

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									
(1.4)	(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, 2007		September 30, 2006		September 30, 2007		September 30, 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
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								

See Accompanying Notes to Unaudited Consolidated Financial Statements

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

Common						
Stock	Additional					
Paid-In-	Treasury					
Capital	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)
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)
(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				

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 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

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REVLOIN, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(except where otherwise noted, all tabular amounts in millions, except per share amounts)

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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(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

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

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:

(000's)	Weighted Average							Shares
Exercise Price Outstanding at January 1, 2007	24,993.0	\$ 4.54	Granted	—	—	Exercised	—	—
and expired (2,152.6)	3.78		Outstanding at March 31, 2007	22,840.4	4.61	Granted	—	—
— — 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:

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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REVLON, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(except where otherwise noted, all tabular amounts in millions, except per share amounts)

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

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

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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:

(000's) Weighted Average Grant							Shares	
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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REVLOIN, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(except where otherwise noted, all tabular amounts in millions, except per share amounts)

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			
			Curtailment loss	0.1	(0.7)	—	—	5.9	11.9	0.9	0.8	Portion allocated to Revlon Holdings	(0.3)
				—	—	—	—						
				\$ 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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REVLON, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(except where otherwise noted, all tabular amounts in millions, except per share amounts)

(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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REVLON, INC. AND SUBSIDIARIES

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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)				(0.1)
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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REVLOL, INC. AND SUBSIDIARIES

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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																			
Balance																			
as of																			
September 30,																			
2007 Cash																			
Noncash 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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REVLOON, INC. AND SUBSIDIARIES

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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,		September 30,		September 30,		September 30,		September 30,		September 30,				
2007		2006		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											

		Three Months Ended										
September 30,		September 30,		September 30,		September 30,		September 30,		September 30,		
2007		2006		2007		2006		2007		2006		
								Classes of similar products:				
Net sales:				Cosmetics, skin care and fragrances		\$ 229.8		68 %		\$		
	199.2	65 %	\$ 686.0	67 %	\$ 639.8	67 %	Personal care	109.9	32 %	106.7	35 %	
	331.5	33 %	312.7	33 %	\$ 339.7		\$ 305.9	\$ 1,017.5		\$ 952.5		

(9) Derivative Financial Instruments

As disclosed in Note 1 to the Consolidated Financial Statements of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, filed with the SEC on March 13, 2007, the Company uses derivative financial instruments, primarily foreign currency forward exchange contracts, to reduce the effects of fluctuations in foreign currency exchange rates and interest rate swap transactions to offset the effects of floating interest rates. The foreign currency forward exchange contracts are entered into primarily to hedge anticipated inventory purchases and certain intercompany payments denominated in foreign currencies and have maturities of less than one year. In September 2007, Products Corporation executed a floating-to-fixed interest rate swap transaction to hedge against fluctuations in variable interest rate payments on \$150 million notional amount in Products Corporation's long-term debt under its 2006 Term Loan Facility (as hereinafter defined).

Foreign Currency Forward Exchange Contracts

While the Company continues to utilize derivative financial instruments, in the case of foreign currency forward exchange contracts, to reduce the effects of fluctuations in foreign currency exchange rates in connection with its inventory purchases and intercompany payments, during the fiscal quarter ended March 31, 2007 the Company elected to discontinue the application of hedge accounting under Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments"

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and Hedging Activities” (“SFAS No. 133”) effective January 1, 2007, in respect of such foreign currency contracts. Accordingly, effective January 1, 2007, the Company no longer designates its foreign currency forward exchange contracts as hedging instruments. By removing such designation, any changes in the fair value of Products Corporation’s foreign currency forward exchange contracts subsequent to the Company’s discontinuance of hedge accounting will be recognized in earnings. Also, upon the removal of the hedging designation, any unrecognized gains (losses) accumulated in Accumulated Other Comprehensive Loss related to the Company’s prior application of hedge accounting in respect of such foreign currency contracts becomes fixed and will be recognized in earnings as the underlying transactions pertaining to the derivative instrument occur. If the underlying transaction is not forecasted to occur, the related gain (loss) accumulated in Accumulated Other Comprehensive Loss is recognized in earnings immediately.

The notional amount of the foreign currency forward exchange contracts outstanding at September 30, 2007 and December 31, 2006 was \$25.9 million and \$42.5 million, respectively. At September 30, 2007, the change in the fair value of Products Corporation’s unexpired foreign currency forward exchange contracts subsequent to the Company’s discontinuance of hedge accounting effective January 1, 2007 was \$(1.4) million, which was recognized in earnings. Also at September 30, 2007, net losses of \$1.1 million from expired derivative instruments were recognized into earnings and net derivative losses of \$0.3 million were reclassified from Accumulated Other Comprehensive Loss into earnings as a result of discontinuing the application of hedge accounting. The amount of unrecognized losses accumulated in Accumulated Other Comprehensive Loss at September 30, 2007 and December 31, 2006 was \$(0.1) million and \$(0.4) million, respectively.

Interest Rate Swap Transaction

In September 2007, Products Corporation executed a floating-to-fixed interest rate swap transaction with a notional amount of \$150.0 million over a period of two years relating to indebtedness under Products Corporation’s 2006 Term Loan Facility. The Company designated this interest rate swap transaction as a cash flow hedge of the variable interest rate payments on Products Corporation’s 2006 Term Loan Facility. Under the terms of the interest rate swap transaction, Products Corporation is required to pay to the counterparty a quarterly fixed interest rate of 4.692% on the \$150.0 million notional amount commencing in December 2007, while receiving a variable interest rate payment from the counterparty equal to three-month U.S. dollar LIBOR. While the Company is exposed to credit loss in the event of the counterparty’s non-performance, if any, the Company’s exposure is limited to the net amount that Products Corporation would have received from the counterparty over the remaining balance of the transaction’s two-year term. Given that the counterparty to the interest rate swap transaction is a major financial institution with high credit ratings, 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 such loss would not be material.

Products Corporation’s interest rate swap transaction qualifies for hedge accounting treatment under SFAS No. 133 and has been designated as a cash flow hedge. Accordingly, the effective portion of the changes in the fair value of the interest rate swap transaction is reported in other comprehensive loss. The ineffective portion of the changes in the fair value of the interest rate swap transaction, if any, is recognized in current period earnings. Any unrecognized income (loss) accumulated in other comprehensive loss related to this interest rate swap transaction would be recorded in the Statement of Operations, primarily in interest expense, when the underlying transactions hedged are realized. The fair value of Products Corporation’s interest rate swap transaction was \$(0.2) at September 30, 2007.

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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)

(10) Long-term Debt

September

30,									
2007	December 31,								
2006	2006 Term Loan Facility due 2012	\$ 840.0	\$ 840.0	2006 Revolving Credit Facility due 2012	67.0				
57.5	85/8% Senior Subordinated Notes due 2008	167.4	217.4	9½% Senior Notes due 2011, net of discounts					
387.4	386.9	2004 Consolidated MacAndrews & Forbes Line of Credit	—	—	Other long-term debt	0.5	—		
1,462.3	1,501.8	Less current portion	(171.8)	—	\$ 1,290.5	\$ 1,501.8			

In December 2006, Products Corporation replaced the \$800 million term loan facility under its 2004 credit agreement with a new 5-year, \$840 million term loan facility (the “2006 Term Loan Facility”) by entering into a new term loan agreement (the “2006 Term Loan Agreement”), dated as of December 20, 2006, among Products Corporation, as borrower, the lenders party thereto, and Citicorp USA, Inc., as administrative agent and collateral agent. As part of the December 2006 bank refinancing, Products Corporation also amended and restated its multi-currency revolving credit facility under its 2004 credit agreement (the “2006 Revolving Credit Facility” and, together with the 2006 Term Loan Facility, the “2006 Credit Facilities”) by entering into a new \$160.0 million asset-based, multi-currency revolving credit agreement that amended and restated the 2004 credit agreement among Products Corporation, certain of its subsidiaries as local borrowing subsidiaries, a syndicate of lenders, and Citicorp USA, Inc., as multi-currency administrative agent, term loan administrative agent and collateral agent (the “2006 Revolving Credit Agreement” and, together with the 2006 Term Loan Agreement, the “2006 Credit Agreements”). The 2006 Credit Facilities mature on January 15, 2012. (For further detail regarding the 2006 Credit Agreements, as well as for detail as to Products Corporation’s other debt instruments, see Note 8, “Long-Term Debt” to the Consolidated Financial Statements 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.)

