

INTER PARFUMS INC  
Form 10-Q  
November 09, 2009

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

( MARK ONE )

☒ Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2009.

OR

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

Commission File No. 0-16469

INTER PARFUMS, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

13-3275609  
(I.R.S. Employer  
Identification No.)

551 Fifth Avenue, New York, New York  
(Address of Principal Executive Offices)

10176  
(Zip Code)

(212) 983-2640  
(Registrants telephone number, including area code)

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

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

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

Large accelerated Filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Accelerated filer ☒

Smaller reporting company ☐

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

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

At November 6, 2009, there were 30,079,589 shares of common stock, par value \$.001 per share, outstanding.

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INTER PARFUMS, INC. AND SUBSIDIARIES

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INTER PARFUMS, INC. AND SUBSIDIARIES

Part I. Financial Information

Item 1. Financial Statements

In our opinion, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly our financial position, results of operations and cash flows for the interim periods presented. We have condensed such financial statements in accordance with the rules and regulations of the Securities and Exchange Commission. Therefore, such financial statements do not include all disclosures required by accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with our audited financial statements for the year ended December 31, 2008 included in our annual report filed on Form 10-K.

The results of operations for the nine months ended September 30, 2009 are not necessarily indicative of the results to be expected for the entire fiscal year.

## INTER PARFUMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
(In thousands except share and per share data)

	September 30, 2009 (unaudited)	December 31, 2008
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 57,710	\$ 42,404
Accounts receivable, net	127,296	120,507
Inventories	95,998	123,633
Receivables, other	4,791	2,904
Other current assets	9,392	10,034
Income tax receivable	46	1,631
Deferred tax assets	4,880	3,388
Total current assets	300,113	304,501
Equipment and leasehold improvements, net	9,197	7,670
Goodwill	5,747	5,470
Trademarks, licenses and other intangible assets, net	105,375	104,922
Other assets	1,003	2,574
Total assets	\$ 421,435	\$ 425,137
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Loans payable – banks	\$ 10,029	\$ 13,981
Current portion of long-term debt	11,870	13,352
Accounts payable - trade	40,275	66,236
Accrued expenses	40,063	35,368
Income taxes payable	1,723	442
Dividends payable	992	996
Total current liabilities	104,952	130,375
Long-term debt, less current portion	20,231	27,691
Deferred tax liability	11,013	11,562
Equity:		
Inter Parfums, Inc. shareholders' equity:		
Preferred stock, \$.001 par; authorized 1,000,000 shares; none issued		
Common stock, \$.001 par; authorized 100,000,000 shares; outstanding 30,066,239 and 30,168,939 shares at September 30, 2009 and December 31, 2008, respectively	30	30
Additional paid-in capital	42,478	41,950
Retained earnings	182,111	168,025
Accumulated other comprehensive income	35,602	25,515
Treasury stock, at cost, 10,074,479 and 9,966,379 common shares at September 30, 2009 and December 31, 2008, respectively	(31,950)	(31,319)
Total Inter Parfums, Inc. shareholders' equity	228,271	204,201
Noncontrolling interest	56,968	51,308
Total equity	285,239	255,509
Total liabilities and equity	\$ 421,435	\$ 425,137

See notes to consolidated financial statements.

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## INTER PARFUMS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

(In thousands except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net sales	\$ 117,542	\$ 123,531	\$ 296,555	\$ 345,772
Cost of sales	50,462	56,206	125,709	148,385
Gross margin	67,080	67,325	170,846	197,387
Selling, general and administrative	53,169	56,039	139,812	160,124
Income from operations	13,911	11,286	31,034	37,263
Other expenses (income):				
Interest expense	482	1,418	2,192	2,865
(Gain) loss on foreign currency	(854)	77	(4,796)	262
Interest income	(135)	(446)	(745)	(1,611)
	(507)	1,049	(3,349)	1,516
Income before income taxes	14,418	10,237	34,383	35,747
Income taxes	4,807	2,358	11,763	12,241
Net income	9,611	7,879	22,620	23,506
Less: Net income attributable to the noncontrolling interest	2,349	1,691	5,704	4,838
Net income attributable to Inter Parfums, Inc.	\$ 7,262	\$ 6,188	\$ 16,916	\$ 18,668
Earnings per share:				
Net income attributable to Inter Parfums, Inc. common shareholders:				
Basic	\$ 0.24	\$ 0.20	\$ 0.56	\$ 0.61
Diluted	\$ 0.24	\$ 0.20	\$ 0.56	\$ 0.60
Weighted average number of shares outstanding:				
Basic	30,061	30,632	30,097	30,660
Diluted	30,065	30,886	30,098	30,869
Dividends declared per share	\$ 0.033	\$ 0.033	\$ 0.099	\$ 0.099

