REVLON INC /DE/
Form 10-K/A
April 13, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

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

For the fiscal year ended December 31, 2004

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

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

Securities registered pursuant to Section 12(b) or 12(g) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common Stock	New York Stock Exchange

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).
Yes No

As of December 31, 2004, 338,867,944 shares of Class A Common Stock and 31,250,000 shares of Class B Common Stock were outstanding. 20,819,333 shares of Class A Common Stock 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., and 169,291,308 shares of Class A Common Stock were beneficially owned by MacAndrews & Forbes Holdings Inc. and its affiliates. The aggregate market value of the registrant's Class A Common Stock held by non-affiliates (using the New York Stock Exchange closing price as of June 30, 2004, the last business day of the registrant's most recently completed second fiscal quarter) was approximately $438,834,044.

Explanatory Note:

Revlon, Inc. is filing Amendment No. 1 to its Annual Report on Form 10-K for the year ended December 31, 2004 filed with the Securites and Exchange Commission (the "SEC" or the "Commission") on March 10, 2005 to amend such report for the following reasons:

Revlon, Inc. previously disclosed in its Annual Report on Form 10-K for the year ended December 31, 2004, which it filed with the SEC on March 10, 2005, that it intended to include the required reports and attestations concerning its internal control over financial reporting required under Section 404 of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") and the related SEC rules and regulations in an amendment to its Annual Report on Form 10-K in accordance with the SEC's exemptive order in SEC Release No. 50754, which provided qualified issuers with a 45-day extension for filing these reports and attestations. Revlon, Inc. has recently completed its analysis, documentation and testing of its system of internal control over financial reporting and has prepared its report on the effectiveness of its internal control over financial reporting, and Revlon, Inc.'s independent registered public accounting firm, KPMG LLP, has completed its audit and report on management's assessment of its internal control over financial reporting, each of which are required to be included in Revlon, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2004 under Section 404 of Sarbanes-Oxley and the SEC's related rules and regulations. Accordingly, Revlon, Inc. is filing this Annual Report on Form 10-K/A to include such reports and attestations.

Revlon, Inc. also disclosed in its Annual Report on Form 10-K for the year ended December 31, 2004 that its wholly-owned subsidiary, Revlon Consumer Products Corporation ("Products Corporation"), intended to complete in the first quarter of 2005 a refinancing of its 8 1/8% Senior Notes due 2006 and its 9% Senior Notes due 2006. As previously announced on March 16, 2005, Products Corporation completed an offering of $310 million aggregate principal amount of 9½% Senior Notes due 2011 and used the proceeds to, among other things, defease all of the $116.2 million aggregate principal amount outstanding of its 8 1/8% Senior Notes and all of the $75.5 million aggregate principal amount outstanding of its 9% Senior Notes, each of which will be redeemed on April 15, 2005, and also prepaid $100 million of the term loan facility under its 2004 credit agreement (together, the "2005 Refinancing Transactions"). Accordingly, this Annual Report on Form 10-K/A amends certain information regarding the consummation of the 2005 Refinancing Transactions.

Based on the foregoing, the following items were amended:

- "Part II – Item 9A – Controls and Procedures" has been amended in this Form 10-K/A to include Management's Annual Report on Internal Control over Financial Reporting and related conforming changes have been made in this Form 10-K/A in "Part II—Forward Looking Statements", "Part III, Item 14—Principal Accountant Fees and Services" and "Exhibits 31.1 and 31.2—Certifications".
- Additionally, the report of Revlon, Inc.'s independent registered public accounting firm, KPMG LLP, attesting on management's report on the effectiveness of internal control over financial reporting, has been added to this Form 10-K/A in the financial statements at page F-3.
- Further, as the 2005 Refinancing Transactions were in fact consummated in the interim period between the March 10, 2005 filing of the Company's original Annual Report on Form 10-K for the fiscal year ended December 31, 2004 and the filing of this amendment to such Form 10-K, the following sections have been amended in this Form 10-K/A to reflect the consummation of the 2005 Refinancing Transactions: "Part I, Item 1. – Business—Recent Developments", "Note 20 to the Consolidated Financial Statements—Subsequent Events" and "Part IV, Item 15.—Exhibits and Financial Statement Schedules". "Note 9 to the Consolidated Financial Statements—Long-term Debt" also has been amended to include additional references to "(See "Subsequent Events" in Note 20 to the Consolidated Financial Statements)".

In addition and pursuant to Rule 12b-15 of the Securities and Exchange Act of 1934, as amended, the Company is filing herewith certain currently dated certifications. No other information contained in the Annual Report on Form 10-K is being amended hereby.

Part I

(Dollars in Millions, Except Per Share Data)

Item 1. Business

Background

Revlon, Inc. (and together with its subsidiaries, the "Company") conducts its business exclusively through its direct subsidiary, Revlon Consumer Products Corporation ("Products Corporation"), which manufactures, markets and sells an extensive array of cosmetics and skin care, fragrances and personal care products. **Revlon** is one of the world's leading mass-market cosmetics brands. **Revlon** believes that its global brand name recognition, product quality and marketing experience have enabled it to create one of the strongest consumer brand franchises in the world. The Company's products are sold worldwide and marketed under such well-known brand names as **Revlon, ColorStay,**

Revlon Age Defying, Revlon Age Defying with Botafirm, Fabulash, Super Lustrous, and **Skinlights**, as well as **Almay**, including the Company's new **Almay Intense i-color** collection, in cosmetics; **Vitamin C Absolutes, Eterna 27, Ultima II** and **Jeanne Gatineau** in skin care; **Charlie** in fragrances; and **High Dimension, Flex, Mitchum, Colorsilk, Jean Naté** and **Bozzano** in personal care products.

The Company was founded by Charles Revson, who revolutionized the cosmetics industry by introducing nail enamels matched to lipsticks in fashion colors over 70 years ago. Today, the Company has leading market positions in a number of its principal product categories in the U.S. mass-market distribution channel, including the lip, face makeup and nail enamel categories. The Company also has leading market positions in several product categories in certain markets outside of the U.S., including in Australia, Canada, Mexico and South Africa. The Company's products are sold in more than 100 countries across six continents.

All U.S. market share and market position data herein for the Company's brands are based upon retail dollar sales, which are derived from ACNielsen data. ACNielsen measures retail sales volume of products sold in the U.S. mass-market distribution channel. Such data represent ACNielsen's estimates based upon data gathered by ACNielsen from market samples, which ACNielsen adjusts from time to time, and are therefore subject to some degree of variance. Additionally, as of August 4, 2001, ACNielsen's data do not reflect sales volume from Wal-Mart, Inc., which is the Company's largest customer, representing approximately 21.0% of the Company's 2004 consolidated net sales.

The Company's Plan

The Company's plan consists of three main components: (1) the cost rationalization phase; (2) the stabilization and growth phase; and (3) the continued growth momentum and accelerated growth phase.

Phase 1 — Cost Rationalization

In 1999 and 2000, the Company faced a number of strategic challenges. Accordingly, through 2001 the Company focused its plan on lowering costs and improving operating efficiency. The Company believes that the actions taken during 2000 and 2001 lowered aspects of the Company's cost structure and improved the Company's manufacturing and operating efficiency, creating a platform for the stabilization and growth stage of its plan.

Phase 2 — Stabilization and Growth

In February 2002, the Company announced the appointment of Jack L. Stahl, former president and chief operating officer of The Coca-Cola Company, as the Company's new President and Chief Executive Officer.

Following the appointment of Mr. Stahl, the Company undertook an extensive review and evaluation of the Company's business to establish specific integrated objectives and actions to advance the next stage in the Company's plan. As a result of this review, the Company established three principal objectives:

- creating and developing the most consumer-preferred brands;
- becoming the most valuable partner to the Company's retailers; and
- becoming a top company where people choose to work.

The Company also conducted detailed evaluations and research of the strengths of the Revlon brand and the Almay brand; the Company's advertising and promotional efforts; the Company's relationships with the Company's retailers and consumers; its retail in-store presence; and the strength and skills of the Company's organization. As a result, the Company developed the following key actions and investments to support the stabilization and growth phase of its plan:

- Increase advertising and media effectiveness. The Company is seeking to improve the effectiveness of its marketing, including its advertising, by, among other things, targeting its advertising spend to optimize its impact on the Company's consumers, ensuring consistent messaging and imagery in its advertising, in the graphics included in the Company's wall displays and in other marketing materials.
- Increase the marketing effectiveness of the Company's wall displays. The Company made significant improvements to its retail wall displays by streamlining its product assortment and reconfiguring product placement, intended to optimize cross-selling among the Company's various product categories on the wall displays and make the displays easier to merchandise and stock. The Company has continued to focus on enhancing the effectiveness of its merchandiser coverage to improve in-store stock levels and work with its retail customers to improve replenishment of the Company's products on the wall displays and to minimize out-of-stocks at its retail customers.
- Adopt revised pricing strategies. The Company has been selectively adjusting prices on certain stock keeping units, or SKUs, to better align the Company's pricing with product benefits and competitive benchmarks.
- Further strengthen the Company's new product development process. The Company has developed and is implementing a new cross-functional product development process intended to optimize the Company's ability to bring to market its new product offerings and to ensure that the Company has products in key trend categories. The Company's lineup of new products for 2005 is the result of this new product development process.
- Implement a comprehensive program to develop and train the Company's employees. The Company continues to implement its comprehensive program to further develop the management, leadership and communication skills of its employees, which the Company will regularly assess as part of its goal to become a top company where people choose to work.

In December 2002, Revlon, Inc. announced that it would accelerate aspects of the implementation of the stabilization and growth phase of its plan. The Company recorded charges of approximately $104 in 2002 and approximately $31 during 2003. These charges related to various aspects of the stabilization and growth phase of the Company's plan, primarily from sales returns and inventory writedowns from a selective reduction of SKUs, reduced distribution of the Ultima II brand, higher allowances due to selective price adjustments on certain products, professional expenses associated with the development of, research in relation to, and execution of the stabilization and growth phase of the Company's plan, and writedowns associated with reconfiguring existing wall displays at the Company's retail customers. These charges do not include brand support expenses and training and development costs.

Phase 3 — Continued Growth Momentum and Accelerated Growth

The Company intends to capitalize on the actions taken during the stabilization and growth phase of its plan, with the objective of increasing revenues and achieving profitability over the long term. The Company currently anticipates that the continued growth momentum and accelerated growth stage of its plan will include various actions that represent refinements of and additions to the actions taken during the stabilization and growth phase of its plan, with the objective of balancing top-line growth with improved operating margins and developing and implementing the Company's productivity initiatives. These current ongoing initiatives include, among other things, actions to:

- Further improve the new product development and implementation process.
- Continue to increase the effectiveness and reduce the cost of the Company's display wall.
- Drive efficiencies across the Company's overall supply chain. The Company plans to reduce manufacturing costs by streamlining components and sourcing strategically and rationalizing its supply chain in Europe, which will include moving certain production for the European markets primarily to the Company's Oxford, North Carolina facility, and entering into new warehousing and distribution arrangements in the U.K.
- Optimize the effectiveness of the Company's advertising, marketing and promotions.
- Continue the training and development of its organization. The Company will continue the training and development of our employees so that we may continue to improve our capability to execute our strategies while providing enhanced job satisfaction.
- Continue to strengthen the Company's balance sheet and capital structure. The Company strengthened its balance sheet by completing two significant financing transactions during 2004: (i) the Company exchanged approximately $804 of Products Corporation's debt, $54.6 of Revlon, Inc.'s preferred stock and $9.9 of accrued interest for 299,969,493 shares of Revlon, Inc. Class A common stock, with a par value of $0.01 per share ("Class A Common Stock"); and (ii) Products Corporation entered into a new 2004 Credit Agreement (as hereinafter defined), consisting of an $800 term loan facility and a $160 asset-based multi-currency revolving credit facility, and used the proceeds to refinance its 2001 Credit Agreement (as hereinafter defined) and to complete a tender offer and subsequent redemption of all $363 aggregate principal amount outstanding of its 12% Senior Secured Notes due 2005.

The Company is in the process of reviewing its advertising agencies as part of its strategy to optimize the effectiveness of its advertising, marketing and promotions and the Company expects decisions related to such matters will be made in the first quarter of 2005. Continuing to implement and refine the Company's plan could include taking advantage of opportunities to reposition, repackage or reformulate one or more of the Company's brands or product lines, launching new brands or product lines or further refining our approach to retail merchandising. Any of these actions, whose intended purpose would be to create value through profitable growth, could result in the Company making investments or recognizing charges related to executing against such opportunities.

Recent Developments

On March 11, 2005, Products Corporation entered into, and on March 16, 2005 consummated the transactions contemplated by, a Purchase Agreement (the "Purchase Agreement") with certain initial purchasers (the "Initial Purchasers") for the sale of $310 aggregate principal amount of its 9½% Senior Notes due 2011 (the "9½% Senior Notes"). On March 16, 2005, Revlon, Inc. issued a press release announcing that Products Corporation had completed its previously announced offering of $310 aggregate principal amount of the 9½% Senior Notes. The offering and the related transactions extended the maturities of Products Corporation's debt that would have otherwise been due in 2006 and reduced, in part, Products Corporation's exposure to floating rate debt.

Concurrently with the sale of the 9½% Senior Notes, Revlon, Inc. on March 16, 2005 also announced that on April 15, 2005 Products Corporation will redeem all of the $116.2 aggregate principal amount outstanding of its 8 1/8% Senior Notes due 2006 (the "8 1/8% Senior Notes") and all of the $75.5 aggregate principal amount outstanding of its 9% Senior Notes due 2006 (the "9% Senior Notes") and that it has effected a covenant defeasance of its 8 1/8% Senior Notes and 9% Senior Notes by (i) mailing on March 16, 2005 irrevocable notices of redemption with respect to such notes, and (ii) irrevocably depositing on March 16, 2005 in trust with the trustee under the indentures an amount sufficient to redeem such notes. Revlon, Inc. also indicated that Products Corporation used a portion of the proceeds from the offering (i) to prepay $100 of indebtedness outstanding under the Term Loan Facility of its 2004 Credit Agreement (as each such term is hereinafter defined), together with accrued interest and the $5.0 prepayment fee associated with such prepayment, and (ii) to pay a portion of the fees and expenses incurred in connection with the transactions described above (such transactions being referred to as the "2005 Refinancing Transactions").

