REGIS CORP
Form 10-K
August 28, 2009

Table of Contents

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

FORM 10-K

(Mark One)

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

For the fiscal year ended June 30, 2009

OR

o **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 1-12725

Regis Corporation
(Exact name of Registrant as specified in its charter)

Minnesota State or other jurisdiction of incorporation or organization	**41-0749934** (I.R.S. Employer Identification No.)
7201 Metro Boulevard, Edina, Minnesota (Address of principal executive offices)	**55439** (Zip Code)

(952) 947-7777
(Registrant's telephone number, including area code)

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

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $0.05 per share	New York Stock Exchange
Preferred Share Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

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 ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceeding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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. ý

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

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the Registrant is a shell company (as defined by Rule 12b-2 of the Act). Yes o No ý

The aggregate market value of the voting common equity held by non-affiliates computed by reference to the price at which common equity was last sold as of the last business day of the Registrant's most recently completed second fiscal quarter, December 31, 2008, was approximately $606,160,026. The Registrant has no non-voting common equity.

As of August 21, 2009, the Registrant had 57,104,388 shares of Common Stock, par value $0.05 per share, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement for the annual meeting of shareholders to be held on October 29, 2009 (the "2009 Proxy Statement") (to be filed pursuant to Regulation 14A within 120 days after the Registrant's fiscal year-end of June 30, 2009) are incorporated by reference into Part III.

REGIS CORPORATION
FORM 10-K
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

INDEX

			Page(s)
Part I.			
	Item 1.	Business	3
		Executive Officers of the Registrant	20
	Item 1A.	Risk Factors	22
	Item 1B.	Unresolved Staff Comments	25
	Item 2.	Properties	25
	Item 3.	Legal Proceedings	26
	Item 4.	Submission of Matters to a Vote of Security Holders	26
Part II.			
	Item 5.	Market for Registrant's Common Equity, Related Stockholders Matters, and Issuer Purchases of Equity Securities	27
	Item 6.	Selected Financial Data	29
	Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	30
	Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	70
	Item 8.	Financial Statements and Supplementary Data	75
		Management's Statement of Responsibility for Financial Statements and Report on Internal Control over Financial Reporting	76
		Report of Independent Registered Public Accounting Firm	77
	Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	139
	Item 9A.	Controls and Procedures	139
	Item 9B.	Other Information	139
Part III.			
	Item 10.	Directors, Executive Officers and Corporate Governance	140
	Item 11.	Executive Compensation	140
	Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	141
	Item 13.	Certain Relationships and Related Transactions, and Director Independence	141
	Item 14.	Principal Accounting Fees and Services	141
Part IV.			
	Item 15.	Exhibits and Financial Statement Schedules	142
	Signatures		146

Table of Contents

PART I

Item 1. Business

Unless the context otherwise provides, when we refer to the "Company," "we," "our," or "us," we are referring to Regis Corporation, the Registrant, together with its subsidiaries.

(a) General Development of Business

In 1922, Paul and Florence Kunin opened Kunin Beauty Salon, which quickly expanded into a chain of value priced salons located in department stores. In 1958, the chain was purchased by their son and renamed Regis Corporation. In December 2004, the Company purchased Hair Club for Men and Women. On August 1, 2007, the Company contributed its 51 wholly-owned accredited cosmetology schools to Empire Education Group, Inc (EEG). On January 31, 2008, the Company merged its continental European franchise salon operations with the operations of the Franck Provost Salon Group. On February 20, 2008, the Company acquired the capital stock of Cameron Capital I, Inc. (CCI), a wholly-owned subsidiary of Cameron Capital Investments, Inc. CCI owned and operated PureBeauty and BeautyFirst salons. On February 16, 2009, the Company sold its Trade Secret salon concept (Trade Secret), which included CCI. Additionally, the Company continues to acquire hair and retail product salons. Regis Corporation is listed on the NYSE under the ticker symbol "RGS." Discussions of the general development of the business take place throughout this Annual Report on Form 10-K.

(b) Financial Information about Segments

Segment data for the years ended June 30, 2009, 2008 and 2007 are included in Note 16 to the Consolidated Financial Statements in Part II, Item 8, of this Form 10-K.

(c) Narrative Description of Business

The following topical areas are discussed below in order to aid in understanding the Company and its operations:

Topic	Page(s)
Background	4
Industry Overview	5
Salon Business Strategy	5
Salon Concepts	8
Salon Franchising Program	14
Salon Markets and Marketing	15
Salon Education and Training Programs	16
Salon Staff Recruiting and Retention	16
Salon Design	16
Salon Management Information Systems	17
Salon Competition	17
Hair Restoration Business Strategy	18
Affiliated Ownership Interest	19
Corporate Trademarks	20
Corporate Employees	20
Executive Officers	20
Corporate Community Involvement	21
Governmental Regulations	21

Table of Contents

Background:

Based in Minneapolis, Minnesota, the Company's primary business is owning, operating and franchising hair and retail product salons. In addition to the primary hair and retail product salons, the Company owns Hair Club for Men and Women, a provider of hair restoration services. As of June 30, 2009, the Company owned, franchised or held ownership interests in over 12,900 worldwide locations. The Company's locations consisted of 10,026 company-owned and franchise salons, 95 hair restoration centers, and 2,804 locations in which the Company maintains an ownership interest of less than 100 percent. Each of the Company's salon concepts offer similar salon products and services and serve the mass market consumer marketplace. The Company's hair restoration centers offer three hair restoration solutions; hair systems, hair transplants and hair therapy, which are targeted at the mass market consumer.

The Company is organized to manage its operations based on significant lines of business salons and hair restoration centers. Salon operations are managed based on geographical location North America and international. The Company's North American salon operations are comprised of 7,537 company-owned salons and 2,045 franchise salons operating in the United States, Canada and Puerto Rico. The Company's international operations are comprised of 444 company-owned salons. The Company's worldwide salon locations operate primarily under the trade names of Regis Salons, MasterCuts, SmartStyle, Supercuts, Cost Cutters, and Sassoon. The Company's hair restoration centers are located in the United States and Canada. During fiscal year 2009, the number of customer visits at the Company's company-owned salons approximated 104 million. The Company had approximately 59,000 corporate employees worldwide during fiscal year 2009.

