REVLON INC /DE/
Form 10-Q
November 09, 2018

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

____

FORM 10-Q

(Mark One)
[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from__________________ to _______________

Commission File Number: 1-11178
REVLON, INC.
(Exact name of registrant as specified in its charter)

Delaware	13-3662955
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One New York Plaza, New York, New York	10004
(Address of principal executive offices)	(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No ¨

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

As of September 30, 2018, 52,836,808 shares of Class A Common Stock were outstanding. At such date, 45,002,130 shares of Class A Common Stock were beneficially owned by MacAndrews & Forbes Incorporated and certain of 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 29, 2018, the last business day of the registrant's most recently completed second fiscal quarter) was approximately $144,926,092. Accordingly, the registrant qualifies under the SEC's revised rules as a "smaller reporting company."

REVLON, INC. AND SUBSIDIARIES
INDEX

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 61.8	$ 87.1
Trade receivables, less allowance for doubtful accounts of $13.4 and $13.5 as of September 30, 2018 and December 31, 2017, respectively	441.6	444.8
Inventories	587.6	497.9
Prepaid expenses and other assets	171.2	113.4
Total current assets	1,262.2	1,143.2
Property, plant and equipment, net of accumulated depreciation of $418.1 and $385.5 as of September 30, 2018 and December 31, 2017, respectively	358.4	372.7
Deferred income taxes	198.0	138.0
Goodwill	692.1	692.5
Intangible assets, net of accumulated amortization of $160.3 and $130.9 as of September 30, 2018 and December 31, 2017, respectively	560.1	592.1
Other assets	117.5	118.4
Total assets	$ 3,188.3	$ 3,056.9
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current liabilities:		
Short-term borrowings*	$ 21.4	$ 12.4
Current portion of long-term debt	420.3	170.2
Accounts payable	363.2	336.9
Accrued expenses and other current liabilities	411.6	412.8
Total current liabilities	1,216.5	932.3
Long-term debt	2,731.4	2,653.7
Long-term pension and other post-retirement plan liabilities	164.1	172.8
Other long-term liabilities	64.5	68.5
Stockholders' deficiency:		
Class A Common Stock, par value $0.01 per share: 900,000,000 shares authorized; 55,762,771 and 54,556,100 shares issued as of September 30, 2018 and December 31, 2017, respectively	0.5	0.5
Additional paid-in capital	1,054.8	1,040.0
Treasury stock, at cost: 1,533,320 and 1,114,528 shares of Class A Common Stock as of September 30, 2018 and December 31, 2017, respectively	(25.3)	(21.7)
Accumulated deficit	(1,784.7)	(1,560.8)
Accumulated other comprehensive loss	(233.5)	(228.4)
Total stockholders' deficiency	(988.2)	(770.4)
Total liabilities and stockholders' deficiency	$ 3,188.3	$ 3,056.9

* Includes $11.0 million of borrowings as of September 30, 2018 under the 2018 Senior Line of Credit Facility between Products Corporation and MacAndrews & Forbes Incorporated, a related party. See Note 7, "Long-term Debt," for more information.

