REVLON INC /DE/
Form 10-Q
July 31, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

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 incorporation or organization)	(I.R.S. Employer 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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No ¨

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company ¨

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes ¨ No x

As of June 30, 2012, 49,224,583 shares of Class A Common Stock, 3,125,000 shares of Class B Common Stock and 9,336,905 shares of Series A Preferred Stock were outstanding. At such date, 37,544,640 shares of Class A Common Stock were beneficially owned by MacAndrews & Forbes Holdings Inc. and certain of its affiliates and all of the shares of Class B Common Stock were owned by REV Holdings LLC, a Delaware limited liability company and an indirectly wholly-owned subsidiary of MacAndrews & Forbes Holdings Inc.

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REVLON, INC. AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

REVLON, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(dollars in millions, except share and per share amounts)

	June 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 79.8	$ 101.7
Trade receivables, less allowance for doubtful accounts of $3.9 and $3.2 as of June 30, 2012 and December 31, 2011, respectively	204.5	212.0
Inventories	133.3	111.0
Deferred income taxes current	50.0	49.8
Prepaid expenses and other	66.5	44.2
Total current assets	534.1	518.7
Property, plant and equipment, net	98.5	98.9
Deferred income taxes noncurrent	219.2	232.1
Goodwill, net	194.6	194.7
Other assets	127.5	112.7
Total assets	$ 1,173.9	$ 1,157.1
LIABILITIES AND STOCKHOLDERS DEFICIENCY		
Current liabilities:		
Short-term borrowings	$ 8.5	$ 5.9
Current portion of long-term debt	11.4	8.0
Accounts payable	95.5	89.8
Accrued expenses and other	240.9	231.7
Total current liabilities	356.3	335.4
Long-term debt	1,158.9	1,107.0
Long-term debt affiliates	-	58.4
Redeemable preferred stock	48.5	48.4
Long-term pension and other post-retirement plan liabilities	224.6	245.5
Other long-term liabilities	51.2	55.3
Commitments and contingencies		
Stockholders deficiency:		
Class A Common Stock, par value $0.01 per share; 900,000,000 shares authorized; 49,986,651 shares issued as of June 30, 2012 and December 31, 2011	0.5	0.5
Class B Common Stock, par value $0.01 per share; 200,000,000 shares authorized; 3,125,000 shares issued and outstanding as of June 30, 2012 and December 31, 2011	-	-
Additional paid-in capital	1,015.0	1,014.1

Treasury stock, at cost: 750,900 and 671,271 shares of Class A Common Stock as of June 30, 2012 and December 31, 2011, respectively	(9.7)	(8.6)
Accumulated deficit	(1,478.4)	(1,498.0)
Accumulated other comprehensive loss	(193.0)	(200.9)
Total stockholders deficiency	(665.6)	(692.9)
Total liabilities and stockholders deficiency	$ 1,173.9	$ 1,157.1

See Accompanying Notes to Unaudited Consolidated Financial Statements

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REVLON, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(dollars in millions, except share and per share amounts)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net sales	$ 357.1	$ 351.2	$ 687.8	$ 684.4
Cost of sales	124.4	121.9	240.1	235.2
Gross profit	232.7	229.3	447.7	449.2
Selling, general and administrative expenses	189.9	181.5	360.6	356.7
Operating income	42.8	47.8	87.1	92.5
Other expenses, net:				
Interest expense	19.6	21.7	39.6	44.3
Interest expense preferred stock dividends	1.6	1.6	3.2	3.2
Amortization of debt issuance costs	1.3	1.4	2.6	2.8
Loss on early extinguishment of debt, net	-	11.3	-	11.3
Foreign currency losses, net	0.4	3.0	2.1	3.3
Miscellaneous, net	0.1	0.3	0.3	1.0
Other expenses, net	23.0	39.3	47.8	65.9
Income from continuing operations before income taxes	19.8	8.5	39.3	26.6
Provision for income taxes	9.1	2.6	20.1	10.3
Income from continuing operations, net of taxes	10.7	5.9	19.2	16.3
Income from discontinued operations, net of taxes	0.4	0.6	0.4	0.6
Net income	$ 11.1	$ 6.5	$ 19.6	$ 16.9
Other comprehensive income:				
Currency translation adjustment, net of tax of $2.1 and nil for the three months ended June 30, 2012 and 2011, respectively, and $1.4 and nil for the six months ended June 30, 2012 and 2011, respectively	1.0	1.1	2.2	0.2
Amortization of pension related costs, net of tax benefit of $0.2 and $0.5 for the three months ended June 30, 2012 and 2011, respectively, and $0.5 and $1.0 for the six months ended June 30, 2012 and 2011, respectively	1.9	0.9	5.7	1.8
Other comprehensive income	2.9	2.0	7.9	2.0
Total comprehensive income	$ 14.0	$ 8.5	$ 27.5	$ 18.9

Basic income per common share:

Continuing operations	0.20	0.11	0.36	0.31
Discontinued operations	0.01	0.01	0.01	0.01
Net income	$ 0.21	$ 0.12	$ 0.37	$ 0.32
Diluted income per common share:				
Continuing operations	0.20	0.11	0.36	0.31
Discontinued operations	0.01	0.01	0.01	0.01
Net income	$ 0.21	$ 0.12	$ 0.37	$ 0.32
Weighted average number of common shares outstanding:				
Basic	52,349,583	52,175,628	52,340,463	52,164,735
Diluted	52,357,163	52,330,097	52,357,004	52,306,335

See Accompanying Notes to Unaudited Consolidated Financial Statements

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REVLON, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENT OF STOCKHOLDERS DEFICIENCY

(dollars in millions)

	Common Stock	Additional Paid-In-Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders Deficiency
Balance, January 1, 2012	$ 0.5	$ 1,014.1	$ (8.6)	$ (1,498.0)	$ (200.9)	$ (692.9)
Treasury stock acquired, at cost[(a)]			(1.1)			(1.1)
Stock-based compensation amortization		0.3				0.3
Excess tax benefits from stock-based compensation		0.6				0.6
Net income				19.6		19.6
Other comprehensive income[(b)]					7.9	7.9
Balance, June 30, 2012	$ 0.5	$ 1,015.0	$ (9.7)	$ (1,478.4)	$ (193.0)	$ (665.6)

(a) Pursuant to the share withholding provisions of the Third Amended and Restated Revlon, Inc. Stock Plan (the Stock Plan), certain employees, in lieu of paying withholding taxes on the vesting of certain restricted stock, authorized the withholding of an aggregate of 79,629 shares of Revlon, Inc. Class A Common Stock during the first six months of 2012 to satisfy the minimum statutory tax withholding requirements related to such vesting. These shares were recorded as treasury stock using the cost method, at a weighted average price per share of $14.19, based on the closing price of Revlon, Inc. Class A Common Stock as reported on the NYSE consolidated tape on the respective vesting dates, for a total of $1.1 million.

(b) See Note 7, Accumulated Other Comprehensive Loss, in this Form 10-Q regarding the changes in the accumulated balances for each component of accumulated other comprehensive income during the first six months of 2012.