On August 1, 2007, the Company contributed 51 of its wholly-owned accredited cosmetology schools to EEG in exchange for a 49.0 percent equity interest in EEG. The investment is accounted for under the equity method. The Company recorded an impairment charge related to this transaction of $23.0 million during the three months ended March 31, 2007.

The Company realized that in order to maximize the potential of the beauty school division, it would be necessary to invest heavily in information technology platforms and management. The Company believes that contributing the beauty schools to EEG is the most efficient and accretive way to achieve its goals. This transaction leverages EEG's management expertise, while enabling the Company to maintain a vested interest in the beauty school industry. EEG is the largest beauty school operator in North America with 85 accredited cosmetology schools with revenues of approximately $150 million annually and is overseen by the Empire Beauty School management team.

In January 2008, the Company's effective ownership interest increased to 55.1 percent related to the buyout of EEG's equity interest shareholder. The Company will continue to account for the investment in EEG under the equity method of accounting as Empire Beauty School retains majority voting interest and has full responsibility for managing EEG. Refer to Note 6 to the Consolidated Financial Statements for additional information.

On January 31, 2008, the Company merged its continental European franchise salon operations with the operations of the Franck Provost Salon Group in exchange for a 30.0 percent equity interest in the newly formed Provalliance entity (Provalliance). The merger with the operations of the Franck Provost Salon Group which are also located in continental Europe, created Europe's largest salon operator with approximately 2,500 company-owned and franchise salons as of June 30, 2009.

The Company contributed to Provalliance the shares of each of its European operating subsidiaries, other than the Company's operating subsidiaries in the United Kingdom and Germany. The contributed subsidiaries operate retail hair salons in France, Spain, Switzerland and several other European countries primarily under the Jean Louis David and Saint Algue brands. This transaction is expected to create significant growth opportunities for Europe's salon brands. The Franck Provost Salon Group management structure has a proven platform to build and acquire company-owned stores as well as a strong franchise operating group that is positioned for expansion. The Company recorded a $25.7 million "other-than-temporary" impairment charge in its fourth quarter ended June 30, 2009 on its investment in Provalliance as a result of increased debt and reduced earnings expectations that reduced the fair value of Provalliance below carrying value as of June 30, 2009.

On February 16, 2009, the Company sold Trade Secret. The Company concluded, after a comprehensive review of its strategic and financial options, to divest Trade Secret. The sale of Trade Secret included 655 company-owned salons and 57 franchise salons, all of which had historically been reported within the Company's North America reportable segment. The Company recorded an impairment charge related to this transaction of $183.3 million during the year ended June 30, 2009.

Industry Overview:

Management estimates that annual revenues of the hair care industry are approximately $50 billion to $55 billion in the United States and approximately $160 billion to $170 billion worldwide. The Company estimates that it holds approximately two percent of the worldwide market. The hair salon and hair restoration markets are each highly fragmented, with the vast majority of locations independently owned and operated. However, the influence of salon chains on these markets, both franchise and company-owned, has increased substantially. Management believes that salon chains will continue to have a significant influence on these markets and will continue to increase their presence. As the Company is the principal consolidator of these chains in the hair care industry, it prevails as an established exit strategy for independent salon owners and operators, which affords the Company numerous opportunities for continued selective acquisitions. Management believes the demand for salon services, professional products and hair restoration services will continue to increase as the overall population continues to focus on personal health and beauty, as well as convenience.

Salon Business Strategy:

The Company's goal is to provide high quality, affordable hair care services and products to a wide range of mass market consumers, which enables the Company to expand in a controlled manner. The key elements of the Company's strategy to achieve these goals are taking advantage of (1) growth opportunities, (2) economies of scale and (3) centralized control over salon operations in order to ensure (i) consistent, quality services and (ii) a superior selection of high quality, professional products. Each of these elements is discussed below.

Salon Growth Opportunities. The Company's salon expansion strategy focuses on organic (new salon construction and same-store sales growth of existing salons) and salon acquisition growth.

Organic Growth. The Company executes its organic growth strategy through a combination of new construction of company-owned and franchise salons, as well as same-store sales increases. The square footage requirements related to opening new salons allow the Company great flexibility in securing real estate for new salons as the Company has small or flexible square footage requirements for its salons. The Company's long-term outlook for organic expansion remains strong. The Company has at least one salon in all major cities in the U.S. and has penetrated every viable U.S. market with at least one concept. However, because the Company has a variety of concepts, it can place several of its salons within any given market. Once the economy normalizes, the Company plans to continue to expand in North America. Refer to Note 4 to the Consolidated Financial Statements for additional information.

A key component to successful North American organic growth relates to site selection, as discussed in the following paragraphs.

Salon Site Selection. The Company's salons are located in high-traffic locations such as: regional shopping malls, strip centers, lifestyle centers, Wal-Mart Supercenters, high-street locations and department stores. The Company is an attractive tenant to landlords due to its financial

Table of Contents

strength, successful salon operations and international recognition. In evaluating specific locations for both company-owned and franchise salons, the Company seeks conveniently located, visible sites which allow customers adequate parking and quick and easy location access. Various other factors are considered in evaluating sites, including area demographics, availability and cost of space, the strength of the major retailers within the area, location and strength of competitors, proximity of other company-owned and franchise salons, traffic volume, signage and other leasehold factors in a given center or area.

Because the Company's various salon concepts target slightly different mass market customer groups, more than one of the Company's salon concepts may be located in the same real estate development without impeding sales of either concept. As a result, there are numerous leasing opportunities for all of its salon concepts.

While same-store sales growth plays an important role in the Company's organic growth strategy, it is not critical to achieving the Company's long-term revenue growth objectives. However, same-store sales growth is important to achieving improved annual operating profit. New salon construction and salon acquisitions (described below) are expected to generate low single-digit annual revenue growth. The recent trend has been declining visitation patterns due to the current global economic condition and increasing average ticket price resulting in negative to low single-digit same-store sales growth. The Company expects fiscal year 2010 same-store sales to be in the range of negative 3.0 to positive 1.0 percent.

