REVLON INC /DE/
Form 10-Q
April 28, 2011

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

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2011

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from________________ to __________

Commission File Number: 1-11178

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

Delaware (State or other jurisdiction of incorporation or organization)	**13-3662955** (I.R.S. Employer Identification No.)
237 Park Avenue, New York, New York (Address of principal executive offices)	**10017** (Zip Code)

212-527-4000
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for 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 x No o

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

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

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

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

As of March 31, 2011, 49,050,628 shares of Class A Common Stock, 3,125,000 shares of Class B Common Stock and 9,336,905 shares of Preferred Stock were outstanding. At such date 37,544,640 shares of Class A Common Stock were beneficially owned by MacAndrews & Forbes Holdings Inc. and certain of its affiliates and all of the shares of Class B Common Stock were owned by REV Holdings LLC, a Delaware limited liability company and an indirectly wholly-owned subsidiary of MacAndrews & Forbes Holdings Inc.

REVLON, INC. AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

REVLON, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(dollars in millions, except share and per share amounts)

	March 31, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 61.2	$ 76.7
Trade receivables, less allowance for doubtful accounts of $3.1 as of both March 31, 2011 and December 31, 2010	182.4	197.5
Inventories	130.2	115.0
Deferred income taxes current	41.0	39.6
Prepaid expenses and other	54.1	47.3
Total current assets	468.9	476.1
Property, plant and equipment, net	104.0	106.2
Deferred income taxes noncurrent	225.1	229.4
Other assets	113.4	92.3
Goodwill, net	194.1	182.7
Total assets	$ 1,105.5	$ 1,086.7
LIABILITIES AND STOCKHOLDERS DEFICIENCY		
Current liabilities:		
Short-term borrowings	$ 6.4	$ 3.7
Current portion of long-term debt	8.0	8.0
Accounts payable	98.1	88.3
Accrued expenses and other	223.7	218.5
Total current liabilities	336.2	318.5
Long-term debt	1,099.6	1,100.9
Long-term debt affiliates	58.4	58.4
Redeemable preferred stock	48.2	48.1
Long-term pension and other post-retirement plan liabilities	192.9	201.5
Other long-term liabilities	56.7	55.7
Stockholders deficiency:		
Class B Common Stock, par value $.01 per share: 200,000,000 shares authorized; 3,125,000 shares issued and outstanding as of March 31, 2011 and		

December 31, 2010, respectively				
Class A Common Stock, par value $.01 per share: 900,000,000 shares authorized; 49,997,902 and 50,000,497 shares issued as of March 31, 2011 and December 31, 2010, respectively		0.5		0.5
Additional paid-in capital		1,012.8		1,012.0
Treasury stock, at cost: 667,150 and 532,838 shares of Class A Common Stock as of March 31, 2011 and December 31, 2010, respectively		(8.5)		(7.2)
Accumulated deficit		(1,541.0)		(1,551.4)
Accumulated other comprehensive loss		(150.3)		(150.3)
Total stockholders deficiency		(686.5)		(696.4)
Total liabilities and stockholders deficiency	$	1,105.5	$	1,086.7

See Accompanying Notes to Unaudited Consolidated Financial Statements

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REVLON, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in millions, except share and per share amounts)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Net sales	$ 333.2	$ 305.5
Cost of sales	113.3	108.7
Gross profit	219.9	196.8
Selling, general and administrative expenses	175.2	151.4
Operating income	44.7	45.4
Other expenses (income):		
Interest expense	22.6	21.3
Interest expense preferred stock dividend	1.6	1.6
Interest income	(0.1)	(0.2)
Amortization of debt issuance costs	1.4	1.7
Loss on early extinguishment of debt, net		9.7
Foreign currency losses, net	0.3	3.8
Miscellaneous, net	0.8	0.3
Other expenses, net	26.6	38.2
Income before income taxes	18.1	7.2
Provision for income taxes	7.7	5.0
Net income	$ 10.4	$ 2.2
Basic income per common share	$ 0.20	$ 0.04
Diluted income per common share	$ 0.20	$ 0.04
Weighted average number of common shares outstanding:		
Basic	52,153,722	51,872,502
Diluted	52,282,309	52,286,722

See Accompanying Notes to Unaudited Consolidated Financial Statements

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REVLON, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENT OF STOCKHOLDERS DEFICIENCY AND COMPREHENSIVE INCOME (LOSS)
(dollars in millions)

	Common Stock	Additional Paid-In-Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders Deficiency
Balance, January 1, 2011	$ 0.5	$ 1,012.0	$ (7.2)	$ (1,551.4)	$ (150.3)	$ (696.4)
Treasury stock acquired, at cost[(a)]			(1.3)			(1.3)
Stock-based compensation amortization		0.8				0.8
Comprehensive income:						
Net income				10.4		10.4
Currency translation adjustment					(0.9)	(0.9)
Amortization of pension related costs, net of tax[(b)]					0.9	0.9
Total comprehensive income						10.4
Balance, March 31, 2011	$ 0.5	$ 1,012.8	$ (8.5)	$ (1,541.0)	$ (150.3)	$ (686.5)

(a) Pursuant to the share withholding provisions of the Third Amended and Restated Revlon, Inc. Stock Plan (the Stock Plan), during the first quarter of 2011, certain employees, in lieu of paying withholding taxes on the vesting of certain restricted stock, authorized the withholding of an aggregate 134,312 shares of Revlon, Inc. Class A Common Stock to satisfy the minimum statutory tax withholding requirements related to such vesting. These shares were recorded as treasury stock using the cost method, at a weighted average price per share of $9.85, based on the closing price of Revlon, Inc. Class A Common Stock as reported on the NYSE consolidated tape on the respective vesting dates, for a total of $1.3 million.

