REVLON INC /DE/
Form 10-Q
May 07, 2015

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

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.) |
| One New York Plaza, New York, New York | 10004 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: 212-527-4000

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 ¨ (Do not check if a smaller reporting company) | 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 March 31, 2015, 52,440,580 shares of Class A Common Stock were outstanding. At such date, 40,669,640 shares of Class A Common Stock were beneficially owned by MacAndrews & Forbes Incorporated and certain of its affiliates.

REVLON, INC. AND SUBSIDIARIES
INDEX
PART I - Financial Information



PART II - Other Information

PART I - FINANCIAL INFORMATION
Item 1. Financial Statements

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

| | March 31, 2015 (Unaudited) | December 31, 2014 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $208.2 | $275.3 |
| Trade receivables, less allowance for doubtful accounts of $8.9 and $9.3 as of March 31, 2015 and December 31, 2014, respectively | 231.8 | 238.9 |
| Inventories | 176.4 | 156.6 |
| Deferred income taxes – current | 57.7 | 58.4 |
| Prepaid expenses and other | 61.4 | 44.6 |
| Total current assets | 735.5 | 773.8 |
| Property, plant and equipment, net of accumulated depreciation of $255.7 and $250.5 as of March 31, 2015 and December 31, 2014, respectively | 200.3 | 212.0 |
| Deferred income taxes – noncurrent | 52.3 | 53.1 |
| Goodwill | 457.3 | 464.1 |
| Intangible assets, net of accumulated amortization of $43.5 and $39.3 as of March 31, 2015 and December 31, 2014, respectively | 314.5 | 327.8 |
| Other assets | 113.8 | 113.3 |
| Total assets | $1,873.7 | $1,944.1 |
| | | |
| LIABILITIES AND STOCKHOLDERS’ DEFICIENCY | | |
| Current liabilities: | | |
| Short-term borrowings | $6.4 | $6.6 |
| Current portion of long-term debt | 6.9 | 31.5 |
| Accounts payable | 166.8 | 153.5 |
| Accrued expenses and other | 240.3 | 273.3 |
| Total current liabilities | 420.4 | 464.9 |
| Long-term debt | 1,830.9 | 1,832.4 |
| Long-term pension and other post-retirement plan liabilities | 196.7 | 200.9 |
| Other long-term liabilities | 84.6 | 90.0 |
| Stockholders’ deficiency: | | |
| Class A Common Stock, par value $0.01 per share; 900,000,000 shares authorized; 54,000,580 and 53,925,029 shares issued as of March 31, 2015 and December 31, 2014, respectively | 0.5 | 0.5 |
| Additional paid-in capital | 1,022.6 | 1,020.9 |
| Treasury stock, at cost: 834,612 and 777,181 shares of Class A Common Stock as of March 31, 2015 and December 31, 2014, respectively | (12.5) | (10.5) |
| Accumulated deficit | (1,412.7) | (1,411.8) |
| Accumulated other comprehensive loss | (256.8) | (243.2) |
| Total stockholders’ deficiency | (658.9) | (644.1) |
| Total liabilities and stockholders’ deficiency | $1,873.7 | $1,944.1 |

See Accompanying Notes to Unaudited Consolidated Financial Statements

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2015 | 2014 |
| Net sales | $438.5 | $469.8 |
| Cost of sales | 142.3 | 163.5 |
| Gross profit | 296.2 | 306.3 |
| Selling, general and administrative expenses | 249.3 | 246.2 |
| Acquisition and integration costs | 1.2 | 3.8 |
| Restructuring charges and other, net | 0.5 | 13.5 |
| Operating income | 45.2 | 42.8 |
| Other expenses, net: | | |
| Interest expense | 20.0 | 22.3 |
| Amortization of debt issuance costs | 1.4 | 1.4 |
| Loss on early extinguishment of debt | — | 1.9 |
| Foreign currency losses, net | 15.9 | 1.4 |
| Miscellaneous, net | — | 0.1 |
| Other expenses, net | 37.3 | 27.1 |
| Income from continuing operations before income taxes | 7.9 | 15.7 |
| Provision for income taxes | 8.7 | 7.0 |
| (Loss) income from continuing operations, net of taxes | (0.8) | 8.7 |
| Loss from discontinued operations, net of taxes | (0.1) | (3.2) |
| Net (loss) income | $(0.9) | $5.5 |
| | | |
| Other comprehensive (loss) income: | | |
| Currency translation adjustment, net of tax [a] | (13.4) | 1.6 |
| Amortization of pension related costs, net of tax [b][d] | 1.7 | 1.2 |
| Revaluation of derivative financial instruments, net of tax [c] | (1.9) | (1.0) |
| Other comprehensive (loss) income | (13.6) | 1.8 |
| Total comprehensive (loss) income | $(14.5) | $7.3 |
| | | |
| Basic (loss) earnings per common share: | | |
| Continuing operations | $(0.02) | $0.17 |
| Discontinued operations | — | (0.06) |
| Net (loss) income | $(0.02) | $0.11 |
| | | |
| Diluted (loss) earnings per common share: | | |
| Continuing operations | $(0.02) | $0.17 |
| Discontinued operations | — | (0.06) |
| Net (loss) income | $(0.02) | $0.11 |
| | | |
| Weighted average number of common shares outstanding: | | |
| Basic | 52,386,223 | 52,356,798 |
| Diluted | 52,386,223 | 52,367,944 |

(a) Net of tax (benefit) expense, of $(2.6) million and $0.5 million for the three months ended March 31, 2015 and 2014, respectively.

