

INTER PARFUMS INC
Form 10-K
March 16, 2007

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

FORM 10-K

(Mark one)

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2006 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)

Registrant's telephone number, including area code: 212.983.2640.

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of exchange on which registered

Common Stock, \$.001 par value per share

The Nasdaq Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act:

None.

Title of Class

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation SK is not contained herein and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10K or any other amendment to this Form 10K. x

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

Large accelerated Filer

Accelerated filer

Non-accelerated filer

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. \$147,451,000 of voting equity and \$-0- of non-voting equity.

Indicate the number of shares outstanding of the registrant's \$.001 par value common stock as of the close of business on the latest practicable date March 5, 2007: 20,437,292.

Documents Incorporated By Reference: None.

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FORWARD LOOKING STATEMENTS

This report includes forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, and if incorporated by reference into a registration statement under the Securities Act of 1933, as amended, within the meaning of Section 27A such act. When used in this report, the words “anticipate,” “believe,” “estimate,” “will,” “should,” “could,” “may,” “intend,” “expect,” “plan,” “predict,” “potential,” or “continue” or similar expressions identify certain forward-looking statements. Although we believe that our plans, intentions and expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such plans, intentions or expectations will be achieved.

Actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking statements contained in this report. Important factors that could cause actual results to differ materially from our forward-looking statements are set forth in this report, including under the heading “Risk Factors”. Such factors include dependence upon Burberry for a significant portion of our sales, continuation and renewal of existing license agreements, sales and marketing efforts of The Gap, Inc., protection of our intellectual property rights, effectiveness of sales and marketing efforts and product acceptance by consumers, dependence upon third party manufacturers and distributors, dependence upon management, competition, currency fluctuation and international tariff and trade barriers, governmental regulation and possible liability for improper comparative advertising or “Trade Dress”.

These factors are not intended to represent a complete list of the general or specific factors that may affect us. It should be recognized that other factors, including general economic factors and business strategies, may be significant, presently or in the future, and the factors set forth herein may affect us to a greater extent than indicated. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements set forth in this report. Except as required by law, we undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.

PART I

Item 1. Business

Introduction

We are Inter Parfums, Inc. We operate in the fragrance business, and manufacture, market and distribute a wide array of fragrances and fragrance related products. Organized under the laws of the State of Delaware in May 1985 as Jean Philippe Fragrances, Inc., we changed our name to Inter Parfums, Inc. on July 14, 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 subsidiaries, Jean Philippe Fragrances, LLC and Inter Parfums USA, LLC, both New York limited liability companies, and 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. Our consolidated wholly-owned subsidiary, Inter Parfums Holdings, S.A., its majority-owned subsidiary, Inter Parfums, S.A., and its two (2) wholly-owned subsidiaries, Inter Parfums Grand Public, S.A., and Inter Parfums Trademark, S.A., and its majority-owned subsidiary, Nickel, S.A., maintain executive offices at 4, Rond Point des Champs Elysees, 75008 Paris, France. Our telephone number in Paris is 331.5377.0000.

Our common stock is listed on The Nasdaq Global Select Market under the trading symbol "IPAR" and we are considered a "controlled company" under the applicable rules of The Nasdaq Stock Market. The common shares of our subsidiary, Inter Parfums S.A., are traded on the Euronext Exchange.

We maintain our internet website at www.interparfumsinc.com which is linked to the SEC Edgar database. You can obtain through our website, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange as soon as reasonably practicable after we have electronically filed with or furnished them to the SEC.

Summary

The following summary is qualified in its entirety by and should be read together with the more detailed information and audited financial statements, including the related notes, contained or incorporated by reference in this report.

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. Our prestige fragrance products are produced and marketed by our European operations through our 72% owned subsidiary in Paris, Inter Parfums, S.A., which is also a publicly traded company as 28% of Inter Parfums, S.A. shares trade on the Euronext. Prestige cosmetics and prestige skin care products represent less than 3% of consolidated net sales.

We produce and distribute our prestige fragrance products primarily under license agreements with brand owners and prestige product sales represented approximately 84% of net sales for 2006. We have built a portfolio of brands, which include Burberry, Lanvin, Paul Smith, S.T. Dupont, Christian Lacroix, Quiksilver/Roxy, Van Cleef & Arpels and Nickel whose products are distributed in over 120 countries around the world. Burberry is our most significant license, sales of Burberry products represented 57%, 60% and 62% of net sales for the years ended December 31, 2006, 2005 and 2004, respectively.

Our prestige products focus on niche brands with a devoted following. By concentrating in markets where the brands are known, Inter Parfums has had many successful launches. We typically launch new fragrance families for our brands every 2-3 years, with some frequent "seasonal" fragrances introduced as well.

Our specialty retail and mass-market fragrance and fragrance related products are marketed through our United States operation and represented 16% of sales for the year ended December 31, 2006. These fragrance products are sold under trademarks owned by us or pursuant to license or other agreements with the owners of the *Gap*, *Banana Republic*, *Aziza* and *Jordache* trademarks.

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.

Over the past five years, we have grown our business at both the top line and the bottom line. We have grown from \$130.4 million in sales in 2002 to \$321.1 million in 2006, representing a compounded annual growth rate of 25%. During the same period, our net income grew from \$9.4 million in 2002 to \$17.7 million in 2006, representing a compounded annual growth rate of 17%. Our management targets organic long term sales growth of approximately 10% (measured on an annual basis) and long term net income growth of approximately 12% - 15% (measured on an annual basis). There can be no assurance that we will achieve these targets in any particular period, or at all, however.

2006 Developments

Van Cleef & Arpels

In September 2006, our Paris-based subsidiary, Inter Parfums, S.A., and Van Cleef & Arpels Logistics SA, entered into an exclusive, worldwide license agreement for the creation, development and distribution of fragrance and related bath and body products under the Van Cleef & Arpels brand and related trademarks. The term of the license expires on December 31, 2018, and each party has the right to extend the term for five years on or before June 1, 2018 if certain sales targets are met in year 2017. Our rights under such license agreement are subject to certain minimum advertising expenditures and royalty payments as are customary in our industry.

In January 2007 Inter Parfums S.A. paid €18 million (approximately \$23.4 million) to Van Cleef & Arpels Logistics SA as a lump sum, up front royalty payment, and purchased the existing inventory held by YSL Beauté, the former licensee, for approximately \$2.1 million.

Quiksilver/Roxy

In March 2006 our Paris-based subsidiary, Inter Parfums S.A., and QS Holdings SARL signed an exclusive worldwide license agreement for the creation, development and distribution of fragrance, suncare, skincare and related products under the Roxy brand and suncare and related products under the Quiksilver brand. The term of the license expires in December 2017. Our rights under such license agreement are subject to certain minimum advertising expenditures and royalty payments as are customary in our industry.

Gap and Banana Republic

In March 2006, we entered into an addendum to our exclusive agreement with Gap, whereby we obtained the additional rights to develop, produce, manufacture and distribute personal care and home fragrance products for Gap Outlet and Banana Republic Factory Stores in the United States and Canada.

In September 2006, we launched the Banana Republic Discover Collection, a family of five fragrances, we developed and supply to Banana Republic's North American stores. The collection consists of three scents for women and two for men, each named after a luxurious, natural material that is both emotional and authentic. A separate family of fragrance and personal care products is also in the works for Gap's North American stores. That fragrance family is scheduled for an initial launch in May 2007, with the rollout continuing throughout the balance of the year and into 2008. In addition, we have been supplying Banana Republic and Gap stores with their existing personal care products, and we have created new holiday programs for this past holiday season.

Our Prestige Products

We produce and distribute our prestige fragrance products primarily under license agreements with brand owners and prestige product sales represented approximately 84% of net sales for 2006. We have built a portfolio of brands, which include Burberry, Lanvin, Paul Smith, S.T. Dupont, Christian Lacroix, Quiksilver/Roxy, Van Cleef & Arpels and Nickel whose products are distributed in over 120 countries around the world. Burberry is our most significant license, sales of Burberry products represented 57%, 60% and 62% of net sales for the years ended December 31, 2006, 2005 and 2004, respectively.

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.

The following is a summary of the prestige brand names owned or licensed by us:

| Brand Name | Licensed Or Owned | Date Acquired | Term, Including Option Periods |
|--------------------|-------------------|---------------|--|
| Burberry | Licensed | July 2004 | 12.5 years and additional 5-year optional term that requires mutual consent |
| Lanvin | Licensed | July 2004 | 15-year |
| S.T. Dupont | Licensed | July 1997 | Through June 30, 2011. |
| Paul Smith | Licensed | Dec. 1998 | 12 years |
| Celine | Licensed | May 2000 | Through December 31, 2007. |
| Nickel | Owned | April 2004 | N/A |
| Christian Lacroix | Licensed | March 1999 | 11 years |
| Quiksilver/Roxy | Licensed | March 2006 | Through December 31, 2017 |
| Van Cleef & Arpels | Licensed | Oct. 2006 | Through December 31, 2018, plus a 5-year option if certain sales targets are met |

Prestige Fragrances

BURBERRY -- Burberry is our leading prestige fragrance brand and we operate under an exclusive worldwide license with Burberry Limited that was originally entered into in 1993 and replaced by a new agreement in 2004.

We have had significant success in introducing new fragrance families under the Burberry brand name. We have introduced several fragrance families including *Burberry*, *Burberry Week End*, *Burberry Touch*, *Burberry Brit* and *Burberry London*. Successful distribution has been achieved in more than a hundred countries around the world by differentiating the positioning and target consumer of each of the families. Our success is evidenced by a 32% five-year compounded annual growth rate in sales of fragrances under the Burberry brand since 2001.

The largest Burberry fragrance family, *Burberry Brit*, of which the women's scent was launched in fall 2003 and the men's scent launched in fall 2004, has received much industry recognition. *Burberry Brit for Women* was named the Fragrance of the Year in the Women's Luxe category at the Annual Fragrance Foundation FiFi Awards in 2004. *Burberry Brit for Men* received two awards at the Annual Fragrance Foundation FiFi Awards in April 2005 for Best Men's Fragrance in the Luxe category and for Best Print National Advertising Campaign of the Year. The most recent Burberry fragrance family, *Burberry London*, of which the women's scent was launched in fall 2005 and the men's scent launched in spring of 2006, has also been well received. The success of the *Burberry London* launch and subsequent rollout was slightly offset by a modest decline by other fragrances within the brand. As the Burberry brand continues to develop and expand by attracting new customers, the Burberry fragrance portfolio follows suit expanding and continuing to post sales growth.

LANVIN -- In June 2004, Inter Parfums S.A. and Lanvin S.A. signed a worldwide license agreement to create, develop and distribute fragrance lines under the Lanvin brand name. A synonym of luxury and elegance, the Lanvin fashion house, founded in 1889 by Jeanne Lanvin, expanded into fragrances in the 1920s. Today, Lanvin fragrances occupy important positions in the selective distribution market in France, Europe and Asia, particularly with the lines *Arpège* (created in 1927), *Lanvin L'Homme* (1997) and *Eclat d'Arpège* (2002). Our first Lanvin fragrance, *Arpège pour Homme*, debuted in late 2005. *Arpège* by Lanvin won the honor of entering the Fragrance Hall of Fame at the 2005

FiFi Awards, an honor given to the best fragrance sold for at least 15 years that has been revitalized. During 2006, we began the launch *Rumeur*, our first new Lanvin fragrance for women, which was followed by a wider geographic rollout over the early months of 2007. In addition to the successful debut of Lanvin *Rumeur*, solid sales gains made by *Éclat d'Arpège* which has been a strong seller since its introduction in 2002.

PAUL SMITH -- We signed an exclusive license agreement with Paul Smith in December 1998, our first designer fragrance, for the creation, manufacture and worldwide distribution of Paul Smith perfumes and cosmetics. 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 Extreme* and *Paul Smith London*. *Paul Smith London for Men* was awarded a FiFi award in April 2005 for Best Men's Fragrance in the Nouveau Niche category. In the fourth quarter of 2006 we launched the men's fragrance, *Paul Smith Story*, and in the Fall of 2007, we have scheduled the launch of a new women's fragrance for Paul Smith.

S.T. DUPONT -- In June 1997, we signed an exclusive license agreement with S.T. Dupont for the creation, manufacture and worldwide distribution of S.T. Dupont perfumes. Fragrances include: *S.T. Dupont Paris*, *S.T. Dupont Essence Pure* and *L'Eau de S.T. Dupont*. During 2006 we extended the term of this license until June 30, 2011. In addition, during 2006 we launched the new men's fragrance, *S.T. Dupont Noir*, which was received well in Eastern Europe and the Middle East. For 2007 we are planning to launch a new women's fragrance for S.T. Dupont.

CHRISTIAN LACROIX -- In March 1999, we entered into an exclusive license agreement with the Christian Lacroix Company, formerly a division of LVMH Moët Hennessy Louis Vuitton S.A., for the worldwide development, manufacture and distribution of perfumes. For us, this association with a prestigious fashion label is another key area for growth which we expect will further strengthen our position in the prestige fragrance market. Our Christian Lacroix fragrances families for both men and women include: *Eau Florale*, *Bazar* and *Tumulte*. A new women's fragrance for is slated for Spring 2007.

VAN CLEEF & ARPELS -- In September 2006, our Paris-based subsidiary, Inter Parfums, S.A., and Van Cleef & Arpels Logistics SA, entered into an exclusive, worldwide license agreement for the creation, development and distribution of fragrance and related bath and body products under the Van Cleef & Arpels brand and related trademarks. The term of the license expires on December 31, 2018. We believe this agreement with Van Cleef & Arpels, the prestigious and legendary world-renowned jewelry designer, is an important step in our development. We also believe its growth potential will strengthen opportunities for expansion of our fragrance business in the high luxury segment. In 1976, Van Cleef & Arpels was a pioneer among jewelers with its launch of the fragrance, *First*, which exemplified the tradition of boldness of the jewelry house. We plan to build upon sales base by promoting the two strongest families, *First* and *Tsar*, and then create an entirely new line for launch in 2008.

QUIKSILVER/ROXY -- In March 2006 our Paris-based subsidiary, Inter Parfums S.A., and QS Holdings SARL signed an exclusive worldwide license agreement for the creation, development and distribution of fragrance, suncare, skincare and related products under the Roxy brand and suncare and related products under the Quiksilver brand. The term of the license expires in December 2017.

We intend to develop entirely new product categories for each of the two brands, which are important brands for the global youth market and synonymous with the heritage and culture of surfing, skateboarding and snowboarding. Quiksilver Inc.'s apparel and footwear brands represent a casual lifestyle for young-minded people that connect with its board riding culture and heritage, while its winter sports and golf brands symbolize a long-standing commitment to technical expertise and competitive success on the mountains and on the links.

Our initial plans call for the first new product family under the agreement, a Roxy fragrance family, to be introduced in late 2007, followed by a Quiksilver suncare line.

CELINE -- In May 2000, we entered into an exclusive worldwide license agreement for the development, manufacturing and distribution of fragrance lines under the Celine brand name with Celine, a division of LVMH Moët Hennessy Louis Vuitton S.A. Celine, a French luxury fashion and accessory company is known throughout the world for its luxury and quality products. By mutual agreement with Celine, we agreed to terminate the license on December 31, 2007.

Prestige Skin Care

NICKEL -- In April 2004 Inter Parfums, S.A. acquired a 67.5% interest in Nickel S.A. Established in 1996 by Philippe Dumont, Nickel has developed two innovative concepts in the world of cosmetics: spas exclusively for male customers and skin care products for men. The Nickel skin care products for the face and body are sold through prestige department and specialty stores primarily in France, the balance of Western Europe and in the United States, as well as through our men's spas in Paris and New York.

After the opening of a licensed Nickel Spa in London in spring 2006, similar initiatives for Berlin, Dubai and Moscow are currently under consideration. However, we cannot assure you that any further licensed spas will be opened, or if opened, that they will generate substantial revenue.

Specialty Retail and Mass Market Products

In July 2005, we entered into an exclusive agreement with The Gap, Inc. to develop, produce, manufacture and distribute fragrance, personal care and home fragrance products for Gap and Banana Republic brand names to be sold in Gap and Banana Republic retail stores in the United States and Canada.

In March 2006, we entered into an addendum to our exclusive agreement with The Gap, Inc, whereby we obtained the additional rights to develop, produce, manufacture and distribute fragrance, personal care and home fragrance products for Gap Outlet and Banana Republic Factory Stores in the United States and Canada.

In September 2006, we launched the Banana Republic Discover Collection, a family of five fragrances, we developed and supply to Banana Republic's North American stores. The collection consists of three scents for women and two for men, each named after a luxurious, natural material that is both emotional and authentic. A separate family of fragrance and personal care products is also in the works for Gap's North American stores. That fragrance family is scheduled for an initial launch to begin in May 2007, with the rollout continuing throughout the balance of the year and into 2008. In addition, we have been supplying Banana Republic and Gap stores with their existing personal care products, and we have created new holiday programs for this coming holiday season.

Our mass market products are also comprised of fragrances and fragrance related products. We produce a variety of alternative designer fragrances and personal care products that sell at a substantial discount from their brand name counterparts. Our alternative designer fragrances are similar in scent to highly advertised designer fragrances that are marketed at a higher retail price. Our mass market fragrance brands include several proprietary brand names as well as a license for the *Jordache* brand. We also market our *Aziza* line of low priced eye shadow kits, mascara, and pencils, focusing on the young teen market and a line of health and beauty aids under our *Intimate* brand name consisting of shampoo, conditioner, hand lotion and baby oil. All of these products are distributed to the same mass market retailers and discount chains.

Business Strategy

Focus on prestige beauty brands. Prestige beauty brands contribute significantly to our growth. Over the past few years, prestige brands have accounted for a larger portion of our business — 84% of total business in 2006 from 68% in 2002. 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, Inter Parfums has had a history of successful launches. Certain fashion designers and other licensors choose Inter Parfums as a partner because the company's size enables us to work more closely with them in the product development process as well as because of 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 two to three years, we create a new family of fragrances for each brand in our portfolio. We frequently introduce "seasonal" fragrances as well. With new introductions, we leverage our ability and experience to gauge trends in the market and further leverage the brand name into different product families in order to maximize sales and profit potential. We have had success in introducing new fragrance families (sub-brands, or flanker brands) within our brand franchises. Furthermore, we promote the smooth and consistent performance of our prestige perfume operations through knowledge of the market, detailed analysis of the image and potential of each brand name, a "good dose" of creativity and a highly professional approach to international distribution channels.

Continue to add new brands to our portfolio, through new licenses or acquisitions. Prestige brands are the core of our business — we intend to add new prestige beauty brands to our portfolio. Over the past decade, 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. 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, and marketing.

Expand existing portfolio into new categories. We plan to broaden our product offering beyond the fragrance category and offer other personal care products such as skin care, cosmetics and hair care under some of our existing brands. We believe such product offerings meet customer needs and further strengthen customer loyalty. We also plan to draw upon the skin care product expertise that the Nickel team brings, as we explore other opportunities in the treatment side of the beauty business beyond the Nickel brand. Furthermore, the license agreement with Burberry signed in 2004 extends to skin care.

Continue to build global distribution footprint. Our business is a global business and we intend to continue to build our global distribution footprint. In order to adapt to changes in the environment and our business, we have modified our distribution model, and are in process of forming joint ventures in the major markets of the United Kingdom, Italy, Spain and Germany for distribution of prestige fragrances. Further, we may enter into future joint ventures arrangements or acquire distribution companies within other key markets to distribute certain of our licensed prestige brands. However, we cannot assure you that we will be able to enter into any future joint venture arrangements or acquire distribution companies, or if we do, that any such transaction will be successful. We believe that in certain markets vertical integration of our distribution network is key to the future growth of our company, and ownership of such distribution should enable us to better serve our customers' needs in local markets and adapt more quickly as situations may determine.

Build specialty retail through the Gap relationship. We believe the beauty industry has experienced a significant growth in specialty retail and our relationship with Gap has provided an entry into this distribution channel. We are responsible for product development, formula creation, packaging and manufacturing under Gap and Banana Republic brands. Gap, a leading international specialty retailer offering clothing, accessories and personal care products for men, women, children and babies, is responsible for marketing and selling the newly launched fragrance and fragrance related products in its stores. In addition, we have been approached by other specialty retailers to determine if there is interest in establishing a relationship whereby we would design, produce and manufacture fragrance and fragrance related products similar to our existing relationship with Gap. However, we cannot assure you that we will be able to enter into any similar future arrangements, or if we do, that any such arrangement will be successful.

Production and Supply

The stages of the development and production process for all fragrances are as follows:

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

Suppliers who assist us with product development include:

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

For our prestige products, approximately 80% of component and production needs are purchased from approximately 20 suppliers out of a total of over 120 active suppliers. The suppliers' accounts for our European operations are primarily settled in Euros and for our United States operations, suppliers' accounts are primarily settled in U.S. dollars.

Specialty Retail and Mass Market Products

We do not presently market and distribute Gap and Banana Republic specialty retail products to third parties. Marketing and distribution are the responsibility of Gap, Inc., which markets and sells the products we produce in its own retail locations.

Mass merchandisers are the target customers for our mass market products. In addition, our mass market products are sold to wholesale distributors, specialty store chains, and to multiple locations of accessory, jewelry and clothing outlets. These products are sold through a highly efficient and dedicated in-house sales team and reach approximately 12,000 retail outlets throughout the United States and abroad.

Our 140,000 square foot distribution center has provided us with the opportunity and resources to meet our customers' requirements.

Geographic Areas

Export sales from United States operations were approximately \$7.2 million, \$6.4 million and \$9.6 million in 2006, 2005 and 2004, respectively.

Consolidated net sales to customers by region is as follows (in thousands):

| | Year Ended December 31 | | |
|---------------------------|------------------------|-------------------|-------------------|
| | 2006 | 2005 | 2004 |
| North America | \$ 107,400 | \$ 81,800 | \$ 67,400 |
| Europe | 128,300 | 116,800 | 105,200 |
| Central and South America | 24,500 | 21,800 | 21,400 |
| Middle East | 21,900 | 19,800 | 17,900 |
| Asia | 37,700 | 32,200 | 22,700 |
| Other | <u>1,300</u> | <u>1,100</u> | <u>1,400</u> |
| | <u>\$ 321,100</u> | <u>\$ 273,500</u> | <u>\$ 236,000</u> |

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

| | Year Ended December 31 | | |
|----------------|------------------------|----------|----------|
| | 2006 | 2005 | 2004 |
| United States | \$104,000 | \$80,000 | \$66,000 |
| United Kingdom | 28,000 | 26,000 | 29,000 |
| France | 21,000 | 17,000 | 15,000 |

The Market

The fragrance and cosmetic market can be broken down into two (2) types of retail distribution:

Selective distribution - perfumeries and specialty sections of department stores, which sell brand name products with a luxury image, and

· Specialty retail and mass distribution - Specialty retail, or retail outlets which sell their own brand name products and mass merchandisers, discount stores and supermarkets, which sell low to moderately-priced mass market products for a broad customer base with limited purchasing power.

Selective Distribution

The following information is based on information from the Fédération des Industries de la Parfumerie.

During 2006, the French perfume industry, which accounts for about approximately 35% of the world market, reported a 5.7% growth rate, as compared to a 4.9% growth rate in 2005 and a 2.6% growth rate in 2004.

Net sales in 2006 for the French domestic market reported a 3.5 % growth rate as compared to 2005, while the export market increased by 7.4% as compared to 2005:

The European Union: Sales increased overall by 5.4%, in this the largest market for French exports. Sales were strongest in new markets, Czech Republic (+41%), Poland (+23%) and Slovenia (+21%). Sales increased in other European Union members, Italy (+7%), Spain (+6,6%), Belgium (6,5%) and Germany(+6%).

Europe (excluding the European Union countries): Net sales increased by 35%, with substantial growth in Russia (+43.7%), Ukraine (+29.5%) and Romania (+29.5%).

Asia: Net sales increased by 5.4%. Asia is the second largest market for French cosmetics and perfumes, net sales increased in China (+39.5%), India (+11.3%), Singapore (+7.7%) and South Korea (+4%). For two years running net sales in Japan were disappointed (+0,1%).

North America: Net sales increased to 7.8% in the United States and 1.2% in Canada.

South America: Net sales to South America increased by +12.5%, a now stabilized trend for three years: Argentina (+40%), Chili (+22.6%), Mexico (13.5%) and Uruguay (+12.6%). Net sales in Brazil decreased 1.6%

While our market share, based on our internal data, is less than 1% in France, in other countries such as the United States, United Kingdom, Italy, Germany, Spain and Hong Kong, we estimate that our market share is between 1% and 4% of French perfume imports.

Specialty retail and mass Distribution

Our specialty retail and mass market products are designed for a broad customer base with a more limited purchasing power. We sell our products both in the United States and abroad. Mass merchandisers, discount stores and supermarkets are our target customers. We do not presently distribute Gap and Banana Republic specialty retail products to third parties. Gap, Inc. sells the products we produced in its own retail locations.

Competition

The market for fragrances and beauty related products is highly competitive and sensitive to changing preferences and demands. The prestige fragrance industry is highly concentrated around certain major players with resources far greater than ours. We compete with an original strategy-- regular and methodical development of quality fragrances for a growing portfolio of internationally renowned brand names.

In the specialty retail market, we are presently selling products only to Gap and Banana Republic stores, so we do not have any direct competition. However, such special retail stores compete directly with other specialty retail stores such as Abercrombie & Fitch and Victoria Secret, which thereby indirectly compete with us.