(b) See Note 2, Pension and Post-retirement Benefits, and Note 6, Comprehensive Income, in this Form 10-Q for details on the change in Accumulated Other Comprehensive Loss as a result of the amortization of unrecognized prior service costs and actuarial losses arising during the first quarter of 2011.

See Accompanying Notes to Unaudited Consolidated Financial Statements

REVLON, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in millions)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 10.4	$ 2.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15.2	14.4
Amortization of debt discount	0.8	0.3
Stock compensation amortization	0.8	1.3
Provision for deferred income taxes	2.2	0.2
Loss on early extinguishment of debt, net		9.7
Amortization of debt issuance costs	1.4	1.7
Pension and other post-retirement expense	1.3	3.8
Change in assets and liabilities:		
Decrease in trade receivables	19.1	6.7
(Increase) decrease in inventories	(11.5)	3.5
Increase in prepaid expenses and other current assets	(7.4)	(9.8)
Increase in accounts payable	7.0	8.8
Increase in accrued expenses and other current liabilities	1.5	8.7
Pension and other post-retirement plan contributions	(8.8)	(5.8)
Purchase of permanent displays	(8.9)	(10.7)
Other, net	1.0	(3.8)
Net cash provided by operating activities	24.1	31.2
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(2.4)	(3.1)
Acquisitions	(39.0)	
Proceeds from the sale of certain assets		0.1
Net cash used in investing activities	(41.4)	(3.0)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in short-term borrowings and overdraft	4.3	(13.0)
Borrowings under the 2010 Revolving Credit Facility, net		10.5
Repayments under the 2006 Term Loan Facility		(815.0)
Borrowings under the 2010 Term Loan Facility		786.0
Repayment of long-term debt	(2.0)	
Payment of financing costs		(15.4)
Other financing activities	(0.3)	(0.2)
Net cash provided by (used in) financing activities	2.0	(47.1)

Effect of exchange rate changes on cash and cash equivalents		(0.2)		0.2
Net decrease in cash and cash equivalents		(15.5)		(18.7)
Cash and cash equivalents at beginning of period		76.7		54.5
Cash and cash equivalents at end of period	$	61.2	$	35.8
Supplemental schedule of cash flow information:				
Cash paid during the period for:				
Interest	$	14.5	$	12.5
Preferred stock dividends		1.6		1.6
Income taxes, net of refunds		2.2		2.5
Supplemental schedule of non-cash investing and financing activities:				
Treasury stock received to satisfy minimum tax withholding liabilities	$	1.3	$	2.4

See Accompanying Notes to Unaudited Consolidated Financial Statements

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REVLON, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(except where otherwise noted, all tabular amounts in millions, except share and per share amounts)

(1) Description of Business and Basis of Presentation

Revlon, Inc. (and together with its subsidiaries, the Company) conducts its business exclusively through its direct wholly-owned operating subsidiary, Revlon Consumer Products Corporation (Products Corporation), and its subsidiaries. Revlon, Inc. is a direct and indirect majority-owned subsidiary of MacAndrews & Forbes Holdings Inc. (MacAndrews & Forbes Holdings and, together with certain of its affiliates other than the Company, MacAndrews & Forbes), a corporation wholly-owned by Ronald O. Perelman.

The Company s vision is glamour, excitement and innovation through high-quality products at affordable prices. The Company operates in a single segment and manufactures, markets and sells an extensive array of cosmetics, women s hair color, beauty tools, anti-perspirant deodorants, fragrances, skincare and other beauty care products. The Company s principal customers include large mass volume retailers and chain drug and food stores in the U.S., as well as certain department stores and other specialty stores, such as perfumeries, outside the U.S. The Company also sells beauty products to U.S. military exchanges and commissaries and has a licensing business pursuant to which the Company licenses certain of its key brand names to third parties for the manufacture and sale of complementary beauty-related products and accessories in exchange for royalties.

The accompanying Consolidated Financial Statements are unaudited. In management s opinion, all adjustments necessary for a fair presentation have been made. The Unaudited Consolidated Financial Statements include the accounts of the Company after the elimination of all material intercompany balances and transactions.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and reported amounts of revenues and expenses during the periods presented. Actual results could differ from these estimates. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary. Significant estimates made in the accompanying Unaudited Consolidated Financial Statements include, but are not limited to, allowances for doubtful accounts, inventory valuation reserves, expected sales returns and allowances, certain assumptions related to the recoverability of intangible and long-lived assets, deferred tax valuation allowances, reserves for estimated tax liabilities, restructuring costs, certain estimates and assumptions used in the calculation of the net periodic benefit costs and the projected benefit obligations for the Company s pension and other post-retirement plans, including the expected long term return on pension plan assets and the discount rate used to value the Company s pension benefit obligations. The Unaudited Consolidated Financial Statements should be read in conjunction with the consolidated financial statements and related notes contained in Revlon, Inc. s Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission (the SEC) on February 17, 2011 (the 2010 Form 10-K).