Pricing is a factor in same-store sales growth. The Company actively monitors the prices charged by its competitors in each market and makes every effort to maintain prices which remain competitive with prices of other salons offering similar services. Price increases are considered on a market-by-market basis and are established based on local market conditions.

Salon Acquisition Growth. In addition to organic growth, another key component of the Company's growth strategy is the acquisition of salons. With an estimated two percent worldwide market share, management believes the opportunity to continue to make selective acquisitions exists.

Over the past 15 years, the Company has acquired 8,020 salons, expanding in both North America and internationally. When contemplating an acquisition, the Company evaluates the existing salon or salon group with respect to the same characteristics as discussed above in conjunction with site selection for constructed salons (conveniently located, visible, strong retailers within the area, etc.). The Company generally acquires mature strip center locations, which are systematically integrated within the salon concept that it most clearly emulates.

In addition to adding new salon locations each year, the Company has an ongoing program of remodeling its existing salons, ranging from redecoration to substantial reconstruction. This program is implemented as management determines that a particular location will benefit from remodeling, or as required by lease renewals. A total of 280 and 186 salons were remodeled in fiscal years 2009 and 2008, respectively.

Recent Salon Additions. During fiscal year 2009, the Company constructed 275 new salons (182 company-owned and 93 franchise). Additionally, the Company acquired 177 company-owned salons, including 83 franchise salon buybacks.

During fiscal year 2008, net of closures and relocations, the Company added approximately 486 salons through new construction and acquisitions. The Company constructed 504 new salons (325 company-owned and 179 franchise). Additionally, the Company acquired 475 company-owned salons, including 150 franchise salon buybacks.

Salon Closures. The Company evaluates its salon performance on a regular basis. Upon evaluation, the Company may close a salon for operational performance or real estate issues. In

Table of Contents

either case, the closures generally occur at the end of a lease term and typically do not require significant lease buyouts. In addition, during the Company's acquisition evaluation process, the Company may identify acquired salons that do not meet operational or real estate requirements. Generally, at the time of acquisition limited value is allocated to these salons, which are usually closed within the first year.

During fiscal year 2009, 313 salons were closed, including 255 company-owned salons and 58 franchise salons (excluding 83 franchise buybacks). In February of 2009, the Company sold its Trade Secret salon concept which consisted of 655 company-owned locations and 57 franchise locations. See Note 2 to the Consolidated Financial Statements for additional information. In June of 2009, the Company approved a plan to close up to 80 underperforming United Kingdom company-owned salons in fiscal year 2010, the majority of which are expected to occur in the first half of fiscal year 2010. All of the 80 locations are in the United Kingdom. The 80 underperforming United Kingdom company-owned salons expected to close in fiscal year 2010 is in addition to the normal closure activity of salons at the end of a lease term. We expect the normal closure activity of company-owned salons to be approximately 150 to 180 salons.

During fiscal year 2008, 285 salons were closed, including 180 company-owned salons and 105 franchise salons (excluding 150 franchise buybacks). In July of 2008 (fiscal year 2009), the Company approved a plan to close up to 160 underperforming company-owned salons in fiscal year 2009. Approximately 100 locations were regional mall based concepts, another 40 locations were strip center concepts and 20 locations were in the United Kingdom. As of June 30, 2009, 70 stores ceased using the leased property or negotiated a lease termination agreement with the lessor in which the Company will cease using the right to the leased property subsequent to June 30, 2009. See Note 11 to the Consolidated Financial Statements for additional information.

Economies of Scale. Management believes that due to its size and number of locations, the Company has certain advantages which are not available to single location salons or small chains. The Company has developed a comprehensive point of sale system to accumulate and monitor service and product sales trends, as well as assist in payroll and cash management. Economies of scale are realized through the centralized support system offered by the home office. Additionally, due to its size, the Company has numerous financing and capital expenditure alternatives, as well as the benefits of buying retail products, supplies and salon fixtures directly from manufacturers. Furthermore, the Company can offer employee benefit programs, training and career path opportunities that are often superior to its smaller competitors.

Centralized Control Over Salon Operations. The Company manages its expansive salon base through a combination of area and regional supervisors, corporate salon directors and chief operating officers. Each area supervisor is responsible for the management of approximately ten to 12 salons. Regional supervisors oversee the performance of five to seven area supervisors or approximately 50 to 80 salons. Salon directors manage approximately 200 to 300 salons while chief operating officers are responsible for the oversight of an entire salon concept. This operational hierarchy is key to the Company's ability to expand successfully. In addition, the Company has an extensive training program, including the production of training DVDs for use in the salons, to ensure its stylists are knowledgeable in the latest haircutting and fashion trends and provide consistent quality hair care services. Finally, the Company tracks salon activity for all of its company-owned salons through the utilization of daily sales detail delivered from the salons' point of sale system. This information is used to reconcile cash on a daily basis.

Consistent, Quality Service. The Company is committed to meeting its customers' hair care needs by providing competitively priced services and products with professional and knowledgeable stylists. The Company's operations and marketing emphasize high quality services to create customer loyalty, to encourage referrals and to distinguish the Company's salons from its competitors. To promote quality and consistency of services provided throughout the Company's

Table of Contents

salons, the Company employs full and part-time artistic directors whose duties are to train salon stylists in current styling trends. The major services supplied by the Company's salons are haircutting and styling (including shampooing and conditioning), hair coloring and waving. During fiscal years 2009, 2008, and 2007, the percentage of company-owned service revenues attributable to each of these services was as follows:

	2009	2008	2007
Haircutting and styling (including shampooing & conditioning)	73%	72%	72%
Hair coloring	17	18	18
Hair waving	4	4	4
Other	6	6	6
	100%	100%	100%

High Quality, Professional Products. The Company's salons sell nationally recognized hair care and beauty products as well as a complete line of private label products sold under the Regis, MasterCuts and Cost Cutters labels. The retail products offered by the Company are intended to be sold only through professional salons. The top selling brands include Paul Mitchell, Biolage, Redken, Nioxin, Tigi Bedhead, Kenra, Tigi Catwalk, American Crew, Big Sexy Hair and the Company's various private label brands.