Partial Redemption of 85/8% Senior Subordinated Notes

On February 22, 2007, using certain of the proceeds of the \$100 Million Rights Offering, Products Corporation completed the redemption of \$50.0 million aggregate principal amount of Products Corporation’s outstanding 85/8 Senior Subordinated Notes due February 1, 2008 (the “85/8 Senior Subordinated Notes”) at an aggregate redemption price of \$50.3 million, including \$0.3 million of accrued and unpaid interest up to, but not including, the redemption date. Following such redemption, there remained outstanding \$167.4 million in aggregate principal amount of the 85/8 Senior Subordinated Notes which are due on February 1, 2008, and, accordingly, such amount, together with \$4.2 million of amortization payments due in connection with the 2006 Term Loan Facility, is classified on the balance sheet at September 30, 2007 as the current portion of long-term debt.

(11) Rights Offerings

\$100 Million Rights Offering - 2007

In January 2007, Revlon, Inc. completed a \$100 million rights offering of Class A Common Stock (including the related private placement to MacAndrews & Forbes, together the “\$100 Million Rights

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(except where otherwise noted, all tabular amounts in millions, except per share amounts)

Offering’’), which it launched in December 2006. The \$100 Million Rights Offering allowed each stockholder of record of Revlon, Inc.’s Class A and Class B Common Stock, as of the close of business on December 11, 2006, the record date set by Revlon, Inc.’s Board of Directors, to purchase additional shares of Class A Common Stock. The subscription price for each share of Class A Common Stock purchased in the \$100 Million Rights Offering, including shares purchased in the private placement by MacAndrews & Forbes, was \$1.05 per share. Upon completing the \$100 Million Rights Offering, Revlon, Inc. promptly transferred the proceeds to Products Corporation, which it used to redeem \$50.0 million in aggregate principal amount of its 85/8 Senior Subordinated Notes, and repay approximately \$43.3 million of indebtedness outstanding under Products Corporation’s 2006 Revolving Credit Facility, without any permanent reduction of that commitment, after incurring approximately \$1.1 million of fees and expenses incurred in connection with such rights offering, with approximately \$5 million of the remaining proceeds being available for general corporate purposes.

In completing the \$100 Million Rights Offering, Revlon, Inc. issued an additional 95,238,095 shares of its Class A Common Stock, including 37,847,472 shares subscribed for by public shareholders (other than MacAndrews & Forbes) and 57,390,623 shares issued to MacAndrews & Forbes in a private placement directly from Revlon, Inc. The shares issued to MacAndrews & Forbes represented the number of shares of Revlon, Inc.’s Class A Common Stock that MacAndrews & Forbes would otherwise have been entitled to purchase pursuant to its basic subscription privilege in the \$100 Million Rights Offering (which was approximately 60% of the shares of Revlon, Inc.’s Class A Common Stock offered in the \$100 Million Rights Offering).

\$110 Million Rights Offering - 2006

In March 2006, Revlon, Inc. completed a \$110 million rights offering (including the related private placement to MacAndrews & Forbes, together the ‘‘\$110 Million Rights Offering’’), which allowed each stockholder of record of Revlon, Inc.’s Class A and Class B Common Stock as of the close of business on February 13, 2006, the record date set by Revlon, Inc.’s Board of Directors, to purchase additional shares of Class A Common Stock. The subscription price of each share of Class A Common Stock purchased in the \$110 Million Rights Offering, including shares purchased in the private placement by MacAndrews & Forbes, was \$2.80 per share. Upon completing the \$110 Million Rights Offering, Revlon, Inc. promptly transferred the net proceeds to Products Corporation, which it used to redeem \$109.7 million aggregate principal amount of its 85/8 Senior Subordinated Notes in satisfaction of the applicable requirements under Products Corporation’s 2004 credit agreement, at an aggregate redemption price of \$111.8 million, including \$2.1 million of accrued and unpaid interest up to, but not including, the redemption date.

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REVLON, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

(all tabular amounts in millions, except per share amounts)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Overview of the Business

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"). 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 operates in a single segment and manufactures, markets and sells an extensive array of cosmetics, skincare, fragrances, beauty tools, hair color, anti-perspirants/deodorants and personal care products. The Company is one of the world's leading mass-market cosmetics companies. The Company believes that its global brand name recognition, product quality and marketing experience have enabled it to create one of the strongest consumer brand franchises in the world.

The Company's products are sold worldwide and marketed under such brand names as Revlon, ColorStay, Fabulash, Super Lustrous and Revlon Age Defying makeup with Botafirm, as well as the Almay brand, including the Company's Almay Intense i-Color collection, in cosmetics; Almay, Ultima II and Gatineau in skincare; Charlie and Jean Naté in fragrances; Revlon and Expert Effect in beauty tools; Colorsilk in women's hair color; and Mitchum, Flex and Bozzano in 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.

The Company was founded by Charles Revson, who revolutionized the cosmetics industry by introducing nail enamels matched to lipsticks in fashion colors 75 years ago. Today, the Company has leading market positions in a number of its principal product categories in the U.S. mass-market distribution channel, including the lip, eye, face makeup and nail enamel categories. The Company also has leading market positions in several product categories in certain markets outside of the U.S., including Australia, Canada and South Africa. The Company's products are sold throughout the world.

Overview of the Company's Strategy

The Company's business strategy includes:

- Building

and leveraging our strong brands: We intend to build and leverage our brands, particularly the Revlon brand, across the categories in which we compete. In addition to Revlon and Almay brand color cosmetics, we plan to drive growth in other beauty care categories, including women's hair color, beauty tools, and anti-perspirants and deodorants. We are implementing this strategy by: 1) reinvigorating new product development, fully utilizing our creative, marketing and research and development capabilities; 2) reinforcing clear, consistent brand positioning through effective, innovative advertising and promotion; and 3) working with our retail customers to continue to increase the effectiveness of our in-store marketing, promotion and display walls across categories in which we compete.

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Improving the execution of our strategies and plans, and providing for continued improvement in our organizational capability through enabling and developing our employees. We are continuing to build our organizational capability primarily through a focus on recruitment and retention of skilled people, providing opportunities for professional development and new and expanded responsibilities and roles for employees who have demonstrated capability and rewarding our employees for success.

- Continuing to strengthen our international business. We are continuing to strengthen our international business further by leveraging our U.S.-based marketing, research and development and new product development. In addition, we are focusing on our well-established, strong national and multi-national brands, investing at appropriate competitive levels, controlling spending and working capital and optimizing our supply chain and cost structure.

- Improving our operating profit margins and cash flow. We plan to capitalize on what we believe are significant opportunities to improve our operating profit margins and cash flow over time, including by reducing sales returns, costs of goods sold, general and administrative expenses and improving working capital management, and we will continue to focus on improving sales growth.