(b) Net of tax benefit of $0.3 million and nil for the three months ended March 31, 2015 and 2014, respectively.

(c) Net of tax benefit of $1.2 million and $0.6 million for the three months ended March 31, 2015 and 2014, respectively.

(d) This other comprehensive income component is included in the computation of net periodic benefit (income) costs. See Note 9, "Pension and Post-Retirement Benefits," for additional information regarding net periodic benefit (income) costs.

See Accompanying Notes to Unaudited Consolidated Financial Statements

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, 2015 | $0.5 | $ 1,020.9 | $(10.5) | $(1,411.8) | $ (243.2) | $(644.1) |
| Treasury stock acquired, at cost (a) | | | $(2.0) | | | (2.0) |
| Stock-based compensation amortization | | 1.6 | | | | 1.6 |
| Excess tax benefits from stock-based compensation | | 0.1 | | | | 0.1 |
| Net loss | | | | (0.9) | | (0.9) |
| Other comprehensive loss, net (b) | | | | | (13.6) | (13.6) |
| Balance, March 31, 2015 | $0.5 | $ 1,022.6 | $(12.5) | $(1,412.7) | $ (256.8) | $(658.9) |

(a) Pursuant to the share withholding provisions of the Fourth Amended and Restated Revlon, Inc. Stock Plan (the "Stock Plan"), certain senior executives, in lieu of paying certain withholding taxes on the vesting of restricted stock, authorized the withholding of an aggregate 57,431 shares of Revlon, Inc. Class A Common Stock during the three months ended March 31, 2015 to satisfy certain minimum statutory tax withholding requirements related to the vesting of such shares. These withheld shares were recorded as treasury stock using the cost method, at a weighted average price per share of $35.64 during the three months ended March 31, 2015, based on the closing price of Revlon, Inc. Class A Common Stock as reported on the NYSE consolidated tape on the vesting date, for a total of $2.0 million. See Note 15, "Stock Compensation Plan" to the Consolidated Financial Statements in Revlon, Inc.'s 2014 Form 10-K for details regarding awards of restricted stock under the Stock Plan.

(b) See Note 11, "Accumulated Other Comprehensive Loss," regarding the changes in the accumulated balances for each component of other comprehensive loss during the three months ended March 31, 2015.

See Accompanying Notes to Unaudited Consolidated Financial Statements

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2015 | 2014 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net (loss) income | $(0.9) | $5.5 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 25.6 | 24.8 |
| Foreign currency losses from re-measurement | 16.5 | 1.3 |
| Amortization of debt discount | 0.3 | 0.3 |
| Stock-based compensation amortization | 1.6 | 0.2 |
| Provision for deferred income taxes | 5.7 | 8.2 |
| Loss on early extinguishment of debt | — | 1.9 |
| Amortization of debt issuance costs | 1.4 | 1.4 |
| Gain on sale of certain assets | (3.0) | — |
| Pension and other post-retirement income | (0.6) | (1.3) |
| Change in assets and liabilities: | | |
| Increase in trade receivables | (0.9) | (12.9) |
| Increase in inventories | (23.4) | (13.7) |
| Increase in prepaid expenses and other current assets | (17.5) | (9.6) |
| Increase in accounts payable | 18.3 | 16.1 |
| Decrease in accrued expenses and other current liabilities | (27.4) | (38.9) |
| Pension and other post-retirement plan contributions | (2.5) | (6.3) |
| Purchases of permanent displays | (14.7) | (13.7) |
| Other, net | (4.1) | (8.8) |
| Net cash used in operating activities | (25.6) | (45.5) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures | (5.3) | (3.7) |
| Business acquisition | (4.2) | — |
| Proceeds from the sale of certain assets | 1.6 | 0.1 |
| Net cash used in investing activities | (7.9) | (3.6) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net increase in short-term borrowings and overdraft | 1.7 | 6.1 |
| Repayments under the Acquisition Term Loan | (14.2) | (1.8) |
| Prepayments under the 2011 Term Loan | (12.1) | — |
| Payment of financing costs | — | (1.6) |
| Other financing activities | (1.2) | (0.5) |
| Net cash (used in) provided by financing activities | (25.8) | 2.2 |
| Effect of exchange rate changes on cash and cash equivalents | (7.8) | (0.9) |
| Net decrease in cash and cash equivalents | (67.1) | (47.8) |
| Cash and cash equivalents at beginning of period | 275.3 | 244.1 |
| Cash and cash equivalents at end of period | $208.2 | $196.3 |
| Supplemental schedule of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | $26.9 | $29.5 |
| Income taxes, net of refunds | 3.9 | 4.9 |
| Supplemental schedule of non-cash investing and financing activities: | | |
| Treasury stock received to satisfy certain minimum tax withholding liabilities | $2.0 | $— |