We compete in the mass market for fragrances, color cosmetics health and beauty aids primarily on the basis of price. At the present time, we are aware of approximately four established companies which market alternative designer fragrances similar to ours. Many of our competitors of both mass market color cosmetics (such as L'Oreal and Revlon) and health and beauty aids (such as Proctor and Gamble) have substantial financial resources as well as national and international marketing campaigns. However, we believe that consumer recognition of our two brands, Aziza for mass market color cosmetics, and Intimate for health and beauty aids, together with competitive pricing of our products, helps us compete in those markets.

Inventory

We purchase raw materials and component parts from suppliers based on internal estimates of anticipated need for finished goods, which enables us to meet production requirements for finished goods. We generally deliver product to customers within 72 hours of the receipt of their orders.

Product Liability

We maintain product liability coverage in an amount of \$5,000,000. Based upon our experience, we believe this coverage is adequate and covers substantially all of the exposure we may have with respect to our products. We have never been the subject of any material product liability claims.

Government Regulation

A fragrance is defined as a “cosmetic” under the Federal Food, Drug and Cosmetics Act. A fragrance must comply with the labeling requirements of this FDC Act as well as the Fair Packaging and Labeling Act and its regulations. Some of our color cosmetic products may contain menthol and are also classified as a “drug”. Under U.S. law, a product may be classified as both a cosmetic and a drug. Additional regulatory requirements for products which are “drugs” include additional labeling requirements, registration of the manufacturer and the semi-annual update of a drug list.

Our fragrances are subject to the approval of the Bureau of Alcohol, Tobacco and Firearms as a result of the use of specially denatured alcohol. So far we have not experienced any difficulties in obtaining the required approvals.

Our fragrances that are manufactured in France are subject to certain regulatory requirements of the European Union, but as of the date of this report, we have not experienced any material difficulties in complying with such requirements.

Trademarks

The market for our products depends to a significant extent upon the value associated with our trademarks and brand names. We own, or have licenses or other rights to use, the material trademark and brand name rights used in connection with the packaging, marketing and distribution of our major products both in the United States and in other countries where such products are principally sold. Therefore, trademark and brand name protection is important to our business. Although most of our brand names are registered in the United States and in certain foreign countries in which we operate, we may not be successful in asserting trademark or brand name protection. In addition, the laws of certain foreign countries may not protect our intellectual property rights to the same extent as the laws of the United States. The costs required to protect our trademarks and brand names may be substantial.

Under various license and other agreements we have the right to use certain registered trademarks throughout the world (except as otherwise noted). These registered trademarks include:

Burberry
Lanvin
Gap (United States and Canada only)
Banana Republic (United States and Canada only)
S.T. Dupont
Paul Smith
Christian Lacroix
Van Cleef & Arpels
Quiksilver and Roxy
Jordache

In addition, we are the registered trademark owner of many trademarks, including:

Intimate
Aziza
Nickel
Regal Collections, Royal Selections, Euro Collections and Apple

Employees

As of March 1, 2007 we had 235 full-time employees world-wide. Of these, 134 are full-time employees in Paris, with 92 employees engaged in sales activities and 42 in administrative, production and marketing activities. In the United States, 101 employees work full-time, and of these, 40 were engaged in sales activities and 61 in administrative, production and marketing activities.

We believe that our relationship with our employees is good.

Item 1A. Risk Factors.

You should carefully consider these risk factors, together with all of the other information contained or incorporated by reference in this report, before you decide to purchase or sell shares of our common stock. These factors could cause our future results to differ materially from those expressed or implied in forward-looking statements made by us. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also harm our business. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment.

We are dependent upon Burberry for a significant portion of our sales, and the loss of this license will have a material adverse effect on us.

Burberry is our leading prestige brand name, as sales of Burberry products represented 57% 60% and 62% of net sales for the years ended December 31, 2006, 2005 and 2004, respectively.

In October 2004 our Paris-based subsidiary, Inter Parfums, S.A., entered into a 12.5-year, exclusive world-wide fragrance license with Burberry Limited, effective as of July 1, 2004, which replaced the original 1993 license. This license includes an additional five-year optional term that requires the consent of both Burberry and Inter Parfums, S.A., and must be exercised, if at all, prior to December 31, 2014. In addition, Burberry has the right on December 31, 2009 and December 31, 2011 to buy back the license at its then fair market value. Further, this license provides for a termination on a change in control of either Inter Parfums, S.A., the licensee, or Inter Parfums, Inc., the guarantor.

This license is subject to Inter Parfums, S.A. making required royalty payments (which are subject to certain minimums), minimum advertising and promotional expenditures and meeting minimum sales requirements. The new royalty rates, which are approximately double the rates under the prior license, commenced as of July 1, 2004. The new advertising and promotional expenditures, which commenced on January 1, 2005, as well as the minimum sales requirements, are substantially higher than under the prior license.

We are dependent upon the continuation and renewal of various licenses for a significant portion of our sales, and the loss of one or more licenses could have a material adverse effect on us.

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 on terms favorable to us. Each license is for a specific term and may have additional optional terms. In addition, each license is subject to us making required royalty payments (which are subject to certain minimums), minimum advertising and promotional expenditures and meeting minimum sales requirements. Just as the loss of a license may have a material adverse effect on us, a renewal on less favorable terms may also negatively impact us.

If we are unable to protect our intellectual property rights, specifically trademarks and brand names, our ability to compete could be negatively impacted.

The market for our products depends to a significant extent upon the value associated with our trademarks and brand names. We own, or have licenses or other rights to use, the material trademark and brand name rights used in connection with the packaging, marketing and distribution of our major products both in the United States and in other countries where such products are principally sold. Therefore, trademark and brand name protection is important to our business. Although most of our brand names are registered in the United States and in certain foreign countries in which we operate, we may not be successful in asserting trademark or brand name protection. In addition, the laws of certain foreign countries may not protect our intellectual property rights to the same extent as the laws of the United States. The costs required to protect our trademarks and brand names may be substantial.

The success of our products is dependent on public taste.

Our revenues are substantially dependent on the success of our products, which depends upon, among other matters, pronounced and rapidly changing public tastes, factors which are difficult to predict and over which we have little, if any, control. In addition, we have to develop successful marketing, promotional and sales programs in order to sell our fragrances and fragrance related products. If we are not able to develop successful marketing, promotional and sales programs, then such failure will have a material adverse effect on our business, financial condition and operating results.

We are subject to extreme competition in the fragrance industry.

The market for fragrances and fragrance related products is highly competitive and sensitive to changing market preferences and demands. Many of our competitors in this market (particularly in the prestige fragrance industry) are larger than we are and have greater financial resources than are available to us, potentially allowing them greater operational flexibility.

Our success in the prestige fragrance industry is dependent upon our ability to continue to generate original strategies and develop quality products that are in accord with ongoing changes in the market.

In the specialty retail market, we are presently selling products only to Gap and Banana Republic stores, so we do not have any direct competition. However, such special retail stores compete directly with other specialty retail stores such as Abercrombie & Fitch and Victoria Secret, which thereby indirectly compete with us.

Our success with mass market fragrance and fragrance related products is dependent upon our ability to competitively price quality products and to quickly and efficiently develop and distribute new products.

If there is insufficient demand for our existing fragrances and fragrance related products, or if we do not develop future strategies and products that withstand competition or we are unsuccessful in competing on price terms, then we could experience a material adverse effect on our business, financial condition and operating results.

Consumers may reduce discretionary purchases of our products as a result of a general economic downturn.

We believe that consumer spending on beauty products is influenced by general economic conditions and the availability of discretionary income. Accordingly, we may experience sustained periods of declines in sales during economic downturns, or if terrorism or diseases affect customers' purchasing patterns. In addition, a general economic downturn may result in reduced traffic in our customers' stores which may, in turn, result in reduced net sales to our customers. Any resulting material reduction in our sales could have a material adverse effect on our business, financial condition and operating results.

We are dependent upon Gap to sell products that we develop for The Gap, Inc..

We have an exclusive agreement with The Gap, Inc. to develop, produce, manufacture and distribute personal care and home fragrance products for Gap and Banana Republic brand names to be sold in Gap and Banana Republic retail stores in the United States and Canada. Under the terms of such agreement, the products that we develop are subject to sales and marketing efforts of The Gap, Inc.

If the sales and marketing efforts of The Gap, Inc. are not successful for the products that we have developed, then our future growth potential could be negatively impacted.

If we are unable to acquire or license additional brands, or obtain the required financing for these agreements and arrangements, the growth of our business could be impaired.

Our future expansion through acquisitions or new product distribution arrangements, if any, will depend upon the capital resources and working capital available to us. We may be unsuccessful in identifying, negotiating, financing and consummating such acquisitions or arrangements on terms acceptable to us, or at all, which could hinder our ability to increase revenues and build our business.

We may engage in future acquisitions that we may not be able to successfully integrate or manage. These acquisitions may dilute our stockholders and cause us to incur debt and assume contingent liabilities.

We continuously review acquisition prospects that would complement our current product offerings, increase our size and geographic scope of operations or otherwise offer growth and operating efficiency opportunities. The financing for any of these acquisitions could significantly dilute our stockholders, result in an increase in our indebtedness or both. While there are no current agreements or negotiations underway with respect to any material acquisitions, we may acquire or make investments in businesses or products in the future. Acquisitions may entail numerous integration risks and impose costs on us, including:

- difficulties in assimilating acquired operations or products, including the loss of key employees from acquired businesses;
 - diversion of management's attention from our core business;
 - adverse effects on existing business relationships with suppliers and customers;
 - risks of entering markets in which we have no or limited prior experience;
 - dilutive issuances of equity securities;
 - incurrence of substantial debt;
 - assumption of contingent liabilities;
- incurrence of significant amortization expenses related to intangible assets and the potential impairment of acquired assets; and
 - incurrence of significant immediate write-offs.

Our failure to successfully complete the integration of any acquired business could have a material adverse effect on our business, financial condition and operating results.

We are dependent upon Messrs. Jean Madar and Philippe Benacin, and the loss of their services could harm our business.

Jean Madar, our Chief Executive Officer, and Philippe Benacin, our President and Chief Executive Officer of Inter Parfums, S.A., are responsible for day-to-day operations as well as major decisions. Termination of their relationships with us, whether through death, incapacity or otherwise, could have a material adverse effect on our operations, and we cannot assure you that qualified replacements can be found. We maintain key man insurance on the lives of both Mr. Madar (\$1 million) and Mr. Benacin (\$3.6 million). However, we cannot assure you that we would be able to retain suitable replacements for either Mr. Madar or Mr. Benacin.

Our reliance on third party manufacturers could have a material adverse effect on us.

We rely on outside sources to manufacture our fragrances and cosmetics. The failure of such third party manufacturers to deliver either components or finished goods on a timely basis could have a material adverse effect on our business. Although we believe there are alternate manufacturers available to supply our requirements, we cannot assure you that current or alternative sources will be able to supply all of our demands on a timely basis. We do not intend to develop our own manufacturing capacity. As these are third parties over which we have little or no control, the failure of such third parties to provide components or finished goods on a timely basis could have a material adverse effect on our business, financial condition and operating results.

Our reliance on third party distributors could have a material adverse effect on us.

We sell our prestige fragrances mostly through independent distributors specializing in luxury goods. Given the growing importance of distribution, we have begun to modify our distribution model by the formation of joint ventures or company owned subsidiaries within key markets. We have little or no control over third party distributors and the failure of such third parties to provide services on a timely basis could have a material adverse effect on our business, financial condition and operating results. In addition, if we replace existing third party distributors with new third party distributors or with our own distribution arrangements, then transition issues could have a material adverse effect on our business, financial condition and operating results.

The loss of or disruption in our distribution facilities could have a material adverse effect on our business, financial condition and operating results.

We currently have one distribution facility in Paris and one in New Jersey. The loss of one or both of those facilities, as well as the inventory stored in those facilities, would require us to find replacement facilities and assets. In addition, terrorist attacks, or weather conditions, such as natural disasters, could disrupt our distribution operations. If we cannot replace our distribution capacity and inventory in a timely, cost-efficient manner, it could have a material adverse effect on our business, financial condition and operating results.

The international character of our business renders us subject to fluctuation in foreign currency exchange rates and international trade tariffs, barriers and other restrictions.

A portion of our Paris subsidiary's net sales (approximately 34% in 2006) are sold in U.S. dollars. In an effort to reduce our exposure to foreign currency exchange fluctuations, we engage in a program of cautious hedging of foreign currencies to minimize the risk arising from operations. Despite such actions, fluctuations in foreign currency exchange rates for the U.S. dollar, particularly with respect to the Euro, could have a material adverse effect on our operating results. Possible import, export, tariff and other trade barriers, which could be imposed by the United States, other countries or the European Union might also have a material adverse effect on our business.

Our business is subject to governmental regulation, which could impact our operations.

Fragrances and fragrance related products must comply with the labeling requirements of the Federal Food, Drug and Cosmetics Act as well as the Fair Packaging and Labeling Act and their regulations. Some of our color cosmetic products may also be classified as a “drug”. Additional regulatory requirements for products which are “drugs” include additional labeling requirements, registration of the manufacturer and the semi-annual update of a drug list.

Our fragrances are subject to the approval of the Bureau of Alcohol, Tobacco and Firearms as a result of the use of specially denatured alcohol. So far we have not experienced any difficulties in obtaining the required approvals.

Our fragrances and fragrance related products that are manufactured in France are subject to certain regulatory requirements of the European Union, but as of the date of this report, we have not experienced any material difficulties in complying with such requirements.

However, we cannot assure you that, should we develop or market fragrances and fragrance related products with different ingredients, or should existing regulations or requirements be revised, we would not in the future experience difficulty in complying with such requirements, which could have a material adverse effect on our results of operations.

We may become subject to possible liability for improper comparative advertising or “Trade Dress.”

Brand name manufacturers and sellers of brand name products may make claims of improper comparative advertising or trade dress (packaging) with respect to the likelihood of confusion between some of our mass market products and those of brand name manufacturers and sellers. They may seek damages for loss of business or injunctive relief to seek to have the use of the improper comparative advertising or trade dress halted. However, we believe that our displays and packaging constitute fair competitive advertising and are not likely to cause confusion between our products and others. Further, we have not experienced to any material degree, any of such problems to date.

Item 1B. Unresolved Staff Comments. None.

Item 2. Properties

| Use | Location | Approximate Size | Annual Rent (All are subject to escalations, except where noted) | Term Expires | Other Information |
|--|---|-------------------------|---|---------------------|---|
| Office Space-corporate headquarters and United States operations | 551 Fifth Avenue, New York, NY. | 11,000 square feet | \$388,000 | February 28, 2013 | |
| Distribution center | 60 Stults Road Dayton, NJ | 140,000 square foot | \$684,000 | October 31, 2010 | |
| Office Space-Paris corporate headquarters and Paris based operations | 4 Rond Point Des Champs Elysees Ground and 1st Fl. Paris, France | 571 square meters | 315,000 Euros | March 2013 | Lessee has early termination right every 3 years on 6 months notice |
| Office Space-Paris corporate headquarters and Paris based operations | 4 Rond Point Des Champs Elysees 4th Fl. Paris, France | 531 square meters | 264,000 Euros | June 2014 | Lessee has early termination right every 3 years on 6 months notice |
| Office Space-Paris corporate headquarters and Paris based operations | 4 Rond Point Des Champs Elysees 5th Fl- left Paris, France | 155 square meters | 75,200 Euros | March 2013 | Lessee has early termination right on 3 months notice |
| Office Space-Paris corporate headquarters and Paris based operations | 4 Rond Point Des Champs Elysees 6th Fl-Right Paris, France | 157 square meters | 64,627 Euros | March 2013 | Lessee has early termination right every 3 years on 6 months notice |
| Office Space-Paris Accounting and Legal | 39 avenue Franklin Roosevelt, 2 nd Floor Paris, France | 360 square meters | 154,800 Euros to December 15, 2006; 165,600 Euros to December 15, | December 2014 | Lessee has early termination right every 3 years on 6 months notice |

| | | | | | |
|-----------|--|----------------------|--------------------------------------|---------------------|--|
| | | | 2007; 172,800 Euros thereafter | | |
| Men's Spa | 48 Rue des Francs Bourgeois, Paris, France | 116 square meters | 44,000 Euros | June 2011 | Lessee has early termination right every 3 years on 6 months notice |
| Men's Spa | Unit C2, 300 West 14th Street, New York, N.Y. | 4,500 Square Feet | \$248,000 | October 31, 2009 | 5-year term option term |

Inter Parfums, S.A. has an agreement with Sagatrans, S.A. for warehousing and distribution services through September 2011. Fees are calculated based upon a percentage of sales, which are customary in the industry. Minimum future lease payments range from 2.6 million euro in 2006 increasing to 3.0 million euro in 2011.

We believe our office and warehouse facilities are satisfactory for our present needs and those for the foreseeable future.

Item 3. Legal Proceedings

We are not a party to any material lawsuits.

Item 4. Submissions Of Matters To A Vote Of Security Holders

Not applicable.

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PART II**Item 5. Market For Registrant's Common Equity And Related Stockholder Matters***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 2006 | High Closing Price | Low Closing Price |
|----------------|--------------------|-------------------|
| Fourth Quarter | \$ 21.77 | \$ 17.63 |
| Third Quarter | \$ 19.56 | \$ 15.75 |
| Second Quarter | \$ 19.99 | \$ 15.39 |
| First Quarter | \$ 20.38 | \$ 17.07 |

| Fiscal 2005 | High Closing Price | Low Closing Price |
|----------------|--------------------|-------------------|
| Fourth Quarter | \$ 19.70 | \$ 14.74 |
| Third Quarter | \$ 21.50 | \$ 18.13 |
| Second Quarter | \$ 20.89 | \$ 13.12 |
| First Quarter | \$ 15.92 | \$ 14.01 |

As of March 1, 2007 the number of record holders, which include brokers and broker's nominees, *etc.*, of our common stock was 58. We believe there are in excess of 1,750 beneficial owners of our common stock.

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: Alberto-Culver, Avon Products Inc., Blyth Inc., CCA Industries, Inc., Colgate-Palmolive Co., Elizabeth Arden, Inc., Estee Lauder Cosmetics, Inc., Inter Parfums, Inc., Oralabs Holding Corp., Parlux Fragrances Inc., Playtex Products, Inc., Revlon, Inc., Spectrum Brands, Inc., The Stephan Company, United Guardian, Inc., and Yankee Candle Co., 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.

Dividends

In March 2005 our board of directors increased the cash dividend from \$.12 to \$.16 per share per annum, payable \$.04 on a quarterly basis. In December 2005 our board of directors authorized the continuation of our cash dividend of \$.16 per share per annum, payable \$.04 on a quarterly basis. In December 2006 our board of directors increased the cash dividend from \$.16 to \$.20 per share per annum, payable \$.05 on a quarterly basis. The first cash dividend for 2007 of \$.05 per share is to be paid on April 13, 2007 to shareholders of record on March 30, 2007.

Our Certificate of Incorporation provides for the requirement of unanimous approval of the members of our board of directors for the declaration or payment of dividends, if the aggregate amount of dividends to be paid by us and our subsidiaries in any fiscal year is more than thirty percent (30%) of our annual net income for the last completed fiscal year, as indicated by our consolidated financial statements.

Sales of Unregistered Securities

The following sets forth certain information as to the sales of unregistered securities, including options granted to purchase our common stock during the last quarter of the last fiscal year and through the date of this report, which were not registered under the Securities Act. In each of the transactions, we either issued shares to 2 executive officers upon the exercise of outstanding stock options, or granted options to our non-employee directors, who are all deemed our affiliates. The transactions were exempt from the registration requirements of Section 5 of the Securities Act under Sections 4(2) and 4(6) of the Securities Act. Each option holder agreed that, if the option is exercised, the option holder would purchase his common stock for investment and not for resale to the public. Also, we provide all option holders with all reports we file with the SEC and press releases issued by us.

In November 2006 both the Chief Executive Officer and the President exercised an aggregate of 100,000 outstanding stock options of the Company's common stock. The aggregate exercise prices of \$0.8 million in 2006, were paid by them tendering to the Company in 2006 an aggregate of 37,278 of the Company's common stock, previously owned by them, valued at fair market value on the date 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 2006 an additional 7,840 shares, respectively, for payment of certain withholding taxes resulting from his option exercise.

On February 1, 2007, we granted options to purchase an aggregate of 9,500 shares for a five-year period at the exercise price of \$19.845 per share, the fair market value on the date of grant, to 7 directors under our 2004 Non-Employee Director Stock Option Plan. Such options vest 25% each year over a four year period on a cumulative basis.

Repurchases of Our Common Stock

Except as set forth above with respect to the tendering of shares for the payment of the exercise price and taxes, we did not repurchase any of our Common Stock during the fourth quarter of fiscal year ended December 31, 2006.

Item 6. 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, | | | | |
|---|---------------------------------|-------------|-------------|-------------|-------------|
| | 2006 | 2005 | 2004 | 2003 | 2002 |
| Income Statement Data: | | | | | |
| Net Sales | \$ 321,054 | \$ 273,533 | \$ 236,047 | \$ 185,589 | \$ 130,352 |
| Cost of Sales | 143,855 | 115,827 | 113,988 | 95,449 | 71,630 |
| Selling, General and Administrative | 141,074 | 126,353 | 89,516 | 64,147 | 41,202 |
| Operating Income | 36,125 | 31,353 | 32,543 | 25,993 | 17,520 |
| Income Before Taxes and Minority Interest | 37,135 | 31,724 | 31,638 | 26,632 | 17,581 |
| Net Income | 17,742 | 15,263 | 15,703 | 13,837 | 9,405 |
| Net Income per Share: | | | | | |
| Basic | \$ 0.87 | \$ 0.76 | \$ 0.82 | \$ 0.73 | \$ 0.50 |
| Diluted | \$ 0.86 | \$ 0.75 | \$ 0.77 | \$ 0.69 | \$ 0.47 |
| Average Common Shares Outstanding: | | | | | |
| Basic | 20,324 | 20,078 | 19,205 | 19,032 | 18,777 |
| Diluted | 20,568 | 20,487 | 20,494 | 20,116 | 19,948 |

| | | | | | | | | | | |
|-------------------------------|----|-------|----|-------|----|-------|----|-------|----|-------|
| Depreciation and Amortization | \$ | 5,347 | \$ | 4,513 | \$ | 3,988 | \$ | 3,344 | \$ | 2,220 |
|-------------------------------|----|-------|----|-------|----|-------|----|-------|----|-------|

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As at December 31,

(In thousands except per share data)

| | 2006 | 2005 | 2004 | 2003 | 2002 |
|--|-----------|-----------|-----------|-----------|-----------|
| Balance Sheet And Other Data: | | | | | |
| Cash and Cash Equivalents and Short-Term Investments | \$ 71,047 | \$ 59,532 | \$ 40,972 | \$ 58,958 | \$ 38,290 |
| Working Capital | 138,547 | 131,084 | 129,866 | 115,970 | 83,828 |
| Total Assets | 333,045 | 240,910 | 230,485 | 194,001 | 129,370 |
| Short-Term Bank Debt | 6,033 | 989 | 748 | 121 | 1,794 |
| Long-Term Debt (including current portion) | 10,769 | 13,212 | 19,617 | -0- | -0- |
| Stockholders' Equity | 155,272 | 127,727 | 126,509 | 104,916 | 80,916 |
| Dividends per Share | \$ 0.16 | \$ 0.16 | \$ 0.12 | \$ 0.08 | \$ 0.06 |

Item 7. Management's Discussion And Analysis Of Financial Condition And Results Of Operation**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. Our prestige fragrance products are produced and marketed by our European operations through our 72% owned subsidiary in Paris, Inter Parfums, S.A., which is also a publicly traded company as 28% of Inter Parfums, S.A. shares trade on the Euronext. Prestige cosmetics and prestige skin care products represent less than 3% of consolidated net sales.

We produce and distribute our prestige products primarily under license agreements with brand owners and prestige product sales represented approximately 84% of net sales for 2006. We have built a portfolio of brands, which include Burberry, Lanvin, Paul Smith, S.T. Dupont, Christian Lacroix, Quiksilver/Roxy, Van Cleef & Arpels and Nickel whose products are distributed in over 120 countries around the world. Burberry is our most significant license, sales of Burberry products represented 57%, 60% and 62% of net sales for the years ended December 31, 2006, 2005 and 2004, respectively.

Our specialty retail and mass-market fragrance and fragrance related products are marketed through our United States operation and represented 16% of sales for the year ended December 31, 2006. These products are sold under trademarks owned by us or pursuant to license or other agreements with the owners of the *Gap*, *Banana Republic*, *Aziza* and *Jordache* trademarks.

We grow our business in two distinct ways. First, we grow by adding new brands to our portfolio, either through new licenses or out-right acquisitions of brands. Second, we grow through the creation of fragrance family extensions within the existing brands in our portfolio. Every two to three years, we create a new family of fragrances for each brand in our portfolio.

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

Recent Important Events

Van Cleef & Arpels

In September 2006, we entered into an exclusive, worldwide license agreement with Van Cleef & Arpels Logistics SA, for the creation, development and distribution of fragrance and related bath and body products under the Van Cleef & Arpels brand and related trademarks. Van Cleef & Arpels is a prestigious and legendary world-renowned jewelry designer. The agreement runs through December 31, 2018. As an inducement to enter into this license agreement we agreed to pay, in January 2007, €18 million (approximately \$23.4 million) to Van Cleef & Arpels Logistics SA in a lump sum, up front royalty payment, and we agreed to purchase existing inventory held by YSL Beauté, the current licensee. The license agreement became effective on January 1, 2007.

