one of leading ladies on the BBC series, Versailles. Distribution will be in two phases – 12 countries in the first half, including the brand's largest markets of France and Spain, followed by round two starting in the second half. As the owner of the Rochas brand, our goal is to restore the brand's desirability, reestablish Rochas as a Parisian luxury house, modernize the outdated classic image of the current lines and broaden the target customer.

Our largest brand, Montblanc, had an exceptional year with sales climbing 25% to approximately $122 million, resulting in a five-year compound annual growth rate for the brand of 23.2%. To our own surprise, *Legend Spirit*, a new flanker in our consistently popular *Montblanc Legend* fragrance family, was a major contributor to the increase in brand sales. The brand's *Lady Emblem* has begun to get traction as well, especially in the Middle East and South America. Capitalizing upon the *Legend* loyalty, we will welcome still another extension, *Legend Night*, which is planned for the end of 2017 and early 2018.

Sales of Jimmy Choo fragrances have achieved a five-year compound annual growth rate of 17%, making it our second largest brand. With 2016 brand sales approximating $90 million, Jimmy Choo fragrances were off a modest 2% from 2015 when year-over-year sales rose 18%, catalyzed by the launch of two women's scents and the rollout of our first men's fragrance for the brand. In 2016, *Jimmy Choo Illicit Flower* debuted as a flanker for Illicit, one of the 2015 new product launches. The Jimmy Choo franchise will welcome two new members in 2017, *Jimmy Choo L'Eau* in the first half and *Jimmy Choo Man Ice* in the second half.

Lanvin, our third largest brand, had a down year with sales off 13% primarily due to the economic slowdowns in its two flagship markets of Russia and China. At the end of 2016, we introduced *Modern Princess* in limited distribution, which is being followed with broader rollout in 2017 in the hopes of offsetting the negative geographic conditions where the brand is most popular. Similarly, a new interpretation of the best performing Lanvin fragrance, *Éclat d'Arpège*, will debut later in 2017.

As we do every year, in 2016, there were several limited edition, brand extensions and holiday programs that we brought to market. In the brand extension category, we added a new fragrance for the Van Cleef & Arpels *Collection Extraordinaire* and introduced *In New York*, a new men's scent for the brand. In addition to the 2017 programs mentioned above, we will grow the *Collection Extraordinaire* by still another new fragrance and for Boucheron, we have *Galerie Olfactive*, a six-scent luxury collection in exclusive distribution.

**U.S. BASED OPERATIONS**

The big news for U.S. operations was the launch of our two newest brands, Abercrombie & Fitch and Hollister, in international markets. While these well-known American brands are part of our U.S. based operations, in the international markets, these names are viewed as full-fledged prestige brands and are sold in department stores, specialty stores, and travel retail. These brands have played a key role in the transition of our U.S. based operations into a far larger, more geographically diverse and increasingly profitable prestige fragrance business. In 2016, we launched *Wave*, a Hollister fragrance duo targeted for the younger set. That success was the impetus behind the 2017 launch of another fragrance duo, Wave 2. For Abercrombie & Fitch, we introduced *First Instinct* for men in 2016 followed by a women's version in 2017. For both brands, we couldn't be happier with the results thus far.

Dunhill, our largest fragrance franchise under the U.S. operations umbrella, with products solely for men, launched *Icon Elite* in 2016, building upon the highly successful Icon pillar. In 2017, we have *Desire Extreme* as well as *Icon Racing*, another *Icon* flanker debuting for the brand. We are reinvigorating our Oscar de la Renta fragrance collection with a new women's scent called *Bella Blanca* with a launch date set for 2018, and for Anna Sui we have several brand extensions and an entirely new pillar called *Fantasia* coming to market.

**INDUSTRY INSIGHTS AND CONCLUSION**

We'd like to share some of our thoughts about our industry and our place within it. It is estimated that from 2011 to 2016, the global fragrance market contracted at a compound annual rate of 1.3%; during that timeframe, our compound annual growth rate was 11%. That says something about our ability to buck trends, gain market share and grow our Company.

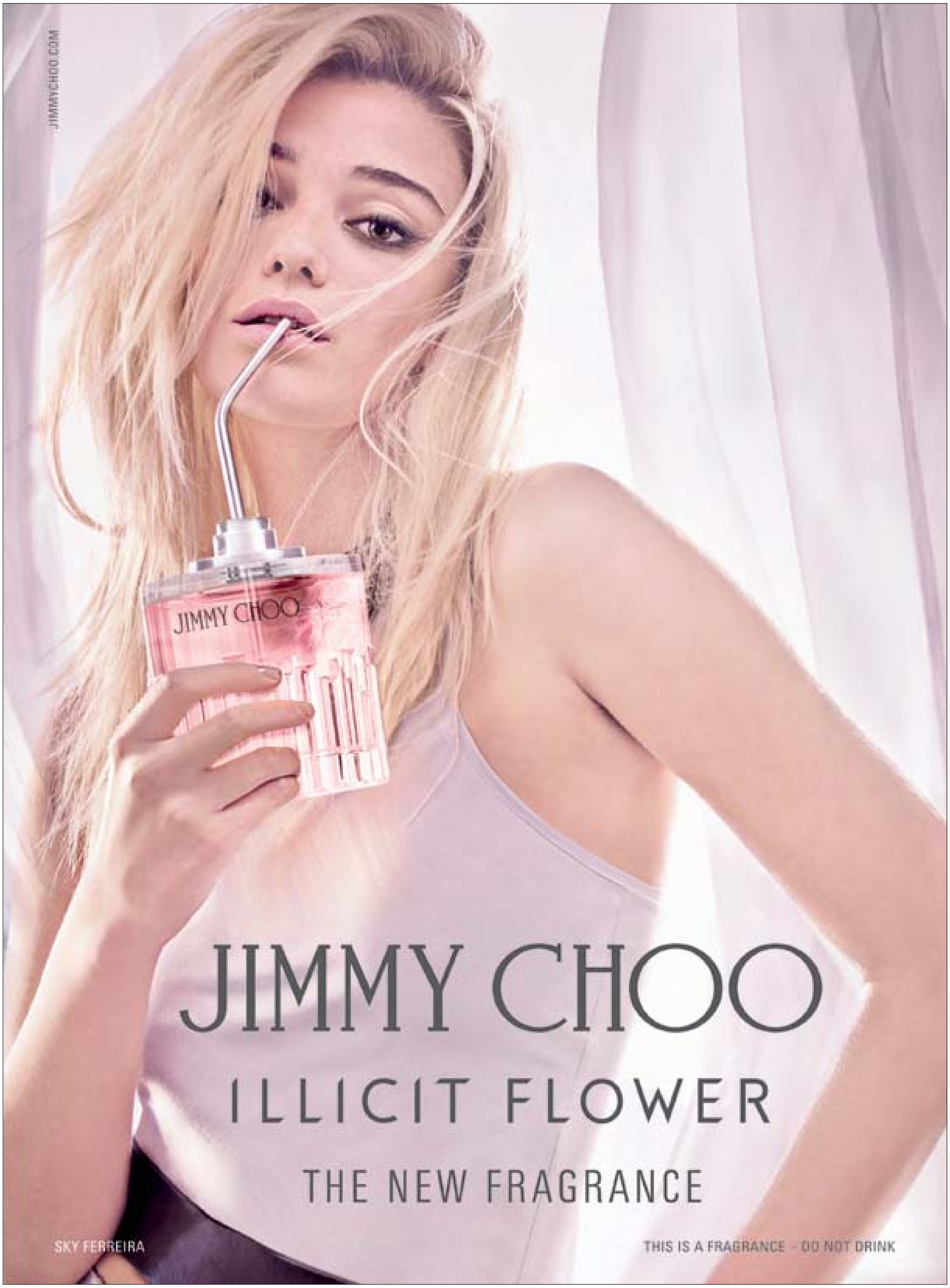
If you Google, "fragrance launches of 2016," a whopping 1,685 new entries appear. When it comes to fragrance, in our opinion, new is good but longevity is better. The best of breed fragrances remain on the market for years and some even decades fortified by extensions and flankers, and/or with new packaging and promotion. But at the end of the day, these fragrance gems achieve stellar returns on investment for their owners and our stable has many of these thoroughbreds.

We have every reason for confidence in the future of Inter Parfums. With our rich and diverse portfolio of brands, we are not dependent on one or two for our growth or success. We also recognize that all brands are not created equal. We have an effective distribution network reaching 100 countries, and in several of the most important markets, we own or control the distribution organizations. We also have a very strong balance sheet, which, among other things, makes us an attractive partner to prospective brand owners. And of course, we have a great talent and resource reservoir. In fact, with 357 full-time employees worldwide, Inter Parfums generated $521 million in sales in 2016 equating to almost $1.5 million in sales per employee, which we feel is quite an achievement.

Sincerely yours,

**Jean Madar**
Chairman of the Board
Chief Executive Officer

**Philippe Benacin**
Vice Chairman of the Board
& President




***Jimmy Choo*** *Illicit Flower*

# *the* Company


***Rochas*** *Mademoiselle Rochas*

**WE ARE INTER PARFUMS, INC. WE OPERATE IN THE FRAGRANCE BUSINESS, AND MANUFACTURE, MARKET AND DISTRIBUTE A WIDE ARRAY OF FRAGRANCE 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 sole owner of three (3) distribution subsidiaries: Inter Parfums srl for Italy, Inter España Parfums et Cosmetiques, SL, for Spain and Interparfums Luxury Brands, Inc., a Delaware corporation for distribution of prestige brands in the United States. Interparfums SA is also the majority owner of Parfums Rochas Spain, SL, a Spanish limited liability company, which specializes in the distribution of Rochas fragrances, as well as the majority owner of Inter Parfums Gmbh, a distribution subsidiary for Germany. In addition, 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


***Abercrombie & Fitch*** *First Instinct*

of our subsidiary, Interparfums SA, are traded on the NYSE Euronext Exchange.

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, beneficial ownership reports (Forms 3, 4 and 5) 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 they have been electronically filed with or furnished to the SEC.

We operate in the fragrance business and manufacture, market and distribute a wide array of fragrance 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 both our United States operations, and our European operations, the latter, 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.

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 deliver them to one of our distribution centers.

Our prestige products focus on niche brands, each 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, and more frequently seasonal and limited edition fragrances are 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.

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 our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, and the reports that we file from time to time with the Securities and Exchange Commission.

### EUROPEAN OPERATIONS

We produce and distribute our fragrance products primarily under license agreements with brand owners, and fragrance product sales through our European operations represented approximately 78% of net sales for 2016. We have built a portfolio of prestige brands, which include Boucheron, Coach, Jimmy Choo, Karl Lagerfeld, Lanvin, Montblanc, Paul Smith, S.T. Dupont, Repetto, Rochas and Van Cleef & Arpels, whose products are distributed in over 100 countries around the world.

With respect to the Company's largest brands, we own the Lanvin brand name for its class of trade, and license the Montblanc and Jimmy Choo brand names. As a percentage of net sales, product sales for the Company's largest brands were as follows:

| *Year ended December 31,* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Montblanc | 23% | 21% | 22% |
| Jimmy Choo | 17% | 20% | 16% |
| Lanvin | 12% | 15% | 18% |

### UNITED STATES OPERATIONS

Prestige brand fragrance products are also marketed through our United States operations, and represented 22% of sales for the year ended December 31, 2016. These fragrance products are sold under trademarks owned by us or pursuant to license or other agreements with the owners of brands, which include Abercrombie & Fitch, Agent Provocateur, Anna Sui, bebe, Dunhill, Hollister, French Connection, Oscar de la Renta, and Shanghai Tang brands.

## 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 and limited edition 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, flanker brands or flankers) within our brand franchises. Furthermore, we promote the smooth and consistent performance of our prestige fragrance 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, during 2014, we signed fragrance licenses for Abercrombie & Fitch and Hollister brands; in 2015, we signed fragrance licenses for Coach and French Connection, extended our Montblanc fragrance license and purchased the Rochas brand, and in 2016, we extended the terms of our


***Coach*** *Coach*

S.T. Dupont and bebe licenses. As of December 31, 2016, we had cash, cash equivalents and short-term investments of approximately $256 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 or assets on terms favorable to us, or if we do, that any such transaction will be successful. We identify prestige brands that can be developed and marketed into a full and varied product families and, with our technical knowledge and practical experience gained over time, take licensed brand names through all phases of concept, development, manufacturing, marketing and distribution.

### EXPAND EXISTING PORTFOLIO INTO NEW CATEGORIES

We intend to selectively 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 formed and are operating distribution subsidiaries in the major markets of the United States, Italy, Spain and Germany for distribution of prestige fragrances. We may look into future joint arrangements or acquire distribution companies within other key markets to distribute certain of our prestige brands. 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.

## RECENT DEVELOPMENTS

### BUYOUT OF LICENSE

In December 2016, we reached an agreement with the Balmain brand calling for Balmain to buyout the Balmain license agreement, effective December 31, 2016, in exchange for a payment aggregating €5.4 million (approximately $5.7 million). As a result of the buyout, we recognized a gain of $4.7 million and received the buyout payment in May 2017. As of March 31, 2017, the three month inventory sell-off period concluded and Balmain purchased all remaining inventory aggregating $1.4 million.

### IMPAIRMENT LOSS

We review intangible assets with finite lives for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Product sales of our Karl Lagerfeld brand have not met with our original expectations. As a result of our review in 2016, we recorded an impairment loss of $5.7 million as of December 31, 2016.

### S.T. DUPONT

In September 2016, we renewed our license agreement with S.T. Dupont for the creation, development and distribution of fragrance products through December 31, 2019, without any material changes in terms and conditions. Our initial 11-year license agreement with S.T. Dupont was signed in June 1997, and had previously been extended through December 31, 2016.

### SETTLEMENT WITH FRENCH TAX AUTHORITIES

The French Tax Authorities examined the 2012 tax return of Interparfums SA, and in August 2015 issued a $6.9 million tax adjustment. It is our position that the French Tax Authorities are incorrect in their assessments and we believe that we have strong arguments to support our tax positions. The main issues challenged by the French Tax Authorities related to the commission rate and royalty rate paid to Interparfums Singapore Pte. and Interparfums (Suisse) SARL, respectively. Interparfums Singapore Pte. and Interparfums (Suisse) SARL are wholly-owned subsidiaries of Interparfums SA. Due to the subjective nature of the issues involved, in April 2016, Interparfums SA reached an agreement in principle to settle the entire matter with the French Tax Authorities. The settlement requires Interparfums SA to pay a tax assessment of $1.9 million covering the issues for not only the 2012 tax year, but also covering the issues for the tax years ended 2013 through 2015. The settlement also includes an agreement as to future acceptable commission and royalty rates, which is not expected to have a significant impact on cash flow. The settlement, which was recently finalized with the French

Tax Authorities, was accrued for in March 2016. In July 2016, Interparfums SA paid $1.1 million to the French Tax Authorities upon receipt of formal notification regarding tax years 2013 and 2014.

**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 aesthetic 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 (Aesthete, Carré Basset, PI Design, Cent Degres)
- Perfumers (IFF, Givaudan, Firmenich, Robertet, Takasago, Mane) which create a fragrance consistent with our expectations and, that of the fragrance designers and creators
- Bottle manufacturers (Pochet du Courval, Verescence, Verreries Brosse, Bormioli Luigi, Stoelzle Masnières), caps (Qualipac, ALBEA , RPC, Codiplas, LF Beauty, Texen Group) or boxes (Autajon, MMPP, Nortier, Draeger)
- Production specialists who carry out packaging (CCI, Edipar, Jacomo, SDPP, MF Productions, Biopack) or logistics (Balloré Logistics for storage, order preparation and shipment).

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. For our European operations, prestige fragrances, components and contract filling needs are purchased from many different suppliers located around the world. For United States operations, components for our prestige fragrances are primarily sourced, 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**

Our products are distributed in over 100 countries around the world through a selective distribution network. For our international distribution, we either contract with independent distribution companies specializing in luxury goods or distribute prestige products through our distribution subsidiaries. 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 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 brands within our European based operations we operate through our distribution subsidiaries in the major markets of the United States, Italy, Spain and Germany. 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.

For our United States operations, we distribute product to approved retailers and distributors in the United States as well as internationally, 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 are weighted toward the second half of the year.

# *the* Products

**WE ARE THE OWNER OF THE ROCHAS BRAND, AND LANVIN BRAND NAME AND TRADEMARK FOR OUR CLASS OF TRADE. IN ADDITION, WE HAVE BUILT A PORTFOLIO OF LICENSED PRESTIGE BRANDS WHEREBY WE PRODUCE AND DISTRIBUTE OUR PRESTIGE FRAGRANCE PRODUCTS 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 AS ARE CUSTOMARY IN OUR INDUSTRY.**

Our licenses for these brands expire on the following dates:

| Brand Name | Expiration Date |
|---|---|
| Abercrombie & Fitch | December 31, 2021 |
| Agent Provocateur | December 31, 2023 |
| Anna Sui | December 31, 2021, plus two five-year optional terms if certain conditions are met |
| bebe Stores | June 30, 2020 |
| Boucheron | December 31, 2025, plus a 5-year optional term if certain sales targets are met |
| Coach | June 30, 2026 |
| Dunhill | September 30, 2023, subject to earlier termination on September 30, 2019, if certain minimum sales are not met |
| Hollister | December 31, 2021 |
| Jimmy Choo | December 31, 2021 |
| Karl Lagerfeld | October 31, 2032 |
| Montblanc | December 31, 2025 |
| Oscar de la Renta | December 31, 2025, plus a 5-year optional term if certain sales targets are met |
| Paul Smith | December 31, 2017 |
| Repetto | December 31, 2024 |
| 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 |
| S.T. Dupont | December 31, 2019 |
| Van Cleef & Arpels | December 31, 2018, 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 $74 million) or one times the average of the annual sales for the years ending December 31, 2023 and 2024.