See Accompanying Notes to Unaudited Consolidated Financial Statements

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 Incorporated (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 to establish Revlon as the quintessential and most innovative beauty company in the world by offering products that make consumers feel attractive and beautiful. We want to inspire our consumers to express themselves boldly and confidently. The Company operates in two segments, the consumer division (“Consumer”) and the professional division (“Professional”), and manufactures, markets and sells worldwide an extensive array of beauty and personal care products, including cosmetics, hair color, hair care and hair treatments, beauty tools, men's grooming products, anti-perspirant deodorants, fragrances, skincare and other beauty care products. The Company’s principal customers for its products in the Consumer segment include large mass volume retailers and chain drug and food stores (collectively, the “mass retail channel”) in the U.S. and internationally, as well as certain department stores and other specialty stores, such as perfumeries, outside the U.S. The Company's principal customers for its products in the Professional segment include hair and nail salons and distributors in the U.S. and internationally.

The accompanying Consolidated Financial Statements are unaudited. In management's opinion, all adjustments necessary for a fair presentation have been made. The 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 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 valuation of acquired intangible and long-lived assets and the recoverability of intangible and long-lived assets, income taxes, including deferred tax valuation allowances and reserves for estimated tax liabilities, restructuring costs, certain estimates and assumptions used in the calculation of the net periodic benefit (income) 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 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, 2014, filed with the U.S. Securities and Exchange Commission (the "SEC") on March 12, 2015 (the "2014 Form 10-K").

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

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

Impact of Foreign Currency Translation - Venezuela Currency

In January 2014, the Venezuela government announced that the CADIVI would be replaced by the government-operated National Center of Foreign Commerce (the "CENCOEX"), and indicated that the Sistema Complementario de Administración de Divisas (“SICAD”) market would continue to be offered as an alternative foreign currency exchange. Additionally, a parallel foreign currency exchange system, SICAD II, started functioning in March

2014 and allowed companies to apply for the purchase of foreign currency and foreign currency denominated securities for any legal use or purpose. Throughout 2014, the Company exchanged Bolivars for U.S. Dollars to the extent permitted through the various foreign currency markets available based on its ability to participate in those markets. Prior to June 30, 2014, the Company utilized the official rate of 6.3 Bolivars per U.S. Dollar (the "Official Rate") and following a consideration of the Company's specific facts and circumstances, which included its legal ability and intent to participate in the SICAD II exchange market to import finished goods into Venezuela, the Company determined that it was appropriate to utilize the SICAD II rate of 53 Bolivars per U.S. Dollar (the "SICAD II Rate") to translate Revlon Venezuela’s financial statements beginning on June 30, 2014. As a result, the Company recorded a foreign currency loss of $6.0 million in the second quarter of 2014 related to the required re-measurement of Revlon Venezuela’s monetary assets and liabilities.

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)

In February 2015, the Venezuela government introduced a new foreign currency exchange platform, the Marginal Currency System ("SIMADI"), which created a third new mechanism to trade dollars through private brokers. SIMADI replaced the SICAD II system and started operating on February 12, 2015. As of March 31, 2015 the SIMADI market had a rate of 193 Bolivars per U.S. Dollar (the "SIMADI Rate"). As a result, the Company considered its specific facts and circumstances in order to determine the appropriate rate of exchange to translate Revlon Venezuela's financial statements. As of March 31, 2015, the Company has not participated in the SIMADI exchange market; however, given the elimination of the SICAD II system, the Company determined that it was appropriate to use the SIMADI Rate to translate Revlon Venezuela's balance sheet as of March 31, 2015.

As a result of the change from the SICAD II Rate to the SIMADI Rate on March 31, 2015, the Company was required to re-measure all of Revlon Venezuela's monetary assets and liabilities at the SIMADI Rate of 193 Bolivars per U.S. Dollar. The Company recorded a foreign currency loss of $1.9 million in the first quarter of 2015 as a result of the required re-measurement of Revlon Venezuela's balance sheet. As Venezuela was designated as a highly inflationary economy effective January 1, 2010, the Company has reflected this foreign currency loss in earnings.

Recently Adopted Accounting Pronouncements

In April 2014, the FASB issued ASU No. 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity," which changes the requirements for reporting discontinued operations under Accounting Standards Codification Topic 205. Under ASU No. 2014-08, a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results. The standard states that a strategic shift could include a disposal of (i) a major geographical area of operations; (ii) a major line of business; (iii) a major equity method investment; or (iv) other major parts of an entity. ASU No. 2014-08 no longer precludes presentation as a discontinued operation if (i) there are operations and cash flows of the component that have not been eliminated from the reporting entity's ongoing operations or (ii) there is significant continuing involvement with a component after its disposal. Additional disclosures about discontinued operations will also be required. The guidance is effective for annual periods beginning on or after December 15, 2014, and is to be applied prospectively to new disposals and new classifications of disposal groups as held for sale after the effective date. The Company adopted ASU No. 2014-08 on a prospective basis beginning on January 1, 2015, and such adoption did not have an impact on the Company's results of operations, financial condition or financial statement disclosures.