The Company s results of operations and financial position for interim periods are not necessarily indicative of those to be expected for a full year.

Certain prior year amounts in the Consolidated Financial Statements have been reclassified to conform to the current period s presentation.

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(2) Pension and Post-retirement Benefits

The components of net periodic benefit cost for the pension and the other post-retirement benefit plans for the first quarter of 2011 and 2010, respectively, are as follows:

	Pension Plans		Other Post-retirement Benefit Plans	
	2011	**2010**	**2011**	**2010**
Net periodic benefit costs:				
Service cost	$ 0.3	$ 0.4	$	$
Interest cost	8.1	8.5	0.2	0.2
Expected return on plan assets	(8.7)	(8.1)		
Amortization of prior service cost				
Amortization of actuarial loss	1.3	2.7	0.1	0.1
	$ 1.0	$ 3.5	$ 0.3	$ 0.3

In the first quarter of 2011, the Company recognized lower net periodic benefit costs, as compared to the first quarter of 2010, primarily due to the increase in the fair value of pension plan assets at December 31, 2010, partially offset by a decrease in the weighted-average discount rate. The Company expects net periodic benefit costs for the pension and the other post-retirement benefit plans to be approximately $5 million for all of 2011, compared with $9.3 million in 2010.

During the first quarter of 2011, $8.5 million and $0.3 million were contributed to the Company s pension plans and other post-retirement benefit plans, respectively. The Company currently expects to contribute approximately $30 million in the aggregate to its pension plans and other post-retirement benefit plans in 2011.

Relevant aspects of the qualified defined benefit pension plans, nonqualified pension plans and other post-retirement benefit plans sponsored by Products Corporation are disclosed in Revlon, Inc. s 2010 Form 10-K.

(3) Business Acquisition

On March 17, 2011, the Company acquired certain net assets, including trademarks and other intellectual property, inventory, certain receivables and manufacturing equipment, related to Sinful Colors cosmetics, Wild and Crazy cosmetics, freshMinerals cosmetics and freshcover cosmetics, which products are sold principally in the U.S. mass retail channel (the Sinful Colors Acquisition). The Company paid $39.0 million of total consideration for the Sinful Colors Acquisition in cash, which included the $38.0 million purchase price and a $1.0 million adjustment based on working capital at closing. The results of operations related to such acquired assets are included in the Company s consolidated financial statements commencing on the date of acquisition. Pro forma results of operations have not been presented, as the impact on the Company s consolidated financial results would not have been material.

The Company accounted for the Sinful Colors Acquisition as a business combination during the first quarter of 2011 and, accordingly, the total consideration of $39.0 million has been allocated on a

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preliminary basis to the net assets acquired based on their respective estimated fair values at March 17, 2011 as follows:

Recognized amounts of assets acquired and liabilities assumed:	
Trade receivables	$ 2.9
Inventories	3.3
Property, plant and equipment, net	0.4
Intangible assets	22.8
Accounts payable	(0.9)
Accrued expenses and other	(0.9)
Fair value of net assets acquired	27.6
Goodwill	11.4
Total consideration	$ 39.0

The allocation of the total consideration of $39.0 million includes intangible assets of $22.8 million and goodwill of $11.4 million, all of which is expected to be deductible for income tax purposes. The Company, however, is in the process of completing its assessment of the fair value of assets acquired and liabilities assumed in the Sinful Colors Acquisition. As a result, the fair value of the net assets acquired is provisional pending completion of the final valuation of such net assets.

(4) Inventories

	March 31, 2011	December 31, 2010
Raw materials and supplies	$ 45.7	$ 39.7
Work-in-process	11.2	9.9
Finished goods	73.3	65.4
	$ 130.2	$ 115.0

(5) Basic and Diluted Earnings Per Common Share

Shares used in basic earnings per share are computed using the weighted average number of common shares outstanding during each period. Shares used in diluted earnings per share include the dilutive effect of unvested restricted shares and outstanding stock options under the Stock Plan using the treasury stock method. For the first quarter of 2011 and 2010, options to purchase 944,676 and 1,169,177 shares, respectively, of Revlon, Inc. Class A common stock, par value of $0.01 per share (the Class A Common Stock), that could potentially dilute basic earnings per share in the future were excluded from the calculation of diluted earnings per common share as their effect would have been anti-dilutive since their exercise price was in excess of the NYSE closing price of the Class A Common Stock during the period.

For the first quarter of 2011 and 2010, 151,537 and 303,160 shares, respectively, of unvested restricted stock that could potentially dilute basic earnings per share in the future were excluded from the calculation of diluted earnings per common share as their effect would be anti-dilutive.