- Continuing to improve our capital structure. We plan to continue to take advantage of opportunities to reduce and refinance our debt, including, without limitation, refinancing the remaining balance of Products Corporation's 85/8% Senior Subordinated Notes due on February 1, 2008 prior to maturity (the "85/8% Senior Subordinated Notes").

Restructuring Programs

In the first and second quarters of 2007, the Company implemented several restructuring plans designed to reduce costs and improve the Company's operating profit margins, including the consolidation of facilities and certain functions, principally the closure of its facility in Irvington, New Jersey, which was completed in June 2007, and personnel reductions within the Company's Information Management function and a reduction of its sales force in Canada (together with the restructuring plan implemented in March 2007, the "2007 Programs"). The Company anticipates that the 2007 Programs will generate ongoing annualized savings of approximately \$6 million that will primarily benefit cost of sales and selling, general and administrative expenses.

During the nine-month fiscal period ended September 30, 2007, the Company recorded restructuring charges of \$6.9 million, primarily for commissions of \$2.8 million related to vacating a portion of leased space in the Company's New York City headquarters related to the September 2006 Program (as hereinafter defined), as well as employee severance and other personnel benefits of \$1.5 million related to the 2006 Programs (as hereinafter defined) and \$2.6 million of employee severance and other personnel benefits related to the 2007 Programs.

Overview of Net Sales and Earnings Results

Consolidated net sales in the third quarter of 2007 increased \$33.8 million, or 11.0%, to \$339.7 million, as compared with \$305.9 million in the third quarter of 2006. Consolidated net sales for the nine-month fiscal period ended September 30, 2007, increased \$65.0 million, or 6.8%, to \$1,017.5 million, as compared with \$952.5 million for the

nine-month fiscal period ended September 30, 2006. Net sales for the three-month and nine-month fiscal periods ended September 30, 2006 were reduced by approximately \$15 million due to Vital Radiance, which was discontinued in September 2006.

In the United States, net sales for the third quarter of 2007 increased \$31.4 million, or 19.7%, to \$190.9 million, from \$159.5 million in the third quarter of 2006. In the nine-month fiscal period ended

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September 30, 2007, U.S. net sales increased \$50.6 million, or 9.4%, to \$588.4 million from \$537.8 million in the nine-month fiscal period ended September 30, 2006. Net sales for the three-month and nine-month fiscal periods ended September 30, 2006 were reduced by approximately \$15 million due to Vital Radiance, which was discontinued in September 2006. The increase in net sales in the third quarter of 2007 was primarily driven by a reduction in returns and allowances for color cosmetics (due, in part, to the aforementioned impact of Vital Radiance in the respective 2006 periods and higher returns expense related to a national promotional program in the third quarter of 2006) and higher shipments of beauty care products, partially offset by lower shipments of color cosmetics. The increase in net sales for the nine-month fiscal period ended September 30, 2007 was primarily driven by higher shipments of beauty care products, primarily women's hair color, and Almay color cosmetics, as well as a reduction in returns and allowances for color cosmetics due to the aforementioned impact of Vital Radiance and higher returns expense related to a national promotional program in the year ago period, partially offset by lower shipments of Revlon color cosmetics.

In the Company's international operations, net sales for the third quarter of 2007 increased \$2.4 million, or 1.6%, to \$148.8 million, from \$146.4 million in the third quarter of 2006. Foreign currency fluctuations favorably impacted the increase in net sales in the third quarter of 2007 by \$7.4 million. In the nine-month fiscal period ended September 30, 2007, net sales increased \$14.4 million, or 3.5%, to \$429.1 million, from \$414.7 million in the nine-month fiscal period ended September 30, 2006. Foreign currency fluctuations favorably impacted the increase in net sales in the nine-month fiscal period ended September 30, 2007 by \$12.5 million. Excluding the impact of foreign currency fluctuations, the decline in net sales in the third quarter of 2007 was driven primarily by lower shipments in the Europe region, particularly in Canada (due primarily to the impact of the restage of Almay color cosmetics on the 2006 three-month period), partially offset by higher shipments in the Asia Pacific region. Shipments in the Latin America region were essentially flat. Excluding the impact of foreign currency fluctuations, the increase in net sales in the nine-month fiscal period ended September 30, 2007 was driven primarily by higher shipments in the Asia Pacific and Latin America regions, partially offset by lower shipments in the Europe region, particularly in Canada (due primarily to the impact of promotions in color cosmetics and the restage of Almay color cosmetics on the 2006 nine-month period).

Net loss for the third quarter of 2007 decreased by \$90.1 million to \$10.4 million, as compared with a net loss of \$100.5 million in the third quarter of 2006. In the nine-month fiscal period ended September 30, 2007, net loss decreased by \$188.9 million to \$56.9 million, as compared with a net loss of \$245.8 million in the nine-month fiscal period ended September 30, 2006. The decrease in net loss for the third quarter of 2007 was due to higher net sales (including the impact of lower returns expense), lower cost of sales, lower selling, general and administrative expenses ("SG&A"), lower restructuring costs and lower interest expense (due to lower weighted average borrowing rates). The decrease in cost of sales was primarily due to lower obsolescence charges, as the third quarter of 2006 included obsolescence charges related to excess inventory of Vital Radiance. The lower SG&A was primarily due to the Company's organizational streamlining activities, which resulted in lower personnel-related expenses and lower occupancy expenses (primarily related to the Company's exit of a portion of its New York City headquarters leased space). The decrease in net loss for the nine-month fiscal period ended September 30, 2007 was due to higher net sales (including the impact of lower returns expense and higher shipments of Almay and beauty care products), lower cost of sales (primarily due to lower obsolescence charges, as the nine-month fiscal period ended September 30, 2006 included obsolescence charges related to excess inventory of Almay and Vital Radiance), lower SG&A, lower

restructuring costs and lower interest expense (due to lower weighted average borrowing rates). The lower SG&A was primarily due to the Company's organizational streamlining activities, which resulted in lower personnel-related expenses and lower occupancy expenses (primarily related to the Company's exit of a portion of its New

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York City headquarters leased space, including a benefit of \$4.4 million related to the reversal of a deferred rental liability upon exit of the space).

Overview of U.S. Market Share Data

In terms of U.S. market share performance, the U.S. color cosmetics category for the third quarter of 2007 increased approximately 0.7% versus the third quarter of 2006 and 0.4% for the first nine months of 2007 versus the first nine months of 2006. Combined U.S. market share for the Revlon, Almay and Vital Radiance brands are summarized in the table below:

	\$ Share %		Three Months Ended		Nine Months Ended		Point																				
	September 30, 2007	September 30, 2006	Change	Point	September 30, 2007	September 30, 2006								Change	Point												
Change Total Revlon Color Cosmetics*	19.0 %	22. %	(3.1)	19.6 %	21.9 %	(2.3)	Revlon Brand	13.1	14.5	(1.4)	13.2	14.4	(1.2)	Almay Brand	5.8	6.2	(0.4)	6.2	6.4	(0.2)							
Vital Radiance Brand	—	1.3	(1.3)	0.2	1.1	(0.9)	Total Company Women's Hair Color	9.4	2.4	11.0	9.1	1.9	1.9	Total Company Anti-perspirants/deodorants	5.7	6.1	(0.4)	5.9	6.2	(0.3)	Revlon Beauty Tools	23.9	26.4	(2.5)	24.5	26.5	(2.0)

* Compared to the year ago periods, the Revlon brand experienced a market share decline, which reflects a decrease in share by products launched in prior years, partially offset by performance in 2007 from new products launched in the second half of 2006. Since September 2006, following the Company's decision to discontinue Vital Radiance, the Company's strategy has been to fully focus its efforts on building and leveraging its established brands, particularly its Revlon brand.