Quiksilver

In March 2006, we entered into an exclusive worldwide license agreement with Quiksilver, Inc. for the creation, development and distribution of fragrance, suncare, skincare and related products under the Roxy brand and suncare and related products under the Quiksilver brand. Quiksilver, Inc. is one of the world's leading outdoor sports lifestyle company whose products are sold in 90 countries. The agreement runs through 2017.

The Roxy and Quiksilver names are hugely popular in the global youth market and are synonymous with the heritage and culture of surfing, skateboarding and snowboarding. Our goal is to leverage the passion and loyalty of the Roxy and Quiksilver brands as we bring their customers exciting new products. Our plans call for the first new product family under the agreement, a Roxy fragrance family, to be introduced in late 2007, followed by a Quiksilver suncare line.

Gap and Banana Republic

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

The Banana Republic Discover Collection, a family of five fragrances was launched at Banana Republic's North American stores in September 2006. The collection consists of three scents for women and two for men, each named after a luxurious, natural material that is both emotional and authentic. In addition, bath and body products as well as home fragrance products were created to complement the fragrance selection. A separate family of fragrance and personal care products is also in the works for Gap's North American stores. That fragrance family is expected to launch in May 2007.

Burberry

On October 12, 2004, we entered into a new long-term fragrance license with Burberry. The agreement runs through 2016 plus an option to extend the license by an additional five years subject to mutual agreement. In connection with the new license agreement, we paid to Burberry an upfront non-recoupable license fee of approximately \$3.6 million. In September 2006, Burberry agreed to certain modifications to the new long-term fragrance license and we paid to Burberry an additional upfront non-recoupable license fee of approximately \$2.5 million.

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. The following is a brief discussion of the more critical accounting policies that we employ.

Revenue Recognition

We sell our products to department stores, perfumeries, specialty retailers, mass-market retailers, supermarkets and domestic and international wholesalers and distributors. Sales of such products by our domestic subsidiaries are denominated in U.S. dollars and sales of such products by our foreign subsidiaries are primarily denominated in either Euros or U.S. dollars. Accounts receivable reflect the granting of credit to these customers. We generally grant credit based upon our analysis of the customer's financial position as well as previously established buying patterns. 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, and trade discounts and allowances.

Sales Returns

Generally, we do not permit customers to return their unsold products. However, on a case-by-case basis we occasionally allow customer returns. 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. We record estimated reserves for sales returns as a reduction of sales, cost of sales and accounts receivable. Returned products are recorded as inventories and are valued based upon estimated realizable value. The physical condition and marketability of returned products are the major factors we consider in estimating realizable value. Actual returns, as well as estimated realizable values of returned products, may differ significantly, either favorably or unfavorably, from our estimates, if factors such as economic conditions, inventory levels or competitive conditions differ from our expectations.

Promotional Allowances

We have various performance-based arrangements with certain retailers to reimburse them for all or a portion of their promotional activities related to our products. These arrangements primarily allow customers to take deductions against amounts owed to us for product purchases. Estimated accruals for promotions and co-operative advertising programs are recorded in the period in which the related revenue is recognized. We review and revise the estimated accruals for the projected costs for these promotions. Actual costs incurred may differ significantly, either favorably or unfavorably, from estimates if factors such as the level and success of the retailers' programs or other conditions differ from our expectations.

Inventories

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

Equipment and Other Long-Lived Assets

Equipment, which includes tools and molds, is recorded at cost and is depreciated on a straight-line basis over the estimated useful lives of such assets. Changes in circumstances such as technological advances, changes to our business model or changes in our capital spending strategy can result in the actual useful lives differing from our estimates. In those cases where we determine that the useful life of equipment should be shortened, we would depreciate the net book value in excess of the salvage value, over its revised remaining useful life, thereby increasing depreciation expense. Factors such as changes in the planned use of equipment, or market acceptance of products, could result in shortened useful lives.

Long-lived assets, including trademarks, licenses, goodwill and other rights, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of any such asset may not be recoverable. If the sum of the undiscounted cash flows (excluding interest) is less than the carrying value, then we recognize an impairment loss, measured as the amount by which the carrying value exceeds the fair value of the asset. The estimate of undiscounted cash flow is based upon, among other things, certain assumptions about expected future operating performance. Our estimates of undiscounted cash flow may differ from actual cash flow due to, among other things, economic conditions, changes to our business model or changes in consumer acceptance of our products. In those cases where we determine that the useful life of other long-lived assets should be shortened, we would depreciate the net book value in excess of the salvage value (after testing for impairment as described above), over the revised remaining useful life of such asset thereby increasing amortization expense.

Income Taxes

Deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to the difference between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Tax benefits recognized are reduced by a valuation allowance where it is more likely than not that the benefits may not be realized.

Results of Operations**Net Sales**

| | Years ended December 31, | | | | |
|-----------------------------------|--------------------------|----------|----------|----------|----------|
| | 2006 | % Change | 2005 | % Change | 2004 |
| | (in millions) | | | | |
| European based product sales | \$ 270.1 | 13% | \$ 239.2 | 23% | \$ 194.6 |
| United States based product sales | 51.0 | 49% | 34.3 | (17%) | 41.4 |
| Total net sales | \$ 321.1 | 17% | \$ 273.5 | 16% | \$ 236.0 |

Net sales for the year ended December 31, 2006 increased 17% to \$321.1 million. For the year ended December 31, 2005, net sales were up 16%. At comparable foreign currency exchange rates, net sales rose 17% in both 2006 and 2005.

European based prestige product sales, which were up 23% in 2005, grew an additional 13% in 2006. Burberry fragrance performed exceptionally well in 2006 with the launch and roll-out of a fifth major line, Burberry *London*. Burberry fragrance sales reached \$182 million, up 10% in local currency. Excluding the discontinued Burberry limited edition *Brit Red* line, brand sales were up 20% in local currency.

In 2006 Lanvin fragrances exceeded targets with sales of \$44 million, up 20% in local currency, due to strong gains by the *Eclat d'Arpège* line, which came to market in 2002. Lanvin brand sales were also boosted by the successful fall launch of its new *Rumeur* line. Similarly, Paul Smith sales increased 22% in local currency, with much of the growth coming from our first Paul Smith fragrance, which debuted in 2000 and Paul Smith *Extrême*, which came to market in 2002. In addition, the international launch of the men's Paul Smith *Story* line also contributed to brand sales growth.

Our Lanvin brand license took effect July 1, 2004 and therefore, the year ended December 31, 2005 was the first full year of sales for the brand. For the six months period ended December 31, 2004, net sales of Lanvin products aggregated approximately \$10 million. For the year ended December 31, 2005, net sales of Lanvin products aggregated approximately \$35 million contributing to the increase in sales for 2005.

Although there were no major new fragrance families launched in 2005 for our most significant brands, 2005 was still a very active year. In early 2005, we introduced new Christian Lacroix and Celine fragrance families. In addition, a flanker fragrance, *Paul Smith London Floral*, and a new Lanvin fragrance, *Arpege Pour Homme* were launched later in the year. Lastly, *Burberry Brit Gold* a limited edition holiday fragrance debuted in time for the holiday season.

With respect to our United States specialty retail and mass-market products, net sales were up 49% in 2006 after falling 17% in 2005. The sales gains in 2006 are primarily the effect of having commenced activities pursuant to our agreement with Gap, Inc. In early 2006, we began shipping Gap, Gap Outlet, Banana Republic and Banana Republic Factory Stores, their existing fragrance and personal care products. In August 2006 we launched the Banana Republic Discover Collection, a family of five fragrances which debuted in Banana Republic's North American stores in September. The collection consists of three scents for women and two for men. Bath and body products as well as home fragrance products were also created to complement the fragrance selection.

Sales of mass market fragrances and fragrance related products have been in a decline for several years. We believe that rising oil and gas prices are a significant cause for declining sales in the dollar store markets, as dollar store customers have less disposable cash. Although we have no plans to discontinue sales to this market, we have been and continue to consolidate our product offerings.

Looking towards 2007, a family of fragrance and personal care products is in the works for Gap Inc.'s North American stores. That family is expected to launch in May 2007. With respect to our European prestige business, our first fragrance family under the Roxy brand is scheduled for introduction in the fall of 2007. New fragrance families for women under the Paul Smith, S.T. Dupont and Christian Lacroix brands are also in the launch pipeline and finally, we are very excited about the prospects for the Van Cleef & Arpels fragrance brand which we took over on January 1, 2007. The integration of the brand is now underway and in 2008, we plan to launch a new Van Cleef & Arpels fragrance family.

Gross Margins

| | Years ended December 31, | | |
|--|---------------------------------|-------------|-------------|
| | 2006 | 2005 | 2004 |
| | (in millions) | | |
| Net sales | \$ 321.1 | \$ 273.5 | \$ 236.0 |
| Cost of sales | 143.9 | 115.8 | 114.0 |
| Gross margin | \$ 177.2 | \$ 157.7 | \$ 122.0 |
| Gross margin as a percent of net sales | 55% | 58% | 52% |

Gross profit margins were 55% in 2006, 58% in 2005 and 52% in 2004. Although gross margins from individual product families have remained consistent, sales of products from our European based prestige fragrances have always generated significantly higher gross profit margins than sales of our United States based specialty retail and mass-market products. Therefore fluctuations in sales product mix between our European operations and our United States operations is the primary factor influencing gross margin fluctuations. In 2006, sales from United States operations grew 49% while sales from European operations grew 13% resulting in a 3% decline in gross margin.

For 2005, the gross margin improvement over 2004 is attributable to sales of products from our European based prestige fragrance lines. In anticipation of the new terms of the Burberry license, and to mitigate the associated expenses, we have fine-tuned our operating model. This new model included increased selling prices to distributors, modified cost sharing arrangements with suppliers and distributors, and calls for the future formation of joint ventures or company-owned subsidiaries within key markets to handle future distribution. We increased our selling prices to distributors and modified our cost sharing arrangements with them in late 2004 and early 2005. The effect of these changes is the primary reason for our improved gross margin in 2005. The formation of joint ventures or company-owned subsidiaries within key markets is in our plans for 2007.

Selling, General & Administrative Expense

| | Years ended December 31, | | |
|---|---------------------------------|-------------|-------------|
| | 2006 | 2005 | 2004 |
| | (in millions) | | |
| Selling, general & administrative | \$ 141.1 | \$ 126.4 | \$ 89.5 |
| Selling, general & administrative as a percent of net sales | 44% | 46% | 38% |

Selling, general and administrative expense increased 12% for the year ended December 31, 2006, as compared to 2005 and 41% for the year ended December 31, 2005, as compared to 2004. As a percentage of sales selling, general and administrative expense was 44%, 46% and 38% for the years ended December 31, 2006, 2005 and 2004, respectively.

The increase in selling, general and administrative expenses as a percentage of sales for 2005 as compared to 2004, was primarily the result of increased royalties and increased advertising expenditure requirements under our new license with Burberry. Such increased requirements are reflected in both the 2006 and 2005 periods. Overall higher promotional costs were incurred in 2006 in connection with the Burberry London Women's fragrance launch. Promotion and advertising included in selling, general and administrative expenses aggregated \$46.5 million, \$40.8 million and \$21.8 million for the years ended December 31, 2006, 2005 and 2004, respectively. Royalty expense, included in selling, general, and administrative expenses, aggregated \$31.4 million, \$27.1 million and \$20.9 million for the years ended December 31, 2006, 2005 and 2004, respectively.

In connection with our agreement with Gap, Inc., we continue to incur staff, product development and other start-up expenses, including those of third-party design and marketing firms. For 2006 and 2005, such expenses aggregated approximately \$7.0 million and \$2.0 million, respectively and are included in selling, general, and administrative.

As a result of the details discussed above with respect to gross margin and selling, general and administrative expenses, operating margins aggregated 11.3%, 11.5% and 13.8% for the years ended December 31, 2006, 2005 and 2004, respectively.

Interest expense aggregated \$1.8 million, \$1.0 million and \$0.8 million for the years ended December 31, 2006, 2005 and 2004, respectively. We use the credit lines available to us, as needed, to finance our working capital needs as well as financing needs for acquisitions. In addition, in July 2004, Inter Parfums, S.A. entered into a € 16 million (approximately \$21 million), five-year credit agreement.

Foreign currency gains or (losses) aggregated \$0.2 million, (\$0.3) million and (\$0.4) million for the years ended December 31, 2006, 2005 and 2004, respectively. We enter into foreign currency forward exchange contracts to manage exposure related to certain foreign currency commitments.

Our effective income tax rate was 35.6%, 35.1% and 36.5% for the years ended December 31, 2006, 2005 and 2004, respectively. Our effective tax rates differ from statutory rates due to the effect of state and local taxes and tax rates in foreign jurisdictions which are slightly higher than those in the United States. In 2006, a valuation allowance of \$0.8 million has been provided against certain foreign net operating loss carryforwards, as future profitable operations from certain foreign subsidiaries might not be sufficient to realize the full amount of net operating loss carryforwards available. No significant changes in tax rates were experienced nor were any expected in jurisdictions where we operate.

Net income increased 16% to \$17.7 million in 2006 after declining 3% to \$15.3 million in 2005. As stated above, in 2005 we incurred increased selling, general and administrative expenses, which was the result of increased royalties and increased advertising expenditure requirements under our new license with Burberry. These increased expenses were partially mitigated by improvements in our gross margin. In 2006, we were able to leverage expenses while increasing sales within our European operations and our United States operations began to see a turnaround in its business.

Diluted earnings per share aggregated \$0.86, \$0.75 and \$0.77 in 2006, 2005 and 2004, respectively. Weighted average shares outstanding aggregated 20.3 million, 20.1 million and 19.2 million for the years ended December 31, 2006, 2005 and 2004, respectively. On a diluted basis, average shares outstanding were 20.6 million, 20.5 million and 20.5 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Liquidity and Capital Resources

Our financial position remains strong. At December 31, 2006, working capital aggregated \$139 million and we had a working capital ratio in excess of 2 to 1. Cash and cash equivalents and short-term investments aggregated \$71 million.

In September 2006, we entered into an exclusive, worldwide license agreement with Van Cleef & Arpels Logistics SA, for the creation, development and distribution of fragrance and related bath and body products under the Van Cleef & Arpels brand and related trademarks. The agreement runs through December 31, 2018. As an inducement to enter into this license agreement, we agreed to pay € 18 million (approximately \$23.4 million) to Van Cleef & Arpels Logistics SA in a lump sum, up front royalty payment and we agreed to purchase existing inventory of approximately \$2.1 million held by YSL Beauté, the current licensee. The liability for the € 18 million up front payment was financed in 2007 and is included in accrued expenses on the accompanying balance sheet as of December 31, 2006. The license agreement became effective on January 1, 2007.

In April 2004, Inter Parfums, S.A. acquired a 67.5% interest in Nickel for approximately \$4.5 million, net of cash acquired. In accordance with the purchase agreement, each of the minority stockholders has an option to put their remaining interest in Nickel to Inter Parfums, S.A. from January 2007 through June 2007. Based on an independent valuation, management has valued the put options as of the date of acquisition. These options are carried at fair value as determined by management.

The purchase price to be paid for the minority shares, approximately \$4.6 million, is based upon a formula applied to Nickel's sales for the year ending December 31, 2006 pro rated for the minority holders' equity in Nickel. In addition, we have the right to call the stock based on the same formula and price. As of the date of this report, no determination has been made as to whether or not the put option or the call option will be exercised.

Cash provided by (used in) operating activities aggregated \$13.4 million, \$30.4 million and (\$4.4 million) for the years ended December 31, 2006, 2005 and 2004, respectively. A significant inventory build up during the fourth quarter of 2003 was the most significant factor affecting our cash flow from operating activities in 2004 as our vendors were paid in accordance with their terms. Changes in accounts payable and accrued expenses used cash of \$21.8 million in 2004. In addition, cash used in operating activities for 2004 reflects an increase in accounts receivable of \$7.0 million which is reasonable considering the company's sales growth of 27% for the year ended December 31, 2004.

For 2005, cash provided by operating activities reflects an increase in accounts receivable of \$17.7 million. This increase, which represented a 23% increase from the December 31, 2004 accounts receivable balance, is reasonable considering the company's sales growth of 16% for the year ended December 31, 2005.

In 2006 cash provided by operating activities shows that inventories increased 33% from December 31, 2005. Inventories were at an unusually low level as of December 31, 2005 as no major new product launches were on the calendar. Our 2006 new prestige product calendar was very ambitious, with launches of new fragrance families for our three largest prestige brands. In addition, an inventory buildup was required for new products created for the launch in Banana Republic North American stores as well as the transitioning of component sourcing and production of Gap, Inc.'s existing fragrance and personal care products to suppliers and contract fillers of the Company.

Cash provided by operating activities in 2006 also shows that accounts receivable increased 22% from the December 31, 2005 balance which is reasonable considering that sales were up 17% for the year and 37% for the fourth quarter alone.

Cash flows used in investing activities in 2006, reflect net proceeds from the sale of short-term investments of \$4.6 million, approximately \$5.0 million in payments for intangible assets and approximately \$3.5 million in capital expenditures. Our business is not capital intensive as we do not own any manufacturing facilities. We typically spend between \$2.0 and \$3.0 million per year on tools and molds, depending on our new product development calendar. The balance of capital expenditures is for office fixtures, computer equipment and industrial equipment needed at our distribution centers. Capital expenditures in 2007 are expected to be in the range of \$2.5 million to \$3.5 million, considering our 2007 launch schedule and the ongoing renovation of our United States corporate offices. Cash flows from investing activities also reflect the sale of the Molyneux trademark in June 2006. Such sale brought in proceeds of \$1.1 million and resulted in a loss of \$0.2 million.

In December 2006, our board of directors authorized an increase of our cash dividend from \$0.16 to \$0.20 per share, aggregating approximately \$4.1 million per annum, payable \$.05 per share on a quarterly basis. Our first cash dividend of \$.05 per share is to be paid on April 13, 2007 to shareholders of record on March 30, 2007. Dividends paid, including dividends paid once per year to minority stockholders of Inter Parfums, S.A., aggregated \$4.5 million, \$4.1 million and \$2.9 million for the years ended December 31, 2006, 2005 and 2004, respectively. The cash dividends paid in 2006 represented a small part of our cash position and the increased dividend for 2007 is not expected to have any significant impact on our financial position.

Our short-term financing requirements are expected to be met by available cash and short-term investments on hand at December 31, 2006, cash generated by operations and short-term credit lines provided by domestic and foreign banks. The principal credit facilities for 2007 consist of a \$12.0 million unsecured revolving line of credit provided by a domestic commercial bank and approximately \$45.0 million in credit lines provided by a consortium of international financial institutions. Actual borrowings under these facilities have been minimal as we typically use our working capital to finance all of our cash needs.

We believe that funds generated from operations, supplemented by our present cash position and available credit facilities, 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, 2006.

Contractual Obligations

The following table sets forth a schedule of our contractual obligations over the periods indicated in the table, as well as our total contractual obligations (\$ in thousands).

| Contractual Obligations | Payments due by period | | | | |
|--|------------------------|---------------------|------------------|------------------|----------------------|
| | Total | Less than 1 year | Years 2-3 | Years 4-5 | More than 5 years |
| Long-Term Debt | \$ 10,769 | \$ 4,214 | \$ 6,555 | | |
| Capital Lease Obligations | | | | | |
| Operating Leases | \$ 31,724 | \$ 5,983 | \$ 12,384 | \$ 10,597 | \$ 2,760 |
| Purchase Obligations | | | | | |
| Other Long-Term Liabilities Reflected on the Registrant's Balance Sheet under GAAP | | | | | |
| Minimum Royalty Obligations | \$ 371,104 | \$ 32,196 | \$ 68,179 | \$ 69,693 | \$ 201,036 |
| Total | \$ 413,597 | \$ 42,393 | \$ 87,118 | \$ 80,290 | \$ 203,796 |

Item 7A. 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 foreign 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 Inter Parfums, S.A., 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.

We believe that our risk of loss as the result of nonperformance by any of such financial institutions is remote and in any event would not be material. The contracts have varying maturities with none exceeding one year. Costs associated with entering into such contracts have not been material to our financial results. At December 31, 2006, we had foreign currency contracts at Inter Parfums, S.A. in the form of forward exchange contracts in the amount of approximately U.S. \$50.6 million and GB Pounds 3.1 million.

Interest Rate Risk Management

We mitigate interest rate risk by continually 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 have entered into one (1) interest rate swap to reduce exposure to rising variable interest rates, by effectively exchanging the variable interest rate of 0.6% above the three month EURIBOR rate on our long-term to a variable rate based on the 12 month EURIBOR rate with a floor of 3.25% and a ceiling of 3.85%. This derivative instrument is recorded at fair value and changes in fair value are reflected in the results of operation.

Item 8. Financial Statements and Supplementary Data

The required financial statements commence on page F-1.

Supplementary Data

Quarterly Data (Unaudited)
For the Year Ended December 31, 2006
(In Thousands Except Share and Per Share Data)

| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | Full Year |
|---|-------------|-------------|-------------|-------------|------------|
| Net Sales | \$ 70,900 | \$ 70,285 | \$ 89,690 | \$ 90,179 | \$ 321,054 |
| Gross Profit | 40,296 | 39,670 | 48,688 | 48,545 | 177,199 |
| Net Income | 4,420 | 3,192 | 4,645 | 5,485 | 17,742 |
| Impact of adoption of SFAS 123 (R) | 125 | 98 | 116 | 104 | 443 |
| Net Income per Share: | | | | | |
| Basic | \$ 0.22 | \$ 0.16 | \$ 0.23 | \$ 0.27 | \$ 0.87 |
| Diluted | \$ 0.22 | \$ 0.16 | \$ 0.23 | \$ 0.27 | \$ 0.86 |
| Average Common Shares Outstanding: | | | | | |
| Basic | 20,267,000 | 20,315,000 | 20,322,000 | 20,392,000 | 20,324,000 |
| Diluted | 20,544,000 | 20,564,000 | 20,546,000 | 20,620,000 | 20,568,000 |

Quarterly Data (Unaudited)
For the Year Ended December 31, 2005
(In Thousands Except Share and Per Share Data)

| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | Full Year |
|---|-------------|-------------|-------------|-------------|------------|
| Net Sales | \$ 71,087 | \$ 61,343 | \$ 75,446 | \$ 65,657 | \$ 273,533 |
| Gross Profit | 40,577 | 34,595 | 42,357 | 40,177 | 157,706 |
| Net Income | 4,404 | 3,214 | 3,754 | 3,891 | 15,263 |
| Net Income per Share: | | | | | |
| Basic | \$ 0.22 | \$ 0.16 | \$ 0.19 | \$ 0.19 | \$ 0.76 |
| Diluted | \$ 0.22 | \$ 0.16 | \$ 0.18 | \$ 0.19 | \$ 0.75 |
| Average Common Shares Outstanding: | | | | | |
| Basic | 19,701,000 | 20,179,000 | 20,189,000 | 20,245,000 | 20,078,000 |
| Diluted | 20,420,000 | 20,478,000 | 20,556,000 | 20,492,000 | 20,487,000 |

Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer have reviewed and evaluated the effectiveness of our disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rule 13a-15(f)) as of the end of the period covered by this annual report on Form 10-K (the "Evaluation Date"). Based on their review and evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, our disclosure controls and procedures were adequate and effective to ensure that material information relating to our Company and its consolidated subsidiaries would be made known to them by others within those entities, so that such material information is recorded, processed and reported in a timely manner, particularly during the period in which this annual report on Form 10-K was being prepared, and that no changes were required at this time.

Management's Annual Report on Internal Control over Financial Reporting

The management of Inter Parfums, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting for the company. With the participation of the Chief Executive Officer and the Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in *Internal Control - Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2006.

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

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 management's assessment, included in the accompanying "Management's Annual Report on Internal Control over Financial Reporting", that Inter Parfums, Inc. maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Inter Parfums, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of 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 included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and 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, management's assessment that Inter Parfums, Inc. maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also in our opinion, Inter Parfums, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Inter Parfums, Inc. as of December 31, 2006 and 2005 and the related consolidated statements of income, changes in shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2006 and our report dated March 16, 2007 expressed an unqualified opinion thereon.

Mazars LLP

New York, New York
March 16, 2007

Item 9B. Other Information.

None.

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PART III**Item 10. Directors and Executive Officers Of the Registrant***Executive Officers and Directors*

As of the date of this report, our executive officers and directors were as follows:

| Name | Position |
|--------------------------|---|
| Jean Madar | Chairman of the Board, Chief Executive Officer of Inter Parfums, Inc. and Director General of Inter Parfums, S.A. |
| Philippe Benacin | Vice Chairman of the Board, President of Inter Parfums, Inc. and President of Inter Parfums, S.A. |
| Russell Greenberg | Director, Executive Vice President and Chief Financial Officer |
| Philippe Santi | Director, Executive Vice President and Director General Delegee, Inter Parfums, S.A. |
| Francois Heilbronn | Director |
| Joseph A. Caccamo | Director |
| Jean Levy | Director |
| Robert Bensoussan-Torres | Director |
| Jean Cailliau | Director |
| Serge Rosinoer | Director |
| Patrick Choël | Director |
| Hugues de la Chevasnerie | Director of Burberry Fragrances, Inter Parfums, S.A. |
| Frederic Garcia-Pelayo | President of the Luxury and Fashion division of Inter Parfums, S.A. |
| Jack Ayer | Director of Distribution - France, Inter Parfums, S.A. |
| Axel Marot | Director of Production & Logistics, Inter Parfums, S.A. |

Our directors will serve until the next annual meeting of stockholders and thereafter until their successors shall have been elected and qualified. Messrs. Jean Madar and Philippe Benacin have a verbal agreement or understanding to vote their shares in a like manner. As Messrs. Madar and Benacin beneficially own more than 50% of the outstanding shares of the Inter Parfums' common stock, Inter Parfums is considered a "controlled company" under the applicable rules of The Nasdaq Stock Market.