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The components of basic and diluted earnings per share for the first quarter of 2011 and 2010, respectively, are as follows:

		Three Months Ended March 31,	
		2011	2010
		(shares in millions)	
Numerator:			
Net income		$ 10.4	$ 2.2
Denominator:			
Weighted average common shares outstanding	Basic	52.15	51.87
Effect of dilutive restricted stock		0.13	0.42
Weighted average common shares outstanding	Diluted	52.28	52.29
Earnings per share:			
Basic earnings per share		$ 0.20	$ 0.04
Diluted earnings per share		$ 0.20	$ 0.04

(6) Comprehensive Income

The components of comprehensive income for the first quarter of 2011 and 2010, respectively, are as follows:

	Three Months Ended March 31,	
	2011	2010
Net income	$ 10.4	$ 2.2
Other comprehensive income:		
Revaluation of financial derivative instruments[a]		1.7
Currency translation adjustment	(0.9)	0.8
Amortization of pension-related costs, net of tax[b]	0.9	2.8
Total other comprehensive income		5.3
Comprehensive income	$ 10.4	$ 7.5

[a] The amount for the three months ended March 31, 2010 relates to (1) the reclassification of an unrecognized loss of $0.8 million on the 2008 Interest Rate Swap (as hereinafter defined) from Accumulated Other Comprehensive

Loss into earnings due to the discontinuance of hedge accounting as a result of the 2010 Refinancing (See Note 10, Financial Instruments, in this Form 10-Q) and (2) the reversal of amounts recorded in Accumulated Other Comprehensive Loss pertaining to a net settlement payment of $0.9 million on the 2008 Interest Rate Swap.

(b) The amounts represent the change in Accumulated Other Comprehensive Loss as a result of the amortization of actuarial losses arising during the first quarter of 2011 and 2010, respectively, related to the Company s pension and other post-retirement benefit plans.

(7) Restructuring Costs and Other, Net

In May 2009 the Company announced a worldwide restructuring (the May 2009 Program), which involved consolidating certain functions; reducing layers of management, where appropriate, to increase

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accountability and effectiveness; streamlining support functions to reflect the new organizational structure; and further consolidating the Company s office facilities in New Jersey.

The $20.5 million of charges related to the May 2009 Program have been or are expected to be paid out as follows: $11.0 million paid in 2009, $6.9 million paid in 2010, $1.6 million expected to be paid in 2011 (of which $0.5 million was paid during the first quarter of 2011) and the balance of $1.0 million expected to be paid thereafter.

Details of the movements in the restructuring accrual for the May 2009 Program during the first quarter of 2011 are as follows:

	Balance as of January 1, 2011	(Income) Expenses, Net	Utilized, Net Cash	Utilized, Net Noncash	Balance as of March 31, 2011
Employee severance and other personnel benefits:					
May 2009 Program	$ 1.0	$	$ (0.4)	$	$ 0.6
Lease exit	1.6		(0.1)		1.5
Total restructuring costs and other, net	$ 2.6	$	$ (0.5)	$	$ 2.1

(8) Geographic, Financial and Other Information

The Company manages its business on the basis of one reportable operating segment. As of March 31, 2011, the Company had operations established in 14 countries outside of the U.S. and its products are sold throughout the world. Generally, net sales by geographic area are presented by attributing revenues from external customers on the basis of where the products are sold.

In the tables below, certain prior year amounts have been reclassified to conform to the current period s presentation.

	Three Months Ended March 31, 2011		2010	
Geographic area:				
Net sales:				
United States	$ 186.2	*56%*	$ 182.1	*60%*
Outside of the United States	147.0	*44%*	123.4	*40%*
	$ 333.2		$ 305.5	

	March 31, 2011		December 31, 2010	
Long-lived assets net:				
United States	$ 361.6	*88%*	$ 331.5	*87%*
Outside of the United States	49.9	*12%*	49.7	*13%*
	$ 411.5		$ 381.2	

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	Three Months Ended March 31,			
	2011		2010	
Classes of similar products:				
Net sales:				
Color cosmetics	$ 215.1	*65%*	$ 193.7	*63%*
Beauty care and fragrance	118.1	*35%*	111.8	*37%*
	$ 333.2		$ 305.5	

(9) Fair Value Measurements

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification (the Fair Value Measurements and Disclosures Topic) clarifies the definition of fair value of assets and liabilities, establishes a framework for measuring the fair value of assets and liabilities and expands the disclosures on fair value measurements. The fair value framework under the Fair Value Measurements and Disclosures Topic requires the categorization of assets and liabilities into three levels based upon the assumptions used to price the assets or liabilities. Level 1 provides the most reliable measure of fair value, whereas Level 3, if applicable, generally would require significant management judgment. The three levels for categorizing assets and liabilities fair value measurement requirements are as follows:

> *Level 1:* Fair valuing the asset or liability using observable inputs, such as quoted prices in active markets for identical assets or liabilities;
>
> *Level 2:* Fair valuing the asset or liability using inputs other than quoted prices that are observable for the applicable asset or liability, either directly or indirectly, such as quoted prices for similar (as opposed to identical) assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active; and
>
> *Level 3:* Fair valuing the asset or liability using unobservable inputs that reflect the Company s own assumptions regarding the applicable asset or liability.