All U.S. market share and related data herein for the Company's brands are based upon retail dollar sales, which are derived from ACNielsen data. ACNielsen measures retail sales volume of products sold in the U.S. mass distribution channel. Such data represent ACNielsen's estimates based upon data gathered by ACNielsen from market samples and are therefore subject to some degree of variance and may contain slight rounding differences. ACNielsen's data does not reflect sales volume from Wal-Mart, Inc., which is the Company's largest customer, representing approximately 23% of the Company's 2006 worldwide net sales, or sales volume from regional mass volume retailers, prestige, department stores, television shopping, door-to-door, specialty stores, internet, perfumeries or other distribution outlets, all of which are channels for cosmetics sales. From time to time, ACNielsen adjusts its methodology for data collection and reporting, which may result in adjustments to the categories and share data tracked by ACNielsen for both current and prior periods.

Overview of Financing Activities

In January 2007, Revlon, Inc. completed the \$100 Million Rights Offering (as hereinafter defined), which it launched in December 2006 and used the proceeds from such offering to further reduce Products Corporation's debt. Revlon, Inc. promptly transferred the proceeds from the \$100 Million Rights Offering to Products Corporation, which it used to redeem \$50.0 million in aggregate principal amount of its 85/8% Senior Subordinated Notes and repay approximately \$43.3 million of indebtedness outstanding under Products Corporation's 2006 Revolving Credit Facility (as hereinafter defined), without any permanent reduction of that commitment, after incurring approximately \$1.1 million of fees and expenses incurred in connection with such rights offering, with approximately \$5 million of the remaining proceeds being available for general corporate purposes. Also, effective upon the consummation of the \$100 Million

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Rights Offering, \$50.0 million of the 2004 Consolidated MacAndrews & Forbes Line of Credit (as hereinafter defined) remains available to Products Corporation through January 31, 2008 on substantially the same terms.

Discussion of Critical Accounting Policies

As disclosed in Note 1 to the Consolidated Financial Statements of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, the Company uses derivative financial instruments, primarily foreign currency forward exchange contracts, to reduce the effects of fluctuations in foreign currency exchange rates and interest rate swap transactions to offset the effects of floating interest rates on a portion of its debt. The foreign currency exchange forward contracts are entered into primarily to hedge anticipated inventory purchases and certain intercompany payments denominated in foreign currencies and have maturities of less than one year. In September 2007, Products Corporation executed a floating-to-fixed interest rate swap transaction primarily to hedge against fluctuations in variable interest rate payments on \$150 million notional amount of Products Corporation's long-term debt under its 2006 Term Loan Facility.

While the Company continues to utilize derivative financial instruments, in the case of foreign currency forward exchange contracts to reduce the effects of fluctuations in foreign currency exchange rates in connection with its inventory purchases and intercompany payments, the Company has elected to discontinue the application of hedge accounting under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", effective January 1, 2007, in respect of such foreign currency contracts. Accordingly, the Company no longer designates its foreign currency forward exchange contracts as hedging instruments. By removing such designation, any changes in the fair value of Products Corporation's foreign currency forward exchange contracts subsequent to the Company's discontinuance of hedge accounting are recognized in earnings. Also, upon the removal of the hedging designation, any unrecognized gains (losses) accumulated in Accumulated Other Comprehensive Loss related to the Company's prior application of hedge accounting in respect of such foreign currency contracts becomes fixed and will be recognized in earnings as the underlying transaction pertaining to the derivative instrument occurs. If the underlying transaction is not forecasted to occur, the related gain (loss) accumulated in Accumulated Other Comprehensive Loss is recognized in earnings immediately.

In September 2007, Products Corporation executed a floating-to-fixed interest rate swap transaction with a notional amount of \$150.0 million over a period of two years relating to indebtedness under Products Corporation's 2006 Term Loan Facility. The Company designated this interest rate swap transaction as a cash flow hedge of the variable interest rate payments on Products Corporation's 2006 Term Loan Facility. Products Corporation's interest rate swap transaction qualifies for hedge accounting treatment under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and has been designated as a cash flow hedge. Accordingly, the effective portion of the changes in the fair value of the interest rate swap transaction is reported in other comprehensive loss. The ineffective portion of the changes in the fair value of the interest rate swap transaction, if any, is recognized in current period earnings. Any unrecognized income (loss) accumulated in other comprehensive loss related to this interest rate swap transaction would be recorded in the Statement of Operations, primarily in interest expense when the underlying transactions hedged are realized.

For a discussion of the Company's other critical accounting policies, see the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed with the SEC on March 13, 2007.

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Results of Operations

In the tables, numbers in parenthesis () denote unfavorable variances.

Net sales:

Consolidated net sales in the third quarter of 2007 increased \$33.8 million, or 11.0%, to \$339.7 million, as compared with \$305.9 million in the third quarter of 2006. Net sales for the nine-month fiscal period ended September 30, 2007 increased \$65.0 million, or 6.8%, to \$1,017.5 million, as compared with \$952.5 million for the nine-month fiscal period ended September 30, 2006. Net sales for the three-month and nine-month fiscal periods ended September 30, 2006 were reduced by approximately \$15 million due to Vital Radiance, which was discontinued in September 2006.

Three Months Ended

September 30,	Change	2007	2006	\$	%	United States	\$	International
148.8	146.4	2.4	1.6 (1)	\$ 339.7	\$ 305.9	\$ 33.8	11.0 (2)	19.7

(1) Excluding the impact of foreign currency fluctuations, International net sales decreased 3.4%. (2) Excluding the impact of foreign currency fluctuations, consolidated net sales increased 8.6%.

Nine Months Ended

September 30,	Change	2007	2006	\$	%	United States	\$	International
429.1	414.7	14.4	3.5 (1)	\$ 1,017.5	\$ 952.5	\$ 65.0	6.8 (2)	9.4

(1) Excluding the impact of foreign currency fluctuations, International net sales increased 0.5%. (2) Excluding the impact of foreign currency fluctuations, consolidated net sales increased 5.5%.

United States

Third quarter results

In the U.S., net sales were \$190.9 million for the third quarter of 2007, compared with \$159.5 million for the third quarter of 2006, an increase of \$31.4 million, or 19.7%. The third quarter 2006 net sales were reduced by approximately \$15 million due to the Vital Radiance brand, which was discontinued in September 2006. The increase in net sales in the third quarter of 2007, as compared with the third quarter of 2006, was primarily driven by a reduction in returns and allowances for color cosmetics (due, in part, to the aforementioned impact of Vital Radiance on the third quarter of 2006 and higher returns expense related to a national promotional program in the third quarter of 2006), and higher shipments of beauty care products, partially offset by lower shipments of color cosmetics.

Year-to-date results

In the U.S., net sales were \$588.4 million for the nine months ended September 30, 2007, compared with \$537.8 million for the nine months ended September 30, 2006, an increase of \$50.6 million, or 9.4%.

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Net sales for the nine-month fiscal period ended September 30, 2006 were reduced by approximately \$15 million due to the Vital Radiance brand, which was discontinued in September 2006. This increase in net sales in the U.S. for the nine months ended September 30, 2007, as compared with the nine months ended September 30, 2006, was primarily driven by higher shipments of beauty care products, primarily women's hair color, and Almay color cosmetics, as well as a reduction in returns and allowances for color cosmetics due to the aforementioned impact of Vital Radiance on the 2006 nine-month period and higher returns expense related to a national promotional program in the year ago period, partially offset by lower shipments of Revlon color cosmetics.