With the exception of Mr. Benacin, the officers are elected annually by the directors and serve at the discretion of the board of directors. There are no family relationships between executive officers or directors of our Company.

Board of Directors

Our Board of Directors has the responsibility for establishing broad corporate policies and for the overall performance of our Company. Although certain directors are not involved in day-to-day operating details, members of the Board are kept informed of our business by various reports and documents made available to them. The Board of Directors held six meetings (or executed consents in lieu thereof), including meetings of committees of the Board during 2006,

and, with the exception of Messrs. Santi, Bensoussan-Torres and Piette (who stepped down in June 2006) all of the directors attended at least 75% of the meetings of the Board and committee meetings of which they were a member.

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We have adopted a Code of Business Conduct, and we agree to provide to any person without charge, upon request, a copy of our Code of Business Conduct. Any person who requests a copy of our Code of Business Conduct should provide their name and address in writing to: Inter Parfums, Inc., 551 Fifth Avenue, New York, NY 10176, Att.: Shareholder Relations. In addition, our Code of Conduct is also maintained on our website, at www.interparfumsinc.com.

During Fiscal 2006, the Board of Directors had the following standing committees:

- Audit Committee – The Audit Committee has the sole authority and is directly responsible for, the appointment, compensation and oversight of the work of the independent accountants employed by the Company which prepare or issue an audit report for the Company. During 2006, the Audit Committee initially consisted of Messrs. Heilbronn, Levy and Bensoussan-Torres and Mr. Choël replaced Mr. Bensoussan-Torres in June 2006.

The Audit Committee does not have a member who is an “Audit Committee Financial Expert” as such term is defined under the applicable rules and regulations. However, as the result of the background, education and experience of the members of the Audit Committee, the Board of Directors believes that such committee members are fully qualified to fulfill their obligations as members of the Audit Committee.

- Executive Compensation and Stock Option Committee – The Executive Compensation and Stock Option Committee oversees the compensation of the Company’s executives and administers the Company’s stock option plans. During 2006, the members of such committee initially consisted of Messrs. Heilbronn, Levy and Daniel Piette, and Mr. Choël replaced Mr. Piette in June 2006 . We presently do not have a separate charter for our Executive Compensation and Stock Option Committee.

Our Board of Directors does not maintain a standing nominating committee or a committee performing similar functions. In view of the agreement and understanding of Messrs. Jean Madar and Philippe Benacin who beneficially own more than 50% of the outstanding shares of the Inter Parfums’ common stock, our Board of Directors does not believe it necessary for the Company to have such a committee. Also as a “controlled company” under the applicable rules of The Nasdaq Stock Market, we are exempt from the nominating committee requirements. During 2006, our Board of Directors as a group agreed to nominate the same members of the board who had served last year with the exception of Mr. Choël, who was added to the Board of Directors in June 2006, replacing Mr. Piette who stepped down.

Director Independence

The following are our directors who are “independent directors” within the applicable rules of The Nasdaq Stock Market:

Francois Heilbronn

Jean Levy

Robert Bensoussan-Torres

Serge Rosinoer

Jean Cailliau

Patrick Choël

While we follow and comply with the independent director definitions as provided by The Nasdaq Stock Market rules in determining the independence of our directors, we do not presently post the rules on our company's website. However, the rules of The Nasdaq Stock Market are readily available on its website. We intend to either include the applicable independent director definition on our website or as an appendix to our proxy statement for the next annual meeting.

However, as stated above, Messrs. Jean Madar and Philippe Benacin have a verbal agreement or understanding to vote their shares in a like manner. As Messrs. Madar and Benacin beneficially own more than 50% of the outstanding shares of the Inter Parfums' common stock, Inter Parfums is considered a "controlled company" under the applicable rules of The Nasdaq Stock Market. As a controlled company, we are exempt for certain of the corporate governance rules of The Nasdaq Stock Market, such as the board of directors consisting a majority of independent directors and the requirement of a nominating committee of the board.

In addition, The Nasdaq Stock Market maintains more stringent rules relating to director independence for the members of our Audit Committee, and the members of our Audit Committee, Messrs. Heilbronn, Levy and Choël, are independent within those rules. We are not exempt from the more stringent rules relating to director independence for the members of our Audit Committee by virtue of the controlled company exception.

Business Experience

The following sets forth biographical information as to the business experience of each executive officer and director of our Company for at least the past five years.

Jean Madar

Jean Madar, age 46, a Director, has been the Chairman of the Board of Directors since the Company's inception, and is a co-founder of the Company with Mr. Benacin. From inception until December 1993 he was the President of the Company; in January 1994 he became Director General of Inter Parfums, S.A., the Company's subsidiary; and in January 1997 he became Chief Executive Officer of the Company. Mr. Madar was previously the managing director of Inter Parfums, S.A., from September 1983 until June 1985. At such subsidiary, he had the responsibility of overseeing the marketing operations of its foreign distribution, including market research analysis and actual marketing campaigns. Mr. Madar graduated from The French University for Economic and Commercial Sciences (ESSEC) in 1983.

Philippe Benacin

Mr. Benacin, age 48, a Director, has been the Vice Chairman of the Board since September 1991, and is a co-founder of the Company with Mr. Madar. He was elected the Executive Vice President in September 1991, Senior Vice President in April 1993, and President of the Company in January 1994. In addition, he has been the President of Inter Parfums, S.A. for more than the past five years. Mr. Benacin graduated from The French University for Economic and Commercial Sciences (ESSEC) in 1983.

Russell Greenberg

Mr. Greenberg, age 50, the Chief Financial Officer, was Vice-President, Finance when he joined the Company in June 1992; became Executive Vice President in April 1993; and was appointed to the Board of Directors in February 1995. He is a certified public accountant licensed in the State of New York, and is a member of the American Institute of Certified Public Accountants and the New York State Society of Certified Public Accountants. After graduating from The Ohio State University in 1980, he was employed in public accounting until he joined the Company in June 1992.

Philippe Santi

Philippe Santi, age 45 and a Director since December 1999, has been the Director of Finance and the Chief Financial Officer of Inter Parfums, S.A. since February 1995. Mr. Santi became Executive Vice President of Inter Parfums, S.A. in 2004, and is a Certified Accountant and Statutory Auditor in France.

Francois Heilbronn

Mr. Heilbronn, age 46, a Director since 1988, an independent director, and a member of the audit, stock option and executive compensation committees, is a graduate of Harvard Business School with a Master of Business Administration degree and is currently the managing partner of the consulting firm of M.M. Friedrich, Heilbronn & Fiszer. He was formerly employed by The Boston Consulting Group, Inc. from 1988 through 1992 as a manager. Mr. Heilbronn graduated from Institut D' Etudes Politiques De Paris in June 1983. From 1984 to 1986, he worked as a financial analyst for Lazard Freres & Co.

Joseph A. Caccamo

Mr. Caccamo, age 51, a Director since 1992, is an attorney with the law firm of GrayRobinson, P.A., our general counsel. A member of both the New York and Florida bars, Mr. Caccamo has been a practicing attorney since 1981, concentrating in the areas of corporate and securities law, and in September 1991 he became our counsel.

Jean Levy

Jean Levy, age 74, a Director since August 1996, an independent director and a member of the audit and executive compensation and stock option committees, worked for twenty-seven years at L'Oreal, and was the President and Chief Executive Officer of Cosmair, the exclusive United States licensee of L'Oreal, from 1983 through June 1987. In addition, he is the former President and Chief Executive Officer of Sanofi Beaute (France). For the more than the past five years, Mr. Levy has been an independent advisor as well as a consultant for economic development to local governments in France. A graduate of l'Institut d'Etudes Politiques de Paris, he also attended Yale Graduate School and was a recipient of a Fulbright Scholarship. He was also a Professor at l'Institut d'Etudes Politiques de Paris. He was formerly a director of Zannier Group and Escada Beaute Worldwide and Rallye, S.A. In addition, Mr. Levy was also a director (Chairman of the Board until October 2001) of Financière d'Or, and its subsidiary, Histoire d'Or which is in the retail jewelry business. Mr. Levy was formerly a consultant to Ernst & Young, Paris through 2004. He is currently a board member of Price Minister, an internet based retainer located in Paris.

Robert Bensoussan-Torres

Robert Bensoussan-Torres, age 49, has been a Director since March 1997, and also is an independent director and during 2005 was a member of the audit committee. In November 2001, he became the Chief Executive Officer of Jimmy Choo Ltd., a luxury shoe and ready to wear accessory company. From 1999 to December 2000, he was the Managing Director of Gianfranco Ferre fashion group, based in Milano, Italy. Mr. Bensoussan-Torres is a Director of Towers Consulting Europe, Ltd. Towers Consulting Europe, Ltd. is a consulting company based in London, which specializes in strategic advise in connection with mergers and acquisitions in the luxury goods business. Mr. Bensoussan-Torres was the Chief Executive Officer of Christian Lacroix, Paris, a subsidiary of LVMH Group, from February 1993 until May 1998. Christian Lacroix is a French Haute Couture House and has activities in the field of apparel, accessories and fragrances. From December 1990 through January 1993 he was based in Munich, Germany, as the International Sales Director of The Escada Group.

Jean Cailliau

Mr. Cailliau, age 44, and a director since December 1999. The Board considers Mr. Cailliau to be independent of management, notwithstanding his prior affiliation with LV Capital USA Inc., which was dissolved in August 2006. Through June 2001, Mr. Cailliau was the Deputy General Manager of LV Capital SA, the investment arm of LVMH. In January 2001 he became a Director of L Capital Management, a private equity fund sponsored by LVMH. For the past 10 years, Mr. Cailliau has held executive positions at LVMH. He is also a Director of various European companies. Mr. Cailliau is an Engineer in Agronomics and has an MBA (1988) from Insead.

Serge Rosinoer

Mr. Rosinoer, age 75, was appointed to the Board of Directors in December 2000, as an independent director. Mr. Rosinoer has devoted most of his career to the personal care, cosmetics and fragrance industry. In 1978, Mr. Rosinoer joined the Clarins Group as Vice President and Chief Operating Officer where he was largely responsible for its rapid international expansion. As COO, then CEO since 1978, Mr. Rosinoer oversaw the transformation of Clarins into a major force in cosmetics, skin care and fragrance, with annual sales of approximately 600 million Euro and more than 4,000 employees. He retired from active duty in June of 2000, but continues to serve on the board of directors of Clarins. Earlier in his career he was President of Parfums Corday. He also held senior level executive positions at Max Factor, where he had full supervision of that cosmetics company's European production and sales. Mr. Rosinoer has served several terms as President of the French Prestige Cosmetics Association and currently serves as Conseiller du Commerce Extérieur de la France.

Patrick Choël

Mr. Choël, age 63, was appointed to the Board of Directors in June 2006, as an independent director, and is a member of both the Audit Committee and the Executive Compensation and Stock Option Committee. Mr. Choël is the manager of Université 82, a business consultant and advisor. For approximately 10 years, through March 2004, Mr. Choël worked as the President and CEO of two divisions of LVMH, first the LVMH Perfumes and Cosmetics Division, which included such well known brands as Parfums Christian Dior, Guerlain, and Parfums Givenchy, among others, and later, Parfums Christian Dior, a leading world-wide prestige beauty/fragrances business. Prior to such time, for approximately 30 years, he work at various executive positions at Unilever, including President and CEO of Elida Fabergé France and President and CEO of Chesebrough Pond's USA.

Hugues de la Chevasnerie

Hugues de la Chevasnerie, age 38, became the Director of Burberry Fragrances in December 2006. Prior to joining Burberry Fragrances, Mr. Chevasnerie was from February 2002 the Vice President of International Marketing, Davidoff & Chloé, at Coty Inc. From 1994 to 2002, he held various positions at LVMH- Parfums Christian Dior, including Group Head for Men's Perfumes from 1999 to 2002.

Frederic Garcia-Pelayo

Frederic Garcia-Pelayo, age 48, became the President of the Luxury and Fashion division of Inter Parfums, S.A. in March 2005. He was previously the Director of Marketing and Distribution for Perfume and Cosmetics for Inter Parfums, S.A. and was named Executive Vice President in 2004. Previously Mr. Garcia-Pelayo was the Director of Export Sales of Inter Parfums, S.A. from September 1994. Prior to September 1994, Mr. Garcia-Pelayo was the Export Manager for Benetton Perfumes for seven (7) years.

Jack Ayer

Jack Ayer, age 57, was a French Market Sales Manager when he joined Inter Parfums, S.A. in 1989 and has been the Director of the French Market Sales for Inter Parfums, S.A. since 1999. Prior to 1989 Mr. Ayer spent 13 years as a brand representative for L'Oréal.

Axel Marot

Axel Marot, age 33, was the Supply Chain Manager when he joined Inter Parfums, S.A. in 2003 and has been the Director of Operations for Inter Parfums, S.A. since January 2005. Prior to joining Inter Parfums, S.A., Mr. Marot was a Supply Chain Manager for Nestlé.

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely upon a review of Forms 3, 4 and 5 and any amendments to such forms furnished to us, and written representations from various reporting persons furnished to us, we are not aware of any reporting person who has failed to file the reports required to be filed under Section 16(a) of the Securities Exchange Act of 1934 on a timely basis.

Item 11. Executive Compensation

The following table sets forth a summary of all compensation awarded to, earned by or paid to, our Chief Executive Officer, our Chief Financial Officer, and each of the three most highly compensated executive officers of our Company whose compensation exceeded \$100,000 per annum for services rendered in all capacities to our Company and its subsidiaries during fiscal years ended December 31, 2006, December 31, 2005 and December 31, 2004. In addition, we have included the compensation information of one former executive officer who left our during 2006. For all compensation related matters disclosed in this Item 11, all amounts paid in euro have been converted to US dollars at the average rate of exchange in each year.

| SUMMARY COMPENSATION TABLE | | | | | | | | | |
|--|------|-------------|------------|-----------------------|--------------------|---|--|-----------------------------|------------|
| Name and Principal Position | Year | Salary (\$) | Bonus (\$) | Stock Awards (\$) | Option Awards (\$) | Non-Equity Incentive Plan Compensation (\$) | Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$) | All Other Compensation (\$) | Total (\$) |
| Jean Madar, Chief Executive Officer | 2006 | 400,000 | -0- | -0- | 252,000 | -0- | -0- | 2,974,944 ¹ | 3,626,944 |
| | 2005 | 400,000 | -0- | -0- | 337,000 | -0- | -0- | 6,079,952 ² | 6,816,952 |
| | 2004 | 330,000 | -0- | -0- | 405,000 | -0- | -0- | 1,291,030 ³ | 2,026,030 |
| Russell Greenberg, Chief Financial Officer | 2006 | 375,000 | 30,000 | -0- | 167,000 | -0- | -0- | 304,214 ⁴ | 876,214 |
| | 2005 | 345,000 | 30,000 | -0- | 132,000 | -0- | -0- | 548,214 ⁵ | 1,055,214 |
| | 2004 | 315,000 | 30,000 | -0- | 158,000 | -0- | -0- | 222,055 ⁶ | 725,055 |
| Philippe Benacin, President of Inter Parfums, Inc. and President of Inter Parfums, S.A. | 2006 | 226,206 | 153,174 | -0- | 252,000 | -0- | 8,800 | 1,298,801 ⁷ | 1,938,981 |
| | 2005 | 208,874 | 161,629 | -0- | 337,000 | -0- | 8,700 | 5,866,935 ⁸ | 6,583,138 |
| | 2004 | 210,000 | 111,250 | -0- | 405,000 | -0- | 8,700 | 1,697,412 ⁹ | 2,432,362 |
| Philippe Santi, Executive Vice President and Director General Delegue, Inter Parfums, S.A. | 2006 | 226,206 | 197,302 | -0- | 105,000 | 22,621 | 8,800 | 405,801 ¹⁰ | 965,730 |
| | 2005 | 208,874 | 161,629 | -0- | 91,000 | 21,655 | 8,700 | 169,104 ¹¹ | 660,962 |
| | 2004 | 149,000 | 126,000 | -0- | 97,000 | 24,000 | 8,700 | 429,331 ¹² | 834,031 |
| Frédéric Garcia-Pelayo, Director Export Sales, Inter Parfums, S.A. | 2006 | 226,206 | 197,302 | -0- | 166,000 | 22,621 | 8,800 | 259,956 ¹³ | 880,885 |
| | 2005 | 208,874 | 161,629 | -0- | 53,000 | 21,655 | 8,700 | 173,218 ¹⁴ | 627,076 |
| | 2004 | 149,000 | 136,000 | -0- | 52,000 | 24,000 | 8,700 | 600,775 ¹⁵ | 970,475 |
| Marcella Cacci, Former President, Burberry Fragrances ¹⁶ | 2006 | 208,200 | -0- | -0- | -0- | 62,500 | -0- | 341,000 ¹⁸ | 611,700 |
| | 2005 | 316,667 | 125,000 | 217,000 ¹⁷ | 162,000 | 125,000 | -0- | 87,000 ¹⁹ | 1,032,667 |

¹ Consists of \$654,500 realized upon the exercise of options, and \$2,320,444 realized on the exercise of options of Inter Parfums, S.A.

² Consists of \$6,079,952 realized upon the exercise of options.

³ Consists of \$670,285 realized upon the exercise of options, and \$620,745 realized on the exercise of options of Inter Parfums, S.A.

⁴ Consists of \$2,214 for automobile expenses and \$235,000 realized upon exercise of options and \$67,000 realized on the exercise of options of Inter Parfums, S.A.

⁵ Consists of \$2,214 for automobile expenses and \$467,000 realized upon exercise of options and \$79,000 realized on the exercise of options of Inter Parfums, S.A.

⁶ Consists of \$2,214 for automobile expenses and \$183,935 realized upon exercise of options and \$35,906 realized on the exercise of options of Inter Parfums, S.A.

⁷ Consists of lodging expenses of \$75,402, \$8,797 for automobile expenses, \$654,500 realized upon the exercise of options, and \$560,102 realized on the exercise of options of Inter Parfums, S.A.

⁸ Consists of lodging expenses of \$208,874, \$10,613 for automobile expenses, \$5,072,785 realized upon the exercise of options, and \$574,663 realized upon exercise of options of Inter Parfums, S.A.

⁹ Consists of lodging expenses of \$48,000, \$16,250 for automobile expenses, \$1,000,302 realized upon the exercise of options, and \$632,860 realized upon exercise of options of Inter Parfums, S.A.

¹⁰ Consists of \$405,801 realized on the exercise of options of Inter Parfums, S.A.

¹¹ Consists of \$169,104 realized on the exercise of options of Inter Parfums, S.A.

¹² Consists of \$429,331 realized on the exercise of options of Inter Parfums, S.A.

¹³ Consists of \$123,157 realized on the exercise of options of Inter Parfums, S.A.

¹⁴ Consists of \$173,218 realized on the exercise of options of Inter Parfums, S.A.

¹⁵ Consists of \$600,775 realized on the exercise of options of Inter Parfums, S.A.

¹⁶ Ms. Cacci became President of Burberry Fragrances on March 15, 2005 and left the company as of June 30, 2006.

¹⁷ Under the terms of her employment agreement, Ms. Cacci was issued 5,000 restricted shares of Inter Parfums, S.A., to vest ratably over a three-year period. When she left the employ of Inter Parfums S.A., the vesting restrictions lapsed. During 2006, in lieu of issuance of such restricted shares, we paid her the fair market value of such shares.

¹⁸ Consists of severance pay of \$293,750 and housing allowance of \$48,000. Under the terms of her employment agreement, Ms. Cacci was granted options to purchase 24,200 shares of Inter Parfums, S.A. to vest ratably over a three-year period. When she left the employ of Inter Parfums S.A., the vesting restrictions lapsed.

¹⁹ Under the terms of her employment agreement, the Company paid Ms. Cacci a housing allowance of \$40,000 and reimbursement of attorneys' fees of \$47,000.

Compensation Discussion and Analysis

General

The Executive Compensation and Stock Option Committee oversees the compensation of the Company's executives and administers the Company's stock option plans. The members of such committee are Messrs. Heilbronn, Levy and Choël. Mr. Choël replaced Mr. Piette on such committee in June 2006.

During 2006, the Executive Compensation and Stock Option Committee took action 3 times by the execution of written consents in lieu of meetings.

In addition to the members of the Executive Compensation Committee, the following persons participated in discussions concerning executive compensation during 2006: Jean Madar, the Chairman of our Board of Directors and Chief Executive Officer; Philippe Benacin, a Director, President, and President of Inter Parfums, S.A., our company's indirect French operating subsidiary; Russell Greenberg, an Executive Vice President, Chief Financial Officer and a Director; Philippe Santi, the Chief Financial Officer of Inter Parfums, S.A. Generally, Mr. Madar, the Chairman and Chief Executive Officer, takes the initiative and recommends executive compensation levels for executives in the United States, and Mr. Benacin, the President of Inter Parfums, S.A., takes the initiative and recommends for executive compensation levels for executives in Paris. Further, all cash compensation for each of Messrs. Benacin, Santi and Garcia-Pelayo's are paid to them in euros by our French operating subsidiary, and all cash compensation for each of Messrs. Madar and Greenberg are paid from United States Operations. Also as a general rule, all executive officers have their compensation reviewed annually.

The objectives of our compensation program are designed to strike a balance between offering sufficient compensation to either retain existing or attract new executives on the one hand, and keeping compensation at reasonable levels on the other hand. Although our business is growing, as evidenced by our increased sales and growing portfolio of brand names, we do not have the resources comparable to the cosmetic giants in our industry, and accordingly cannot afford to pay excessive executive compensation. In furtherance of these objectives, our executive compensation packages generally include a base salary, as well as annual incentives tied to individual performance and long-term incentives tied to our operating performance. Further, Messrs. Madar and Benacin, in addition to being executive officers and directors are our largest shareholders, which aligns their interests with our shareholder base in keeping executive compensation at a reasonable level.

The following sets forth information regarding compensation and benefits provided to our Chief Executive Officer, Chief Financial Officer, each of the three most highly compensated executive officers other than our Chief Executive Officer and Chief Financial Officer, whose total compensation exceeded \$100,000. In addition, we have included the compensation information of one former executive officer who left our company during 2006. The executive officers being discussed for 2006 are: Jean Madar (the Chief Executive Officer), Russell Greenberg (the Chief Financial Officer), Philippe Benacin, Philippe Santi and Frederic Garcia-Pelayo (the three highly compensated officers) and Marcella Cacci, former executive officer who left our company during 2006.

Base Salary

Base salaries for executive officers are initially determined by evaluating the responsibilities of the position held and the experience of the individual, and by reference to the competitive market place for executive talent. Base salaries for executive officers are reviewed on an annual basis, and adjustments are determined by evaluating our operating performance, the performance of each executive officer, as well as whether the nature of the responsibilities of the executive has changed.

As stated above, Mr. Madar, the Chairman and Chief Executive Officer, takes the initiative and recommends executive compensation levels for executives in the United States, and Mr. Benacin, the President of Inter Parfums, S.A., takes the initiative and recommends for executive compensation levels for executives in Paris.

Mr. Madar, the Chief Executive Officer, did not receive an increase in his base salary of \$400,000.

Upon recommendation of our Chairman and Chief Executive Officer, the Executive Compensation and Stock Option Committee determined to increase the base salary of Mr. Greenberg, the Chief Financial Officer, by \$30,000 from \$345,000 to \$375,000, a 8.7% increase. Mr. Greenberg has received the same salary increase of \$30,000 for the past two years.

Upon the recommendation of Mr. Benacin, the base salaries of Mr. Philippe Santi, the Chief Financial Officer of Inter Parfums, S.A., and Mr. Frederic Garcia-Pelayo, was each increased from 168,000 euros in 2005 to 180,000 euros in 2006, a 7% increase. Likewise, Mr. Benacin's base compensation was increased to from 168,000 euros in 2005 to 180,000 euros in 2006.

In February 2005 we entered into an employment agreement with Marcella Cacci to act as the President of Burberry Fragrances, a division of Inter Parfums, S.A. for a three year period. Such employment agreement was approved by this Committee. Further, as a negotiated term of her employment agreement, United States operation paid her compensation, although she was residing and working in Paris for Burberry Fragrances, a division of Inter Parfums, S.A. Ms. Cacci was terminated without cause, and for 2006 her pro-rated based salary was \$208,200.

After a thorough review, the Chairman of the Board determined that the base salaries paid to such executives were fair in the view of their responsibilities, length of service with us, performance and compensation levels to peers, as to which the Executive Compensation and Stock Option Committee concurs.

Bonus Compensation/ Annual Incentives

As the result of their efforts in increasing the profitability of our company, bonuses were awarded as follows. For European operations, each of Messrs. Santi and Garcia-Pelayo received a cash bonus of \$197,302 (157,000 euros) and Mr. Benacin received a cash bonus of \$153,174 (122,000 euros). For United States operations, Mr. Greenberg received a cash bonus of \$30,000. In order for Mr. Madar to receive a cash bonus, United States operations has to achieve after tax profit target. However, our Chief Executive Officer did not receive a cash bonus primarily due to the expenses incurred by United States operations with respect to start up costs for our Gap and Banana Republic fragrance products, and the downward sales trend in the mass market. However, the Executive Compensation Committee has determined to use the same after tax profit target for our company's United States operations that will be used to calculate Mr. Madar's bonus for 2007.