As of March 31, 2011, the fair values of the Company s financial assets and liabilities, namely its FX Contracts (as hereinafter defined) and Revlon, Inc. s Series A Preferred Stock, par value $0.01 per share (the Preferred Stock), are categorized as presented in the table below:

	Total	Level 1	Level 2	Level 3
Assets:				
FX Contracts[(a)]	$ 0.1	$	$ 0.1	$
Total assets at fair value	$ 0.1	$	$ 0.1	$

Liabilities:				
FX Contracts[a]	$ 1.8	$	$ 1.8	$
Redeemable Preferred Stock[b]	0.2			0.2
Total liabilities at fair value	$ 2.0	$	$ 1.8	$ 0.2

(a) The fair value of the Company s FX Contracts was measured based on observable market transactions of spot and forward rates at March 31, 2011. (See Note 10, Financial Instruments, in this Form 10-Q.)

(b) In October 2009, Revlon, Inc. consummated its voluntary exchange offer (as amended, the Exchange Offer) in which, among other things, Revlon, Inc. issued to stockholders (other than MacAndrews & Forbes) 9,336,905 shares of its Preferred Stock in exchange for the same number of shares of Class A Common Stock tendered in the Exchange Offer. Upon consummation of the Exchange Offer, Revlon,

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Inc. initially recorded the Preferred Stock as a long-term liability at a fair value of $47.9 million, which was comprised of two components:

Liquidation Preference: Upon initial valuation of the Preferred Stock, the total amount to be paid by Revlon, Inc. at maturity is approximately $48.6 million, which represents the $5.21 liquidation preference for each of the 9,336,905 shares of Preferred Stock issued in the Exchange Offer (the Liquidation Preference). The Liquidation Preference was initially measured at fair value based on the yield to maturity of the $48.6 million portion of the Senior Subordinated Term Loan (as hereinafter defined) that was contributed to Revlon, Inc. by MacAndrews & Forbes (the Contributed Loan), adjusted for an estimated average subordination premium for subordinated note issues. The Liquidation Preference is subsequently measured at the present value of the amount to be paid at maturity, accruing interest cost using the rate implicit at the issuance date since both the amount to be paid and the maturity date are fixed.

Change of Control Amount: Holders of the Preferred Stock are entitled to receive upon a change of control transaction (as defined in the certificate of designation of the Preferred Stock) through October 8, 2012, a pro rata portion of the equity value received in such transaction, capped at an amount that would provide aggregate cash payments of $12.00 per share over the term of the Preferred Stock. If the equity value received in the change of control transaction is greater than or equal to $12.00 per share, then each holder of Preferred Stock will be entitled to receive an amount equal to $12.00 minus the Liquidation Preference minus any paid and/or accrued and unpaid dividends on the Preferred Stock. If the per share equity value received in the change of control transaction is less than $12.00, then each holder of Preferred Stock is entitled to receive an amount equal to such per share equity value minus the Liquidation Preference minus any paid and/or accrued and unpaid dividends on the Preferred Stock. If the per share equity value received in the change of control transaction does not exceed the Liquidation Preference plus any paid and/or accrued and unpaid dividends, then each holder of the Preferred Stock is not entitled to an additional payment upon any such change of control transaction (the foregoing payments being the Change of Control Amount). The fair value of the Change of Control Amount of the Preferred Stock, which is deemed to be a Level 3 liability, is based on the Company s assessment of the likelihood of the occurrence of specified change of control transactions within three years of the consummation of the Exchange Offer. There was no change in the fair value of the Change in Control Amount from the initial valuation performed upon the October 2009 consummation of the Exchange Offer through March 31, 2011.

(10) Financial Instruments

The fair value of the Company s debt, including the current portion of long-term debt and Preferred Stock, is based on the quoted market prices for the same issues or on the current rates offered for debt of similar remaining maturities. The estimated fair value of such debt and Preferred Stock at March 31, 2011 was approximately $1,262.8 million, which was more than the carrying value of such debt and Preferred Stock at March 31, 2011 of $1,214.2 million. The estimated fair value of such debt and Preferred Stock at December 31, 2010 was approximately $1,259.6 million, which was more than the carrying value of such debt and Preferred Stock at December 31, 2010 of $1,215.4 million.

The carrying amounts of cash and cash equivalents, marketable securities, trade receivables, notes receivable, accounts payable and short-term borrowings approximate their fair values.

Products Corporation also maintains standby and trade letters of credit for various corporate purposes under which Products Corporation is obligated, of which approximately $21.2 million (including amounts available under credit agreements in effect at that time) were maintained at both March 31, 2011 and

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December 31, 2010. Included in these amounts is approximately $9.1 million at both March 31, 2011 and December 31, 2010 in standby letters of credit which support Products Corporation s self-insurance programs. The estimated liability under such programs is accrued by Products Corporation.