The Company has launched a product diversion website for the entire industry to use as a measurement tool to track diversion. Diversion involves the selling of salon exclusive hair care products to unauthorized distribution channels such as discount retailers and pharmacies. Diversion is harmful to the consumer because diverted product can be old, tainted or damaged. It is also harmful to the salon owners and stylists because their credibility with the consumer may be questioned.

The Company has the most comprehensive assortment of retail products in the industry. Although the Company constantly strives to carry an optimal level of inventory in relation to consumer demand, it is more economical for the Company to have a higher amount of inventory on hand than to run the risk of being under stocked should demand prove higher than expected. The extended shelf life and lack of seasonality related to the beauty products allows the cost of carrying inventory to be relatively low and lessens the importance of inventory turnover ratios. The Company's primary goal is to maximize revenues rather than inventory turns.

The retail portion of the Company's business complements its salon services business. The Company's stylists and beauty consultants are compensated and regularly trained to sell hair care and beauty products to their customers. Additionally, customers are enticed to purchase products after a stylist demonstrates its effect by using it in the styling of the customer's hair.

Salon Concepts:

The Company's salon concepts focus on providing high quality hair care services and professional products, primarily to the middle consumer market. The Company's North American salon operations consist of 9,582 salons (including 2,045 franchise salons), operating under several concepts, each offering attractive and affordable hair care products and services in the United States, Canada and Puerto Rico. The Company's international salon operations consist of 444 hair care salons located in Europe, primarily in the United Kingdom. Following the table below, the number of new salons expected to be opened within the upcoming fiscal year is discussed. In addition to these openings, the Company typically acquires several hundred salons each year. The number of acquired salons, and the concept under which the acquisitions will fall, vary based on the acquisition opportunities which develop throughout the year.

Table of Contents

Salon Development

The table on the following pages set forth the number of system wide salons (company-owned and franchise) opened at the beginning and end of each of the last five years, as well as the number of salons opened, closed, relocated, converted and acquired during each of these periods.

COMPANY-OWNED AND FRANCHISE LOCATION SUMMARY

NORTH AMERICAN SALONS:	2009	2008	2007	2006	2005
REGIS SALONS					
Open at beginning of period	1,078	1,099	1,079	1,093	1,085
Salons constructed	20	14	17	38	39
Acquired	23	4	49	14	13
Less relocations	(14)	(11)	(14)	(16)	(14)
Salon openings	29	7	52	36	38
Conversions		1	(1)		(1)
Salons closed	(36)	(29)	(31)	(50)	(29)
Total, Regis Salons	1,071	1,078	1,099	1,079	1,093
MASTERCUTS					
Open at beginning of period	615	629	642	636	604
Salons constructed	14	7	15	32	47
Acquired					2
Less relocations	(10)	(6)	(12)	(8)	(13)
Salon openings	4	1	3	24	36
Conversions				(2)	1
Salons closed	(17)	(15)	(16)	(16)	(5)
Total, MasterCuts	602	615	629	642	636
TRADE SECRET					
Company-owned salons:					
Open at beginning of period	674	613	615	597	549
Salons constructed	10	16	20	33	56
Acquired		65	3	2	23
Franchise buybacks		5		5	
Less relocations	(4)	(11)	(11)	(6)	(17)
Salon openings	6	75	12	34	62
Conversions		5	1	1	
Salons sold	(655)				
Salons closed	(25)	(19)	(15)	(17)	(14)
Total company-owned salons		674	613	615	597
Franchise salons:					
Open at beginning of period	106	19	19	24	24
Salons constructed	1	2			
Acquired		93			
Less relocations		(1)			
Salon openings	1	94			
Franchise buybacks		(5)		(5)	
Interdivisional reclassification(4)	(43)				

Salons sold	(57)				
Salons closed	(7)	(2)			
Total franchise salons		106	19	19	24
Total, Trade Secret		780	632	634	621

Table of Contents

NORTH AMERICAN SALONS:	2009	2008	2007	2006	2005
SMARTSTYLE/COST CUTTERS IN WAL-MART					
Company-owned salons:					
Open at beginning of period	2,212	2,000	1,739	1,497	1,263
Salons constructed	71	207	242	215	194
Acquired					
Franchise buybacks	24	12	21	31	45
Less relocations	(2)	(3)	(2)	(2)	(1)
Salon openings	93	216	261	244	238
Conversions				1	
Salons closed	(5)	(4)		(3)	(4)
Total company-owned salons	2,300	2,212	2,000	1,739	1,497
Franchise salons:					
Open at beginning of period	146	151	164	184	201
Salons constructed	1	7	8	11	29
Salon openings	1	7	8	11	29
Franchise buybacks	(24)	(12)	(21)	(31)	(45)
Salons closed	(1)				(1)
Total franchise salons	122	146	151	164	184
Total, SmartStyle/Cost Cutters in Wal-Mart	2,422	2,358	2,151	1,903	1,681
SUPERCUTS					
Company-owned salons:					
Open at beginning of period	1,132	1,094	1,036	915	879
Salons constructed	27	33	45	76	55
Acquired		3			1
Franchise buybacks	6	38	37	77	14
Less relocations	(2)	(6)	(5)	(9)	(6)
Salon openings	31	68	77	144	64
Conversions	(2)			(1)	(3)
Salons closed	(47)	(30)	(19)	(22)	(25)
Total company-owned salons	1,114	1,132	1,094	1,036	915
Franchise salons:					
Open at beginning of period	997	990	978	1,017	960
Salons constructed	51	71	69	74	96
Acquired(2)					1
Less relocations	(7)	(6)	(7)	(7)	(4)
Salon openings	44	65	62	67	93
Conversions	1		1	5	(2)
Franchise buybacks	(6)	(38)	(37)	(77)	(11)
Salons closed	(14)	(20)	(14)	(34)	(23)
Total franchise salons	1,022	997	990	978	1,017
Total, Supercuts	2,136	2,129	2,084	2,014	1,932

PROMENADE

Company-owned salons:					
Open at beginning of period	2,399	2,223	1,995	1,813	1,431
Salons constructed	36	33	56	104	112
Acquired	71	135	193	122	247
Franchise buybacks	53	95	35	27	80
Less relocations	(16)	(8)	(12)	(12)	(15)
Salon openings	144	255	272	241	424
Conversions	1	(5)		(1)	
Salons closed	(94)	(74)	(44)	(58)	(42)
Total company-owned salons	2,450	2,399	2,223	1,995	1,813