# *fragrance* **Portfolio**

EST. 1892

Abercrombie & Fitch

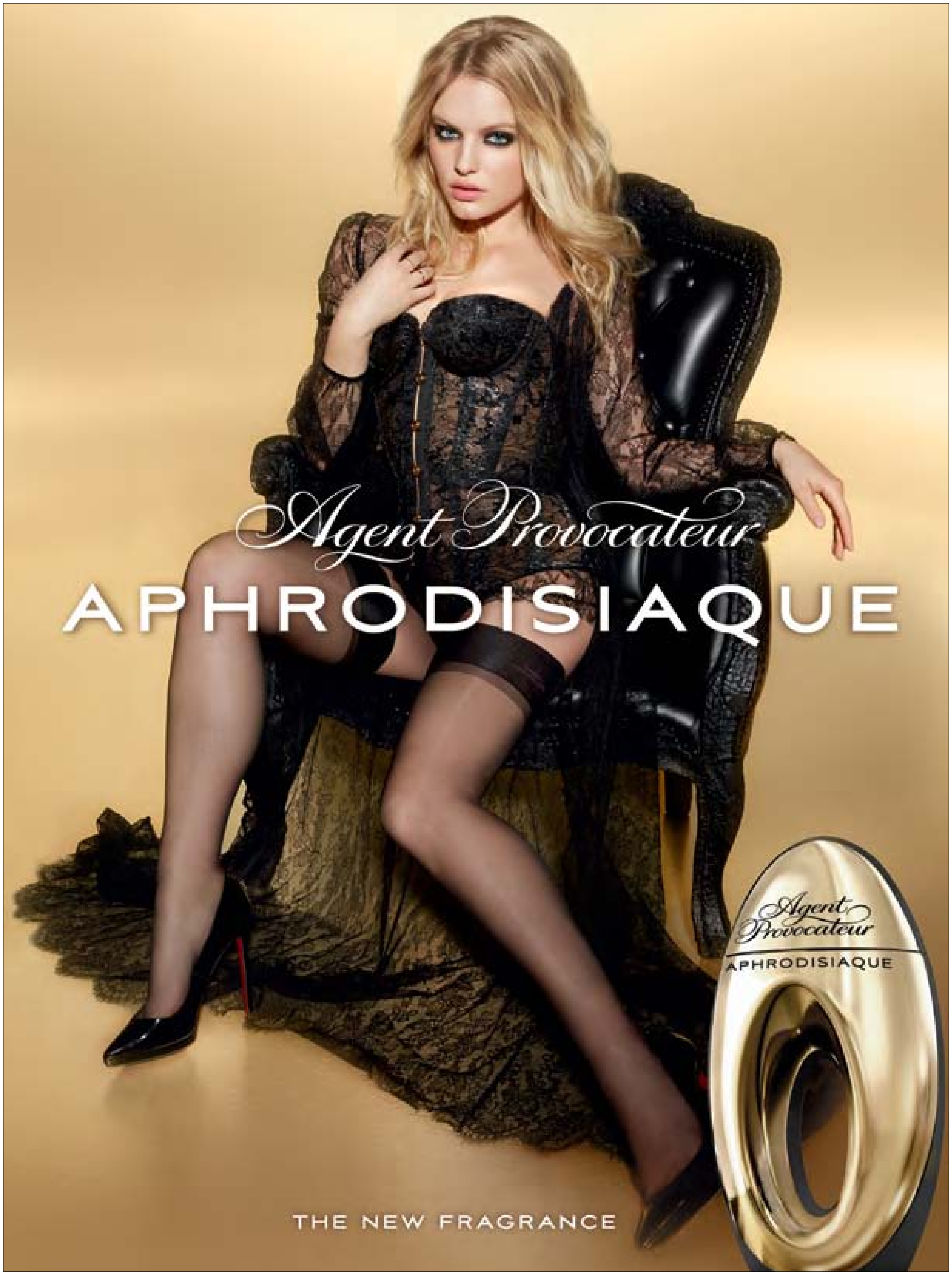
NEW YORK

### ABERCROMBIE & FITCH

In December 2014, we entered into a 7-year exclusive worldwide license to create, produce and distribute new fragrances and fragrance related products under the Abercrombie & Fitch brand name. The Company distributes these fragrances internationally in specialty stores, high-end department stores and duty free shops, and in the U.S., in duty free shops and in select Abercrombie & Fitch retail stores. In 2016 we launched a new men's scent, *First Instinct*, for Abercrombie & Fitch. A women's version of *First instinct* is in the works for 2017.

Abercrombie & Fitch stands for effortless American Style. Since 1892, the brand has been known for its attention to detail with designs that embody simplicity and casual luxury. Rooted in a heritage of quality craftsmanship, Abercrombie and Fitch continues to bring its customers iconic, modern classics with an aspirational look, feel, and attitude.


***Abercrombie & Fitch*** *First Instinct*




***Agent Provocateur*** *Aphrodisiaque*

## AGENT PROVOCATEUR

In July 2013, we entered into a 10.5-year exclusive worldwide license to create, produce and distribute fragrances and fragrance related products under London-based luxury lingerie brand, Agent Provocateur. In 2013, we commenced distribution of selected fragrances within the brand's legacy fragrance portfolio, and in 2014, we launched our first new Agent Provocateur scents, *Fatale* and *Fatale Pink*. In 2016, we introduced *Agent Provocateur Aphrodisiaque*, our second fragrance family for the brand. Several new scents are scheduled to launch in 2017. Agent Provocateur fragrance sales are concentrated in the United Kingdom and the Middle East.

Founded in 1994, 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.

ANNA SUI

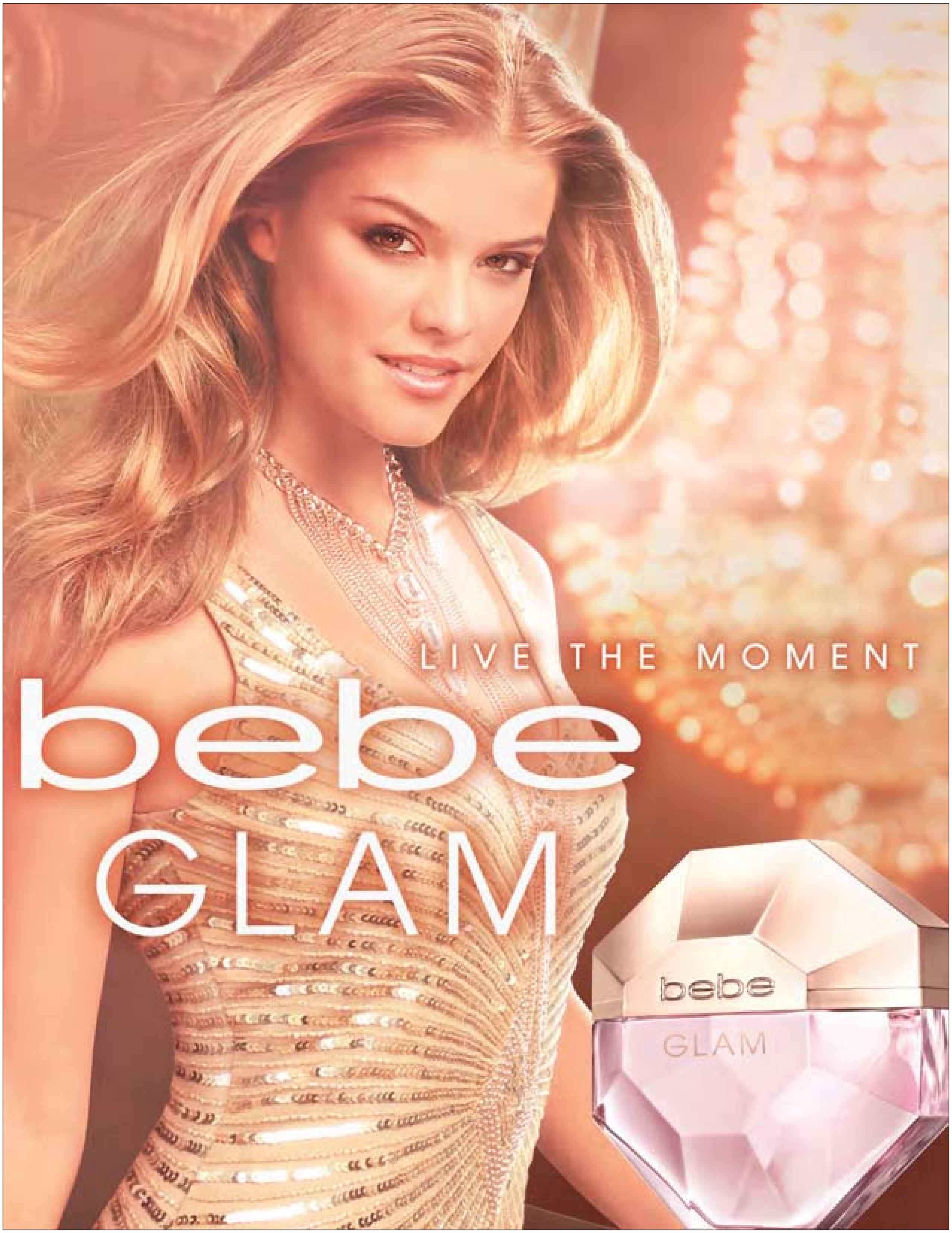
## ANNA SUI

In June 2011, we entered into a 10-year exclusive worldwide fragrance license agreement to produce and distribute fragrances 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 concentrated in Asia.

Anna Sui product sales have declined in the past three years primarily owing to the slowdown in the Chinese economy where the brand is especially popular. We are currently distributing several lines of product, including top sellers, *La Vie de Bohème, Romantica* and *Secret Wish.*


***Anna Sui*** *Fantasia*




***bebe** Glam*

bebe

## bebe STORES

In July 2008, we entered into an exclusive 6-year worldwide agreement with bebe Stores, Inc., that has been renewed through June 30, 2020, under which we design, manufacture and supply fragrances 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 fragrances for the brand's strong, hip, sexy, and sophisticated clientele. Scents currently available for domestic and international markets include: *bebe, bebe Sheer, bebe Gold, bebe Glam* and *bebe Glam 24 Karat.*

### BOUCHERON

In December 2010, we entered into an exclusive 15-year worldwide license agreement for the creation, development and distribution of fragrances 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.

Our first new fragrance under the Boucheron brand, *Jaïpur Bracelet,* debuted in 2012, and Boucheron *Place Vendôme*, which has a beautiful glasswork bottle with a cabochon, the emblematic stone of House Boucheron, was released in 2013. In 2015, we launched a new fragrance duo for the Boucheron brand around its iconic Quatre ring, *Boucheron Quatre*. A six scent collection is launching under the Boucheron brand in 2017.


***Boucheron*** *Quatre pour Homme*


CHLOË Grace MORETZ *Introducing* The NEW FRAGRANCE *for* HER
COACH
NEW YORK

***Coach*** *Coach*

## COACH

In April 2015, we entered into an exclusive 11-year worldwide license with Coach, Inc. to create, produce and distribute new men's and women's fragrances and fragrance related products under the Coach brand name. We distribute these fragrances globally to department stores, specialty stores and duty free shops, as well as in Coach retail stores.

Coach, established in New York City in 1941, is a leading design house of modern luxury accessories and lifestyle collections with a rich heritage of pairing exceptional leathers and materials with innovative design. Coach is sold worldwide through Coach stores, select department stores and specialty stores, and through Coach's website at www.coach.com. Coach's common stock is traded on the New York Stock Exchange under the symbol COH and Coach's Hong Kong Depositary Receipts are traded on The Stock Exchange of Hong Kong Limited under the symbol 6388.

In 2016, we launched our first Coach fragrance, a women's scent, which has quickly become a top selling new prestige fragrance. A men's scent is planned for 2017.

## DUNHILL

In December 2012, we entered into an exclusive 10-year worldwide fragrance license to create, produce and distribute fragrances and fragrance related products under the Dunhill brand.

The house of 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 stores. 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.

We took over production and distribution of Dunhill legacy fragrances beginning in 2013, and we introduced a legacy scent flanker, *Desire Black*, in 2014. In 2015, we rolled out our new Dunhill scent, *Icon*, the success of which has made the Dunhill brand our largest and fastest growing brand within our United States based operations. For 2016, we launched several product extensions including *Icon* Luxury Spray Set and *Icon Elite*. In 2017, the brand's *Desire* family is adding a new scent, *Desire Extreme*, and *Icon Racing* will also launch in 2017.


***Dunhill** Icon Collection*


***Hollister*** *Wave for Her*

## HOLLISTER

In December 2014, we entered into a 7-year exclusive worldwide license to create, produce and distribute new fragrances and fragrance related products under the Hollister brand name. The Company distributes these fragrances internationally in specialty stores, high-end department stores and duty free shops, and in the U.S., in duty free shops and in select Hollister retail stores. In 2016 we launched a new men's and women's scent, *Wave*, for Hollister. *Wave 2*, a brand extension for Hollister is in the works for 2017.

Hollister is the fantasy of Southern California. Inspired by beautiful beaches, open blue skies, and sunshine, Hollister lives the dream of an endless summer. Hollister's laidback lifestyle makes every design effortlessly cool and totally accessible. Hollister brings Southern California to the world.

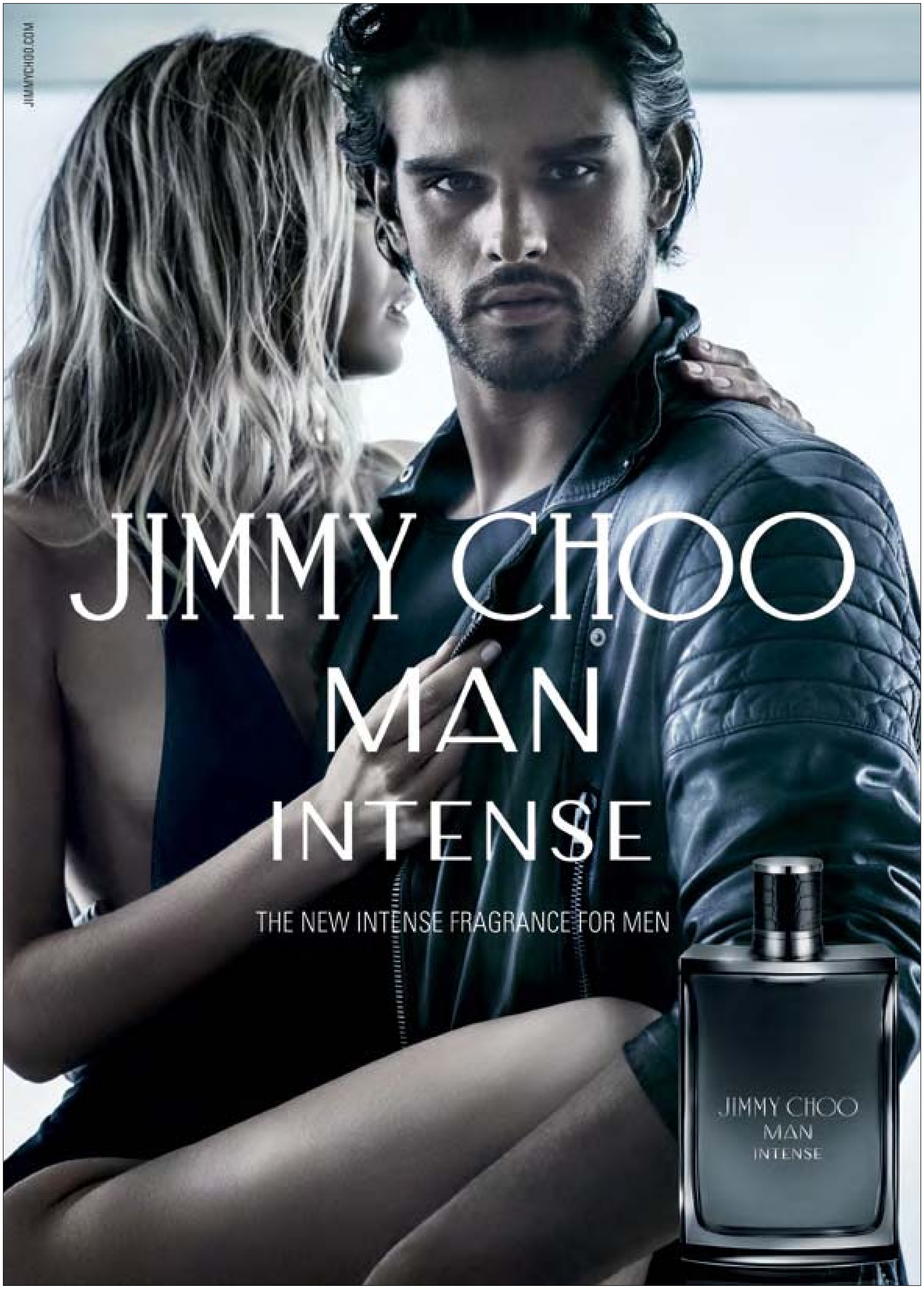
# JIMMY CHOO

## JIMMY CHOO

In October 2009, we entered into an exclusive 12-year worldwide license agreement 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 men's and 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.

Our first fragrance under the Jimmy Choo brand, a signature scent, rolled out globally in 2011. Jimmy Choo product sales exceeded our expectations and sales topped $40 million in that first year. In 2013, we launched our second Jimmy Choo line, *Flash,* and in 2014, we debuted *Jimmy Choo Man* our first men's scent which ranked in 2015 as the 9th best-selling men's fragrance in the United States. In 2015, the launch of *Jimmy Choo Illicit*, our third women's fragrance under that label, was the principal driver for brand growth. For 2016, we debuted a new women's flanker, *Jimmy Choo Illicit Flower*. In 2017, we have both a women's and men's fragrance initiative planned for the brand.