Under the terms of her employment agreement, Marcella Cacci was also entitled to a pro rated bonus of \$62,500 as Burberry Fragrances reached certain sales targets.

Long Term Incentives

The long-term incentives are geared towards linking benefits to corporate performance through the grant of stock options. All options are granted with an exercise price equal to the fair market value of the underlying shares of our common stock on the date of grant, and terminate on or shortly after severance of the executive's relationship with us. Unless the market price of our common stock increases, corporate executives will have no tangible benefit. Thus, they are provided with the extra incentive to increase individual performance with the ultimate goal of increased our overall performance. In addition, Inter Parfums, S.A. maintains a profit sharing plan for its employees. We believe that enhanced executive incentives which result in increased corporate performance tend to build company loyalty. As a general rule, the number of options granted is determined by several factors, both individual and company operating results for the past year, as well as past option grants to such executives.

Under the terms of her employment agreement, Ms. Cacci received the following benefits:

- Stock Options: Options to purchase 20,000 ordinary shares of Inter Parfums S.A.'s common stock at a purchase price equal to the fair market value of the shares at the time of the grant, vesting 1/3 each year for three years.
- One Time Issuance of Restricted Shares: Issuance of 5,000 ordinary shares of Inter Parfums S.A. vesting 1/3 each year for three years.

However, as the result of her termination without cause in 2006, all vesting restrictions on the option grant and restricted shares lapsed and became fully vested.

During 2006, upon the recommendation of the company's Chief Executive Officer, the Executive Compensation and Stock Option Committee granted options to purchase 40,000 shares our common stock to each of Jean Madar and Philippe Benacin, 25,000 shares to Mr. Greenberg, and 5,000 to each of Messrs. Santi and Garcia- Pelayo, all at the fair market value on the date of grant. However, commencing in 2006 we granted nonqualified stock options with a term of 6 years rather than the 5 years as had been done over the past several years, because the option grants vest now ratably of a 5-year period on a cumulative basis, so that the option will become fully exercisable at the beginning of the sixth year from the date of grant.

We believe that the vesting period of these options serves a dual purpose: 1. executives will not receive any benefit if they leave prior to such portion of the option vesting; and 2. as options granted to employees are now required to be accounted as a compensation expense, the compensation expense to our company is thereby lessened.

Under our stock option plan, non-qualified stock options granted to executives terminate immediately upon the executive's termination of association with our company. This termination provision coupled with vesting may reduce certain benefits afforded to an executive when an executive officer leaves our employ.

For 2006, the option grants to Messrs. Madar and Benacin were actually less in number than the option grants made for the past several years, while the option grant to Mr. Greenberg was commensurate with his option grant in 2005. Our company has not in the past routinely granted options to executive officers of Inter Parfums, S.A. other than Mr. Benacin, but rather such grants are handled on a case by case basis each year.

Over the past few years as our company has grown and the market price of our common stock has increased, Messrs. Madar and Benacin have realized substantial compensation as the result of the exercise of their options. As the two executives most responsible for continued growth and success of our company, the Committee believes the granting of options is an appropriate tool to tie a substantial portion of their compensation to the success of our company and is completely warranted.

In addition, Inter Parfums, SA maintains its own stock option plan, profit sharing plan and a relatively small pension plan, which provide long term benefits to the executive officers of our European operations.

The actual compensation realized as the result of the exercise of options, as well as the future potential of such rewards, are powerful incentives for increased individual performance, and ultimately increased company performance. In view of the fact that these executive officers contribute significantly to our profitable operations, the Executive Compensation and Stock Option Committee believes these incentives to be fair to these executive officers and to our shareholders.

Conclusion

The Executive Compensation and Stock Option Committee believes that its present policies to date, with its emphasis on rewarding performance, has served to focus the efforts of our executives to achieve a high rate of growth and profitability, which management believes will result in a substantial increase in value to our shareholders.

Francois Heilbronn
Jean Levy and
Daniel Piette (through June 2006) and Patrick Choël (after June 2006)

Plan Based Awards

The following table sets certain information relating to each grant of an award made to the executive officers of our company listed in the Summary Compensation Table during the past fiscal year.

| Name | Grant Date | Grants of Plan-Based Awards | | | | | | All Other Stock Awards: Number of Shares of Stock or Units (#) | All Other Option Awards: Number of Securities Underlying Options (#) | Exercise or Base Price of Option Awards (\$/Sh) |
|------------------------|------------|---|-------------|--------------|---|-------------|--------------|--|--|---|
| | | Estimated Future Payouts Under Non-Equity Incentive Plan Awards | | | Estimated Future Payouts Under Equity Incentive Plan Awards | | | | | |
| | | Threshold (\$) | Target (\$) | Maximum (\$) | Threshold (\$) | Target (\$) | Maximum (\$) | | | |
| Jean Madar | 12/15/06 | -0- | -0- | -0- | -0- | -0- | -0- | -0- | 40,000 | 19.655 |
| Jean Madar | 6/1/2006* | -0- | -0- | -0- | -0- | -0- | -0- | -0- | 11,000 | 39.96 |
| Russell Greenberg | 12/15/06 | -0- | -0- | -0- | -0- | -0- | -0- | -0- | 25,000 | 19.655 |
| Russell Greenberg | 6/1/2006* | -0- | -0- | -0- | -0- | -0- | -0- | -0- | 880 | 39.96 |
| Philippe Benacin | 12/15/06 | -0- | -0- | -0- | -0- | -0- | -0- | -0- | 40,000 | 19.655 |
| Philippe Benacin | 6/1/2006* | -0- | -0- | -0- | -0- | -0- | -0- | -0- | 11,000 | 39.96 |
| Philippe Santi | 12/15/06 | -0- | -0- | -0- | -0- | -0- | -0- | -0- | 5,000 | 19.655 |
| Philippe Santi | 6/1/2006* | -0- | -0- | -0- | -0- | -0- | -0- | -0- | 6,600 | 39.96 |
| Frédéric Garcia-Pelayo | 12/15/06 | -0- | -0- | -0- | -0- | -0- | -0- | -0- | 5,000 | 19.655 |
| Frédéric Garcia-Pelayo | 6/1/2006* | -0- | -0- | -0- | -0- | -0- | -0- | -0- | 11,000 | 39.96 |
| Marcella Cacci | NA | -0- | -0- | -0- | -0- | -0- | -0- | -0- | -0- | -0- |

*Represent options to purchase ordinary shares of Inter Parfums, S.A. at the then current market price of the Inter Parfums, S.A. ordinary shares

As discussed above, commencing in 2006 we granted nonqualified stock options with a term of 6 years rather than the 5 years as had been done over the past several years, because the option grants vest now ratably of a 5-year period on a cumulative basis, so that the option will become fully exercisable at the beginning of the sixth year from the date of grant.

In addition, options were granted to purchase ordinary shares of Inter Parfums, S.A. at the then current market price of the Inter Parfums, S.A. ordinary shares. Such options vest after a four year period.

We believe that the vesting period of these options serves a dual purpose: 1. executives will not receive any benefit if the leave prior to such portion of the option vesting; and 2. as options granted to employees are now required to be accounted as a compensation expense, the compensation expense to our company is thereby lessened.

Outstanding Equity Awards At Fiscal Year-End

The following table sets certain information relating to outstanding equity awards in our company held by the executive officers of our company listed in the Summary Compensation Table as of the end of the past fiscal year.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

| Name | Option Awards | | | | |
|-------------------|---|---|--|----------------------------|------------------------|
| | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#) | Option Exercise Price (\$) | Option Expiration Date |
| Jean Madar | 50,000 | | -0- | 8.025 | 12/19/07 |
| | 50,000 | | -0- | 23.050 | 12/30/08 |
| | 50,000 | | -0- | 15.390 | 12/09/09 |
| | 50,000 | | -0- | 14.950 | 04/19/10 |
| | | 40,000 | -0- | 19.655 | 12/14/12 |
| | | | | | |
| Russell Greenberg | 18,000 | | -0- | 8.025 | 12/19/07 |
| | 18,000 | | -0- | 23.050 | 12/30/08 |
| | 25,000 | | -0- | 15.390 | 12/09/09 |
| | 25,000 | | -0- | 14.950 | 04/19/10 |
| | | 25,000 | -0- | 19.655 | 12/14/12 |
| | | | | | |
| Philippe Benacin | 50,000 | | -0- | 8.025 | 12/19/07 |
| | 50,000 | | -0- | 23.050 | 12/30/08 |
| | 50,000 | | -0- | 15.390 | 12/09/09 |
| | 50,000 | | -0- | 14.950 | 04/19/10 |
| | | 40,000 | -0- | 19.655 | 12/14/12 |
| | | | | | |
| Philippe Santi | 7,500 | | -0- | 7.850 | 01/23/08 |
| | 10,000 | | -0- | 25.240 | 02/12/09 |

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| | | | | | |
|------------------------|-------|-------|-----|--------|----------|
| | 7,500 | | -0- | 15.390 | 12/09/09 |
| | 7,500 | | -0- | 14.950 | 04/19/10 |
| | | 5,000 | -0- | 19.655 | 12/14/12 |
| | | | | | |
| Frédéric Garcia-Pelayo | 5,000 | 5,000 | -0- | 19.655 | 12/14/12 |
| Marcella Cacci | -0- | -0- | -0- | NA | NA |

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As discussed above, commencing in 2006 we granted nonqualified stock options with a term of 6 years rather than the 5 years as had been done over the past several years, because the option grants vest now ratably of a 5-year period on a cumulative basis, so that the option will become fully exercisable at the beginning of the sixth year from the date of grant.

We believe that the vesting period of these options serves a dual purpose: 1. executives will not receive any benefit if they leave prior to such portion of the option vesting; and 2. as options granted to employees are now required to be accounted as a compensation expense, the compensation expense to our company is thereby lessened.

The following table sets certain information relating to outstanding equity awards granted by Inter Parfums, S.A. held by the executive officers of our company listed in the Summary Compensation Table as of the end of the past fiscal year.

**OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END
OF INTER PARFUMS, S.A.**

| Name | Number of Securities Underlying Unexercised Options (#) Exercisable | Option Awards | | Option Expiration Date |
|-------------------|---|---|-------------------------------|------------------------|
| | | Number of Securities Underlying Unexercised Options (#) Unexercisable | Option Exercise Price (euros) | |
| Jean Madar | | 12,100 | 18.30 | 08/26/09 |
| | | 16,940 | 26.70 | 03/25/10 |
| | | 12,100 | 25.00 | 05/26/11 |
| | | 11,000 | 31.80 | 06/01/12 |
| | | | | |
| Russell Greenberg | 3,082 | | 13.80 | 03/24/07 |
| | 3,297 | | 19.30 | 04/26/08 |
| | 2,662 | | 11.10 | 08/26/09 |
| | | 1,089 | 18.30 | 08/26/09 |
| | | 968 | 26.70 | 03/25/10 |
| | | 1,210 | 25.00 | 05/26/11 |
| | | 880 | 31.80 | 06/01/12 |
| | | | | |
| Philippe Benacin | 5,013 | | 11.10 | 08/26/09 |
| | | 12,100 | 18.30 | 08/26/09 |
| | | 16,940 | 26.70 | 03/25/10 |
| | | 12,100 | 25.00 | 05/26/11 |
| | | 11,000 | 31.80 | 06/01/12 |
| | | | | |

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| | | | | |
|----------------|-------|-------|-------|----------|
| Philippe Santi | 8,785 | | 11.10 | 08/26/09 |
| | | 6,050 | 18.30 | 08/26/09 |
| | | 8,712 | 26.70 | 03/25/10 |

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| | | | | |
|------------------------|--------|--------|-------|----------|
| | | 7,260 | 25.00 | 05/26/11 |
| | | 6,600 | 31.80 | 06/01/12 |
| | | | | |
| Frédéric Garcia-Pelayo | 4,226 | | 19.30 | 04/26/08 |
| | 8,785 | | 11.10 | 08/26/09 |
| | | 6,050 | 18.30 | 08/26/09 |
| | | 8,712 | 26.70 | 03/25/10 |
| | | 7,260 | 25.00 | 05/26/11 |
| | | 11,000 | 31.80 | 06/01/12 |
| | | | | |
| Marcella Cacci | 24,200 | | 25.00 | 05/26/11 |

Option Exercises and Stock Vested

The following table sets forth certain information relating to each option exercise effected during the past fiscal year, and each vesting of stock, including restricted stock, restricted stock units and similar instruments of our company during the past fiscal year, for the executive officers of our company listed in the Summary Compensation Table.

| OPTION EXERCISES AND STOCK VESTED | | | | |
|--|---|--|--|--------------------------------|
| | Option Awards | | Stock Awards | |
| Name | Number of Shares Acquired on Exercise (#) | Value Realized on Exercise (\$) ¹ | Number of Shares Acquired on Vesting (#) | Value Realized On Vesting (\$) |
| Jean Madar ² | 50,000 | 654,000 | -0- | -0- |
| Russell Greenberg | 18,000 | 235,000 | -0- | -0- |
| Philippe Benacin ² | 50,000 | 654,000 | -0- | -0- |
| Philippe Santi | -0- | -0- | -0- | -0- |
| Frédéric Garcia-Pelayo | -0- | -0- | -0- | -0- |
| Marcella Cacci | -0- | -0- | -0- | -0- |

[Footnotes from table above]

¹Total value realized on exercise of options in dollars is based upon the difference between the fair market value of the common stock on the date of exercise, and the exercise price of the option, or the fair market value of the net amount of shares received upon exercise of options.

²In November 2006 both the Chief Executive Officer and the President exercised an aggregate of 100,000 outstanding stock options of the Company's common stock. The aggregate exercise prices of \$0.8 million in 2006, were paid by them tendering to the Company in 2006 an aggregate of 37,278 of the Company's common stock, previously owned by them, valued at fair market value on the date 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 2006 an additional 7,840 shares, respectively, for payment of certain withholding taxes resulting from his option exercise.

The following table sets forth certain information relating to each option exercise effected during the past fiscal year, and each vesting of stock, including restricted stock, restricted stock units and similar instruments during the past fiscal year, of Inter Parfums, S.A., for the executive officers of our company listed in the Summary Compensation Table.

| OPTION EXERCISES AND STOCK VESTED | | | | |
|--|---|--|--|--------------------------------|
| Name | Option Awards | | Stock Awards | |
| | Number of Shares Acquired on Exercise (#) | Value Realized on Exercise (\$) ¹ | Number of Shares Acquired on Vesting (#) | Value Realized On Vesting (\$) |
| Jean Madar | 17,303 | 743,669 | -0- | -0- |
| Jean Madar | 17,577 | 755,444 | -0- | -0- |
| Jean Madar | 19,110 | 821,331 | -0- | -0- |
| | | | | |
| Russell Greenberg | 1,841 | 67,000 | -0- | -0- |
| | | | | |
| Philippe Benacin | 6,027 | 274,388 | -0- | -0- |
| Philippe Benacin | 6,263 | 285,714 | -0- | -0- |
| | | | | |
| Philippe Santi | 4,000 | 181,970 | -0- | -0- |
| Philippe Santi | 497 | 21,236 | -0- | -0- |
| Philippe Santi | 4,729 | 202,595 | -0- | -0- |
| | | | | |
| Frédéric Garcia-Pelayo | 363 | 15,410 | -0- | -0- |
| Frédéric Garcia-Pelayo | 400 | 17,086 | -0- | -0- |
| Frédéric Garcia-Pelayo | 5,000 | 227,463 | -0- | -0- |
| | | | | |
| Marcella Cacci | -0- | -0- | 5,000 | 217,000 |

[Footnotes from table above]

¹Total value realized on exercise of options in dollars is based upon the difference between the fair market value of the common stock on the date of exercise, and the exercise price of the option.

Pension Benefits

The following table sets forth certain information relating to payment of benefits following or in connection with retirement during the past fiscal year, for the executive officers of our company listed in the Summary Compensation Table.

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PENSION BENEFITS

| Name | Plan Name | Number of Years Credited Service (#) | Present Value of Accumulated Benefit (\$) | Payments During Last Fiscal Year (\$) |
|------------------------|-------------------------------|--------------------------------------|---|---------------------------------------|
| Jean Madar | NA | NA | -0- | -0- |
| Russell Greenberg | NA | NA | -0- | -0- |
| Philippe Benacin | Inter Parfums SA Pension Plan | NA | 59,800 euros | 8,797 |
| Philippe Santi | Inter Parfums SA Pension Plan | NA | 59,800 euros | 8,797 |
| Frédéric Garcia-Pelayo | Inter Parfums SA Pension Plan | NA | 59,800 euros | 8,797 |
| Marcella Cacci | NA | NA | -0- | -0- |

Nonqualified Deferred Compensation

We do not maintain any nonqualified deferred compensation plans.

Employment Agreements

As part of our acquisition in 1991 of the controlling interest in Inter Parfums, S.A., now a subsidiary, we entered into an employment agreement with Philippe Benacin. The agreement provides that Mr. Benacin will be employed as Vice Chairman of the Board and President and Chief Executive Officer of Inter Parfums Holdings and its subsidiary, Inter Parfums. The initial term expired on September 2, 1992, and has subsequently been automatically renewed for additional annual periods. The agreement provides for automatic annual renewal terms, unless either party terminates the agreement upon 120 days notice. For 2007 Mr. Benacin presently receives an annual salary of \$240,000, plus annual lodging expenses of approximately \$75,000 and automobile expenses of approximately \$9,000, which are subject to increase in the discretion of the Board of Directors. The agreement also provides for indemnification and a covenant not to compete for one year after termination of employment.

In February 2005 we entered into an employment agreement with Marcella Cacci to act as the President of Burberry Fragrances, a division of Inter Parfums, S.A. for a three year period. Her salary is \$400,000, which is subject to adjustment for currency fluctuations under certain circumstances. She is also entitled to annual bonuses of \$125,000 if Burberry Fragrances reaches certain sales targets, and another \$125,000 if Burberry Fragrances achieves a specified target based upon earnings of Burberry Fragrances before interest and taxes.

Under the terms of such employment agreement, Ms. Cacci also received the following benefits:

- Stock Options: Options to purchase 20,000 ordinary shares of Inter Parfums S.A.'s common stock at a purchase price equal to the fair market value of the shares at the time of the grant, vesting 1/3 each year for three years.

· One Time Issuance of Restricted Shares: Issuance of 5,000 ordinary shares of Inter Parfums S.A. vesting 1/3 each year for three years.

The Corporation terminated Marcella Cacci without cause, effective June 30 2006. Upon such termination of the employment agreement by us without cause, we are obligated to pay Ms. Cacci 0.75 times her annual salary, bonus and benefits. In addition, if Burberry Fragrances reaches certain milestones during the year of termination, then she would be entitled to a pro-rated bonus for such year based upon the number of days of her employment. Finally, as the result of termination without cause, all vesting restrictions on the option grant and restricted shares have lapsed and become fully vested. In December 2006 we paid Ms. Cacci her severance pay and severance bonus of \$293,750, \$217,000 in lieu of the issuance of restricted shares of Inter Parfums SA, as well her housing allowance of \$48,000 throughout 2006.

Compensation of Directors

The following table sets forth certain information relating to the compensation for each of our directors who is not an executive officer of our Company named in the Summary Compensation Table for the past fiscal year.

| Name | Fees Earned or Paid in Cash (\$) | Stock Awards (\$) | DIRECTOR COMPENSATION | | | All Other Compensation (\$) ⁹ | Total (\$) |
|---------------------------------------|----------------------------------|-------------------|-----------------------|---|---|--|----------------------|
| | | | Option Awards (\$) | Non-Equity Incentive Plan Compensation (\$) | Change in Pension Value and Nonqualified Deferred Compensation Earnings | | |
| Francois Heilbronn ¹ | 6,000 | -0- | 6,300 | -0- | -0- | 23,285 | 35,585 |
| Joseph A. Caccamo ² | 4,000 | -0- | 25,200 | -0- | -0- | 47,920 | 77,120 ¹⁰ |
| Jean Levy ³ | 5,000 | -0- | 6,300 | -0- | -0- | 12,535 | 23,835 |
| Robert Bensoussan-Torres ⁴ | 5,000 | -0- | 6,300 | -0- | -0- | 12,535 | 23,835 |
| Jean Cailliau ⁵ | 4,000 | -0- | 6,300 | -0- | -0- | 13,066 | 23,366 |
| Serge Rosinoer ⁶ | 3,000 | -0- | 6,300 | -0- | -0- | -0- | 9,300 |
| Patrick Choël ⁷ | 13,054 | -0- | 9,500 | -0- | -0- | -0- | 24,554 |
| Daniel Piette ⁸ | -0- | -0- | 6,300 | -0- | -0- | 18,221 | 24,521 |

1. As of the end of the last fiscal year, Mr. Heilbronn held options to purchase an aggregate of 4,000 shares of our common stock.
2. As of the end of the last fiscal year, Mr. Caccamo held options to purchase an aggregate of 12,000 shares of our common stock, 8,000 of which are held as nominee for his present firm and 4,000 of which are held as nominee for his former employer. Mr. Caccamo disclaims beneficial ownership of such options.
3. As of the end of the last fiscal year, Mr. Levy held options to purchase an aggregate of 4,000 shares of our common stock.
4. As of the end of the last fiscal year, Mr. Bensoussan-Torres held options to purchase an aggregate of 4,000 shares of our common stock.
5. As of the end of the last fiscal year, Mr. Cailliau held options to purchase an aggregate of 4,000 shares of our common stock.
6. As of the end of the last fiscal year, Mr. Rosinoer held options to purchase an aggregate of 5,000 shares of our common stock.
7. As of the end of the last fiscal year, Mr. Choël held options to purchase an aggregate of 2,000 shares of our common stock. Mr Choël replaced Mr. Piette in June 2006.
8. Mr. Piette stepped down from the board of directors in June 2006 and as of the end of the last fiscal year, Mr. Piette did not hold any options to purchase shares of our common stock.
9. Represents the difference between the exercise price of the option and the fair market value of the underlying common stock on the date of exercise. Mr. Caccamo disclaims beneficial ownership of the option and the proceeds thereof.
10. Does not include \$137,000 paid for legal fees and expenses to Mr. Caccamo's law firm.

Throughout 2006, all nonemployee directors received \$1,000 for each board meeting at which they participate. Mr. Caccamo's board fees were paid to his law firm. Commencing in January 2007, all nonemployee directors are to receive \$2,000 for each board meeting at which they participate. In addition, all members of the Audit Committee receive an additional annual fee \$2,000 on January 1 of each year in which they serve on the Audit Committee, which was increased to \$4,000, commencing in January 2007.

We maintain stock option plans for our nonemployee directors. The purpose of these plans is to assist us in attracting and retaining key directors who are responsible for continuing the growth and success of our Company. Under such plans, options to purchase 1,000 shares are granted on each February 1st to all nonemployee directors for as long as each is a nonemployee director on such date except for Joseph A. Caccamo, who is granted options to purchase 4,000 shares. Options to purchase 2,000 shares are granted to each nonemployee director upon his initial election or appointment to our board.

On February 1, 2007, options to purchase 1,000 shares were granted to each of Francois Heilbronn, Jean Levy, Robert Bensoussan-Torres, Jean Cailliau and Patrick Choël, an option to purchase 500 shares was granted to Serge Rosinoer and an option to purchase 4,000 shares was granted to Joseph A. Caccamo, all at the exercise price of \$19.845 per share under the 2004 plan. Such option vest ratably over a 4 year period. The options held by Mr. Caccamo are held as nominee for his law firm.

Item 12. Security Ownership Of Certain Beneficial Owners And Management and Related Stockholder Matters

The following table sets forth information, as of March 1, 2007 with respect to the beneficial ownership of our common stock by (a) each person we know to be the beneficial owner of more than five percent of our outstanding common stock, (b) our executive officers and directors and (c) all of our directors and officers as a group. As of March 1, 2007 we had 20,437,292 shares of common stock outstanding.

| Name and Address of Beneficial Owner | Amount of Beneficial Ownership ¹ | Approximate Percent of Class |
|---|---|------------------------------|
| Jean Madar c/o Inter Parfums, S.A. 4, Rond Point Des Champs Elysees 75008 Paris, France | 5,841,856 ² | 28.6% |
| Philippe Benacin c/o Inter Parfums, S.A. 4, Rond Point Des Champs Elysees 75008 Paris, France | 5,779,414 ³ | 28.0% |
| Russell Greenberg c/o Inter Parfums, Inc. 551 Fifth Avenue New York, NY 10176 | 91,000 ⁴ | Less than 1% |
| Francois Heilbronn 60 Avenue de Breteuil 75007 Paris, France | 23,337 ⁵ | Less than 1% |
| Joseph A. Caccamo, Esq. GrayRobinson, P.A. 401 East Las Olas Blvd., Ste. 1850 Ft. Lauderdale, FL 33301 | 12,000 ⁶ | Less than 1% |
| Jean Levy Chez Axxcess Groupe 8 rue de Berri 75008 Paris, France | 5,000 ⁷ | Less than 1% |
| Robert Bensoussan-Torres 8 Bramerton Street SW3 5JX London, England | 11,000 ⁸ | Less than 1% |
| Jean Cailliau L Capital Management 22, avenue Montaigne 75008, Paris, France | 4,000 ⁹ | Less than 1% |

¹ All shares of common stock are directly held with sole voting power and sole power to dispose, unless otherwise stated. Options which are exercisable within 60 days are included in beneficial ownership calculations. Jean Madar, the Chairman of the Board and Chief Executive Officer of Inter Parfums and Philippe Benacin, the Vice Chairman of the Board and President of Inter Parfums, have a verbal agreement or understanding to vote their shares in a like manner. As Messrs. Madar and Benacin beneficially own more than 50% of the outstanding shares of the Inter Parfums' common stock, Inter Parfums is considered a "controlled company" under the applicable rules of The Nasdaq Stock Market.