The 9½% Senior Notes were issued by Products Corporation pursuant to an indenture, dated as of March 16, 2005 (the "9½% Senior Notes Indenture"), by and between Products Corporation and U.S. Bank National Association, as trustee. Pursuant to the terms of the 9½% Senior Notes Indenture, the 9½% Senior Notes are senior unsecured debt of Products Corporation equal in right of payment with any of Products Corporation's present and future senior indebtedness. The 9½% Senior Notes bear interest at an annual rate of 9½%, which will be payable on April 1 and October 1 of each year, commencing on October 1, 2005. The 9½% Senior Notes Indenture provides that Products Corporation may redeem the 9½% Senior Notes at its option in whole or in part at any time on or after April 1, 2008, at the redemption prices set forth in the 9½% Senior Notes Indenture. In addition, at any time prior to April 1, 2008, Products Corporation is entitled to redeem up to 35% of the aggregate principal amount of the 9½% Senior Notes at a redemption price of 109.5% of the principal amount thereof, plus accrued and unpaid interest, if any, thereon to the date fixed for redemption, with, and, to the extent actually received, the net cash proceeds of one or more public equity offerings, provided that at least 65% of the aggregate principal amount of the 9½% Senior Notes originally issued remains outstanding immediately after giving effect to such redemption. In addition, the 9½% Senior Notes Indenture provides that Products Corporation is entitled to redeem the 9½% Senior Notes at any time or from time to time prior to April 1, 2008, at a redemption price per note equal to the sum of (1) the then outstanding principal amount thereof, plus (2) accrued and unpaid interest (if any) to the date of redemption, plus (3) the greater of (i) 1.0% of the then outstanding principal amount of such note at such time and (ii) the excess of (A) the present value at such redemption date of (1) the redemption price of such note on April 1, 2008 (exclusive of any accrued interest) plus (2) all required remaining scheduled interest payments due on such note through April 1, 2008, computed using a discount rate equal to the applicable treasury rate plus 75 basis points, over (B) the then outstanding principal amount of such note at such time. Pursuant to the 9½% Senior Notes Indenture, upon a change of control (as defined in the 9½% Senior Notes Indenture), each holder of the 9½% Senior Notes has the right to require Products Corporation to make an offer to repurchase all or a portion of such holder's 9½% Senior Notes at a price equal to 101% of the principal amount of such holder's 9½% Senior Notes plus accrued interest.

The 9½% Senior Notes Indenture contains covenants which, subject to certain exceptions, limit the ability of Products Corporation and its subsidiaries to, among other things, incur additional indebtedness, pay dividends on or redeem or repurchase stock, engage in certain asset sales, make certain types of investments and other restricted payments, engage in transactions with affiliates, restrict dividends or payments from subsidiaries and create liens on their assets. The 9½% Senior Notes Indenture contains customary events of default.

In connection with the issuance of the 9½% Senior Notes, on March 16, 2005, Products Corporation entered into a Registration Agreement (the "9½% Senior Notes Registration Agreement") with the Initial Purchasers for the benefit of holders of the 9½% Senior Notes. Pursuant to the 9½% Senior Notes Registration Agreement, among other things, Products Corporation agreed that it will, at its cost, (i) by the 90th day after the closing of the offering of the 9½% Senior Notes (or June 14, 2005), file a registration statement with the Securities and Exchange Commission (the "Commission" or "SEC") with respect to a registered offer to exchange the 9½% Senior Notes for exchange notes (the

"9½% Exchange Notes"), which will have terms substantially identical in all material respects to the 9½% Senior Notes (except that the 9½% Exchange Notes will not contain terms with respect to registration rights, transfer restrictions and interest rate increases) and (ii) by the 180th day after the closing of the offering of the 9½% Senior

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Notes (or September 12, 2005), use its best efforts to cause the exchange offer registration statement to be declared effective under the Securities Act of 1933, as amended (the "Securities Act"). Products Corporation agreed to keep the exchange offer open for not less than 30 days (or longer if required by applicable law) after the date notice of the exchange offer is mailed to the holders of the 9½% Senior Notes. In addition, Products Corporation agreed that, in the event that applicable interpretations of the staff of the SEC do not permit Products Corporation to effect such an exchange offer, or if for any other reason the exchange offer is not consummated by the 210th day after the closing of the offering of the 9½% Senior Notes (or October 12, 2005), it will, at its cost, (a) as promptly as practicable, file a shelf registration statement covering resales of the 9½% Senior Notes, (b) use its best efforts to cause the shelf registration statement to be declared effective under the Securities Act and (c) use its best efforts to keep effective the shelf registration statement until two years after its effective date. Products Corporation also agreed that, if by the 90th day following the closing of the offering of the 9½% Senior Notes (or June 14, 2005), a registration statement has not been filed with the SEC with respect to the exchange offer or the resale of the 9½% Senior Notes, the rate per annum at which the 9½% Senior Notes bear interest will increase by 0.5% from and including such date, until but excluding the earlier of (i) the date such registration statement is filed and (ii) the 210th day after the closing of the offering of the 9½% Senior Notes (or October 12, 2005); and if by such date neither (i) the exchange offer is consummated nor (ii) the shelf registration statement is declared effective, the rate per annum at which the 9½% Senior Notes bear interest will increase by 0.5% from and including such date, until but excluding the earlier of (i) the consummation of the exchange offer and (ii) the effective date of a shelf registration statement.

Products

The Company manufactures and markets a variety of products worldwide. The following table sets forth the Company's principal brands and certain selected products.

COSMETICS	HAIR	BEAUTY TOOLS	FRAGRANCE	ANTI-PERSPIRANTS/ DEODORANTS	SKIN
Revlon	Colorsilk	Revlon Beauty Tools	Charlie	Mitchum	Gatineau
Almay	High Dimension		Jean Naté	Almay	Almay
Ultima II	Frost & Glow				

Cosmetics — Revlon: The Company sells a broad range of cosmetics and skin care products under its flagship **Revlon** brand designed to fulfill specifically-identified consumer needs, principally priced in the upper range of the mass-market distribution channel, including lip makeup, nail color and nail care products, eye and face makeup and skin care products such as lotions, cleansers, creams, toners and moisturizers. Many of the Company's products incorporate patented, patent-pending or proprietary technology. See "New Product Development and Research and Development".

The Company markets several different lines of **Revlon** lip makeup (which address different segments of the lip makeup category). The Company's **ColorStay** lipcolor uses patented transfer-resistant technology that provides long wear; **ColorStay Overtime** Lipcolor patented lip technology builds on the strengths of the **ColorStay** franchise by offering long-wearing benefits in a new product form, which enhances comfort and shine. **Super Lustrous** lipstick is the Company's flagship wax-based lipcolor, which has been further improved in 2005 with the addition of Liqui-Silk technology. In 2004, the Company introduced **Super Lustrous** Lipgloss, providing a non-sticky, high-gloss shine that coordinates with **Super Lustrous** shades.

The Company's nail color and nail care lines include enamels, cuticle preparations and enamel removers. The Company's flagship **Revlon** nail enamel uses a patented formula that provides consumers with improved wear, application, shine and gloss in a toluene-free, formaldehyde-free and phthalate-free formula. The Company also sells **Cutex** nail polish remover and nail care products in certain countries outside the U.S. In 2003, the Company launched **ColorStay Always On** nail enamel, which offers 10-day superior color and wear in an exclusive 2-step system.

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The Company sells face makeup, including foundation, powder, blush and concealers, under such Revlon brand names as **Revlon Age Defying**, which is targeted for women in the over-35 age bracket; **ColorStay and ColorStay Stay Natural**, which uses patented transfer-resistant technology that provides long wear and "won't rub off" benefits; **New Complexion**, for younger consumers and **Skinlights** skin brighteners that brighten skin with sheer washes of color. In 2004, the Company updated and simplified its line of blush products to better assist the consumer in her selection. For 2005, the **Revlon Age Defying** franchise has been further improved with the incorporation of **Botafirm**, to help reduce the appearance of lines and wrinkles.

The Company's eye makeup products include mascaras, eyeliners and eye shadows. In mascaras, key franchises include **ColorStay**, both base **ColorStay,** as well as **ColorStay Overtime** lash tint, a patented product that wears for up to three days, and **Lash Fantasy** Primer and Mascara, a double-ended mascara that nourishes the lashes while lifting and lengthening. The eyeshadow franchises include **Illuminance**, an eye shadow that gives a luminous finish, as well as **Eyeglide Shimmer Shadow**, a cream shadow in a twist-up package. In 2005, the Company introduced **Fabulash**, with a lash-maximizing formula for 100% fuller lashes.

Cosmetics — Almay: The Company's **Almay** brand consists of a line of hypo-allergenic, dermatologist-tested, fragrance-free cosmetics and skin care products. **Almay** products include lip makeup, eye and face makeup, and skin care products. The **Almay** brand flagship **One Coat** franchise consists of lip makeup and eye makeup products including mascara, which was further improved in 2005. The Company also sells **Almay Nearly Naked** Foundation in a touch-pad for a light, weightless feel, as well as the **Bright Eyes** franchises, mascara and eyeliner, for bigger, brighter-looking eyes. In 2004, the Company introduced **Almay Whipped Gloss** for a shine that nourishes lips. In 2005, **Truly Lasting Lipcolor** was introduced, providing a long-wearing benefit to consumers. The **Almay Intense i-color** collection was also introduced in 2005 — designed to appeal to the consumers' desire for simplicity, it provides color-coordinated shades of shadow, liner and mascara for each eye color.

Hair: The Company sells both haircare and haircolor products throughout the world. In the US, the Company's **Colorsilk** brand was among the fastest growing haircolor brands in the mass-market distribution channel in 2004. The Company also markets **High Dimension** haircolor, the first and only permanent haircolor that works in 10 minutes, as well as its **Frost & Glow** highlighting brand. In haircare, the Company sells the **Flex** and **Aquamarine** lines in many countries and the **Bozzano** and **Juvena** brands in Brazil.

Beauty Tools: The Company sells **Revlon** Beauty Tools, which include nail and eye grooming tools, such as clippers, scissors, files, tweezers and eye lash curlers. **Revlon** Beauty Tools are sold individually and in sets under the **Revlon** brand name and are the number one brand of beauty tools in the U.S. mass-market distribution channel. In 2004, Revlon introduced a new line of pedicure products, as well as 2 new kits designed especially for traveling. In 2005, Revlon introduced 14 new Beauty Tool products, including a new line called **Expert Effects** which have been designed ergonomically to enable proper technique for expert-like results.

Fragrances: The Company sells a selection of moderately-priced and premium-priced fragrances, including perfumes, eau de toilettes, colognes and body sprays. The Company's portfolio includes fragrances such as **Charlie** and **Ciara** as well as **Jean Naté.**

Anti-perspirants/deodorants: In the area of anti-perspirants and deodorants, the Company markets **Mitchum** and **Hi & Dri** antiperspirant brands in many countries. The Company also markets hypo-allergenic personal care products, including antiperspirants, under the **Almay** brand.

Skin: The Company's skin care products, including moisturizers, are sold under brand names including **Eterna 27**, **Vitamin C Absolutes, Almay** Kinetin**, Almay Milk Plus** and **Ultima II**. In addition, the Company sells skin care products in international markets under internationally-recognized brand names and under various regional brands, including the Company's premium-priced **Jeanne Gatineau** brand, as well as **Ultima II**.

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Marketing

The Company markets extensive consumer product lines at a range of retail prices primarily through the mass-market distribution channel and outside the U.S. also markets select premium lines through demonstrator-assisted channels.

The Company uses print and television advertising and point-of-sale merchandising, including displays and samples. The Company's marketing emphasizes a uniform global image and product for its portfolio of core brands, including **Revlon, ColorStay, Revlon Age Defying, Almay, Charlie** and **Mitchum**. The Company coordinates advertising campaigns with in-store promotional and other marketing activities. The Company develops jointly with retailers carefully tailored advertising, point-of-purchase and other focused marketing programs. The Company uses network and spot television advertising, national cable advertising and print advertising in major general interest, women's fashion and women's service magazines, as well as coupons and other trial incentives. In 2004, the Company expanded its media reach utilizing " non-traditional" vehicles such as outdoor, newspapers and movie theaters to supplement the media mix.

The Company also uses cooperative advertising programs with some retailers, supported by Company-paid or Company-subsidized demonstrators, and coordinated in-store promotions and displays. These displays include "Revlon Reports," which highlight seasonal and other fashion and color trends, describe the Company's products that address those trends and can include coupons, rebate offers and other promotional material to encourage consumers to try the Company's products. Other marketing materials designed to introduce the Company's newest products to consumers and encourage trial and purchase in-store include trial-size products and couponing. Additionally, the Company maintains separate websites, www.revlon.com and www.almay.com devoted to the **Revlon** and **Almay** brands, respectively. Each of these websites feature current product and promotional information for the **Revlon** and **Almay** brands, respectively, and are updated regularly to stay current with the Company's new product launches and other advertising and promotional campaigns.

New Product Development and Research and Development

The Company believes that it is an industry leader in the development of innovative and technologically-advanced consumer products. The Company's marketing and research and development groups identify consumer needs and shifts in consumer preferences in order to develop new products, tailor line extensions and promotions and redesign or reformulate existing products to satisfy such needs or preferences. The Company's research and development group comprises departments specialized in the technologies critical to the Company's various product categories, as well as an advanced technology department that promotes inter-departmental, cross-functional research on a wide range of technologies to develop new and innovative products. In connection with the implementation of the stabilization and growth phase of the Company's plan, the Company has developed and is implementing a new cross-functional product development process intended to optimize the Company's ability to bring to market its new product offerings and to ensure that the Company has products in key trend categories.

The Company operates an extensive cosmetics research and development facility in Edison, New Jersey. The scientists at the Edison facility are responsible for all of the Company's new product research worldwide, performing research for new products, ideas, concepts and packaging. The research and development group at the Edison facility also performs extensive safety and quality tests on the Company's products, including toxicology, microbiology and package testing. Additionally, quality control testing is performed at each manufacturing facility.

As of December 31, 2004, the Company employed approximately 180 people in its research and development activities, including specialists in pharmacology, toxicology, chemistry, microbiology, engineering, biology, dermatology and quality control. In 2004, 2003 and 2002, the Company spent approximately $24.0, $25.4 and $23.3, respectively, on research and development activities.