Recently Issued Accounting Pronouncements

In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs," which amends the presentation of debt issuance costs by requiring debt issuance costs to be presented as a deduction from the corresponding debt liability, consistent with the presentation of debt discounts in the financial statements. The guidance is effective for annual periods beginning after December 15, 2015, with early adoption permitted, and is to be applied retrospectively. The Company expects to adopt ASU No. 2015-03 beginning on January 1, 2016 and the adoption of the new guidance is not expected to have a material impact on the Company's results of operations, financial condition and financial statement disclosures.

2. RESTRUCTURING CHARGES

Integration Program

Following Products Corporation's October 2013 acquisition of The Colomer Group Participations, S.L. ("Colomer" and the "Colomer Acquisition") on October 9, 2013, the Company announced in January 2014 that it was implementing actions to integrate Colomer's operations into the Company's business, as well as additional restructuring actions identified to reduce costs across the Company's businesses (all such actions, together, the "Integration Program"). The Company expects to recognize total restructuring charges, capital expenditures and related non-restructuring costs under the Integration Program of approximately $50 million in the aggregate over the periods described below.

The Integration Program is designed to deliver cost reductions throughout the combined organization by generating synergies and operating efficiencies within the Company's global supply chain and consolidating offices and back office support, and other actions designed to reduce selling, general and administrative ("SG&A") expenses. Certain actions that are part of the Integration Program are subject to consultations with employees, works councils or unions and governmental authorities. The Company expects to substantially complete the Integration Program by the end of 2015.

The approximately $50 million of total expected non-restructuring costs, capital expenditures and restructuring charges under the Integration Program referred to above consist of the following:

1. $0.5 million and $18.4 million of non-restructuring integration costs recognized during the three months ended March 31, 2015, and through December 31, 2014, respectively. Such costs have been reflected within acquisition and integration costs in the Company's Consolidated Statements of Operations and Comprehensive (Loss) Income and are related to combining Colomer's operations into the Company's business;
2. Expected integration-related capital expenditures of approximately $7 million, of which $0.5 million and $4.4 million has been paid during the three months ended March 31, 2015 and during 2014, respectively, with the remaining balance expected to be paid during the remainder of 2015; and
3. Expected total restructuring and related charges of approximately $25 million, of which $0.1 million and $20.1 million was recognized during the three months ended March 31, 2015 and during 2014, respectively, with the remaining charges expected to be recognized during the remainder of 2015. A summary of the restructuring and related charges for the Integration Program incurred through March 31, 2015 and those expected to be incurred during the remainder of 2015, are as follows:

| | Restructuring Charges and Other, Net | | | | | |
|---|---|---|---|---|---|---|
| | Employee Severance and Other Personnel Benefits | Other | Total Restructuring Charges | Inventory Write-offs and Other Manufacturing-Related Costs (a) | Other Charges (b) | Total Restructuring and Related Charges |
| Charges incurred through December 31, 2014 | $17.3 | $1.6 | $ 18.9 | $ 0.6 | $0.6 | $ 20.1 |
| Charges incurred in the three months ended March 31, 2015 | $(0.1) | $— | $ (0.1) | $ 0.1 | $0.1 | $ 0.1 |
| Cumulative charges incurred through March 31, 2015 | $17.2 | $1.6 | $ 18.8 | $ 0.7 | $0.7 | $ 20.2 |
| Total expected charges | $18.0 | $3.0 | $ 21.0 | $ 2.5 | $1.5 | $ 25.0 |

(a) Inventory write-offs and other manufacturing-related costs are recorded within cost of sales within the Company's Consolidated Statements of Operations and Comprehensive (Loss) Income.

(b) Other charges are recorded within SG&A expenses within the Company's Consolidated Statements of Operations and Comprehensive (Loss) Income.

The $0.1 million of restructuring and related charges recognized in connection with the Integration Program during the first quarter of 2015 is related to the Professional segment. During the first quarter of 2014, the Company recorded charges related to the Integration Program of $13.6 million, of which $5.9 million related to the Consumer segment and $7.7 million related to the Professional segment.

The Company expects that cash payments related to the restructuring and related charges in connection with the Integration Program will total approximately $24 million, of which $2.4 million was paid during the three months ended March 31, 2015, and $9.6 million was paid during 2014. The remaining balance of $12.0 million is expected to be paid during the remainder of 2015.