² Consists of 4,541,855 shares held directly, 1,100,001 shares held indirectly through a personal holding company and options to purchase 200,000 shares. Shares held directly includes 1,124,000 shares pledged as collateral for personal loans/lines of credit.

³ Consists of 4,479,413 shares held directly, 1,100,001 shares held indirectly through a personal holding company and options to purchase 200,000 shares. Shares held directly includes 500,000 shares pledged as collateral for personal loans/lines of credit.

⁴ Consists of 5,000 shares held directly and options to purchase 86,000 shares.

⁵ Consists of 19,375 shares held directly and options to purchase 4,000 shares.

⁶ Consists of shares of common stock underlying options, 8,000 of which are held as nominee for his former employer and 4,000 of which are held for his present employer. Beneficial ownership of such shares is disclaimed.

⁷ Consists of 1,000 shares held directly and options to purchase 4,000 shares.

⁸ Consists of 7,000 shares held directly and options to purchase 4,000 shares.

⁹ Consists of shares of common stock underlying options.

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| | | |
|--|--------------------------|--------------|
| Philippe Santi Inter Parfums, S.A. 4, Rond Point Des Champs Elysees 75008, Paris France | 32,500 ¹⁰ | Less than 1% |
| Serge Rosinoer 14 rue LeSueur 75116 Paris, France | 9,700 ¹¹ | Less than 1% |
| Patrick Choël Universite -82 7 rue de Talleyrand 75007, Paris, France | -0- | NA |
| Frederic Garcia-Pelayo Inter Parfums, S.A. 4, Rond Point Des Champs Elysees 75008, Paris France | -0- | NA |
| Jack Ayer Inter Parfums, S.A. 4, Rond Point Des Champs Elysees 75008, Paris France | -0- | NA |
| Axel Marot Inter Parfums, S.A. 4, Rond Point Des Champs Elysees 75008, Paris France | -0- | NA |
| Royce & Associates, LLC ¹² 1414 Avenue of the Americas New York, NY 10019 | 2,178,800 | 10.7% |
| Independence Investments, LLC ¹³ 551 Fifth Avenue New York, NY 10176 | 1,204,686 | 5.9% |
| All Directors and Officers (As a Group 16 Persons) | 11,809,807 ¹⁴ | 56.3% |

¹⁰ Consists of shares of common stock underlying options.

¹¹ Consists of 4,700 shares held directly and options to purchase 5,000 shares.

¹² Information derived from an Amendment to Schedule 13G dated January 22, 2007.

¹³ Information derived from a Schedule 13G dated January 11, 2007.

¹⁴ Consists of 11,258,307 shares held directly, and options to purchase 551,500 shares.

The following table sets forth certain information as of the end of our last fiscal year regarding all equity compensation plans that provide for the award of equity securities or the grant of options, warrants or rights to purchase our equity securities.

Equity Compensation Plan Information

| Plan category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|--|--|--|--|
| Equity compensation plans approved by security holders | 867,600 | 16.53 | 874,429 |
| Equity compensation plans not approved by security holders | -0- | N/A | -0- |
| Total | 867,600 | 16.53 | 875,429 |

Item 13. Certain Relationships And Related Transactions

Transactions with French Subsidiaries

In connection with the acquisitions by our subsidiary, Inter Parfums, S.A., of the world-wide rights under the Burberry license agreement and the Paul Smith license agreement, we guaranteed the obligations of Inter Parfums, S.A. under the Burberry and Paul Smith license agreements. In addition, Inter Parfums, S.A. has agreed to reimburse us for all of our obligations that we incur under an employment agreement with a senior executive.

Option Exercise Paid With Tender of Shares

In November 2006 both the Chief Executive Officer and the President exercised an aggregate of 100,000 outstanding stock options of the Company's common stock. The aggregate exercise prices of \$0.8 million in 2006, were paid by them tendering to the Company in 2006 an aggregate of 37,278 of the Company's common stock, previously owned by them, valued at fair market value on the date 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 2006 an additional 7,840 shares, respectively, for payment of certain withholding taxes resulting from his option exercise.

Remuneration of Counsel

Joseph A. Caccamo, a director, is a shareholder of the law firm of GrayRobinson, P.A., our general counsel. During 2006, we paid GrayRobinson, P.A. \$137,000 for their services and reimbursement of disbursements incurred on our behalf.

On February 1, 2007, an option to purchase 4,000 shares was granted to Joseph A. Caccamo, all at the exercise price of \$19.845 per share under the 2004 plan. Such option vests ratably over a 4 year period. The options held by Mr. Caccamo are held as nominee for his law firm.

Procedures for Approval of Related Person Transactions

Transactions between related persons, such as between an executive officer or director and our company, or any company or person controlled by such officer or director, are required to be approved by our Audit Committee of our Board of Directors. Our Audit Committee Charter contains such explicit authority, as required by the applicable rules of The Nasdaq Stock Market.

Item 14. Principal Accountant Fees and Services

General

On October 15, 2004 Mazars LLP was engaged as the principal accountants to audit the financial statements of Inter Parfums, Inc. The decision to engage Mazars LLP was approved by our audit committee.

Fees

The following sets forth the fees billed to us by Mazars LLP, as well as discusses the services provided for the past two fiscal years, fiscal years ended December 31, 2005 and December 31, 2006.

Audit Fees

During 2005 the fees billed by Mazars LLP and its affiliate, Mazars S.A. for audit services and review of the financial statements contained in our Quarterly Reports on Form 10-Q were \$509,500. During 2006 the fees billed by Mazars LLP and its affiliate, Mazars S.A. for audit services and review of the financial statements contained in our Quarterly Reports on Form 10-Q were \$588,000.

Audit-Related Fees

Mazars billed us \$11,000 for audit related fees during 2005 and \$22,000 during 2006.

Tax Fees

Mazars LLP did not bill us for tax services during 2005 or 2006.

All Other Fees

Mazars LLP did not bill us for any other services during 2005 or 2006.

Audit Committee Pre Approval Policies and Procedures

The Audit Committee has the sole authority for the appointment, compensation and oversight of the work of our independent accountants, who prepare or issue an audit report for us.

During the first quarter of 2007, the audit committee authorized the following non-audit services to be performed by Mazars LLP .

- We authorized the engagement of Mazars LLP if deemed necessary to provide tax consultation in the ordinary course of business for fiscal year ended December 31, 2007.
- We authorized the engagement of Mazars LLP if deemed necessary to provide tax consultation as may be required on a project by project basis that would not be considered in the ordinary course of business, of up to a \$5,000 fee limit per project, subject to an aggregate fee limit of \$25,000 for fiscal year ending December 31, 2007. If we require further tax services from Mazars LLP, then the approval of the audit committee must be obtained.
- If we require other services by Mazars LLP on an expedited basis such that obtaining pre-approval of the audit committee is not practicable, then the Chairman of the Committee has authority to grant the required pre-approvals for all such services.
- None of the non-audit services of either of the Company's auditors had the pre-approval requirement waived in accordance with Rule 2-01(c)(7)(i)(C) of Regulation S-X.

PART IV**Item 15. Exhibits, Financial Statement Schedules**

| (a)(1) | Financial Statements annexed hereto | Page No. |
|--------|---|----------|
| | Report of Independent Registered Public Accounting Firm | F-2 |
| | Consolidated Balance Sheets as of December 31, 2006 and December 31, 2005 | F-3 |
| | Consolidated Statements of Income for each of the years in the three-year period ended December 31, 2006 | F-4 |
| | Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income for each of the years in the three-year period ended December 31, 2006 | F-5 |
| | Consolidated Statements of Cash Flows for each of the years in the three-year period ended December 31, 2006 | F-6 |
| | Notes to Consolidated Financial Statements | F-7 |
| (a)(2) | Financial Statement Schedules annexed hereto: | |
| | Schedule II - Valuation and Qualifying Accounts | F-24 |
| | Schedules other than those referred to above have been omitted as the conditions requiring their filing are not present or the information has been presented elsewhere in the consolidated financial statements. | |

(a)(3) Exhibits

The following document heretofore filed with the Commission is incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1991:

Exhibit No. Description

10.25 Employment Agreement between the Company and Philippe Benacin dated July 29, 1991

The following documents heretofore filed with the Commission is incorporated by reference to the Company's Registration Statement on Form S-1 (No. 33-48811):

Exhibit No. Description

10.26 Lease for portion of 15th Floor, 551 Fifth Avenue, New York, New York

The following documents heretofore filed with the Commission are incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1993:

Exhibit No. Description

3.3 Articles of Incorporation of Inter Parfums Holdings, S.A.

3.3.1 English Translation of Exhibit no. 3.3, Articles of Incorporation of Inter Parfums Holding, S.A.

3.4 Articles of Incorporation of Inter Parfums, S.A.

3.4.1 English Translation of Exhibit no. 3.4, Articles of Incorporation of Inter Parfums, S.A.

10.52 Lease for portion of 4, Rond Point Des Champs Des Elysees dated September 30, 1993

10.52.1 English translation of Exhibit no. 10.52, Lease for portion of 4, Rond Point Des Champs Des Elysees dated September 30, 1993

10.53 Lease for portion of 4, Rond Point Des Champs Des Elysees dated March 2, 1994

10.53.1 English translation of Exhibit no. 1053, Lease for portion of 4, Rond Point Des Champs Des Elysees dated March 2, 1994

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The following documents heretofore filed with the Commission are incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1994:

Exhibit No. Description

10.59 Modification of Lease Agreement dated June 17, 1994 between Metropolitan Life Insurance Company and Jean Philippe Fragrances, Inc.

The following documents heretofore filed with the Commission are incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995:

Exhibit No. Description

10.61 Lease for 60 Stults Road, South Brunswick, NJ between Forsgate Industrial Complex, a limited partnership, and Jean Philippe Fragrances, Inc. dated July 10, 1995

The following documents heretofore filed with the Commission are incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997:

Exhibit No. Description

10.67 Second Modification of Lease made as of the 30th day of April, 1997 between Metropolitan Life Insurance Company as landlord and Jean Philippe Fragrances, Inc. as tenant

10.69 Exclusive License Agreement dated June 20, 1997 between S.T. Dupont, S.A. and Inter Parfums (English translation, excised form)

The following documents heretofore filed with the Commission are incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998:

Exhibit No. Description

3.2 Amended and Restated By-laws

4.17 1997 Nonemployee Director Stock Option Plan

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- 10.70 License Agreement among Paul Smith Limited, Inter Parfums, S.A. and Jean-Philippe Fragrances, Inc. (Certain confidential information in this Exhibit 10.70 was omitted and filed separately with the Securities and Exchange Commission with a request for confidential treatment by Inter Parfums, Inc).
- 10.71 License Agreement between Christian LaCroix, a division of Group LVMH and Inter Parfums, S.A. (English translation) (Certain confidential information in this Exhibit 10.71 was omitted and filed separately with the Securities and Exchange Commission with a request for confidential treatment by Inter Parfums, Inc).

The following documents heretofore filed with the Commission are incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999:

Exhibit No. Description

- 3.1.4 Amendment to the Company's Restated Certificate of Incorporation, as amended, dated July 13, 1999 (listed therein as 3.1(d))

The following documents heretofore filed with the Commission are incorporated by reference to the Company's current report on Form 8-K/A no. 1 (date of event - 18 May 2000):

Exhibit No. Description

- 10.76 Celine License Agreement (Certain confidential information in this Exhibit 10.76 was omitted and filed separately with the Securities and Exchange Commission with a request for confidential treatment by Inter Parfums, Inc).
- 10.76.1 Celine License Agreement (English translation) (Certain confidential information in this Exhibit 10.76.1 was omitted and filed separately with the Securities and Exchange Commission with a request for confidential treatment by Inter Parfums, Inc).

The following document heretofore filed with the Commission is incorporated by reference to the Company's quarterly report on Form 10-Q for the period ending 30 June 2000:

Exhibit No. Description

- 3.1.5 Amendment to the Company's Restated Certificate of Incorporation, as amended, dated 12 July 2000 (listed therein as 3.1(e))

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The following documents heretofore filed with the Commission are incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000:

Exhibit No. Description

- 3.1.1 Restated Certificate of Incorporation dated September 3, 1987
- 3.1.2 Amendment to the Company's Restated Certificate of Incorporation dated July 31, 1992
- 3.1.3 Amendment to the Company's Restated Certificate of Incorporation dated July 9, 1993
- 4.19 2000 Nonemployee Director Stock Option Plan
- 10.79 Bail [Lease] for 18 avenue Franklin Roosevelt, Paris France [French Original]
- 10.79.1 Bail [Lease] for 18 avenue Franklin Roosevelt, Paris France [English Translation]
- 10.80 Credit Lyonnais Letter Agreement dated 22 March 2001 - [French Original]
- 10.80.1 Credit Lyonnais Letter Agreement dated 22 March 2001 - [English Translation]
- 10.81 Barclays Bank Letter Agreement dated 4 June 1998 - [French Original]
- 10.81.1 Barclays Bank Letter Agreement dated 4 June 1998 - [English Translation]
- 10.82 Banque OBC Odier Bungener Courvoisier Letter Agreement one dated 31 July 1998 - [French Original]
- 10.82.2 Banque OBC Odier Bungener Courvoisier Letter Agreement one dated 31 July 1998 - [English Translation]
- 10.83 Banque OBC Odier Bungener Courvoisier Letter Agreement two dated 31 July 1998 - [French Original]
- 10.83.2 Banque OBC Odier Bungener Courvoisier Letter Agreement two dated 31 July 1998 - [English Translation]
- 10.84 Banque Worms Letter Agreement dated 22 December 1997 - [French Original]
- 10.84.1 Banque Worms Letter Agreement dated 22 December 1997 - [English Translation]
- 10.85 Credit Agricole ile de France Letter Agreement dated 19 June 1996 - [French Original]
- 10.85.1 Credit Agricole ile de France Letter Agreement dated 19 June 1996 - [English Translation]

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The following documents heretofore filed with the Commission are incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001:

Exhibit No. Description

- 3.2 Amended and Restated By-laws
- 4.20 1999 Stock Option Plan, as amended

The following documents heretofore filed with the Commission is incorporated by reference to the Company's current report on Form 8-K (date of event - 29 May 2002):

Exhibit No. Description

- 10.90 Agreement dated 29th day of May, 2002, among Diane Von Furstenberg Studio, L.P., Inter Parfums USA, LLC and Inter Parfums, Inc. (Certain confidential information in this Exhibit 10.90 was omitted and filed separately with the Securities and Exchange Commission with a request for confidential treatment by Inter Parfums, Inc)

The following documents heretofore filed with the Commission are incorporated by reference to the Company's quarterly report on Form 10-Q for the period ending 30 June 2002:

Exhibit No. Description

- 19.92 Third Modification of Lease dated June 17, 2002 between Metropolitan Life Insurance Company, and Jean Philippe Fragrances, LLC

The following documents heretofore filed with the Commission are incorporated by reference to the Company's Quarterly Report for the quarterly period ended September 30, 2003:

Exhibit No. Description

- 10.97 Agreement dated as of August 8, 2003 between HSBC Bank USA and Jean Philippe Fragrances, LLC

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The following documents heretofore filed with the Commission is incorporated by reference to the Company's current report on Form 8-K (date of event - 7 January 2004):

Exhibit No. Description

16. Letter of Eisner LLP dated January 7, 2004

The following documents heretofore filed with the Commission is incorporated by reference to the Company's current report on Form 8-K/A (date of event – 7 January 2004):

Exhibit No. Description

16. Letter of Eisner LLP dated January 16, 2004

The following documents heretofore filed with the Commission are incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended 31 December 2003:

Exhibit No. Description

10.99 Agreement between Inter Parfums, S.A. and Credit Lyonnais dated 28 November 2003- French original

10.99.1 Agreement between Inter Parfums, S.A. and Credit Lyonnais dated 28 November 2003-English translation

10.100 Line of Credit Agreement between The Banque OBC-Odier Bungener Courvoisier and Inter Parfums, S.A dated 29 October 2003- French original

10.100.1 Line of Credit Agreement between The Banque OBC-Odier Bungener Courvoisier and Inter Parfums, S.A dated 29 October 2003- English translation

14 Code of Business Conduct

31 Certification Required by Rule 13a-14

32 Certification Required by Section 906 of the Sarbanes-Oxley Act

The following documents heretofore filed with the Commission are incorporated by reference to the Company's Quarterly Report for the quarterly period ended March 31, 2004:

Exhibit No. Description

2.2 Offer for purchase and sale of stock of the Nickel S.A. Company under conditions precedent among Inter Parfums S.A. and Philippe Dumont et al dated March 29, 2004- French original

2.2.1 Offer for purchase and sale of stock of the Nickel S.A. Company under conditions precedent among Inter Parfums S.A. and Philippe Dumont et al dated March 29, 2004- English translation

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- 2.3 Agreement for Sale of Equity Capital with Condition Precedent dated March 29, 2004- French original
- 2.3.1 Agreement for Sale of Equity Capital with Condition Precedent dated March 29, 2004- English Translation
- 10.101 Shareholders Agreement from Nickel SA Company dated March 29, 2004- French original
- 10.101.1 Shareholders Agreement from Nickel SA Company dated March 29, 2004-English translation
- 10.102 Agreement between BNP Paribas and Inter Parfums SA dated March 17, 2004- French Original
- 10.102.1 Agreement between BNP Paribas and Inter Parfums SA dated March 17, 2004- English translations

The following document heretofore filed with the Commission is incorporated by reference to the Company's Definitive Proxy Material filed on June 23, 2004 (and contained as Exhibit A to the Definitive Proxy Statement):

Exhibit No. Description

- 4.21 2004 Nonemployee Director Stock Option Plan
- 4.22 2004 Stock Option Plan

The following documents heretofore filed with the Commission are incorporated by reference to the Company's Quarterly Report for the quarterly period ended June 30, 2004:

Exhibit No. Description

- 3.1.6 Amendment to Certificate of Incorporation dated 6 August 2004
- 10.104 Lease dated as of 1 March 2001 for 300 West 14th Street, New York, NY
- 10.105 Loan Contract dated 12 July 2004 between Credit Lyonnais and Inter Parfums, S.A. (French Original)
- 10.105.1 Loan Contract dated 12 July 2004 between Credit Lyonnais and Inter Parfums, S.A. (English Translation)

- 10.106 Lease effective as of 1 April 2004 for 4-6 Rond Point des Champs Elysees, Ground and 1st Floor, Paris, France (French Original)
- 10.106.1 Lease effective as of 1 April 2004 for 4-6 Rond Point des Champs Elysees, Ground and 1st Floor, Paris, France (English Translation)
- 10.107 Lease effective as of 1 April 2004 for 4-6 Rond Point des Champs Elysees, 5th Floor-Left, Paris, France (French Original)
- 10.107.1 Lease effective as of 1 April 2004 for 4-6 Rond Point des Champs Elysees, 5th Floor-Left, Paris, France (English Translation)
- 10.108 Lease effective as of 1 April 2004 for 4-6 Rond Point des Champs Elysees, 6th Floor-Right, Paris, France (French Original)
- 10.108.1 Lease effective as of 1 April 2004 for 4-6 Rond Point des Champs Elysees, 6th Floor-Right, Paris, France (English Translation)

The following documents heretofore filed with the Commission are incorporated by reference to the Company's Quarterly Report for the quarterly period ended September 30, 2004:

Exhibit No. Description

- 10.109 Lease For Asnieres (92600) — 107, Quai Du Docteur Dervaux, (French Original)
- 10.109.1 Lease For Asnieres (92600) — 107, Quai Du Docteur Dervaux, (English Translation)
- 10.110 Lease For 48 Rue Des Francs-Bourgeois, In Paris, 3rd District (French Original)
- 10.110.1 Lease For 48 Rue Des Francs-Bourgeois, In Paris,, 3rd District (English Translation)
- 10.112 Confidential Treatment Agreement among Burberry Ltd., Inter Parfums, S.A., Inter Parfums, Inc. and LV Capital USA, Inc., et al., dated 12 October 2004
- 10.113 Indemnity Agreement among Burberry Ltd., Inter Parfums, S.A. and Inter Parfums, Inc. dated 12 October 2004

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The following document heretofore filed with the Commission are incorporated by reference to the Company's Quarterly Report, Form 10-QA Amendment No. 1, for the quarterly period ended September 30, 2004:

| Exhibit No. | Description |
|-------------|---|
| 10.111 | Licence Agreement among Burberry Ltd., Inter Parfums, S.A. and Inter Parfums, Inc. dated 12 October 2004 (Certain confidential information in Exhibit 10.111 has been omitted and filed separately with the Securities and Exchange Commission with a request for confidential treatment by Inter Parfums, Inc.). |

The following documents heretofore filed with the Commission are incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended 31 December 2004:

| <i>Exhibit No.</i> | <i>Description</i> |
|--------------------|---|
| 10.114 | Employment Agreement Dated February 8, 2005 Between Inter Parfums, Inc. and Marcella Cacci (Certain confidential information in this Exhibit 10.114 was omitted and filed separately with the Securities and Exchange Commission with a request for confidential treatment by Inter Parfums, Inc.). |
| 10.115 | Agreement dated July 29, 2004 between Credit Lyonnais and Groupe Inter Parfums (French Original) |
| 10.115.1 | Agreement dated July 29, 2004 between Credit Lyonnais and Groupe Inter Parfums (English Translation) |
| 10.116 | Logistics Service Contract (effective January 1, 2005) between Inter Parfums, S.A. and Sagatrans (French Original) |
| 10.116.1 | Logistics Service Contract (effective January 1, 2005) between Inter Parfums, S.A. and Sagatrans (English Translation) |
| 10.117 | Agreement dated July 29, 2004 between HSBC Bank USA and Jean Philippe Fragrances, LLC |
| 21 | List of Subsidiaries |
| 23.1 | Consent of Mazars LLP |
| 23.2 | Consent of KPMG LLP |
| 23.3 | Consent of Eisner LLP |
| 23.4 | Consent of KPMG Audit, a division of KPMG S.A. |
| 31 | Certification Required by Rule 13a-14 |
| 32 | Certification Required by Section 906 of the Sarbanes-Oxley Act |
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The following documents heretofore filed with the Commission are incorporated by reference to the Company's Annual Report on Form 10-K/A for the fiscal year ended 31 December 2004:

- 23.1 Consent of Mazars LLP
- 23.2 Consent of KPMG LLP
- 23.3 Consent of Eisner LLP
- 23.4 Consent of KPMG Audit, a division of KPMG S.A.
- 24 Power of Attorney
- 31 Certification Required by Rule 13a-14
- 32 Certification Required by Section 906 of the Sarbanes-Oxley Act

The following documents heretofore filed with the Commission are incorporated by reference to the Company's Quarterly Report for the quarterly period ended June 30, 2005:

- | Exhibit No. | Description |
|-------------|--|
| 10.118 | Agreement dated July 14, 2005 by and among The Gap, Inc., Banana Republic LLC, Gap (Apparel) LLC, Gap (ITM), Inc., Banana Republic (Apparel) LLC, Banana Republic (ITM), Inc., Gap (Puerto Rico), Inc., and Gap (Canada) Inc., together with their subsidiaries who operate stores on the one hand and Inter Parfums, Inc. and its wholly-owned subsidiary Inter Parfums USA, LLC. (Certain confidential information in this Exhibit 10.118 was omitted and filed separately with the Securities and Exchange Commission with a request for confidential treatment by Inter Parfums, Inc). |
| 10.119 | Renouvellement de Bail Commercial entre Civile Immobiliere du 4/6 Rond Point des Champs Elysees et Inter Parfums, S.A., 30 Jun 2005, Locaux 4 eme etage droite (French original) |
| 10.119.1 | Renouvellement de Bail Commercial entre Civile Immobiliere du 4/6 Rond Point des Champs Elysees et Inter Parfums, S.A., 30 Jun 2005, Locaux 4 eme etage droite (English translation) |
| 10.120 | Renouvellement de Bail Commercial entre Civile Immobiliere du 4/6 Rond Point des Champs Elysees et Inter Parfums, S.A., 30 Jun 2005, Locaux 4 eme etage gauche (French original) |

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- 10.120.1 Renouvellement de Bail Commercial entre Civile Immobiliere du 4/6 Rond Point des Champs Elysees et Inter Parfums, S.A., 30 Jun 2005, Locaux 4 eme etage gauche (English translation)

The following document heretofore filed with the Commission is incorporated by reference to the Company's Current Report on Form 8-K, date of event, October 25, 2005:

Exhibit No. Description

- 10.121 Referred to as Exhibit 10.1 in the Form 8-K, Form of Underwriting Agreement, incorporated by reference to Exhibit 1 to the Registration Statement on Form S-3, registration number 333-128170, as filed September 8, 2005.