Table of Contents

NORTH AMERICAN SALONS:	**2009**	**2008**	**2007**	**2006**	**2005**
Franchise salons:					
Open at beginning of period	914	1,008	1,026	1,085	1,145
Salons constructed	40	49	66	61	58
Acquired(2)					6
Less relocations	(7)	(5)	(12)	(11)	(9)
Salon openings	33	44	54	50	55
Conversions			(1)	(3)	5
Franchise buybacks	(53)	(95)	(35)	(27)	(80)
Interdivisional reclassification(4)	43				
Salons closed	(36)	(43)	(36)	(79)	(40)
Total franchise salons	901	914	1,008	1,026	1,085
Total, Promenade	3,351	3,313	3,231	3,021	2,898

INTERNATIONAL SALONS(1):	**2009**	**2008**	**2007**	**2006**	**2005**
Company-owned salons:					
Open at beginning of period	472	481	453	426	416
Salons constructed	4	15	25	33	22
Acquired		25	12	10	19
Franchise buybacks			4	2	
Less relocations	(1)	(1)	(3)	(4)	
Salon openings	3	39	38	41	41
Conversions		1		(2)	(3)
Affiliated joint ventures		(40)			
Salons closed	(31)	(9)	(10)	(12)	(28)
Total company-owned salons	444	472	481	453	426
Franchise salons:					
Open at beginning of period		1,574	1,587	1,592	1,594
Salons constructed		50	110	111	102
Acquired(2)					
Less relocations			(1)		
Salon openings		50	109	111	102
Conversions		3		2	
Franchise buybacks			(4)	(2)	
Affiliated joint ventures(3)		(1,587)			
Salons closed		(40)	(118)	(116)	(104)
Total franchise salons			1,574	1,587	1,592
Total, International Salons	444	472	2,055	2,040	2,018
TOTAL SYSTEM WIDE SALONS					
Company-owned salons:					
Open at beginning of period	8,582	8,139	7,559	6,977	6,227
Salons constructed	182	325	420	531	525
Acquired	94	232	257	148	305
Franchise buybacks	83	150	97	142	139
Less relocations	(49)	(46)	(59)	(57)	(66)
Salon openings	310	661	715	764	903

Conversions	(1)	2		(4)	(6)
Affiliated joint ventures		(40)			
Salons sold	(655)				
Salons closed	(255)	(180)	(135)	(178)	(147)
Total company-owned salons	7,981	8,582	8,139	7,559	6,977

Table of Contents

TOTAL SYSTEM WIDE SALONS:	2009	2008	2007	2006	2005
Franchise salons:					
Open at beginning of period	2,163	3,742	3,774	3,902	3,924
Salons constructed	93	179	253	257	285
Acquired(2)		93			7
Less relocations	(14)	(12)	(20)	(18)	(13)
Salon openings	79	260	233	239	279
Conversions	1	3		4	6
Franchise buybacks	(83)	(150)	(97)	(142)	(139)
Affiliated joint ventures		(1,587)			
Salons sold	(57)				
Salons closed	(58)	(105)	(168)	(229)	(168)
Total franchise salons	2,045	2,163	3,742	3,774	3,902
Total Salons	10,026	10,745	11,881	11,333	10,879

(1) Canadian and Puerto Rican salons are included in the Regis Salons, MasterCuts, Supercuts, and Promenade and not included in the international salon totals.

(2) Represents primarily the acquisition of franchise networks.

(3) Represents European operating subsidiaries contributed to Franck Provost Salon Group.

(4) On February 16, 2009, the Company announced the completion of the sale of its Trade Secret retail product division. As a result of this transaction, the Company reported the Trade Secret operations as discontinued operations for all periods presented. Forty-three franchise salons were not included in the sale of Trade Secret to the purchaser of Trade Secret and are not reported as discontinued operations. These franchise salons are now included in Promenade salons.

In the preceding table, relocations represent a transfer of location by the same salon concept and conversions represent the transfer of one concept to another concept.

Regis Salons. Regis Salons are primarily mall based, full service salons providing complete hair care and beauty services aimed at moderate to upscale, fashion conscious consumers. In recent years, the Company has expanded its Regis Salons into strip centers. As of June 30, 2009, of the 1,071 total Regis salons, 158 Regis Salons were located in strip centers. The customer mix at Regis Salons is approximately 78 percent women and both appointments and walk-in customers are common. These salons offer a full range of custom styling, cutting, hair coloring and waving services as well as professional hair care products. Service revenues represent approximately 84 percent of the concept's total revenues. The average ticket is approximately $40. Regis Salons compete in their existing markets primarily by emphasizing the high quality of the services provided. Included within the Regis Salons concept are various other trade names, including Carlton Hair, Sassoon, Mia & Maxx Hair Studios, Hair by Stewarts and Heidi's.

The average initial capital investment required for a new Regis Salon is approximately $150,000 to $200,000, excluding average opening inventory costs of approximately $18,000. Average annual salon revenues in a Regis Salon which has been open five years or more are approximately $431,000.

MasterCuts. MasterCuts is a full service, mall based salon group which focuses on the walk-in consumer (no appointment necessary) that demands moderately priced hair care services. MasterCuts salons emphasize quality hair care services, affordable prices and time saving services for the entire family. These salons offer a full range of custom styling, cutting, hair coloring and waving services as well as professional hair care products. The customer mix at MasterCuts is split relatively evenly between men and women. Service revenues compose approximately 82 percent of the concept's total revenues. The average ticket is approximately $19.

Table of Contents

The average initial capital investment required for a new MasterCuts salon is approximately $150,000 to $200,000, excluding average opening inventory costs of approximately $13,600. Average annual salon revenues in a MasterCuts salon which has been open five years or more are approximately $290,000.

SmartStyle. The SmartStyle salons share many operating characteristics of the Company's other salon concepts; however, they are located exclusively in Wal-Mart Supercenters. SmartStyle has a walk-in customer base, pricing is promotional and services are focused on the family. These salons offer a full range of custom styling, cutting, hair coloring and waving services as well as professional hair care products. The customer mix at SmartStyle Salons is approximately 76 percent women. Professional retail product sales contribute considerably to overall revenues at approximately 33 percent. Additionally, the Company has 122 franchise salons located in Wal-Mart Supercenters. The average ticket is approximately $19.