Manufacturing and Related Operations and Raw Materials

During 2004, cosmetics and/or personal care products were produced at the Company's facilities in Oxford, North Carolina, Irvington, New Jersey, Venezuela, France, South Africa, China and Mexico and

at third-party owned facilities around the world, with the largest third-party manufacturer located in Maesteg, Wales. On September 22, 2004, the Company exercised its contractual rights to terminate its 2002 supply agreement with Creative Outsourcing Solutions International Limited ("COSi") that is currently scheduled to become effective on June 30, 2005. The Company intends to transition such manufacturing primarily to its Oxford North Carolina facility and distribution and warehousing to a local U.K.-based third party and does not currently expect any disruption in its supply chain. The Company continually reviews its manufacturing needs against its manufacturing capacity to identify opportunities to reduce costs and operate more efficiently. The Company purchases raw materials and components throughout the world. The Company continuously pursues reductions in cost of goods through the global sourcing of raw materials and components from qualified vendors, utilizing its large purchasing capacity to maximize cost savings. The global sourcing of raw materials and components from accredited vendors also ensures the quality of the raw materials and components. The Company believes that alternate sources of raw materials and components exist and does not anticipate any significant shortages of, or difficulty in obtaining, such materials.

Distribution

The Company's products are sold in more than 100 countries across six continents. The Company's worldwide sales force had approximately 330 people as of December 31, 2004, including a dedicated sales force for cosmetics, skin care, fragrance and personal care products in the mass-market distribution channel in the U.S. In addition, the Company utilizes sales representatives and independent distributors to serve specialized markets and related distribution channels.

United States and Canada. Net sales in the U.S. and Canada accounted for approximately 66% of the Company's 2004 net sales, a majority of which were made in the mass-market distribution channel. The Company also sells a broad range of consumer products to U.S. Government military exchanges and commissaries. The Company licenses its trademarks to select manufacturers for products that the Company believes have the potential to extend the Company's brand names and image. As of December 31, 2004, ten (10) licenses were in effect relating to sixteen (16) product categories to be marketed principally in the mass-market distribution channel. Pursuant to such licenses, the Company retains strict control over product design and development, product quality, advertising and use of its trademarks. These licensing arrangements offer opportunities for the Company to generate revenues and cash flow through royalties and renewal fees, some of which have been prepaid.

As part of its strategy to increase consumption of the Company's products at retail, the Company has enhanced and focused coverage by retail merchandisers who stock and maintain the Company's point-of-sale wall displays intended to ensure that high-selling SKUs are in stock and to ensure the optimal presentation of the Company's products in retail outlets. Additionally, the Company has upgraded the technology available to its sales force to provide real-time information regarding inventory levels and other relevant information.

International. Net sales outside the U.S. and Canada accounted for approximately 34% of the Company's 2004 net sales. The ten largest countries in terms of these sales, which include South Africa, Australia, U.K., Japan, Hong Kong, Mexico, Brazil, France, Italy and Venezuela, accounted for approximately 26% of the Company's net sales in 2004. The Company distributes its products through drug stores/chemists, hypermarkets/mass volume retailers and variety stores. The Company also distributes outside the U.S. through department stores and specialty stores such as perfumeries. At December 31, 2004, the Company actively sold its products through wholly-owned subsidiaries established in 16 countries outside of the U.S. and through a large number of distributors and licensees elsewhere around the world.

Customers

The Company's principal customers include large mass volume retailers and chain drug stores, including such well-known retailers as Wal-Mart, Target, Kmart, Walgreens, Rite Aid, CVS, Eckerd, Albertsons Drugs and Longs in the U.S., Boots in the United Kingdom, Watsons in the Far East and Wal-Mart internationally. Wal-Mart and its affiliates worldwide accounted for approximately 21.0% of the

Company's 2004 consolidated net sales. The Company expects that Wal-Mart and a small number of other customers will, in the aggregate, continue to account for a large portion of the Company's net sales. Although the loss of Wal-Mart or one or more of the Company's other customers that may account for a significant portion of the Company's sales, or any significant decrease in sales to these customers or any significant decrease in retail display space in any of these customers' stores, could have a material adverse effect on the Company's business, financial condition or results of operations, the Company has no reason to believe that any such loss of customers or decrease in sales will occur.

Competition

The consumer products business is highly competitive. The Company competes primarily on the basis of: developing quality products with innovative performance features; shades, finishes and packaging; educating consumers on our product benefits; anticipating and responding to changing consumer demands in a timely manner, including the timing of new product introductions and line extensions; offering attractively priced products; maintaining favorable brand recognition; generating competitive margins and inventory turns for its retail customers by providing market-right products and executing effective pricing, incentive and promotion programs; ensuring product availability through effective planning and replenishment collaboration with retailers; providing strong and effective advertising, marketing, promotion and merchandising support; maintaining an effective sales force; and obtaining sufficient retail floor space, optimal in-store positioning and effective presentation of its products at retail. The Company experienced declines in its market share in the U.S. mass-market in color cosmetics from the end of the first half of 1998 through the first half of 2002, including a decline in its color cosmetics market share from 32.0% in the second quarter of 1998 to 22.3% in the second quarter of 2002. From the second half of 2002 through the end of 2003, the Company's market share stabilized, achieving a 22.3% market share for 2003. For 2004, the Revlon and Almay brands combined held U.S. mass-market share of 21.5%, compared with 22.3% for 2003. The Company competes in selected product categories against a number of multinational manufacturers, some of which are larger and have substantially greater resources than the Company, and which may therefore have the ability to spend more aggressively on advertising and marketing and have more flexibility than the Company to respond to changing business and economic conditions. In addition to products sold in the mass-market and demonstrator-assisted channels, the Company's products also compete with similar products sold in prestige department store channels, door-to-door or through mail-order or telemarketing by representatives of direct sales companies. The Company's principal competitors include L'Oréal S.A., The Procter & Gamble Company and The Estée Lauder Companies Inc.

Patents, Trademarks and Proprietary Technology

The Company's major trademarks are registered in the U.S. and in well over 100 other countries, and the Company considers trademark protection to be very important to its business. Significant trademarks include **Revlon, ColorStay, Revlon Age Defying, Skinlights, High Dimension, Frost & Glow, Illuminance, Cutex** (outside the U.S.), **Mitchum, Eterna 27, Almay, Almay** Kinetin**, Ultima II, Flex, Charlie, Jean Naté, Moon Drops, Super Lustrous** and **Colorsilk**.

The Company utilizes certain proprietary, patent pending or patented technologies in the formulation or manufacture of a number of the Company's products, including **ColorStay** cosmetics, classic **Revlon** nail enamel, **Skinlights** skin brightener, **High Dimension** hair color, **Super Top Speed** nail enamel, **Revlon Age Defying** foundation and cosmetics, **New Complexion** makeup, **Time-Off** makeup, **Amazing Lasting** cosmetics**,** and **Almay One Coat** cosmetics. The Company also protects certain of its packaging and component concepts through design patents. The Company considers its proprietary technology and patent protection to be important to its business.

Government Regulation

The Company is subject to regulation by the Federal Trade Commission (the "FTC") and the Food and Drug Administration (the "FDA") in the United States, as well as various other federal, state, local and foreign regulatory authorities, including the European Commission in the European Union ("EU").

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The Oxford, North Carolina manufacturing facility is registered with the FDA as a drug manufacturing establishment, permitting the manufacture of cosmetics that contain over-the-counter drug ingredients, such as sunscreens and antiperspirants. Compliance with federal, state, local and foreign laws and regulations pertaining to discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had, and is not anticipated to have, a material effect upon the Company's capital expenditures, earnings or competitive position. State and local regulations in the U.S. and regulations in the EU that are designed to protect consumers or the environment have an increasing influence on the Company's product claims, contents and packaging.

Industry Segments, Foreign and Domestic Operations

The Company operates in a single segment. Certain geographic, financial and other information of the Company is set forth in the Consolidated Statements of Operations and Note 19 of the Notes to Consolidated Financial Statements of the Company.

Employees

As of December 31, 2004, the Company employed approximately 6,300 people. As of December 31, 2004, approximately 150 of such employees in the U.S. were covered by collective bargaining agreements. The Company believes that its employee relations are satisfactory. Although the Company has experienced minor work stoppages of limited duration in the past in the ordinary course of business, such work stoppages have not had a material effect on the Company's results of operations or financial condition.

Item 2. Properties

The following table sets forth as of December 31, 2004 the Company's major manufacturing, research and warehouse/distribution facilities, all of which are owned except where otherwise noted.

Location	Use	Approximate Floor Space Sq. Ft.
Oxford, North Carolina	Manufacturing, warehousing, distribution and office (a)	1,012,000
Edison, New Jersey	Research and office (leased)	123,000
Irvington, New Jersey.	Manufacturing, warehousing and office (a)	96,000
Mexico City, Mexico	Manufacturing, distribution and office	150,000
Caracas, Venezuela	Manufacturing, distribution and office	145,000
Kempton Park, South Africa	Warehousing, distribution and office (leased) (b)	127,000
Canberra, Australia	Warehousing, distribution and office (leased)	125,000
Isando, South Africa	Manufacturing, warehousing, distribution and office	94,000

(a) Properties subject to liens under the 2004 Credit Agreement.

(b) The Kempton Park, South Africa lease terminated on February 28, 2005 and a new lease was entered into for 120,000 sq. ft. in Isando, South Africa. At December 31, 2004, this new facility was not operational, but it is now operational.

In addition to the facilities described above, the Company owns and leases additional facilities in various areas throughout the world, including the lease for the Company's executive offices in New York, New York (approximately 176,749 square feet, of which approximately 5,900 square feet was sublet to the Company's affiliates as of December 31, 2004). Management considers the Company's facilities to be well-maintained and satisfactory for the Company's operations, and believes that the Company's facilities and third party contractual supplier arrangements provide sufficient capacity for its current and expected production requirements.

Item 3. Legal Proceedings

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

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unlikely to have a material adverse effect on the business or consolidated financial condition of the Company. A purported class action lawsuit was filed on September 27, 2000, in the United States District Court for the Southern District of New York on behalf of Dan Gavish, Tricia Fontan and Walter Fontan individually and allegedly on behalf of all others similarly situated who purchased the securities of Revlon, Inc. and REV Holdings Inc. (a Delaware corporation and the predecessor of REV Holdings LLC, a Delaware limited liability company ("REV Holdings")) between October 2, 1998 and September 30, 1999 (the "Second Gavish Action"). The complaint, amended by the plaintiffs in November 2001, alleged, among other things, that Revlon, Inc., certain of its present and former officers and directors and REV Holdings Inc. violated, among other things, Rule 10b-5 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). On September 29, 2004, the United States District Court for the Southern District of New York dismissed the Second Gavish Action, without prejudice. Revlon, Inc.'s counsel has subsequently received a second amended complaint. If this matter is pursued, Revlon, Inc. intends to defend it vigorously as the Company believes it is without merit. In light of the settlement of the defendants' insurance claim for this matter and the other purported class actions filed in 1999 and settled in June 2003, which the Company recorded in the fourth quarter of 2002, the Company does not expect to incur any further expense in this matter.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

MacAndrews & Forbes Holdings, which is wholly owned by Ronald O. Perelman, owns (i) 190,110,641 shares of Class A Common Stock (20,819,333 of which are owned by REV Holdings and 169,291,308 of which are beneficially owned by MacAndrews & Forbes) and (ii) all of the outstanding 31,250,000 shares of Class B Common Stock of Revlon, Inc., with a par value of $0.01 per share ("Class B Common Stock", and together with the Class A Common Stock, the "Common Stock"). Based on the shares referenced in clauses (i) and (ii) above, and including Mr. Perelman's vested stock options discussed in Part III, Item 12. (Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters) of this Form 10-K, Mr. Perelman, directly and indirectly, through

MacAndrews & Forbes, at December 31, 2004, beneficially owned approximately 59.9% of Revlon, Inc.'s outstanding shares of Common Stock and had approximately 77.2% of the combined voting power of the outstanding shares of Revlon, Inc.'s Common Stock currently entitled to vote at its 2005 Annual Meeting of Stockholders. The remaining 148,757,303 shares of Revlon, Inc.'s Class A Common Stock outstanding at December 31, 2004 were owned by the public. Revlon, Inc.'s Class A Common Stock is listed and traded on the New York Stock Exchange (the "NYSE"). As of December 31, 2004, there were 918 holders of record of Revlon, Inc.'s Class A Common Stock. No dividends were declared or paid during 2004 or 2003 by Revlon, Inc. on its Common Stock. The terms of the 2004 Credit Agreement, the 2004 Consolidated MacAndrews & Forbes Line of Credit (each as hereinafter defined), the 8 5/8% Senior Subordinated Notes, the 8 1/8% Senior Notes and the 9% Senior Notes (as each such series of notes is hereinafter defined) currently restrict the ability of Products Corporation to pay dividends or make distributions to Revlon, Inc., except in limited circumstances. See Part III, Item 12. (Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters) and the Consolidated Financial Statements of the Company and the Notes thereto.

The table below shows the Company's high and low quarterly stock prices of Revlon, Inc.'s Class A Common Stock on the NYSE for the years ended December 31, 2004 and 2003.

	2004 Quarterly Stock Prices(1)			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
High	$ 3.66	$ 3.50	$ 2.94	$ 2.55
Low	2.28	2.70	2.11	2.06

	2003 Quarterly Stock Prices(1)			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
High	$ 3.54	$ 3.67	$ 3.70	$ 2.96
Low	2.40	2.62	2.66	2.20

(1) Represents the closing price per share of Revlon, Inc.'s Class A Common Stock on the NYSE, the exchange on which such shares are listed. The Company's stock trading symbol is "REV".

