REVLON INC /DE/
Form 10-Q
November 06, 2007

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2007

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 Number: 1-11178

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

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

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. (Check one):

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

As of September 30, 2007, 479,260,736 shares of Class A Common Stock and 31,250,000 shares of Class B Common Stock were outstanding. 274,834,793 shares of Class A Common Stock and all of the 31,250,000 shares of Class B Common Stock were beneficially owned directly and indirectly by MacAndrews & Forbes Holdings Inc. and certain of its affiliates.

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 per share amounts)

	September 30, 2007	December 31, 2006
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 29.9	$ 35.4
Trade receivables, less allowances of $17.9 and $17.7 as of September 30, 2007 and December 31, 2006, respectively	178.6	207.8
Inventories	194.1	186.5
Prepaid expenses and other	54.0	58.3
Total current assets	456.6	488.0
Property, plant and equipment, net	111.4	115.3
Other assets	128.2	142.4
Goodwill, net	186.2	186.2
Total assets	$ 882.4	$ 931.9
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current liabilities:		
Short-term borrowings	$ 3.1	$ 9.6
Current portion of long-term debt	171.8	—
Accounts payable	101.2	95.1
Accrued expenses and other	248.8	272.5
Total current liabilities	524.9	377.2
Long-term debt	1,290.5	1,501.8
Long-term pension and other post-retirement plan liabilities	140.2	175.7
Other long-term liabilities	75.9	107.0
Stockholders' deficiency:		
Class B Common Stock, par value $.01 per share: 200,000,000 shares authorized, 31,250,000 issued and outstanding as of September 30, 2007 and December 31, 2006, respectively	0.3	0.3
Class A Common Stock, par value $.01 per share: 900,000,000 shares authorized; 484,823,599 and 390,001,154 shares issued as of September 30, 2007 and December 31, 2006, respectively	4.9	3.8
Additional paid-in capital	987.3	884.9
Treasury stock, at cost: 1,085,599 and 429,666 shares of Class A Common Stock as of September 30, 2007 and December 31, 2006, respectively	(2.3)	(1.4)
Accumulated deficit	(2,026.2)	(1,993.2)
Accumulated other comprehensive loss	(113.1)	(124.2)
Total stockholders' deficiency	(1,149.1)	(1,229.8)
Total liabilities and stockholders' deficiency	$ 882.4	$ 931.9

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 per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net sales	$ 339.7	$ 305.9	$ 1,017.5	$ 952.5
Cost of sales	124.3	148.9	378.3	404.2
Gross profit	215.4	157.0	639.2	548.3
Selling, general and administrative expenses	194.2	200.4	591.7	645.3
Restructuring costs and other, net	0.5	13.8	6.9	23.3
Operating income (loss)	20.7	(57.2)	40.6	(120.3)
Other expenses (income):				
Interest expense	34.5	38.3	101.9	109.4
Interest income	(0.2)	(0.2)	(1.7)	(1.0)
Amortization of debt issuance costs	1.0	2.0	2.3	5.6
Foreign currency gains, net	(3.9)	(0.2)	(4.4)	(1.4)
Loss on early extinguishment of debt	—	—	0.1	0.4
Miscellaneous, net	(1.3)	0.1	(2.3)	0.5
Other expenses, net	30.1	40.0	95.9	113.5
Loss before income taxes	(9.4)	(97.2)	(55.3)	(233.8)
Provision for income taxes	1.0	3.3	1.6	12.0
Net loss	$ (10.4)	$ (100.5)	$ (56.9)	$ (245.8)
Basic and diluted loss per common share	$ (0.02)	$ (0.24)	$ (0.11)	$ (0.59)
Weighted average number of common shares outstanding:				
Basic and diluted	510,488,380	425,405,089	502,191,060	413,670,178

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

	Common Stock	Additional Paid-In-Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Deficiency
Balance, January 1, 2007	$ 4.1	$ 884.9	$ (1.4)	$ (1,993.2)	$ (124.2)	$ (1,229.8)
SFAS No. 158 adjustment(a)				(2.9)	10.3	7.4
Adjustment for adoption of FIN 48(b)				26.8		26.8
Adjusted balance, January 1, 2007	4.1	884.9	(1.4)	(1,969.3)	(113.9)	(1,195.6)
Net proceeds from $100 Million Rights Offering (see Note 11)	1.0	97.9				98.9
Treasury stock acquired, at cost(c)			(0.9)			(0.9)
Issuance of restricted stock	0.1	(0.1)				—
Stock option compensation		0.8				0.8
Amortization of deferred compensation for restricted stock		3.8				3.8
Comprehensive loss:						
Net loss				(56.9)		(56.9)
Recognition of hedge accounting derivative gains(d)					0.1	0.1
Currency translation adjustment					(0.8)	(0.8)
Amortization under SFAS No. 158(e)					1.5	1.5
Total comprehensive loss						(56.1)
Balance, September 30, 2007	$ 5.2	$ 987.3	$ (2.3)	$ (2,026.2)	$ (113.1)	$ (1,149.1)