The average initial capital investment required for a new SmartStyle salon is approximately $35,000 to $45,000, excluding average opening inventory costs of approximately $14,000. Average annual salon revenues in a SmartStyle salon which has been open five years or more are approximately $271,000.

Strip Center Salons. The Company's Strip Center Salons are comprised of company-owned and franchise salons operating in strip centers across North America under the following concepts:

Supercuts. The Supercuts concept provides consistent, high quality hair care services and professional products to its customers at convenient times and locations and at a reasonable price. This concept appeals to men, women and children, although male customers account for approximately 66 percent of the customer mix. Service revenues represent approximately 89 percent of total company-owned strip center revenues. The average ticket is approximately $16.

The average initial capital investment required for a new Supercuts salon is approximately $110,000 to $120,000, excluding average opening inventory costs of approximately $8,300. Average annual salon revenues in a company-owned Supercuts salon which has been open five years or more are approximately $269,000.

The Supercuts franchise salons provide consistent, high quality hair care services and professional products to customers at convenient times and locations and at a reasonable price. These Supercuts franchise salons appeal to men, women and children. Service revenues represent approximately 93 percent of the Supercuts franchise total revenues. Average annual revenues in a Supercuts franchise salon which has been open five years or more are approximately $339,000.

Cost Cutters (franchise salons). The Cost Cutters concept is a full service salon concept providing value priced hair care services for men, women and children. These full service salons also sell a complete line of professional hair care products. The customer mix at Cost Cutters is split relatively evenly between men and women. Average annual salon revenues in a franchised Cost Cutters salon which has been open five years or more are approximately $282,000.

In addition to the franchise salons, the Company operates company-owned Cost Cutters salons, as discussed below under Promenade Salons.

Promenade Salons. Promenade Salons are made up of successful regional company-owned salon groups acquired over the past several years operating under the primary concepts of Hair Masters, Cool Cuts for Kids, Style America, First Choice Haircutters, Famous Hair, Cost Cutters, BoRics, Magicuts, Holiday Hair and TGF, as well as other concept names. Most concepts offer a full range of custom hairstyling, cutting, coloring and waving, as well as hair care products. Hair Masters offers moderately-priced services to a predominately female demographic, while the other concepts primarily cater to time-pressed, value-oriented families. The customer mix is split relatively evenly between men

Table of Contents

and women at most concepts. Service revenues represent approximately 89 percent of total company-owned strip center revenues. The average ticket is approximately $18.

The average initial capital investment required for a new Promenade Salon is approximately $80,000 to $90,000, excluding average opening inventory costs of approximately $8,000. Average annual salon revenues in a Promenade Salon which has been open five years or more are approximately $245,000.

Other Franchise Concepts. This group of franchise salons includes primarily First Choice Haircutters, Magicuts, Beauty Supply Outlets and Pro-Cuts. These concepts function primarily in the high volume, value priced hair care market segment, with key selling features of value, convenience, quality and friendliness, as well as a complete line of professional hair care products. In addition to these franchise salons, the Company operates company-owned First Choice Haircutters and Magicuts salons, as previously discussed above under Strip Center Salons.

International Salons. The Company's international salons are comprised of company-owned salons operating in the United Kingdom primarily under the Supercuts, Regis and Sassoon concepts. These salons offer similar levels of service as the North American salons previously mentioned. However, the initial capital investment required is typically between £135,000, and £145,000, for a Regis salon, between £55,000 and £65,000 for a Supercuts salon. Average annual salon revenues for a salon which has been open five years or more are approximately £218,000 in a Regis salon and £208,000 in a Supercuts salon. Sassoon is one of the world's most recognized names in hair fashion and appeals to women and men looking for a prestigious full service hair salon. Salons are usually located on prominent high-street locations and offer a full range of custom hairstyling, cutting, coloring and waving, as well as professional hair care products. The initial capital investment required is approximately £450,000. Average annual salon revenues for a salon which has been open five years or more is approximately £889,000.

Salon Franchising Program:

General. The Company has various franchising programs supporting its 2,045 franchise salons as of June 30, 2009, consisting mainly of Supercuts, Cost Cutters, First Choice Haircutters, Magicuts, and Pro Cuts. These salons have been included in the discussions regarding salon counts and concepts on the preceding pages.

The Company provides its franchisees with a comprehensive system of business training, stylist education, site approval and lease negotiation, professional marketing, promotion and advertising programs, and other forms of support designed to help the franchisee build a successful business.

Standards of Operations. The Company does not control the day to day operations of its franchisees, including hiring and firing, establishing prices to charge for products and services, business hours, personnel management and capital expenditure decisions. However, the franchise agreements afford certain rights to the Company, such as the right to approve location, suppliers and the sale of a franchise. Additionally, franchisees are required to conform to the Company's established operational policies and procedures relating to quality of service, training, design and decor of stores, and trademark usage. The Company's field personnel make periodic visits to franchise stores to ensure that the stores are operating in conformity with the standards for each franchising program. All of the rights afforded the Company with regard to the franchise operations allow the Company to protect its brands, but do not allow the Company to control the franchise operations or make decisions that have a significant impact on the success of the franchise salons.

To further ensure conformity, the Company may enter into the lease for the store site directly with the landlord, and subsequently sublease the site to the franchisee. The franchise agreement and sublease provide the Company with the right to terminate the sublease and gain possession of the store if the franchisee fails to comply with the Company's operational policies and procedures. See Note 10 of "Notes to Consolidated Financial Statements" for further information about the Company's commitments and contingencies, including leases.

Franchise Terms. Pursuant to their franchise agreement with the Company, each franchisee pays an initial fee for each store and ongoing royalties to the Company. In addition, for most franchise concepts, the Company collects advertising funds from franchisees and administers the funds on behalf of the concept. Franchisees are responsible for the costs of leasehold improvements, furniture, fixtures, equipment, supplies, inventory, payroll costs and certain other items, including initial working capital.