See Accompanying Notes to Unaudited Consolidated Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017 (as adjusted)(*)	2018	2017 (as adjusted)(*)
Net sales	$655.4	$ 666.5	1,822.9	$ 1,907.1
Cost of sales	305.0	290.5	807.2	824.4
Gross profit	350.4	376.0	1,015.7	1,082.7
Selling, general and administrative expenses	340.8	362.3	1,087.1	1,074.5
Acquisition and integration costs	3.4	12.7	12.0	40.2
Restructuring charges and other, net	3.9	6.4	13.9	11.3
Loss on disposal of minority investment	—	—	20.1	—
Operating income (loss)	2.3	(5.4)	(117.4)	(43.3)
Other expenses:				
Interest expense	46.4	38.6	129.1	110.3
Amortization of debt issuance costs	3.8	2.3	9.1	6.8
Foreign currency losses (gains), net	1.1	(3.1)	10.7	(16.8)
Miscellaneous, net	0.4	0.4	0.6	1.8
Other expenses	51.7	38.2	$149.5	102.1
Loss from continuing operations before income taxes	(49.4)	(43.6)	(266.9)	(145.4)
Benefit from income taxes	(38.7)	(10.8)	(43.1)	(37.8)
Loss from continuing operations, net of taxes	(10.7)	(32.8)	(223.8)	(107.6)
(Loss) income from discontinued operations, net of taxes	(0.4)	0.4	(0.1)	1.3
Net loss	$(11.1)	$ (32.4)	$(223.9)	$ (106.3)
Other comprehensive (loss) income:				
Foreign currency translation adjustments, net of tax[a]	(4.9)	(1.2)	(12.3)	5.3
Amortization of pension related costs, net of tax[b][c]	2.3	2.0	6.5	6.1
Pension curtailment, net of tax[d]	—	—	—	2.6
Reclassification into earnings of accumulated losses from the de-designated 2013 Interest Rate Swap, net of tax[e]	—	0.6	0.7	1.8
Other comprehensive (loss) income, net	(2.6)	1.4	(5.1)	15.8
Total comprehensive loss	$(13.7)	$ (31.0)	$(229.0)	$ (90.5)
Basic (loss) earnings per common share:				
Continuing operations	$(0.20)	$ (0.62)	$(4.24)	$ (2.04)
Discontinued operations	(0.01)	0.01	—	0.02
Net loss	$(0.21)	$ (0.61)	$(4.24)	$ (2.02)
Diluted (loss) earnings per common share:				
Continuing operations	$(0.20)	$ (0.62)	$(4.24)	$ (2.04)
Discontinued operations	(0.01)	0.01	—	0.02
Net loss	$(0.21)	$ (0.61)	$(4.24)	$ (2.02)
Weighted average number of common shares outstanding:				
Basic	52,834,879	52,615,412	52,777,883	52,584,954
Diluted	52,834,879	52,615,412	52,777,883	52,584,954

(*) Adjusted as a result of the adoption of certain accounting pronouncements during 2018. See Note 1, "Description of Business and Summary of Significant Accounting Policies - Recently Adopted Accounting Pronouncements," for details of these adjustments.

(a) Net of tax benefit of nil and $0.2 million for the three months ended September 30, 2018 and 2017, respectively, and tax expense of nil and $1.5 million for the nine months ended September 30, 2018 and 2017, respectively.

(b) Net of tax expense of $0.3 million and $0.4 million for the three months ended September 30, 2018 and 2017, respectively, and $0.8 million and $1.3 million for the nine months ended September 30, 2018 and 2017, respectively.

(c) This amount is included in the computation of net periodic benefit costs (income). See Note 10, "Pension and Post-Retirement Benefits," for additional information regarding net periodic benefit costs (income).

(d) Net of tax expense of $0.3 million for the nine months ended September 30, 2017.

(e) Net of tax benefit of nil and $0.4 million for the three months ended September 30, 2018 and 2017, and $0.5 million and $1.1 million for the nine months ended September 30, 2018 and 2017, respectively.

See Accompanying Notes to Unaudited Consolidated Financial Statements

REVLON, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY
(dollars in millions, except share and per share amounts)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Deficiency
Balance, January 1, 2018	$ 0.5	$ 1,040.0	$ (21.7)	$ (1,560.8)	$ (228.4)	$ (770.4)
Treasury stock acquired, at cost [(a)]	—	—	(3.6)	—	—	(3.6)
Stock-based compensation amortization	—	14.8	—	—	—	14.8
Net loss	—	—	—	(223.9)	—	(223.9)
Other comprehensive loss, net [(b)]	—	—	—	—	(5.1)	(5.1)
Balance, September 30, 2018	$ 0.5	$ 1,054.8	$ (25.3)	$ (1,784.7)	$ (233.5)	$ (988.2)

(a) Pursuant to the share withholding provisions of the Fourth Amended and Restated Revlon, Inc. Stock Plan (the "Stock Plan"), the Company withheld an aggregate of 167,297 shares of Revlon Class A Common Stock during the nine months ended September 30, 2018 to satisfy certain minimum statutory tax withholding requirements related to the vesting of restricted shares for certain senior executives. These withheld shares were recorded as treasury stock using the cost method, at a weighted-average price per share of $21.42 during the nine months ended September 30, 2018, based on the closing price of Revlon Class A Common Stock as reported on the New York Stock Exchange (the "NYSE") consolidated tape on each respective vesting date, for a total of $3.6 million. See Note 15, "Stock Compensation Plan" to the Consolidated Financial Statements in Revlon's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on March 15, 2018 (the "2017 Form 10-K"), for details regarding restricted stock awards under the Stock Plan.