International

In the Company's international operations, net sales were \$148.8 million for the third quarter of 2007, compared with \$146.4 million for the third quarter of 2006, an increase of \$2.4 million, or 1.6%. In the nine-month fiscal period ended September 30, 2007, net sales in the Company's international operations were \$429.1 million, compared with \$414.7 million for the nine-month fiscal period ended September 30, 2006, an increase of \$14.4 million, or 3.5%. Excluding the impact of foreign currency fluctuations, international net sales declined by \$5.0 million, or 3.4% in the third quarter of 2007, as compared with the third quarter of 2006, and increased by \$2.0 million, or 0.5%, in the nine-month fiscal period ended September 30, 2007, as compared with the nine-month fiscal period ended September 30, 2006. Excluding the impact of foreign currency fluctuations, the decline in net sales in the third quarter of 2007, as compared with the third quarter of 2006, was driven primarily by lower shipments in the Europe region, particularly in Canada (due primarily to the impact of the restage of Almay color cosmetics on the 2006 three-month period), partially offset by higher shipments in the Asia Pacific region. Shipments in the Latin America region were essentially flat. Excluding the impact of foreign currency fluctuations, the increase in net sales in the nine-month fiscal period ended September 30 2007, as compared with the nine-month fiscal period ended September 30 2006, was driven primarily by higher shipments in the Asia Pacific and Latin America regions, partially offset by lower shipments in the Europe region, particularly in Canada (due primarily to the impact of promotions in color cosmetics and the restage of Almay color cosmetics on the 2006 nine-month period).

Third quarter results by region

In Asia Pacific and Africa, net sales increased by \$5.0 million, or 8.6%, to \$63.5 million for the third quarter of 2007, as compared with \$58.5 million for the third quarter of 2006. Excluding the impact of foreign currency fluctuations, net sales in Asia Pacific and Africa increased \$2.3 million, or 3.9%, in the third quarter of 2007, as compared with the third quarter of 2006. This increase in net sales, excluding the impact of foreign currency fluctuations, was due primarily to higher shipments in South Africa, Australia and certain distributor markets and lower returns expense in Japan (which the Company estimates in the aggregate contributed approximately 5.1% to the increase in the region's net sales in the third quarter of 2007, as compared with the third quarter of 2006). This increase was partially offset by lower shipments in Taiwan (which the Company estimates offset by approximately 1.2% the increase in the region's net sales in the third quarter of 2007, as compared with the third quarter of 2006).

In Europe, which is comprised of Europe, Canada and the Middle East, net sales decreased by \$3.7 million, or 6.8%, to \$51.1 million for the third quarter of 2007, as compared with \$54.8 million for the third quarter of 2006. Excluding the impact of foreign currency fluctuations, net sales in Europe decreased by \$7.3 million, or 13.3%, in the third

quarter of 2007, as compared with the third quarter of 2006. The decrease in net sales, excluding the impact of foreign currency fluctuations, was due primarily to lower shipments in Canada, driven principally by the fact that the third quarter of 2006 included shipments for the restage of Almay color cosmetics, partially offset by lower returns expense in Canada. In addition, lower shipments, coupled with higher allowances, in the U.K. also contributed to the net sales decline (the

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Company estimates that the decrease in net sales in Canada and the U.K. together contributed approximately 11.0% to the decrease in the region's net sales in the third quarter of 2007, as compared with the third quarter of 2006).

In Latin America, which is comprised of Mexico, Central America and South America, net sales increased by \$1.1 million, or 3.3%, to \$34.2 million for the third quarter of 2007, as compared with \$33.1 million for the third quarter of 2006. Excluding the impact of foreign currency fluctuations, net sales in Latin America remained essentially flat in the third quarter of 2007, as compared with the third quarter of 2006. Net sales performance, excluding the impact of foreign currency fluctuations, was driven primarily by higher shipments in Venezuela (which the Company estimates contributed approximately 7.3% to the region's net sales in the third quarter of 2007, as compared with the third quarter of 2006). This was offset by lower shipments in Brazil and Mexico (which the Company estimates offset by approximately 7.1% the region's net sales in the third quarter of 2007, as compared with the third quarter of 2006).

Year-to-date results by region

In Asia Pacific and Africa, net sales increased by \$10.5 million, or 6.1%, to \$183.6 million for the nine-month fiscal period ended September 30, 2007, as compared with \$173.1 million for the nine-month fiscal period ended September 30, 2006. Excluding the impact of foreign currency fluctuations, net sales in Asia Pacific and Africa increased \$9.9 million, or 5.7%, in the nine-month fiscal period ended September 30, 2007, as compared with the nine-month fiscal period ended September 30, 2006. This increase in net sales, excluding the impact of foreign currency fluctuations, was due primarily to higher shipments in South Africa, Australia and certain distributor markets and lower returns expense in Japan (which the Company estimates together contributed approximately 8.0% to the increase in the region's net sales in the nine-month fiscal period ended September 30, 2007, as compared with the nine-month fiscal period ended September 30, 2006). This increase was partially offset by lower shipments in Hong Kong and Taiwan (which the Company estimates together offset by approximately 2.3% the region's increase in net sales in the nine-month fiscal period ended September 30, 2007, as compared with the nine-month fiscal period ended September 30, 2006).

In Europe, which is comprised of Europe, Canada and the Middle East, for the nine-month fiscal period ended September 30, 2007, net sales were substantially unchanged at \$151.6 million, as compared with \$151.5 million for the nine-month fiscal period ended September 30, 2006. Excluding the impact of foreign currency fluctuations, net sales in Europe decreased by \$9.6 million, or 6.4%, in the nine-month fiscal period ended September 30, 2007, as compared with the nine-month fiscal period ended September 30, 2006. The decrease in net sales, excluding the impact of foreign currency fluctuations, was due primarily to lower shipments in Canada (due primarily to the impact of promotions in color cosmetics in the 2006 nine-month period and the restage of Almay color cosmetics in the 2006 nine-month period), partially offset by lower returns and allowances in Canada (which the Company estimates contributed approximately 6.7% to the decrease in the region's net sales in the nine-month fiscal period ended September 30, 2007, as compared with the nine-month fiscal period ended September 30, 2006).

In Latin America, which is comprised of Mexico, Central America and South America, net sales increased by \$3.8 million, or 4.2%, to \$93.9 million, for the nine-month fiscal period ended September 30, 2007, as compared with \$90.1 million for the nine-month fiscal period ended September 30, 2006. Excluding the impact of foreign currency

fluctuations, net sales in Latin America increased by \$1.7 million, or 1.9%, in the nine-month fiscal period ended September 30, 2007, as compared with the nine-month fiscal period ended September 30, 2006. The increase in net sales, excluding the impact of foreign currency fluctuations, was driven primarily by the higher shipments in Venezuela and Argentina (which the Company estimates contributed approximately 8.5% to the increase in the region's net sales in the nine-month fiscal period ended September 30, 2007, as compared with the nine-month

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fiscal period ended September 30, 2006). This increase was partially offset by lower shipments in Brazil and certain distributor markets (which the Company estimates offset by approximately 6.2% the region's increase in net sales in the nine-month fiscal period ended September 30, 2007, as compared with the nine-month fiscal period ended September 30, 2006).