Additional information regarding each of the major franchisee brands is listed below:

Supercuts (North America)

The majority of existing Supercuts franchise agreements have a perpetual term, subject to termination of the underlying lease agreement or termination of the franchise agreement by either the Company or the franchisee. The agreements also provide the Company a right of first refusal if the store is to be sold. The franchisee must obtain the Company's approval in all instances where there is a sale of the franchise. The current franchise agreement is site specific and does not provide any territorial protection to a franchisee, although some older franchise agreements do include limited territorial protection. Development agreements for new markets include limited territory protection for the Supercuts concept. The Company has a comprehensive impact policy that resolves potential conflicts among Supercuts franchisees and/or the Company's Supercuts locations regarding proposed salon sites.

Cost Cutters, First Choice Haircutters and Magicuts (North America)

The majority of existing Cost Cutters' franchise agreements have a 15 year term with a 15 year option to renew (at the option of the franchisee), while the majority of First Choice Haircutters' franchise agreements have a ten year term with a five year option to renew. The majority of Magicuts' franchise agreements have a term equal to the greater of five years or the current initial term of the lease agreement with an option to renew for two additional five year periods. All of the agreements also provide the Company a right of first refusal if the store is to be sold. The franchisee must obtain the Company's approval in all instances where there is a sale of the franchise. The current franchise agreement is site specific. Franchisees may enter into development agreements with the Company which provide limited territorial protection.

Pro Cuts (North America)

The majority of existing Pro Cuts franchise agreements have a ten year term with a ten year option to renew. The agreements also provide the Company a right of first refusal if the store is to be sold or transferred. The current franchise agreement is site specific. Franchisees may enter into development agreements with the Company which provide limited territorial protection.

Franchisee Training. The Company provides new franchisees with training, focusing on the various aspects of store management, including operations, personnel management, marketing fundamentals and financial controls. Existing franchisees receive training, counseling and information from the Company on a continuous basis. The Company provides store managers and stylists with extensive technical training for Supercuts franchises. For further description of the Company's education and training programs, see the "Salon Education and Training Programs" section of this document.

Salon Markets and Marketing:

The Company maintains various advertising, sales and promotion programs for its salons, budgeting a predetermined percent of revenues for such programs. The Company has developed promotional tactics and institutional sales messages for each of its concepts targeting certain customer types and positioning each concept in the marketplace. Print, radio, television and billboard advertising are developed and supervised at the Company's headquarters, but most advertising is done in the immediate market of the particular salon.

Most franchise concepts maintain separate advertising funds (the Funds), that provide comprehensive advertising and sales promotion support for each system. The Supercuts advertising fund is the Company's largest advertising fund and is administered by a council consisting of primarily franchisee representatives. The council has overall control of all of the funds expenditures and operates in accordance with terms of the franchise operating and other agreements. All stores, company-owned and franchised, contribute to the Funds, the majority of which are allocated to the contributing market for media placement and local marketing activities. The remainder is allocated for the creation of national advertising campaigns and system wide activities. This intensive advertising program creates significant consumer awareness, a strong concept image and high loyalty.

Salon Education and Training Programs:

The Company has an extensive hands-on training program for its stylists which emphasizes both technical training in hairstyling and cutting, hair coloring, waving and hair treatment regimes as well as customer service and product sales. The objective of the training programs is to ensure that customers receive professional and quality services, which the Company believes will result in more repeat customers, referrals and product sales.

The Company has full- and part-time artistic directors who train the stylists in techniques for providing the salon services and instruct the stylists in current styling trends. Stylist training is achieved through seminars, workshops and DVD based programs. The Company was the first in its industry to develop a DVD based training system in its salons and currently has over 200 DVDs designed to enhance technical skills of stylists.

The Company has a customer service training program to improve the interaction between employees and customers. Staff members are trained in the proper techniques of customer greeting, telephone courtesy and professional behavior through a series of professionally designed video tapes and instructional seminars.

The Company also provides regulatory compliance training for all its field employees. This training is designed to help supervisors and stylists understand employee regulatory requirements and compliance with these standards.

Salon Staff Recruiting and Retention:

Recruiting quality managers and stylists is essential to the establishment and operation of successful salons. In search of salon managers, the Company's supervisory team recruits or develops and promotes from within those stylists that display initiative and commitment. The Company has been and believes it will continue to be successful in recruiting capable managers and stylists. The Company believes that its compensation structure for salon managers and stylists is competitive within the industry. Stylists benefit from the Company's high-traffic locations and receive a steady source of new business from walk-in customers. In addition, the Company offers a career path with the opportunity to move into managerial and training positions within the Company.

Salon Design:

The Company's salons are designed, built and operated in accordance with uniform standards and practices developed by the Company based on its experience. Salon fixtures and equipment are generally uniform, allowing the Company to place large orders for these items with cost savings due to the economies of scale.

Table of Contents

The size of the Company's salons ranges from 500 to 5,000 square feet, with the typical salon having about 1,200 square feet. At present, the cost to the Company of normal tenant improvements and furnishing of a new salon, including inventories, ranges from approximately $25,000 to $225,000, depending on the size of the salon and the concept. Less than ten percent of all new salons will have costs greater than normal with a cost between $225,000 and $500,000 to furnish. International Sassoon salons costs could be even greater than the ranges above. Of the total leasehold costs, approximately 70 percent of the cost is for leasehold improvements and the balance is for salon fixtures, equipment and inventories.

The Company maintains its own design and real estate department, which designs and supervises the leasehold installations, furnishing and fixturing of all new company-owned salons and certain franchise locations. The Company has developed considerable expertise in designing salons. The design and real estate staff focus on visual appeal, efficient use of space, cost and rapid completion times.

Salon Management Information Systems:

At all of its company-owned salons, the Company utilizes a point-of-sale (POS) information system to collect daily sales information. Salon employees deposit cash receipts into a local bank account on a daily basis. The POS system sends the amount expected to be deposited to the corporate office, where the amount is reconciled daily with local deposits transferred into a centralized corporate bank account. The salon POS information is consolidated into several management systems maintained at the corporate office. The information is also used to generate payroll information, monitor salon performance, manage salon staffing and payroll costs, and generate customer data to identify and anticipate industry pricing and staffing trends. The corporate information systems deliver information of product sales to improve its inventory control system, including recommendations for each salon of monthly product replenishments.