December 2013 Program

In December 2013, the Company announced restructuring actions that included exiting its business operations in China, as well as implementing other immaterial restructuring actions outside the U.S., which are expected to generate other operating efficiencies (the "December 2013 Program"). These restructuring actions resulted in the Company

eliminating approximately 1,100 positions in 2014, primarily in China, which included eliminating in the first quarter of 2014 approximately 940 beauty advisors retained indirectly through a third-party agency. The charges incurred for the December 2013 Program relate entirely to the Consumer segment.
A summary of the restructuring and related charges incurred through March 31, 2015 in connection with the December 2013 Program is presented in the following table:

| | Restructuring Charges and Other, Net | | | | | | |
|---|---|---|---|---|---|---|---|
| | Employee Severance and Other Personnel Benefits | Other | Total Restructuring Charges | Allowances and Returns | Inventory Write-offs | Other Charges | Total Restructuring and Related Charges |
| Cumulative charges incurred through December 31, 2014 | $8.6 | $0.3 | $ 8.9 | $ 6.5 | $ 3.1 | $ 0.4 | $ 18.9 |
| Total expected charges | $8.6 | $0.3 | $ 8.9 | $ 6.5 | $ 3.1 | $ 0.4 | $ 18.9 |

The Company expects net cash payments related to the December 2013 Program to total approximately $17 million, of which $15.5 million was paid during 2014, and $0.1 million was paid in 2013. No charges were incurred during the first quarter of 2015 related to the December 2013 program. The remaining balance of $1.4 million is expected to be paid during the remainder of 2015.
Restructuring Reserve
The related liability balance and activity for each of the Company's restructuring programs as summarized above are presented as follows:

| | | | | Utilized, Net | | |
|---|---|---|---|---|---|---|
| | Balance Beginning of Year | (Income) Expense, Net | Foreign Currency Translation | Cash | Non-cash | Balance End of Year |
| Integration Program: | | | | | | |
| Employee severance and other personnel benefits | $9.6 | $(0.1 ) | $ (0.2 ) | $(2.2 ) | $— | $7.1 |
| Other | 0.1 | — | — | — | — | 0.1 |
| December 2013 Program: | | | | | | |
| Employee severance and other personnel benefits | 1.2 | — | — | — | — | 1.2 |
| Other | — | — | — | — | — | — |
| Other immaterial actions: [a] | | | | | | |
| Employee severance and other personnel benefits | 3.1 | 0.5 | — | (1.2 ) | — | 2.4 |
| Other | — | 0.1 | — | — | — | 0.1 |
| Total restructuring reserve | $14.0 | $0.5 | $ (0.2 ) | $(3.4 ) | $— | $10.9 |

[a] Other immaterial actions primarily include liabilities for employee-related costs within both the Consumer and Professional segments related to immaterial restructuring actions.

As of March 31, 2015, $10.8 million of the restructuring reserve balance was included within accrued expenses and other and $0.1 million was included within other long-term liabilities in the Company's Consolidated Balance Sheet. As of December 31, 2014, $13.7 million of the restructuring reserve balance was included within accrued expenses and other and $0.3 million was included within other long-term liabilities in the Company's Consolidated Balance Sheet.

3. DISCONTINUED OPERATIONS

On December 30, 2013, the Company announced that it was implementing restructuring actions which included exiting its business operations in China (refer to Note 2, "Restructuring Charges - December 2013 Program"). The results of the China discontinued operations are included within loss from discontinued operations, net of taxes, and relate to the Consumer segment. The summary comparative financial results of discontinued operations are as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2015 | 2014 |
| Net sales | $— | $0.4 |
| Loss from discontinued operations, before taxes | (0.1) | (2.8) |
| Provision for income taxes | — | 0.4 |
| Loss from discontinued operations, net of taxes | (0.1) | (3.2) |

7

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)

Assets and liabilities of the China discontinued operations included in the Consolidated Balance Sheets consist of the following:

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| Cash and cash equivalents | $2.0 | $2.4 |
| Trade receivables, net | 0.2 | 0.2 |
| Total current assets | 2.2 | 2.6 |
| Total assets | $2.2 | $2.6 |
| | | |
| Accounts payable | $0.2 | $0.2 |
| Accrued expenses and other | 3.8 | 3.9 |
| Total current liabilities | 4.0 | 4.1 |
| Total liabilities | $4.0 | $4.1 |

4. INVENTORIES

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| Raw materials and supplies | $56.0 | $47.2 |
| Work-in-process | 9.8 | 9.0 |
| Finished goods | 110.6 | 100.4 |
| | $176.4 | $156.6 |

5. ACCRUED EXPENSES AND OTHER

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| Sales returns and allowances | $56.9 | $70.6 |
| Compensation and related benefits | 46.5 | 66.8 |
| Advertising and promotional costs | 51.5 | 44.9 |
| Taxes | 23.2 | 23.4 |
| Interest | 3.8 | 11.0 |
| Restructuring reserve | 10.8 | 13.7 |
| Other | 47.6 | 42.9 |
| | $240.3 | $273.3 |

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)

6. LONG-TERM DEBT

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| Amended Term Loan Facility: Acquisition Term Loan due 2019, net of discounts [a] | $677.5 | $691.6 |
| Amended Term Loan Facility: 2011 Term Loan due 2017, net of discounts [a] | 659.7 | 671.6 |
| Amended Revolving Credit Facility [b] | — | — |
| 5¾% Senior Notes due 2021 [c] | 500.0 | 500.0 |
| Spanish Government Loan due 2025 [d] | 0.6 | 0.7 |
| | 1,837.8 | 1,863.9 |
| Less current portion (*) | (6.9) | (31.5) |
| | $1,830.9 | $1,832.4 |