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)

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 19.6	$ 16.9
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Income from discontinued operations, net of taxes	(0.4)	(0.6)
Depreciation and amortization	31.3	30.2
Amortization of debt discount	1.0	1.5
Stock compensation amortization	0.3	1.3
Provision for deferred income taxes	15.2	3.6
Loss on early extinguishment of debt, net	-	11.3
Amortization of debt issuance costs	2.6	2.8
Loss on sale of certain assets	0.1	-
Pension and other post-retirement expense	2.8	2.6
Change in assets and liabilities:		
Decrease in trade receivables	6.9	15.4
Increase in inventories	(22.8)	(22.4)
Increase in prepaid expenses and other current assets	(23.3)	(4.7)
(Decrease) increase in accounts payable	(4.5)	15.2
Increase (decrease) in accrued expenses and other current liabilities	11.6	(27.8)
Pension and other post-retirement plan contributions	(19.4)	(15.0)
Purchases of permanent displays	(24.3)	(23.6)
Other, net	(18.4)	(3.4)
Net cash (used in) provided by operating activities	(21.7)	3.3
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(8.9)	(5.9)
Acquisition	-	(39.0)
Proceeds from the sale of certain assets	0.1	0.1
Net cash used in investing activities	(8.8)	(44.8)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in short-term borrowings and overdraft	12.8	3.6
Borrowings under the 2011 Revolving Credit Facility	-	10.0
Repayments under the 2010 Term Loan Facility	-	(794.0)
Borrowings under the 2011 Term Loan Facility	-	796.0
Repayments under the 2011 Term Loan Facility	(4.0)	-
Payment of financing costs	(0.1)	(3.9)
Other financing activities	(0.2)	(0.7)
Net cash provided by financing activities	8.5	11.0
Effect of exchange rate changes on cash and cash equivalents	0.1	(1.3)

Net decrease in cash and cash equivalents		(21.9)		(31.8)
Cash and cash equivalents at beginning of period		101.7		76.7
Cash and cash equivalents at end of period	$	79.8	$	44.9
Supplemental schedule of cash flow information:				
Cash paid during the period for:				
Interest	$	45.8	$	54.0
Preferred stock dividends		3.1		3.1
Income taxes, net of refunds		10.9		12.3
Supplemental schedule of non-cash investing and financing activities:				
Treasury stock received to satisfy minimum tax withholding liabilities	$	1.1	$	1.3

See Accompanying Notes to Unaudited Consolidated Financial Statements

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REVLON, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

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

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

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

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) 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, trade support costs, certain assumptions related to the recoverability of intangible and long-lived assets, deferred tax valuation allowances, reserves for estimated tax liabilities, restructuring costs, certain estimates and assumptions used in the calculation of the net periodic benefit costs and the projected benefit obligations for the Company s pension and other post-retirement plans, including the expected long-term return on pension plan assets and the discount rate used to value the Company s pension benefit obligations. The Unaudited Consolidated Financial Statements should be read in conjunction with the consolidated financial statements and related notes contained in Revlon, Inc. s Annual Report on Form 10-K for the year ended December 31, 2011, filed with the Securities and Exchange Commission (the SEC) on February 16, 2012 (the 2011 Form 10-K).

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

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

Fire at Revlon Venezuela Facility

On June 5, 2011, the Company s facility in Venezuela was destroyed by fire. For the years ended December 31, 2011 and 2010, the Company s subsidiary in Venezuela (Revlon Venezuela) had net sales of approximately 2% and 3%, respectively, of the Company s consolidated net sales. At December 31, 2011 and 2010, total assets of Revlon Venezuela were approximately 2% and 3%, respectively, of the Company s total assets. Prior to the fire, approximately 50% of Revlon Venezuela s net sales were comprised of products imported from the Company s Oxford, North Carolina facility and approximately 50% were comprised of products locally manufactured at the Revlon Venezuela facility. Revlon Venezuela did not have any net sales from the date of the fire until August 12, 2011. The Company s net sales in Venezuela since August 12, 2011 have been primarily comprised of products imported from the Company s Oxford, North Carolina facility. In the first quarter of 2012, Revlon Venezuela also began importing certain products from third party manufacturers outside of Venezuela, which were locally manufactured at the Revlon Venezuela facility prior to the fire.

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The Company maintains comprehensive property insurance, as well as business interruption insurance. Business interruption insurance is intended to reimburse for lost profits and other costs incurred, which are attributable to the loss, during the loss period, subject to the terms and conditions of the applicable policies.

For the second quarter and first six months of 2012, the Company incurred business interruption losses of nil and $1.1 million, respectively, related to the fire. The business interruption losses incurred through June 30, 2012 include estimated profits lost as a result of the interruption of Revlon Venezuela s business and costs incurred directly related to the fire. The business interruption losses incurred through June 30, 2012 are not indicative of future business interruption losses for insurance purposes or future expected profits for Revlon Venezuela. In the second quarter of 2011, the Company recorded a $4.9 million impairment loss related to Revlon Venezuela s net book value of inventory, property, plant and equipment destroyed by the fire.

During the first quarter of 2012, the Company received an interim advance of $3.0 million from its insurance carrier in connection with the fire, for total cumulative receipts of $22.7 million received through June 30, 2012. During the first six months of 2012, the Company recognized $1.1 million of income from insurance recoveries, which entirely offset the business interruption losses noted above. During the second quarter of 2011, the Company recognized $4.9 million of income from insurance recoveries, which entirely offset the impairment loss noted above. The income from insurance recoveries is included within selling, general and administrative expenses in the Company s Statements of Income and Comprehensive Income for the six months ended June 30, 2012 and the three and six months ended June 30, 2011. The Company recorded deferred income related to the insurance proceeds received, but not yet recognized, of $7.0 million and $5.1 million as of June 30, 2012 and December 31, 2011, respectively, which is included in accrued expenses and other in the Company s Consolidated Balance Sheets.

An assessment of the extent of damage resulting from the fire and the impact on Revlon Venezuela s business is ongoing, and therefore the final amount and timing of the ultimate insurance recovery is currently unknown.

Recently Adopted Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS) , which amends Accounting Standards Codification (ASC) 820, Fair Value Measurement . ASU No. 2011-04 modifies ASC 820 to include disclosure of all transfers between Level 1 and Level 2 asset and liability fair value categories. In addition, ASU No. 2011-04 provides guidance on measuring the fair value of financial instruments managed within a portfolio and the application of premiums and discounts on fair value measurements. ASU No. 2011-04 requires additional disclosure for Level 3 measurements regarding the sensitivity of fair value to changes in unobservable inputs and any interrelationships between those inputs. The Company adopted ASU No. 2011-04 beginning January 1, 2012 and such adoption did not have a material impact on the Company s results of operations, financial condition or disclosures.

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income . ASU No. 2011-05 eliminates the option to report other comprehensive income and its components in the statement of changes in equity. Under ASU No. 2011-05, an entity can elect to present items of net income and other comprehensive income in one continuous statement or in two separate, but consecutive, statements. In addition, in December 2011, the FASB issued ASU No. 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. ASU No. 2011-12 defers the requirement to present components of reclassifications of comprehensive income by income statement line item on the statement of comprehensive income, with all other requirements of ASU No. 2011-05 unaffected. The Company adopted ASU No. 2011-05 and ASU No. 2011-12 beginning January 1, 2012 and has elected to present items of net income and other comprehensive income in one continuous statement.