(b) See Note 12, "Accumulated Other Comprehensive Loss," regarding the changes in the accumulated balances for each component of other comprehensive loss during the nine months ended September 30, 2018.

See Accompanying Notes to Unaudited Consolidated Financial Statements

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

	Nine Months Ended September 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(223.9)	$(106.3)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	119.4	111.7
Foreign currency losses (gains) from re-measurement	10.7	(20.8)
Amortization of debt discount	0.9	0.9
Stock-based compensation amortization	14.8	5.9
Benefit from deferred income taxes	(61.5)	(53.2)
Amortization of debt issuance costs	9.1	6.8
Non-cash loss on disposal of minority investment	18.6	—
Loss on sale of certain assets	0.6	1.5
Pension and other post-retirement cost	2.0	1.9
Change in assets and liabilities:		
Increase in trade receivables	(7.0)	(25.1)
Increase in inventories	(100.3)	(121.6)
Increase in prepaid expenses and other current assets	(60.5)	(13.1)
Increase in accounts payable	39.3	36.4
Decrease in accrued expenses and other current liabilities	(1.6)	(51.8)
Pension and other post-retirement plan contributions	(6.1)	(5.8)
Purchases of permanent displays	(57.0)	(37.3)
Other, net	5.8	(4.3)
Net cash used in operating activities	(296.7)	(274.2)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(41.6)	(69.5)
Net cash used in investing activities	(41.6)	(69.5)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in short-term borrowings and overdraft	2.3	1.2
Net borrowings under the 2016 Revolving Credit Facility	251.3	243.9
Net borrowings under the 2018 Foreign Asset-Based Term Loan	89.4	—
Repayments under the 2016 Term Loan Facility	(13.5)	(13.5)
Payment of financing costs	(9.4)	(1.1)
Tax withholdings related to net share settlements of restricted stock units and awards	(3.6)	(2.5)
Other financing activities	0.1	(1.3)
Net cash provided by financing activities	316.6	226.7
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(3.2)	9.4
Net decrease in cash, cash equivalents and restricted cash	(24.9)	(107.6)
Cash, cash equivalents and restricted cash at beginning of period [a]	87.4	186.8
Cash, cash equivalents and restricted cash at end of period [a]	$62.5	$79.2
Supplemental schedule of cash flow information:		
Cash paid during the period for:		

Interest	$131.4	$124.5
Income taxes, net of refunds	11.7	11.1

[a] These amounts include restricted cash of $0.7 million and $0.2 million as of September 30, 2018 and 2017, respectively, and $0.3 million and $0.4 million as of December 31, 2017 and 2016, respectively, which represent cash on deposit to support the Company's outstanding undrawn letters of credit and were included within other assets in the Company's consolidated balance sheets.

See Accompanying Notes to Unaudited Consolidated Financial Statements

5

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

Item 1. Financial Statements

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Company is a leading global beauty company with an iconic portfolio of brands that develops, manufactures, markets, distributes and sells an extensive array of color cosmetics; hair color, hair care and hair treatments; fragrances; skin care; beauty tools; men's grooming products; anti-perspirant deodorants; and other beauty care products across a variety of distribution channels.

Effective January 1, 2018, the Company implemented the brand-centric organizational structure previously announced in the Current Report on Form 8-K filed with the Securities and Exchange Commission ("SEC") on January 17, 2017. The new structure is built around four global brand teams: Revlon; Elizabeth Arden; Portfolio; and Fragrances, which represent the Company's four new reporting segments. As a result, prior period information for certain amounts has been reclassified to conform with the current period's presentation. For further information, refer to Note 13, "Segment Data and Related Information."

The accompanying Consolidated Financial Statements are unaudited. In management's opinion, all adjustments necessary for a fair presentation of the Company's financial information have been made. The Unaudited Consolidated Financial Statements include the Company's accounts after the elimination of all material intercompany balances and transactions. Certain prior year amounts have been reclassified to conform to the current year presentation.