Derivative Financial Instruments

The Company uses derivative financial instruments, primarily (1) foreign currency forward exchange contracts (FX Contracts) intended for the purpose of managing foreign currency exchange risk by reducing the effects of fluctuations in foreign currency exchange rates on the Company s net cash flows and (2) interest rate hedging transactions intended for the purpose of managing interest rate risk associated with Products Corporation s variable rate indebtedness.

Foreign Currency Forward Exchange Contracts

The FX Contracts are entered into primarily to hedge the anticipated net cash flows resulting from inventory purchases and intercompany payments denominated in currencies other than the local currencies of the Company s foreign and domestic operations and generally have maturities of less than one year. The U.S. dollar notional amount of the FX Contracts outstanding at March 31, 2011 and December 31, 2010 was $48.6 million and $46.0 million, respectively.

While the Company may be exposed to credit loss in the event of the counterparty s non-performance, the Company s exposure is limited to the net amount that Products Corporation would have received, if any, from the counterparty over the remaining balance of the terms of the FX Contracts. The Company does not anticipate any non-performance and, furthermore, even in the case of any non-performance by the counterparty, the Company expects that any such loss would not be material.

Interest Rate Swap Transaction

Prior to its expiration in April 2010, the Company s floating-to-fixed interest rate swap had a notional amount of $150.0 million initially relating to indebtedness under Products Corporation s former 2006 Term Loan Facility (as hereinafter defined) (prior to its complete refinancing in March 2010) and which also related, through its expiration in April 2010, to a notional amount of $150.0 million relating to indebtedness under Products Corporation s 2010 Term Loan Facility (as hereinafter defined in Note 11, Long-Term Debt and Redeemable Preferred Stock) (the 2008 Interest Rate Swap). Under the terms of the 2008 Interest Rate Swap, Products Corporation was required to pay to the counterparty a quarterly fixed interest rate of 2.66% on the $150.0 million notional amount under the 2008 Interest Rate Swap (which, based upon the 4.0% applicable margin, effectively fixed the interest rate on such notional amounts at 6.66% for the 2-year term of such swap), commencing in July 2008, while receiving a variable interest rate payment from the counterparty equal to three-month U.S. dollar LIBOR.

The 2008 Interest Rate Swap was initially designated as a cash flow hedge of the variable interest rate payments on Products Corporation s former 2006 Term Loan Facility (prior to its complete refinancing in March 2010) under the Derivatives and Hedging Topic of the FASB Accounting Standards Codification (the Derivatives and Hedging Topic). However, as a result of the 2010 Refinancing (as hereinafter defined in Note 11, Long-term Debt and Redeemable Preferred Stock), effective March 11, 2010 (the closing date of the 2010 Refinancing), the 2008 Interest Rate Swap no longer met the criteria specified under the Derivatives and Hedging Topic to allow for the deferral of the effective portion of unrecognized hedging gains or losses in other comprehensive income as the scheduled variable interest payment specified on the date originally documented at the inception of the hedge will not occur. As a result, as of March 11, 2010, the Company reclassified an unrecognized loss of $0.8 million from Accumulated Other Comprehensive Loss into earnings.

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Quantitative Information Derivative Financial Instruments

The effects of the Company s derivative instruments on its consolidated financial statements were as follows:

(a) Fair Value of Derivative Financial Instruments in Consolidated Balance Sheet:

	Fair Values of Derivative Instruments					
	Assets			Liabilities		
Derivatives:	Balance Sheet Classification	March 31, 2011 Fair Value	December 31, 2010 Fair Value	Balance Sheet Classification	March 31, 2011 Fair Value	December 31, 2010 Fair Value
Derivatives not designated as hedging instruments:						
FX Contracts[a]	Prepaid expenses	$ 0.1	$ 0.2	Accrued expenses	$ 1.8	$ 2.1
		$ 0.1	$ 0.2		$ 1.8	$ 2.1

(a) The fair values of the FX Contracts at March 31, 2011 and December 31, 2010 were determined by using observable market transactions of spot and forward rates at March 31, 2011 and December 31, 2010, respectively.

(b) Effects of Derivative Financial Instruments on Income and Other Comprehensive Income (Loss) (OCI):

	Derivative Instruments Gain (Loss) Effect on Consolidated Statement of Operations as of March 31,				
	Amount of Gain (Loss) Recognized in OCI (Effective Portion)		Income Statement Classification of Gain (Loss) Reclassified from OCI to Income	Amount of Gain (Loss) Reclassified from OCI to Income (Effective Portion)	
	2011	2010		2011	2010
Derivatives designated as hedging instruments:					
2008 Interest Rate Swap[a]	$	$	Interest expense	$	$ (0.9)

	Amount of Gain (Loss) Recognized in Foreign Currency Gains (Losses), Net 2011	2010	Income Statement Classification of Gain (Loss) Reclassified from OCI to Income	Amount of Gain (Loss) Recognized in Interest Expense (Ineffective Portion) 2011	2010
Derivatives not designated as hedging instruments:					
FX Contracts	$ (0.6)	$ (0.5)	Interest expense	$	$
2008 Interest Rate Swap[a]			Interest expense		(0.8)
	$ (0.6)	$ (0.5)		$	$ (0.8)

[a] Effective March 11, 2010 (the closing date of the 2010 Refinancing), the 2008 Interest Rate Swap was no longer designated as a cash flow hedge. (See Interest Rate Swap Transaction in this Note 10.)