(*) At December 31, 2014, the Company classified $31.5 million of long-term debt as a current liability, which was primarily comprised of a $24.6 million required “excess cash flow” prepayment (as defined under Amended Term Loan Agreement, as hereinafter defined) which was paid on March 12, 2015 and the Company’s regularly scheduled $1.7 million quarterly principal amortization payments (after giving effect to such prepayment) due in 2015.
[a] See Note 11, "Long-Term Debt," to the Consolidated Financial Statements in Revlon, Inc.'s 2014 Form 10-K for certain details regarding Products Corporation's amended term loan agreement, which facility is comprised of (i) the $675.0 million term loan due November 19, 2017 (the "2011 Term Loan") and (ii) the $700.0 million term loan due October 8, 2019 (the "Acquisition Term Loan") which had $1,341.7 million in aggregate principal balance outstanding at March 31, 2015 (together, the "Amended Term Loan Agreement").
[b] See Note 11, "Long-Term Debt," to the Consolidated Financial Statements in Revlon, Inc.'s 2014 Form 10-K for certain details regarding Products Corporation's existing $175.0 million asset-based, multi-currency revolving credit facility (the "Amended Revolving Credit Facility").
[c] See Note 11, "Long-Term Debt," to the Consolidated Financial Statements in Revlon, Inc.'s 2014 Form 10-K for certain details regarding Products Corporation's 5¾% Senior Notes that mature on February 15, 2021.
[d] See Note 11, "Long-Term Debt," to the Consolidated Financial Statements in Revlon, Inc.'s 2014 Form 10-K for certain details regarding the euro-denominated loan payable to the Spanish government which matures on June 30, 2025.

2015 Debt Related Transaction
Amended Term Loan Facility - Excess Cash Flow Payment
On March 12, 2015, in accordance with the terms of the Amended Term Loan Facility, Products Corporation prepaid $24.6 million of indebtedness, representing 50% of its 2014 “excess cash flow” as defined under the Amended Term Loan Agreement. The prepayment was applied on a ratable basis between the principal amounts outstanding under 2011 Term Loan and the Acquisition Term Loan. The amount of the prepayment applied to the 2011 Term Loan reduced the principal amount outstanding by $12.1 million to $662.9 million (as all amortization payments under the 2011 Term Loan have been paid). The $12.5 million applied to the Acquisition Term Loan reduced Products Corporation's future regularly scheduled quarterly amortization payments under the Acquisition Term Loan on a ratable basis from $1.8 million prior to the prepayment to $1.7 million after giving effect to the prepayment and through its maturity on October 8, 2019.
Covenants
Products Corporation was in compliance with all applicable covenants under the Amended Term Loan Agreement and the Amended Revolving Credit Facility as of March 31, 2015. At March 31, 2015, the aggregate principal amounts

outstanding under the Acquisition Term Loan and the 2011 Term Loan were $678.8 million and $662.9 million, respectively, and availability under the $175.0 million Amended Revolving Credit Facility, based upon the calculated borrowing base less $8.8 million of outstanding undrawn letters of credit and nil then drawn on the Amended Revolving Credit Facility, was $166.2 million.
Products Corporation was in compliance with all applicable covenants under its 5¾% Senior Notes Indenture as of March 31, 2015 and December 31, 2014.



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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)

## 7. 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 March 31, 2015, the fair values of the Company's financial assets and liabilities that are required to be measured at fair value are categorized in the table below:

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Assets: | | | | |
| Derivatives: | | | | |
| FX Contracts[(a)] | $0.5 | $— | $0.5 | $— |
| Total assets at fair value | $0.5 | $— | $0.5 | $— |
| Liabilities: | | | | |
| Derivatives: | | | | |
| 2013 Interest Rate Swap[(b)] | 6.6 | — | 6.6 | — |
| Total liabilities at fair value | $6.6 | $— | $6.6 | $— |

As of December 31, 2014, the fair values of the Company's financial assets and liabilities that are required to be measured at fair value 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: | | | | |
| 2013 Interest Rate Swap[(b)] | $3.5 | $— | $3.5 | $— |
| Total liabilities at fair value | $3.5 | $— | $3.5 | $— |

(a) The fair value of the Company's foreign currency forward exchange contracts ("FX Contracts") was measured based on observable market transactions for similar transactions in actively quoted markets of spot and forward rates on the respective dates. See Note 8, "Financial Instruments."

(b)

The fair value of the Company's 2013 Interest Rate Swap was measured based on the implied forward rates from the U.S. Dollar three-month LIBOR yield curve on the respective dates. See Note 8, “Financial Instruments.”

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)

As of March 31, 2015, the fair values and carrying values of the Company's long-term debt, including the current portion of long-term debt, are categorized in the table below:

| | Fair Value | | | | |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | Carrying Value |
| Liabilities: | | | | | |
| Long-term debt, including current portion | $— | $1,856.5 | $— | $1,856.5 | $1,837.8 |

As of December 31, 2014, the fair values and carrying values of the Company's long-term debt, including the current portion of long-term debt, are categorized in the table below:

| | Fair Value | | | | |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | Carrying Value |
| Liabilities: | | | | | |
| Long-term debt, including current portion | $— | $1,844.0 | $— | $1,844.0 | $1,863.9 |

The fair value of the Company's long-term debt, including the current portion of long-term debt, is based on the quoted market prices for the same issues.