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REVLON, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

2. PENSION AND POST-RETIREMENT BENEFITS

The components of net periodic benefit costs for the Company s pension and the other post-retirement benefit plans for the second quarter of 2012 and 2011 are as follows:

	Pension Plans Three Months Ended June 30, 2012	Pension Plans Three Months Ended June 30, 2011	Other Post-retirement Benefit Plans Three Months Ended June 30, 2012	Other Post-retirement Benefit Plans Three Months Ended June 30, 2011
Net periodic benefit costs:				
Service cost	$ 0.4	$ 0.3	$ -	$ -
Interest cost	7.5	8.1	0.2	0.2
Expected return on plan assets	(8.8)	(8.8)	-	-
Amortization of actuarial loss	2.1	1.4	-	0.1
	1.2	1.0	0.2	0.3
Portion allocated to Revlon Holdings LLC	(0.1)	-	-	-
	$ 1.1	$ 1.0	$ 0.2	$ 0.3

The components of net periodic benefit costs for the Company s pension and the other post-retirement benefit plans for the first six months of 2012 and 2011 are as follows:

	Pension Plans Six Months Ended June 30, 2012	Pension Plans Six Months Ended June 30, 2011	Other Post-retirement Benefit Plans Six Months Ended June 30, 2012	Other Post-retirement Benefit Plans Six Months Ended June 30, 2011
Net periodic benefit costs:				
Service cost	$ 0.8	$ 0.6	$ -	$ -
Interest cost	15.0	16.2	0.4	0.4
Expected return on plan assets	(17.6)	(17.5)	-	-
Amortization of actuarial loss	4.1	2.7	0.1	0.2
	2.3	2.0	0.5	0.6
Portion allocated to Revlon Holdings LLC	(0.1)	-	-	-
	$ 2.2	$ 2.0	$ 0.5	$ 0.6

In the three and six months ended June 30, 2012, compared to the three and six months ended June 30, 2011, the Company recognized slightly higher net periodic benefit costs primarily due to the decrease in the weighted-average discount rate, partially offset by the increase in the fair value of pension plan assets at December 31, 2011. The Company expects that its net periodic benefit costs for its pension and the other post-retirement benefit plans will be approximately $5 million for all of 2012, comparable to the $5 million cost in 2011.

During the second quarter of 2012, $13.0 million and $0.2 million were contributed to the Company s pension plans and other post-retirement benefit plans, respectively. During the first six months of 2012, $19.0 million and $0.4 million were contributed to the Company s pension plans and other post-retirement benefit plans, respectively. The Company currently expects to contribute approximately $35 million in the aggregate to its pension plans and other post-retirement benefit plans for all of 2012.

Relevant aspects of the qualified defined benefit pension plans, nonqualified pension plans and other post-retirement benefit plans sponsored by Products Corporation are disclosed in Revlon, Inc. s 2011 Form 10-K.

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REVLON, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

3. INVENTORIES

	June 30, 2012	December 31, 2011
Raw materials and supplies	$ 46.8	$ 37.9
Work-in-process	9.6	8.1
Finished goods	76.9	65.0
	$ 133.3	$ 111.0

4. ACCRUED EXPENSES AND OTHER

	June 30, 2012	December 31, 2011
Sales returns and allowances	$ 76.3	$ 85.4
Advertising and promotional costs	43.7	32.2
Compensation and related benefits	42.5	52.0
Interest	9.4	16.5
Taxes	14.9	15.6
Other	54.1	30.0
	$ 240.9	$ 231.7

5. LONG-TERM DEBT AND REDEEMABLE PREFERRED STOCK

	June 30, 2012	December 31, 2011
2011 Term Loan Facility due 2017, net of discounts [a]	$ 784.2	$ 787.6
2011 Revolving Credit Facility due 2016 [a]	-	-
9 $^3/_4$% Senior Secured Notes due 2015, net of discounts [b]	327.7	327.4
Amended and Restated Senior Subordinated Term Loan due 2014 [c]	58.4	-
Senior Subordinated Term Loan due 2014 [c]	-	58.4
	1,170.3	1,173.4
Less current portion	(11.4)	(8.0)
	1,158.9	1,165.4

Redeemable Preferred Stock [d]	48.5	48.4
	$ 1,207.4	$ 1,213.8

[a] During the second quarter of 2011, Products Corporation consummated the refinancing of (i) its term loan facility, which was scheduled to mature on March 11, 2015 and had $794.0 million aggregate principal amount outstanding at December 31, 2010 (the 2010 Term Loan Facility), with a 6.5-year, $800.0 million term loan facility due November 19, 2017 (the 2011 Term Loan Facility) under a third amended and restated term loan agreement dated May 19, 2011 (the 2011 Term Loan Agreement) and (ii) its revolving credit facility, which was scheduled to mature on March 11, 2014 and had nil outstanding borrowings at December 31, 2010, with a 5-year, $140.0 million asset-based, multi-currency revolving credit facility due June 16, 2016 (the 2011 Revolving Credit Facility) under a third amended and restated revolving credit agreement dated June 16, 2011 (the 2011 Revolving Credit Agreement and together with the 2011 Term Loan Agreement, the 2011 Credit Agreements). See Note 9, Long-Term Debt and Redeemable Preferred Stock, to the Consolidated Financial Statements in Revlon, Inc. s 2011 Form 10-K for certain details regarding Products Corporation s 2011 Credit Agreements.

REVLON, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

(b) See Note 9, Long-Term Debt and Redeemable Preferred Stock, to the Consolidated Financial Statements in Revlon, Inc. s 2011 Form 10-K for certain details regarding Products Corporation s $9^{3}/_{4}$% Senior Secured Notes which mature on November 15, 2015 (the $9^{3}/_{4}$% Senior Secured Notes).

(c) On April 30, 2012, MacAndrews & Forbes exercised its right to assign its interest in the Non-Contributed Loan (as hereinafter defined) to various third parties. In connection with such assignment, Products Corporation entered into an Amended and Restated Senior Subordinated Term Loan Agreement with MacAndrews & Forbes, to: (1) modify the interest rate on the Non-Contributed Loan from its prior 12% fixed rate to a floating rate of LIBOR plus 7%, with a 1.5% LIBOR floor, resulting in an interest rate of approximately 8.5% per annum (or a 3.5% reduction) upon the effectiveness of the Amended and Restated Senior Subordinated Term Loan Agreement; (2) insert certain prepayment premiums; and (3) designate Citibank, N.A. as the administrative agent for the Non-Contributed Loan. Refer to Recent Debt Transactions below for further discussion.

(d) See Note 9, Long-Term Debt and Redeemable Preferred Stock, to the Consolidated Financial Statements in Revlon, Inc. s 2011 Form 10-K for certain details regarding Revlon, Inc. s redeemable Preferred Stock (as hereinafter defined).

Recent Debt Transactions

Products Corporation is party to the Senior Subordinated Term Loan Agreement, consisting of (i) the $58.4 million principal amount of the $107.0 million aggregate principal amount of the Senior Subordinated Term Loan (the Non-Contributed Loan) which, at December 31, 2011, remained owing from Products Corporation to MacAndrews & Forbes, and which matures on October 8, 2014, and (ii) the $48.6 million of the $107.0 million aggregate principal amount of the Senior Subordinated Term Loan that MacAndrews & Forbes contributed to Revlon, Inc. in connection with the October 2009 consummation of Revlon, Inc. s exchange offer (the Contributed Loan), which remains due from Products Corporation to Revlon, Inc. and which matures on October 8, 2013.