The following documents heretofore filed with the Commission are incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended 31 December 2005:

Exhibit No. Description

- 10.122 Agreement dated July 31, 2005 between HSBC Bank USA and Jean Philippe Fragrances, LLC
- 10.123 Bail Commercial, 39 Avenue Franklin Roosevelt, 75008 Paris, eme etage, dated December 15, 2005 [French original]
- 10.123.1 Commercial Lease, 39 Avenue Franklin Roosevelt, 75008 Paris, 2nd Floor, dated December 15, 2005 [English translation]
- 10.124 Fourth Modification of Lease, portion of 15th Floor, 551 Fifth Avenue, New York, New York
- 10.125 Addendum effective March 2, 2006 to Agreement dated July 14, 2005 by and among The Gap, Inc., Banana Republic LLC, Gap (Apparel) LLC, Gap (ITM), Inc., Banana Republic (Apparel) LLC, Banana Republic (ITM), Inc., Gap (Puerto Rico), Inc., and Gap (Canada) Inc., together with their subsidiaries who operate stores on the one hand and Inter Parfums, Inc. and its wholly-owned subsidiary Inter Parfums USA, LLC. (Certain confidential information in this Exhibit 10.125 was omitted and filed separately with the Securities and Exchange Commission with a request for confidential treatment by Inter Parfums, Inc).
- 21 List of Subsidiaries
- 23.1 Consent of Mazars LLP

- 23.2 Consent of KPMG LLP
- 31.1 Certification Required by Rule 13a-14 of Chief Executive Officer
- 31.2 Certification Required by Rule 13a-14 of Chief Financial Officer
- 32 Certification Required by Section 906 of the Sarbanes-Oxley Act

The following documents heretofore filed with the Commission are incorporated by reference to the Company's Quarterly Report for the quarterly period ended March 31, 2006:

- | Exhibit No. | Description |
|-------------|--|
| 10.126 | Contrat de Licence de Marques entre QS Holdings SARL and Inter Parfums, S.A., executed on 23 March 2006 - French original (Certain confidential information in this Exhibit 10.126 was omitted and filed separately with the Securities and Exchange Commission with a request for confidential treatment by Inter Parfums, Inc). |
| 10.126.1 | Trademark License Agreement between QS Holdings SARL and Inter Parfums, S.A., executed on 23 March 2006 - English translation (Certain confidential information in this Exhibit 10.126.1 was omitted and filed separately with the Securities and Exchange Commission with a request for confidential treatment by Inter Parfums, Inc). |
| 10.127 | Avenant No. 1 Au Contrat de Licence Exclusive du 20 Juin 1997 entre ST Dupont, S.A. et Inter Parfums, S.A., dated 20 March 2006- French original (Certain confidential information in this Exhibit 10.127 was omitted and filed separately with the Securities and Exchange Commission with a request for confidential treatment by Inter Parfums, Inc). |
| 10.127.1 | Amendment No.1 to Exclusive License of 20 June 1997 between ST Dupont, S.A. et Inter Parfums, S.A., dated 20 March 2006- English translation (Certain confidential information in this Exhibit 10.127.1 was omitted and filed separately with the Securities and Exchange Commission with a request for confidential treatment by Inter Parfums, Inc). |

The following document heretofore filed with the Commission is incorporated by reference to the Company's Quarterly Report for the quarterly period ended June 30, 2006:

- | Exhibit No. | Description |
|-------------|--|
| 4.21.1 | Amendment to the Company's 2004 Nonemployee Director Stock Option Plan |

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The following documents heretofore filed with the Commission are incorporated by reference to the Company's Quarterly Report for the quarterly period ended September 30, 2006:

| Exhibit No. | Description |
|-------------|---|
| 10.128 | License Agreement Between Van Cleef & Arpels Logistics SA, and Inter Parfums, S.A., entered into on June 19, 2006 (Certain confidential information in this Exhibit 10.128 was omitted and filed separately with the Securities and Exchange Commission with a request for confidential treatment by Inter Parfums, Inc). |
| 10.128.1 | Addendum No. 1 to License Agreement Between Van Cleef & Arpels Logistics SA, and Inter Parfums, S.A |

The following documents are filed with this report:

| Exhibit No. | Description |
|-------------|--|
| 3.5 | Articles of Incorporation of Inter Parfums, Limited |
| 4.23 | Form of Option Agreement for Options Granted to Executive Officers on December 15, 2006 with Schedule Option Holders and Number of Options Granted |
| 21 | List of Subsidiaries |
| 23 | Consent of Mazars LLP |
| 31.1 | Certification Required by Rule 13a-14 of Chief Executive Officer |
| 31.2 | Certification Required by Rule 13a-14 of Chief Financial Officer |
| 32 | Certification Required by Section 906 of the Sarbanes-Oxley Act |
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INTER PARFUMS, INC. AND SUBSIDIARIES

Consolidated Financial Statements and Schedule

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| Consolidated Balance Sheets as of December 31, 2006 and 2005 | F-3 |
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| Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income for each of the years in the three-year period ended December 31, 2006 | F-5 |
| Consolidated Statements of Cash Flows for each of the years in the three-year period ended December 31, 2006 | F-6 |
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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 as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Inter Parfums, Inc. and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006 in conformity with U.S. generally accepted accounting principles.

As discussed in Note 10 (b) of the notes to the consolidated financial statements, the company adopted the provisions of Statement of Financial Accounting Standards No. 123 (Revised 2004), "Share-based Payments", applying the modified prospective method at the beginning of the year ended December 31, 2006.

In connection with our audits of the consolidated financial statements enumerated above, we audited schedule II for each of the years in the three-year period ended December 31, 2006. In our opinion, schedule II, when considered in relation to the financial statements taken as a whole, presents fairly, in all material respects, the information stated therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Inter Parfums, Inc.'s internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 16, 2007 expressed an unqualified opinion thereon.

Mazars LLP

New York, New York
March 16, 2007
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INTER PARFUMS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2006 and 2005

(In thousands except share and per share data)

| Assets | 2006 | 2005 |
|--|------------|------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 58,247 | \$ 42,132 |
| Short-term investments | 12,800 | 17,400 |
| Accounts receivable, net | 110,251 | 82,231 |
| Inventories (note 4) | 69,537 | 48,631 |
| Receivables, other | 2,481 | 2,119 |
| Other current assets | 6,137 | 4,213 |
| Income tax receivable | 370 | 104 |
| Deferred tax assets (note 12) | 2,494 | 3,011 |
| Total current assets | 262,317 | 199,841 |
| Equipment and leasehold improvements, net (note 5) | 6,806 | 4,600 |
| Trademarks, licenses and other intangible assets, net (notes 2, 6 and 9) | 58,342 | 31,371 |
| Goodwill (note 3) | 4,978 | 4,476 |
| Other assets | 602 | 622 |
| Total assets | \$ 333,045 | \$ 240,910 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Loans payable - banks (note 7) | \$ 6,033 | \$ 989 |
| Current portion of long-term debt (note 8) | 4,214 | 3,775 |
| Accounts payable - trade | 58,748 | 40,359 |
| Accrued expenses | 52,637 | 21,555 |
| Income taxes payable | 1,325 | 1,269 |
| Dividends payable | 813 | 810 |
| Total current liabilities | 123,770 | 68,757 |
| Deferred tax liability (note 12) | 2,111 | 1,783 |
| Long-term debt, less current portion (note 8) | 6,555 | 9,437 |
| Put option (note 3) | 1,262 | 743 |
| Minority interest | 44,075 | 32,463 |
| Commitments and contingencies (note 9) | | |
| Shareholders' equity (note 10): | | |
| 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 20,434,792 and 20,252,310 shares, at December 31, 2006 and 2005, respectively | 20 | 20 |
| Additional paid-in capital | 38,096 | 36,640 |
| Retained earnings | 127,834 | 112,802 |
| Accumulated other comprehensive income | 15,170 | 3,574 |
| Treasury stock, at cost, 6,247,886 and 6,302,768 common shares at December 31, 2006 and 2005, respectively | (25,848) | (25,309) |

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| | | | | |
|--|----|---------|----|---------|
| Total shareholders' equity | | 155,272 | | 127,727 |
| Total liabilities and shareholders' equity | \$ | 333,045 | \$ | 240,910 |

See accompanying notes to consolidated financial statements.

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INTER PARFUMS, INC. AND SUBSIDIARIES

Consolidated Statements of Income

Years ended December 31, 2006, 2005, and 2004

(In thousands except share and per share data)

| | 2006 | | 2005 | | 2004 |
|--|-------------|--|-------------|--|-------------|
| Net sales | \$ 321,054 | | \$ 273,533 | | \$ 236,047 |
| Cost of sales | 143,855 | | 115,827 | | 113,988 |
| Gross margin | 177,199 | | 157,706 | | 122,059 |
| Selling, general, and administrative | 141,074 | | 126,353 | | 89,516 |
| Income from operations | 36,125 | | 31,353 | | 32,543 |
| Other expenses (income): | | | | | |
| Interest expense | 1,797 | | 970 | | 798 |
| (Gain) loss on foreign currency | (172) | | 296 | | 360 |
| Interest and dividend income | (2,303) | | (1,194) | | (782) |
| (Gain) loss on subsidiary's issuance of stock | (332) | | (443) | | 529 |
| | (1,010) | | (371) | | 905 |
| Income before income taxes and minority interest | 37,135 | | 31,724 | | 31,638 |
| Income taxes | 13,201 | | 11,133 | | 11,542 |
| Income before minority interest | 23,934 | | 20,591 | | 20,096 |
| Minority interest in net income of consolidated subsidiary | 6,192 | | 5,328 | | 4,393 |
| Net income | \$ 17,742 | | \$ 15,263 | | \$ 15,703 |
| Net income per share: | | | | | |
| Basic | \$ 0.87 | | \$ 0.76 | | \$ 0.82 |
| Diluted | 0.86 | | 0.75 | | 0.77 |
| Weighted average number of shares outstanding: | | | | | |
| Basic | 20,324,309 | | 20,078,424 | | 19,204,768 |
| Diluted | 20,568,492 | | 20,486,583 | | 20,494,038 |
| See accompanying notes to consolidated financial statements. | | | | | |

INTER PARFUMS, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income
Years ended December 31, 2006, 2005, and 2004
(In thousands except share data)

| | Common stock Shares | Additional paid-in capital | Retained earnings | Comprehensive income | Accumulated other comprehensive income | Treasury stock Shares | Amount | Total |
|--|------------------------|----------------------------------|----------------------|-------------------------|---|--------------------------|-------------|------------|
| Balance – January 1, 2004 | 19,164,186 | \$ 19 \$ 34,363 | \$ 87,376 | | \$ 9,404 | 7,180,579 | \$ (26,246) | \$ 104,916 |
| Comprehensive income: | | | | | | | | |
| Net income | — | — | — | 15,703 | \$ 15,703 | — | — | 15,703 |
| Foreign currency translation adjustments | — | — | — | — | 6,919 | 6,919 | — | 6,919 |
| Change in fair value of derivatives | — | — | — | — | 108 | 108 | — | 108 |
| Total comprehensive income | | | | \$ 22,730 | | | | |
| Dividends | — | — | — | (2,307) | — | — | — | (2,307) |
| Shares issued upon exercise of stock options (including income tax benefit of \$900) | 262,663 | — | 1,175 | — | — | (163,000) | 596 | 1,771 |
| Shares received as proceeds of option exercises | (46,932) | — | — | — | — | 46,932 | (601) | (601) |
| Balance – December 31, 2004 | 19,379,917 | 19 35,538 | 100,772 | | 16,431 | 7,064,511 | (26,251) | 126,509 |
| Comprehensive income: | | | | | | | | |
| Net income | — | — | — | 15,263 | \$ 15,263 | — | — | 15,263 |
| Foreign currency translation adjustments | — | — | — | — | (12,720) | (12,720) | — | (12,720) |
| Change in fair value of derivatives | — | — | — | — | (137) | (137) | — | (137) |
| Total comprehensive income | | | | \$ 2,406 | | | | |
| Dividends | — | — | — | (3,233) | — | — | — | (3,233) |

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| | | | | | | | | |
|---|------------|-------|-----------|------------|-----------|-----------|-------------|------------|
| Shares issued upon exercise of stock options | 1,048,850 | 1 | (585) | — | — | (938,200) | 3,490 | 2,906 |
| Issuance of warrants | — | — | 1,687 | — | — | — | — | 1,687 |
| Shares received as proceeds of option exercises | (176,457) | — | — | — | — | 176,457 | (2,548) | (2,548) |
| Balance – December 31, 2005 | 20,252,310 | 20 | 36,640 | 112,802 | 3,574 | 6,302,768 | (25,309) | 127,727 |
| Comprehensive income: | | | | | | | | |
| Net income | — | — | — | 17,742 | \$ 17,742 | — | — | — 17,742 |
| Foreign currency translation adjustments | — | — | — | — | 11,527 | 11,527 | — | — 11,527 |
| Change in fair value of derivatives | — | — | — | — | 69 | 69 | — | — 69 |
| Total comprehensive income | | | | | \$ 29,338 | | | |
| Dividends | — | — | — | (3,259) | — | — | — | (3,259) |
| Shares issued upon exercise of stock options | 227,600 | — | 1,380 | — | — | (100,000) | 402 | 1,782 |
| Stock compensation | — | — | 76 | 549 | — | — | — | 625 |
| Shares received as proceeds of option exercises | (45,118) | — | — | — | — | 45,118 | (941) | (941) |
| Balance – December 31, 2006 | 20,434,792 | \$ 20 | \$ 38,096 | \$ 127,834 | \$ 15,170 | 6,247,886 | \$ (25,848) | \$ 155,272 |

⁽¹⁾Includes approximately \$15,043 relating to foreign currency translation adjustments.

See accompanying notes to consolidated financial statements.

INTER PARFUMS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2006, 2005, and 2004

(In thousands)

| | 2006 | 2005 | 2004 |
|---|-----------|-----------|-----------|
| Cash flows from operating activities: | | | |
| Net income | \$ 17,742 | \$ 15,263 | \$ 15,703 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 5,347 | 4,513 | 3,988 |
| Provision for doubtful accounts | 118 | 585 | 1,191 |
| Noncash stock compensation | 625 | — | — |
| Minority interest in net income of consolidated subsidiary | 6,192 | 5,328 | 4,393 |
| Deferred tax provision (benefit) | 843 | (1,410) | 155 |
| Change in fair value of put options | 412 | 19 | (174) |
| (Gain) loss on subsidiary's issuance of stock | (332) | (443) | 529 |
| (Gain) loss on sale of trademark | 245 | (150) | — |
| Changes in: | | | |
| Accounts receivable | (18,714) | (17,653) | (6,974) |
| Inventories | (16,053) | 5,819 | (1,703) |
| Other assets | (1,342) | (3,453) | (10) |
| Accounts payable and accrued expenses | 18,677 | 22,443 | (21,835) |
| Income taxes payable, net | (393) | (481) | 354 |
| Net cash provided by (used in) operating activities | 13,367 | 30,380 | (4,383) |
| Cash flows from investing activities: | | | |
| Purchases of short-term investments | (6,700) | (2,300) | (14,800) |
| Proceeds from sale of short-term investments | 11,300 | 2,500 | 14,500 |
| Purchase of equipment and leasehold improvements | (3,452) | (2,429) | (3,254) |
| Payment for intangible assets acquired | (5,042) | (465) | (24,465) |
| Acquisition of businesses, net of cash acquired | — | — | (4,481) |
| Proceeds from sale of trademark | 1,131 | 185 | — |
| Net cash used in investing activities | (2,763) | (2,509) | (32,500) |
| Cash flows from financing activities: | | | |
| Increase in loans payable – banks | 4,974 | 359 | 182 |
| Proceeds from long-term debt | — | — | 19,925 |
| Repayment of long-term debt | (4,019) | (3,979) | (1,992) |
| Proceeds from sale of stock of subsidiary | 2,830 | 2,424 | 1,622 |
| Purchase of treasury stock | (164) | (150) | (184) |
| Proceeds from exercise of options | 1,004 | 507 | 455 |

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| | | | |
|--|-----------|-----------|-----------|
| Dividends paid | (3,251) | (3,005) | (2,109) |
| Dividends paid to minority interest | (1,218) | (1,106) | (776) |
| Net cash provided by (used in) financing activities | 156 | (4,950) | 17,123 |
| Effect of exchange rate changes on cash | 5,355 | (4,161) | 1,474 |
| Net increase (decrease) in cash and cash equivalents | 16,115 | 18,760 | (18,286) |
| Cash and cash equivalents – beginning of year | 42,132 | 23,372 | 41,658 |
| Cash and cash equivalents – end of year | \$ 58,247 | \$ 42,132 | \$ 23,372 |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid for: | | | |
| Interest | \$ 1,586 | \$ 593 | \$ 495 |
| Income taxes | 13,227 | 12,593 | 11,535 |
| See accompanying notes to consolidated financial statements. | | | |

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INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2006 and 2005
(In thousands except share and per share data)

(1) The Company and its Significant Accounting Policies

(a) 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. Revenues generated from one such license represented 57%, 60% and 62% of net sales in 2006, 2005 and 2004, respectively.

(b) Basis of Preparation

The consolidated financial statements include the accounts of the Company, including majority-owned Inter Parfums, S.A. ("IPSA"), a subsidiary whose stock is publicly traded in France. All material intercompany balances and transactions have been eliminated.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(c) Foreign Currency Translation

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

(d) Cash and Cash Equivalents

All highly liquid investments purchased with a maturity of three months or less are considered to be cash equivalents.

(e) Short-term Investments

Short-term investments consist of available for sale auction rate securities which are comprised of preferred stock and municipal bonds. These securities have characteristics similar to short-term investments because at predetermined intervals, generally within 28 to 49 days of the purchase, there is a new auction process. Short-term investments are stated at fair market value which is equal to cost. No realized or unrealized gains or losses have been incurred in connection with our investments in these securities.

(f) Financial Instruments

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 the Company for debts with the same remaining maturities and is the same as the carrying amount.

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2006 and 2005
(In thousands except share and per share data)

All derivative instruments are reported as either assets or liabilities on the balance sheet measured at fair value. 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 until the forecasted sale is recorded or when the hedge is determined to be ineffective.

The Company occasionally 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 value of the derivative instrument will effectively offset the change in the fair value of the hedged item. The effectiveness of each hedged item is measured throughout the hedged period. Any hedge ineffectiveness as defined by SFAS No. 133 is recognized as a gain or loss on foreign currency in the income statement. At December 31, 2006, the Company's subsidiary had foreign currency contracts in the form of forward exchange contracts in the amount of approximately U.S. \$50.6 million and GB pounds 3.1 million, which have maturities of less than a year.

(g) Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market.

(h) 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 asset 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.

(i) 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 goodwill primarily relates to the Company's European operations. The cost of licenses and other intangible assets with finite lives is being amortized by the straight-line method over the term of the respective license (ranging from ten to fifteen years) or the intangible assets (ranging from three to four years) estimated useful life. 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. Changes in goodwill from one period to another is solely the result of changes in foreign currency exchange rates.

(j) Revenue Recognition

Revenue is recognized when merchandise is shipped and the risk of loss passes to the customer. The Company, at its discretion, permits limited returns of merchandise and establishes allowances for estimated returns based upon historic trends and relevant current data. The Company does not bill its customer's freight and handling charges. All shipping and handling costs, which aggregated \$5.5 million, \$4.2 million and \$4.0 million in 2006, 2005 and 2004, respectively, are included in selling, general and administrative expense in the consolidated statements of income.

One customer represented 15%, 14% and 10% of consolidated net sales in 2006, 2005 and 2004, respectively.

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INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2006 and 2005
(In thousands except share and per share data)

(k) 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 a gain or loss in the consolidated statements of income.

(l) Earnings Per Share

Basic earnings per share is computed using the weighted average number of shares outstanding during each year. Diluted earnings per share is computed using the weighted average number of shares outstanding during each year, 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:

| | Year ended December 31 | | |
|--|------------------------|------------|------------|
| | 2006 | 2005 | 2004 |
| Numerator: | | | |
| Net income | \$ 17,742 | \$ 15,263 | \$ 15,703 |
| Denominator: | | | |
| Weighted average shares | 20,324,309 | 20,078,424 | 19,204,768 |
| Effect of dilutive securities: | | | |
| Stock options and warrants | 244,183 | 408,159 | 1,289,270 |
| Denominator for diluted earnings per share | 20,568,492 | 20,486,583 | 20,494,038 |

Not included in the above computations is the effect of anti-dilutive potential common shares which consist of outstanding options to purchase 216,000, 262,000, and 116,000 shares of common stock for 2006, 2005, and 2004, respectively, and outstanding warrants to purchase 100,000 shares of common stock for 2006 and 2005.

(m) Advertising and Promotion

Costs associated with advertising are expensed when incurred. Advertising and promotional expenses, which primarily include print media and promotional expenses, included in selling, general and administrative expense were \$46.5 million, \$40.8 million and \$21.8 million for 2006, 2005 and 2004, respectively. These amounts do not include expenses relating to purchase with purchase and gift with purchase promotions that are reflected in cost of sales aggregating \$20.6 million, \$15.3 million and \$19.1 million in 2006, 2005 and 2004, respectively.

The Company also has various arrangements with customers pursuant to its trade terms to reimburse them for a portion of their advertising or promotional costs, which provide advertising and promotional benefits to the Company. The costs that the Company incurs for shelf replacement costs and slotting fees are expensed as incurred and are netted against revenues on the Company's consolidated statement of income.

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2006 and 2005
(In thousands except share and per share data)

(n) *Accounts Receivable*

Accounts receivable represent payments due to the Company for previously recognized net sales, reduced by an allowance for doubtful accounts or balances which are estimated to be uncollectible aggregating \$2.2 million and \$2.3 million as of December 31, 2006 and 2005, respectively. Accounts receivable balances are recorded against the allowance for doubtful accounts when they are deemed uncollectible. Recoveries of accounts receivable previously recorded against the allowance are recorded in the consolidated statement of income when received.

(o) *Income Taxes*

The Company accounts for income taxes in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes". Deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to the difference between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Tax benefits recognized must be reduced by a valuation allowance where it is more likely than not that the benefits may not be realized.

(p) *Recent Accounting Pronouncements*

In February 2007, the Financial Accounting Standards Board ("FASB") issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement 115." SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact that the adoption of SFAS 159 will have on our consolidated financial statements.

In September 2006, FASB issued SFAS 157, "Fair Value Measurements" ("SFAS 157"). While the statement does not expand the use of fair value in any new circumstances it defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company does not believe that the adoption of SFAS 157 will have a material impact on the Company's consolidated financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 provides guidance on how prior year misstatements should be taken into consideration when quantifying misstatements in current year financial statements for purposes of determining whether the current year's financial statements are materially misstated. SAB 108 is effective for fiscal years ending on or after November 15, 2006. The adoption by the Company of SAB 108 did not have a material impact on the Company's consolidated financial statements.

In September 2006, the FASB issued SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("SFAS 158"). Among other items, SFAS 158 requires recognition of the overfunded or underfunded status of an entity's defined benefit postretirement plan as an asset or liability in the financial statements, requires the measurement of defined benefit postretirement plan assets and obligations as of the end of the employer's fiscal year and requires recognition of the funded status of defined benefit postretirement plans in other comprehensive income. SFAS 158 is effective for fiscal years ending after December 15, 2006. The adoption by the Company of SFAS 158 did not have a material impact on the Company's consolidated financial statements.

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2006 and 2005
(In thousands except share and per share data)

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB No. 109 ("FIN 48"), which prescribes accounting for and disclosure of uncertainty in tax positions. This interpretation defines the criteria that must be met for the benefits of a tax position to be recognized in the financial statements and the measurement of tax benefits recognized. The provisions of FIN 48 are effective as of the beginning of the Company's 2007 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company does not believe that the adoption of FIN 48 will have a material impact on the Company's consolidated financial statements.

In March 2006, the FASB released Statement of Financial Accounting Standards ("SFAS") 156, Accounting for Servicing of Financial Assets ("SFAS 156"), to simplify accounting for separately recognized servicing assets and servicing liabilities. SFAS 156 amends SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS 156 permits an entity to choose either the amortization method or the fair value measurement method for measuring each class of separately recognized servicing assets and servicing liabilities after they have been initially measured at fair value. SFAS 156 applies to all separately recognized servicing assets and liabilities acquired or issued after the beginning of an entity's fiscal year that begins after September 15, 2006. SFAS 156 will be effective for the Company as of January 1, 2007. The Company does not believe the adoption of SFAS 156 will have a material impact on the Company's consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections," ("SFAS No. 154") which establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. The statement provides guidance for determining whether retrospective application of a change in accounting principle is impracticable. The statement also addresses the reporting of a correction of an error by restating previously issued financial statements. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption by the Company of SFAS 154 did not have any impact on the Company's consolidated financial statements.

In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment" (SFAS No. 123(R)). This statement replaces SFAS No. 123 and supersedes APB 25. SFAS 123(R) requires all stock-based compensation to be recognized as an expense in the financial statements and that such cost be measured according to the fair value of the award. SFAS 123(R) became effective in the first quarter of 2006 (see note (10) (b)).

INTER PARFUMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2006 and 2005
(In thousands except share and per share data)

(q) Reclassifications

Certain prior year amounts in the accompanying consolidated balance sheet have been reclassified to conform to current year presentation.

(2) Material Definitive Agreements

(a) In September 2006, IPSA entered into an exclusive, worldwide license agreement with Van Cleef & Arpels Logistics SA, for the creation, development and distribution of fragrance and related bath and body products under the Van Cleef & Arpels brand and related trademarks. The agreement runs through December 31, 2018. Our rights under such license agreement are subject to certain minimum advertising expenditures and royalty payments as are customary in our industry. As an inducement to enter into this license agreement, we agreed to pay, in January 2007, € 18 million (approximately \$23.4 million) to Van Cleef & Arpels Logistics SA in a lump sum, up front royalty payment and we agreed to purchase existing inventory of approximately \$2.1 million held by YSL Beauté, the current licensee. The asset is included trademarks and the liability for the € 18 million up front payment is included in accrued expenses on the accompanying balance sheet as of December 31, 2006. The license agreement became effective on January 1, 2007.