Gross profit:

Three Months Ended			Nine Months Ended								
September 30,	September 30,	Change	2007	2006	Change	Gross profit	\$ 215.4	\$ 157.0	\$ 58.4	\$	
639.2	\$ 548.3	\$ 90.9									

Gross profit increased by \$58.4 million to \$215.4 million for the third quarter of 2007, as compared with \$157.0 million for the third quarter of 2006, primarily due to the impact of approximately \$29.3 million of returns and allowances in the third quarter of 2006 related to the Vital Radiance brand, which was discontinued in September 2006. In addition, the third quarter of 2006 included inventory obsolescence charges of approximately \$11.5 million for estimated excess inventory levels in connection with the Company's discontinuance of the Vital Radiance brand. Gross profit also benefited from approximately \$15.2 million of lower returns and allowances, primarily as a result of the 2006 period including returns related to a national promotional program. Finally, lower shipments, primarily as a result of the Company's discontinuance of the Vital Radiance brand, partially offset the aforementioned gross profit improvements.

Gross profit increased \$90.9 million to \$639.2 million for the nine-month fiscal period ended September 30, 2007, as compared with \$548.3 million for the nine-month fiscal period ended September 30, 2006, primarily due to the impact of approximately \$57.0 million of returns and allowances in the nine-month fiscal period ended September 30, 2006 related to the Vital Radiance brand, which was discontinued in September 2006. Gross profit in the nine-month fiscal period ended September 30, 2007 also benefited from approximately \$14.4 million of lower returns, primarily as a result of the 2006 period including returns expense related to a national promotional program. In addition, a lower cost of sales percentage contributed to a higher gross profit, primarily as a result of lower inventory obsolescence charges of approximately \$28.1 million in the nine-month period ended September 30, 2007 compared to the year ago period, primarily related to Vital Radiance and Almay brands and the aforementioned national promotional program, which were partially offset by unfavorable changes in sales mix and lower production volume in the nine-month fiscal period ended September 30, 2007.

SG&A expenses:

Three Months Ended

September 30,		Nine Months Ended								
September 30,	2007	2006	Change	2007	2006	Change	SG&A expenses	\$ 194.2	\$ 200.4	\$ 6.2
\$ 591.7	\$ 645.3	\$ 53.6								

SG&A expenses decreased \$6.2 million, or 3.1%, to \$194.2 million for the third quarter of 2007, as compared with \$200.4 million for the third quarter of 2006. Such decrease was primarily due to lower general and administrative expenses of approximately \$12.9 million (including \$9.4 million of severance and accelerated amortization charges (related to unvested options and unvested restricted stock) in connection with the cessation of the former CEO's employment in September 2006 and \$3.5 million in personnel, occupancy and other general and administrative expenses in the three-month fiscal period ended September 30, 2007 (compared to the year ago period)). SG&A expenses were also lower in the third quarter of 2007 due to lower display amortization expenses of approximately \$6.4 million, which in

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the third quarter of 2006 included \$3.1 million of charges related to the write-off of accelerated amortization of certain displays in connection with the discontinuance of the Vital Radiance brand. These decreases in SG&A expenses were partially offset by higher brand support of \$12.6 million, primarily as a result of higher advertising spending in the three-month fiscal period ended September 30, 2007, as compared to the third quarter of 2006. The higher advertising spending in the third quarter of 2007 was partially offset by a reduction in promotional activity, which in the third quarter of 2006 included \$3.6 million related to the write-off of certain Vital Radiance advertising, marketing and promotional materials and software associated with the discontinuance of the Vital Radiance brand.

SG&A expenses decreased \$53.6 million, or 9.1%, to \$591.7 million for the nine-month fiscal period ended September 30, 2007, as compared to \$645.3 million for the nine-month fiscal period ended September 30, 2006. Such decrease was driven primarily by approximately \$36.2 million of lower general and administrative expenses, primarily related to the Company's organizational streamlining activities, which resulted in lower personnel-related expenses and occupancy expenses. Occupancy expenses were lower by \$8.0 million, primarily related to the Company's exit of a portion of its New York City headquarters leased space, including a benefit of \$4.4 million related to the reversal of a deferred rental liability upon exit of the space in the first quarter of 2007. The nine-month fiscal period ended September 30, 2006 was also impacted by the aforementioned \$9.4 million of severance and accelerated amortization charges (related to unvested options and unvested restricted stock) in connection with the cessation of the former CEO's employment in September 2006. In addition, SG&A expenses were lower in the nine-month fiscal period ended September 30, 2007 due to lower brand support of approximately \$13.2 million, as compared to the nine-month fiscal period ended September 30, 2006, which included brand support of approximately \$37.1 million in the nine-month fiscal period ended September 30, 2006 for the Vital Radiance brand, which was discontinued in September 2006. The absence of brand support spending on Vital Radiance was partially offset by higher advertising spending in the nine-month fiscal period ended September 30, 2007. Finally, lower display amortization expenses of approximately \$7.1 million in the nine months ended September 30, 2007 contributed to lower SG&A expenses, which in the nine months ended September 30, 2006 included \$3.1 million of charges related to the write-off of the accelerated amortization of certain displays in connection with the discontinuance of the Vital Radiance brand in September 2006.

Restructuring costs and other, net:

Three Months Ended		Nine Months Ended								
September 30,	September 30,	2007	2006	Change	2007	2006	Change	Restructuring costs and other, net	\$ 0.5	\$
13.8	\$ 13.3	\$ 6.9	\$ 23.3	\$ 16.4						

During the third quarter and nine-month fiscal period ended September 30, 2007, the Company recorded restructuring charges of \$0.5 million and \$6.9 million, respectively, in restructuring for vacating leased space, employee severance and other personnel benefits.

During 2007, the Company implemented the 2007 Programs, which consist of the closure of the Company's Irvington facility and personnel reductions within the Company's Information Management function and the sales force in

Canada, which actions are designed to reduce costs and improve the Company's operating profit margins. In connection with the 2007 Programs, the Company expects to incur a total of approximately \$3.1 million of restructuring charges and other costs to implement these programs, consisting of approximately \$2.4 million of expected charges related to employee severance and other employee-related termination costs for the 2007 Programs and approximately \$0.7 million of various other expected charges related to the closure of the Irvington facility. Of the approximately \$3.1 million in expected restructuring charges for the 2007 Programs, the Company recorded charges of approximately

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\$2.6 million in the nine-month fiscal period ended September 30, 2007 and expects to incur approximately \$0.5 million of charges over the remainder of 2007, all of which is expected to be cash. Of the total \$3.1 million cash charges related to the 2007 Programs, including charges expected to be recorded, \$1.7 million was paid out in the nine-month fiscal period ended September 30, 2007 and approximately \$1.4 million is expected to be paid out over the remainder of 2007 and through 2009. The Company anticipates that the 2007 Programs will generate ongoing annualized savings of approximately \$6 million that will primarily benefit cost of sales and SG&A. (See also Note 7, "Restructuring Costs and Other, Net" to the Unaudited Consolidated Financial Statements).

In connection with the September 2006 Program, the Company recorded charges of approximately \$22.8 million in 2006, \$4.6 million of charges in the nine-month fiscal period ended September 30, 2007 and expects to record approximately \$0.1 million of additional restructuring charges and other related costs during the remainder of 2007. Of the total \$27.5 million of charges related to the September 2006 Program, including charges expected to be recorded, approximately \$20.2 million are expected to be paid in cash, of which approximately \$3.7 million was paid out in 2006, \$11.7 million was paid out in the nine-month fiscal period ended September 30, 2007 and approximately \$4.8 million is expected to be paid out over the remainder of 2007 and the period through 2008. As part of the September 2006 Program, the Company agreed in December 2006 to cancel its lease and modify its sublease of its New York City headquarters space, including vacating 23,000 square feet in December 2006 and vacating an additional 77,300 square feet in February 2007. These space reductions are resulting in savings in rental and related expense, while allowing the Company to maintain its corporate offices in a smaller, more efficient space, reflecting its streamlined organization.