On April 30, 2012, MacAndrews & Forbes exercised its right to assign its interest in the Non-Contributed Loan. In connection with such assignment, Products Corporation entered into an Amended and Restated Senior Subordinated Term Loan Agreement with MacAndrews & Forbes (the Amended and Restated Senior Subordinated Term Loan Agreement), and a related Administrative Letter was entered into with Citibank, N.A. and MacAndrews & Forbes, to among other things:

modify the interest rate on the Non-Contributed Loan from its prior 12% fixed rate to a floating rate of LIBOR plus 7%, with a 1.5% LIBOR floor, resulting in an interest rate of approximately 8.5% per annum (or a 3.5% reduction) upon the effectiveness of the Amended and Restated Senior Subordinated Term Loan Agreement. Interest under the Amended and Restated Senior Subordinated Term Loan Agreement is payable quarterly in arrears in cash;

insert prepayment premiums such that Products Corporation may optionally prepay the Non-Contributed Loan (i) through October 31, 2013 with a prepayment premium based on a formula designed to provide the assignees of the Non-Contributed Loan with the present value, using a discount rate of 75 basis points over U.S. Treasuries, of the principal, premium and interest that would have accrued on the Non-Contributed Loan from any such prepayment date through October 31, 2013 (provided that, pursuant to the loan s terms (both before and after giving effect to these amendments), no portion of the principal amount of the Non-Contributed Loan may be repaid prior to its October 8, 2014 maturity date unless and until all shares of Revlon, Inc. s Series A Preferred Stock have been or are being concurrently redeemed and all payments due thereon are paid in full or are concurrently being paid in full), (ii) from November 1, 2013 through April 30, 2014 with a 2% prepayment premium on the aggregate principal amount of the Non-Contributed Loan being prepaid, and (iii) from May 1, 2014 through maturity on October 8, 2014 with no prepayment premium;

and

designate Citibank, N.A. as the administrative agent for the Non-Contributed Loan.

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Concurrently with the effectiveness of the Amended and Restated Senior Subordinated Term Loan Agreement, MacAndrews & Forbes assigned its entire interest in the Non-Contributed Loan to several third parties.

Covenants

Products Corporation was in compliance with all applicable covenants under the 2011 Term Loan Agreement and 2011 Revolving Credit Agreement as of June 30, 2012. At June 30, 2012, the aggregate principal amount outstanding under the 2011 Term Loan Facility was $792.0 million and availability under the $140.0 million 2011 Revolving Credit Facility, based upon the calculated borrowing base less $10.3 million of outstanding undrawn letters of credit and nil then drawn on the 2011 Revolving Credit Facility, was $125.5 million. (See also Note 15, Subsequent Events).

6. BASIC AND DILUTED EARNINGS PER COMMON SHARE

Shares used in basic earnings per share are computed using the weighted average number of common shares outstanding during each period. Shares used in diluted earnings per share include the dilutive effect of unvested restricted shares and outstanding stock options under the Stock Plan using the treasury stock method. For the three and six months ended June 30, 2012 and 2011, all outstanding options to purchase shares of Revlon, Inc. Class A common stock, par value of $0.01 per share (the Class A Common Stock), that could potentially dilute basic earnings per share in the future were excluded from the calculation of diluted earnings per common share as their effect would be anti-dilutive, as in each case their exercise price was in excess of the NYSE closing price of the Class A Common Stock at all times during these periods.

For the three months ended June 30, 2012 and 2011, 3,588 and 123,605 weighted average shares, respectively, of unvested restricted stock that could potentially dilute basic earnings per share in the future were excluded from the calculation of diluted earnings per common share as their effect would be anti-dilutive. For the six months ended June 30, 2012 and 2011, 6,740 and 152,902 weighted average shares, respectively, of unvested restricted stock that could potentially dilute basic earnings per share in the future were excluded from the calculation of diluted earnings per common share as their effect would be anti-dilutive.

The components of basic and diluted earnings per share for the three and six months ended June 30, 2012 and 2011 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Numerator:				
Income from continuing operations	$ 10.7	$ 5.9	$ 19.2	$ 16.3
Income from discontinued operations	0.4	0.6	0.4	0.6
Net income	$ 11.1	$ 6.5	$ 19.6	$ 16.9
Denominator:				
Weighted average common shares outstanding				
Basic	52,349,583	52,175,628	52,340,463	52,164,735
Effect of dilutive restricted stock	7,580	154,469	16,541	141,600

Weighted average common shares outstanding				
Diluted	52,357,163	52,330,097	52,357,004	52,306,335

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Basic earnings per share:				
Continuing operations	$ 0.20	$ 0.11	$ 0.36	$ 0.31
Discontinued operations	0.01	0.01	0.01	0.01
Net income	$ 0.21	$ 0.12	$ 0.37	$ 0.32
Diluted earnings per share:				
Continuing operations	$ 0.20	$ 0.11	$ 0.36	$ 0.31
Discontinued operations	0.01	0.01	0.01	0.01
Net income	$ 0.21	$ 0.12	$ 0.37	$ 0.32

7. ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of accumulated other comprehensive loss as of June 30, 2012 are as follows:

	Foreign Currency Translation	Actuarial (Loss) Gain on Post-retirement Benefits	Prior Service Cost on Post-retirement Benefits	Accumulated Other Comprehensive Loss
Balance January 1, 2012	$ 24.8	$ (225.6)	$ (0.1)	$ (200.9)
Currency translation adjustment, net of tax of $1.4	2.2	-	-	2.2
Amortization of pension related costs, net of tax benefit of $0.5[(a)]	-	5.7	-	5.7
Other comprehensive income	2.2	5.7	-	7.9
Balance June 30, 2012	$ 27.0	$ (219.9)	$ (0.1)	$ (193.0)

(a) The amounts represent the change in accumulated other comprehensive loss as a result of the amortization of actuarial losses during the first six months of 2012 related to the Company s pension and other post-retirement benefit plans. Also included in this amount is a $2.0 million reclassification adjustment recorded in the first quarter of 2012 related to deferred taxes on the amortization of actuarial losses.

8. GEOGRAPHIC, FINANCIAL AND OTHER INFORMATION

The Company manages its business on the basis of one reportable operating segment. As of June 30, 2012, the Company had operations established in 14 countries outside of the U.S. and its products are sold throughout the world. Generally, net sales by geographic area are presented by attributing revenues from external customers on the basis of where the products are sold.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2012		2011		2012		2011	
Geographic area:								
Net sales:								
United States	$ 203.9	*57%*	$ 194.9	*55%*	$ 388.6	*56%*	$ 381.1	*56%*
Outside of the United States	153.2	*43%*	156.3	*45%*	299.2	*44%*	303.3	*44%*
	$ 357.1		$ 351.2		$ 687.8		$ 684.4	

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	June 30, 2012		December 31, 2011	
Long-lived assets, net:				
United States	$ 371.0	*88%*	$ 357.8	*88%*
Outside of the United States	49.6	*12%*	48.5	*12%*
	$ 420.6		$ 406.3	

	Three Months Ended June 30, 2012		Three Months Ended June 30, 2011		Six Months Ended June 30, 2012		Six Months Ended June 30, 2011	
Classes of similar products:								
Net sales:								
Color cosmetics	$ 236.7	*66%*	$ 226.1	*64%*	$ 455.0	*66%*	$ 442.3	*65%*
Beauty care and fragrance	120.4	*34%*	125.1	*36%*	232.8	*34%*	242.1	*35%*
	$ 357.1		$ 351.2		$ 687.8		$ 684.4	

9. FAIR VALUE MEASUREMENTS

Assets and liabilities are required to be categorized into three levels of fair value based upon the assumptions used to price the assets or liabilities. Level 1 provides the most reliable measure of fair value, whereas Level 3, if applicable, generally would require significant management judgment. The three levels for categorizing the fair value measurement of assets and liabilities are as follows:

Level 1: Fair valuing the asset or liability using observable inputs, such as quoted prices in active markets for identical assets or liabilities;

Level 2: Fair valuing the asset or liability using inputs other than quoted prices that are observable for the applicable asset or liability, either directly or indirectly, such as quoted prices for similar (as opposed to identical) assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active; and

Level 3: Fair valuing the asset or liability using unobservable inputs that reflect the Company s own assumptions regarding the applicable asset or liability.