(a) Due to the Company's early adoption of the provisions under SFAS No. 158, effective January 1, 2007 requiring a measurement date for determining defined benefit plan assets and obligations using the Company's fiscal year end of December 31st, rather than using a September 30th measurement date (which will become effective for the fiscal year ending December 31, 2007), the Company recognized a net reduction to the beginning balance of Accumulated Other Comprehensive Loss of $10.3 million, as set forth in the table above, which is comprised of (1) a $9.4 million reduction to Accumulated Other Comprehensive Loss due to the revaluation of the pension liability as a result of the change in measurement date and (2) a $0.9 million reduction to Accumulated Other Comprehensive Loss of amortization of prior service costs, actuarial gains/losses and return on assets over the period from October 1, 2006 to December 31, 2006. In addition, the Company recognized a $2.9 million increase to the beginning balance of Accumulated Deficit, as set forth in the table above, which represents the total net periodic benefit costs incurred from October 1, 2006 to December 31, 2006. (See Note 3,''Post-retirement Benefits''). (b) Due to the Company's adoption of FIN 48, ''Accounting for Uncertainty in Income Taxes – an interpretation of SFAS No. 109'' effective for the fiscal year beginning January 1, 2007, the Company reduced its total tax reserves by $26.8 million, which resulted in a corresponding reduction to the accumulated deficit component of Accumulated Other Comprehensive Loss, as set forth in the table above. (See Note 1, ''Basis of Presentation – Income Taxes''). (c) Amount relates to 655,933 shares of Revlon, Inc. Class A Common Stock withheld from employees and certain executives during the nine-month fiscal period ended September 30, 2007 to satisfy the minimum statutory tax withholding requirements related to the vesting of shares of restricted stock (see Note 2, ''Stock Compensation Plan'' to the Unaudited Consolidated Financial

Statements). (d) Due to the Company's use of derivative financial instruments, the net amount of hedge accounting derivative losses recognized by the Company, as set forth in the table above, pertains to (1) the reversal of $0.3 million of net losses accumulated in Accumulated Other Comprehensive Loss at January 1, 2007 upon the Company's election during the fiscal quarter ended March 31, 2007 to discontinue the application of hedge accounting under SFAS No. 133, ''Accounting for Derivative Instruments and Hedging Activities'' for certain derivative financial instruments, as the Company no longer designates its foreign currency forward exchange contracts as hedging instruments and (2) $0.2 million of net losses accumulated in Accumulated Other Comprehensive Loss upon Products Corporation's execution of a floating-to-fixed interest rate swap transaction with a notional amount of $150.0 million relating to indebtedness under Products Corporation's 2006 Term Loan Facility during the three-month fiscal period ended September 30, 2007, which the Company designates as a hedging instrument and accordingly applies hedge accounting under SFAS No. 133. (See Note 9, ''Derivative Financial Instruments'' to the Unaudited Consolidated Financial Statements and the discussion of Critical Accounting Policies in this Form 10-Q). (e) Amount represents a reduction in Accumulated Other Comprehensive Loss as a result of the amortization of unrecognized prior service costs and actuarial gains/losses arising during the nine-month fiscal period ended September 30, 2007 related to the Company's pension and other post-retirement plans. (See Note 6, ''Comprehensive Loss'').