Item 6. Selected Financial Data

The Consolidated Statements of Operations Data for each of the years in the five-year period ended December 31, 2004 and the Balance Sheet Data as of December 31, 2004, 2003, 2002, 2001 and 2000 are derived from the Consolidated Financial Statements of the Company, which have been audited by KPMG LLP, an independent registered public accounting firm. The Selected Consolidated Financial Data should be read in conjunction with the Company's Consolidated Financial Statements and the Notes to the Consolidated Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Year Ended December 31,

	2004	2003 (d)	2002 (d)	2001	2000
	(dollars in millions, except per share amounts)				
Statements of Operations Data (a):					
Net sales	$ 1,297.2	$ 1,299.3	$ 1,119.4	$ 1,277.6	$ 1,409.4
Gross profit (b)	811.9	798.2	615.7	733.4	835.1
Selling, general and administrative expenses	717.6	770.9	717.0	679.2	765.1
Restructuring costs and other, net (c)	5.8	6.0	13.6	38.1	54.1
Operating income (loss)	88.5	21.3	(114.9)	16.1	15.9
Interest expense	130.8	174.5	159.0	140.5	144.5
Loss on early extinguishment of debt	90.7(f)	—	—	3.6	—
Loss from continuing operations	(142.5)	(153.8)	(286.5)	(153.7)	(129.7)
Basic and diluted loss from continuing operations per common share	$ (0.47)	$ (2.47)	$ (5.36)	$ (2.87)	$ (2.43)
Weighted average number of common shares outstanding (in millions): (e)					
Basic and diluted	301.1	62.3	53.5	53.5	53.4

	December 31,				
	2004	2003	2002	2001	2000
	(dollars in millions)				
Balance Sheet Data (a):					
Total assets	$ 1,000.5	$ 892.2	$ 933.7	$ 997.6	$ 1,101.8
Total indebtedness	1,355.3	1,897.5	1,775.1	1,661.1	1,593.8
Total stockholders ' deficiency	(1,019.9)	(1,725.6)	(1,638.5)	(1,282.1)	(1,106.7)

(a) In July 2001, the Company completed the disposition of the Colorama brand and facility in Brazil. In March and May 2000, the Company completed the dispositions of its worldwide professional products line and the Plusbelle brand in Argentina, respectively. Accordingly, the selected financial data includes the results of operations of the professional products line, Plusbelle and Colorama brands through the dates of disposition.

(b) In connection with the Company's restructuring activities described in note (c) below, from 2000 to 2002 the Company incurred additional costs associated with the consolidation of its Phoenix and Canada facilities and its worldwide operations. The Company recorded $1.5, $38.2 and $4.9 of such costs for the years ended December 31, 2002, 2001 and 2000, respectively, in cost of sales.

(c) In 2000, the Company initiated a new restructuring program, in line with its original restructuring plan developed in late 1998, designed to improve profitability by reducing personnel and consolidating manufacturing facilities. The 2000 restructuring program focused on closing manufacturing operations in Phoenix, Arizona and Mississauga, Canada and consolidating production into the Company's plant in Oxford, North Carolina. The 2000 restructuring program also included the remaining obligation for excess leased real estate at the Company's headquarters, consolidation costs associated with closing the Company's facility in New Zealand and the elimination of several domestic and international executive and operational positions, each of which was effected to reduce and streamline corporate overhead costs. Restructuring expenses incurred between 2000 and 2004 were with respect to the 2000 restructuring program, the continued consolidation of the Company's worldwide operations or one-time restructuring events including employee severance costs.

(d) Results for 2003 and 2002 include expenses of approximately $31.0 in 2003 and approximately $104.0 in 2002 related to the acceleration of the implementation of the stabilization and growth phase of the Company's plan.

(e) Represents the weighted average number of common shares outstanding for the period. Upon consummation of the 2003 Rights Offering (as hereinafter defined), the fair value, based on NYSE closing price of Revlon, Inc.'s Class A Common Stock was more than the subscription price. Accordingly, basic and diluted loss per common share have been restated for all periods prior to the 2003 Rights Offering to reflect the stock dividend of 1,262,328 shares of Revlon, Inc.'s Class A Common Stock (See Note 1 to the Consolidated Financial Statements). On March 25, 2004, in connection with the Revlon Exchange Transactions (as hereinafter defined), the Company issued 299,969,493 shares of Class A Common Stock (See Note 9 to the Consolidated Financial Statements). The shares issued in the Revlon Exchange Transactions are included in the weighted average number of shares outstanding since the date of the respective transactions.

(f) Represents the loss on the exchange of equity for certain indebtedness in the Revlon Exchange Transactions (as hereinafter defined) and fees, expenses, premiums and the write-off of deferred financing costs related to the Revlon Exchange Transactions, the tender for and redemption of the 12% Senior Secured Notes (including the applicable premium) (as hereinafter defined) and the repayment of the 2001 Credit Agreement (as hereinafter defined). (See Note 9 to the Consolidated Financial Statements).

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (dollars in millions, except per share data)

Overview

The Company is providing this overview in accordance with the SEC's December 2003 interpretive guidance regarding Management's Discussion and Analysis of Financial Condition and Results of Operations.

The Company operates in a single segment and manufactures, markets and sells an extensive array of cosmetics and skin care, fragrances and personal care products. In addition, the Company has a licensing group.

The Company has accelerated the implementation of its three-part plan to rationalize costs and to grow the business. In 2002, the Company began the implementation of the stabilization and growth phase of its plan.

The Company intends to capitalize on the actions taken during the stabilization and growth phase of its plan, with the objective of increasing revenues and achieving profitability over the long term. The Company currently anticipates that the continued growth momentum and accelerated growth stage of its plan will include various actions that represent refinements of and additions to the actions taken during the stabilization and growth phase of its plan, with the objective of balancing top-line growth with improved operating margins and developing and implementing the Company's productivity initiatives. These ongoing initiatives include, among other things, actions to: (i) further improve the new product development and introduction process; (ii) continue to increase the effectiveness and reduce the cost of the Company's display walls; (iii) drive efficiencies across the Company's overall supply chain, including reducing manufacturing costs by streamlining components and sourcing strategically and rationalizing its supply chain in Europe, which will include moving certain production for the European markets to the Company's Oxford, North Carolina facility (the Company intends to transition such manufacturing primarily to one or more of its other facilities and does not currently expect any disruption in its supply chain) and entering into new warehousing and distribution arrangements in the U.K.; and (iv) optimize the effectiveness of the Company's advertising, marketing and promotions. This stage will also include strengthening the Company's balance sheet and capital structure, much of which, as discussed in Note 9 to the Consolidated Financial Statements, has been accomplished during 2004.

The Company believes that it has strengthened its organizational capability and it intends to continue doing so. The Company also believes that it has strengthened its relationships with its key retailers in the U.S., which has led to space gains and increased distribution in 2004 for certain of the Company's products.

On July 9, 2004, Products Corporation entered into the 2004 Credit Agreement and during July and August 2004 used the proceeds of borrowings under the 2004 Credit Agreement to repay in full the $290.5 of outstanding indebtedness (including accrued interest) under Products Corporation's 2001 Credit Agreement, to purchase and redeem all $363 aggregate principal amount of Products Corporation's 12% Senior Secured Notes, and to pay fees and expenses incurred in connection with the 2004 Credit Agreement, the Tender Offer and the Revlon Exchange Transactions, including the payment of expenses related to a refinancing that Products Corporation launched in May 2004 but did not consummate. The balance of such proceeds in connection with the Term Loan Facility were available to Products Corporation for general corporate purposes.

On March 25, 2004 Revlon, Inc. consummated the Revlon Exchange Transactions and reduced Products Corporation's debt by approximately $804 as of that date. Revlon, Inc. issued an additional 299,969,493 shares of Class A Common Stock and as of December 31, 2004 Revlon, Inc. had outstanding approximately 338,867,944 shares of Class A Common Stock and 31,250,000 shares of Class B Common Stock. MacAndrews & Forbes beneficially owned approximately 221.4 million shares of the Common Stock (representing approximately 59.9% of the outstanding shares of the Common Stock and approximately 77.2% of the combined voting power of the Common Stock) as of December 31, 2004. (See Note 9 to the Consolidated Financial Statements).

Net sales in 2004 decreased $2.1 to $1,297.2, as compared to $1,299.3 in 2003, driven by higher total returns, allowances and discounts, partially offset by favorable foreign currency translation and higher shipments, as well as the prepayment of certain minimum royalties and renewal fees by licensees.

In the United States and Canada, 2004 net sales decreased $34.9 to $855.7 from $890.6 in 2003. The decrease in 2004 was due to higher total returns, allowances and discounts which were due in part to a higher returns provision for product discontinuances identified in 2004, higher returns from promotions, and the fact that the 2003 provision for returns benefited from a revision of previous estimates for returns associated with the Company's accelerated growth plan which were recorded in 2002, partially offset by higher shipments and an increase in licensing revenue from prepayments of certain minimum royalties and renewal fees by licensees of $11.8 in 2004 versus $5.3 in 2003. In International, in 2004, net sales increased $32.8 to $441.5 from $408.7 in 2003. The increase in 2004 was due primarily to favorable foreign currency translation.

In terms of U.S. marketplace performance, the U.S. color cosmetics category for 2004 declined approximately 2.5% versus 2003. For 2004, the Revlon and Almay brands combined held U.S. mass-market share of 21.5%, compared with 22.3% for 2003. Market share performance of existing products under the Revlon and Almay brands increased from 2003 to 2004, offset in part by decreased market share performance of new products under such brands. In hair color and beauty tools, the Company gained market share in 2004, compared with 2003, increasing, respectively, from a 6.5% market share for 2003 to 7.1% for 2004 and 22.6% market share for 2003 to 24.5% for 2004, while market share was down for anti-perspirants/deodorants, decreasing from 6.3% in 2003 to 6.1% in 2004.

Net sales in the Company's domestic and international operations in the normal course are subject to the risk of being adversely affected by, among other things, one or more of the following: weak economic conditions, category weakness, political uncertainties, military actions, terrorist activities, adverse currency fluctuations, competitive activities and changes in consumer purchasing habits, including with respect to shopping channels.

Operating income in 2004 increased $67.2 to $88.5, as compared to $21.3 in 2003. The improvement in 2004 reflected the absence of growth plan charges (which decreased operating income in 2003 by approximately $31.2), the aforementioned higher licensing revenues (which included prepayments of minimum royalties and renewal fees by licensees of $11.8 in 2004 versus $5.3 in 2003) and lower advertising, partially offset by higher total returns, allowances and discounts and favorable foreign currency translation.

The $90.7 loss on early extinguishment of debt for 2004 represents the loss on the exchange of equity for certain indebtedness in the Revlon Exchange Transactions (such loss was equal to the difference between the fair value of the equity securities issued and the book value of the related indebtedness exchanged by third parties other than MacAndrews & Forbes or related parties) and fees, expenses and the write-off of deferred financing costs related to the Revlon Exchange Transactions, the tender for and redemption of the 12% Senior Secured Notes (including the applicable premium) and the repayment of the 2001 Credit Agreement. (See Note 9 to the Consolidated Financial Statements).

Discussion of Critical Accounting Policies

In the ordinary course of its business, the Company has made a number of estimates and assumptions relating to the reporting of results of operations and financial condition in the preparation of its financial statements in conformity with accounting principles generally accepted in the U.S. Actual results could differ significantly from those estimates and assumptions. The Company believes that the following discussion addresses the Company's most critical accounting policies, which are those that are most important to the portrayal of the Company's financial condition and results and require management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Sales Returns:

The Company allows customers to return their unsold products when they meet certain Company-established criteria as outlined in the Company's trade terms. The Company regularly reviews and revises,

when deemed necessary, its estimates of sales returns based primarily upon actual returns, planned product discontinuances, and promotional sales, which would permit customers to return items based upon the Company's trade terms. The Company records estimated sales returns as a reduction to sales and cost of sales, and an increase in accrued liabilities and inventories. Returned products which are recorded as inventories are valued based upon the amount that the Company expects to realize upon their subsequent disposition. The physical condition and marketability of the returned products are the major factors considered by the Company in estimating realizable value. Cost of sales includes the cost of refurbishment of returned products. Actual returns, as well as realized values on returned products, may differ significantly, either favorably or unfavorably, from the Company's estimates if factors such as product discontinuances, customer inventory levels or competitive conditions differ from the Company's estimates and expectations and, in the case of actual returns, if economic conditions differ significantly from the Company's estimates and expectations.

Trade Support Costs:

In order to support the retail trade, the Company has various performance-based arrangements with retailers to reimburse them for all or a portion of their promotional activities related to the Company's products. The Company regularly reviews and revises, when deemed necessary, estimates of costs to the Company for these promotions based on estimates of what has been incurred by the retailers. Actual costs incurred by the Company may differ significantly if factors such as the level and success of the retailers' programs, as well as retailer participation levels, differ from the Company's estimates and expectations.

Inventories:

Inventories are stated at the lower of cost or market value. Cost is principally determined by the first-in, first-out method. The Company records adjustments to the value of inventory based upon its forecasted plans to sell its inventories, as well as planned discontinuances. The physical condition (e.g., age and quality) of the inventories is also considered in establishing its valuation. These adjustments are estimates, which could vary significantly, either favorably or unfavorably, from the amounts that the Company may ultimately realize upon the disposition of inventories if future economic conditions, customer inventory levels, product discontinuances, return levels or competitive conditions differ from the Company's estimates and expectations.

Property, Plant and Equipment and Other Assets:

Property, plant and equipment is recorded at cost and is depreciated on a straight-line basis over the estimated useful lives of such assets. Changes in circumstances such as technological advances, changes to the Company's business model, changes in the planned use of fixtures or software or closing of facilities or changes in the Company's capital strategy can result in the actual useful lives differing from the Company's estimates.

Included in other assets are permanent wall displays, which are recorded at cost and amortized on a straight-line basis over the estimated useful lives of such assets. Intangibles other than goodwill are recorded at cost and amortized on a straight-line basis over the estimated useful lives of such assets.

Long-lived assets, including fixed assets, permanent wall displays and intangibles other than goodwill, are reviewed by the Company for impairment whenever events or changes in circumstances indicate that the carrying amount of any such asset may not be recoverable. If the undiscounted cash flows (excluding interest) from the use and eventual disposition of the asset is less than the carrying value, the Company recognizes an impairment loss, measured as the amount by which the carrying value exceeds the fair value of the asset. The estimate of undiscounted cash flow is based upon, among other things, certain assumptions about expected future operating performance. The Company's estimates of undiscounted cash flow may differ from actual cash flow due to, among other things, technological changes, economic conditions, changes to its business model or changes in its operating performance. In those cases where the Company determines that the useful life of other long-lived assets should be shortened, the Company would depreciate the net book value in excess of the salvage value (after testing for impairment as described above), over the revised remaining useful life of such asset thereby increasing amortization

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expense. Additionally, goodwill is reviewed for impairment at least annually. The Company recognizes an impairment loss to the extent that carrying value exceeds the fair value of the asset.