***Jimmy Choo*** *Man Intense*


***Karl Lagerfeld*** *Private Klub*

## KARL LAGERFELD

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

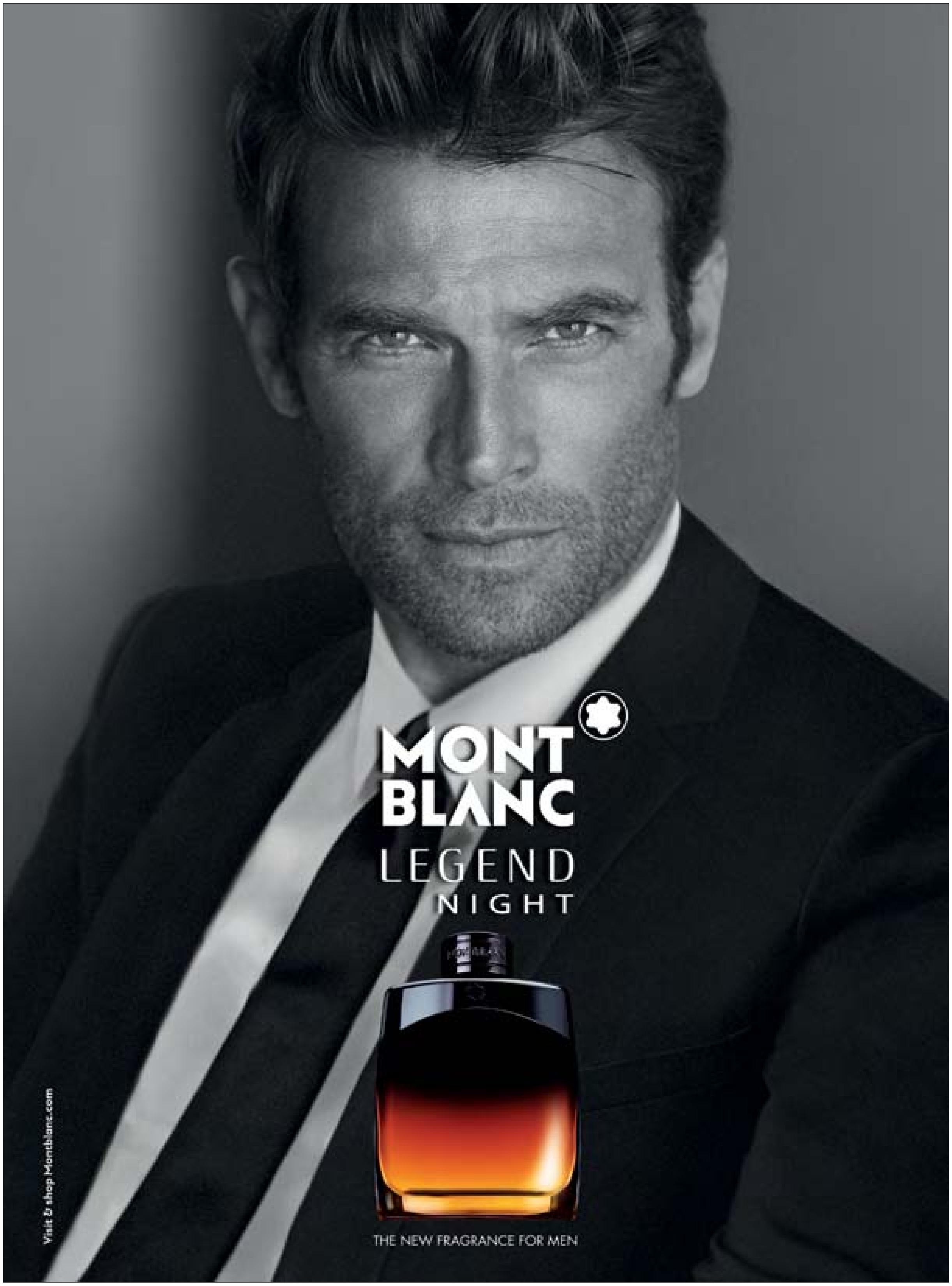
Under the creative direction of Karl Lagerfeld, one of the world's most influential and iconic designers, the Lagerfeld Portfolio represents a modern approach to distribution, an innovative digital strategy and a global 360 degree vision that reflects the designer's own style and soul. Our first line, a premium namesake duo scent for both men and women, was launched in 2014. However, in 2015, with sales concentrated in Russia and northern Europe, re-orders were disappointing and sales of this brand declined despite the launch of *Private Klub,* a line extension. We will attempt to reinvigorate this brand by changing its strategic positioning and instituting new pricing in 2017.

## LANVIN

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

Lanvin is currently our third largest brand by sales volume. Lanvin fragrances occupy an important position in the selective distribution market in France, Europe and Asia. Current lines in distribution include: *Arpège*, *Lanvin L'Homme*, *Éclat d'Arpège*, *Rumeur 2 Rose*, *Jeanne Lanvin*, *Marry Me!*, *Jeanne Lanvin Couture*, *Lanvin Me* and *Me L'Eau.* Our *Éclat d'Arpège* line accounts for approximately 50% of this brand's sales. We have extended our Lanvin fragrance families, and in order to capitalize on the success of our *Éclat d'Arpège* line, in 2015, we launched *Éclat d'Arpège Pour Homme* as well as *Éclat de Fleurs*. For 2016, we released a new women's line, *Lanvin Modern Princess* in limited distribution to be followed by broader international distribution in 2017. In addition, another interpretation of *Éclat d'Arpège* is also in the works for 2017. Lanvin brand product sales continue to be affected by the economic slowdown in its two flagship markets, Russia and China.


***Lanvin*** *Modern Princess*




***Montblanc*** *Legend Night*

## MONTBLANC

In October 2015, we extended our license agreement with Montblanc by five years. The original agreement, signed in 2010, provided us with the exclusive worldwide license rights to create, produce and distribute fragrances and fragrance related products under the Montblanc brand through December 31, 2020. The new 10-year agreement, which went into effect on January 1, 2016, extends the partnership through December 31, 2025 without any material changes in operating conditions from the prior license.

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 be our largest and fastest growing fragrance brand.

In 2011, we launched our first new Montblanc fragrance, *Legend,* which quickly became our best-selling men's line. In 2012, we launched our first women's fragrance under the Montblanc brand, and our second men's line, *Emblem*, was launched in 2014. Montblanc has quickly become our largest selling brand. The *Emblem* line was expanded in 2015 to include *Montblanc Emblem Intense* and a new women's scent, *Lady Emblem*. In 2016, we further extended our successful *Montblanc Legend* line with a new men's scent, *Montblanc Legend Spirit*.

## OSCAR DE LA RENTA

In October 2013, we entered into a 12-year exclusive worldwide license to create, produce and distribute fragrances and fragrance related products under the Oscar de la Renta brand. In 2014, we took over distribution of fragrances within the brand's legacy fragrance portfolio, and our first new women's fragrance under the Oscar de la Renta brand, *Extraordinary*, was launched in 2015. For 2016, in addition to several flankers that we launched throughout the year in select markets, we debuted a new men's fragrance family, *Oscar de la Renta Gentleman. Bella Blanca*, a new Oscar de la Renta scent, will be introduced in 2018.

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, www.oscardelarenta.com and through wholesale channels. The Oscar de la Renta brand has a loyal following in the United States, Canada and Latin America.


***Oscar de la Renta*** *Bella Blanca*


***Paul Smith*** *Essential*

# 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 fragrances. In 2008, we extended this license for an additional seven years through December 31, 2017, and although we cannot assure we will be successful, we are currently in discussions to extend this license through December 31, 2019.

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, Paul Smith Extrême, Paul Smith Rose and Paul Smith Essential.*

Repetto
PARIS

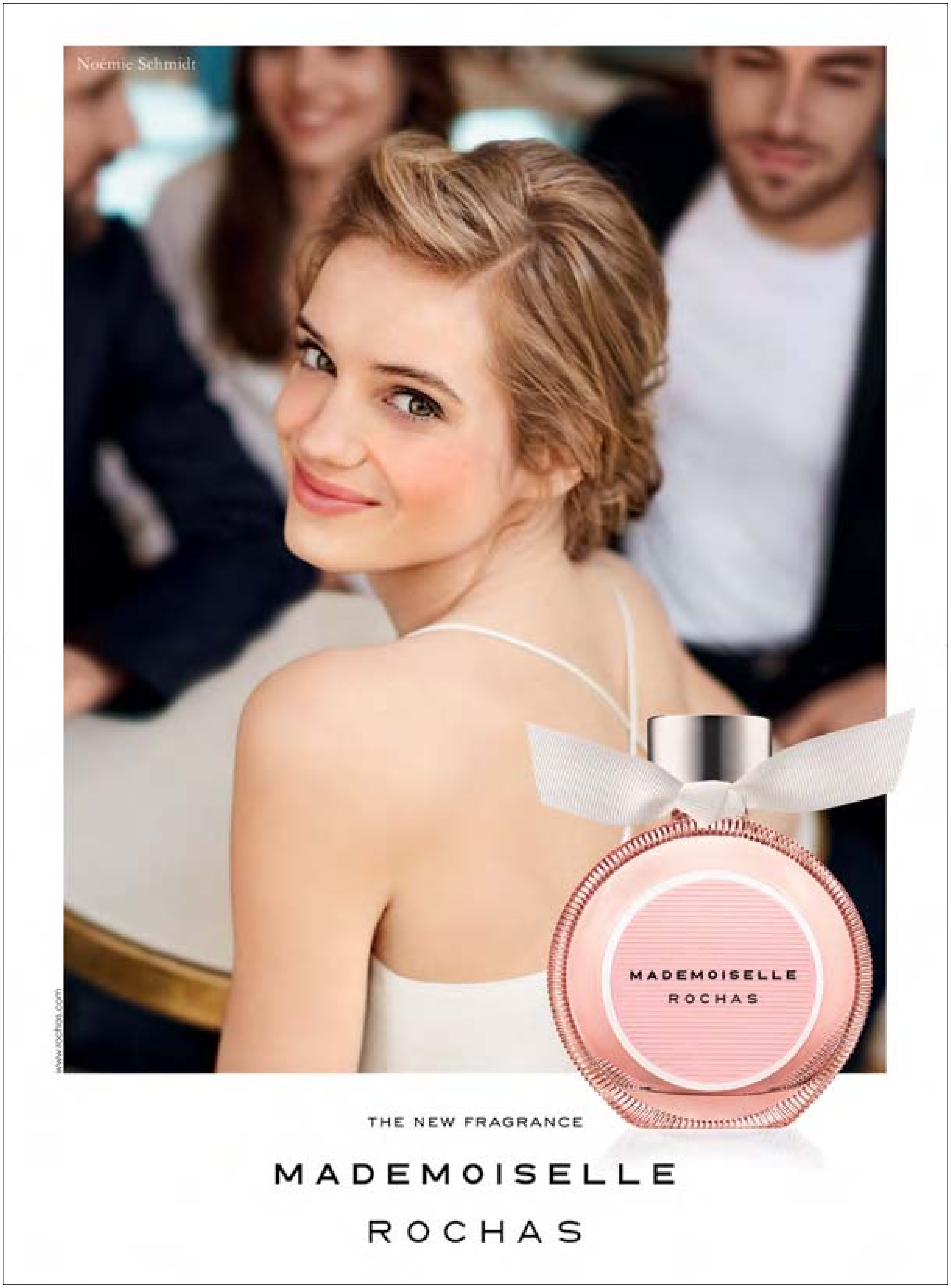
### REPETTO

In December 2011, we entered into a 13-year exclusive worldwide license agreement to create, produce and distribute fragrances under the Repetto brand.

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 Repetto boutiques in several countries throughout the world, the brand has branched out into Asia, notably China, Hong Kong, Singapore, Thailand, South Korea and Japan with a mix of cross-generational appeal and French chic. Our first Repetto fragrance line was launched in 2013 and a floral scent was added in 2015. Despite this brand's success with footwear, handbags and high end accessories, fragrance sales have been disappointing due to the lack of brand recognition.


***Repetto*** *Le Ballet Blanc*




**Rochas** *Mademoiselle Rochas*

ROCHAS
PARIS

## ROCHAS

In May 2015, we acquired the Rochas brand from The Procter & Gamble Company. Founded by Marcel Rochas in 1925, the brand began as a fashion house and expanded into perfumery in the 1950s under Hélène Rochas' direction. This transaction included all brand names and registered trademarks for Rochas (*Femme, Madame, Eau de Rochas,* etc.), mainly for class 3 (cosmetics) and class 25 (fashion). Substantially the entire €106 million purchase price for the assets acquired (approximately $118 million) was allocated to trademarks with indefinite lives, including approximately $5.4 million in acquisition related expenses.

This acquisition opened up a new page in the Company's history by integrating for the first time both fragrances and fashion. This is allowing us to apply a global approach to managing a fragrance brand with complete freedom in terms of creativity and aesthetic choices, as well as a very high degree of visibility to establish a position of even greater preeminence for Rochas in the luxury goods universe. Rochas brand sales currently include approximately $2 million of royalties generated by the fashion and accessory business via its portfolio of license agreements. Our first new fragrance for Rochas, *Mademoiselle Rochas*, launched in the first quarter of 2017.

# 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 fragrances under China's leading luxury brand, Shanghai Tang. Our first Shanghai Tang fragrance collection for men and women debuted in 2015.

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 48 boutiques, including The Shanghai Tang Mansion in Hong Kong, and its largest flagship Boutique, The Cathay Mansion in Shanghai, China and on-line.


***Shanghai Tang*** *Gold Lily*


***S.T. Dupont** Collection*

### 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 fragrances. In 2011, the agreement was renewed through December 31, 2016, and in September 2016 was renewed again through December 31, 2019, without any material changes in terms and conditions. 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*, *S.T. Dupont Essence Pure*, *S.T. Dupont Passenger, S.T. Dupont Passenger Cruise, 58 avenue Montaigne, So Dupont and S.T. Dupont Collection.*

# Van Cleef & Arpels

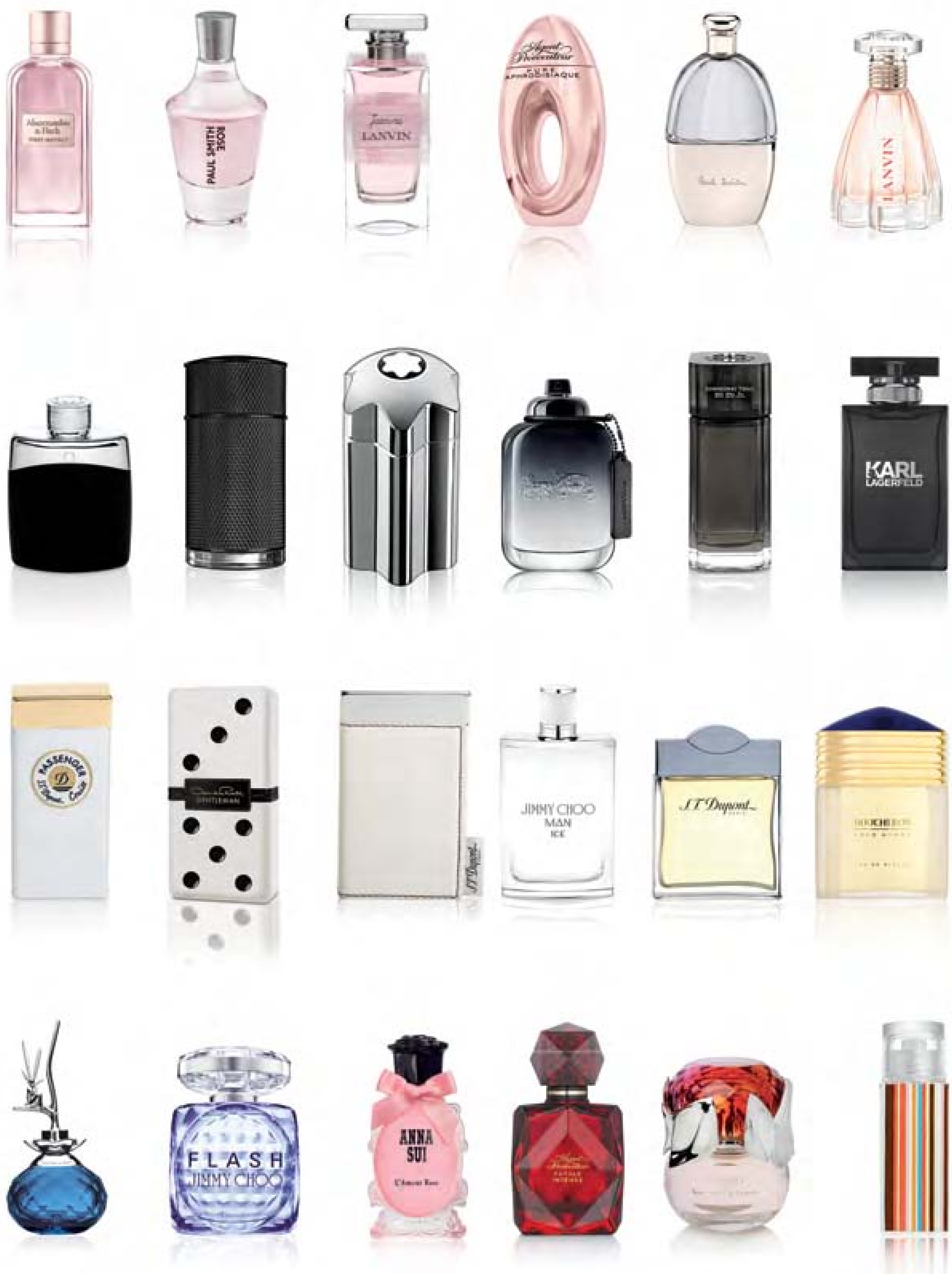
## VAN CLEEF & ARPELS

In September 2006, we entered into an exclusive 12-year worldwide license agreement for the creation, development and distribution of fragrance products under the Van Cleef & Arpels brand and related trademarks.

Van Cleef & Arpels fragrances in current distribution include: *First*, *Van Cleef pour Homme*, *Tsar*, *Van Cleef*, *Féerie*, *Collection Extraordinaire*, and *Rêve.* In 2016, we launched a new men's line, *In New York*, and a new women's line, *So First.* Sales of the *Collection Extraordinaire* line have experienced continued growth since its debut.