The preparation of the Company's Unaudited Consolidated Financial Statements in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") requires management to make estimates and assumptions that affect amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and reported amounts of revenues and expenses during the periods presented. Actual results could differ from these estimates. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the Unaudited Consolidated Financial Statements in the period they are determined to be necessary. Significant estimates made in the accompanying Unaudited Consolidated Financial Statements include, but are not limited to: allowances for doubtful accounts; inventory valuation reserves; expected sales returns and allowances; trade support costs; certain assumptions related to the valuation of acquired intangible and long-lived assets and the recoverability of goodwill, intangible and long-lived assets; income taxes, including deferred tax valuation allowances and reserves for estimated tax liabilities; restructuring costs; and certain estimates and assumptions used in the calculation of the net periodic benefit (income) costs and the projected benefit obligations for the Company's pension and other post-retirement plans, including the expected long-term return on pension plan assets and the discount rate used to value the Company's pension benefit obligations. The Unaudited Consolidated Financial Statements should be read in conjunction with the audited consolidated financial statements and related notes contained in Revlon's 2017 Form 10-K.

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

Classification of Argentina's Economy as Highly Inflationary

In May 2018, the International Practices Task Force of the Center for Audit Quality issued a discussion document reporting that Argentina's 3-year cumulative inflation rate exceeded 100%. As a result, Argentina was considered highly inflationary in accordance with U.S. GAAP by no later than June 30, 2018. Consequently, the Company began to account for the operations of its Argentinian affiliate as highly inflationary and treat the U.S. dollar as the functional currency of this affiliate, effective July 1, 2018. This change in functional currency did not have a material impact on the Company’s results of operations, financial condition and/or financial statement disclosures for the period ended September 30, 2018.

Recent Transactions

The Company, through a subsidiary, had a minority investment in a third party whose subsidiaries licensed certain brand names from the Company for use in their operations. The Company's investment was in the form of a collateralized convertible note, was accounted for using the cost method and was included in other assets on the Company's consolidated balance sheet. In June 2018, the Company entered into an agreement to terminate the arrangement with the unrelated third party. After a brief transition period, the right to use the licensed brand names will revert to the Company. As a result of this termination, the Company recognized a loss on investment of approximately $20.1 million during the nine months ended September 30, 2018, comprised of

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

a one-time $1.5 million cash termination payment and non-cash charges of $18.6 million, primarily related to the write-off of the investment's carrying value.

Recently Adopted Accounting Pronouncements

Revenue Recognition

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers." This standard replaced most existing revenue recognition guidance in U.S. GAAP and codified guidance under FASB Topic 606. The underlying principle of this guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration that the entity expects that it will be entitled to receive in exchange for those goods or services.

The Company adopted ASU No. 2014-09 as of January 1, 2018 using the modified retrospective method. Results for the reporting period beginning after January 1, 2018 are presented under Topic 606, while prior period amounts continue to be reported in accordance with the Company's historic accounting practices under previous guidance. However, given the nature of the Company's products and the terms and conditions applicable to sales to its customers, the timing and amount of revenue recognized based on the underlying principles of FASB Topic 606 are consistent with the Company's revenue recognition policy under previous guidance.

In accordance with the new guidance, the Company recognizes revenue at an amount that reflects the consideration that the Company expects that it will be entitled to receive in exchange for transferring goods or services to its customers. The Company's policy is to record revenue when control of the goods transfers to the customer. Net sales are comprised of gross revenues from sales of products less expected product returns, trade discounts and customer allowances, which include costs associated with off-invoice mark-downs and other price reductions, as well as trade promotions and coupons.

The Company allows customers to return their unsold products if and when they meet certain Company-established criteria as set forth in the Company's trade terms. The Company regularly reviews and revises, when deemed necessary, its estimates of sales returns based primarily upon the historical rate of actual product returns, planned product discontinuances, new product launches and estimates of customer inventory and promotional sales. For returned products that the Company expects to resell at a profit, the Company records, in addition to sales returns as a reduction to sales and cost of sales and an increase to accrued liabilities for the amount expected to be refunded to the customer, an increase to the asset account used to reflect the Company's right to recover products. The amount of the asset account is valued based upon the former carrying amount of the product (i.e., inventory), less any expected costs to recover the products. As the estimated product returns that are expected to be resold at a profit do not comprise a significant amount of the Company's net sales or assets, the Company does not separately report these amounts.