Pension Benefits:

The Company sponsors pension and other retirement plans in various forms covering substantially all employees who meet eligibility requirements. Several statistical and other factors which attempt to estimate future events are used in calculating the expense and liability related to the plans. These factors include assumptions about the discount rate, expected return on plan assets and rate of future compensation increases as determined by the Company, within certain guidelines. In addition, the Company's actuarial consultants also use subjective factors such as withdrawal and mortality rates to estimate these factors. The actuarial assumptions used by the Company may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants, among other things. Differences from these assumptions may result in a significant impact to the amount of pension expense/liability recorded by the Company.

Results of Operations

Year Ended December 31, 2004 compared with the year ended December 31, 2003

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

Net sales:

	Year Ended December 31,		Dollar	Percent
	2004	2003	Change	Change
United States and Canada	$ 855.7	$ 890.6	$ (34.9)	-3.9%
International	441.5	408.7	32.8 (1)	8.0%
	$ 1,297.2	$ 1,299.3	$ (2.1)(2)	-0.2%

(1)Excluding the impact of currency fluctuations, International net sales increased 1.0%.
(2)Excluding the impact of currency fluctuations, consolidated net sales decreased 2.7%.

United States and Canada.

Net sales in the U.S. and Canada decreased $34.9 or 4% in 2004, as compared with 2003, due to higher total returns, allowances and discounts of approximately $51.0 partially offset by higher shipments of approximately $3.3, the favorable impact of foreign currency translation of $5.9 and increased licensing revenue of $6.9, primarily from the prepayments of minimum royalties and renewal fees by licensees of $11.8 in 2004 versus $5.3 in 2003. The increase in returns, allowances and discounts in 2004 versus 2003 is due in part to higher returns provision for product discontinuances identified in 2004, higher returns from promotions, and the fact that the 2003 provision for returns benefited from a revision of previous estimates for returns associated with the Company's accelerated growth plan recorded in 2002.

In terms of U.S. marketplace performance, the U.S. color cosmetics category for 2004 declined approximately 2.5% versus 2003. For 2004, the Revlon and Almay brands combined held U.S. mass-market share of 21.5%, compared with 22.3% for 2003. Market share performance of existing products under the Revlon and Almay brands increased from 2003 to 2004, offset in part by decreased share performance of new products under such brands. In hair color and beauty tools, the Company gained market share in 2004, compared with 2003, increasing, respectively, from a 6.5% market share for 2003 to 7.1% for 2004 and 22.7% market share for 2003 to 24.5% for 2004, while market share was down for anti-perspirants/deodorants, decreasing from 6.3% in 2003 to 6.1% in 2004.

International.

Net sales in the Company's international operations increased $32.8 or 8.0% in 2004, as compared with 2003. Excluding the impact of foreign currency fluctuations, international sales increased by 1.0% in 2004, as compared to 2003.

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In Europe, which is comprised of Europe and the Middle East, net sales decreased by $3.7, or 3.0%, to $120.6 for 2004, as compared with 2003. Excluding the impact of foreign currency fluctuations, net sales decreased by $15.1 or 12.2% in 2004, as compared with 2003. The decline in net sales excluding the impact of foreign currency fluctuations was due to lower sales in the U.K., in part due to reduced customer inventory levels and higher allowances granted to customers (which the Company estimates contributed to an approximate 9.4% reduction in net sales in 2004 for the region, as compared with 2003) and lower sales to distributors in Russia and Germany (which the Company estimates contributed to an approximate 4.3% reduction in net sales in 2004 for the region, as compared with 2003), partially offset by increased sales in Israel (which the Company estimates contributed to an approximate 1.3% increase in net sales in 2004 for the region, as compared with 2003).

On September 22, 2004, the Company exercised its contractual rights to terminate its 2002 supply agreement with COSi that is currently scheduled to become effective on June 30, 2005. The Company intends to transition such manufacturing primarily to its Oxford, North Carolina facility and distribution and warehousing to a local U.K.-based third party and does not currently expect any disruption in its supply chain. During 2004, COSi earned approximately $1.9 in performance-based payments. In December 2004, the Company and COSi entered into a transitional agreement covering the period through termination pursuant to which, among other things, COSi is eligible to receive $1.9 in additional performance-based payments if they maintain specific production service level objectives under the agreement (however, the Company expects that such payments, if any, will be fully set off against payments that will become due to the Company from COSi in connection with the cessation of such arrangement).

In Latin America, which is comprised of Mexico, Central America and South America, net sales increased by $2.5 or 2.8%, to $94.7 for 2004, as compared with 2003. Excluding the impact of foreign currency fluctuations, net sales increased by $4.8 or 5.2% in 2004, as compared with 2003. The increase in net sales excluding the impact of foreign currency fluctuations was primarily due to increased sales in Brazil, Venezuela and certain distributor markets (which the Company estimates contributed to an approximate 11.5% increase in net sales for the region in 2004, as compared with 2003) due to improved local economic and business conditions, partially offset by lower sales in Mexico (which the Company estimates contributed to an approximate 5.2% reduction in net sales in 2004 for the region, as compared with 2003).

In the Far East and Africa, net sales increased by $34.0 or 17.7%, to $226.2 for 2004, as compared with 2003. Excluding the impact of foreign currency fluctuations, net sales increased $14.4 or 7.5% for 2004, as compared with 2003. This increase was driven by higher sales in South Africa and Japan related to favorable economic conditions (which the Company estimates contributed to an approximate 6.0% increase in net sales in 2004 for the region, as compared with 2003).

Gross profit:

	Year Ended December 31,		Dollar
	2004	2003	Change

Gross profit	$	811.9	$	798.2	$	13.7

Excluding foreign exchange fluctuations, gross profit for 2004 decreased $6.3, as compared to 2003, reflecting higher total returns, allowances and discounts, partially offset by higher volumes, the aforementioned increase in licensing revenue and lower cost of goods sold. Gross profit as a percent of sales, excluding the impact of foreign exchange, increased to 62.6% in 2004 from 61.4% in 2003 primarily due to cost savings and the aforementioned higher licensing revenues, partially offset by higher total returns, allowances and discounts.

SG&A expenses:

	Year Ended December 31,				Dollar	
	2004		2003		Change	
SG&A expenses	$	717.6	$	770.9	$	53.3

SG&A expenses decreased $53.3, or 6.9%, to $717.6 for 2004, as compared to 2003, due primarily to $36.7 of lower marketing spending and the absence of fees and expenses related to the stabilization and growth phase of the Company's plan in 2004 versus $26.1 of expenses in 2003, partially offset by $14.9 of unfavorable foreign exchange fluctuations.

Restructuring costs:

	Year Ended December 31,				Dollar	
	2004		2003		Change	
Restructuring costs and other, net	$	5.8	$	6.0	$	0.2

The Company recorded $5.8 in 2004 and $6.0 in 2003 for employee severance and other personnel benefits. The Company expects to save $3.8 annually as a result of the charges taken in 2004.

Other expenses (income):

	Year Ended December 31,				Dollar	
	2004		2003		Change	
Interest expense	$	130.8	$	174.5	$	43.7

The decrease in interest expense of $43.7 for 2004, as compared to 2003, is primarily due to lower consolidated debt during 2004, resulting from the Revlon Exchange Transactions, partially offset by higher borrowings under the 2004 Credit Agreement to repay the 2001 Credit Agreement, tender for and redeem the 12% Senior Secured Notes (including applicable premium and accrued interest) and to pay fees and expenses. (See Note 9 to the Consolidated Financial Statements).

	Year Ended December 31, 2004	2003	Dollar Change
Loss on early extinguishment of debt	$ 90.7	$ —	$ (90.7)

The loss on early extinguishment of debt in 2004 represents the loss on the exchange of equity for certain indebtedness in the Revlon Exchange Transactions (such loss was equal to the difference between the fair value of the equity securities issued and the book value of the related indebtedness exchanged by third parties other than MacAndrews & Forbes or related parties) and fees, expenses and the write-off of deferred financing costs related to the Revlon Exchange Transactions, the tender for and redemption of the 12% Senior Secured Notes (including the applicable premium) and the repayment of the 2001 Credit Agreement. (See Note 9 to the Consolidated Financial Statements).

	Year Ended December 31, 2004	2003	Dollar Change
Miscellaneous, net	$ 2.0	$ 0.5	$ (1.5)

The increase in miscellaneous, net for 2004, as compared to the comparable 2003 period, is primarily due to fees and expenses associated with the refinancing that Products Corporation launched in May 2004 but did not consummate.

Provision for income taxes:

	Year Ended December 31, 2004	2003	Dollar Change
Provision for income taxes	$ 9.3	$ 0.5	$ (8.8)

The increase in the provision for income taxes in 2004 is due to higher taxable income in certain markets outside the U.S. in the 2004 period. Additionally, the 2004 and 2003 periods benefited approximately $2.9 and $7.0, respectively, from the favorable resolution of various tax audits.

Year ended December 31, 2003 compared with year ended December 31, 2002

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

Net sales:

	Year Ended December 31, 2003	2002	Dollar Change	Percent Change
United States and Canada	$ 890.6	$ 760.1	$ 130.5	17.2%

International	408.7	359.3	49.4(1)	13.7%
	$ 1,299.3	$ 1,119.4	$ 179.9(2)	16.1%

(1)Excluding the impact of currency fluctuations, International net sales increased 4.6%.
(2)Excluding the impact of currency fluctuations, consolidated net sales increased 12.6%.

United States and Canada.

The increase in net sales in the U.S. and Canada in 2003 was primarily driven by (1) lower net charges for sales returns, allowances and discounts of $137.6 in the 2003 period since 2002 included significant amounts of returns due to the growth plan; and to revised estimates of returns based on favorable experience in 2003 versus 2002 returns estimates; and (2) foreign currency translations benefits, partially offset by lower licensing revenues of $8.6 in 2003. Market share in the U.S. mass market for color cosmetics for **Almay** and **Revlon** combined increased by 0.3% for the full year 2003 compared with 2002. These sales and market share gains were achieved in the context of a weaker than expected U.S. mass market color cosmetics category which, as measured by ACNielsen, declined by 1.9% during 2003.

International.

In Europe, which is comprised of Europe and the Middle East, net sales increased by $16.5, or 15.3%, to $124.3 for 2003, as compared with 2002. The increase in the European region was primarily due to the impact of favorable currency fluctuations (which factor the Company estimates contributed to an approximate 12.2% increase in net sales for the region) and increased sales volume and lower sales returns in the U.K. and France (which factor the Company estimates contributed to an approximate 6.7% increase in net sales for the region). Such factors were partially offset by lower sales volume in certain distributor markets in Russia and Germany, where the Company's distributors experienced financial problems (which factor the Company estimates contributed to an approximate 3.5% reduction in net sales for the region).

In Latin America, which is comprised of Mexico, Central America and South America, net sales decreased by $1.9, or 2.0%, to $92.2 for 2003, as compared with 2002. The decrease in the Latin American region was primarily due to decreased sales volume in Brazil and Mexico, where sales were impacted by local adverse economic conditions, a decline in the mass retail category and a reduction of customer inventory levels (which factors the Company estimates contributed to an approximate 10.0% reduction in net sales for the region) and the impact of adverse currency fluctuations (which factor the Company estimates contributed to an approximate 9.4% reduction in net sales for the region), which was partially offset by increased sales volume in Venezuela, Argentina and certain distributor markets (which factor the Company estimates contributed to an approximate 17.0% increase in net sales for the region).

In the Far East and Africa, net sales increased by $34.8, or 22.1%, to $192.2 for 2003, as compared with 2002. The increase in the Far East and Africa region was primarily due to the impact of favorable currency fluctuations (which factor the Company estimates contributed to an approximate 18.0% increase in net sales for the region) and increased sales volume in South Africa, Japan and China, where the Company's products experienced strong demand as a result of favorable general economic conditions and the effect of strong brand marketing activities (which factors the Company estimates contributed to an approximate 4.0% increase in net sales for the region), which the Company believes were partially offset by the economic impact of the SARS outbreak in China.

During 2002, the Company experienced production difficulties with COSi, its principal third party manufacturer for Europe and certain other international markets, which operates the Maesteg facility. To rectify this situation, on October 31, 2002 Products Corporation and such manufacturer terminated the long-term supply agreement and entered into a new, more flexible agreement which had significantly reduced volume commitments and, among other things, Products Corporation loaned COSi approximately $2.0 and COSi was eligible to earn performance-based payments of approximately $6.3 over a 4-year period contingent upon the supplier achieving specific production service level objectives. During 2003 and 2002, COSi earned approximately $1.8 and $1.6, respectively, in performance-based payments.

Gross profit:

	Year Ended December 31,		Dollar
	2003	2002	Change
Gross profit	$ 798.2	$ 615.7	$ 182.5

The $182.5 increase in gross profit for 2003, as compared to the comparable 2002 period, is primarily due to lower sales returns, allowances and discounts of $144.5 in the 2003 period (which includes the impact of the stabilization and growth phase of the Company's plan, which began in December 2002) and higher sales volume of $43.8 (which includes the favorable impact of currency fluctuations). Such increases in 2003 were partially offset by unfavorable product mix in 2003 and a decrease in licensing and other revenue of $8.4 in 2003. Gross margins in 2003 improved to 61.4% versus 55.0% in 2002 due to the previously discussed lower sales returns, allowances and discounts.

SG&A expenses:

	Year Ended December 31,		Dollar
	2003	2002	Change
SG&A expenses	$ 770.9	$ 717.0	$ (53.9)

The increase in SG&A expenses for 2003, as compared to 2002, was primarily due to higher brand support of $38.7 principally related to the stabilization and growth phase of the Company's plan, higher personnel-related expenses and professional fees of $19.2 (including expenses related to the stabilization and growth phase of the Company's plan) and rent expense of $2.7, partially offset by lower depreciation and amortization of $8.9 in the 2003 period due to accelerated amortization of wall displays in 2002 as the Company transitioned to its new wall displays as part of the stabilization and growth phase of its plan.

Restructuring costs:

	Year Ended December 31,		Dollar
	2003	2002	Change
Restructuring costs	$ 6.0	$ 13.6	$ 7.6

During 2003, the Company recorded a separate charge of $5.9, for employee severance and other personnel benefits in certain International operations.