***Van Cleef & Arpels*** *In New York*


REVE
HOLLISTER
MADEMOISELLE
ROCHAS
LANVIN
L'HOMME
S.T. Dupont
HOLLISTER
Van Cleef & Arpels
in New York
ME
LANVIN
JIMMY CHOO
ILLICIT
Paul Smith
ESSENTIAL


PAUL SMITH
ROSE
LANVIN
LANVIN
KARL
LAGERFELD
JIMMY CHOO
MAN
ICE
FLASH
JIMMY CHOO
ANNA
SUI

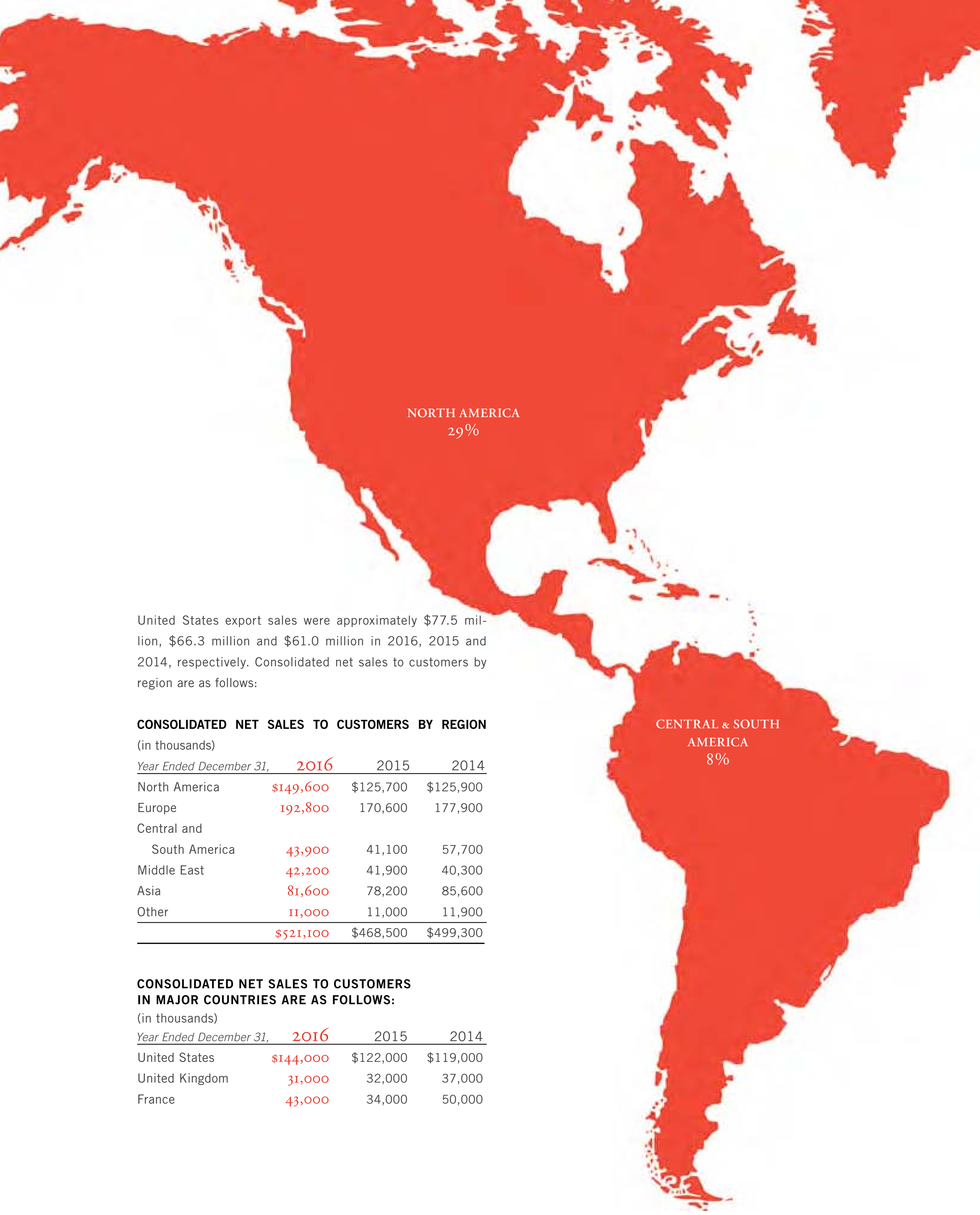

***Rochas*** *Mademoiselle Rochas*

**QUARTERLY DATA: (UNAUDITED)**
**FOR THE YEAR ENDED DECEMBER 31, 2016**
*(In Thousands, Except Per Share Data)*

| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | Full Year |
|---|---|---|---|---|---|
| Net Sales | $111,522 | $117,157 | $157,622 | $134,771 | $521,072 |
| Gross Margin | 71,317 | 74,428 | 94,832 | 85,894 | 326,471 |
| Net Income | 9,448 | 7,729 | 21,479 | 4,592 | 43,248 |
| Net Income Attributable to | | | | | |
| Inter Parfums, Inc. | 7,334 | 5,831 | 16,239 | 3,927 | 33,331 |
| Net Income Attributable to | | | | | |
| Inter Parfums, Inc. per Share: | | | | | |
| Basic | $0.24 | $0.19 | $0.52 | $0.13 | $1.07 |
| Diluted | $0.24 | $0.19 | $0.52 | $0.13 | $1.07 |
| Average Common Shares Outstanding: | | | | | |
| Basic | 31,039 | 31,055 | 31,080 | 31,072 | 31,072 |
| Diluted | 31,115 | 31,160 | 31,197 | 31,231 | 31,176 |

**QUARTERLY DATA: (UNAUDITED)**
**FOR THE YEAR ENDED DECEMBER 31, 2015**
*(In Thousands, Except Per Share Data)*

| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | Full Year |
|---|---|---|---|---|---|
| Net Sales | $109,249 | $102,021 | $138,944 | $118,326 | $468,540 |
| Gross Margin | 67,610 | 60,325 | 85,826 | 75,710 | 289,471 |
| Net Income | 13,305 | 5,520 | 18,634 | 1,510 | 38,969 |
| Net Income Attributable to | | | | | |
| Inter Parfums, Inc. | 10,007 | 4,351 | 14,220 | 1,859 | 30,437 |
| Net Income Attributable to | | | | | |
| Inter Parfums, Inc. per Share: | | | | | |
| Basic | $0.32 | $0.14 | $0.46 | $0.06 | $0.98 |
| Diluted | $0.32 | $0.14 | $0.46 | $0.06 | $0.98 |
| Average Common Shares Outstanding: | | | | | |
| Basic | 30,979 | 30,988 | 31,005 | 31,012 | 30,996 |
| Diluted | 31,072 | 31,107 | 31,098 | 31,125 | 31,100 |




United States export sales were approximately $77.5 million, $66.3 million and $61.0 million in 2016, 2015 and 2014, respectively. Consolidated net sales to customers by region are as follows:

**CONSOLIDATED NET SALES TO CUSTOMERS BY REGION**

(in thousands)

| *Year Ended December 31,* | 2016 | 2015 | 2014 |
|---|---|---|---|
| North America | $149,600 | $125,700 | $125,900 |
| Europe | 192,800 | 170,600 | 177,900 |
| Central and South America | 43,900 | 41,100 | 57,700 |
| Middle East | 42,200 | 41,900 | 40,300 |
| Asia | 81,600 | 78,200 | 85,600 |
| Other | 11,000 | 11,000 | 11,900 |
| | $521,100 | $468,500 | $499,300 |

**CONSOLIDATED NET SALES TO CUSTOMERS IN MAJOR COUNTRIES ARE AS FOLLOWS:**

(in thousands)

| *Year Ended December 31,* | 2016 | 2015 | 2014 |
|---|---|---|---|
| United States | $144,000 | $122,000 | $119,000 |
| United Kingdom | 31,000 | 32,000 | 37,000 |
| France | 43,000 | 34,000 | 50,000 |


EUROPE
37%
MIDDLE EAST
8%
ASIA
16%

# *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:

Daniel Kline 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:

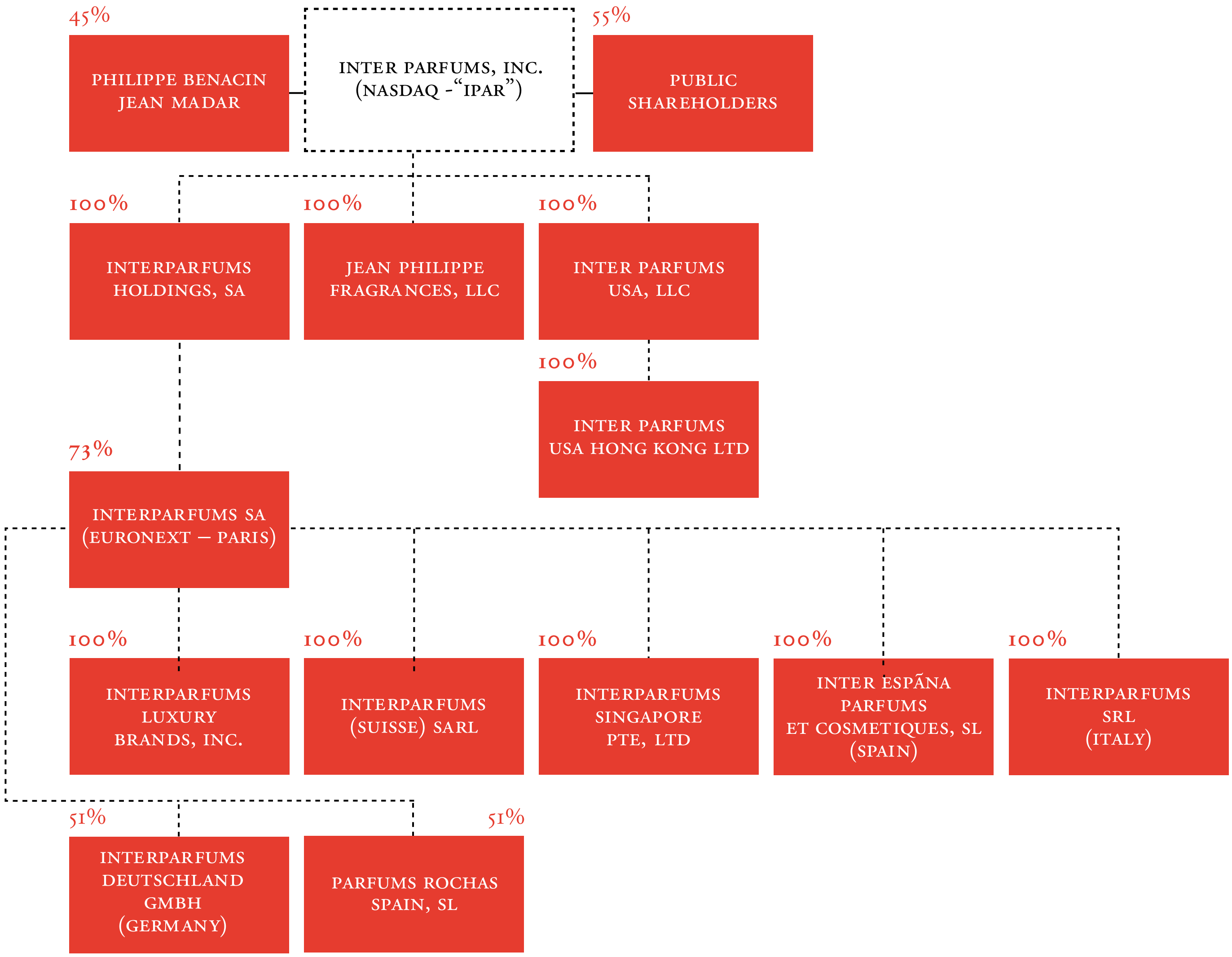
- International development strategy;
- Establishment of distributor networks and negotiation of contracts;
- Monitoring of profit margins and advertising expenditures.

## 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



# CONTENTS

# *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.

Our reported results include a provision of $1.9 million ($1.4 million net of noncontrolling interests) for income taxes resulting from a pending nonrecurring tax settlement. Due to the significance of this transaction, as well as its nonrecurring nature, exclusion of such amount in the non-GAAP financial measures provides a more complete disclosure and facilitates a more accurate comparison of current results to historic results. Based upon the foregoing, we believe that our presentation of the non-GAAP financial information is an important supplemental measure 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.

We produce and distribute our European based fragrance products primarily under license agreements with brand owners, and European based fragrance product sales represented approximately 79%, 77% and 82% of net sales for 2016, 2015 and 2014, respectively. We have built a portfolio of prestige brands, which include *Balmain, Boucheron, Coach, Jimmy Choo, Karl Lagerfeld, Lanvin, Montblanc, Paul Smith, S.T. Dupont, Repetto, Rochas* and *Van Cleef & Arpels,* whose products are distributed in over 100 countries around the world.

With respect to the Company's largest brands, we own the Lanvin brand name for its class of trade, and license the Montblanc and Jimmy Choo brand names. As a percentage of net sales, product sales for the Company's largest brands were as follows:

| *Year ended December 31,* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Montblanc | 23% | 21% | 22% |
| Jimmy Choo | 17% | 20% | 16% |
| Lanvin | 12% | 15% | 18% |

Through our United States operations we also market fragrance and fragrance related products. United States operations represented 22%, 23% and 21% of net sales in 2016, 2015 and 2014, respectively. These fragrance products are sold primarily pursuant to license or other agreements with the owners of the *Abercrombie & Fitch, Agent Provocateur, Anna Sui, Banana Republic, bebe, Dunhill, French Connection, Hollister, Oscar de la Renta,* and *Shanghai Tang brands*.

Quarterly sales fluctuations are influenced by the timing of new product launches as well as the third and fourth quarter holiday season. In certain markets where we sell directly to retailers, seasonality is more evident. We sell directly to retailers in France as well as through our own distribution subsidiaries in Italy, Germany, Spain and the United States.

We grow our business in two distinct ways. First, we grow by adding new brands to our portfolio, either through new licenses or other arrangements or out-right acquisitions of brands. Second, we grow through the introduction of new products and by supporting new and established products through advertising, merchandising and sampling as well as by 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 2016, the economic and political uncertainty and financial market volatility taking place in Eastern Europe, the Middle East and China had a small negative impact on our business, and at this time we do not believe it will significantly affect our overall business for the foreseeable future. However, if the degree of uncertainty or volatility worsens or is prolonged, then there will likely be a negative effect on ongoing consumer confidence, demand and spending and as a result, our business. Currently, we believe general economic 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 strong U.S. dollar has a negative impact on our net sales. However, earnings are positively affected by a strong dollar, because approximately 40% of net sales of our European operations are denominated in U.S. dollars, while almost all costs of our European operations are incurred in euro. Our Company addresses certain financial exposures through a controlled program of risk management that includes the use of derivative financial instruments. We primarily enter into foreign currency forward exchange contracts to reduce the effects of fluctuating foreign currency exchange rates. We are also carefully monitoring currency trends in the United Kingdom as a result of the volatility created from the United Kingdom's decision to exit the European Union. We have evaluated our current pricing models and currently we do not expect any significant pricing changes. However, if the devaluation of the British Pound worsens, it may affect future gross profit margins from sales in the territory. We do not expect any material losses on accounts receivables to be collected in British Pounds as we routinely hedge those amounts.

## RECENT IMPORTANT EVENTS

### BUYOUT OF LICENSE

In December 2016, the Company reached an agreement with the Balmain brand calling for Balmain to buyout the Balmain license agreement, effective December 31, 2016, in exchange for a payment aggregating €5.4 million (approximately $5.7 million). As a result of the buyout, the Company recognized a gain of $4.7 million and expects to receive the buyout payment by April 30, 2017. The Company has a three month inventory sell-off period ending March 31, 2017 and Balmain has also agreed to purchase all remaining inventory and tangible assets.

### IMPAIRMENT LOSS

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. Product sales of our Karl Lagerfeld brand have not met with our original expectations. As a result of our review in 2016, the Company recorded an impairment loss of $5.7 million as of December 31, 2016.

### S.T. DUPONT

In September 2016, we renewed our license agreement with S.T. Dupont for the creation, development and distribution of fragrance products through December 31, 2019, without any material changes in terms and conditions. Our initial

11-year license agreement with S.T. Dupont was signed in June 1997, and had previously been extended through December 31, 2016.

### SETTLEMENT WITH FRENCH TAX AUTHORITIES

As previously reported, the French Tax Authorities examined the 2012 tax return of Interparfums SA, and in August 2015 issued a $6.9 million tax adjustment. It is the Company's position that the French Tax Authorities are incorrect in their assessments and the Company believes that it has strong arguments to support its tax positions. The main issues challenged by the French Tax Authorities related to the commission rate and royalty rate paid to Interparfums Singapore Pte. and Interparfums (Suisse) SARL, respectively. Interparfums Singapore Pte. and Interparfums (Suisse) SARL are wholly-owned subsidiaries of Interparfums SA. Due to the subjective nature of the issues involved, in April 2016, Interparfums SA reached an agreement in principle to settle the entire matter with the French Tax Authorities. The settlement requires Interparfums SA to pay a tax assessment of $1.9 million covering the issues for not only the 2012 tax year, but also covering the issues for the tax years ended 2013 through 2015. The settlement also includes an agreement as to future acceptable commission and royalty rates, which is not expected to have a significant impact on cash flow. The settlement, which is subject to formal documentation with the French Tax Authorities, was accrued for in March 2016. In July 2016, Interparfums SA paid $1.1 million to the French Tax Authorities upon receipt of formal notification regarding tax years 2013 and 2014.

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

### ACCOUNTS RECEIVABLE

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

### SALES RETURNS

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

## INVENTORIES

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

## 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 6.2%. 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.

At December 31, 2016 indefinite-lived intangible assets aggregated $115.8 million. The following table presents the impact a change in the following significant assumptions would have had on the calculated fair value in 2016 assuming all other assumptions remained constant:

| *$ in millions* | **Change** | **Increase (decrease) to fair value** |
|---|---|---|
| Weighted average cost of capital | +10% | $(16.2) |
| Weighted average cost of capital | -10% | $ 20.0 |
| Future sales levels | +10% | $ 17.0 |
| Future sales levels | -10% | $(17.0) |

Intangible assets subject to amortization are evaluated for impairment testing whenever events or changes in circumstances indicate that the carrying amount of an amortizable intangible asset may not be recoverable. If impairment indicators exist for an amortizable intangible asset, the undiscounted future cash flows associated with the expected service potential of the asset are compared to the carrying value of the asset. If our projection of undiscounted future cash flows is in excess of the carrying value of the intangible asset, no impairment charge is recorded. If our projection of undiscounted future cash flows is less than the carrying value of the intangible asset, an impairment charge would be recorded to reduce the intangible asset to its fair value. The cash flow projections are based upon a number of assumptions, including future sales levels and future cost of goods and operating expense levels, as well as economic conditions, changes to our business model or changes in consumer acceptance of our products which are more subjective in nature. In those cases where we determine that the useful life of long-lived assets should be shortened, we would amortize the net book value in excess of the salvage value (after testing for impairment as described above), over the revised remaining useful life of such asset thereby increasing amortization expense. We believe that the assumptions we have made in projecting future cash flows for the evaluations described above are reasonable. Product sales of our Karl Lagerfeld brand have not met with our original expectations. During the fourth quarter of 2016, the Company decided that it will most likely exercise its rights for an early termination of the Karl Lagerfeld license in 2024, rather than continue the license through its original expiration in 2032. As a result of the shortened expected life of the license, the Company recorded an impairment loss of $5.7 million as of December 31, 2016.

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 income at that time. In addition, the Company follows the provisions of uncertain tax positions as addressed in ASC topic 740.

## QUANTITATIVE ANALYSIS

During the three-year period ended December 31, 2016, 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 proper 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 2016, 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 $0.02 million. The collective impact of these changes on 2016 operating income, net income attributable to Inter Parfums, Inc., and net income attributable to Inter Parfums, Inc. per diluted common share would be an increase or decrease of approximately $0.5 million, $0.2 million and $0.01, respectively.