See notes to consolidated financial statements.

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## INTER PARFUMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
(In thousands)

	Inter Parfums, Inc. shareholders							
	Common	Additional	Retained	Accumulated	Treasury	Noncontrolling	Total	
	stock	paid-in	earnings	comprehensive	stock	interest		
		Capital		income				
Balance – January 1, 2008	\$ 31	\$ 40,023	\$ 147,995	\$ 30,955	\$ (26,344)	\$ 53,925	\$ 246,585	
Comprehensive income:								
Net income	—	—	18,668	—	—	4,838	23,506	
Foreign currency translation adjustment	—	—	—	(5,436)	—	—	(5,436)	
Net derivative instrument gain, net of tax	—	—	—	(140)	—	(53)	(193)	
Purchase of subsidiary shares from noncontrolling interests	—	—	—	—	—	(8,623)	(8,623)	
Sale of subsidiary shares to noncontrolling interests	—	215	—	—	—	1,700	1,915	
Foreign currency translation adjustment	—	—	—	—	—	(1,307)	(1,307)	
Dividends	—	—	(3,043)	—	—	(1,735)	(4,778)	
Purchased treasury stock	—	—	—	—	(2,206)	—	(2,206)	
Shares issued upon exercise of stock options	—	479	—	—	—	—	479	
Stock compensation	—	335	243	—	—	105	683	
Balance – September 30, 2008	\$ 31	\$ 41,052	\$ 163,863	\$ 25,379	\$ (28,550)	\$ 48,850	\$ 250,625	
Balance – January 1, 2009	\$ 30	\$ 41,950	\$ 168,025	\$ 25,515	\$ (31,319)	\$ 51,308	\$ 255,509	
Comprehensive income:								
Net income	—	—	16,916	—	—	5,704	22,620	
Foreign currency translation adjustment	—	—	—	13,251	—	—	13,251	
Net derivative instrument gain, net of tax	—	—	—	(3,164)	—	(1,084)	(4,248)	
Sale of subsidiary shares to noncontrolling interests		(53)				2,677	2,624	
Dividends	—	—	(2,979)	—	—	(1,716)	(4,695)	
Purchased treasury stock	—	—	—	—	(631)	—	(631)	
Shares issued upon exercise of stock options	—	200	—	—	—	—	200	
Stock compensation	—	381	149	—	—	79	609	
Balance – September 30, 2009	\$ 30	\$ 42,478	\$ 182,111	\$ 35,602	\$ (31,950)	\$ 56,968	\$ 285,239	

See notes to consolidated financial statements.



## INTER PARFUMS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine months ended September 30,	
	2009	2008
Cash flows from operating activities:		
Net income	\$ 22,620	\$ 23,506
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,758	7,666
Provision for doubtful accounts	947	323
Noncash stock compensation	724	868
Deferred tax (benefit)	(2,385)	(709)
Change in fair value of derivatives	(713)	—
Changes in:		
Accounts receivable	(1,880)	(27,707)
Inventories	30,891	(32,239)
Other assets	(4,694)	2,601
Accounts payable and accrued expenses	(24,530)	(10,966)
Income taxes payable, net	4,851	(4,452)
Net cash provided by (used in) operating activities	33,589	(41,109)
Cash flows from investing activities:		
Purchases of short-term investments	—	(5,312)
Proceeds from sale of short-term investments	—	5,312
Purchases of equipment and leasehold improvements	(3,758)	(2,301)
Payment for intangible assets acquired	(622)	(1,015)
Payment for purchase of subsidiary shares from noncontrolling interest	—	(18,405)
Proceeds from sale of subsidiary shares to noncontrolling interest	2,608	2,094
Net cash used in investing activities	(1,772)	(19,627)
Cash flows from financing activities:		
Proceeds (repayments) of loans payable – bank, net	(4,025)	20,572
Repayment of long-term debt	(10,360)	(12,637)
Proceeds from exercise of options including tax benefits	200	479
Dividends paid	(2,979)	(3,058)
Dividends paid to noncontrolling interest	(1,716)	(1,735)
Purchase of treasury stock	(631)	(2,206)
Net cash provided by (used in) financing activities	(19,511)	1,415
Effect of exchange rate changes on cash	3,000	1,268
Net increase (decrease) in cash and cash equivalents	15,306	(58,053)
Cash and cash equivalents - beginning of period	42,404	90,034