As of June 30, 2012, the fair values of the Company s financial assets and liabilities that are required to be measured at fair value, namely its foreign currency forward exchange contracts (FX Contracts) and the Change of Control Amount (as hereinafter defined) associated with Revlon, Inc. s Series A Preferred Stock, par value $0.01 per share (Preferred Stock), are categorized in the table below:

	Total	Level 1	Level 2	Level 3
Assets:				
Derivatives:				
FX Contracts[(a)]	$ -	$ -	$ -	$ -
Total assets at fair value	$ -	$ -	$ -	$ -
Liabilities:				
Derivatives:				
FX Contracts[(a)]	$ 0.8	$ -	$ 0.8	$ -
Change of Control Amount (Preferred Stock) [(b)]	0.2	-	-	0.2
Total liabilities at fair value	$ 1.0	$ -	$ 0.8	$ 0.2

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As of December 31, 2011, the fair values of the Company s financial assets and liabilities that are required to be measured at fair value, namely its FX Contracts and the Change of Control Amount associated with Preferred Stock, are categorized in the table below:

	Total		Level 1		Level 2		Level 3	
Assets								
Derivatives:								
FX Contracts[(a)]	$	0.2	$	-	$	0.2	$	-
Total assets at fair value	$	0.2	$	-	$	0.2	$	-
Liabilities								
Derivatives:								
FX Contracts[(a)]	$	0.8	$	-	$	0.8	$	-
Change of Control Amount (Preferred Stock)[(b)]		0.2		-		-		0.2
Total liabilities at fair value	$	1.0	$	-	$	0.8	$	0.2

(a) The fair value of the Company s FX Contracts was measured based on observable market transactions of spot and forward rates at June 30, 2012 and December 31, 2011. (See Note 10, Financial Instruments, in this Form 10-Q.)

(b) In October 2009, Revlon, Inc. consummated its voluntary exchange offer (as amended, the 2009 Exchange Offer) in which, among other things, Revlon, Inc. issued to stockholders (other than MacAndrews & Forbes) 9,336,905 shares of its Preferred Stock in exchange for the same number of shares of Class A Common Stock tendered in the 2009 Exchange Offer. Upon consummation of the 2009 Exchange Offer, Revlon, Inc. initially recorded the Preferred Stock as a long-term liability at a fair value of $47.9 million, which was comprised of two components:

Liquidation Preference: Upon initial valuation of the Preferred Stock, the total amount to be paid by Revlon, Inc. at maturity is approximately $48.6 million, which represents the $5.21 liquidation preference for each of the 9,336,905 shares of Preferred Stock issued in the 2009 Exchange Offer (the Liquidation Preference). The Liquidation Preference was initially measured at fair value based on the yield to maturity of the $48.6 million Contributed Loan portion of the Senior Subordinated Term Loan adjusted for an estimated average subordination premium for subordinated note issues. The Liquidation Preference is subsequently measured at the present value of the amount to be paid at maturity, accruing interest cost using the rate implicit at the issuance date since both the amount to be paid and the maturity date are fixed.

Change of Control Amount: Holders of the Preferred Stock are entitled to receive upon a change of control transaction (as defined in the certificate of designation of the Preferred Stock) through October 8, 2012, a pro rata portion of the equity value received in such transaction, capped at an amount that would provide aggregate cash payments of $12.00 per share over the term of the Preferred Stock. If the equity value received in the change of control transaction is greater than or equal to $12.00 per share, then each holder of

Preferred Stock will be entitled to receive an amount equal to $12.00 minus the Liquidation Preference minus any paid and/or accrued and unpaid dividends on the Preferred Stock. If the per share equity value received in the change of control transaction is less than $12.00, then each holder of Preferred Stock is entitled to receive an amount equal to such per share equity value minus the Liquidation Preference minus any paid and/or accrued and unpaid dividends on the Preferred Stock. If the per share equity value received in the change of control transaction does not exceed the Liquidation Preference plus any paid and/or accrued and unpaid dividends, then each holder of the Preferred Stock is not entitled to an additional payment upon any such change of control transaction (the foregoing payments being the Change of Control Amount). The fair value of the Change of Control Amount of the Preferred Stock, which is deemed to be a Level 3 liability, is based on the Company s assessment of the likelihood of the occurrence of specified change of control transactions within three years of the consummation of the 2009 Exchange Offer. There was no change in the fair value of the Change of Control Amount from the initial valuation performed upon the October 2009 consummation of the 2009 Exchange Offer through June 30, 2012. If there is a change in the Company s assessment of the likelihood of the occurrence of a specified change of control transaction, the change could have a material impact on the Company s operating results and financial position.

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As of June 30, 2012, the fair values of the Company s financial liabilities not measured at fair value but for which disclosure of fair value is required, namely its long-term debt, including the current portion of long-term debt, and Preferred Stock, are categorized in the table below:

	Total	Level 1	Level 2	Level 3
Liabilities:				
Long-term debt, including current portion	$ 1,196.7	$ -	$ 1,196.7	$ -
Preferred Stock [(a)]	49.9	-	49.7	0.2
Total liabilities at fair value	$ 1,246.6	$ -	$ 1,246.4	$ 0.2

(a) The fair value of the Preferred Stock includes the fair value associated with the Change of Control Amount disclosed in the table above.
The fair value of the Company s long-term debt, including the current portion of long-term debt, and Preferred Stock is based on the quoted market prices for the same issues or on the current rates offered for debt of similar remaining maturities. The estimated fair value of such debt and Preferred Stock at June 30, 2012 was approximately $1,246.6 million, which was more than the carrying value of such debt and Preferred Stock at June 30, 2012 of $1,218.8 million. The estimated fair value of such debt and Preferred Stock at December 31, 2011 was approximately $1,240.6 million, which was more than the carrying value of such debt and Preferred Stock at December 31, 2011 of $1,221.8 million.

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

FINANCIAL INSTRUMENTS

10.FINANCIAL INSTRUMENTS

Products Corporation maintains standby and trade letters of credit for various corporate purposes under which Products Corporation is obligated, of which $10.3 million and $11.1 million (including amounts available under credit agreements in effect at that time) were maintained at June 30, 2012 and December 31, 2011, respectively. Included in these amounts is approximately $8.7 million and $9.1 million at June 30, 2012 and December 31, 2011, respectively, in standby letters of credit which support Products Corporation s self-insurance programs. The estimated liability under such programs is accrued by Products Corporation.