See Accompanying Notes to Unaudited Consolidated Financial Statements

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

Nine Months Ended September 30,	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (56.9)	$ (245.8)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	75.2	84.2
Amortization of debt discount	0.4	0.4
Stock compensation amortization	4.6	11.7
Loss on early extinguishment of debt	0.1	0.4
Change in assets and liabilities:		
Decrease in trade receivables	34.6	115.5
Decrease (increase) in inventories	(3.3)	14.1
Decrease in prepaid expenses and other current assets	6.2	1.2
Increase (decrease) in accounts payable	1.5	(26.0)
Decrease in accrued expenses and other current liabilities	(71.6)	(24.3)
Purchase of permanent displays	(40.9)	(81.4)
Other, net	2.5	25.2
Net cash used in operating activities	(47.6)	(124.8)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(12.5)	(15.5)
Net cash used in investing activities	(12.5)	(15.5)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net decrease in short-term borrowings and overdraft	(4.1)	(6.3)
Borrowings under the 2006 Revolving Credit Facility, net	9.5	50.7
Borrowings under the Term Loan Facility	—	100.0
Proceeds from the issuance of long-term debt	0.5	—
Repayment of long-term debt	(50.0)	(109.7)
Payment of financing costs	(0.9)	(9.4)
Net proceeds from the $110 Million Rights Offering	—	107.2
Net proceeds from the $100 Million Rights Offering	98.9	—
Proceeds from exercise of stock options for common stock	—	0.2
Net cash provided by financing activities	53.9	132.7
Effect of exchange rate changes on cash and cash equivalents	0.7	(1.0)
Net decrease in cash and cash equivalents	(5.5)	(8.6)
Cash and cash equivalents at beginning of period	35.4	32.5
Cash and cash equivalents at end of period	$ 29.9	$ 23.9
Supplemental schedule of cash flow information:		
Cash paid during the period for:		
Interest	$ 97.7	$ 104.0
Income taxes, net of refunds	$ 8.1	$ 9.1
Supplemental schedule of non-cash investing and financing activities:		
Treasury stock received to satisfy minimum tax withholding liabilities	$ 0.9	$ 0.6

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REVLON, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(except where otherwise noted, all tabular amounts in millions, except 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 and its subsidiaries (‘‘Products Corporation’’). The Company operates in a single segment and manufactures, markets and sells an extensive array of cosmetics, skincare, fragrances, beauty tools, women’s hair color, anti-perspirants/deodorants and personal care products. The Company’s principal customers include large mass volume retailers and chain drug 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 complimentary beauty-related products and accessories.

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 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 elimination of all material intercompany balances and transactions.

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. 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, reserves for estimated tax liabilities, restructuring costs, certain estimates and assumptions used in the calculation of the fair value of stock options issued to employees and non-employee directors and the derived compensation expense and certain estimates regarding the calculation of the net periodic benefit costs and the projected benefit obligation for the Company’s pension and other post-retirement plans. 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, 2006, filed with the Securities and Exchange Commission (the ‘‘SEC’’) on March 13, 2007.

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.

Income Taxes

Effective January 1, 2007, the Company adopted FASB Interpretation No. 48 (‘‘FIN 48’’), ‘‘Accounting for Uncertainty in Income Taxes – an interpretation of SFAS No. 109’’. This interpretation provides guidance on recognition and measurement for uncertainties in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, ''Accounting for Income Taxes''. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As a result of the Company's adoption of FIN 48 on January 1, 2007, the

REVLON, INC. AND SUBSIDIARIES
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Company reduced its total tax reserves by approximately $26.8 million, which resulted in a corresponding reduction of accumulated deficit. As of the date of adoption and after the impact of recognizing the decrease in tax reserves noted above, the Company had tax reserves of $59.2 million, all of which to the extent reduced and unutilized in future periods, would affect the Company's effective tax rate. 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, 2004 through December 31, 2006 and Australia and South Africa for tax years ending December 31, 2003 through December 31, 2006. The Company classifies interest and penalties recognized under FIN 48 as a component of the provision for income taxes in the consolidated statement of operations. After the implementation of FIN 48 on January 1, 2007, the Company had $23.1 million of accrued interest and $1.1 million of accrued tax penalties included in tax reserves.

During the three-month period ended June 30, 2007, the Company reduced its tax reserves by $5.9 million to reflect favorable regulatory developments resulting in the resolution of various international tax matters. As part of this reduction in its tax reserves, the Company reduced its accrued interest by $2.8 million and reduced its accrued tax penalties by $1.0 million. At the end of the three-month period ended September 30, 2007, the Company had tax reserves of $56.7 million, including $22.0 million of accrued interest and $0.1 million of accrued tax penalties within tax reserves.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, ''Fair Value Measurements''. This statement clarifies the definition of fair value of assets and liabilities, establishes a framework for measuring fair value of assets and liabilities and expands the disclosures on fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company will adopt the provisions of SFAS No. 157 as of January 1, 2008 and does not expect that its adoption will have a material impact on its results of operations or financial condition.