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

## 8. FINANCIAL INSTRUMENTS

Products Corporation maintains standby and trade letters of credit for various corporate purposes under which Products Corporation is obligated, of which $8.8 million and $9.0 million (including amounts available under credit agreements in effect at that time) were maintained at March 31, 2015 and December 31, 2014, respectively. Included in these amounts are approximately $7.5 million and $7.7 million at March 31, 2015 and December 31, 2014, 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 (i) FX Contracts, intended for the purpose of managing foreign currency exchange risk by reducing the effects of fluctuations in foreign currency exchange rates on the Company's net cash flows, and (ii) interest rate hedging transactions, such as the 2013 Interest Rate Swap, intended for the purpose of managing interest rate risk associated with Products Corporation's variable rate indebtedness.

### Foreign Currency Forward Exchange Contracts

The FX Contracts are entered into primarily to hedge the anticipated net cash flows resulting from inventory purchases and intercompany payments denominated in currencies other than the local currencies of the Company's foreign and domestic operations and generally have maturities of less than one year.

The U.S. Dollar notional amount of the FX Contracts outstanding at March 31, 2015 and December 31, 2014 was $30.6 million and $7.6 million, respectively.

### Interest Rate Swap Transaction

In November 2013, Products Corporation executed a forward-starting floating-to-fixed interest rate swap transaction with a 1.00% floor, based on a notional amount of $400 million in respect of indebtedness under the Acquisition Term Loan over a period of three years (the "2013 Interest Rate Swap".) The Company designated the 2013 Interest Rate Swap as a cash flow hedge of the variability of the forecasted three-month LIBOR interest rate payments related to its Acquisition Term Loan with respect to the $400 million notional amount over the three-year term of the 2013 Interest Rate Swap. Under the terms of the 2013 Interest Rate Swap, Products Corporation will receive from the counterparty a floating interest rate based on the higher of three-month USD LIBOR or 1.00% commencing in May 2015, while paying a fixed interest rate payment to the counterparty equal to 2.0709% (which effectively fixes the interest rate on such notional amount at 5.0709% over the three-year term of the 2013 Interest Rate Swap). For the three months ended March 31, 2015, the 2013 Interest Rate Swap was deemed effective and therefore the changes in fair value related to the 2013 Interest Rate Swap have been recorded in Other Comprehensive Loss. As of March 31, 2015, the balance of deferred net losses on derivatives included in accumulated other comprehensive loss was $4.1 million after-tax.

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)

(See "Quantitative Information – Derivative Financial Instruments" below). The Company expects that $2.0 million of the after-tax deferred net losses related to the 2013 Interest Rate Swap will be reclassified into earnings over the next 12 months as a result of transactions that are expected to occur over that period. The amount ultimately realized in earnings may differ as LIBOR is subject to change. Realized gains and losses are ultimately determined by actual rates at maturity of the derivative.

Credit Risk

Exposure to credit risk in the event of nonperformance by any of the counterparties is limited to the gross fair value of the derivative instruments in asset positions, which totaled $0.5 million and $0.2 million as of March 31, 2015 and December 31, 2014, respectively. The Company attempts to minimize exposure to credit risk by generally entering into derivative contracts with counterparties that have investment-grade credit ratings and are major financial institutions. The Company also periodically monitors any changes in the credit ratings of its counterparties. Given the current credit standing of the Company's counterparties to its derivative instruments, the Company believes the risk of loss under these derivative instruments arising from any non-performance by any of the counterparties is remote.

Quantitative Information – Derivative Financial Instruments

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

(a) Fair Values of Derivative Financial Instruments in Consolidated Balance Sheets:

| | Fair Values of Derivative Instruments | | | | | |
|---|---|---|---|---|---|---|
| | Assets | | | Liabilities | | |
| | Balance Sheet Classification | March 31, 2015 Fair Value | December 31, 2014 Fair Value | Balance Sheet Classification | March 31, 2015 Fair Value | December 31, 2014 Fair Value |
| Derivatives designated as hedging instruments: | | | | | | |
| 2013 Interest Rate Swap[(i)] | Prepaid expenses and other | $— | $— | Accrued expenses and other | $3.2 | $2.1 |
| | Other assets | — | — | Other long-term liabilities | 3.4 | 1.4 |
| Derivatives not designated as hedging instruments: | | | | | | |
| FX Contracts[(ii)] | Prepaid expenses and other | $0.5 | $0.2 | Accrued Expenses | $— | $— |

(i) The fair values of the 2013 Interest Rate Swap at March 31, 2015 and December 31, 2014 were measured based on the implied forward rates from the U.S. Dollar three-month LIBOR yield curve at March 31, 2015 and December 31, 2014, respectively.