Derivative Financial Instruments

The Company uses derivative financial instruments, primarily FX Contracts intended for the purpose of managing foreign currency exchange risk by reducing the effects of fluctuations in foreign currency exchange rates on the Company s net cash flows.

The FX Contracts are entered into primarily to hedge the anticipated net cash flows resulting from inventory purchases and intercompany payments denominated in currencies other than the local currencies of the Company s foreign and domestic operations and generally have maturities of less than one year. The U.S. dollar notional amount of the FX Contracts outstanding at June 30, 2012 and December 31, 2011 was $44.1 million and $58.4 million, respectively.

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

Quantitative Information Derivative Financial Instruments

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

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

	Assets			Liabilities		
	Balance Sheet Classification	**June 30, 2012 Fair Value**	**December 31, 2011 Fair Value**	**Balance Sheet Classification**	**June 30, 2012 Fair Value**	**December 31, 2011 Fair Value**
Derivatives not designated as hedging instruments:						
FX Contracts[(a)]	Prepaid expenses and other	$ -	$ 0.2	Accrued expenses	$ 0.8	$ 0.8

(a) The fair values of the FX Contracts at June 30, 2012 and December 31, 2011 were determined by using observable market transactions of spot and forward rates at June 30, 2012 and December 31, 2011.

(b) Effects of Derivative Financial Instruments on Income for the three and six months ended June 30, 2012 and 2011:

	Amount of Gain (Loss) Recognized in Foreign Currency (Gains) Losses, Net			
	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2012	**2011**	**2012**	**2011**
Derivatives not designated as hedging instruments:				
FX Contracts	$ 0.5	$ (1.2)	$ (1.1)	$ (1.8)

11. INCOME TAXES

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

For the second quarter of 2012 and 2011, the Company recorded a provision for income taxes for continuing operations of $9.1 million and $2.6 million, respectively. The $6.5 million increase in the provision for income taxes was primarily attributable to increased pre-tax income, partially offset by the favorable resolution of tax matters in a foreign jurisdiction.

For the first six months of 2012 and 2011, the Company recorded a provision for income taxes for continuing operations of $20.1 million and $10.3 million, respectively. The $9.8 million increase in the provision for income taxes was primarily attributable to increased pre-tax income and certain favorable discrete items that benefited the first six months of 2011 that did not recur in 2012, partially offset by the favorable resolution of tax matters in a foreign jurisdiction.

The effective tax rate for the three and six months ended June 30, 2012 is higher than the federal statutory rate of 35% due principally to foreign and U.S. tax effects attributable to operations outside the U.S., including pre-tax losses in a number of jurisdictions outside the U.S. for which there is no tax benefit recognized in the period, foreign dividends and earnings taxable in the U.S. and the impact of certain non-deductible expenses, partially offset by the favorable resolution of tax matters in a foreign jurisdiction.

The Company remains subject to examination of its income tax returns in various jurisdictions including, without limitation, the U.S. (federal) and South Africa for tax years ended December 31, 2008 through December 31, 2010 and Australia for tax years ended December 31, 2007 through December 31, 2010.

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12. CONTINGENCIES

The Company is involved in various routine legal proceedings incident to the ordinary course of its business. The Company believes that the outcome of all pending legal proceedings in the aggregate is unlikely to have a material adverse effect on the Company s business, financial condition and/or its results of operations. However, in light of the uncertainties involved in legal proceedings generally, the ultimate outcome of a particular matter could be material to the Company s operating results for a particular period depending on, among other things, the size of the loss or the nature of the liability imposed and the level of the Company s income for that particular period.

As previously announced, on October 8, 2009, the Company consummated its voluntary exchange offer in which, among other things, Revlon, Inc. issued to stockholders who elected to exchange shares (other than MacAndrews & Forbes) 9,336,905 shares of its Preferred Stock in exchange for the same number of shares of Revlon, Inc. Class A Common Stock tendered in the Exchange Offer (the Exchange Offer). On April 24, 2009, May 1, 2009, May 5, 2009 and May 12, 2009, respectively, four purported class actions were filed by each of Vern Mercier, Arthur Jurkowitz, Suri Lefkowitz and T. Walter Heiser in the Court of Chancery of the State of Delaware (the Chancery Court). On May 4, 2009, a purported class action was filed by Stanley E. Sullivan in the Supreme Court of New York, New York County. Each such lawsuit was brought against Revlon, Inc., Revlon, Inc. s then directors and MacAndrews & Forbes, and challenged a merger proposal made by MacAndrews & Forbes on April 13, 2009, which would have resulted in MacAndrews & Forbes and certain of its affiliates owning 100% of Revlon, Inc. s outstanding Common Stock (in lieu of consummating such merger proposal, the Company consummated the aforementioned Exchange Offer). Each action sought, among other things, to enjoin the proposed merger transaction. On June 24, 2009, the Chancery Court consolidated the four Delaware actions (the Initial Consolidated Action), and appointed lead counsel for plaintiffs. As announced on August 10, 2009, an agreement in principle was reached to settle the Initial Consolidated Action, as set forth in a Memorandum of Understanding (as amended in September 2009, the Settlement Agreement).

On December 24, 2009, an amended complaint was filed in the Sullivan action alleging, among other things, that defendants should have disclosed in the Company s Offer to Exchange for the Exchange Offer information regarding the Company s financial results for the fiscal quarter ended September 30, 2009. On January 6, 2010, an amended complaint was filed by plaintiffs in the Initial Consolidated Action making allegations similar to those in the amended Sullivan complaint. Revlon initially believed that by filing the amended complaint, plaintiffs in the Initial Consolidated Action had formally repudiated the Settlement Agreement, and on January 8, 2010, defendants filed a motion to enforce the Settlement Agreement.

In addition to the amended complaints in the Initial Consolidated Action and the Sullivan action, on December 21, 2009, certain of Revlon, Inc. s current directors, a former director and MacAndrews & Forbes were named as defendants in a purported class action filed in the Chancery Court by Edward Gutman. Also on December 21, 2009, a second purported class action was filed in the Chancery Court against certain of Revlon, Inc. s current directors and a former director by Lawrence Corneck. The Gutman and Corneck actions make allegations similar to those in the amended complaints in the Sullivan action and the Initial Consolidated Action. On January 15, 2010, the Chancery Court consolidated the Gutman and Corneck actions with the Initial Consolidated Action (the Initial Consolidated Action, as consolidated with the Gutman and Corneck actions, is hereafter referred to as the Consolidated Action). A briefing schedule was then set to determine the leadership structure for plaintiffs in the Consolidated Action.

On March 16, 2010, after hearing oral argument on the leadership issue, the Chancery Court changed the leadership structure for plaintiffs in the Consolidated Action. Thereafter, newly appointed counsel for the plaintiffs in the Consolidated Action and the defendants agreed that the defendants would withdraw their motion to enforce the Settlement Agreement and that merits discovery would proceed. Defendants agreed not to withdraw any of the concessions that had been provided to the plaintiffs as part of the Settlement Agreement.