In September 2006, the FASB issued SFAS No. 158, ''Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statement Nos. 87, 88, 106, and 132(R)'' (''SFAS No. 158''). SFAS No. 158 is intended by FASB to improve financial reporting by requiring an employer to recognize the overfunded or underfunded status of a defined benefit post-retirement plan (other than a multi-employer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS No. 158 is also intended by the FASB to improve financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. As of December 31, 2006, the Company had adopted the requirements of SFAS No. 158 that requires an employer that sponsors one or more single-employer defined benefit plans to:

a. Recognize the funded status of a benefit plan – measured as the difference between plan assets at fair value (with limited exceptions) and the benefit obligation – in its statement of financial position. For a pension plan, the benefit obligation is the projected benefit obligation; for any other post-retirement benefit plan, such as a retiree health care plan, the benefit obligation is the accumulated post-retirement benefit obligation;

b. Recognize as a component of other comprehensive income (loss), net of tax, the gains or losses recognized and prior service costs or credits that arise during the year but are not recognized in net income (loss) as components of net periodic benefit cost pursuant to FASB Statement No. 87, ‘‘Employers’ Accounting for Pensions’’, or No. 106, ‘‘Employers’ Accounting for Postretirement Benefits Other Than Pensions’’. Amounts recognized in accumulated other comprehensive

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income (loss), including the gains or losses, prior service costs or credits, and the transition assets or obligations remaining from the initial application of Statements Nos. 87 and 106, are adjusted as they are subsequently recognized as components of net periodic benefit cost pursuant to the recognition and amortization provisions of Statements Nos. 87 and 106; and

c. Disclose in the notes to financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition assets or obligations. (See Note 11, ''Savings Plan, Pension and Post-Retirement Benefits'' in the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed with the SEC on March 13, 2007.)

As of January 1, 2007, the Company adopted the requirement to measure defined benefit plan assets and obligations as of the date of the Company's fiscal year ending December 31, 2007, rather than using a September 30th measurement date. (See Note 3, ''Post-retirement Benefits'', for further discussion of the impact of adopting the measurement date provision of SFAS No. 158 on the Company's results of operations or financial condition.)

(2) Stock Compensation Plan

Revlon, Inc. maintains the Second Amended and Restated Revlon, Inc. Stock Plan (the ''Stock Plan''), which provides for the issuance of awards of stock options, stock appreciation rights, restricted or unrestricted stock and restricted stock units to eligible employees and directors of Revlon, Inc. and its affiliates, including Products Corporation.

Stock Options

At September 30, 2007 and 2006, there were 16,581,238 and 15,939,945 stock options exercisable under the Stock Plan, respectively. However, as of September 30, 2007, all stock options held by grantees were ''out-of-the-money'' in that, in each case, the stock options had a strike price that was above the closing market price of Revlon, Inc.'s Class A Common Stock (as hereinafter defined) as reported on the NYSE on September 28, 2007 (the last trading day of the third quarter of 2007) of $1.15 per share. The lowest exercise price of any options held by grantees is $1.46 per share. Accordingly, all of the stock options held by grantees had no realizable monetary value at September 30, 2007.

Total net stock option compensation expense includes amounts attributable to the granting of, and the remaining requisite service period of, stock options issued under the Stock Plan, which awards were unvested at January 1, 2006 or granted on or after such date. Net stock option compensation expense in the three-month fiscal periods ended September 30, 2007 and 2006 was $0.2 million and $2.0 million, or nil and nil, respectively, for both basic and diluted earnings per share. Net stock option compensation expense in the nine-month fiscal period ended September 30, 2007 and 2006 was $0.8 million and $6.5 million, or nil and $0.02, respectively, for both basic and diluted earnings per share. As of September 30, 2007, the total unrecognized compensation cost related to unvested stock option awards in the aggregate was $1.3 million, which is expected to be recognized over a weighted-average period of 0.8 years. The total fair value of stock options that vested during the nine-month fiscal period ended September 30, 2007 was $2.4 million.

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A summary of the status of stock option grants under the Stock Plan as of September 30, 2007, which includes both exercisable and unexercisable stock option grants, and changes during the nine-month fiscal period then ended is presented below:

	Shares (000's)	Weighted Average Exercise Price
Outstanding at January 1, 2007	24,993.0	$ 4.54
Granted	—	—
Exercised	—	—
Forfeited and expired	(2,152.6)	3.78
Outstanding at March 31, 2007	22,840.4	4.61
Granted	—	—
Exercised	—	—
Forfeited and expired	(753.5)	15.98
Outstanding at June 30, 2007	22,086.9	4.22
Granted	—	—
Exercised	—	—
Forfeited and expired	(241.2)	7.39
Outstanding at September 30, 2007	21,845.7	4.20

There were no options granted during the nine-month fiscal period ended September 30, 2007. The weighted average grant date fair value of options granted during the nine-month fiscal period ended September 30, 2006 was approximately $1.30, and was estimated using the Black-Scholes option valuation model with the following weighted-average assumptions:

Nine Months Ended September 30,	2007	2006
Expected life of option(a)	N/A	4.75 years
Risk-free interest rate(b)	N/A %	4.84 %
Expected volatility(c)	N/A %	64 %
Expected dividend yield(d)	N/A	N/A

(a) The expected life of an option is calculated using a formula based on the vesting term and contractual life of the option.
(b) The risk-free interest rate is based upon the rate in effect at the time of the option grant on a zero coupon U.S. Treasury bill for periods approximating the expected life of the option.
(c) Expected volatility is based on the daily historical volatility of the closing price of Revlon, Inc.'s Class A Common Stock as reported on the NYSE over the expected life of the option.
(d) Assumes no dividends on Revlon, Inc.'s Class A Common Stock for options granted during the nine-month fiscal period ended September 30, 2007 and 2006, respectively.