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Cash and cash equivalents - end of period	\$	57,710	\$	31,981
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Supplemental disclosure of cash flow information:

Cash paid for:

Interest	\$	2,000	\$	2,866
Income taxes		9,746		12,346

See notes to consolidated financial statements

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

1. Significant Accounting Policies:

The accounting policies we follow are set forth in the notes to our financial statements included in our Form 10-K which was filed with the Securities and Exchange Commission for the year ended December 31, 2008. We also discuss such policies in Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, included in this Form 10-Q.

2. Recently Issued Accounting Pronouncements:

In December 2007, the FASB issued Accounting Standards Codification ("ASC") topic 810-10-65-1 (formerly SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements"). ASC topic 810-10-65-1 establishes requirements for ownership interests in subsidiaries held by parties other than the Company (sometimes called "minority interests") be clearly identified, presented, and disclosed in the consolidated statement of financial position within equity, but separate from the parent's equity. All changes in the parent's ownership interests are required to be accounted for consistently as equity transactions and any noncontrolling equity investments in deconsolidated subsidiaries must be measured initially at fair value. ASC topic 810-10-65-1 is effective, on a prospective basis, for fiscal years beginning after December 15, 2008. The adoption by the Company of ASC topic 810-10-65-1 did not have a material impact on its consolidated financial statements. However, presentation and disclosure requirements of ASC topic 810-10-65-1 were retrospectively applied to the Company's consolidated financial statements.

In May 2009, the FASB issued ASC topic 855 (formerly SFAS No. 165, "Subsequent Events"). ASC topic 855 provides guidance on management's assessment of subsequent events and incorporates this guidance into accounting literature. ASC topic 855 is effective prospectively for interim and annual periods ending after June 15, 2009.

In June 2009, the FASB issued ASC topic 810 (formerly SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)"). ASC topic 810 amends the consolidation guidance applicable to variable interest entities and affects the overall consolidation analysis. ASC topic 810 is effective for fiscal years beginning after November 15, 2009. We do not believe that the adoption of ASC topic 810 will have a material impact on our consolidated financial statements.

In June 2009, the FASB issued ASC topic 105 (formerly SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles"). ASC 105 contains guidance which reduces the U.S. GAAP hierarchy to two levels, one that is authoritative and one that is not. ASC topic 105 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of this pronouncement did not have a material impact on our consolidated financial statements.

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

## INTER PARFUMS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## 3. Inventories:

Inventories consist of the following:

(In thousands)	September 30, 2009	December 31, 2008
Raw materials and component parts	\$ 24,060	\$ 37,248
Finished goods	71,938	86,385
	\$ 95,998	\$ 123,633

## 4. Fair Value Measurement:

The carrying amount of cash and cash equivalents, short-term investments, accounts receivable, other receivables, accounts payable and accrued expenses approximates fair value due to the short terms to maturity of these instruments. The carrying amount of loans payable approximates fair value as the interest rates on the Company's indebtedness approximate current market rates. The fair value of the Company's long-term debt was estimated based on the current rates offered to companies for debt with the same remaining maturities and is approximately equal to its carrying value.

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 quotes obtained from financial institutions.

The following tables present our financial assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value.