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On May 25, 2010, plaintiffs counsel in the Consolidated Action filed an amended complaint alleging breaches of fiduciary duties arising out of the Exchange Offer and that defendants should have disclosed in the Company s Offer to Exchange information regarding the Company s financial results for the fiscal quarter ended September 30, 2009. On January 10, 2012, plaintiffs counsel filed a motion for class certification. Briefing on that motion is not yet complete. Merits discovery is proceeding in the Consolidated Action.

On December 31, 2009, a purported class action was filed in the U.S. District Court for the District of Delaware by John Garofalo against Revlon, Inc., certain of Revlon, Inc. s current directors, a former director and MacAndrews & Forbes alleging federal and state law claims stemming from the alleged failure to disclose in the Offer to Exchange certain information relating to the Company s financial results for the fiscal quarter ended September 30, 2009. On July 29, 2011, the plaintiff in this action filed an amended complaint. On January 31, 2012, defendants filed motions to dismiss the amended complaint in the Garofalo action. On March 2, 2012, the plaintiff in the Garofalo action filed a response opposing defendants motions to dismiss, and a motion alternatively seeking leave to amend and file a second amended complaint. Briefing is now complete on the motions to dismiss and motion to amend and defendants have requested oral argument. Defendants previously reached an agreement with the plaintiff in the Garofalo action to permit the plaintiff to participate in merits discovery in the Consolidated Action, and have agreed to permit the plaintiff to continue to participate in the merits discovery while the motions to dismiss are pending. An agreement has also been reached with the plaintiff in the Sullivan action to stay proceedings in that action, including any response to the amended complaint, until December 21, 2012, so that the plaintiff can participate in the merits discovery in the Consolidated Action.

On May 11, 2010, a purported derivative action was filed in the U.S. District Court for the District of Delaware by Richard Smutek, derivatively and on behalf of Revlon, Inc. against Revlon, Inc. s then current directors and MacAndrews & Forbes alleging breach of fiduciary duty in allowing the Exchange Offer to proceed and failing to disclose in the Offer to Exchange certain information related to the Company s financial results for the fiscal quarter ended September 30, 2009. On August 16, 2010, defendants moved to dismiss the complaint. Briefing on defendants motions to dismiss was completed on December 10, 2010. Thereafter, the parties requested oral argument on the motions to dismiss. The motions to dismiss are currently pending. On September 27, 2010, plaintiff filed a motion to compel discovery. In response, defendants moved to strike plaintiff s motion to compel discovery or, in the alternative, for an extension of time for defendants to respond to plaintiff s motion. On October 17, 2011, the U.S. District Court for the District of Delaware denied plaintiff s motion to compel and granted defendants motion to strike.

Plaintiffs in each of these actions are seeking, among other things, an award of damages and the costs and disbursements of such actions, including a reasonable allowance for the fees and expenses of each such plaintiff s attorneys and experts. Because the Smutek action is styled as a derivative action on behalf of the Company, any award of damages, costs and disbursements would be made to and for the benefit of the Company.

Although the Company continues to dispute the allegations in the pending actions and believes them to be without merit, on June 21, 2012, without admitting any liability, Revlon, Inc., Revlon, Inc. s then directors and MacAndrews & Forbes (collectively, the Defendants) entered into a binding Memorandum of Understanding (MOU) with Fidelity Management & Research Company (FMR Co.) and its investment advisory affiliates, all of which are direct or indirect subsidiaries of FMR LLC (collectively, Fidelity), which through various funds and management agreements controlled the largest block of shares to participate in the Exchange Offer, to settle potential claims Fidelity could have as a potential member of the classes that plaintiffs seek to certify in the pending actions. The Company publicly disclosed the material terms of the MOU by filing a Current Report on Form 8-K with the SEC on June 21, 2012.

Fidelity executed the MOU on behalf of 6,111,879 shares (the Fidelity Controlled Shares) out of the 6,933,526 shares (the Fidelity Shares) of the Company s Class A Common Stock that Fidelity exchanged in the Exchange Offer, and pursuant to the terms of the MOU, the remaining 821,647 shares agreed on July 12, 2012, to participate in the settlement. As part of the settlement, Fidelity agreed, among other things, to accept a cash payment from Defendants of $22.5 million (the Fidelity Settlement Amount), which amount will be paid from insurance proceeds, in exchange for Fidelity s opting out with respect to the Fidelity Shares of any purported class action related to the Exchange Offer and Fidelity s release of all related potential claims. On July 20, 2012, Fidelity and the Defendants executed a final Stipulation and Settlement Agreement (the

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Stipulation) the terms of which are substantively identical to the terms of the MOU. The Stipulation supersedes the MOU. In addition, on July 17, 2012, the Defendants entered into a binding MOU with two additional stockholders who collectively exchanged 310,690 shares in the Exchange Offer, the terms of which are substantively identical to the settlement with Fidelity and call for the payment of $1 million, in the aggregate, to the two stockholders. The $1 million payment will also be paid from insurance proceeds.

The Company has recorded a charge and corresponding income from insurance proceeds related to the Company s estimated allocable portion of the Fidelity Settlement Amount and the additional $1 million payment, which resulted in no impact to the Company s Statement of Income for the period. There can be no assurance as to the amount, if any, of additional insurance proceeds that the Company may receive in connection with its defense or resolution of the pending actions. In any event, at least $5 million of future payments by the Defendants relating to these matters, including expenses, will not be covered by insurance.

The Defendants have also agreed with Fidelity and the two additional stockholders that, in the event a settlement is reached with the purported class plaintiffs, or an award of damages is issued following a trial in any of the pending actions, and that settlement amount or damage award exceeds the existing settlement amounts on a per share basis, the settling parties would each receive additional consideration subject to certain parameters.

The Company continues to believe the allegations in the pending actions are without merit but is engaged in discussions regarding settlement of the pending actions. The Company has recorded an additional charge of $6.7 million in the second quarter of 2012 with respect to the Company s estimated costs of resolving the pending litigations with the purported class plaintiffs, including the Company s estimate of any additional payment by it to the settling stockholders. This additional charge is included within selling, general and administrative expenses in the Company s Statements of Income and Comprehensive Income for the three and six months ended June 30, 2012.

The settlements with Fidelity and the two additional stockholders have no effect on the pending actions other than to eliminate them from any future certified class.

13. RELATED PARTY TRANSACTIONS

Reimbursement Agreements

As previously disclosed in the 2011 Form 10-K, Revlon, Inc., Products Corporation and MacAndrews & Forbes Inc. (a wholly-owned subsidiary of MacAndrews & Forbes Holdings) have entered into reimbursement agreements (the Reimbursement Agreements) pursuant to which (i) MacAndrews & Forbes Inc. is obligated to provide (directly or through its affiliates) certain professional and administrative services, including, without limitation, employees, to Revlon, Inc. and its subsidiaries, including, without limitation, Products Corporation, and to purchase services from third party providers, such as insurance, legal, accounting and air transportation services, on behalf of Revlon, Inc. and its subsidiaries, including Products Corporation, to the extent requested by Products Corporation, and (ii) Products Corporation is obligated to provide certain professional and administrative services, including, without limitation, employees, to MacAndrews & Forbes and to purchase services from third party providers, such as insurance, legal and accounting services, on behalf of MacAndrews & Forbes to the extent requested by MacAndrews & Forbes, provided that in each case the performance of such services does not cause an unreasonable burden to MacAndrews & Forbes or Products Corporation, as the case may be.