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The following table summarizes information about the Stock Plan's options outstanding at September 30, 2007:

	Outstanding (Exercisable and Unexercisable)				Exercisable		
Range of Exercise Prices	Number of Options (000's)	Weighted Average Years Remaining	Weighted Average Exercise Price	Aggregate Intrinsic Value(a)	Number of Options (000's)	Weighted Average Years Remaining	Weighted Average Exercise Price
$ 1.46 to $ 2.55	3,105.8	4.75	$ 2.52	—	1,565.1	4.71	$ 2.52
2.56 to 3.47	15,204.9	3.63	3.03	—	11,481.1	3.64	3.04
3.48 to 5.64	1,691.5	4.80	3.91	—	1,691.5	4.80	3.91
5.65 to 10.00	1,067.6	3.09	6.94	—	1,067.6	3.09	6.94
10.01 to 50.00	775.9	1.02	30.62	—	775.9	1.02	30.62
1.46 to 50.00	21,845.7	3.76	4.20	—	16,581.2	3.70	4.62

(a) As of September 30, 2007, all stock options held by grantees were ''out-of-the-money'' in that, in each case, the stock options had a strike price that was above the closing market price of Revlon, Inc.'s Class A Common Stock as reported on the NYSE on September 28, 2007 (the last trading day of the third quarter of 2007) of $1.15 per share.

Restricted Stock Awards

The Stock Plan and Supplemental Stock Plan (as hereinafter defined) allow for awards of restricted stock and restricted stock units to employees and directors of Revlon, Inc. and its affiliates, including Products Corporation. The restricted stock awards granted under the Stock Plan vest over service periods that generally range from 19 months to three years. At September 30, 2007 and 2006, there were 4,477,264 and 1,785,002 shares of restricted stock and restricted stock units outstanding and unvested under the Stock Plan, respectively. All of the restricted shares granted under the Supplemental Stock Plan were fully vested at September 30, 2007.

A summary of the status of grants of restricted stock and restricted stock units under the Stock Plan and Supplemental Stock Plan as of September 30, 2007 and changes during the nine-month fiscal period then ended is presented below:

	Shares (000's)	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2007	8,120.6	$ 1.92
Granted	1.5	1.16
Vested	(500.0)	3.82
Forfeited	(376.5)	1.59
Nonvested at March 31, 2007	7,245.6	1.81
Granted	60.0	1.31
Vested(a)	(1,121.6)	3.03
Forfeited	(102.4)	1.59
Nonvested at June 30, 2007	6,081.6	1.58
Granted	92.5	1.03
Vested(b)	(1,606.1)	1.59
Forfeited	(90.7)	1.58
Nonvested at September 30, 2007	4,477.3	1.57

(a) Of the amount vested during the three-month period ended June 30, 2007, 78,248 shares were withheld by the Company to satisfy certain grantees' minimum withholding tax requirements,

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which withheld shares became Revlon, Inc. treasury stock. (See discussion under ‘‘Treasury Stock’’ below). (b) Of the amount vested during the three- and nine-month periods ended September 30, 2007, 577,685 and 655,933 shares, respectively, were withheld by the Company to satisfy certain grantees’ minimum withholding tax requirements, which withheld shares became Revlon, Inc. treasury stock. (See discussion under ‘‘Treasury Stock’’ below).

In 2002, Revlon, Inc. adopted the Revlon, Inc. 2002 Supplemental Stock Plan (the ‘‘Supplemental Stock Plan’’), the purpose of which was to provide Mr. Jack Stahl, the Company’s former President and Chief Executive Officer, the sole eligible participant under the Supplemental Stock Plan, with inducement awards to entice him to join the Company. All of the 530,000 shares of Class A Common Stock covered by the Supplemental Stock Plan were issued in the form of restricted shares to Mr. Stahl in February 2002 and all of these shares were fully vested at September 30, 2007.