(b) In March 2006, IPSA entered into an exclusive worldwide license agreement with Quiksilver, Inc. for the creation, development and distribution of fragrance, suncare, skincare and related products under the Roxy brand and suncare and related products under the Quiksilver brand. The agreement, which runs through 2017, requires advertising expenditures and royalty payments as are customary in our industry.

(c) In July 2005, we entered into an exclusive agreement with The Gap, Inc. (“Gap”) to develop, produce, manufacture and distribute personal care and home fragrance products for Gap and Banana Republic brand names to be sold in Gap and Banana Republic retail stores in the United States and Canada. On March 2, 2006, the agreement was amended to include Gap Outlet and Banana Republic Factory Stores in the United States and Canada.

The initial term of this agreement expires on August 31, 2009, and the agreement includes an additional two-year optional term that expires on August 31, 2011, as well as a further additional two-year term that expires August 31, 2013, in each case if certain retail sales targets are met or if Gap chooses to extend the term. In addition, if the agreement is extended for the first optional term, then Gap has the right to terminate our rights under the agreement before the end of that first optional term if Gap pays to us an amount specified in a formula, with such right to be exercised during the period beginning on September 1, 2010 and expiring on August 31, 2011.

As an inducement to enter into this agreement, in July 2005 we granted warrants to purchase 100,000 shares of our common stock to Gap exercisable for five years at \$25.195, 125% of the market price on the date of grant, and have agreed to register with the Securities and Exchange Commission the shares purchasable thereunder for resale after January 1, 2007. In addition, we agreed to grant up to three (3) additional warrants to Gap. The first additional warrant was granted in September 2006 for 100,000 shares of our common stock at \$17.194, the market price on the date of grant. In addition, if the term of our agreement with Gap is extended as discussed above, we will grant to Gap two additional warrants. Each such warrant would be exercisable for 50,000 shares of our common stock at 100% of the market price on the date of grant. The fair market value of the 100,000 warrants granted in July 2005 and the 100,000 warrants granted in September 2006 aggregated approximately \$1.7 million, has been capitalized as an intangible asset and is being amortized over the initial term of the agreement.

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- (d) In October 2004, IPSA entered into a new long-term fragrance license with Burberry. The agreement runs through 2016 plus an option to extend the license an additional five years subject to mutual agreement. In connection with the new license agreement, IPSA paid to Burberry an upfront non-recoupable license fee of approximately \$3.6 million. In September 2006, IPSA and Burberry agreed to certain modifications to the new long-term fragrance license and IPSA paid to Burberry an additional upfront non-recoupable license fee of approximately \$2.5 million.
- (e) In June 2004, IPSA entered into a fifteen year, exclusive, worldwide license agreement with Lanvin S.A. (Lanvin) to create, develop and distribute fragrance lines under the Lanvin brand name. The fifteen-year license agreement took effect July 1, 2004 and provided for an upfront non-recoupable license fee of \$19.2 million, the purchase of existing inventory of \$7.6 million, and requires advertising expenditures and royalty payments in line with industry practice.

(3) Acquisition of Business

In April 2004, IPSA acquired a 67.5% interest in Nickel S.A. (Nickel) for approximately \$8.7 million in cash including a capital infusion of \$2.8 million, aggregating approximately \$4.5 million, net of cash acquired. In accordance with the purchase agreement, each of the minority shareholders has an option to put their remaining interest in Nickel to IPSA from January 2007 through June 2007. Based on an independent valuation, management has valued the put options at \$0.93 million as of the date of acquisition, and has recorded a long-term liability and increased goodwill accordingly. These options are carried at fair value as determined by management.

The purchase price to be paid for the minority shares, approximately \$4.6 million, is based upon a formula applied to Nickel's sales for the year ending December 31, 2006, pro rated for the minority holders' equity in Nickel. In addition, the Company has the right to call the stock based on the same formula and price. The acquisition has been accounted for as a business combination and the results of Nickel have been included in the Company's consolidated financial statements from the date of the acquisition. As of the date of these financial statements, there has been no indication as to whether or not the put option will be exercised.

(4) Inventories

| | December 31 | |
|-----------------------------------|-------------|-----------|
| | 2006 | 2005 |
| Raw materials and component parts | \$ 27,179 | \$ 19,529 |
| Finished goods | 42,358 | 29,102 |
| | \$ 69,537 | \$ 48,631 |

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(5) Equipment and Leasehold Improvements

| | December 31 | |
|--|--------------------|-------------|
| | 2006 | 2005 |
| Equipment | \$ 14,253 | \$ 10,245 |
| Leasehold improvements | 1,496 | 1,119 |
| | 15,749 | 11,364 |
| Less accumulated depreciation and amortization | 8,943 | 6,764 |
| | \$ 6,806 | \$ 4,600 |

Depreciation expense was \$1.9 million, \$2.3 million and \$2.9 million for 2006, 2005 and 2004, respectively.

(6) Trademarks, Licenses and Other Intangible Assets

| | December 31 | |
|--|--------------------|-------------|
| | 2006 | 2005 |
| Trademarks (indefinite lives) | \$ 6,999 | \$ 8,012 |
| Trademarks (finite lives) | 103 | 730 |
| Licenses (finite lives) | 54,890 | 24,516 |
| Other intangible assets (finite lives) | 11,090 | 8,889 |
| | 66,083 | 34,135 |
| Less accumulated amortization | 14,740 | 10,776 |
| | 51,343 | 23,359 |
| Total | \$ 58,342 | \$ 31,371 |

During 2006, 2005, and 2004, charges for the impairment of trademarks with indefinite useful lives based on fair value as determined using discounted cash flows were insignificant. Amortization expense was \$3.4 million, \$2.1 million and \$1.0 million for 2006, 2005 and 2004 respectively. Amortization expense is expected to approximate \$4.2 million in 2007, \$4.1 million in 2008, 2009 and 2010 and \$4.0 million in 2011.

(7) Loans Payable – Banks

Loans payable – banks consist of the following:

The Company's foreign subsidiaries have available credit lines, including several bank overdraft facilities totaling \$45 million, bearing interest at 0.6% above EURIBOR (2.49% at December 31, 2006). Outstanding amounts totaled \$0.13 million and \$0.99 million at December 31, 2006 and 2005, respectively.

The Company has borrowings available under a \$12 million unsecured revolving line of credit due on demand and bearing interest at the banks' prime rate (8.25% as of December 31, 2006). Outstanding amounts totaled \$5.9 million and \$0.0 at December 31, 2006 and 2005.

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(8) Long-term Debt

In July 2004, IPSA entered into a 16 million euro five-year credit agreement. The long-term credit facility, which bears interest at 0.60% above the three month EURIBOR rate, provides for principal to be repaid in 20 equal quarterly installments and requires the maintenance of a debt equity ratio of less than one. At December 31, 2006 exchange rates, maturities of long-term debt subsequent to December 31, 2006 are \$4.2 million in 2007, \$4.3 million in 2008, and \$2.2 million in 2009.

In order to reduce exposure to rising variable interest rates, the Company entered into a swap transaction effectively exchanging the variable interest rate referred to above to a variable rate based on the 12 month EURIBOR rate with a floor of 3.25% and a ceiling of 3.85%. This derivative instrument is recorded at fair value and changes in fair value are reflected in the results of operations.

(9) Commitments**(a) Leases**

The Company leases its office and warehouse facilities under operating leases expiring through 2014. Rental expense amounted to \$7.1 million, \$7.2 million and \$6.4 million in 2006, 2005 and 2004, respectively. Minimum future rental payments are as follows:

| | |
|------------|-----------|
| 2007 | \$ 5,983 |
| 2008 | 6,149 |
| 2009 | 6,235 |
| 2010 | 6,026 |
| 2011 | 4,571 |
| Thereafter | 2,760 |
| | \$ 31,724 |

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(b) License Agreements

The Company is obligated under a number of license agreements for the use of trademarks and rights in connection with the manufacture and sale of its products expiring through 2018. Royalty expense, included in selling, general, and administrative expenses, aggregated \$31.4 million, \$27.1 million and \$20.9 million, in 2006, 2005 and 2004, respectively. In connection with certain license agreements, the Company is subject to certain minimum annual royalties as follows:

| | |
|------------|------------|
| 2007 | \$ 32,196 |
| 2008 | 33,292 |
| 2009 | 34,887 |
| 2010 | 35,414 |
| 2011 | 34,279 |
| Thereafter | 201,036 |
| | \$ 371,104 |

(10) Shareholders' Equity**(a) Issuance of Common Stock by Consolidated Subsidiary**

During 2006, 2005 and 2004, 169,479, 120,283, and 168,314 shares, respectively, of capital stock of IPSA were issued as a result of employees exercising stock options. At December 31, 2006 and 2005, the Company's percentage ownership of IPSA was approximately 72% and 73%, respectively.

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 a gain or loss in the consolidated statements of income.

(b) Share-Based Payments:

Prior to January 1, 2006, we applied the disclosure-only provisions of SFAS 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). In accordance with the provisions of SFAS 123, we applied Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations in accounting for our stock based compensation plans and, accordingly, did not recognize compensation expense for stock options because we issued options at an exercise price equal to the market value at date of grant.

Effective January 1, 2006, we adopted SFAS 123(R), "Share-Based Payment" ("SFAS 123(R)"), which revises SFAS 123 and supersedes APB 25. SFAS 123(R) requires all share-based payments to be recognized in the financial statements based on the fair values using an option-pricing model at the date of grant. We have elected to use the modified prospective method for adoption, which requires compensation expense to be recorded for all unvested stock options beginning in the first quarter of adoption, based on the fair value at the original grant date. Prior year financial statements have not been restated.

Compensation cost for share-based arrangements and the impact of the adoption of SFAS 123(R) during the year ended December 31, 2006 decreased income before income taxes by \$0.91 million, decreased net income by \$0.44

million, and reduced basic and diluted earnings per share by \$0.02. The adoption of SFAS 123(R) had no impact on cash flow.

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The effect on net income and earnings per share if we had applied the fair value recognition provisions of SFAS 123 to stock-based compensation for the years ended December 31, 2005 and 2004 is as follows:

| | December 31, | |
|--|---------------------|-------------|
| | 2005 | 2004 |
| Reported net income | \$ 15,263 | \$ 15,703 |
| Stock-based employee compensation expense included in reported net income, net of related tax effects | — | — |
| Stock-based employee compensation determined under the fair value based method, net of related tax effects | (980) | (1,224) |
| Pro forma net income | \$ 14,283 | \$ 14,479 |
| Income per share, as reported: | | |
| Basic | \$ 0.76 | \$ 0.82 |
| Diluted | 0.75 | 0.77 |
| Pro forma net income per share: | | |
| Basic | 0.71 | 0.75 |
| Diluted | 0.70 | 0.71 |

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. Historically, options granted under the plans vested immediately and were exercisable for a period of five years. Beginning in 2006, options granted under the plans typically vest over a five-year period and are exercisable for a period of six years. There were options outstanding for 171,200 that were not vested as of December 31, 2006. 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 summarizes stock option activity and related information as of December 31, 2006 and does not include information relating to options of Inter Parfums, S.A. granted by Inter Parfums, S.A., our majority owned subsidiary:

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| | Year ended December 31 | | | | | |
|------------------------|------------------------|--|-------------|--|-----------|--|
| | 2006 | | 2005 | | 2004 | |
| | Options | Weighted Average exercise price | Options | Weighted Average exercise price | Options | Weighted Average exercise price |
| Shares under option – | | | | | | |
| beginning of year | 985,550 | \$ 14.03 | 1,842,675 | \$ 7.51 | 1,897,862 | \$ 5.92 |
| Options granted | 181,200 | 19.58 | 202,900 | 15.05 | 217,400 | 16.72 |
| Options exercised | (227,600) | 7.83 | (1,048,850) | 2.77 | (262,663) | 3.32 |
| Options cancelled | (71,550) | 17.51 | (11,175) | 14.59 | (9,924) | 15.40 |
| Shares under options – | | | | | | |
| end | | | | | | |
| of year | 867,600 | 16.53 | 985,550 | 14.03 | 1,842,675 | 7.51 |

At December 31, 2006, options for 874,429 shares were available for future grant under the plans.

As of December 31, 2006, the aggregate intrinsic value of options outstanding is \$3.2 million and unrecognized compensation cost related to stock options outstanding on Inter Parfums, Inc. stock aggregated \$1.0 million. The amount of unrecognized compensation cost related to stock options outstanding of our majority owned subsidiary, Inter Parfums S.A., was 1.5 million euro. Options under Inter Parfums, S.A. plans vest over a four year period.

Cash proceeds, tax benefits and intrinsic value related to stock options exercised during the year ended December 31, 2006 and December 31, 2005 were as follows:

| | December 31, | |
|--|--------------|--------|
| | 2006 | 2005 |
| Cash proceeds from stock options exercised | \$ 1,004 | \$ 507 |
| Tax benefits | -- | -- |
| Intrinsic value of stock options exercised | 3,028 | 12,595 |

No tax benefit was realized or recognized in 2006 and 2005 from stock options exercised as valuation reserves were allocated to those potential benefits.

The weighted average fair values of the options granted by Inter Parfums, Inc. during 2006, 2005 and 2004 were \$6.36, \$5.00 and \$6.22 per share, respectively, on the date of grant using the Black-Scholes option pricing model with the following assumptions: dividend yield 0.9% in 2006 and 1.0% in 2005 and 0.8% in 2004; volatility of 30% in 2006, 40% in 2005 and 50% in 2004; risk-free interest rates at the date of grant, 4.7% in 2006, 3.5% in 2005 and 2.9% in 2004; and an expected life of the option of five years in 2006, four years in 2005 and two years in 2004. Expected volatility is estimated using historical volatility.

Stock-based employee compensation determined under the fair value based method, net of related tax effects, includes compensation incurred by Inter Parfums, S.A., our majority owned subsidiary whose stock is publicly traded in France. The weighted average fair values of the options granted by Inter Parfums, S.A. during 2006, 2005 and 2004

were 10.37 euro, 6.08 euro and 5.62 euro per share, respectively, on the date of grant using the Black-Scholes option pricing model with the following assumptions: dividend yield 0.94% in 2006, 1.0% in 2005 and 2004; volatility of 25% in 2006, 22% in 2005 and 23% in 2004; risk-free interest rates at the date of grant of 4.6% in 2006, 4.5% in 2005 and 4.2% in 2004; and an expected life of the option of four years in 2006, 2005 and 2004.

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The following table summarizes stock option information as of December 31, 2006:

| Exercise prices | Number outstanding | Options outstanding weighted average remaining contractual life | Options exercisable |
|-------------------|-----------------------|--|------------------------|
| \$7.22 – \$7.95 | 13,500 | 1.00 Years | 13,500 |
| \$8.03 | 149,100 | 0.97 Years | 149,100 |
| \$14.95 | 161,200 | 3.30 Years | 161,200 |
| \$15.20 – \$15.39 | 170,000 | 2.95 Years | 170,000 |
| \$16.52 | 2,000 | 4.47 Years | 2,000 |
| \$17.24 | 2,000 | 3.95 Years | 2,000 |
| \$18.97 | 9,000 | 4.09 Years | 9,000 |
| 19.65 – \$19.66 | 171,200 | 5.93 Years | — |
| \$22.77 | 2,000 | 2.01 Years | 2,000 |
| \$23.05 – \$23.06 | 167,600 | 2.00 Years | 167,600 |
| \$25.24 | 20,000 | 2.12 Years | 20,000 |
| Totals | 867,600 | 3.05 Years | 696,400 |

The weighted average exercise price of options exercisable as of December 31, 2006 was \$15.77.

In 2006, 2005 and 2004, both the Chief Executive Officer and the President exercised an aggregate of 100,000, 938,200 and 163,000 outstanding stock options, respectively, of the Company's common stock. The aggregate exercise prices of \$0.8 million in 2006, \$2.4 million in 2005 and \$0.42 million in 2004 were paid by them tendering to the Company in 2006, 2005 and 2004 an aggregate of 37,278, 166,069 and 32,537 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 2006, 2005 and 2004 an additional 7,840, 10,388 and 14,395 shares, respectively, for payment of certain withholding taxes resulting from his option exercises.

(c) Treasury Stock

The board of directors of the Company has authorized a stock repurchase program whereby the Company purchases shares of its stock to be held in treasury. As of December 31, 2006, the Company is authorized to purchase an additional 404,350 treasury shares in the open market. The Company has not repurchased any treasury shares pursuant to the above authorization during the three year period ended December 31, 2006.

(d) Dividends

The Company declared dividends of \$0.16, \$0.16, and \$0.12 per share per annum in 2006, 2005, and 2004, respectively. The quarterly dividend of \$0.8 million declared in December 2006 was paid January 12, 2007.

(11) Segments and Geographic Areas

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

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operations primarily represent the sale of specialty retail and mass market fragrances. Information on the Company's operations by segments is as follows.

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| | 2006 | 2005 | 2004 |
|---|------------|------------|------------|
| Net sales: | | | |
| United States | \$ 50,980 | \$ 34,284 | \$ 41,435 |
| Europe | 271,650 | 241,681 | 196,088 |
| Eliminations of intercompany sales | (1,576) | (2,432) | (1,476) |
| | \$ 321,054 | \$ 273,533 | \$ 236,047 |
| Net income: | | | |
| United States | \$ 415 | \$ (123) | \$ 1,657 |
| Europe | 17,270 | 15,398 | 14,184 |
| Eliminations | 57 | (12) | (138) |
| | \$ 17,742 | \$ 15,263 | \$ 15,703 |
| Depreciation and amortization expense: | | | |
| United States | \$ 763 | \$ 448 | \$ 358 |
| Europe | 4,584 | 4,065 | 3,630 |
| | \$ 5,347 | \$ 4,513 | \$ 3,988 |
| Interest and dividend income: | | | |
| United States | \$ 596 | \$ 526 | \$ 274 |
| Europe | 1,707 | 668 | 508 |
| | \$ 2,303 | \$ 1,194 | \$ 782 |
| Interest expense: | | | |
| United States | \$ 259 | \$ 19 | \$ 10 |
| Europe | 1,538 | 951 | 788 |
| | \$ 1,797 | \$ 970 | \$ 798 |
| Income tax expense (benefit): | | | |
| United States | \$ (148) | \$ (398) | \$ 774 |
| Europe | 13,304 | 11,544 | 10,872 |
| Eliminations | 45 | (13) | (104) |
| | \$ 13,201 | \$ 11,133 | \$ 11,542 |
| Total assets: | | | |
| United States | \$ 61,435 | \$ 53,072 | \$ 51,511 |
| Europe | 281,378 | 196,931 | 188,729 |
| Eliminations of investment in subsidiary | (9,768) | (9,093) | (9,755) |
| | \$ 333,045 | \$ 240,910 | \$ 230,485 |
| Additions to long-lived assets: | | | |
| United States | \$ 1,337 | \$ 1,985 | \$ 279 |
| Europe | 30,862 | 2,596 | 31,921 |
| | \$ 32,199 | \$ 4,581 | \$ 32,200 |
| Total long-lived assets: | | | |
| United States | \$ 7,376 | \$ 6,801 | \$ 5,300 |
| Europe | 62,750 | 33,646 | 40,462 |
| | \$ 70,126 | \$ 40,447 | \$ 45,762 |
| Deferred tax assets: | | | |
| United States | \$ 726 | \$ 840 | \$ 415 |
| Europe | 1,768 | 2,171 | 2,190 |
| | \$ 2,494 | \$ 3,011 | \$ 2,605 |

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United States export sales were approximately \$7.2 million, \$6.4 million and \$9.6 million in 2006, 2005 and 2004, respectively. Consolidated net sales to customers by region is as follows:

| | Year ended December 31 | | |
|---------------------------|------------------------|------------|------------|
| | 2006 | 2005 | 2004 |
| North America | \$ 107,400 | \$ 81,800 | \$ 67,400 |
| Europe | 128,300 | 116,800 | 105,200 |
| Central and South America | 24,500 | 21,800 | 21,400 |
| Middle East | 21,900 | 19,800 | 17,900 |
| Asia | 37,700 | 32,200 | 22,700 |
| Other | 1,300 | 1,100 | 1,400 |
| | \$ 321,100 | \$ 273,500 | \$ 236,000 |

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

| | Year Ended December 31 | | |
|----------------|------------------------|-----------|-----------|
| | 2006 | 2005 | 2004 |
| United States | \$ 104,000 | \$ 80,000 | \$ 66,000 |
| United Kingdom | 28,000 | 26,000 | 29,000 |
| France | 21,000 | 17,000 | 15,000 |

(12) Income Taxes

The components of income before income taxes and minority interest consist of the following:

| | Year ended December 31 | | |
|--------------------|------------------------|-----------|-----------|
| | 2006 | 2005 | 2004 |
| U.S. operations | \$ 267 | \$ (521) | \$ 2,431 |
| Foreign operations | 36,868 | 32,245 | 29,207 |
| | \$ 37,135 | \$ 31,724 | \$ 31,638 |

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

| | Year ended December 31 | | |
|-----------------|------------------------|---------|--------|
| | 2006 | 2005 | 2004 |
| Current: | | | |
| Federal | \$ (321) | \$ (19) | \$ 402 |
| State and local | 60 | 46 | 197 |
| Foreign | 12,619 | 12,516 | 10,788 |
| | 12,358 | 12,543 | 11,387 |
| Deferred: | | | |
| Federal | (81) | (451) | (163) |
| State and local | 195 | 26 | 337 |
| Foreign | 729 | (985) | (19) |

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| | | | | | | |
|--------------------------|----|--------|----|---------|----|--------|
| | | 843 | | (1,410) | | 155 |
| Total income tax expense | \$ | 13,201 | \$ | 11,133 | \$ | 11,542 |

Deferred taxes are provided principally for reserves, and certain other expenses that are recognized in different years for financial reporting and income tax purposes.

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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, | |
|--|--------------|----------|
| | 2006 | 2005 |
| Deferred tax assets: | | |
| State net operating loss carryforwards | \$ 1,044 | \$ 853 |
| Federal net operating loss carryforwards | 2,269 | 1,293 |
| Foreign net operating loss carryforwards | 1,274 | 1,398 |
| Alternative minimum tax credit carryforwards | 75 | 320 |
| Inventory and accounts receivable | 249 | 247 |
| Profit sharing | 216 | 139 |
| Other | 937 | 398 |
| Total gross deferred tax assets | 6,064 | 4,648 |
| Less valuation allowance | (3,570) | (1,637) |
| Net deferred tax assets | 2,494 | 3,011 |
| Deferred tax liabilities (long-term): | | |
| Property, plant, and equipment | (477) | (802) |
| Trademarks and licenses | (985) | (806) |
| Other | (649) | (175) |
| Total deferred tax liabilities | (2,111) | (1,783) |
| Net deferred tax assets (liabilities) | \$ 383 | \$ 1,228 |

At December 31, 2006 federal net operating loss carryforwards expire in 2026 and foreign net operating loss carryforwards do not expire. At December 31, 2006 the Company's state net operating loss carryforwards, subject to applicable state apportionment, for New York State and New York City tax purposes of approximately \$11.3 million and for New Jersey tax purposes of approximately \$13.8 million expire in 2010 and beyond. An additional valuation allowance of \$1.1 million, \$1.2 million and \$0.4 million has been provided in 2006, 2005 and 2004, respectively, as future tax benefits from option compensation deductions might prevent the net operating loss carryforwards from being fully utilized. Any future realization of the valuation allowance will be credited to additional paid-in capital. In addition, a valuation allowance of \$0.8 million has been provided in 2006 against certain foreign net operating loss carryforwards, as future profitable operations from certain foreign subsidiaries might not be sufficient to realize the full amount of net operating loss carryforwards available.

No further 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.

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The Company has not provided for U.S. deferred income taxes or foreign withholding taxes on \$97 million of undistributed earnings of its non-U.S. subsidiaries as of December 31, 2006 since the Company has no present intention to repatriate these earnings.

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

| | Year ended December 31 | | |
|---|-------------------------------|-------------|-------------|
| | 2006 | 2005 | 2004 |
| Statutory rates | 34.0% | 34.0% | 34.0% |
| State and local taxes, net of Federal benefit | 0.5 | 0.2 | 1.1 |
| Effect of foreign taxes in excess of | | | |
| U.S. statutory rates | 2.2 | 1.8 | 2.7 |
| Other | (1.1) | (0.9) | (1.3) |
| Effective rates | 35.6% | 35.1% | 36.5% |

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Schedule II

INTER PARFUMS, INC. AND SUBSIDIARIES

Valuation and Qualifying Accounts

(In thousands)

| Column A Description | Column B Balance at beginning of period | Column C Additions | | Column D Deductions – describe | Column E Balance at end of period |
|--|--|--|--|--|--|
| | | (1) Charged to costs and expenses | (2) Charged to other accounts – describe | | |
| Year ended December 31, 2006: | | | | | |
| Allowances for sales returns and doubtful accounts | \$ 2,257 | 129 | 188 (b) | 330 (a) | 2,244 |
| Year ended December 31, 2005: | | | | | |
| Allowances for sales returns and doubtful accounts | \$ 3,230 | 585 | (345) (b) | 1,213 (a) | 2,257 |
| Year ended December 31, 2004: | | | | | |
| Allowances for sales returns and doubtful accounts | \$ 1,989 | 1,191 | 228 (b) | 178 (a) | 3,230 |
| (a) Write off of bad debts and sales returns. | | | | | |
| (b) Foreign currency translation adjustment. | | | | | |

See accompanying report of independent registered public
accounting firm.

Serge Rosinoer

/s/ Patrick Choël
Patrick Choël

Director

March 7, 2007