## RESULTS OF OPERATIONS

### NET SALES

*(in millions)*

| *Years Ended December 31,* | 2016 | % Change | 2015 | % Change | 2014 |
|---|---|---|---|---|---|
| European-based ongoing brand product sales | $404.0 | 11% | $362.7 | (8)% | $394.0 |
| United States-based product sales | 117.1 | 11% | 105.8 | 1% | 105.3 |
| Total net sales | $521.1 | 11% | $468.5 | (6)% | $499.3 |

Net sales increased 11% in 2016 to $521.1 million, as compared to $468.5 million in 2015. At comparable foreign currency exchange rates, net sales increased 12%. Net sales decreased 6% in 2015 to $468.5 million, as compared to $499.3 million in 2014. At comparable foreign currency exchange rates, net sales increased 1.5%. The average U.S. dollar/euro exchange rates were 1.11 in 2016 and 2015 and 1.33 in 2014.

European based prestige product sales increased 11% in 2016 to $404.0 million, as compared to $362.7 million in 2015. At comparable foreign currency exchange rates, European based prestige product sales increased 12.5%. European based prestige product sales decreased 8% in 2015 to $362.7 million, as compared to $394.0 million in 2014. At comparable foreign currency exchange rates, European based prestige product sales increased 1.8% in 2015.

In 2016, Montblanc, our largest brand, continued to lead the way in sales growth reaching $121.7 million in brand sales, a 25% increase from the prior year. The successful launch of Montblanc *Legend Spirit* and the continued popularity of the original *Legend* line were important contributors to Montblanc brand sales. Our newer brands were also contributors to the increase in net sales. Coach brand sales, which commenced in the second half of 2016, were well ahead of expectations generating $23.1 million in incremental sales. Strong demand for the *Eau de Rochas* and *Rochas Man* lines in Spain and France contributed to the successful integration of Rochas, and brand sales aggregated $32.3 million in 2016. We began consolidating brand sales when we acquired Rochas in June 2015. In the absence of a major new product launch, Jimmy Choo fragrance sales declined 2% in 2016 as the bar was set unusually high in 2015 when brand sales were up 18% compared to the preceding year. Lanvin brand sales declined 13% in 2016 as that brand's product sales continue to be affected by the economic slowdowns in its two flagship markets of Russia and China. We hope to reverse that trend with the recent launch of a new scent by Lanvin, *Modern Princess.*

It was anticipated that 2015 was going to be very challenging from a currency perspective for our European based operations. The significant strength of the U.S. dollar began early on in 2015, and continued throughout the year. As mentioned above, the average U.S. dollar/euro exchange rate for all of 2015 was 1.11, as compared to 1.33 for 2014. The currency impact was most apparent with our three largest brands, led by Jimmy Choo, where brand sales for 2015 increased 41% in local currency, but only 18% in dollars, as compared to 2014. The excellent performance in Jimmy Choo fragrance sales reflects robust gains from the *Jimmy Choo Man* line, and the launch of *Jimmy Choo Illicit*, the brand's third women's fragrance initiative. With only a new line extension launched for the Lanvin brand in 2015, sales were off only 6% in local currency, but 21% in dollars, in 2015 as compared to 2014. Montblanc brand sales increased 6% in local currency but declined 12% in dollars in 2015, as compared to 2014. The brand benefited from both established scents, such as *Legend* and *Emblem* along with initial sales for the *Lady Emblem* line. The most disappointing performance was that of the Karl Lagerfeld brand, which saw brand sales decline 43% in local currency or 53% in dollars, as its initial 2014 launch did not gain the traction originally anticipated.

Irrespective of the strong U.S. dollar environment, we maintain confidence in our future as we continue to strengthen advertising and promotional investments supporting all portfolio brands, accelerate brand development and build upon the strength of our worldwide distribution network. For 2017, our first new product for Rochas, a women's fragrance, will be introduced early in the year, initially in about 12 countries. Also this winter, *Lanvin Modern Princess*, which recently debuted in France, will roll out in wider international distribution. A multi-scent collection for Boucheron is now in selective distribution, and come this spring, we have important new initiatives unveiling for the *Jimmy Choo* signature scent for women and *Jimmy Choo Man*, with a brand extension for each. A fragrance duo is in the pipeline for the Karl Lagerfeld brand next summer, and our first men's scent for Coach will launch in the fall.

United States based product sales increased 11% in 2016 to $117.1 million, as compared to $105.8 million in 2015. International distribution of our first new Abercrombie & Fitch men's scent, *First Instinct*, and the Hollister duo, *Wave*, were major contributors to our top line growth in 2016 as they were rolled out into several international markets throughout the year. Dunhill, which launched its *Icon* fragrance line in early 2015, continues to be a consistent top performing brand. Sales increased 4% in 2016 despite a difficult comparison to 2015, where Dunhill brand sales were up 37% compared to the prior year. The success of the 2015 launch of *Dunhill Icon* has enabled Dunhill to quickly become the largest brand within our United States operations.

Although Oscar de la Renta brand sales had increased 18% in 2015, benefitting from the 2015 launch of *Extraordinary* by Oscar de la Renta, sales of this brand decreased 28% in 2016 due to large part to the absence of any major product launch. For the Spring of 2017, we have a new Oscar de la Renta woman's scent ready to launch. In addition, sales of Anna Sui fragrances continued to be depressed due to negative market conditions in China throughout the 2014 to 2016 periods. We hope to reverse this trend and anticipate either stable sales or modest growth for Anna Sui fragrances for 2017.

For 2017, we expect our newest brands Abercrombie & Fitch and Hollister, to lead our growth story. Overall, growth within our United States based operations is expected to come from our prestige fragrance licenses, by launching new products and pursuing expanded distribution.

Lastly, we hope to benefit our worldwide operations from our strong financial position to potentially acquire one or more brands, either on a proprietary basis or as a licensee. However, we cannot assure you that any new license or acquisition agreements will be consummated.

## NET SALES TO CUSTOMERS BY REGION

*(In millions)*

| *Years ended December 31,* | 2016 | 2015 | 2014 |
|---|---|---|---|
| North America | $149.6 | $125.7 | $125.9 |
| Western Europe | 152.6 | 123.6 | 130.9 |
| Eastern Europe | 40.3 | 47.0 | 47.0 |
| Central & South America | 43.9 | 41.1 | 57.7 |
| Middle East | 42.2 | 41.9 | 40.3 |
| Asia | 81.5 | 78.2 | 85.6 |
| Other | 11.0 | 11.0 | 11.9 |
| | $521.1 | $468.5 | $499.3 |

In 2016, we continued to feel the effect of negative market conditions in Eastern Europe, the Middle East and China, while Western Europe and North America continued to perform well.

For 2015 compared to 2014, the results demonstrate the effect of negative market conditions in China and South America. The 2015 decline in Western Europe includes the effect of the 17% devaluation of the euro against the dollar and the difficult comparison for Karl Lagerfeld brand sales in 2015 compared to the initial launch of that brand in the 2014 period.

## GROSS MARGINS

*(In millions)*

| *Years ended December 31,* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Net sales | $521.1 | $468.5 | $499.3 |
| Cost of sales | 194.6 | 179.0 | 212.3 |
| Gross margin | $326.5 | $289.5 | $287.0 |
| Gross margin as a percent of net sales | 62.7% | 61.8% | 57.5% |

As a percentage of net sales, gross profit margins were 62.7%, 61.8%, and 57.5% in 2016, 2015 and 2014, respectively. For European operations, gross profit margin was 66%, 65% and 60% in 2016, 2015 and 2014, respectively. The margin fluctuation as a percentage of sales for European operations in 2016, as compared to 2015, is primarily the result of increased product sales, much of which was through our distribution subsidiaries that sell product directly to retailers. In addition to increased sales of Montblanc and Coach product sold through our United States distribution subsidiary, the Rochas brand was a major contributor as its sales are concentrated in France and Spain, both of which are countries where we distribute directly to retailers.

We carefully monitor movements in foreign currency exchange rates as almost 40% of our European based operations net sales is denominated in U.S. dollars, while most of our costs are incurred in euro. From a margin standpoint, a strong U.S. dollar has a positive effect on our gross margin while a weak U.S. dollar has a negative effect. The average dollar/euro exchange rate was 1.11 in 2016 and 2015 and 1.33 in 2014. Although currency fluctuation had only a minor effect on gross margin as a percentage of sales in our European operations for 2016, in 2015 it was the primary cause of the gross margin fluctuation.

For United States operations, gross profit margin was 50% for both 2016 and 2015 and 48% in 2014. Sales growth in recent years for our United States operations has primarily come from higher margin prestige product licenses while sales of other lower margin fragrance products have been in a decline.

Costs relating to purchase with purchase and gift with purchase promotions are reflected in cost of sales and aggregated $30.0 million, $25.4 million and $24.4 million in 2016, 2015 and 2014, respectively, and represented 5.8%, 5.4% and 4.9% of net sales, respectively.

Generally, we do not bill customers for shipping and handling costs and such costs, which aggregated $5.1 million, $4.7 million and $5.2 million in 2016, 2015 and 2014, respectively, 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 & ADMINISTRATIVE EXPENSES

*(In millions)*

| *Years ended December 31,* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Selling, general & administrative expenses | $258.8 | $228.3 | $233.6 |
| Selling, general & administrative expenses as a percent of net sales | 50% | 49% | 47% |

Selling, general and administrative expenses increased 13% in 2016 as compared to 2015 and decreased 2% in 2015 as compared to 2014. As a percentage of sales, selling, general and administrative expenses were 50%, 49% and 47% in 2016, 2015 and 2014, respectively. For European operations, selling, general and administrative expenses increased 14% in 2016, as compared to 2015 and represented 53% of sales in 2016 as compared to 52% in 2015. As discussed in more detail below, the 2016 increase is primarily from increased promotion and advertising expenditures.

For United States operations, selling, general and administrative expenses increased 9% in 2016 and represented 38% of sales, as compared to 39% in 2015. This increase is in line with sales growth from our newest prestige product licenses, such as Abercrombie & Fitch, Hollister and Dunhill, all of which bear royalty and advertising expenses.

Promotion and advertising included in selling, general and administrative expenses aggregated $99.0 million, $83.8 million and $86.7 million in 2016, 2015 and 2014, respectively. Promotion and advertising as a percentage of sales represented 19.0%, 17.9% and 17.4% of net sales in 2016, 2015 and 2014, respectively. As planned, we invest heavily in promotional spending to support new product launches and continued worldwide building of brand awareness for our brand portfolio.

Royalty expense included in selling, general and administrative expenses aggregated $37.8 million, $33.8 million and $35.6 million in 2016, 2015 and 2014, respectively. Royalty expense as a percentage of sales represented 7.3%, 7.2% and 7.1% of net sales in 2016, 2015 and 2014, respectively. The small increases are the result of increased licensing activities within our U.S. operations.

Service fees, which are fees paid to third parties relating to the activities of our distribution subsidiaries, aggregated $9.9 million, $12.3 million and $11.1 million in 2016, 2015 and 2014, respectively. Service fees decreased in 2016 as a result of our U.S. distribution subsidiary, Interparfums Luxury Brands, Inc.'s 2016 conversion to an in-house sales team model. However, much of this savings was mitigated by an increase in compensation costs of the in-house sales team. Approximately two-thirds of the 2015 increase in service fees was the result of higher fees paid in the U.S. resulting from increased sales. The balance of the increase is from the addition of our newly formed distribution subsidiary in Spain, Parfums Rochas.

## BUYOUT OF LICENSE

In December 2016, the Company reached an agreement with the Balmain brand calling for Balmain to buyout the Balmain license agreement, effective December 31, 2016, in exchange for a payment aggregating €5.4 million (approximately $5.7 million). As a result of the buyout, the Company recognized a gain of $4.7 million and expects to receive the buyout payment by April 30, 2017. The Company has a three month inventory sell-off period ending March 31, 2017 and Balmain has also agreed to purchase all remaining inventory and tangible assets.

## IMPAIRMENT LOSS

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. Product sales of our Karl Lagerfeld brand have not met with our original expectations. As a result of our review in 2016, the Company recorded an impairment loss of $5.7 million as of December 31, 2016.

## INCOME FROM OPERATIONS

As a result of the above analysis regarding net sales, gross profit margins, selling, general and administrative expenses, buyout of license and impairment loss, income from operations increased 9% to $66.7 million in 2016 as compared to 2015, after increasing 15% to $61.2 million in 2015 from $53.4 million in 2014. Operating margins aggregated 12.8%, 13.1% and 10.7% for the years ended December 31, 2016, 2015 and 2014, respectively. Excluding the gain on buyout of license and impairment loss, income from operations in 2016 would have aggregated $67.7 million, an increase of 10.6%, compared to 2015 and represented an operating margin of 13.0%. In summary, for the past two years, the increase in gross margin was mitigated by an increase in selling, general and administrative expenses, primarily promotion and advertising expenditures, explaining the effect on operating margin. The Company plans to continue to increase sales without a substantial increase in fixed costs. Our goal is to reach an operating margin of at least 14% in the coming years.

## OTHER INCOME AND EXPENSES

Interest expense aggregated $2.3 million, $2.8 million and $1.5 million in 2016, 2015 and 2014, respectively. The significant increase in 2015 is related to the financing of the Rochas brand acquisition and includes an approximate $1.0 million loss in 2015 relating to the interest rate swap. There was a small gain on the swap in 2016. 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 $74.6 million, $98.6 million and $0.3 million as of December 31, 2016, 2015 and 2014, respectively.

Foreign currency gains or (losses) aggregated ($0.6) million ($0.9) million and $0.9 million in 2016, 2015 and 2014, respectively. Currency exchange rates were extremely volatile during the first quarter of 2015. The 2015 loss includes approximately $2.4 million in losses from intercompany balances of our majority owned subsidiary, Interparfums SA, and its other foreign subsidiaries, which were not hedged. We typically enter into foreign currency forward exchange contracts to manage exposure related to receivables from unaffiliated third parties denominated in a foreign currency and occasionally to manage risks related to future sales expected to be denominated in a foreign currency. Almost 40% of 2016 net sales of our European operations were denominated in U.S. dollars.

Interest and dividend income aggregated $3.3 million, $3.0 million and $3.9 million in 2016, 2015 and 2014, respectively. Cash and cash equivalents and short-term investments are primarily invested in certificates of deposit with varying maturities.

## INCOME TAXES

Our effective income tax rate was 35.5%, 35.6% and 34.2% in 2016, 2015 and 2014, respectively, and differs from statutory rates due to the effect of state and local taxes and tax rates in foreign jurisdictions. The effective tax rate for our European operations was 35.9%, 36% and 33.5% in 2016, 2015 and 2014, respectively. The French Tax Authorities examined the 2012 tax return of Interparfums SA, and in August 2015 issued a $6.9 million tax adjustment. The main issues challenged by the French Tax Authorities related to the commission rate and royalty rate paid to Interparfums Singapore Pte. and Interparfums (Suisse) SARL, respectively. Interparfums Singapore Pte. and Interparfums (Suisse) SARL are wholly-owned subsidiaries of Interparfums SA. Due to the subjective nature of the issues involved, in April 2016, Interparfums SA reached an agreement in principle to settle the entire matter with the French Tax Authorities. The settlement requires Interparfums SA to pay a tax assessment of $1.9 million covering the issues for not only the 2012 tax year, but also covering the issues for the tax years ended 2013 through 2015. The settlement also includes an agreement as to future acceptable commission and royalty rates, which is not expected to have a significant impact on cash flow. The settlement, which is subject to formal documentation with the French Tax Authorities, was accrued as of March 31, 2016. In addition, the 2016 effective tax rate for European operations was favorably impacted by approximately 1.5%, due to lower tax rates in France, Spain, and the United States. The increase in 2015 is primarily the result of higher 2015 profits in high tax rate jurisdictions as compared to 2014.

The effective tax rate for our U.S. operations was 34.0%, 35.1% and 36.5% in 2016, 2015 and 2014, respectively. The early adoption in 2016 of Accounting Standards Update 2016-09 ("ASU 2016-09") resulted in the recognition of excess tax benefits of $0.4 million in our provision for income taxes rather than in additional paid-in capital. Under previous guidance, excess tax benefits and certain tax deficiencies from share-based compensation arrangements were recorded in additional paid-in capital when the awards vested or were settled. ASU 2016-09 requires that all excess tax benefits and all tax deficiencies be recognized as income tax expense or benefit in the income statement and adoption is on a prospective basis. In 2015, changes in allocation percentages related to state and local taxes of our U.S. operations resulted in a reduced effective tax rate.

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

## NET INCOME AND EARNINGS PER SHARE

*(In thousands, except share and per share data)*

| *Years Ended December 31*, | 2016 | 2015 | 2014 |
|---|---|---|---|
| Net income attributable to European operations | $35,037 | $31,328 | $29,276 |
| Net income attributable to United States operations | 8,211 | 7,641 | 8,069 |
| Net income | $43,248 | $38,969 | $37,345 |
| Less: Net income attributable to the noncontrolling interest | 9,917 | 8,532 | 7,909 |
| Net income attributable to Inter Parfums, Inc. | $33,331 | $30,437 | $29,436 |
| | | | |
| Net income attributable to Inter Parfums, Inc. common shareholders: | | | |
| Basic | $1.07 | $0.98 | $0.95 |
| Diluted | 1.07 | 0.98 | 0.95 |
| Weighted average number of shares outstanding: | | | |
| Basic | 31,072,328 | 30,996,137 | 30,931,308 |
| Diluted | 31,175,598 | 31,100,215 | 31,060,326 |

Net income has continued to increase over the past three years and aggregated $43.2 million, $39.0 million and $37.3 million in 2016, 2015 and 2014, respectively. Net income attributable to European operations was $35.0 million, $31.3 million and $29.3 million in 2016, 2015 and 2014, respectively, while net income attributable to United States operations was $8.2 million, $7.6 million and $8.1 million in 2016, 2015 and 2014, respectively. The significant fluctuations in net income for European operations in are directly related to the previous discussions relating to changes in sales, gross profit margins, selling, general and administrative expenses, buyout of license, impairment loss, and the pending settlement with the French Tax Authorities. In summary, improved gross profit margins in 2016 were offset by increased advertising and promotional expenditures. In addition, for our European operations, net income includes the effects of the $4.7 million gain on buyout of license, $5.7 million impairment loss and the $1.9 million pending income tax settlement with the French Tax Authorities.

For United States operations, in summary, in 2016 sales increased 11% while gross margins as a percentage of sales were unchanged and selling, general and administrative expenses increased 9%, as compared to the corresponding period of the prior year.

The noncontrolling interest arises primarily 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 related to the profitability of our European operations, and aggregated 28.3%, 27.2% and 27.0% of European operations net income in 2016, 2015 and 2014, respectively. Net income attributable to Inter Parfums, Inc. aggregated $33.3 million, $30.4 million and $29.4 million in 2016, 2015 and 2014, respectively. Net margins attributable to Inter Parfums, Inc. aggregated 6.4%, 6.5% and 5.9% in 2016, 2015 and 2014, respectively.