The Company recognizes non-cash compensation expense related to restricted stock awards and restricted stock units under the Stock Plan and Supplemental Stock Plan using the straight-line method over the remaining service period. The Company recorded compensation expense related to restricted stock awards under the Stock Plan and Supplemental Stock Plan of $1.2 million and $2.6 million during the three-month fiscal period ended September 30, 2007 and 2006, respectively, and $3.8 million and $5.2 million during the nine-month fiscal period ended September 30, 2007 and 2006, respectively. The deferred stock-based compensation related to restricted stock awards is $5.4 million at September 30, 2007. The deferred stock-based compensation related to restricted stock awards is expected to be recognized over a weighted-average period of 1.6 years. The total fair value of restricted stock and restricted stock units that vested during the three- and nine-month fiscal periods ended September 30, 2007 was $2.6 million and $7.9 million, respectively. At September 30, 2007, there were 4,477,264 shares of unvested restricted stock and restricted stock units under the Stock Plan and nil under the Supplemental Stock Plan.

Treasury Stock

Pursuant to the share withholding provisions of the Stock Plan, during the second and third fiscal quarters of 2007, certain employees and executives, in lieu of paying withholding taxes on the vesting of certain restricted stock, authorized the withholding of an aggregate 78,248 and 577,685 shares, respectively, 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 $1.20 and $1.38 per share, respectively, the NYSE closing price on the vesting date, for a total of approximately $0.1 million and $0.8 million, respectively.

(3) Post-retirement Benefits

The Company sponsors pension plans and certain other post-retirement benefit plans for a substantial portion of its U.S. employees, as well as certain other non-U.S. employees. Relevant aspects of these plans are disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2006, filed with the SEC on March 13, 2007.

On January 1, 2007, the Company early adopted the measurement date provisions of SFAS No. 158. These provisions of SFAS No. 158 require the Company to measure defined benefit plan assets and obligations as of the date of the Company’s fiscal year-end, which for the Company will apply beginning with respect to the fiscal year ending December 31, 2007, rather than using a September 30th measurement date. Due to the Company’s early adoption of the measurement date provisions under SFAS No. 158, the Company recognized a net reduction to the beginning balance of Accumulated Other Comprehensive Loss of $10.3 million, which is comprised of (1) a $9.4 million reduction to Accumulated Other

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Comprehensive Loss due to the revaluation of the pension liability and (2) a $0.9 million reduction to Accumulated Other Comprehensive Loss of amortization of prior service costs and actuarial gains/losses over the period from October 1, 2006 to December 31, 2006. In addition, the Company recognized a $2.9 million increase to the beginning balance of Accumulated Deficit for the total net periodic benefit costs incurred from October 1, 2006 to December 31, 2006.

The components of net periodic benefit cost for the pension and the other post-retirement benefit plans for the three-month fiscal periods ended September 30, 2007 and 2006 are as follows:

Three Months Ended September 30,	Pension Plans		Other Post-retirement Benefit Plans	
	2007	2006	2007	2006
Net periodic benefit costs:				
Service cost	$ 2.2	$ 2.6	$ —	$ —
Interest cost	8.3	7.9	0.2	0.3
Expected return on plan assets	(9.2)	(7.9)	—	—
Amortization of prior service cost	(0.1)	—	—	—
Amortization of actuarial loss	0.7	1.6	0.1	—
Curtailment loss	—	(0.7)	—	—
	1.9	3.5	0.3	0.3
Portion allocated to Revlon Holdings	(0.1)	—	—	—
	$ 1.8	$ 3.5	$ 0.3	$ 0.3

The components of net periodic benefit cost for the pension and the other post-retirement benefit plans for the nine-month fiscal period ended September 30, 2007 and 2006, respectively, are as follows:

Nine Months Ended September 30,	Pension Plans		Other Post-retirement Benefit Plans	
	2007	2006	2007	2006
Net periodic benefit costs:				
Service cost	$ 6.9	$ 7.8	$ —	$ 0.1
Interest cost	24.8	23.7	0.7	0.7
Expected return on plan assets	(27.6)	(23.7)	—	—
Amortization of prior service cost	(0.4)	(0.2)	—	—
Amortization of actuarial loss	2.1	5.0	0.2	—
Curtailment loss	0.1	(0.7)	—	—
	5.9	11.9	0.9	0.8
Portion allocated to Revlon Holdings	(0.3)	(0.1)	—	—
	$ 5.6	$ 11.8	$ 0.9	$ 0.8

The Company currently expects to contribute approximately $37 million to its pension plans and approximately $1 million to other post-retirement benefit plans in 2007.