The Company's revenues are also net of certain marketing arrangements with its retail customers. Pursuant to its trade terms with these retail customers, the Company reimburses them for a portion of their advertising costs, which provide advertising benefits to the Company. These arrangements are in the form of marketing development funds and/or cooperative advertising and are used by the Company to drive sales. The advertising programs follow an annual schedule of planned events that is continually updated based on the Company's needs and contractual terms. As these marketing expenditures cannot be directly linked to product sales, the Company records these expenses as a reduction of revenue at the higher of actual spend or estimated costs based on a reserve rate methodology. This did not result in any impact to the Company's financial statements in any of the periods presented.

In limited instances when products are sold under consignment arrangements, the Company does not recognize revenue until control over such products has transferred to the end consumer.

Other revenues, primarily royalties, do not comprise a material amount of the Company's net sales.

The Company incurs costs associated with product distribution, such as freight and handling costs. The Company has elected to treat these costs as fulfillment activities and recognizes these costs at the same time that it recognizes the underlying product revenue. As this policy election is in line with the Company's previous accounting practices, the treatment of shipping and handling activities under FASB Topic 606 did not have any impact on the Company's results of operations, financial condition and/or financial statement disclosures.

As a result, the adoption of the new guidance under ASU No. 2014-09 did not have a material impact on the Company's revenues, results of operations or financial condition. The Company has expanded its financial statement disclosures as required by this new standard. See Note 13, "Segment Data and Related Information," for additional disclosures provided as a result of this ASU.

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

Other

In March 2017, the FASB issued ASU No. 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which changes the way that employers present net periodic pension cost ("NPPC") and net periodic postretirement benefit cost ("NPPBC") within the income statement. The amendment requires an employer to present the service cost component of NPPC and NPPBC in the same income statement line items as other employee compensation costs arising from services rendered during the period. The other components of NPPC and NPPBC are to be presented separately from this line item and below any subtotal of operating income. In addition, only the service cost component would be eligible for capitalization in assets. The Company adopted ASU No. 2017-07 as of January 1, 2018 and while its adoption did not have a material impact on the Company's results of operations, financial condition and/or financial statement disclosures, it did result in net periodic benefit cost of $0.1 million for the three months ended September 30, 2017, as previously reported in cost of sales and selling, general and administrative ("SG&A") expenses in the Company's Unaudited Consolidated Statement of Operations and Comprehensive (Loss) Income, being reclassified below operating income in the miscellaneous, net line item. There was no reclassification impact for the nine months ended September 30, 2017. See Note 10, "Pension and Post-Retirement Benefits" for more information.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," which requires lessees to recognize a right-of-use asset and a related lease liability on the balance sheet for all leases, with the exception of short-term leases. The lease liability will be equal to the present value of lease payments and the right-of-use asset will be based on the lease liability, subject to certain adjustments, such as initial direct costs. Leases will continue to be classified as either operating or finance leases in the income statement. This guidance is effective for annual periods beginning after December 15, 2018, with early adoption permitted. The Company will adopt ASU No. 2016-02 beginning as of January 1, 2019. Upon evaluation, the Company believes that the main change as a result of its adopting ASU No. 2016-02 will be the recognition of its lease liabilities and corresponding right-of-use assets on the Company's balance sheet, but expects minimal impact to its statement of operations or cash flows. The Company continues to assess the impact that the adoption of this new guidance will have on its financial statements and will estimate the impact on its consolidated balance sheet when filing its Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