During the third quarter of 2000, the Company initiated a new restructuring program in line with the original restructuring plan developed in late 1998, designed to improve profitability by reducing personnel and consolidating manufacturing facilities. The 2000 restructuring program focused on the Company's plans to close its manufacturing operations in Phoenix, Arizona and Mississauga, Canada and to consolidate its cosmetics production into its plant in Oxford, North Carolina. The 2000 restructuring program also includes the remaining obligation for excess leased real estate in the Company's headquarters, consolidation costs associated with the Company closing its facility in New Zealand, and the elimination of several domestic and international executive and operational positions, each of which were effected to reduce and streamline corporate overhead costs. During 2003 and 2002, the Company continued to implement the 2000 restructuring program, and recorded charges of $0.1 and $13.6, respectively, principally for additional employee severance and other personnel benefits, primarily resulting from reductions in the Company's worldwide sales force, relocation and other costs related to the consolidation of the Company's worldwide operations.

The Company anticipates annualized savings of approximately $12 to $14 relating to the restructuring charges recorded during 2003.

Other expenses (income):

	Year Ended December 31,		Dollar
	2003	2002	Change
Interest expense	$ 174.5	$ 159.0	$ (15.5)

The increase in interest expense for 2003, as compared to 2002, was primarily due to higher overall borrowings during 2003, including amounts borrowed under the 2001 Credit Agreement (as hereinafter defined) and the 2003 MacAndrews & Forbes Loans (as hereinafter defined) and higher interest rates under the 2001 Credit Agreement as a result of the amendment to the 2001 Credit Agreement in February 2003. (See Note 9 to the Consolidated Financial Statements).

Provision for income taxes:

	Year Ended December 31,		Dollar
	2003	2002	Change
Provision for income taxes	$ 0.5	$ 4.8	$ 4.3

The reduction in the provision for income taxes in 2003 was primarily attributable to the resolution of various tax audits, which reduced tax expense by approximately $7.0, partially offset by higher taxable income in certain markets outside the United States.

Financial Condition, Liquidity and Capital Resources

Net cash used for operating activities was $94.2, $166.4 and $112.3 for 2004, 2003 and 2002, respectively. This improvement in cash flows in 2004 versus 2003 resulted primarily from higher operating income, lower purchases of permanent displays, lower accrued expenses and lower cash spending in connection with the stabilization and growth phase of the Company's plan and lower interest payments. The increase in net cash used for operating activities for 2003, compared to 2002, resulted primarily from a decrease in accrued liabilities mainly associated with the implementation of the various aspects of the stabilization and growth phase of the Company's plan and higher spending on displays due to the roll out of the Company's reconfigured permanent wall displays, partially offset by lower net loss and lower accounts receivable due to earlier payment terms with many of the Company's large U.S. customers. The Company received $11.8, $5.3 and $11.5 in 2004, 2003 and 2002, respectively, related to prepaid minimum royalties under a licensing agreements.

Net cash used for investing activities was $18.9, $23.3 and $14.2 for 2004, 2003 and 2002, respectively. Net cash used for investing activities for 2004 primarily consisted of capital expenditures. Net cash used for investing activities for 2003 primarily consisted of capital expenditures, partially offset by the proceeds from the sale of the Company's warehouse in Canada. Net cash used for investing activities for 2002 primarily consisted of capital expenditures.

Net cash provided by financing activities was $174.5, $151.1 and $110.3 for 2004, 2003 and 2002, respectively. Net cash provided by financing activities for 2004 included cash drawn under each of the 2001 Credit Agreement, the 2004 $125 million MacAndrews & Forbes Loan (as hereinafter defined), and the Term Loan Facility under the 2004 Credit Agreement, partially offset by the repayment of borrowings under the 2001 Credit Agreement (in connection with the refinancing thereof), the 2004 $125 million MacAndrews & Forbes Loan, payment of the redemption price, the applicable premium and interest in connection with the tender for and redemption of Products Corporation's 12% Senior Secured Notes due 2005 (the "12% Senior Secured Notes") and payment of financing costs in connection with certain amendments to the 2001 Credit Agreement during 2004, the Revlon Exchange Transactions, the 2004 Credit Agreement and the tender for and redemption of the 12% Senior Secured Notes. Net cash provided by financing activities for 2003 included cash drawn under the 2001 Credit Agreement and the 2003 MacAndrews & Forbes Loans (as hereinafter defined) and net proceeds from the 2003 Rights Offering (as hereinafter defined), partially offset by the repayment of borrowings under the 2001 Credit Agreement and payment of financing costs. Net cash provided by financing activities for 2002 included cash drawn under the 2001 Credit Agreement, partially offset by the repayment of borrowings under the 2001 Credit Agreement and payment of financing costs.

At December 31, 2004, Products Corporation had a liquidity position, of approximately $379, consisting of cash and cash equivalents as well as available borrowings from the Multi-Currency Facility (as hereinafter defined) under the 2004 Credit Agreement and the 2004 Consolidated MacAndrews & Forbes Line of Credit.

2004 Credit Agreement

On July 9, 2004, Products Corporation entered into a new credit agreement (the "2004 Credit Agreement") with certain of its subsidiaries as local borrowing subsidiaries, a syndicate of lenders, and Citicorp USA, Inc., as multi-currency administrative agent, term loan administrative agent and collateral agent.

The 2004 Credit Agreement provides up to $960.0 and consists of an $800.0 Term Loan Facility (the "Term Loan Facility") and a $160.0 asset-based multi-currency facility (the "Multi-Currency Facility"), the availability under which varies based upon the borrowing base that is determined relative to the value of eligible accounts receivable, eligible inventory and eligible real property and equipment in the U.S. and the U.K. from time to time. Products Corporation may request the Multi-Currency Facility to be increased from time to time in an aggregate principal amount not to exceed $50.0 subject to certain exceptions and subject to the lenders' agreement. The Multi-Currency Facility is available to: (i) Products Corporation in revolving credit loans denominated in U.S. dollars, (ii) Products

Corporation in swing line loans denominated in U.S. dollars up to $25.0, (iii) Products Corporation in standby and commercial letters of credit denominated in U.S. dollars and other currencies up to $50.0 and (iv) Products Corporation and certain of its international subsidiaries designated from time to time in revolving credit loans and bankers' acceptances denominated in U.S. dollars and other currencies, in each case subject to borrowing base availability. If the value of the eligible assets is not sufficient to support the $160.0 borrowing base, Products Corporation will not have full access to the Multi-Currency Facility. Products Corporation's ability to make borrowings under the Multi-Currency Facility is also conditioned upon the satisfaction of certain conditions precedent and Products Corporation's compliance with other convenants in the 2004 Credit Agreement, including a fixed charge coverage ratio that applies when the excess borrowing base is less than $30.0.

Products Corporation used the $800 of proceeds from borrowings under the Term Loan Facility to repay in full the $290.5 of outstanding indebtedness (including accrued interest) under Products Corporation's credit agreement dated November 30, 2001 and which was scheduled to mature on May 30, 2005 (the "2001 Credit Agreement"), to purchase and redeem in July and August 2004 (the "Tender Offer") all of the $363 aggregate principal amount of the 12% Senior Secured Notes for a purchase price of approximately $412.3 (including the applicable premium and accrued interest), and to pay fees and expenses incurred in connection with the 2004 Credit Agreement, the Tender Offer for the 12% Senior Secured Notes and the Revlon Exchange Transactions, including the payment of expenses related to a refinancing that Products Corporation launched in May 2004 but did not consummate. The balance of

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such proceeds is available to Products Corporation for general corporate purposes. The Multi-Currency Facility was undrawn at March 1, 2005.

The Multi-Currency Facility will terminate on July 9, 2009 and the loans under the Term Loan Facility will mature on July 9, 2010; provided that the 2004 Credit Agreement will terminate on October 31, 2005 if the 8 1/8% Senior Notes are not repaid, redeemed, repurchased or defeased in full on or before such date, on July 31, 2006 if the 9% Senior Notes are not repaid, redeemed, repurchased or defeased in full on or before such date, and on October 30, 2007 if the 8 5/8% Senior Subordinated Notes are not repaid, redeemed, repurchased or defeased on or before such date such that not more than $25.0 in aggregate principal amount of the 8 5/8% Senior Subordinated Notes remain outstanding. In addition, it would be an event of default under the 2004 Credit Agreement if Revlon, Inc. failed to undertake an approximately $110.0 equity offering and transfer the net proceeds of such offering to Products Corporation to reduce Products Corporation's outstanding indebtedness by March 31, 2006. Although the Company intends to refinance its 8 1/8% Senior Notes in the first quarter of 2005, in the event the Company does not do so, it could refinance such notes with the proceeds of a debt or equity offering. In order to facilitate any such refinancing that the Company may pursue through an equity offering, in March 2005, Revlon, Inc. and MacAndrews & Forbes Holdings amended MacAndrews & Forbes Holdings' obligation under the 2004 Investment Agreement to backstop a $109.7 equity offering to be conducted by Revlon, Inc. by accelerating such obligation to October 31, 2005 from March 31, 2006 in the event that Products Corporation has not as of such date refinanced the 8 1/8% Senior Notes and the Revlon, Inc. conducts an equity offering to effect such refinancing. (See Note 9 to the Consolidated Financial Statements).

The 2004 Credit Agreement requires Products Corporation to comply with various financial covenants and restrictions, including covenants and restrictions relating to indebtedness, liens, investments, mergers and acquisitions, dividends and transactions with affiliates of Products Corporation, each of which is subject to limited exceptions. Additionally, the 2004 Credit Agreement contains financial covenants limiting the senior secured leverage ratio of Products Corporation (the ratio of Products Corporation's Senior Secured Debt to EBITDA, as each such term is defined in the 2004 Credit Agreement) to 5.50 to 1.00 for the four consecutive quarters ending during the period from

December 31, 2004 to September 30, 2005; 5.00 to 1.00 for the four consecutive quarters ending during the period from December 31, 2005 to December 31, 2006; and 4.50 to 1.00 for the four consecutive quarters ending March 31, 2007 and each subsequent quarter until the maturity date of the 2004 Credit Agreement, and, under circumstances when the excess borrowing base under the Multi-Currency Facility is less than $30.0 for a period of 30 consecutive days or more, requiring Products Corporation to maintain a consolidated fixed charge coverage ratio (the ratio of EBITDA minus Capital Expenditures to Cash Interest Expense for such period, as each such term is defined in the 2004 Credit Agreement) of 1.00 to 1.00.

2004 Consolidated MacAndrews & Forbes Line of Credit

On July 9, 2004, Products Corporation and MacAndrews & Forbes Inc. entered into an agreement, which effective as of August 10, 2004 amended, restated and consolidated the facilities for the MacAndrews & Forbes $65 million line of credit and the 2004 MacAndrews & Forbes $125 million term loan (as to which after the Revlon Exchange Transactions the total term loan availability was $87) into the single 2004 Consolidated MacAndrews & Forbes line of credit (the "2004 Consolidated MacAndrews & Forbes Line of Credit") with availability of $152 at March 1, 2005, the commitment under which reduces to $87 as of July 1, 2005 and terminates on December 1, 2005. Loans are available under the 2004 Consolidated MacAndrews & Forbes Line of Credit if (i) the Multi-Currency Facility under the 2004 Credit Agreement has been substantially drawn (after taking into account anticipated needs for Local Loans and letters of credit), (ii) such borrowing is necessary to cause the excess borrowing base under the Multi-Currency Facility to remain greater than $30, (iii) additional revolving loans are not available under the Multi-Currency Facility or (iv) such borrowing is reasonably necessary to prevent or to cure a default or event of default under the 2004 Credit Agreement. Loans under the 2004 Consolidated MacAndrews & Forbes Line of Credit bear interest (which is not payable in cash but is capitalized quarterly in arrears) at a rate per annum equal to the lesser of (a) 12.0% and (b) 0.25% less than the rate payable from time to time on Eurodollar loans under the Term Loan Facility under the 2004 Credit Agreement, which on March 1, 2005 was 8.59%, provided, that at any time that the Eurodollar Base Rate under the 2004 Credit

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Agreement is equal to or greater than 3.0%, the applicable rate to loans under the 2004 Consolidated MacAndrews & Forbes Line of Credit will be equal to the lesser of (x) 12.0% and (y) 5.25% over the Eurodollar Base Rate then in effect. In connection with the 2004 Consolidated MacAndrews & Forbes Line of Credit, on July 15, 2004, Revlon, Inc., Fidelity Management & Research Company ("Fidelity") and MacAndrews & Forbes agreed to eliminate the Borrowing Limitation (as hereinafter defined).

2004 Debt Reduction Transactions

In February 2004, the Company's Board of Directors approved agreements with Fidelity and MacAndrews & Forbes intended to dramatically strengthen the Company's balance sheet. The decision to enter into these transactions followed the announcement in December 2003 that the Company's Board of Directors had authorized management to begin exploring various alternatives to strengthen the Company's balance sheet and increase equity. Certain aspects of the refinancings may be subject to Board of Director, stockholder, lender, and regulatory approvals.

In March 2004, the Company exchanged approximately $804 of Products Corporation's debt, $54.6 of Revlon, Inc. Preferred Stock and $9.9 of accrued interest for 299,969,493 shares of Class A Common Stock (the "Revlon Exchange Transactions"). As a result of the Revlon Exchange Transactions, Revlon, Inc. reduced Products Corporation's debt by approximately $804 on March 25, 2004. In addition to the Revlon Exchange Transactions, pursuant to the 2004

Investment Agreement, Revlon, Inc. is committed to conduct further rights and equity offerings in the amount of approximately $110 by the end of March 2006, the net proceeds of which will be transferred to Products Corporation to reduce its debt (such equity offerings, together with the Revlon Exchange Transactions, are referred to as the "Debt Reduction Transactions"). The terms of any other equity offerings to be undertaken in connection with the Debt Reduction Transactions, including the subscription prices, will be determined by Revlon, Inc.'s Board of Directors at the appropriate times. (See "Recent Developments").

As part of the Revlon Exchange Transactions, MacAndrews & Forbes received Class A Common Stock in respect of any and all outstanding amounts owing to it, as of the closing date of the Revlon Exchange Transactions, under the MacAndrews & Forbes $100 term loan (which was approximately $109.7 at March 25, 2004, including accrued interest), the 2004 MacAndrews & Forbes $125 million term loan (which was approximately $38.9 at March 25, 2004, including accrued interest) and approximately $24.1 of subordinated promissory notes. The portions of the 2004 MacAndrews & Forbes $125 million term loan and the MacAndrews & Forbes $65 million line of credit (which was undrawn) not exchanged in the Revlon Exchange Transactions remained available to Products Corporation, subject to the Borrowing Limitation, which was subsequently eliminated. The 2004 MacAndrews & Forbes $125 million term loan and the MacAndrews & Forbes $65 million line of credit were consolidated into the 2004 Consolidated MacAndrews & Forbes Line of Credit in July 2004. (See Note 9 to the Consolidated Financial Statements).