In connection with the February 2006 Program, the Company recorded charges of approximately \$10.1 million in the fiscal year 2006 and \$0.4 million of charges in the nine-month fiscal period ended September 30, 2007, all of which is expected to be cash. Of the total \$10.5 million of cash charges related to the February 2006 Program, including charges expected to be recorded, approximately \$6.7 million was paid out in 2006, \$2.3 million was paid out in the nine-month fiscal period ended September 30, 2007 and approximately \$1.5 million is expected to be paid out over the remainder of 2007 and the period through 2009.

For a further discussion of the 2006 Programs, 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, filed with the SEC on March 13, 2007.

During the third quarter and nine-month fiscal period ended September 30, 2006, the Company recorded charges of \$13.8 million and \$23.3 million, respectively, primarily for employee severance and other personnel benefits related to the February 2006 Program and the September 2006 Program.

Other expenses:

Three Months Ended

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September 30,	Nine Months Ended			September 30,	September 30,	Change	Interest expense				
2007	2007	2006	Change	2007	2006	Change					
\$ 101.9	\$ 109.4	\$ 7.5		\$ 34.5	\$ 38.3	\$ 3.8	\$				

Interest expense decreased by \$3.8 million and \$7.5 million for the third quarter and nine-month fiscal period ended September 30, 2007, respectively, as compared to the comparable periods in 2006. These decreases were primarily due to lower weighted average borrowing rates during the respective 2007 periods.

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Three Months Ended

September 30,	Nine Months Ended								
September 30,	2007	2006	Change	2007	2006	Change	Loss on early extinguishment of debt	\$ —	\$ —
\$ —	\$ 0.1	\$ 0.4	\$ 0.3						

The loss on early extinguishment of debt for the nine-month fiscal period ended September 30, 2007 represents the loss on the redemption in February 2007 of approximately \$50.0 million in aggregate principal amount of Products Corporation's 85/8% Senior Subordinated Notes. The loss on early extinguishment of debt for the third quarter and nine-month fiscal period ended September 30, 2006 represents the loss on the redemption in April 2006 of approximately \$110 million in aggregate principal amount of Products Corporation's 85/8% Senior Subordinated Notes using the net proceeds of the \$110 Million Rights Offering discussed in "Financial Condition, Liquidity and Capital Resources".

Provision for income taxes:

Three Months Ended

September 30,	Nine Months Ended								
September 30,	2007	2006	Change	2007	2006	Change	Provision for income taxes	\$ 1.0	\$ 3.3
2.3	\$ 1.6	\$ 12.0	\$ 10.4						

For the third quarter ended September 30 2007, the decrease in the tax provision, as compared with the comparable 2006 period, was primarily attributable to the reversal of a valuation allowance of \$4.1 million, which offset the effect of higher taxable income in certain jurisdictions outside the U.S. For the nine-month fiscal period ended September 30, 2007, the decrease in the tax provision, as compared with the comparable 2006 period, was primarily attributable to the aforementioned valuation allowance reversal and to the \$5.9 million reduction in the Company's tax reserves, in the second quarter of 2007, to reflect favorable regulatory developments resulting in the resolution of various international tax matters, each of which offset the effect of higher taxable income in certain foreign jurisdictions.

Financial Condition, Liquidity and Capital Resources

Net cash used in operating activities in the nine-month fiscal period ended September 30, 2007 improved to \$47.6 million, as compared to \$124.8 million in the nine-month fiscal period ended September 30, 2006. This improvement in cash was primarily due to lower net loss and decreased purchases of permanent displays, partially offset by changes in net working capital, including cash used for return settlements in the nine-month fiscal period ended September 30, 2007 related to Vital Radiance and lower trade receivables.

Net cash used in investing activities was \$12.5 million and \$15.5 million for the nine-month fiscal period ended September 30, 2007 and 2006, respectively, in each case for capital expenditures.

Net cash provided by financing activities was \$53.9 million and \$132.7 million for the nine-month fiscal period ended September 30, 2007 and 2006, respectively. Net cash provided by financing activities for the nine-month fiscal period ended September 30, 2007 included net proceeds of \$98.9 million from the issuance of Class A Common Stock as a result of the closing of the \$100 Million Rights Offering in January 2007. Revlon, Inc.'s proceeds from the \$100 Million Rights Offering were promptly transferred to Products Corporation, which it used in February 2007 to redeem \$50.0 million aggregate principal amount of its 85/8% Senior Subordinated Notes at an aggregate redemption price of \$50.3 million, including \$0.3 million of accrued and unpaid interest up to, but not including, the redemption date. The remainder of such proceeds was used to repay approximately \$43.3 million of indebtedness outstanding under Products Corporation's 2006 Revolving Credit Facility, without any permanent reduction of that commitment, after incurring fees and expenses of approximately \$1.1 million incurred in connection with

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the \$100 Million Rights Offering, with approximately \$5 million of the remaining proceeds being available for general corporate purposes. (See 'Financial Condition, Liquidity and Capital Resources – 2007 Refinancing Transactions').

For the nine-month fiscal period ended September 30, 2006, net cash provided by financing activities included net proceeds of \$107.2 million from Revlon, Inc.'s issuance of Class A Common Stock as a result of completing the \$110 million rights offering in March 2006, \$50.7 million from borrowings during the third quarter of 2006 under the multi-currency revolving credit facility under Products Corporation's 2004 credit agreement and \$100.0 million from borrowings under the term loan facility under Products Corporation's 2004 credit agreement. The net proceeds from Revlon, Inc.'s \$110 million rights offering were promptly transferred to Products Corporation, which it used in April 2006, together with available cash, to redeem \$109.7 million aggregate principal amount of its 85/8% Senior Subordinated Notes, at an aggregate redemption price of \$111.8 million, including \$2.1 million of accrued and unpaid interest up to, but not including, the redemption date and paid related financing costs of \$9.4 million.

At October 31, 2007, the Company had a liquidity position, excluding cash in compensating balance accounts, of approximately \$153 million, consisting of cash and cash equivalents (net of any outstanding checks) of \$29 million, as well as \$74 million in available borrowings under the 2006 Revolving Credit Facility and \$50 million in available borrowings under the 2004 Consolidated MacAndrews & Forbes Line of Credit.

2006 Credit Agreements

In December 2006, Products Corporation replaced the \$800 million term loan facility under its 2004 credit agreement with a new 5-year, \$840 million term loan facility (the "2006 Term Loan Facility") by entering into a new term loan agreement (the "2006 Term Loan Agreement"), dated as of December 20, 2006, among Products Corporation, as borrower, the lenders party thereto, and Citicorp USA, Inc., as administrative agent and collateral agent. As part of the December 2006 bank refinancing, Products Corporation also entered into a new \$160.0 million asset-based, multi-currency revolving credit agreement that amended and restated the 2004 credit agreement (the "2006 Revolving Credit Facility" and, together with the 2006 Term Loan Facility, the "2006 Credit Facilities") among Products Corporation, certain of its subsidiaries as local borrowing subsidiaries, a syndicate of lenders, and Citicorp USA, Inc., as multi-currency administrative agent, term loan administrative agent and collateral agent (the "2006 Revolving Credit Agreement" and, together with the 2006 Term Loan Agreement, the "2006 Credit Agreements"). The 2006 Credit Facilities mature on January 15, 2012. (For further detail regarding the 2006 Credit Agreements, as well as for detail as to Products Corporation's other debt instruments, see Note 8, "Long-Term Debt" to the Consolidated Financial Statements in Revlon, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2006, filed with the SEC on March 13, 2007).