(In thousands)	Fair Value Measurements at September 30, 2009			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
Money market funds	\$ 20,591	\$ 20,591	\$ —	\$ —
Foreign currency forward exchange contracts accounted for using hedge accounting	2,310	—	2,310	—
Foreign currency forward exchange contracts not accounted for using hedge accounting	3,138	—	3,138	—
	\$ 26,039	\$ 20,591	\$ 5,448	\$ —
<b>Liabilities:</b>				
Interest rate swaps	\$ 920	\$ —	\$ 920	\$ —



## INTER PARFUMS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(In thousands)

		Fair Value Measurements at December 31, 2008			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	Total				
<b>Assets:</b>					
Money market funds	\$ 19,816	\$ 19,816	\$ —	\$ —	
Foreign currency forward exchange contracts accounted for using hedge accounting	8,162	—	8,162	—	
	\$ 27,978	\$ 19,816	\$ 8,162	\$ —	
<b>Liabilities:</b>					
Foreign currency forward exchange contracts not accounted for using hedge accounting	\$ 1,429	\$ —	\$ 1,429	\$ —	
Interest rate swaps	811	—	811	—	
	\$ 2,240	\$ —	\$ 2,240	\$ —	

The following tables present gains and losses in derivatives designated as hedges and the location of those gains and losses in the financial statements (in thousands):

	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion) Nine months ended September 30, 2009 2008	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Nine months ended September 30, 2009 2008	Location of Gain (Loss) Recognized in Income on Derivative (Effective Portion)	Amount of Gain (Loss) Recognized in Income on Derivative (Effective Portion) (A) Nine months ended September 30, 2009 2008
Derivatives in Cash Flow Hedging Relationships					
Foreign exchange contracts	\$ 1,857	Gain (loss) on foreign currency	\$ 4,725 —	Gain (loss) on foreign currency	\$ 713 —

(A) The amount of gain (loss) recognized in income represents \$713 related to the amount excluded from the assessment of hedge effectiveness.

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative (Effective Portion)
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	Three months ended September 30, 2009		Three months ended September 30, 2008		(Effective Portion)	(A) Three months ended September 30, 2009	2008
Foreign exchange contracts	\$	2,295	Gain (loss) on —foreign currency	\$	1,534	Gain (loss) on —foreign currency	\$ 11

(A) The amount of gain (loss) recognized in income represents \$11 related to the amount excluded from the assessment of hedge effectiveness.

## INTER PARFUMS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

Derivatives not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Interest rate swaps	Interest (expense)	\$ (62)	\$ (26)
Foreign exchange contracts	Gain (loss) on foreign currency	\$ 29	\$ (209)

Derivatives not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Three months ended September 30, 2009	Three months ended September 30, 2008
Interest rate swaps	Interest (expense)	\$ 43	\$ (394)
Foreign exchange contracts	Gain (loss) on foreign currency	\$ 5	\$ (541)

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 accrued expenses on the accompanying balance sheet as of September 30, 2009. The valuation of foreign currency forward exchange contracts accounted for using hedge accounting and not accounted for using hedge accounting resulted in assets which are included in other current assets on the accompanying balance sheet as of September 30, 2009. Generally, increases or decreases in the fair value of derivative instruments will be recognized as gains or losses in earnings in the period of change. If the derivative instrument is designated and qualifies as a cash flow hedge, the changes in fair value of the derivative instrument will be recorded as a separate component of shareholders' equity.

The Company enters 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 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 as defined by ASC topic 815-10-10 (formerly SFAS No. 133) 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 or when the underlying forecasted transaction occurs, 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. As of September 30, 2009, cash-flow hedges were highly effective, in all material respects.



## INTER PARFUMS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

As a result of the dramatic strengthening of the U.S. dollar, during our fourth quarter ended December 31, 2008, we entered into foreign currency forward exchange contracts to hedge approximately 80% of our 2009 sales expected to be invoiced in U.S. dollars. At September 30, 2009, we had foreign currency contracts in the form of forward exchange contracts in the amount of approximately U.S. \$42.4 million and GB pounds 6.6 million which all have maturities of less than one year.

## 5. Goodwill and Other Intangible Assets:

The Company reviews goodwill and trademarks with indefinite lives for impairment at least annually, and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The following table presents our assets and liabilities that are measured at fair value on a nonrecurring basis and are categorized using the fair value hierarchy.