In another contemporaneous transaction to the Revlon Exchange Transactions, Revlon, Inc. and Fidelity entered into a stockholders agreement (the "Stockholders Agreement") pursuant to which, among other things, (i) Revlon, Inc. agreed to continue to maintain a majority of independent directors (as defined by NYSE listing standards) on its Board of Directors, as it currently does; (ii) Revlon, Inc. would establish and maintain a Nominating and Corporate Governance Committee of the Board of Directors, which it formed in March 2004; and (iii) Revlon, Inc. agreed to certain restrictions with respect to Revlon, Inc.'s conducting any business or entering into any transactions or series of related transactions with any of its affiliates, any holders of 10% or more of the outstanding voting stock or any affiliates of such holders (in each case, other than its subsidiaries). The Stockholders Agreement will terminate at such time as Fidelity ceases to be the beneficial holder of at least 5% of Revlon, Inc.'s outstanding voting stock. Also, in conjunction with the Revlon Exchange Transactions, in February 2004, Products Corporation entered into various amendments to its 2001 Credit Agreement that it entered into on November 30, 2001, one of which added a new $64.4 term loan facility to the 2001 Credit Agreement (the "Exchange Bank Amendments"), which agreement was subsequently refinanced in July 2004, as discussed above.

As a result of the consummation of the Revlon Exchange Transactions, approximately $133.8 principal amount of the 8 1/8% Senior Notes, approximately $174.5 principal amount of the 9% Senior

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Notes and approximately $322.9 principal amount of the 8 5/8% Senior Subordinated Notes (collectively, the "Revlon Exchange Notes") were exchanged for an aggregate of approximately 224.1 million shares of Class A Common Stock, including such shares issued in exchange for accrued interest on the Revlon Exchange Notes. Such amount of Revlon Exchange Notes exchanged included approximately $1.0 of the 9% Senior Notes and approximately $286.7 of the 8 5/8% Senior Subordinated Notes tendered by MacAndrews & Forbes and other entities related to it; and approximately $85.9 of the 9% Senior Notes, approximately $77.8 of the 8 1/8% Senior Notes and approximately $32.1 of the 8 5/8% Senior Subordinated Notes tendered by funds and accounts managed by Fidelity.

MacAndrews & Forbes exchanged approximately $109.7 of existing indebtedness (including principal and accrued interest) under the MacAndrews & Forbes $100 million term loan (as hereinafter defined) for approximately 43.9

million shares of Class A Common Stock, approximately $38.9 of existing indebtedness (including principal and accrued interest) under the 2004 MacAndrews & Forbes $125 million term loan for approximately 15.6 million shares of Class A Common Stock and approximately $24.1of indebtedness under certain subordinated promissory notes payable to MacAndrews & Forbes for approximately 7.2 million shares of Class A Common Stock. REV Holdings exchanged all of Revlon, Inc.'s previously outstanding Series A preferred stock for an aggregate of approximately 8.7 million shares of Class A Common Stock and converted all of its shares of Revlon, Inc.'s previously outstanding Series B preferred stock into 433,333 shares of Class A Common Stock.

As of December 31, 2004, Revlon, Inc. had outstanding 338,867,944 shares of its Class A Common Stock and 31.25 million shares of its Class B Common Stock, with MacAndrews & Forbes beneficially owning as of that date approximately 221.4 million shares of the Common Stock (including approximately 32.6 million shares of the Class A Common Stock beneficially owned by a family member of the controlling stockholder with respect to which MacAndrews & Forbes holds a voting proxy). Such shares beneficially owned by MacAndrews & Forbes as of December 31, 2004 represented approximately 59.9% of the outstanding shares of the Common Stock and approximately 77.2% of the combined voting power of the Common Stock. Of the shares beneficially owned by MacAndrews & Forbes as of that date, REV Holdings owned approximately 20.8 million shares of Class A Common Stock and 31.25 million shares of Class B Common Stock.

In connection with consummating the Revlon Exchange Transactions, Revlon, Inc. announced that its previously announced plan to launch a rights offering and use the proceeds to reduce debt by a further $50 by year-end 2004 was reduced to $9.7, as a result of $190.3 of Revlon Exchange Notes having been exchanged in excess of the Revlon Exchange Notes committed to be exchanged by MacAndrews & Forbes and Fidelity under their respective support agreements. This $190.3 more than satisfied Revlon, Inc.'s plan to reduce debt through the Revlon Exchange Offers (as hereinafter defined) by $150 in addition to the Revlon Exchange Notes that were committed to be exchanged in the support agreements with MacAndrews & Forbes and Fidelity. The $40.3 difference satisfied all but $9.7 of the Company's plan to reduce debt (in addition to the Revlon Exchange Notes) by a further $50 by year-end 2004. Because the costs and expenses, as well as the use of organizational resources, associated with a $9.7 rights offering would have been unduly disproportionate, Revlon, Inc.'s support agreements with MacAndrews & Forbes and Fidelity and its investment agreement with MacAndrews & Forbes (the "2004 Investment Agreement") relating to the Company's debt reduction plan were amended to enable Revlon, Inc. to satisfy the remaining $9.7 of debt reduction as part of the final stage of the Company's debt reduction plan. Therefore, Revlon, Inc. now intends to conduct an equity offering of approximately $110 by the end of March 2006 and to use such proceeds to reduce Products Corporation's debt. Consistent with agreements between MacAndrews & Forbes and Revlon, Inc. entered into contemporaneously with the agreements relating to the Revlon Exchange Transactions, MacAndrews & Forbes agreed to back-stop the $110 equity offering. (See "Recent Developments").

Products Corporation's EBITDA (as defined in the 2001 Credit Agreement) for the four consecutive fiscal quarters ended December 31, 2003 was less than the minimum of $230 required under the 2001 Credit Agreement for that period and Products Corporation's leverage ratio was 1.66:1.00, which was in excess of the maximum ratio of 1.10:1.00 permitted under the 2001 Credit Agreement for that period. Accordingly, Products Corporation sought and on January 28, 2004 secured an amendment to the 2001 Credit Agreement (the "January 2004 Bank Amendment") that included waivers of compliance with

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these covenants for the four quarters ended December 31, 2003 and, in light of the Company's expectation that its plan would affect Products Corporation's ability to comply with these covenants under the 2001 Credit Agreement during

2004, an amendment to eliminate the EBITDA and leverage ratio covenants of the 2001 Credit Agreement for the first three quarters of 2004 and a waiver of compliance with such covenants for the four quarters ending December 31, 2004 expiring on January 31, 2005. In July 2004, the 2001 Credit Agreement was repaid and refinanced with the 2004 Credit Agreement.

In December 2003, Revlon, Inc. announced that its Board of Directors approved two loans from MacAndrews & Forbes Holdings, one to provide up to $100 (the "2004 MacAndrews & Forbes Loan"), if needed, to enable the Company to continue to implement and refine its plan, and the other to provide an additional $25 (the "$25 million MacAndrews & Forbes Loan") to be used for general corporate purposes. The 2004 MacAndrews & Forbes Loan and $25 million MacAndrews & Forbes Loan were consolidated into one term loan agreement (referred to herein as the "2004 MacAndrews & Forbes $125 million term loan").

The 2004 MacAndrews & Forbes $125 million term loan, as discussed in Note 9 to the Consolidated Financial Statements, was consolidated with the MacAndrews & Forbes $65 million line of credit into the 2004 Consolidated MacAndrews & Forbes Line of Credit in July 2004, with availability of $152. (See Note 9 to the Consolidated Financial Statements).

2003 Financing Transactions

In February 2003, the Company entered into an investment agreement with MacAndrews & Forbes Inc. (the "2003 Investment Agreement") pursuant to which the Company undertook and, on June 20, 2003, completed, a $50 equity rights offering (the "2003 Rights Offering"), pursuant to which Revlon, Inc. issued an additional 17,605,650 shares of its Class A Common Stock, including 3,015,303 shares subscribed for by the public and 14,590,347 shares issued to MacAndrews & Forbes Inc. in a private placement (representing the number of shares of Revlon, Inc.'s Class A Common Stock that MacAndrews & Forbes Inc. would otherwise have been entitled to purchase pursuant to its basic subscription privilege, which was approximately 83% of the shares of Revlon, Inc.'s Class A Common Stock offered in the 2003 Rights Offering).

In addition, in connection with the 2003 Investment Agreement, MacAndrews & Forbes Inc. also made available a $100 term loan to Products Corporation (the "MacAndrews & Forbes $100 million term loan"). The MacAndrews & Forbes $100 million term loan was exchanged for equity in connection with the Revlon Exchange Transactions. (See Note 9 to the Consolidated Financial Statements).

Additionally, MacAndrews & Forbes Inc. also provided Products Corporation with an additional $40 line of credit during 2003, which amount was originally to increase to $65 on January 1, 2004 (the "MacAndrews & Forbes $65 million line of credit") (the MacAndrews & Forbes $100 million term loan and the MacAndrews & Forbes $65 million line of credit, each as amended, are referred to as the "2003 MacAndrews & Forbes Loans") and which was originally to be available to Products Corporation through December 31, 2004 (which, as discussed in Note 9, was consolidated with the 2004 MacAndrews & Forbes $125 million term loan into the 2004 Consolidated MacAndrews & Forbes Line of Credit in July 2004).

Sources and Uses

The Company's principal sources of funds are expected to be operating revenues, cash on hand, funds available for borrowing under the 2004 Credit Agreement, the 2004 Consolidated MacAndrews & Forbes Line of Credit and other permitted lines of credit. (See Note 9 to the Consolidated Financial Statements). The 2004 Credit Agreement, the 2004 Consolidated MacAndrews & Forbes Line of Credit, Products Corporation's 8 5/8% Senior Subordinated Notes due 2008 (the "8 5/8% Senior Subordinated Notes"), Products Corporation's 8 1/8% Senior Notes due 2006 (the "8 1/8% Senior Notes") and Products Corporation's 9% Senior Notes due 2006 (the "9% Senior Notes") contain certain provisions that by their terms limit Products Corporation's and its subsidiaries' ability to, among other things, incur additional debt. See "Part I, Item 1—Recent Developments."

The Company's principal uses of funds are expected to be the payment of operating expenses, including expenses in connection with the continued implementation of, and refinement to, the

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Company's plan, purchases of permanent wall displays, capital expenditure requirements, payments in connection with the Company's restructuring programs referred to herein, debt service payments and costs and regularly scheduled pension contributions. Cash contributions to the Company's pension and post-retirement benefit plans were approximately $34 in 2004 and the Company expects them to be approximately $24 in 2005.

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

The Company previously estimated that charges related to the implementation of the stabilization and growth phase of its plan would not exceed $160. The Company recorded charges of approximately $104 in 2002, approximately $31 in 2003 and nil in 2004 related to the implementation of the stabilization and growth phase of its plan. Cash payments related to the foregoing charges were approximately $80 and $20 during 2003 and 2004, respectively.

The Company developed a new design for its wall displays (which the Company is continuing to refine as part of the implementation of its plan) and began installing them at certain customers' retail stores during 2002. While most of the new wall displays were installed during 2002 and 2003, the Company continued to install the remainder of the wall displays during 2004. The Company is also reconfiguring existing wall displays at its retail customers. Accordingly, the Company accelerated the amortization of its old wall displays. The Company estimates that purchases of wall displays for 2005 will be approximately $50 to $60. The Company estimates that capital expenditures for 2005 will be approximately $20 to $30.

The Company expects that operating revenues, cash on hand and funds available for borrowing under the 2004 Credit Agreement, the 2004 Consolidated MacAndrews & Forbes Line of Credit and other permitted lines of credit will be sufficient to enable the Company to cover its operating expenses for 2005, including cash requirements in connection with the Company's operations, the continued implementation of, and refinement to, the Company's plan, cash requirements in connection with the Company's restructuring programs referred to above, the Company's debt service requirements and regularly scheduled pension contributions. (See Note 9 to the Consolidated Financial Statements). However, there can be no assurance that such funds will be sufficient to meet the Company's cash requirements on a consolidated basis. If the Company's anticipated level of revenue growth is not achieved because, for example, of decreased consumer spending in response to weak economic conditions or weakness in the mass market cosmetics category, adverse changes in currency, increased competition from the Company's competitors, changes in consumer purchasing habits, including with respect to shopping channels, or the Company's advertising and marketing plans are not as successful as anticipated, or if the Company's expenses associated with the continued implementation of, and refinement to, the Company's plan exceed the anticipated level of expenses, the Company's current sources of funds may be insufficient to meet the Company's cash requirements.

The U.S. mass-market color cosmetics category during 2004 and 2003 was softer than the Company expected, declining by 2.5% in 2004 and 1.9% in 2003. Despite this softness in the U.S. mass-market color cosmetics category, based upon the Company's belief that its continued implementation of its plan is proving effective, the Company intends to continue to support its plan. Additionally, in the event of a decrease in demand for Products Corporation's products, reduced sales, lack of increases in demand and sales, changes in consumer purchasing habits, including with respect to shopping channels, and/or increased returns or expenses associated with the continued implementation of, and refinement to, the Company's plan exceed the Company's expectations, any such development, if significant, could reduce Products Corporation's revenues and could adversely affect Products Corporation's ability to comply with certain financial covenants under the 2004 Credit Agreement and in such event the Company could be required to take measures, including reducing discretionary spending.

If the Company is unable to satisfy its cash requirements from the sources identified above or comply with its debt covenants, the Company could be required to adopt one or more alternatives, such as delaying the implementation of or revising aspects of its plan, reducing or delaying purchases of wall displays or advertising or promotional expenses, reducing or delaying capital spending, delaying, reducing

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or revising restructuring programs, restructuring indebtedness, selling assets or operations, seeking additional capital contributions or loans from MacAndrews & Forbes, the Company's other affiliates or third parties, selling additional equity or debt securities of Revlon, Inc. (or debt securities of Products Corporation) or reducing other discretionary spending. There can be no assurance that the Company would be able to take any of the actions referred to above because of a variety of commercial or market factors or constraints in the Company's debt instruments, including, for example, market conditions being unfavorable for an equity or debt offering, additional capital contributions or loans not being available from affiliates or third parties, or that the transactions may not be permitted under the terms of the Company's various debt instruments then in effect, because of restrictions on the incurrence of debt, incurrence of liens, asset dispositions and related party transactions. In addition, such actions, if ever taken, may not enable the Company to satisfy its cash requirements or comply with its debt covenants if the actions do not generate a sufficient amount of additional capital.