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(4) Inventories

	September 30, 2007	December 31, 2006
Raw materials and supplies	$ 59.6	$ 50.5
Work-in-process	18.6	15.9
Finished goods	115.9	120.1
	$ 194.1	$ 186.5

(5) Basic and Diluted Loss Per Common Share

Shares used in basic loss per share are computed using the weighted average number of common shares outstanding each period. Shares used in diluted loss per share include the dilutive effect of unvested restricted shares and outstanding stock options under the Stock Plan using the treasury stock method. Options to purchase 21,845,651 and 28,622,957 shares of Revlon, Inc. Class A common stock, par value of $0.01 per share (the ‘‘Class A Common Stock’’), with weighted average exercise prices of $4.20 and $4.38, respectively, were outstanding at September 30, 2007 and 2006, respectively. Additionally, 4,477,264 and 1,785,002 shares of unvested restricted stock and restricted stock units were outstanding as of September 30, 2007 and 2006, respectively. Because the Company incurred losses for the three- and nine-month fiscal periods ended September 30, 2007 and 2006, respectively, these options and restricted shares are excluded from the calculation of diluted loss per common share as their effect would be antidilutive. For each period presented, the amount of loss used in the calculation of diluted loss per common share was the same as the amount of loss used in the calculation of basic loss per common share.

As a result of the consummation of the $100 Million Rights Offering (as hereinafter defined) in January 2007, Revlon, Inc. issued a total of 95,238,095 shares of its Class A Common Stock, increasing the number of outstanding shares of Revlon, Inc.’s Class A Common Stock as of September 30, 2007 to 479,260,736 shares and the total number of shares of common stock outstanding, including Revlon, Inc.’s existing 31,250,000 shares of Class B common stock, with a par value of $0.01 per share (‘‘Class B Common Stock,’’ and together with the Class A Common Stock, the ‘‘Common Stock’’), to 510,510,736 shares, with MacAndrews & Forbes beneficially owning as of September 30, 2007 approximately 57% of Revlon, Inc.’s outstanding Class A Common Stock and approximately 60% of Revlon, Inc.’s total outstanding Common Stock, which together represented approximately 74% of the combined voting power of such shares at such date. Upon consummation of the $100 Million Rights Offering, the fair value of Revlon, Inc.’s Class A Common Stock was more than $1.05 per share subscription price. Accordingly, for the three-month fiscal period ended September 30, 2006, basic and diluted loss per common share remained unchanged at $0.24 per share to reflect a stock dividend of 12,762,092 shares of Revlon, Inc.’s Class A Common Stock, and for the nine-month fiscal period ended September 30, 2006, basic and diluted loss per common share has been restated from $0.61 per share to $0.59 per share to reflect a stock dividend of 12,410,046 shares of Revlon, Inc.’s Class A Common Stock.

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(6) Comprehensive Loss

The components of comprehensive loss for the three- and nine-month fiscal periods ended September 30, 2007 and 2006, respectively, are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net loss	$ (10.4)	$ (100.5)	$ (56.9)	$ (245.8)
Other comprehensive (loss) income:				
Recognition of hedge accounting derivative (losses) gains	(0.1)	0.2	0.1 (a)	0.8
Currency translation adjustment	(1.2)	(2.7)	(0.8)	(2.6)
Amortization under SFAS No. 158(b)	0.7	—	1.5	—
Other comprehensive (loss) income	(0.6)	(2.5)	0.8	(1.8)
Total comprehensive loss	$ (11.0)	(103.0)	$ (56.1)	$ (247.6)

(a) Due to the Company's use of derivative financial instruments, the net amount of hedge accounting derivative losses recognized by the Company, as set forth in the table above, pertains to (1) the reversal of $0.3 million of net losses accumulated in Accumulated Other Comprehensive Loss at January 1, 2007 upon the Company's election in the fiscal quarter ended March 31, 2007 to discontinue the application of hedge accounting under SFAS No. 133, ''Accounting for Derivative Instruments and Hedging Activities'' for certain derivative financial instruments, as the Company no longer designates its foreign currency forward exchange contracts as hedging instruments and (2) $0.2 million of net losses accumulated in Accumulated Other Comprehensive Loss upon Products Corporation's execution of a floating-to-fixed interest rate swap transaction with a notional amount of $150.0 million relating to indebtedness under Products Corporation's 2006 Term Loan Facility during the three-month fiscal period ended September 30, 2007, which the Company designates as a hedging instrument and accordingly applies hedge accounting under SFAS No. 133. (See Note 9, ''Derivative Financial Instruments'' to the Unaudited Consolidated Financial Statements and the discussion of Critical Accounting Policies in this Form 10-Q). (b) The $0.7 million and $1.5 million represents a reduction in Accumulated Other Comprehensive Loss as a result of the amortization of unrecognized prior service costs and actuarial gains/losses arising during the three- and nine-month fiscal periods ended September 30, 2007, respectively, related to the Company's pension and other post-retirement plans.