(In thousands)	Fair Value Measurements at September 30, 2009			
	Quoted Prices in Active Markets for Identical Assets Total	Significant Other Observable Inputs (Level 1)	Significant Other Unobservable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
<b>Description:</b>				
Trademark - Nickel	\$ 2,839	\$ —	\$ —	\$ 2,839
Goodwill	\$ 5,747	\$ —	\$ —	\$ 5,747

The goodwill and trademarks referred to above, relates to our Nickel skin care business which is primarily a component of our European operations. Nickel brand product sales, which performed in line with our budgets during the three month period ended September 30, 2009, had performed below our expectations in the past, and as a result, we have been reviewing goodwill and trademarks with indefinite lives relating to Nickel for impairment on a quarterly basis. We have measured fair value of goodwill as a multiple of sales applied to the average of 2008 actual sales and projected sales for 2009 and 2010. The sales multiple was based on a third party financial institution study of sales multiples for all transactions in the skin care, perfume and cosmetic sectors during the past four years. There was no change to the carrying amount of the goodwill during the nine month period ended September 30, 2009 other than for the effect of foreign currency translation rates. For indefinite-lived intangible assets, if the carrying value of an indefinite-lived intangible asset exceeds its fair value, as generally estimated using discounted future net cash flow projections and discounted terminal values, the carrying value of the asset is reduced to its fair value. During the three month period ended September 30, 2009, no impairment charges were recorded. For the nine month period ended September 30, 2009, an impairment charge relating to the Nickel trademark in the amount of \$0.26 million was recorded.

## 6. Shareholders' Equity:

As of December 31, 2008, the Company's board of directors authorized the repurchase of up to 1,031,863 shares of the Company's common stock. During the nine month period ended September 30, 2009, the Company repurchased 108,100 shares of its common stock at an average price of \$5.84 per common share.



## INTER PARFUMS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## 7. Share-Based Payments:

The Company maintains a stock option program for key employees, executives and directors. The plans, all of which have been approved by shareholder vote, provide for the granting of both nonqualified and incentive options. Options granted under the plans typically have a six year term and vest over a four to five-year period. The fair value of shares vested during the nine month periods ended September 30, 2009 and 2008 aggregated \$0.05 million and \$0.02 million, respectively.

Compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. It is generally the Company's policy to issue new shares upon exercise of stock options. The following table sets forth information with respect to nonvested options for the nine month period ended September 30, 2009:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested options – beginning of period	490,263	\$ 3.81
Nonvested options granted	4,000	\$ 1.92
Nonvested options vested or forfeited	(18,990)	\$ 3.73
Nonvested options – end of period	475,273	\$ 3.79

Share-based payment expense decreased income before income taxes by \$0.22 million and \$0.72 million for the three and nine month periods ended September 30, 2009, respectively, as compared to \$0.28 million and \$0.87 million for the corresponding periods of the prior year. Share-based payment expense decreased income attributable to Inter Parfums, Inc. by \$0.13 million and \$0.41 million for the three and nine month periods ended September 30, 2009, respectively, as compared to \$0.15 million and \$0.48 million for the corresponding periods of the prior year. The following table summarizes stock option information for the nine month period ended September 30, 2009:

	Number of Shares	Weighted Average Exercise Price
Options outstanding - beginning of period	1,138,375	\$ 11.23
Options granted	4,000	6.15
Options exercised	(5,400)	10.11
Options forfeited or expired	(57,000)	15.02
Options outstanding - end of period	1,079,975	\$ 11.02
Options exercisable at September 30, 2009	604,703	\$ 10.76
Options available for future grants	1,266,369	

As of September 30, 2009, the weighted average remaining contractual life of options outstanding is 2.39 years (1.04 years for options exercisable). The aggregate intrinsic value of options outstanding and options exercisable is \$1.6 million and \$1.0 million, respectively and unrecognized compensation cost related to stock options outstanding on Inter Parfums, Inc. stock aggregated \$1.4 million. The amount of unrecognized compensation cost related to stock options outstanding of our majority-owned subsidiary, Inter Parfums S.A., was €0.2 million. Options under Inter Parfums, S.A. plans vest over a four-year period and no options were granted by Inter Parfums, S.A. during the nine month periods ended September 30, 2009 and 2008.