In August 2018, the FASB issued ASU No. 2018-15, "Internal Use Software (Subtopic 350-40) - Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract," which requires a customer in a cloud computing hosting arrangement that is a service contract to follow the existing guidance in ASC 350-40 on internal-use software to determine which implementation costs to defer and recognize as an asset and which costs are expensed as incurred. The new guidance specifies the financial statement presentation of capitalized implementation costs and the related amortization and requires entities to disclose the nature of hosting arrangements that are service contracts; the amount of implementation costs capitalized, amortized and impaired in each reporting period; and provide disclosures about significant judgments made when applying the guidance. Implementation costs that are recognized as an asset under the new guidance would be expensed over the term of the hosting arrangement. The term of the hosting arrangement would be the non-cancellable period of the arrangement and certain periods covered by options to renew the arrangement. The Company currently presents the cost of acquired software as a component of property, plant and equipment in its consolidated financial statements. This guidance is effective for annual periods beginning after December 15, 2019, with early adoption permitted. The Company will adopt ASU No. 2018-15 beginning as of January 1, 2020 and is in the process of assessing the impact, if any, that this new guidance is expected to have on the Company’s results of operations, financial condition and/or financial statement disclosures.

2. RESTRUCTURING CHARGES

EA Integration Restructuring Program

In December 2016, in connection with integrating the Elizabeth Arden and Revlon organizations, the Company began the process of implementing certain integration activities, including consolidating offices, eliminating certain duplicative activities and streamlining back-office support (the "EA Integration Restructuring Program"). The EA Integration Restructuring Program is designed to reduce the Company’s cost of goods sold and SG&A expenses. In connection with implementing the EA Integration Restructuring Program, the Company expects to recognize approximately $90 million to $95 million of total pre-tax restructuring charges (the "EA Integration Restructuring Charges"), consisting of: (i) approximately $70 million to $75 million of employee-related costs, including severance, retention and other contractual termination benefits; (ii) approximately $10 million of lease termination costs; and (iii) approximately $10 million of other related charges.

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

A summary of the EA Integration Restructuring Charges incurred through September 30, 2018 is presented in the following table:

	Restructuring Charges and Other, Net					
	Employee Severance and Other Personnel Benefits	Lease Termination and Other Costs	Total Restructuring Charges	Inventory Adjustments[b]	Other Related Charges[c]	Total Restructuring and Related Charges
Charges incurred through December 31, 2017	$62.8	$ 5.0	$ 67.8	$ 1.4	$ 3.0	$ 72.2
Charges incurred during the nine months ended September 30, 2018	12.7	(1.1) [a]	11.6	0.4	—	12.0
Cumulative charges incurred through September 30, 2018	$75.5	$ 3.9	$ 79.4	$ 1.8	$ 3.0	$ 84.2

[a] Primarily represents the reversal of lease termination costs related to certain re-occupied office space.
[b] Inventory adjustments are recorded within cost of sales in the Company’s unaudited consolidated statement of operations and comprehensive (loss) income.
[c] Other related charges are recorded within SG&A in the Company’s unaudited consolidated statement of operations and comprehensive (loss) income.

A summary of the EA Integration Restructuring Charges incurred through September 30, 2018 by reportable segment is presented in the following table:

	Charges incurred during the nine months ended September 30, 2018	Cumulative charges incurred through September 30, 2018
Revlon	$ 8.6	$ 33.2
Elizabeth Arden	0.4	13.2
Portfolio	0.8	14.2
Fragrances	1.8	18.8
Total	$ 11.6	$ 79.4

The Company expects that cash payments will total $90 million to $95 million in connection with the EA Integration Restructuring Charges, of which $60.9 million were paid through September 30, 2018. The remaining balance is expected to be substantially paid by the end of 2020.

Restructuring Reserve

The liability balance and related activity for each of the Company's restructuring programs are presented in the following table:

				Utilized, Net		
	Liability	Expense (Income),	Foreign Currency	Cash	Non-cash	Liability Balance at

	Balance at January 1, 2018	Net	Translation			September 30, 2018
EA Integration Restructuring Program:[a]						
Employee severance and other personnel benefits	$ 25.8	$ 12.7	$ (0.2)	$(17.6)	$ —	$ 20.7
Other	3.9	(0.7)	—	(0.8)	—	2.4
Total EA Integration Restructuring Program	29.7	12.0	(0.2)	(18.4)	—	23.1
Other individually immaterial actions:						
Employee severance and other personnel benefits	2.5	2.3	—	(2.5)	—	2.3
Other	1.7	—	(0.1)	—	—	1.6
Total other individually immaterial actions	4.2	2.3	(0.1)	(2.5)	—	3.9
Total restructuring reserve	$ 33.9	$ 14.3	$ (0.3)	$(20.9)	$ —	$ 27.0

[a] Includes $0.4 million in charges related to inventory adjustments and other restructuring-related charges that were reflected within cost of sales in the Company’s September 30, 2018 Unaudited Consolidated Statement of Operations and Comprehensive (Loss) Income.