Products Corporation was in compliance with all applicable covenants under the 2006 Credit Agreements as of September 30, 2007. At October 31, 2007, the 2006 Term Loan Facility was fully drawn and availability under the \$160.0 million 2006 Revolving Credit Facility, based upon the calculated borrowing base less approximately \$14.6 million of outstanding letters of credit and approximately \$71.9 million then drawn on the 2006 Revolving Credit Facility, was approximately \$73.5 million.

2004 Consolidated MacAndrews & Forbes Line of Credit

Products Corporation has a \$50 million line of credit with MacAndrews & Forbes Inc., which is available to Products Corporation through January 31, 2008 (the “2004 Consolidated MacAndrews & Forbes Line of Credit”). As of October 31, 2007, the 2004 Consolidated MacAndrews & Forbes Line of Credit was undrawn. (For further detail regarding the 2004 Consolidated MacAndrews & Forbes Line of Credit, see Note 8, “Long-Term Debt” to the Consolidated Financial Statements in Revlon, Inc.’s Annual

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Report on Form 10-K for the year ended December 31, 2006, filed with the SEC on March 13, 2007 and "2007 Financing Transactions" in this Form 10-Q).

2007 Refinancing Transactions

In January 2007, Revlon, Inc. completed the \$100 Million Rights Offering (including the related private placement to MacAndrews & Forbes, together the "\$100 Million Rights Offering"), allowing stockholders of record to purchase additional shares of Class A Common Stock at a subscription price of \$1.05 per share. Revlon, Inc. promptly transferred the net proceeds of the \$100 Million Rights Offering to Products Corporation, which it used in February 2007 to redeem \$50.0 million aggregate principal amount of its outstanding 85/8% Senior Subordinated Notes at an aggregate redemption price of \$50.3 million, including \$0.3 million of accrued and unpaid interest up to, but not including, the redemption date. Following such redemption, there remained outstanding \$167.4 million in aggregate principal amount of the 85/8% Senior Subordinated Notes, which are due February 1, 2008. The remainder of such proceeds was used to repay approximately \$43.3 million of indebtedness outstanding under Products Corporation's 2006 Revolving Credit Facility, without any permanent reduction of that commitment, after incurring fees and expenses of approximately \$1.1 million incurred in connection with the \$100 Million Rights Offering, with approximately \$5 million of the remaining proceeds being available for general corporate purposes.

Interest Rate Swap Transaction

In September 2007, Products Corporation executed a floating-to-fixed interest rate swap transaction with a notional amount of \$150.0 million over a period of two years relating to indebtedness under Products Corporation's 2006 Term Loan Facility. The Company designated this interest rate swap transaction as a cash flow hedge of the variable interest rate payments on Products Corporation's 2006 Term Loan Facility. Under the terms of the interest rate swap transaction, Products Corporation is required to pay to the counterparty a quarterly fixed interest rate of 4.692% on the \$150.0 million notional amount commencing in December 2007, while receiving a variable interest rate payment from the counterparty equal to three-month U.S. dollar LIBOR. While the Company is exposed to credit loss in the event of the counterparty's non-performance, if any, the Company's exposure is limited to the net amount that Products Corporation would have received over the remaining balance of the transaction's two-year term. Given that the counterparty to the interest rate swap transaction is a major financial institution with high credit ratings, 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.

Sources and Uses

The Company's principal sources of funds are expected to be operating revenues, cash on hand and funds available for borrowing under the 2006 Credit Agreements, the 2004 Consolidated MacAndrews & Forbes Line of Credit and other permitted lines of credit. The 2006 Credit Agreements, the 2004 Consolidated MacAndrews & Forbes Line of Credit and the indentures governing Products Corporation's 9½% Senior Notes due 2011 (the "9½% Senior Notes") and its 85/8% Senior Subordinated Notes due February 1, 2008 contain certain provisions that by their terms limit Products Corporation and its subsidiaries' ability to, among other things, incur additional debt.

The Company's principal uses of funds are expected to be the payment of operating expenses, including expenses in connection with the continued execution of the Company's business strategy, purchases of permanent wall displays, capital expenditure requirements, payments in connection with the Company's restructuring programs (including, without limitation, the Company's 2006 Programs, the 2007

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Programs and prior programs), executive severance not otherwise included in the Company's restructuring programs, debt service payments and costs and regularly scheduled pension and post-retirement benefit plan contributions. The Company expects cash contributions to the Company's pension and post-retirement benefit plans to be approximately \$38 million in the aggregate in 2007. See "Restructuring Costs, Net" above in this Form 10-Q for discussion of the Company's expected uses of funds in connection with its various restructuring programs.

The Company has undertaken, and continues to assess, refine and implement, a number of programs to efficiently manage its cash and working capital including, among other things, programs to carefully manage inventory levels, centralized purchasing to secure discounts and efficiencies in procurement, and providing additional discounts to U.S. customers for more timely payment of receivables and careful management of accounts payable and targeted controls on general and administrative spending.

Continuing to execute the Company's business strategy could include taking advantage of additional opportunities to reposition, repackage or reformulate one or more brands or product lines, launching additional new products, acquiring businesses or brands, further refining the Company's approach to retail merchandising and/or taking further actions to optimize its manufacturing, sourcing and organizational size and structure. Any of these actions, whose intended purpose would be to create value through profitable growth, could result in the Company making investments and/or recognizing charges related to executing against such opportunities.

The Company expects that operating revenues, cash on hand and funds available for borrowing under the 2006 Credit Agreements, the 2004 Consolidated MacAndrews & Forbes Line of Credit and other permitted lines of credit will be sufficient to enable the Company to cover its operating expenses for 2007, including cash requirements in connection with the payment of operating expenses, including expenses in connection with the execution of the Company's business strategy, purchases of permanent wall displays, capital expenditure requirements, payments in connection with the Company's restructuring programs (including, without limitation, the Company's 2006 Programs, the 2007 Programs and prior programs), executive severance not otherwise included in the Company's restructuring programs, debt service payments and costs and regularly scheduled pension and post-retirement plan contributions.

However, there can be no assurance that such funds will be sufficient to meet the Company's cash requirements on a consolidated basis. If the Company's anticipated level of revenue growth is not achieved because of, for example, decreased consumer spending in response to weak economic conditions or weakness in the mass-market cosmetics category, adverse changes in currency, decreased sales of the Company's products as a result of increased competitive activities from the Company's competitors, changes in consumer purchasing habits, including with respect to shopping channels, retailer inventory management, retailer space reconfigurations or reductions, less than anticipated results from the Company's existing or new products or from its advertising and/or marketing plans, or if the Company's expenses, including, without limitation, for advertising and promotions or for returns related to any reduction of retail space or product discontinuances, exceed the anticipated level of expenses, the Company's current sources of funds may be insufficient to meet the Company's cash requirements.

In the event of a decrease in demand for the Company's products, reduced sales, lack of increases in demand and sales, changes in consumer purchasing habits, including with respect to shopping channels, retailer inventory management, retailer space reconfigurations or reductions, product discontinuances and/or advertising and promotion expenses or

returns expenses exceeding its expectations or less than anticipated results from the Company's existing or new products or from its advertising and/or marketing plans, any such development, if significant, could reduce Products Corporation's revenues and could adversely affect Products Corporation's ability to comply with certain financial covenants under the 2006 Credit Agreements and in such event the Company could be required to take measures, including, among other things, reducing discretionary spending. (See also Item 1A. "Risk Factors" in Revlon, Inc.'s Annual

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Report on Form 10-K for the fiscal year ended December 31, 2006, filed with the SEC on March 13, 2007 for further discussion of risks associated with the Company's business).

Products Corporation