## INTER PARFUMS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

Cash proceeds, tax benefits and intrinsic value related to stock options exercised during the nine month periods ended September 30, 2009 and September 30, 2008 were as follows:

(In thousands)	September 30, 2009	September 30, 2008
Cash proceeds from stock options exercised	\$ 55	\$ 272
Tax benefits	145	207
Intrinsic value of stock options exercised	11	136

The weighted average fair values of the options granted by Inter Parfums, Inc. during the nine months ended September 30, 2009 and 2008 were \$1.92 and \$3.69 per share, respectively, on the date of grant using the Black-Scholes option pricing model to calculate the fair value of options granted. The assumptions used in the Black-Scholes pricing model for the periods ended September 30, 2009 and 2008 are set forth in the following table:

	September 30, 2009	September 30, 2008
Weighted-average expected stock-price volatility	46%	39%
Weighted-average expected option life	3.75 years	4.5 years
Weighted-average risk-free interest rate	1.74%	2.7%
Weighted-average dividend yield	2.20%	1.20%

Expected volatility is estimated based on historic volatility of the Company's common stock. The Company uses the simplified method in developing its estimate of the expected term of the option as historic data regarding employee exercise behavior is incomplete for the new vesting parameters recently instituted by the Company. 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 in place at the time of stock-based award grant would continue with no anticipated increases.

#### 8. Earnings Per Share:

Basic earnings per share is computed using the weighted average number of shares outstanding during each period. Diluted earnings per share is computed using the weighted average number of shares outstanding during each period, plus the incremental shares outstanding assuming the exercise of dilutive stock options and warrants using the treasury stock method. The following table sets forth the computation of basic and diluted earnings per share:

(In thousands)	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Numerator:				
Net income attributable to Inter Parfums, Inc.	\$ 7,262	\$ 6,188	\$ 16,916	\$ 18,668
Effect of dilutive securities of consolidated subsidiary	—	(35)	(18)	(122)
	\$ 7,262	\$ 6,153	\$ 16,898	\$ 18,546



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Denominator:

Weighted average shares	30,061	30,632	30,097	30,660
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Effect of dilutive securities:

Stock options and warrants	4	254	1	209
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	30,065	30,886	30,098	30,869
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## INTER PARFUMS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

Not included in the above computations is the effect of antidilutive potential common shares which consist of outstanding options to purchase 1.0 million and 1.1 million shares of common stock for the three and nine month periods ended September 30, 2009, and 0.3 million and 0.4 million shares of common stock for the three and nine month periods ended September 30, 2008, respectively, as well as outstanding warrants to purchase 300,000 shares of common stock for both the three and nine month periods ended September 30, 2009 and 150,000 shares of common stock for both the three and nine month periods ended September 30, 2008.

## 9. Comprehensive Income (Loss):

(In thousands)	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Comprehensive income (loss):				
Net income	\$ 9,611	\$ 7,879	\$ 22,620	\$ 23,506
Other comprehensive income, net of tax:				
Foreign currency translation adjustment	9,049	(17,134)	13,251	(5,436)
Change in fair value of derivatives	(1,148)	(7)	(1,919)	(193)
Net gains reclassified into earnings from equity	(751)	—	(2,329)	—
Comprehensive income (loss):	16,761	(9,262)	31,623	17,877
Less comprehensive income (loss) attributable to the noncontrolling interest	1,832	1,684	4,620	4,785
Comprehensive income (loss) attributable to Inter Parfums, Inc.	\$ 14,929	\$ (10,946)	\$ 27,003	\$ 13,092

## 10. Net Income Attributable to Inter Parfums, Inc. and Transfers From the Noncontrolling Interest:

(In thousands)	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Net income attributable to Inter Parfums, Inc.	\$ 7,262	\$ 6,188	\$ 16,916	\$ 18,668
Increase (decrease) in Inter Parfums, Inc.'s additional paid-in capital for subsidiary share transactions	(36)	18	(53)	215