## ADJUSTED NET INCOME ATTRIBUTABLE TO INTER PARFUMS, INC.

See information regarding Regulation S-K Item 10(e), "Use of Non-GAAP Financial Measures in commission filings," on page 63 of this Annual Report.

Adjusted Net Income Attributable to Inter Parfums, Inc., is deemed a "non-GAAP financial measure" under the rules of the Securities and Exchange Commission. This non-GAAP measure is calculated using GAAP amounts derived from our consolidated financial statements. Adjusted net income attributable to Inter Parfums, Inc. has limitations and should not be considered in isolation or as a substitute for net income, operating income, cash flow from operations or other consolidated income or cash flow data prepared in accordance with GAAP. Because not all companies use identical calculations, this presentation of adjusted income may not be comparable to a similarly titled measure of other companies.

## ADJUSTED NET INCOME ATTRIBUTABLE TO INTER PARFUMS, INC. RECONCILIATION

Adjusted net income attributable to Inter Parfums, Inc. is defined as net income attributable to Inter Parfums, Inc., plus the previously discussed pending nonrecurring tax settlement, net of the portion of the settlement attributable to the noncontrolling interest. We believe that certain investors would consider adjusted net income attributable to Inter Parfums, Inc. a useful means of evaluating our financial performance. The following table provides a reconciliation of net income attributable to Inter Parfums, Inc. to adjusted net income attributable to Inter Parfums, Inc. for the periods indicated.

*(In thousands, except share and per share data)*

| *Years Ended December 31,* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Net income attributable to Inter Parfums, Inc. | $33,331 | $30,437 | $29,436 |
| Pending nonrecurring tax settlement (net of portion attributable to the noncontrolling interest of $500) | 1,400 | — | — |
| Net income attributable to Inter Parfums, Inc. | $34,731 | $30,437 | $29,436 |
| Adjusted net income attributable to Inter Parfums, Inc. common shareholders: | | | |
| Basic | 1.12 | 0.98 | 0.95 |
| Diluted | 1.11 | 0.98 | 0.95 |
| Weighted average number of shares outstanding: | | | |
| Basic | 31,072,328 | 30,996,137 | 30,931,308 |
| Diluted | 31,175,598 | 31,100,215 | 31,060,326 |

## LIQUIDITY AND CAPITAL RESOURCES

The Company's financial position remains strong. At December 31, 2016, working capital aggregated $338 million and we had a working capital ratio of almost 3.4 to 1. Cash and cash equivalents and short-term investments aggregated $256 million most of which is held in euro by our European operations and is readily convertible into U.S. dollars. We have not had any liquidity issues to date, and do not expect any liquidity issues relating to such cash and cash equivalents and short-term investments held by our European operations. Approximately 88% of the Company's total assets are held by European operations. In addition to the cash and cash equivalents and short-term investments referred to above, approximately $174 million of trademarks, licenses and other intangible assets are held by European operations.

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

Cash provided by operating activities aggregated $54.6 million, $50.1 million and $36.6 million in 2016, 2015 and 2014, respectively. In 2016, working capital items used $0.2 million in cash from operating activities, as compared to $0.6 million in 2015 and $10.9 million in 2014. Although accounts receivable is up from that of the prior year, days sales outstanding remained relatively consistent at 71 days in 2016, as compared to 75 days and 66 days in 2015 and 2014, respectively. Inventory days on hand aggregated 185 days in 2016, as compared to 213 days in 2015 and 198 days in 2014, respectively. Fluctuations are primarily a function of new product launch dates. The high level of days on hand in 2015 reflects the inventory buildup needed to support product development for the newest brands, as new scents for Coach, Abercrombie & Fitch and Hollister each made their debut in 2016.

Cash flows used in investing activities reflect the purchase and sales of short-term investments by our European operations. These investments are primarily certificates of deposit with maturities greater than three months. At December 31, 2016, approximately $76 million of such certificates of deposit contain penalties where we would forfeit a portion of the interest earned in the event of early withdrawal.

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

In connection with the 2015 acquisition of the Rochas brand, we entered into a 5-year term loan payable in equal quarterly installments of €5.0 million (approximately $5.3 million) plus interest. This term loan requires the maintenance of certain financial covenants, tested semi-annually, including a maximum leverage ratio and a minimum interest coverage ratio. The facility also contains new debt restrictions among other standard provisions. The Company is in compliance with all of the covenants and other restrictions of the debt agreements. In order to reduce exposure to rising variable interest rates, the Company entered into a swap transaction effectively exchanging the variable interest rate to a fixed rate of approximately 1.2%. The swap is a derivative instrument and is therefore recorded at fair value and changes in fair value are reflected in the accompanying consolidated statements of income.

Our short-term financing requirements are expected to be met by available cash on hand at December 31, 2016, cash generated by operations and short-term credit lines provided by domestic and foreign banks. The principal credit facilities for 2017 consist of a $20.0 million unsecured revolving line of credit provided by a domestic commercial bank and approximately $26.0 million in credit lines provided by a consortium of international financial institutions. There were no balances due from short-term borrowings as of December 31, 2016 and 2015.

Proceeds from sale of stock of subsidiary reflect the proceeds from shares issued by our French subsidiary, Interparfums SA, pursuant to options exercised. Purchase of subsidiary shares from noncontrolling interest represents the purchase of treasury shares of Interparfums SA, which are expected to be issued to Interparfums SA employees in 2019 pursuant to its Free Share Plan.

In January 2014, our Board of Directors authorized the continuation of the regular $0.48 per share annual dividend for 2014, and in January 2015, our Board of Directors authorized an 8% increase to $0.52 per share. In January 2016, the Board of Directors authorized a 15% increase in the annual dividend to $0.60 per share, and in October 2016, our Board of Directors authorized an additional 13% increase in the annual dividend to $0.68 per share. The next quarterly cash dividend of $0.17 per share is payable on April 14, 2017 to shareholders of record on March 31, 2017. Dividends paid, including dividends paid once per year to noncontrolling stockholders of Interparfums SA, aggregated $22.9 million, $19.6 million and $19.5 million for the years ended December 31, 2016, 2015 and 2014, respectively. The cash dividends to be paid in 2017 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, 2016.

## CONTRACTUAL OBLIGATIONS

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

*Payments Due by Period*

| **Contractual Obligations** | Total | Less than 1-year | Years 2-3 | Years 4-5 | More than 5-years |
|---|---|---|---|---|---|
| Long-Term Debt | $74,558 | $21,494 | $42,523 | $10,541 | -0- |
| Operating Leases | $27,635 | $5,390 | $9,596 | $6,697 | $5,952 |
| Purchase Obligations(1) | $907,206 | $113,633 | $226,386 | $234,357 | $332,830 |
| Total | $1,009,399 | $140,517 | $278,505 | $251,595 | $338,782 |

(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, 2016, 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, 2016, we had foreign currency contracts in the form of forward exchange contracts with notional amounts of approximately U.S. $69.8 million, GB £1.8 million and JPY ¥50.0 million which all have maturities of less than one year. We believe that our risk of loss as the result of nonperformance by any of such financial institutions is remote.

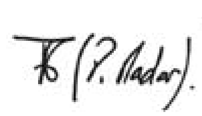
### INTEREST RATE RISK MANAGEMENT

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

## 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 as defined in Rule 13(a)-15(f) under the Securities Exchange Act of 1934. 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 (2013), 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, 2016.

Our independent auditor, Mazars USA LLP, a registered public accounting firm, has issued its report on its audit of our internal control over financial reporting. This report appears on the following page.



**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

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

We have audited Inter Parfums, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). 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 assurance 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, 2016, based on the COSO criteria.

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, 2016 and the related consolidated statements of income, comprehensive income (loss), changes in shareholders' equity and cash flows for the year ended December 31, 2016 and our report dated March 13, 2017 expressed an unqualified opinion thereon.

Mazars USA LLP

Mazars USA LLP

New York, New York
March 13, 2017

**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, 2016 and 2015, and the related consolidated statements of income, comprehensive income (loss), changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with 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, 2016, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 13, 2017 expressed an unqualified opinion thereon.

Mazars USA LLP

Mazars USA LLP

New York, New York
March 13, 2017

**CONSOLIDATED BALANCE SHEETS**

*(In thousands, except share and per share data)*

| *December 31,* | 2016 | 2015 |
|---|---|---|
| **ASSETS** | | |
| **Current assets:** | | |
| Cash and cash equivalents | $161,828 | $176,967 |
| Short-term investments | 94,202 | 82,847 |
| Accounts receivable, net | 104,819 | 95,082 |
| Inventories | 96,977 | 98,346 |
| Receivables, other | 7,433 | 2,422 |
| Other current assets | 6,240 | 5,811 |
| Income taxes receivable | 626 | 100 |
| Deferred tax assets | 8,090 | 7,182 |
| **Total current assets** | 480,215 | 468,757 |
| **Equipment and leasehold improvements, net** | 10,076 | 9,333 |
| **Trademarks, licenses and other intangible assets, net** | 183,868 | 201,335 |
| **Other assets** | 8,250 | 8,234 |
| **Total assets** | $682,409 | $687,659 |
| **LIABILITIES AND EQUITY** | | |
| **Current liabilities:** | | |
| Current portion of long-term debt | 21,498 | 22,163 |
| Accounts payable – trade | 49,507 | 50,636 |
| Accrued expenses | 62,609 | 46,890 |
| Income taxes payable | 3,331 | 7,359 |
| Dividends payable | 5,293 | 4,035 |
| **Total current liabilities** | 142,238 | 131,083 |
| **Long–term debt, less current portion** | 53,064 | 76,443 |
| **Deferred tax liability** | 3,449 | 3,746 |
| **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, 31,138,318 and 31,037,915 shares, at December 31, 2016 and 2015, respectively | 31 | 31 |
| Additional paid-in capital | 63,103 | 62,030 |
| Retained earnings | 402,714 | 388,434 |
| Accumulated other comprehensive loss | (57,982) | (48,091) |
| Treasury stock, at cost, 9,864,805 and 9,880,058 common shares at December 31, 2016 and 2015, respectively | (37,475) | (36,817) |
| **Total Inter Parfums, Inc. shareholders' equity** | 370,391 | 365,587 |
| **Noncontrolling interest** | 113,267 | 110,800 |
| **Total equity** | 483,658 | 476,387 |
| **Total liabilities and equity** | $682,409 | $687,659 |

*(See accompanying notes to consolidated financial statements )*

## CONSOLIDATED STATEMENTS OF INCOME

*(In thousands, except share and per share data)*

| *Years Ended December 31,* | 2016 | 2015 | 2014 |
|---|---|---|---|
| **Net sales** | $521,072 | $468,540 | $499,261 |
| Cost of sales | 194,601 | 179,069 | 212,224 |
| **Gross margin** | 326,471 | 289,471 | 287,037 |
| Selling, general, and administrative expenses | 258,787 | 228,268 | 233,634 |
| Gain on buyout of license | (4,652) | — | — |
| Impairment loss | 5,658 | — | — |
| **Income from operations** | 66,678 | 61,203 | 53,403 |
| **Other expenses (income):** | | | |
| Interest expense | 2,340 | 2,826 | 1,478 |
| (Gain) loss on foreign currency | 595 | 876 | (902) |
| Interest and dividend income | (3,331) | (2,995) | (3,888) |
| | (396) | 707 | (3,312) |
| **Income before income taxes** | 67,074 | 60,496 | 56,715 |
| Income taxes | 23,826 | 21,527 | 19,370 |
| **Net income** | 43,248 | 38,969 | 37,345 |
| Less: Net income attributable to the noncontrolling interest | 9,917 | 8,532 | 7,909 |
| **Net income attributable to Inter Parfums, Inc.** | $33,331 | $30,437 | $29,436 |
| **Net income attributable to Inter Parfums, Inc. common shareholders:** | | | |
| Basic | $1.07 | $0.98 | $0.95 |
| Diluted | 1.07 | 0.98 | 0.95 |
| **Weighted average number of shares outstanding:** | | | |
| Basic | 31,072,328 | 30,996,137 | 30,931,308 |
| Diluted | 31,175,598 | 31,100,215 | 31,060,326 |
| **Dividends declared per share** | $0.62 | $0.52 | $0.48 |

*(See accompanying notes to consolidated financial statements.)*

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

*(In thousands, except share and per share data)*

| *Years Ended December 31,* | 2016 | 2015 | 2014 |
|---|---|---|---|
| **Net income** | $43,248 | $38,969 | $37,345 |
| **Other comprehensive income (loss):** | | | |
| Net derivative instrument loss, net of tax | (22) | – | – |
| Translation adjustments, net of tax | (13,153) | (44,346) | (57,806) |
| | (13,175) | (44,346) | (57,806) |
| **Comprehensive income (loss)** | 30,073 | (5,377) | (20,461) |
| **Comprehensive income (loss) attributable to noncontrolling interests:** | | | |
| Net income | 9,917 | 8,532 | 7,909 |
| Net derivative instrument loss, net of tax | (5) | – | – |
| Translation adjustments, net of tax | (3,279) | (12,078) | (16,123) |
| | 6,633 | (3,546) | (8,214) |
| **Comprehensive income (loss) attributable to Inter Parfums, Inc.** | $23,440 | $(1,831) | $(12,247) |

*(See accompanying notes to consolidated financial statements.)*

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

*(In thousands except share and per share data)*

| *Years Ended December 31,* | 2016 | 2015 | 2014 |
|---|---|---|---|
| **Common stock, beginning and end of year** | $31 | $31 | $31 |
| | | | |
| **Additional paid-in capital, beginning of year** | 62,030 | 60,200 | 57,877 |
| Shares issued upon exercise of stock options | 2,160 | 1,234 | 1,981 |
| Sale of subsidiary shares to noncontrolling interests | (173) | (192) | (335) |
| Purchase of subsidiary shares from noncontrolling interests | (1,753) | – | – |
| Stock-based compensation | 839 | 788 | 677 |
| **Additional paid-in capital, end of year** | 63,103 | 62,030 | 60,200 |
| | | | |
| **Retained earnings, beginning of year** | 388,434 | 374,121 | 359,459 |
| Net income | 33,331 | 30,437 | 29,436 |
| Dividends | (19,273) | (16,124) | (14,855) |
| Stock-based compensation | (222) | – | 81 |
| **Retained earnings, end of year** | 402,714 | 388,434 | 374,121 |
| | | | |
| **Accumulated other comprehensive income (loss), beginning of year** | (48,091) | (15,823) | 25,860 |
| Foreign currency translation adjustment, net of tax | (9,874) | (32,268) | (41,683) |
| Net derivative instrument gain, net of tax | (17) | – | – |
| **Accumulated other comprehensive loss, end of year** | (57,982) | (48,091) | (15,823) |
| | | | |
| **Treasury stock, beginning of year** | (36,817) | (36,464) | (36,016) |
| Shares issued upon exercise of stock options | 142 | 140 | 219 |
| Shares received as proceeds of option exercises | (800) | (493) | (667) |
| **Treasury stock, end of year** | (37,475) | (36,817) | (36,464) |
| | | | |
| **Noncontrolling interest, beginning of year** | 110,800 | 116,659 | 128,145 |
| Net income | 9,917 | 8,532 | 7,909 |
| Foreign currency translation adjustment, net of tax | (3,279) | (12,078) | (16,123) |
| Net derivative instrument gain, net of tax | (5) | – | – |
| Sale of subsidiary shares to noncontrolling interest | 1,738 | 1,523 | 1,365 |
| Purchase of subsidiary shares from noncontrolling interest | (1,188) | – | – |
| Dividends | (4,863) | (3,836) | (4,667) |
| Stock-based compensation | 147 | – | 30 |
| **Noncontrolling interest, end of year** | 113,267 | 110,800 | 116,659 |
| | | | |
| **Total equity** | $483,658 | $476,387 | $498,724 |

*(See accompanying notes to consolidated financial statements.)*

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(In thousands)*

| *Years Ended December 31,* | 2016 | 2015 | 2014 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net income | $43,248 | $38,969 | $37,345 |
| Adjustments to reconcile net income to net cash | | | |
| provided by operating activities: | | | |
| Depreciation and amortization including impairment loss | 15,341 | 9,078 | 10,166 |
| Provision for doubtful accounts | 349 | 442 | 412 |
| Non cash stock compensation | 1,198 | 787 | 856 |
| Gain on sale of license | (4,652) | – | – |
| Excess tax benefits from stock-based compensation | | | |
| arrangements | – | (260) | (670) |
| Deferred tax expense (benefit) | (1,374) | 829 | (557) |
| Change in fair value of derivatives | 682 | 903 | 355 |
| Changes in: | | | |
| Accounts receivable | (13,156) | (12,573) | (19,607) |
| Inventories | (909) | (4,354) | 4,344 |
| Other assets | (297) | (1,622) | 425 |
| Accounts payable and accrued expenses | 18,690 | 12,973 | (4,996) |
| Income taxes, net | (4,556) | 4,912 | 8,540 |
| Net cash provided by operating activities | 54,564 | 50,084 | 36,613 |
| **Cash flows from investing activities:** | | | |
| Purchases of short-term investments | (57,289) | (62,415) | (245,810) |
| Proceeds from sale of short-term investments | 42,604 | 151,771 | 212,762 |
| Purchase of equipment and leasehold improvements | (4,777) | (4,158) | (3,302) |
| Payment for intangible assets acquired | (965) | (119,788) | (922) |
| Net cash used in investing activities | (20,427) | (34,590) | (37,272) |
| **Cash flows from financing activities:** | | | |
| Repayment of loans payable – banks | – | – | (5,765) |
| Proceeds from issuance of long-term debt | – | 110,970 | – |
| Repayment of long-term debt | (21,884) | (11,761) | – |
| Purchase of treasury stock | (77) | (32) | (90) |
| Proceeds from exercise of options | 1,579 | 653 | 953 |
| Excess tax benefits from stock-based compensation arrangements | – | 260 | 670 |
| Proceeds from sale of stock of subsidiary | 1,565 | 1,327 | 1,030 |
| Dividends paid | (18,015) | (15,806) | (14,841) |
| Dividends paid to noncontrolling interests | (4,863) | (3,836) | (4,667) |
| Purchase of subsidiary shares from noncontrolling interests | (2,941) | – | – |
| Net cash provided by (used in) financing activities | (44,636) | 81,775 | (22,710 |
| Effect of exchange rate changes on cash | (4,640) | (10,440) | (12,143) |
| Net increase (decrease) in cash and cash equivalents | (15,139) | 86,829 | (35,512) |
| Cash and cash equivalents – beginning of year | 176,967 | 90,138 | 125,650 |
| Cash and cash equivalents – end of year | $161,828 | $176,967 | $90,138 |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid for: | | | |
| Interest | $2,239 | $2,400 | $1,508 |
| Income taxes | 28,124 | 19,668 | 104,430 |

*(See accompanying notes to consolidated financial statements.)*

*(in thousands except share and per share data)*

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### (1) The Company and its 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. With respect to the Company's largest brands, we own the Lanvin brand name for our class of trade, and license the Montblanc and Jimmy Choo brand names. As a percentage of net sales, product sales for the Company's largest brands were as follows:

| *Year Ended December 31,* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Montblanc | 23% | 21% | 22% |
| Jimmy Choo | 17% | 20% | 16% |
| Lanvin | 12% | 15% | 18% |

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, a subsidiary whose stock is publicly traded in France. In 2015, Interparfums SA formed a subsidiary in Spain, Parfums Rochas. The subsidiary is 51% owned by Interparfums SA with the remaining 49% owned by its Rochas distributor for Spain. Parfums Rochas is responsible for Rochas brand distribution in the territory. 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 trans lated 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 $5.3 million and $5.9 million as of December 31, 2016 and 2015, 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 and net realizable value, with cost being determined on the first-in, first-out method. Cost components include raw materials, 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.