The Company may have debt maturing in 2005 if and to the extent Products Corporation draws under the 2004 Consolidated MacAndrews & Forbes Line of Credit. As noted in "Recent Developments", on March 8, 2005, Products Corporation announced its intention to complete, in the first quarter of 2005, a refinancing of its 8 1/8% Senior Notes and 9% Senior Notes due 2006, which currently have outstanding an aggregate principal amount of $116.2 and $75.5, respectively. The Company intends to likewise refinance Products Corporation's 8 5/8% Senior Subordinated Notes, with an aggregate principal amount outstanding of $327.0, prior to their maturity in 2008. Under the 2004 Credit Agreement, Products Corporation must refinance the 8 1/8% Senior Notes by October 31, 2005, the 9% Senior Notes by July 31, 2006 and the 8 5/8% Senior Subordinated Notes by October 30, 2007 (such that in the case of the 8 5/8% Senior Subordinated Notes not more than $25.0 aggregate principal amount remains outstanding). In addition, it would be an event of default under the 2004 Credit Agreement if Revlon, Inc. failed to undertake a $110.0 equity offering and transfer the net proceeds of such offering to Products Corporation to reduce Products Corporation's outstanding indebtedness by March 31, 2006. As of March 1, 2005, Products Corporation had drawn $800.0 under the Term Loan Facility of the 2004 Credit Agreement and had availability of $143.1 under the Multi-Currency Facility and $152 under the 2004 Consolidated MacAndrews & Forbes Line of Credit. (See Note 9 to the Consolidated Financial Statements).

Revlon, Inc., as a holding company, will be dependent on the earnings and cash flow of, and dividends and distributions from, Products Corporation to pay its expenses and to pay any cash dividend or distribution on Revlon, Inc.'s Class A Common Stock that may be authorized by the Board of Directors of Revlon, Inc. The terms of the 2004 Credit Agreement, the 2004 Consolidated MacAndrews & Forbes Line of Credit, the 8 5/8% Senior Subordinated Notes, the 8 1/8% Senior Notes and the 9% Senior Notes generally restrict Products Corporation from paying dividends or making distributions, except that Products Corporation is permitted to pay dividends and make distributions to Revlon, Inc. to enable Revlon, Inc., among other things, to pay expenses incidental to being a public holding company, including, among other things, professional fees such as legal and accounting fees, regulatory fees such as Commission filing fees and other miscellaneous expenses related to being a public holding company and, subject to certain limitations, to pay dividends or make distributions in certain circumstances to finance the purchase by Revlon, Inc. of its Class A Common Stock in connection with the delivery of such Class A Common Stock to grantees under the Amended and Restated Revlon, Inc. Stock Plan (the "Stock Plan").

As a result of the closing of the Revlon Exchange Transactions (see "— Debt Reduction Transactions and Related Agreements — Debt Reduction Transactions"), as of the end of March 25, 2004, Revlon, Inc., Products Corporation and their U.S. subsidiaries were no longer included in the MacAndrews & Forbes Holdings consolidated group (the "MacAndrews & Forbes Group") for federal income tax purposes. The MacAndrews & Forbes Tax Sharing Agreement (as defined below) will remain in effect solely for taxable periods beginning on or after January 1, 1992, through and including March 25, 2004. In these taxable periods, Revlon, Inc. and Products Corporation were included in the MacAndrews & Forbes Group, and Revlon, Inc.'s and Products Corporation's federal taxable income and loss were included in such group's consolidated tax return filed by MacAndrews & Forbes Holdings. Revlon, Inc. and Products Corporation were also included in certain state and local tax returns of MacAndrews & Forbes Holdings or its subsidiaries. In June 1992, Revlon Holdings (as hereinafter defined), Revlon, Inc.,

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Products Corporation and certain of its subsidiaries, and MacAndrews & Forbes Holdings entered into a tax sharing agreement (as subsequently amended and restated, the "MacAndrews & Forbes Tax Sharing Agreement"), pursuant to which MacAndrews & Forbes Holdings agreed to indemnify Revlon, Inc. and Products Corporation against federal, state or local income tax liabilities of the MacAndrews & Forbes Group (other than in respect of Revlon, Inc. and Products Corporation) for taxable periods beginning on or after January 1, 1992 during which Revlon, Inc. and Products Corporation or a subsidiary of Products Corporation was a member of such group. Pursuant to the MacAndrews & Forbes Tax Sharing Agreement, for all such taxable periods, Products Corporation was required to pay to Revlon, Inc., which in turn was required to pay to Revlon Holdings, amounts equal to the taxes that Products Corporation would otherwise have had to pay if it were to file separate federal, state or local income tax returns (including any amounts determined to be due as a result of a redetermination arising from an audit or otherwise of the consolidated or combined tax liability relating to any such period which was attributable to Products Corporation), except that Products Corporation was not entitled to carry back any losses to taxable periods ending prior to January 1, 1992. No payments were required by Products Corporation or Revlon, Inc. if and to the extent Products Corporation was prohibited under the terms of its 2004 Credit Agreement from making tax sharing payments to Revlon, Inc. The 2004 Credit Agreement prohibits Products Corporation from making such tax sharing payments under the MacAndrews & Forbes Tax Sharing Agreement other than in respect of state and local income taxes. The MacAndrews & Forbes Tax Sharing Agreement was amended, effective as of January 1, 2001, to eliminate a contingent payment to Revlon, Inc. under certain circumstances in return for a $10 million note with interest at 12% and interest and principal payable by MacAndrews & Forbes Holdings on December 31, 2005. As a result of tax net operating losses and prohibitions under the 2004 Credit Agreement, there were no federal tax payments or payments in lieu of taxes pursuant to the MacAndrews & Forbes Tax Sharing Agreement in respect of 2004.

Following the closing of the Revlon Exchange Transactions, Revlon, Inc. became the parent of a new consolidated group for federal income tax purposes and Products Corporation's federal taxable income and loss will be included in such group's consolidated tax returns. Accordingly, Revlon, Inc. and Products Corporation entered into a new tax sharing agreement (the "Revlon Tax Sharing Agreement") pursuant to which Products Corporation will be required to pay to Revlon, Inc. amounts equal to the taxes that Products Corporation would otherwise have had to pay if Products Corporation were to file separate federal, state or local income tax returns, limited to the amount, and payable only at such times, as Revlon, Inc. will be required to make payments to the applicable taxing authorities. The 2004 Credit Agreement does not prohibit payments from Products Corporation to Revlon, Inc. to the extent required under the Revlon Tax Sharing Agreement. As a result of tax net operating losses, we expect that there will be no federal tax payments or payments in lieu of taxes by Products Corporation to Revlon, Inc. pursuant to the Revlon Tax Sharing Agreement in respect of 2004.

As a result of dealing with suppliers and vendors in a number of foreign countries, Products Corporation enters into foreign currency forward exchange contracts and option contracts from time to time to hedge certain cash flows denominated in foreign currencies. There were foreign currency forward exchange contracts with a notional amount of $31.5 outstanding at December 31, 2004. The fair value of foreign currency forward exchange contracts outstanding at December 31, 2004 was $(2.3).

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Disclosures about Contractual Obligations and Commercial Commitments

The following table aggregates all contractual commitments and commercial obligations that affect the Company's financial condition and liquidity position as of December 31, 2004:

	Payments Due by Period (dollars in millions)				
Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term Debt, Including Current Portion	$1,318.7	$10.5	$534.2	$774.0	
Interest on Long-term Debt (a)	461.6	108.4	257.2	96.0	
Capital Lease Obligations	5.9	1.6	4.3		
Operating Leases	145.5	15.5	47.0	28.6	$54.4
Purchase Obligations (b)	30.1	30.1			
Other Long-term Obligations (c)	58.0	49.8	8.2		
Total Contractual Cash Obligations	$2,019.8	$215.9	$850.9	$898.6	$54.4

(a) Consists of interest on the 8 1/8% Senior Notes, 9% Senior Notes, 8 5/8% Senior Subordinated Notes and the $800 Term Loan Facility under the 2004 Credit Agreement through the respective maturity dates based upon assumptions regarding the amount of debt outstanding under the 2004 Credit Agreement and assumed interest rates.

(b) Consists of purchase commitments for finished goods, raw materials, components and services pursuant to enforceable and legally binding obligations which include all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction.

(c) Consists primarily of obligations related to advertising, insurance, employment contracts and other personnel service contracts. Such amounts exclude severance and other contractual commitments related to restructuring, which are discussed under "Restructuring Costs".

Off-Balance Sheet Transactions

The Company does not maintain any off-balance sheet transactions, arrangements, obligations or other relationships with unconsolidated entities or others that are reasonably likely to have a material current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment," an amendment to FASB Statements Nos. 123 and 95 ("SFAS No. 123(R)"), which replaces SFAS No. 123, and supercedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock option, to be recognized in the financial statements based on their fair values beginning with the first interim or annual period after June 15, 2005, with early adoption encouraged. The pro forma disclosures previously permitted under SFAS No. 123 no longer will be an alternative to financial statement recognition. The Company is required to adopt SFAS No. 123(R) in the third quarter of fiscal 2005, beginning July 1, 2005. Under SFAS No. 123(R), the Company must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at the date of adoption. The transition methods are either a prospective method or a retroactive

method. Under the retroactive method, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The prospective method requires that compensation expense be recorded for all unvested stock options and restricted stock at the beginning of the first quarter of adoption of SFAS No. 123(R), while the retroactive method would record compensation expense for all unvested stock options and restricted stock beginning with the first period restated. The Company is evaluating the requirements of SFAS No. 123(R) and expects that the adoption of SFAS No. 123(R) will have a material impact on the Company's consolidated results of operations and earnings per share. The Company is currently evaluating the impact of SFAS 123(R) and has not yet determined the method of adoption or the effect of adopting SFAS 123 (R), and it has not determined whether its adoption will result in amounts in future period that are similar to the Company's current pro forma disclosures under SFAS No. 123.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets - An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions" ("SFAS No. 153"). SFAS No. 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, "Accounting for Nonmonetary Transactions," and replaces it with an exception for exchanges that do not have commercial substance. SFAS No. 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for the fiscal periods beginning after June 15, 2005 and is required to be adopted by the Company beginning on January 1, 2006. The provisions of this statement will be applied prospectively. The Company is currently evaluating the impact of SFAS No. 153 and does not expect that its adoption of SFAS No. 153 will have a material impact on its consolidated results of operations and financial condition.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs - An Amendment of ARB No. 43, Chapter 4" ("SFAS No. 151"). SFAS No. 151 amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Among other provisions, the new rule requires that items such as idle facility expense, excessive spoilage, double freight, and handling cost be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal" as stated in ARB No. 43. Additionally, SFAS No. 151 requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for fiscal years beginning after June 15, 2005 and is required to be adopted by the Company beginning on January 1, 2006. The Company is currently evaluating the impact of SFAS No. 151 but does not expect that its adoption will have a material impact on its consolidated results of operations and financial condition.

In May 2004, the FASB issued FASB Staff Position No. 106-2 ("FSP 106-2"), "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" which provides guidance on the accounting for the effects of the Medicare Act. FSP No. 106-2, which requires measurement of the Accumulated Postretirement Benefit Obligation ("APBO") and net periodic postretirement benefit cost to reflect the effects of the Medicare Act, supercedes FSP 106-1. FSP 106-2 is effective for interim or annual periods beginning after June 15, 2004. Adoption of FSP 106-2 did not have a material impact on the Company's consolidated results of operations and financial condition.

Inflation

In general, the Company's costs are affected by inflation and the effects of inflation may be experienced by the Company in future periods. Management believes, however, that such effects have not been material to the Company during the past three years in the United States and in foreign non-hyperinflationary countries. The Company operates in certain countries around the world, such as Argentina, Brazil, Venezuela and Mexico that have in the past experienced hyperinflation. In hyperinflationary foreign countries, the Company attempts to mitigate the effects of inflation by increasing prices in line with inflation, where possible, and efficiently managing its working capital levels.

Subsequent Events

See "Part I, Item 1—Recent Developments."

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Sensitivity

The Company has exposure to changing interest rates, primarily in the U.S. under the Term Loan Facility and Multi-Currency Facility of the 2004 Credit Agreement. The Company's policy is to manage interest rate risk through the use of a combination of fixed and floating rate debt. The Company from time to time makes use of derivative financial instruments to adjust its fixed and floating rate ratio. There were no such derivative financial instruments outstanding at December 31, 2004. The table below provides information about the Company's indebtedness that is sensitive to changes in interest rates. The table presents cash flows with respect to principal on indebtedness and related weighted average interest rates by expected maturity dates. Weighted average variable rates are based on implied forward rates in the yield curve at December 31, 2004. The information is presented in U.S. dollar equivalents, which is the Company's reporting currency.

Exchange Rate Sensitivity

The Company manufactures and sells its products in a number of countries throughout the world and, as a result, is exposed to movements in foreign currency exchange rates. In addition, a portion of the Company's borrowings are denominated in foreign currencies, which are also subject to market risk associated with exchange rate movement. The Company from time to time hedges major foreign currency cash exposures generally through foreign exchange forward and option contracts. The contracts are entered into with major financial institutions to minimize counterparty risk. These contracts generally have a duration of less than twelve months and are primarily against the U.S. dollar. In addition, the Company enters into foreign currency swaps to hedge intercompany financing transactions. The Company does not hold or issue financial instruments for trading purposes.

The following table presents the information required by Item 7A of Form 10-K as of December 31, 2004:

	Expected maturity date for the year ended December 31,							Fair Value Dec. 31, 2004
	2005	2006	2007	2008	2009	Thereafter	Total	
				(dollars in millions)				
Debt								
Short-term variable rate (various currencies)	$ 36.6						$ 36.6	$ 36.6
Average interest rate (a)	4.3%							
Long-term fixed rate — third party ($US)	8.5	$ 183.2	$ 327.0				518.7	480.4
Average interest rate	8.1%	8.5%	8.6%					