(ii) The fair values of the FX Contracts at March 31, 2015 and December 31, 2014 were measured based on observable market transactions of spot and forward rates at March 31, 2015 and December 31, 2014, respectively.

(b) Effects of Derivative Financial Instruments on the Consolidated Statements of Operations and Comprehensive (Loss) Income for the three months ended March 31, 2015 and 2014:

Amount of Gain (Loss) Recognized in Other Comprehensive (Loss) Income

| | Three Months Ended March 31, | |
|---|---|---|
| | 2015 | 2014 |
| Derivatives designated as hedging instruments: | | |
| 2013 Interest Rate Swap, net of tax [a] | $(1.9) | $(1.0) |

[a] Net of tax benefit of $1.2 million and $0.6 million for each of 2015 and 2014, respectively.

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)

| | Income Statement Classification | Amount of Gain (Loss) Recognized in Net Income Three Months Ended March 31, 2015 | 2014 |
|---|---|---|---|
| Derivatives not designated as hedging instruments: | | | |
| FX Contracts | Foreign currency gain (loss), net | $0.5 | $(0.1) |

9. PENSION AND POST-RETIREMENT BENEFITS

The components of net periodic benefit (income) costs for the Company's pension and the other post-retirement benefit plans for the first quarter of 2015 and 2014 are as follows:

| | Pension Plans | | Other Post-Retirement Benefit Plans | |
|---|---|---|---|---|
| | Three Months Ended March 31, | | | |
| | 2015 | 2014 | 2015 | 2014 |
| Net periodic benefit (income) costs: | | | | |
| Service cost | $0.2 | $0.2 | $— | $— |
| Interest cost | 7.2 | 7.5 | 0.1 | 0.2 |
| Expected return on plan assets | (10.1) | (10.4) | — | — |
| Amortization of actuarial loss | 2.0 | 1.2 | — | — |
| | (0.7) | (1.5) | 0.1 | 0.2 |
| Portion allocated to Revlon Holdings | — | — | — | — |
| | $(0.7) | $(1.5) | $0.1 | $0.2 |

In the three months ended March 31, 2015, the Company recognized net periodic benefit income of $(0.6) million, as compared to $(1.3) million in the three months ended March 31, 2014, primarily due to higher amortization of actuarial losses.

Net periodic benefit (income) costs are reflected in the Company's Consolidated Financial Statements as follows:

| | Three Months Ended March 31, 2015 | 2014 |
|---|---|---|
| Net periodic benefit (income) costs: | | |
| Cost of sales | $(1.0) | $(0.7) |
| Selling, general and administrative expense | 0.4 | (0.2) |
| Inventories | — | (0.4) |
| | $(0.6) | $(1.3) |

The Company expects that it will have net periodic benefit income of approximately $(2.4) million for its pension and other post-retirement benefit plans for all of 2015, compared with net periodic benefit income of $(5.4) million in 2014.

During the first quarter of 2015, $2.4 million and $0.1 million were contributed to the Company's pension plans and other post-retirement benefit plans, respectively. The Company currently expects to contribute approximately $20 million in the aggregate to its pension and other post-retirement benefit plans in 2015.

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 Note 14, "Savings Plan, Pension and Post-Retirement Benefits," to the Consolidated Financial Statements in Revlon, Inc.'s 2014 Form 10-K.

13

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)

## 10. 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 carryforwards, foreign earnings taxable in the U.S., non-deductible 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 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 first quarter of 2015 and 2014, the Company recorded a provision for income taxes of $8.7 million and $7.0 million, respectively. The $1.7 million increase in the provision for income taxes was primarily attributable to certain discrete items that favorably affected the provision for income taxes in the first quarter of 2014, which did not recur in the first quarter of 2015, partially offset by lower pretax income in the first quarter of 2015.

The Company's effective tax rate for the three months ended March 31, 2015 was higher than the federal statutory rate of 35% due principally to foreign and U.S. tax effects attributable to operations outside the U.S., primarily the timing of pre-tax losses in a number of jurisdictions outside of the U.S. for which there was no tax benefit recognized in the first quarter of 2015.

The Company remains subject to examination of its income tax returns in various jurisdictions including, without limitation, Australia, Canada and Spain, for tax years ended December 31, 2010 through December 31, 2013 and the U.S. (federal) and South Africa for tax years ended December 31, 2011 through December 31, 2013.

## 11. ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of accumulated other comprehensive loss as of March 31, 2015 are as follows:

| | Foreign Currency Translation | Actuarial (Loss) Gain on Post-retirement Benefits | Deferred Gain (Loss) - Hedging | Other | Accumulated Other Comprehensive Loss |
|---|---|---|---|---|---|
| Balance at January 1, 2015 | $(5.4) | $ (235.3) | $(2.2) | $(0.3) | $(243.2) |
| Currency translation adjustment, net of tax benefit of $2.6 million | $(13.4) | | | | (13.4) |
| Amortization of pension related costs, net of tax benefit of $0.3 million[(a)] | | $ 1.7 | | | 1.7 |
| Revaluation of derivative financial instrument, net of tax benefit of $1.2 million[(b)] | | | | | |