#### 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 IMPROVEMENTS

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 6.2%. The cash flow projections are based upon a number of assumptions, including future sales levels, 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.

### REVENUE RECOGNITION

The Company sells its products to department stores, perfumeries, specialty stores 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 $5.1 million, $4.7 million and $5.2 million in 2016, 2015 and 2014, respectively, are included in selling, general and administrative expenses in the consolidated statements of income. 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 2016, 2015 or 2014.

### SALES RETURNS

Generally, the Company does not permit customers to return their unsold products. However, 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 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 $99.0 million, $83.8 million and $86.7 million for 2016, 2015 and 2014, respectively. Costs relating to purchase with purchase and gift with purchase promotions that are reflected in cost of sales aggregated $30.0 million, $25.4 million and $24.4 million in 2016, 2015 and 2014, respectively. Accrued expenses include approximately $27.2 million and $15.2 million in advertising liabilities as of December 31, 2016 and 2015, 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 generally 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 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 to 15 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 enacted 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 August 2016, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") to eliminate the diversity in practice related to the classification of certain cash receipts and payments in the statement of cash flows, by adding or clarifying guidance on eight specific cash flow issues. This ASU is effective for annual and interim periods beginning after December 15, 2017 and early adoption is permitted. We have evaluated the standard and determined that there will be no material impact on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09 which simplifies several aspects of the accounting for share-based payments, including the income tax consequences and classification on the statement of cash flows. This ASU is effective for annual and interim periods beginning after December 15, 2016 and early adoption is permitted. The Company elected to early adopt ASU 2016-09 in the fourth quarter of 2016 which required us to reflect any adjustments as of January 1, 2016, the beginning of the annual period that includes the interim period of adoption. Prior periods were not adjusted.

Under previous guidance, excess tax benefits and certain tax deficiencies from share-based compensation arrangements were recorded in additional paid-in capital when the awards vested or were settled. ASU 2016-09 requires that all excess tax benefits and all tax deficiencies be recognized as income tax expense or benefit in the income statement and adoption is on a prospective basis. The adoption resulted in the recognition of excess tax benefits of $0.4 million in our provision for income taxes rather than in additional paid-in capital for the year ending December 31, 2016. As permitted by ASU 2016-09, the Company has elected to continue to estimate the number of stock-based awards expected to vest, rather than electing to account for forfeitures as they occur.

Excess tax benefits are required to be prospectively excluded from assumed future proceeds in the calculation of diluted shares under the adoption of ASU 2016-09. As a result of the adoption, the Company's diluted weighted average number of common shares outstanding increased from 31,161,083 to 31,175,598.

The adoption resulted in an increase in basic and diluted earnings per share attributable to Inter Parfums Inc. ("EPS") as follows:

| *Year Ended December 31,* | 2016 |
|---|---|
| Basic EPS prior to adoption of ASU 2016-09 | $1.06 |
| Basic EPS upon adoption of ASU 2016-09 | $1.07 |
| Diluted EPS prior to adoption of ASU 2016-09 | $1.06 |
| Diluted EPS upon adoption of ASU 2016-09 | $1.07 |

In addition, under ASU 2016-09, excess tax benefits from stock-based compensation arrangements are classified in cash flows from operations, rather than inflow within financing activities and outflow within operating activities. The Company has applied the cash flow classification guidance prospectively.

In February 2016, the FASB issued an ASU which requires lessees to recognize lease assets and lease liabilities arising from operating leases on the balance sheet. This ASU is effective for annual and interim reporting periods beginning after December 15, 2018 using a modified retrospective approach, with early adoption permitted. We are currently evaluating the standard to determine the impact of its adoption on our consolidated financial statements.

In November 2015, the FASB issued an ASU that requires all deferred tax liabilities and assets to be classified as noncurrent on the balance sheet. This ASU is effective for annual and interim reporting periods beginning after December 15, 2016, with early adoption permitted. In addition, this guidance can be applied either prospectively or retrospectively to all periods presented. We are currently evaluating the standard to determine the impact of its adoption on our consolidated financial statements.

In July 2015, the FASB issued an ASU modifying the accounting for inventory. Under this ASU, the measurement principle for inventory will change from lower of cost or market value to lower of cost and net realizable value. The ASU defines net realizable value as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The ASU is applicable to inventory that is accounted for under the first-in, first-out method and is effective for reporting periods beginning after December 15, 2016, with early adoption permitted. We have evaluated the standard and determined that there is no material impact on our consolidated financial statements.

In May 2014, the FASB issued an ASU which superseded the then most current revenue recognition requirements. This new revenue recognition standard requires entities to recognize revenue in a way that depicts the transfer of goods or services to customers in an amount that reflects the consideration which the entity expects to be entitled to in exchange for those goods or services. This guidance is effective for annual and interim reporting periods beginning after December 15, 2017, with early adoption permitted for annual periods after December 31, 2016. We have evaluated the standard and determined that there will be no material impact on our consolidated financial statements.

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

**(2) Buyout of License**

In December 2016, the Company, through its majority owned Paris-based subsidiary, Interparfums SA, reached an agreement with the Balmain brand calling for Balmain to buyout the Balmain license agreement, effective December 31, 2016, in exchange for a payment aggregating €5.4 million (approximately $5.7 million). As a result of the buyout, the Company recognized a gain of $4.7 million and expects to receive the buyout payment by April 30, 2017. The Company has a three month inventory sell-off period ending March 31, 2017 and Balmain has also agreed to purchase all remaining inventory and tangible assets.

**(3) Recent Agreements**

### S.T. DUPONT

In September 2016, the Company, through its majority owned Paris-based subsidiary, Interparfums SA, extended its license agreement with S.T. Dupont by three years. The original agreement, signed in July 1997, together with previous extensions, provided Interparfums SA with the exclusive worldwide license rights to create, produce and distribute fragrances and related products under the S.T. Dupont brand through December 31, 2016. The recent extension is effective on January 1, 2017 and extends the partnership through December 31, 2019 without any material changes in operating conditions from the prior license. The license agreement is subject to certain minimum sales, advertising expenditures and royalty payments, as are customary in our industry.

### MONTBLANC

In October 2015, the Company, through its majority owned Paris-based subsidiary, Interparfums SA, extended its license agreement with Montblanc by five years. The original agreement, signed in 2010, provided Interparfums SA with the exclusive worldwide license rights to create, produce and distribute fragrances and fragrance related products under the Montblanc brand through December 31, 2020. The new 10-year agreement, which went into effect on January 1, 2016, extends the partnership through December 31, 2025 without any material changes in operating conditions from the prior license. The license agreement is subject to certain minimum sales, advertising expenditures and royalty payments as are customary in our industry.

### FRENCH CONNECTION

In September 2015, the Company entered into a 12-year license agreement to create, produce and distribute fragrances and fragrance related products under the French Connection brand names. The agreement is subject to certain minimum advertising expenditures and royalty payments as are customary in our industry. The Company took over distribution of selected fragrances within the brand's existing fragrance portfolio in 2016.

### ROCHAS

In May 2015, the Company, through its majority owned Paris-based subsidiary, Interparfums SA, acquired the Rochas brand from The Procter & Gamble Company. This transaction includes all brand names and registered trademarks for Rochas (Femme, Madame, Eau de Rochas, etc.), mainly for class 3 (cosmetics) and class 25 (fashion). Substantially the entire €106 million purchase price for the assets acquired (approximately $118 million), including approximately $5.4 million in acquisition related expenses, was allocated to trademarks with indefinite lives including approximately $21 million of which was allocated to fashion trademarks. An additional $4.4 million was paid for related inventory.

### COACH

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

### ABERCROMBIE & FITCH AND HOLLISTER

In December 2014, the Company entered into a 7-year exclusive worldwide license to create, produce and distribute new fragrances and fragrance related products under the Abercrombie & Fitch and Hollister brand names. In 2016, the Company began to distribute these fragrances internationally in specialty stores, department stores and duty free shops, and in the U.S., in duty free shops and in Abercrombie & Fitch and Hollister retail stores. The agreement is subject to certain minimum sales, advertising expenditures and royalty payments as are customary in our industry.

**(4) Inventories**

| *Year Ended December 31,* | 2016 | 2015 |
|---|---|---|
| Raw materials and component parts | $36,821 | $30,569 |
| Finished goods | 60,156 | 67,777 |
| | $96,977 | $98,346 |

Overhead included in inventory aggregated $3.1 million and $3.7 million as of December 31, 2016 and 2015, 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 $5.4 million and $6.6 million as of December 31, 2016 and 2015, respectively.

**(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, 2016**

| | 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 | $94,202 | – | $94,202 | – |
| Liabilities: | | | | |
| Foreign currency forward exchange contracts accounted for using hedge accounting | 181 | – | 181 | – |
| Foreign currency forward exchange contracts not accounted for using hedge accounting | 418 | – | 418 | – |
| Interest rate swaps | 908 | – | 908 | – |
| | 1,507 | – | 1,507 | – |

**FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2015**

| | Total | Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Assets: | | | | |
| Short-term investments | $82,847 | – | $82,847 | – |
| Foreign currency forward exchange contracts not accounted for using hedge accounting | 123 | – | 123 | – |
| | $82,970 | – | $82,970 | – |
| Liabilities: | | | | |
| Interest rate swaps | 1,026 | – | 1,026 | – |

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 variable interest rates on the Company's indebtedness approximate current market rates.

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

*(in thousands except share and per share data)*

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

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

Gains and losses in derivatives designated as hedges are accumulated in other comprehensive income (loss) and gains and losses in derivatives not designated as hedges are included in (gain) loss on foreign currency on the accompanying income statements. Such gains and losses were immaterial in each of the years in the three-year period ended December 31, 2016. For the years ended December 31, 2016 and 2015, interest expense includes a gain (loss) of $0.1 million and ($1.0) million, respectively, relating to an interest rate swap.

All derivative instruments are reported as either assets or liabilities on the balance sheet measured at fair value. The valuation of interest rate swaps resulted in a liability which is included in long-term debt on the accompanying balance sheets. The valuation of foreign currency forward exchange contracts at December 31, 2016, resulted in a liability and is included in accrued expenses on the accompanying balance sheet and at December 31, 2015, such valuation resulted in an asset and is included in other current assets on the accompanying balance sheet.

At December 31, 2016, the Company had foreign currency contracts in the form of forward exchange contracts with notional amounts of approximately U.S. $69.8 million, GB £1.8 million and JPY ¥50.0 million, which all have maturities of less than one year.

**(7) Equipment and Leasehold Improvements**

| *Year Ended December 31,* | 2016 | 2015 |
|---|---|---|
| Equipment | $31,325 | $27,757 |
| Leasehold Improvements | 1,635 | 1,631 |
| | 32,960 | 29,388 |
| Less accumulated | | |
| depreciation and amortization | 22,884 | 20,055 |
| | $10,076 | 9,333 |

Depreciation and amortization expense was $3.7 million in 2016 and $3.3 million in both 2015 and 2014.

**(8) Trademarks, Licenses and Other Intangible Assets**

| 2016 | Gross Amount | Accumulated Amortization | Net Book Value |
|---|---|---|---|
| Trademarks | | | |
| (indefinite lives) | $115,793 | $– | $115,793 |
| Trademarks | | | |
| (finite lives) | 40,794 | 63 | 40,731 |
| Licenses | | | |
| (finite lives) | 62,102 | 37,206 | 24,896 |
| Other intangible assets | | | |
| (finite lives) | 12,861 | 10,413 | 2,448 |
| Subtotal | 115,757 | 47,682 | 68,075 |
| Total | $231,550 | $47,682 | $183,868 |

| 2015 | Gross Amount | Accumulated Amortization | Net Book Value |
|---|---|---|---|
| Trademarks | | | |
| (indefinite lives) | $119,459 | $– | $119,459 |
| Trademarks | | | |
| (finite lives) | 42,046 | 61 | 41,985 |
| Licenses | | | |
| (finite lives) | 66,082 | 28,994 | 37,088 |
| Other intangible assets | | | |
| (finite lives) | 12,366 | 9,563 | 2,803 |
| Subtotal | 120,494 | 38,618 | 81,876 |
| Total | $239,953 | $38,618 | $201,335 |

Amortization expense was $5.9 million, $5.8 million and $6.6 million in 2016, 2015 and 2014, respectively. Amortization expense is expected to approximate $5.7 million in 2017 and 2018, and $4.6 million in 2019, 2020 and 2021. The weighted average amortization period for trademarks, licenses and other intangible assets with finite lives are 18 years, 14 years and 2 years, respectively, and 14 years in the aggregate.

There were no impairment charges for trademarks with indefinite useful lives in 2016, 2015 and 2014. The fair values used in our evaluations are estimated based upon discounted future cash flow projections using a weighted average cost of capital of 6.2%. 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 amortized. 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. Product sales of our Karl Lagerfeld brand have not met with our original expectations. During the fourth quarter of 2016, the Company decided that it will most likely exercise its rights for an early termination of the Karl Lagerfeld license in 2024, rather than continue the license through its original expiration in 2032. As a result of the shortened expected life of the license, the Company recorded an impairment loss of $5.7 million as of December 31, 2016.

Trademarks (finite lives) primarily represent 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 $74 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.

**(9) Loans Payable – Banks**

Loans payable – banks consist of the following:

The Company and its domestic subsidiaries have available a $20 million unsecured revolving line of credit due on demand, which bears interest at the prime rate minus 0.5% (the prime rate was 3.75% as of December 31, 2016). The line of credit which has a maturity date of December 18, 2017 is expected to be renewed on an annual basis. Borrowings outstanding pursuant to lines of credit were zero as of December 31, 2016 and 2015.

The Company's foreign subsidiaries have available credit lines, including several bank overdraft facilities totaling approximately $26 million. These credit lines bear interest at EURIBOR plus between 0.5% and 0.8% (EURIBOR was minus 0.08% at December 31, 2016). Outstanding amounts were zero as of December 31, 2016 and 2015.

The weighted average interest rate on short-term borrowings was zero as of December 31, 2016 and 2015.

**(10) Long-term Debt**

In June 2015, the Company financed its Rochas brand acquisition with a $111 million, 5-year term loan payable in equal quarterly installments plus interest. This term loan requires the maintenance of certain financial covenants, tested semi-annually, including a maximum leverage ratio and a minimum interest coverage ratio. The facility also contains new debt restrictions among other standard provisions. The Company is in compliance with all of the covenants and other restrictions of the debt agreements. In order to reduce exposure to rising variable interest rates, the Company entered into a swap transaction effectively exchanging the variable interest rate to a fixed rate of approximately 1.2%. The swap is a derivative instrument and is therefore recorded at fair value and changes in fair value are reflected in the accompanying consolidated statements of income. Maturities of long-term debt subsequent to December 31, 2016 are approximately $21 million per year through 2019 and, $11 million in 2020.

*(in thousands except share and per share data)*

## (11) 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 $10.7 million, $9.9 million and $10.1 million in 2016, 2015 and 2014, respectively. Minimum future annual rental payments are as follows:

| | |
|---|---|
| 2017 | $5,390 |
| 2018 | $5,028 |
| 2019 | $4,568 |
| 2020 | $3,689 |
| 2021 | $3,008 |
| Thereafter | $5,952 |
| | $27,635 |

### 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:

| | |
|---|---|
| 2017 | $113,633 |
| 2018 | $111,489 |
| 2019 | $114,897 |
| 2020 | $116,188 |
| 2021 | $118,169 |
| Thereafter | $332,830 |
| | $907,206 |

Future advertising commitments are estimated based on planned future sales for the license terms that were in effect at December 31, 2016, 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 $37.8 million, $33.8 million and $35.6 million, in 2016, 2015 and 2014, respectively, and represented 7.3%, 7.2% and 7.1% of net sales for the years ended December 31, 2016, 2015 and 2014, respectively.

## (12) 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 2016 and 2015 aggregated $0.9 million and $0.8 million, respectively. Compensation cost, net of estimated forfeitures, is recognized on a straight-line basis over the requisite service period for the entire award. Forfeitures are estimated based on historic trends. 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 2016:

| | Number of Shares | Weighted Average Grant Date Fair Value |
|---|---|---|
| Nonvested options – beginning of year | 414,850 | $6.86 |
| Nonvested options granted | 149,850 | $7.43 |
| Nonvested options vested or forfeited | (162,360) | $6.69 |
| Nonvested options – end of year | 402,340 | $7.14 |

The effect of share-based payment expenses decreased income statement line items as follows:

| *Year Ended December 31,* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Income before income taxes | $1,200 | $800 | $900 |
| Net Income attributable to Inter Parfums, Inc. | 700 | 500 | 500 |
| Diluted earnings per share attributable to Inter Parfums, Inc. | 0.02 | 0.01 | 0.01 |

The following table summarizes stock option activity and related information for the years ended December 31, 2016, 2015 and 2014:

| *Year Ended December 31,* 2016 | Options | Weighted Average Exercise Price |
|---|---|---|
| Shares under option-beginning of year | 709,300 | $24.34 |
| Options granted | 149,850 | 32.61 |
| Options exercised | (123,150) | 18.69 |
| Options forfeited | (50,560) | 27.18 |
| Shares under option-end of year | 685,440 | 26.95 |

| *Year Ended December 31,* 2015 | Options | Weighted Average Exercise Price |
|---|---|---|
| Shares under option-beginning of year | 639,495 | $23.19 |
| Options granted | 158,300 | 23.79 |
| Options exercised | (80,685) | 13.82 |
| Options forfeited | (7,810) | 27.77 |
| Shares under option-end of year | 709,300 | $24.34 |

| *Year Ended December 31,* 2014 | Options | Weighted Average Exercise Price |
|---|---|---|
| Shares under option-beginning of year | 643,595 | $19.58 |
| Options granted | 139,250 | 27.93 |
| Options exercised | (136,640) | 11.19 |
| Options forfeited | (6,710) | 19.37 |
| Shares under option-end of year | 639,495 | $23.19 |

At December 31, 2016, options for 1,078,755 shares were available for future grant under the plans. The aggregate intrinsic value of options outstanding is $4.3 million as of December 31, 2016 and unrecognized compensation cost related to stock options outstanding aggregated $2.8 million, which will be recognized over the next five years.