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(11) Long-term Debt and Redeemable Preferred Stock

	March 31, 2011	December 31, 2010
2010 Term Loan Facility due 2015, net of discounts[a]	$ 780.6	$ 782.0
2010 Revolving Credit Facility due 2014[a]		
93/4% Senior Secured Notes due 2015, net of discounts[b]	327.0	326.9
Senior Subordinated Term Loan due 2014[c]	58.4	58.4
	1,166.0	1,167.3
Less current portion	(8.0)	(8.0)
	1,158.0	1,159.3
Redeemable Preferred Stock[d]	48.2	48.1
	$ 1,206.2	$ 1,207.4

(a) In March 2010 Products Corporation refinanced (i) its term loan facility, which was scheduled to mature on January 15, 2012 and had $815.0 million aggregate principal amount outstanding at December 31, 2009 (the 2006 Term Loan Facility), with a 5-year, $800.0 million term loan facility due March 11, 2015 (the 2010 Term Loan Facility) under a second amended and restated term loan agreement dated March 11, 2010 (the 2010 Term Loan Agreement) and (ii) its 2006 revolving credit facility, which was scheduled to mature on January 15, 2012 and had nil outstanding borrowings at December 31, 2009, with a 4-year, $140.0 million asset-based, multi-currency revolving credit facility due March 11, 2014 (the 2010 Revolving Credit Facility and, together with the 2010 Term Loan Facility, the 2010 Credit Facilities) under a second amended and restated revolving credit agreement dated March 11, 2010 (the 2010 Revolving Credit Agreement and, together with the 2010 Term Loan Agreement, the 2010 Credit Agreements and such refinancing transactions being the 2010 Refinancing). See Note 9, Long-Term Debt and Redeemable Preferred Stock, to the Consolidated Financial Statements in Revlon, Inc. s 2010 Form 10-K for certain details regarding the 2010 Credit Agreements.

(b) See Note 9, Long-Term Debt and Redeemable Preferred Stock, to the Consolidated Financial Statements in Revlon, Inc. s 2010 Form 10-K for certain details regarding Products Corporation s 93/4% Senior Secured Notes which mature on November 15, 2015 (the 93/4% Senior Secured Notes).

(c) See Note 9, Long-Term Debt and Redeemable Preferred Stock, to the Consolidated Financial Statements in Revlon, Inc. s 2010 Form 10-K for certain details regarding the $58.4 million principal amount of Senior Subordinated Term Loan which remains owing from Products Corporation to MacAndrews & Forbes (the Non-Contributed Loan), which matures on October 8, 2014.

(d) See Note 9, Long-Term Debt and Redeemable Preferred Stock, to the Consolidated Financial Statements in Revlon, Inc. s 2010 Form 10-K for certain details regarding Revlon, Inc. s redeemable Preferred Stock.

2010 Bank Credit Agreements

See Note 9, Long-Term Debt and Redeemable Preferred Stock, to the Consolidated Financial Statements in Revlon, Inc. s 2010 Form 10-K for certain details regarding the 2010 Credit Agreements.

Products Corporation was in compliance with all applicable covenants under the 2010 Credit Agreements upon closing the 2010 Refinancing and as of March 31, 2011. At March 31, 2011, the aggregate principal amount outstanding under the 2010 Term Loan Facility was $792.0 million and availability under the $140.0 million 2010 Revolving Credit Facility, based upon the calculated borrowing base less $21.2 million of outstanding undrawn letters of credit and nil then drawn on the 2010 Revolving Credit Facility, was $106.4 million.

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(12) Income Taxes

The provision for income taxes represents federal, foreign, state and local income taxes. The effective rate differs from the applicable federal statutory rate due to the effect of state and local income taxes, tax rates and income in foreign jurisdictions, utilization of tax loss carryforwards, dividends among affiliates, certain nondeductible expenses and certain other items. The Company s tax provision (benefit) changes quarterly based on recurring and non-recurring factors including, but not limited to, the geographical mix of earnings, enacted tax legislation, foreign, state and local income taxes, tax audit settlements, the ultimate disposition of deferred tax assets relating to stock-based compensation and the interaction of various global tax strategies. In addition, changes in judgment from the evaluation of new information resulting in the recognition, derecognition and/or re-measurement of a tax position taken in a prior annual period are recognized in the quarter in which any such change occurs.

For the first quarter of 2011 and 2010, the Company recorded a provision for income taxes of $7.7 million and $5.0 million, respectively. The $2.7 million increase in the provision for income taxes for the first quarter of 2011, as compared to the first quarter of 2010, was primarily attributable to the reduction of the Company s deferred tax valuation allowance on its net U.S. deferred income tax assets at December 31, 2010, which resulted in a higher effective tax rate in the U.S. for the first quarter of 2011, as well as higher taxable income for taxable subsidiaries in certain foreign jurisdictions and the U.S. in the first quarter of 2011. (See Note 12, Income Taxes, to the Consolidated Financial Statements in Revlon, Inc. s 2010 Form 10-K.)