The Company reimburses MacAndrews & Forbes for the allocable costs of the services purchased for or provided by MacAndrews & Forbes to the Company and its subsidiaries and for the reasonable out-of-pocket expenses incurred by MacAndrews & Forbes in connection with the provision of such services. MacAndrews & Forbes reimburses Products Corporation for the allocable costs of the services purchased for or provided by Products Corporation to MacAndrews & Forbes and for the reasonable out-of-pocket expenses incurred in connection with the purchase or provision of such services. Each of the Company, on the one hand, and MacAndrews & Forbes Inc., on the other, has agreed to indemnify the other party for losses arising out of the services provided by it under the Reimbursement Agreements, other than losses resulting from its willful misconduct or gross negligence.

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The Reimbursement Agreements may be terminated by either party on 90 days notice. The Company does not intend to request services under the Reimbursement Agreements unless their costs would be at least as favorable to the Company as could be obtained from unaffiliated third parties.

The Company participates in MacAndrews & Forbes directors and officers liability insurance program (the D&O Insurance Program), as well as its other insurance coverages, such as property damage, business interruption, liability and other coverages, which cover the Company, as well as MacAndrews & Forbes and its subsidiaries. The limits of coverage for certain of the policies are available on an aggregate basis for losses to any or all of the participating companies and their respective directors and officers. The Company reimburses MacAndrews & Forbes from time to time for their allocable portion of the premiums for such coverage or the Company pays the insurers directly, which premiums the Company believes are more favorable than the premiums the Company would pay were it to secure stand-alone coverage. Any amounts paid by the Company directly to MacAndrews & Forbes in respect of premiums are included in the amounts paid under the Reimbursement Agreements. The net activity related to services provided and/or purchased under the Reimbursement Agreements during the six months ended June 30, 2012 was $0.8 million, which primarily includes a $14.6 million partial pre-payment made by the Company to MacAndrews & Forbes during the first quarter of 2012 for premiums related to the Company s allocable portion of the 5-year renewal of the D&O Insurance Program (for the period from January 31, 2012 through January 31, 2017), partially offset by $13.8 million of costs incurred by the Company that are reimbursable by MacAndrews & Forbes related to matters covered by the D&O Insurance Program. As of June 30, 2012, of the $13.8 million of costs reimbursable by MacAndrews & Forbes, a $12.6 million receivable was included within prepaid expenses and other in the Company s Consolidated Balance Sheets, substantially all of which has been paid in July 2012. The net activity related to services provided and/or purchased under the Reimbursement Agreements during the six months ended June 30, 2011 was $0.4 million.

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14. GUARANTOR FINANCIAL INFORMATION

Products Corporation s $9^3/_4$% Senior Secured Notes are fully and unconditionally guaranteed on a senior secured basis by Revlon, Inc. and Products Corporation s domestic subsidiaries (other than certain immaterial subsidiaries) that guarantee Products Corporation s obligations under its 2011 Credit Agreements (the Guarantor Subsidiaries).

The following Condensed Consolidating Financial Statements present the financial information as of June 30, 2012 and December 31, 2011, and for the three and six months ended June 30, 2012 and 2011 for (i) Products Corporation on a stand-alone basis; (ii) the Guarantor Subsidiaries on a stand-alone basis; (iii) the subsidiaries of Products Corporation that do not guarantee Products Corporation s $9^3/_4$% Senior Secured Notes (the Non-Guarantor Subsidiaries) on a stand-alone basis; and (iv) Products Corporation, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries on a consolidated basis. The Condensed Consolidating Financial Statements are presented on the equity method, under which the investments in subsidiaries are recorded at cost and adjusted for the applicable share of the subsidiary s cumulative results of operations, capital contributions, distributions and other equity changes. The principal elimination entries eliminate investments in subsidiaries and intercompany balances and transactions.

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Condensed Consolidating Balance Sheets

As of June 30, 2012

	Products Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	$ 45.7	$ -	$ 34.1	$ -	$ 79.8
Trade receivables, less allowances for doubtful accounts	87.8	20.1	96.6	-	204.5
Inventories	77.4	12.3	43.6	-	133.3
Deferred income taxes current	39.7	-	10.2	-	49.9
Prepaid expenses and other	94.4	4.8	25.8	-	125.0
Intercompany receivables	933.6	471.8	379.3	(1,784.7)	-
Investment in subsidiaries	(156.6)	(197.3)	-	353.9	-
Property, plant and equipment, net	85.3	0.8	12.4	-	98.5
Deferred income taxes noncurrent	194.4	-	13.2	-	207.6
Goodwill, net	150.6	42.2	1.8	-	194.6
Other assets	68.5	23.9	32.5	-	124.9
Total assets	$ 1,620.8	$ 378.6	$ 649.5	$ (1,430.8)	$ 1,218.1
LIABILITIES AND STOCKHOLDER S DEFICIENCY					
Short-term borrowings	$ -	$ 5.8	$ 2.7	$ -	$ 8.5
Current portion of long-term debt	11.4	-	-	-	11.4
Accounts payable	59.2	5.1	30.6	-	94.9
Accrued expenses and other	133.8	13.6	74.8	-	222.2
Intercompany payables	586.0	619.0	579.7	(1,784.7)	-
Long-term debt	1,158.9	-	-	-	1,158.9
Long-term debt affiliates	48.6	-	-	-	48.6
Other long-term liabilities	225.2	3.8	46.9	-	275.9
Total liabilities	2,223.1	647.3	734.7	(1,784.7)	1,820.4
Stockholder s deficiency	(602.3)	(268.7)	(85.2)	353.9	(602.3)
Total liabilities and stockholder s deficiency	$ 1,620.8	$ 378.6	$ 649.5	$ (1,430.8)	$ 1,218.1

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Condensed Consolidating Balance Sheets

As of December 31, 2011

	Products Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	$ 57.7	$ 0.1	$ 43.9	$ -	$ 101.7
Trade receivables, less allowances for doubtful accounts	107.1	18.2	86.7	-	212.0
Inventories	68.3	8.4	34.3	-	111.0
Deferred income taxes current	40.0	-	9.6	-	49.6
Prepaid expenses and other	78.3	4.2	25.1	-	107.6
Intercompany receivables	907.6	445.5	362.4	(1,715.5)	-
Investment in subsidiaries	(164.2)	(193.0)	-	357.2	-
Property, plant and equipment, net	85.2	0.9	12.8	-	98.9
Deferred income taxes noncurrent	206.9	-	14.5	-	221.4
Goodwill, net	150.6	42.2	1.9	-	194.7
Other assets	53.6	24.5	31.1	-	109.2
Total assets	$ 1,591.1	$ 351.0	$ 622.3	$ (1,358.3)	$ 1,206.1
LIABILITIES AND STOCKHOLDER S DEFICIENCY					
Short-term borrowings	$ -	$ 3.6	$ 2.3	$ -	$ 5.9
Current portion of long-term debt	8.0	-	-	-	8.0
Accounts payable	56.0	3.9	29.1	-	89.0
Accrued expenses and other	150.8	10.8	68.4	-	230.0
Intercompany payables	559.0	609.9	546.6	(1,715.5)	-
Long-term debt	1,107.0	-	-	-	1,107.0
Long-term debt affiliates	107.0	-	-	-	107.0
Other long-term liabilities	244.9	5.3	50.6	-	300.8
Total liabilities	2,232.7	633.5	697.0	(	