The weighted average fair values of options granted by Inter Parfums, Inc. during 2016, 2015 and 2014 were $7.43, $5.99 and $7.42 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 are set forth in the following table:

| *Year Ended December 31,* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Weighted average expected stock-price volatility | 29% | 33% | 34% |
| Weighted average expected option life | 5.0 yrs | 5.0 yrs | 5.0 yrs |
| Weighted average risk-free interest rate | 2.0% | 1.7% | 1.7% |
| Weighted average dividend yield | 2.1% | 2.1% | 1.8% |

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.

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

| *Year Ended December 31,* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Proceeds from stock options exercised excluding cashless exercise of $0.7 million, $0.5 million and $0.6 million in 2016, 2015 and 2014, respectively | $1,579 | $653 | $953 |
| Tax benefits | 400 | 260 | 670 |
| Intrinsic value of stock options exercised | $1,860 | $1,137 | $2,733 |

*(in thousands except share and per share data)*

The following table summarizes additional stock option information as of December 31, 2016:

| Exercise Prices | Number Outstanding | Options Outstanding Weighted Average Remaining Contractual Life | Options Exercisable |
|---|---|---|---|
| $15.59 | 70,050 | 0.99 years | 70,050 |
| $17.07 | 250 | 0.08 years | 250 |
| $19.33 | 87,310 | 2.00 years | 66,530 |
| $21.76 | 2,750 | 1.08 years | 1,750 |
| $22.20 | 2,800 | 2.08 years | 1,200 |
| $23.61 | 127,850 | 5.00 years | 25,570 |
| $25.29 - $28.82 | 14,000 | 3.79 years | 3,000 |
| $26.40 | 5,000 | 4.08 years | – |
| $27.80 | 114,880 | 4.00 years | 45,880 |
| $29.36 | 2,000 | 2.68 years | 1,000 |
| $32.12 - $32.83 | 148,350 | 5.91 years | 1,750 |
| $35.75 | 110,200 | 3.00 years | 66,120 |
| Totals | 685,440 | 3.85 years | 283,100 |

As of December 31, 2016, the weighted average exercise price of options exercisable was $24.20 and the weighted average remaining contractual life of options exercisable is 2.59 years. The aggregate intrinsic value of options exercisable at December 31, 2016 is $2.6 million.

The Chief Executive Officer and the President each exercised 19,000, 19,000 and 32,875 outstanding stock options of the Company's common stock in 2016, 2015 and 2014, respectively. The aggregate exercise prices of $0.7 million in 2016, $0.5 million in 2015 and $0.6 million in 2014 were paid by them tendering to the Company in 2016, 2015 and 2014, an aggregate of 20,658, 18,764 and 19,656 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 2016, 2015 and 2014 an additional 2,179, 1,299 and 3,112 shares, respectively, for payment of certain withholding taxes resulting from his option exercises.

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

The fair value of the grant of €22.46 per share (approximately $25.00 per share) has been determined based on the quoted stock price of Interparfums SA shares as reported by the NYSE Euronext on the date of grant taking into account the dividend yield as no dividends on this grant will be earned until the shares are distributed. The estimated number of shares to be distributed of 137,381 has been determined taking into account employee turnover. The aggregate cost of the grant of €3.1 million (approximately $3.4 million) will be recognized as compensation cost by Interparfums SA on a straight-line basis over the requisite three year service period. In 2016, $0.4 million of compensation cost has been recognized.

To avoid dilution of the Company's ownership of Interparfums SA, all shares to be distributed pursuant to this plan will be pre-existing shares of Interparfums SA, purchased in the open market by Interparfums SA. As of December 31, 2016, a total of 108,348 shares have been acquired in the open market at an aggregate cost of $2.9 million, and such amount has been classified as an equity transaction on the accompanying balance sheet.

### DIVIDENDS

In October 2016, the Board of Directors of the Company authorized a 13% increase in the annual dividend to $0.68 per share. The quarterly dividend aggregating approximately $5.3 million ($0.17 per share) declared in December 2016 was paid in January 2017. The next quarterly dividend of $0.17 per share will be paid on April 14, 2017 to shareholders of record on March 31, 2017.

**(13) Net Income Attributable to Inter Parfums, Inc. Common Shareholders**

Net income attributable to Inter Parfums, Inc. per common share ("basic EPS") is computed by dividing net income attributable to Inter Parfums, Inc. by the weighted average number of shares outstanding. Net income attributable to Inter Parfums, Inc. per share assuming dilution ("diluted EPS"), is computed using the weighted average number of shares outstanding, plus the incremental shares outstanding assuming the exercise of dilutive stock options using the treasury stock method. The reconciliation between the numerators and denominators of the basic and diluted EPS computations is as follows:

| *Year Ended December 31,* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Numerator for diluted earnings per share | 33,331 | 30,437 | 29,436 |
| Denominator: | | | |
| Weighted average shares | 31,072,328 | 30,996,137 | 30,931,308 |
| Effect of dilutive securities: stock options | 103,270 | 104,078 | 129,018 |
| Denominator for diluted earnings per share | 31,175,598 | 31,100,215 | 31,060,326 |
| Earnings per share: | | | |
| Net income attributable to Inter Parfums, Inc. common shareholders: | | | |
| Basic | 1.07 | 0.98 | 0.95 |
| Diluted | 1.07 | 0.98 | 0.95 |

Not included in the above computations is the effect of anti dilutive potential common shares, which consist of outstanding options to purchase 267,000, 272,000, and 130,000 shares of common stock for 2016, 2015, and 2014, respectively.

**(14) Segments and Geographical Areas**

The Company manufactures and distributes one product line, fragrances and fragrance related products. The Company manages its business in two segments, European based operations and United States based operations. The European assets are located, and operations are primarily conducted, in France. Both European and United States operations primarily represent the sale of prestige brand name fragrances.

Information on the Company's operations by segments is as follows:

| *Year Ended December 31,* | 2016 | 2015 | 2014 |
|---|---|---|---|
| **Net sales:** | | | |
| United States | $117,256 | $105,851 | $105,270 |
| Europe | 404,198 | 362,911 | 394,164 |
| Eliminations of intercompany sales | (382) | (222) | (173) |
| | $521,072 | $468,540 | $499,261 |
| **Net income attributable to Inter Parfums, Inc.:** | | | |
| United States | $8,285 | $7,640 | $8,069 |
| Europe | 25,120 | 22,797 | 21,367 |
| Eliminations | (74) | – | – |
| | $33,331 | $30,437 | $29,436 |
| **Depreciation and amortization expense including impairment loss:** | | | |
| United States | $1,816 | $1,583 | $1,554 |
| Europe | 13,525 | 7,495 | 8,612 |
| | $15,341 | $9,078 | $10,166 |
| **Interest and dividend income:** | | | |
| United States | $22 | $18 | $3 |
| Europe | 3,309 | 2,977 | 3,885 |
| | $3,331 | $2,995 | $3,888 |

*(in thousands except share and per share data)*

**Segments and Geographical Areas** *continued*

| *Year Ended December 31,* | 2016 | 2015 | 2014 |
|---|---|---|---|
| **Interest expense:** | | | |
| United States | – | $2 | $73 |
| Europe | 2,340 | 2,824 | 1,405 |
| | $2,340 | $2,826 | $1,478 |
| **Income tax expense:** | | | |
| United States | $4,278 | $3,923 | $4,643 |
| Europe | 19,596 | 17,604 | 14,727 |
| Eliminations | (48) | – | – |
| | $23,826 | $21,527 | $19,370 |
| **Total assets:** | | | |
| United States | $89,930 | $80,761 | $78,740 |
| Europe | 602,077 | 616,199 | 535,049 |
| Eliminations of investment in subsidiary | (9,598) | (9,301) | (9,283) |
| | $682,409 | $687,659 | $604,506 |
| **Additions to long-lived assets:** | | | |
| United States | $930 | $1,283 | $1,165 |
| Europe | 4,812 | 122,663 | 3,059 |
| | $5,742 | $123,946 | $4,224 |
| **Total long-lived assets:** | | | |
| United States | $12,247 | $13,133 | $13,433 |
| Europe | 181,697 | 197,535 | 94,285 |
| | $193,944 | $210,668 | $107,718 |
| **Deferred tax assets:** | | | |
| United States | $194 | $365 | $396 |
| Europe | 7,848 | 6,817 | 6,452 |
| Eliminations | 48 | – | – |
| | $8,090 | $7,182 | $6,848 |

United States export sales were approximately $77.5 million, $66.3 million and $61.0 million in 2016, 2015 and 2014, respectively. Consolidated net sales to customers by region are as follows:

| *Year Ended December 31,* | 2016 | 2015 | 2014 |
|---|---|---|---|
| North America | 149,600 | $125,700 | $125,900 |
| Europe | 192,800 | 170,600 | 177,900 |
| Central and South America | 43,900 | 41,100 | 57,700 |
| Middle East | 42,200 | 41,900 | 40,300 |
| Asia | 81,600 | 78,200 | 85,600 |
| Other | 11,000 | 11,000 | 11,900 |
| | $521,100 | $468,500 | $499,300 |

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

| *Year Ended December 31,* | 2016 | 2015 | 2014 |
|---|---|---|---|
| United States | $144,000 | $122,000 | $119,000 |
| United Kingdom | $31,000 | $32,000 | $37,000 |
| France | $43,000 | $34,000 | $50,000 |

**(15) Income Taxes**

The Company or its subsidiaries file income tax returns in the U.S. federal, and various states and foreign jurisdictions.

The Company assessed its uncertain tax positions and determined that it has no uncertain tax position at December 31, 2016.

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

| *Year Ended December 31,* | 2016 | 2015 | 2014 |
|---|---|---|---|
| U.S. operations | $12,441 | $11,564 | $12,712 |
| Foreign operations | 54,633 | 48,932 | 44,003 |
| | $67,074 | $60,496 | $56,715 |

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

| *Year Ended December 31,* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Current: | | | |
| Federal | $3,792 | $3,660 | $4,374 |
| State and local | 309 | 220 | 323 |
| Foreign | 21,099 | 16,806 | 15,229 |
| | 25,200 | 20,686 | 19,926 |
| Deferred: | | | |
| Federal | 113 | 30 | (84) |
| State and local | 9 | 1 | 30 |
| Foreign | (1,496) | 810 | (502) |
| | (1,374) | 841 | (556) |
| Total income tax expense | $23,826 | $21,527 | $19,370 |

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

| *December 31,* | 2016 | 2015 |
|---|---|---|
| **Net deferred tax assets:** | | |
| Foreign net operating loss carry-forwards | 821 | 296 |
| Inventory and accounts receivable | 1,875 | 2,321 |
| Profit sharing | 3,187 | 2,442 |
| Stock option compensation | 864 | 717 |
| Effect of inventory profit elimination | 2,888 | 2,170 |
| Other | (724) | (468) |
| Total gross deferred tax assets, net | 8,911 | 7,478 |
| Valuation allowance | (821) | (296) |
| Net deferred tax assets | 8,090 | 7,182 |
| **Deferred tax liabilities (long-term):** | | |
| Trademarks and licenses | (3,449) | (3,746) |
| Other | – | – |
| Total deferred tax liabilities | (3,449) | (3,746) |
| Net deferred tax assets | $4,641 | $3,436 |

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.

As previously reported, the French Tax Authorities examined the 2012 tax return of Interparfums SA, the Company's majority owned Paris-based subsidiary, and in August 2015 issued a $6.9 million tax adjustment. It is the Company's position that the French Tax Authorities are incorrect in their assessments and the Company believes that it has strong arguments to support its tax positions. The main issues challenged by the French Tax Authorities related to the commission rate and royalty rate paid to Interparfums Singapore Pte. and Interparfums (Suisse) SARL, respectively. Interparfums Singapore Pte. and Interparfums (Suisse) SARL are wholly-owned subsidiaries of Interparfums SA. Due to the subjective nature of the issues involved, in April 2016, Interparfums SA reached an agreement in principle to settle the entire matter with the French Tax Authorities. The settlement requires Interparfums SA to pay a tax assessment of $1.9 million covering the issues for not only the 2012 tax year, but also covering the issues for the tax years ended 2013 through 2015. The settlement also includes an agreement as to future acceptable commission and royalty rates, which is not expected to have a significant impact on cash flow. The settlement, which for 2012, is subject to formal documentation with the French Tax Authorities, was accrued as of March 31, 2016. In July 2016, Interparfums SA paid $1.1 million to the French Tax Authorities relating to tax years 2013 and 2014.

*(in thousands except share and per share data)*

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 2013.

The Company has not provided for U.S. deferred income taxes on $365 million of undistributed earnings of its non-U.S. subsidiaries as of December 31, 2016 since the Com pany 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,* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Statutory rates | 34.0% | 34.0% | 34.0% |
| State and local taxes, net of Federal benefit | 0.3 | 0.2 | 0.1 |
| Effect of foreign taxes greater than U.S. statutory rates | 1.5 | 1.6 | 0.4 |
| Other | (0.3) | (0.2) | (0.3) |
| Effective rates | 35.5% | 35.6% | 34.2% |

**(16) Accumulated Other Comprehensive Income (Loss)**

The components of accumulated other comprehensive loss consist of the following:

| *Year Ended December 31,* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Net derivative instruments, beginning of year | $– | $– | $– |
| Net derivative instruments, loss, net of tax | (17) | – | – |
| Net derivative instruments end of year | (17) | – | – |
| Cumulative translation adjustments, beginning of year | (48,091) | (15,823) | 25,860 |
| Translation adjustments | (9,874) | (32,268) | (41,683) |
| Cumulative translation adjustments, end of year | (57,965) | (48,091) | (15,823) |
| Accumulated other comprehensive income (loss) | (57,982) | (48,091) | (15,823) |

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

| *Year Ended December 31,* | 2016 | 2015 | 2014 |
|---|---|---|---|
| Net income attributable to Inter Parfums, Inc. | $33,331 | $30,437 | $29,436 |
| Decrease in Inter Parfums, Inc.'s additional paid-in capital for subsidiary share transactions | (1,926) | (192) | (335) |
| Change from net income attributable to Inter Parfums, Inc. and transfers from noncontrolling interest | $31,405 | $30,245 | $29,101 |

## 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,
Interparfums SA

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

**Philippe Santi**
Executive Vice President
Director General Delegue
Interparfums 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

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

**Michel Dyens**
Chairman, and Chief Executive Officer,
Michel Dyens & Co.

### 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,
Interparfums SA

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

**Philippe Santi**
Executive Vice President
Director General Delegue
Interparfums SA

**Frédéric Garcia-Pelayo**
Director of Export Sales
Interparfums SA

### CORPORATE INFORMATION

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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.

| FISCAL 2016 | High Closing Price | Low Closing Price |
|---|---|---|
| Fourth Quarter | 36.40 | 29.40 |
| Third Quarter | 35.07 | 27.05 |
| Second Quarter | 31.71 | 27.19 |
| First Quarter | 32.47 | 20.37 |

| Fiscal 2015 | High Closing Price | Low Closing Price |
|---|---|---|
| Fourth Quarter | 33.45 | 22.33 |
| Third Quarter | 35.22 | 29.97 |
| Second Quarter | 34.83 | 23.40 |
| First Quarter | 29.37 | 22.73 |

As of February 23, 2017, the number of record holders, which include brokers and broker's nominees, etc., of our common stock was 42. We believe there are approximately 9,500 beneficial owners of our common stock.

## DIVIDENDS

In January 2015, our Board of Directors authorized an 8% increase in the annual dividend to $0.52 per share and in January 2016, our Board of Directors authorized a 15% increase in the cash dividend to $0.60 per share on an annual basis. In October 2016, our Board of Directors authorized an additional 13% increase in the annual dividend to $0.68 per share. The next quarterly cash dividend of $0.17 per share is payable on April 14, 2017 to shareholders of record on March 31, 2017.

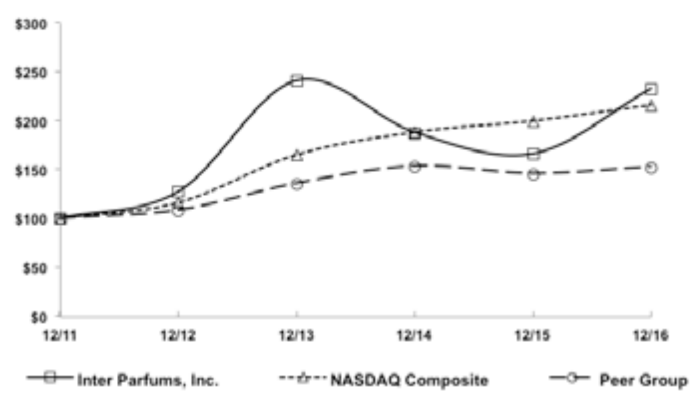
## FORM 10K

**A copy of the company's 2016 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., CCA Industries, Inc., Colgate-Palmolive Co., Estee Lauder Companies, Inc., Inter Parfums, Inc., Kimberly Clark Corp., Natural Health Trends Corp., Proctor & Gamble Co., Revlon, Inc., Spectrum Brands Holdings, Inc., Stephan Co., Summer Infant, Inc. 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 NASDAQ Composite Index, and a Peer Group**




*$100 invested on 12/31/11 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

| | 12/11 | 12/12 | 12/13 | 12/14 | 12/15 | 12/16 |
|---|---|---|---|---|---|---|
| Inter Parfums, Inc. | 100.00 | 127.37 | 241.41 | 188.05 | 166.25 | 233.18 |
| NASDAQ Composite | 100.00 | 116.41 | 165.47 | 188.69 | 200.32 | 216.54 |
| Peer Group | 100.00 | 108.26 | 135.85 | 153.37 | 145.85 | 152.71 |


***Montblanc** Emblem Intense*

interparfums, inc.

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