The Company remains subject to examination of its income tax returns in various jurisdictions including, without limitation, the U.S. (federal), for tax years ended December 31, 2007 through December 31, 2009, and Australia and South Africa, for tax years ended December 31, 2006 through December 31, 2009.

(13) Guarantor Financial Information

Products Corporation s 93/4% Senior Secured Notes are fully and unconditionally guaranteed on a senior secured basis by Revlon, Inc. and Products Corporation s domestic subsidiaries (other than certain immaterial subsidiaries) that guarantee Products Corporation s obligations under its 2010 Credit Agreements (the Guarantor Subsidiaries).

The following Condensed Consolidating Financial Statements present the financial information as of March 31, 2011 and December 31, 2010, and for the three months ended March 31, 2011 and 2010 for (i) Products Corporation on a stand-alone basis; (ii) the Guarantor Subsidiaries on a stand-alone basis; (iii) the subsidiaries of Products Corporation that do not guarantee Products Corporation s 93/4% Senior Secured Notes (the Non-Guarantor Subsidiaries) on a stand-alone basis; and (iv) Products Corporation, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries on a consolidated basis. The Condensed Consolidating Financial Statements are presented on the equity method, under which the investments in subsidiaries are recorded at cost and adjusted for the applicable share of the subsidiary s cumulative results of operations, capital contributions, distributions and other equity changes. The principal elimination entries eliminate investments in subsidiaries and intercompany balances and transactions.

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Consolidating Condensed Balance Sheets
As of March 31, 2011

	Products Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	$ 9.2	$ 0.3	$ 51.7	$	$ 61.2
Trade receivables, less allowances for doubtful accounts	76.7	17.0	88.7		182.4
Inventories	79.5	7.0	43.7		130.2
Deferred income taxes current	35.0		5.7		40.7
Prepaid expenses and other	77.8	5.7	26.9		110.4
Intercompany receivables	889.6	440.8	333.7	(1,664.1)	
Investment in subsidiaries	(180.9)	(186.3)		367.2	
Property, plant and equipment, net	87.3	0.9	15.8		104.0
Deferred income taxes noncurrent	209.9		2.5		212.4
Other assets	53.8	27.0	27.9		108.7
Goodwill, net	150.6	41.4	2.1		194.1
Total assets	$ 1,488.5	$ 353.8	$ 598.7	$ (1,296.9)	$ 1,144.1
LIABILITIES AND STOCKHOLDER S DEFICIENCY					
Short-term borrowings	$	$ 4.3	$ 2.1	$	$ 6.4
Current portion of long-term debt	8.0				8.0
Accounts payable	55.4	8.1	32.5		96.0
Accrued expenses and other	148.6	8.6	64.6		221.8
Intercompany payables	522.3	612.0	529.8	(1,664.1)	
Long-term debt	1,099.6				1,099.6
Long-term debt affiliates	107.0				107.0
Other long-term liabilities	191.9	8.6	49.1		249.6
Total liabilities	2,132.8	641.6	678.1	(1,664.1)	1,788.4
Stockholder s deficiency	(644.3)	(287.8)	(79.4)	367.2	(644.3)
Total liabilities and stockholder s deficiency	$ 1,488.5	$ 353.8	$ 598.7	$ (1,296.9)	$ 1,144.1

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Consolidating Condensed Balance Sheets
As of December 31, 2010

	Products Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	$ 20.5	$ 0.1	$ 56.1	$	$ 76.7
Trade receivables, less allowances for doubtful accounts	91.0	14.9	91.6		197.5
Inventories	76.6	2.4	36.0		115.0
Deferred income taxes current	34.4		5.9		40.3
Prepaid expenses and other	72.5	3.2	22.4		98.1
Intercompany receivables	895.1	432.0	331.1	(1,658.2)	
Investment in subsidiaries	(229.8)	(184.7)		414.5	
Property, plant and equipment, net	89.4	0.6	16.2		106.2
Deferred income taxes noncurrent	214.0		2.6		216.6
Other assets	55.8	4.2	27.3		87.3
Goodwill, net	150.6	30.0	2.1		182.7
Total assets	$ 1,470.1	$ 302.7	$ 591.3	$ (1,243.7)	$ 1,120.4
LIABILITIES AND STOCKHOLDER S DEFICIENCY					
Short-term borrowings	$	$ 1.8	$ 1.9	$	$ 3.7
Current portion of long-term debt	8.0				8.0
Accounts payable	54.3	4.4	25.8		84.5
Accrued expenses and other	140.1	9.0	67.1		216.2
Intercompany payables	516.4	613.4	528.4	(1,658.2)	
Long-term debt	1,100.9				1,100.9
Long-term debt affiliates	107.0				107.0
Other long-term liabilities	200.5	9.1	47.6		257.2
Total liabilities	2,127.2	637.7	670.8	(1,658.2)	1,777.5
Stockholder s deficiency	(657.1)	(335.0)	(79.5)	414.5	(657.1)
Total liabilities and stockholder s deficiency	$ 1,470.1	$ 302.7	$ 591.3	$ (1,243.7)	$ 1,120.4

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