9

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

As of September 30, 2018 and December 31, 2017, all of the restructuring reserve balances were included within accrued expenses and other current liabilities in the Company's Consolidated Balance Sheets.

3. DISCONTINUED OPERATIONS

In December 2013, the Company announced restructuring actions that primarily included exiting its direct manufacturing, warehousing and sales business operations in mainland China within the Revlon segment (the "December 2013 Program"). The December 2013 Program resulted in the elimination of approximately 1,100 positions in 2014, primarily in China. With the implementation of the December 2013 Program, the results of the China discontinued operations, which relate entirely to the Revlon segment, are included within income from discontinued operations, net of taxes. The summary comparative financial results of discontinued operations were as follows for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net sales	$ —	$ —	$ —	$ —
(Loss) income from discontinued operations, before taxes	(0.4)	0.7	(0.1)	1.6
Provision for income taxes	—	0.3	—	0.3
(Loss) income from discontinued operations, net of taxes	(0.4)	0.4	(0.1)	1.3

As of September 30, 2018 and December 31, 2017, assets and liabilities of the China discontinued operations included in the Consolidated Balance Sheets consisted of the following:

	September 30, 2018	December 31, 2017
Cash and cash equivalents	$ 1.1	$ 1.3
Trade receivables, net	0.2	0.2
Total current assets	1.3	1.5
Total assets	$ 1.3	$ 1.5
Accounts payable	$ 0.5	$ 0.5
Accrued expenses and other	3.3	3.5
Total current liabilities	3.8	4.0
Total liabilities	$ 3.8	$ 4.0

4. INVENTORIES

As of September 30, 2018 and December 31, 2017, the Company's inventory balances consisted of the following:

	September 30, 2018	December 31, 2017
Raw materials and supplies	$ 160.4	$ 123.4

Work-in-process	11.0	22.0
Finished goods	416.2	352.5
	$ 587.6	$ 497.9

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

5. GOODWILL AND INTANGIBLE ASSETS, NET

Goodwill

Effective January 1, 2018, the Company implemented its brand-centric organizational structure that is built around four global brand teams: Revlon; Elizabeth Arden; Portfolio; and Fragrances, which also represent the Company's reporting segments. Concurrent with the change in reporting segments, goodwill was reassigned to the affected reporting units that have been identified within each reporting segment using a relative fair value allocation approach outlined in ASC 350, Intangibles - Goodwill and Other.

The following table presents the amount of goodwill that has been reassigned to each of the Company's reportable segments as of January 1, 2018 using the relative fair value allocation approach, as well as any changes in goodwill by segment during the nine months ended September 30, 2018:

	Revlon	Portfolio	Elizabeth Arden	Fragrances	Total
Balance at January 1, 2018	$265.3	$189.5	$116.9	$120.8	$692.5
Foreign currency translation adjustment	(0.2)	(0.2)	—	—	(0.4)
Balance at September 30, 2018	$265.1	$189.3	$116.9	$120.8	$692.1
Cumulative goodwill impairment charges[a]					$37.2

[a] Cumulative goodwill impairment charges relate to impairments recognized in 2015 and 2017; no impairment charges were recognized during the nine months ended September 30, 2018.

11

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

Intangible Assets, Net

The following tables present details of the Company's total intangible assets as of September 30, 2018 and December 31, 2017:

	September 30, 2018			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted-Average Useful Life (in Years)
Finite-lived intangible assets:				
Trademarks and licenses	$272.3	$ (87.8)	$ 184.5	13
Customer relationships	249.0	(58.3)	190.7	12
Patents and internally-developed intellectual property	20.9	(9.7)	11.2	6
Distribution rights	31.0	(3.6)	27.4	16
Other	1.3	(0.9)	0.4	1
Total finite-lived intangible assets	$574.5	$ (160.3)	$ 414.2	