On December 31, 2006, the Company adopted and accounted for the recognition provisions of SFAS No. 158. Appropriate adjustments were made to various assets and liabilities as of December 31, 2006, with a net offsetting after-tax effect of $(5.6) million recorded as a net adjustment to the ending balance of Accumulated Other Comprehensive Loss. This net adjustment should have been reported separately as (1) a $19.0 million adjustment for minimum pension liability as a component of Total Comprehensive Loss and (2) a $(24.6) million adjustment for the initial adoption of SFAS No. 158 to the ending balance of Accumulated Other Comprehensive Loss, which combined resulted in the same $(5.6) million net adjustment to the ending balance of Accumulated Other Comprehensive Loss.

In the 2007 Form 10-K, the Company will adjust the presentation of 2006 Total Comprehensive Loss to separately report the $19.0 million adjustment for minimum pension liability and the $(24.6) million adjustment for the initial adoption of SFAS No. 158, which netted to the same $(5.6) million net adjustment to the ending balance of Accumulated Other Comprehensive Loss. By separately reporting the respective components of the $(5.6) million net adjustment using the foregoing allocation, Total

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Comprehensive Loss revised for the year ended December 31, 2006 was $229.2 million, compared with the Total Comprehensive Loss of $248.2 million reported in the 2006 Form 10-K. Such adjustment will not have any impact on the balance of Accumulated Other Comprehensive Loss and Total Stockholders’ Deficiency at December 31, 2006 as reported in the 2006 Form 10-K.

(7) Restructuring Costs and Other, Net

During the nine-month fiscal period ended September 30, 2007, the Company recorded total restructuring charges of $6.9 million, of which approximately $3.9 million was associated with the restructuring announced in September 2006 (the ‘‘September 2006 Program’’), primarily for commissions related to vacating a portion of the leased space in the Company’s New York City headquarters, employee severance and other related termination costs, and an additional approximately $0.4 million was associated with the restructuring announced in February 2006 (the ‘‘February 2006 Program’’), primarily for employee severance and other related termination costs. In addition, approximately $1.4 million was associated with a restructuring program implemented in March 2007, primarily for employee severance and other related termination costs relating principally to the closure of the Company’s facility in Irvington, New Jersey and $1.2 million was associated with other restructurings implemented in the second quarter of 2007 (together with the restructuring program implemented in March 2007, the ‘‘2007 Programs’’), primarily for employee severance and other related termination costs relating to personnel reductions in the Company’s Information Management function and its sales force in Canada. (See Note 2, ‘‘Restructuring Costs and Other, Net’’ to the Consolidated Financial Statements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2006.)

Details of the activities described above during the nine-month fiscal period ended September 30, 2007 are as follows:

	Balance as of January 1, 2007	Expenses, Net	Utilized, Net Cash	Utilized, Net Noncash	Balance as of September 30, 2007
Employee severance and other personnel benefits:					
2003 program	$ 0.1	$ —	$ (0.1)	$ —	$ —
2004 program	0.1	—	(0.1)	—	—
February 2006 Program	3.4	0.4	(2.3)	—	1.5
September 2006 Program	13.8	3.9	(11.7)	(1.3)	4.7
Other 2006 programs(a)	0.1	—	(0.1)	—	—
2007 Programs	—	2.6	(1.7)	—	0.9
	17.5	6.9	(16.0)	(1.3)	7.1
Leases and equipment write-offs	0.4	—	—	(0.2)	0.2
	$ 17.9	$ 6.9	$ (16.0)	$ (1.5)	$ 7.3

(a) ‘‘Other 2006 programs’’ refer to various immaterial international restructurings in respect of Chile, Brazil and Israel.

(8) Geographic Information

The Company manages its business on the basis of one reportable operating segment. As of September 30, 2007, the Company had operations established in 16 countries including 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 to consumers.

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2007		2006		2007		2006	
Geographic area:								
Net sales:								
United States	$ 190.9	56 %	$ 159.5	52 %	$ 588.4	58 %	$ 537.8	56 %
International	148.8	44 %	146.4	48 %	429.1	42 %	414.7	44 %
	$ 339.7		$ 305.9		$ 1,017.5		$ 952.5	

	September 30, 2007		December 31, 2006	
Long-lived assets:				
United States	$ 341.6	80 %	$ 362.1	82 %
International	84.2	20 %	81.8	18 %
	$ 425.8		$ 443.9	