Management believes that its information systems provide the Company with operational efficiencies as well as advantages in planning and analysis which are generally not available to competitors. The Company continually reviews and improves its information systems to ensure systems and processes are kept up to date and that they will meet the growing needs of the Company. The goal of information systems is to maximize the overall value to the business while improving the output per dollar spent by implementing cost-effective solutions and services.

Salon Competition:

The hair care industry is highly fragmented and competitive. In every area in which the Company has a salon, there are competitors offering similar hair care services and products at similar prices. The Company faces competition within malls from companies which operate salons within department stores and from smaller chains of salons, independently owned salons and, to a lesser extent, salons which, although independently owned, are operating under franchises from a franchising company that may assist such salons in areas of training, marketing and advertising.

At the individual salon level the barriers to enter the market are not considerable, however, significant barriers exist for chains to expand nationally due to the need to establish systems and infrastructure, recruitment of experienced hair care management and adequate store staff, and leasing of quality sites. The principal factors of competition in the affordable hair care category are quality, consistency and convenience. The Company continually strives to improve its performance in each of these areas and to create additional points of differentiation versus the competition. In order to obtain locations in shopping malls, the Company must be competitive as to rentals and other customary tenant obligations.

Table of Contents

Hair Restoration Business Strategy:

In December 2004, the Company acquired Hair Club for Men and Women (Hair Club), the largest U.S. provider of hair loss solutions and the only company offering a comprehensive menu of proven hair loss products and services. The Company leverages its strong brand, best-in-class service model and comprehensive menu of hair restoration alternatives to build an increasing base of repeat customers that generate recurring cash flow for the Company. From its traditional non-surgical hair replacement systems, to hair transplants, hair therapies and hair care products and services, Hair Club offers a solution for anyone experiencing or anticipating hair loss. The Company's operations consist of 95 locations (33 franchise locations) in the United States and Canada. The domestic hair restoration market is estimated to generate over $4 billion annually. The competitive landscape is highly fragmented and comprised of approximately 4,000 locations. Hair Club and its franchisees have the largest market share, with approximately five percent based on customer count.

In an effort to provide privacy to its customers, Hair Club offices are located primarily in office and professional buildings within larger metropolitan areas. Following is a summary of the company-owned and franchise hair restoration centers in operation at June 30, 2009, 2008, and 2007:

	2009	2008	2007
Company-owned hair restoration centers:			
Open at beginning of period	57	49	48
Constructed	8	3	
Acquired			1
Franchise buybacks	2	6	1
Less relocations	(5)	(1)	
Site openings	5	8	2
Sites closed			(1)
Total company-owned hair restoration centers	62	57	49
Franchise hair restoration centers:			
Open at beginning of period	35	41	42
Acquired		2	3
Franchise buybacks	(2)	(6)	(1)
Less Relocations		(2)	(2)
Site openings	(2)	(6)	
Sites closed			(1)
Total franchise hair restoration centers	33	35	41
Total hair restoration centers	95	92	90

Hair Restoration Growth Opportunities. The Company's hair restoration center expansion strategy focuses on organic growth (successfully converting new leads into customers at existing centers, broadening the menu of services and products at each location and to a lesser extent, new center construction) and acquisition growth.

Organic Growth. The hair restoration centers' business model is driven by productive lead generation that ultimately produces recurring customers. The primary marketing vehicle is direct response television in the form of infomercials that create leads into the hair restoration centers' telemarketing center. Call center employees receive calls and schedule a consultation at a local hair restoration company-owned or franchise center. At the consultation, sales consultants assess the needs of each individual client and educate them on the hair restoration centers' suite of hair loss solutions.

Table of Contents

The Company's long term outlook for organic expansion remains strong due to several factors, including favorable industry dynamics, addressing new market opportunities, menu expansion, developing new locations and new cross marketing initiatives. The aging "baby boomer" population is expanding the number of individuals within the hair restoration centers' target market. This group of individuals is entering their peak years of disposable income and has demonstrated a willingness to improve their physical appearance.

In 2003, Hair Club began marketing to women and changed its name to Hair Club for Men and Women. This represents a large and relatively untapped market. Women now represent approximately 35 percent of new customers.

Currently, all locations offer hair systems, hair therapy and hair care products. Among the hair restoration centers' product offerings are hair transplants. The hair restoration centers employ a hub and spoke strategy for hair transplants. As of June 30, 2009, 23 locations were equipped and staffed to perform the procedure. Currently, a total of 46 hair restoration centers offer this service to their customers. The Company plans to add the capability to conduct hair transplants to more centers in future periods.

Company-owned-and franchise hair restoration centers are located in markets representing 75 percent of all U.S. television (TV) households. The Company's hair restoration centers advertise on cable TV to over 83 million households. There is an opportunity to add a limited number of new centers in under penetrated markets. Additionally, the Company is currently investigating international expansion opportunities.

Hair Restoration Acquisition Growth. The Company plans to supplement organic growth with opportunistic acquisition activity. The hair restoration industry is comprised of a highly-fragmented group of 4,000 locations. This landscape provides an opportunity for consolidation. Given the existing coverage of Hair Club locations, it is anticipated that transactions may involve the acquisition of customer lists, rather than physical locations.

Affiliated Ownership Interests:

The Company maintains ownership interests in salons and beauty schools. The primary ownership interests are in Provalliance, EEG, Intelligent Nutrients, LLC. and Hair Club for Men, Ltd., which are accounted for as equity method investments.

The Company maintains a 30.0 percent ownership interest in Provalliance. The fiscal year 2008 merger of the operations of the European operating subsidiaries with the Franck Provost Salon Group created a newly formed entity, Provalliance. The Franck Provost Salon Group management structure has a proven platform to build and acquire company-owned stores as well as a strong franchise operating group that is positioned for expansion.

The Company maintains a 55.1 percent ownership interest in EEG. Contributing the Company's beauty schools in fiscal year 2008 to EEG leverages EEG's management expertise, while enabling the Company to maintain a vested interest in the highly profitable beauty school industry.

The Company maintains a 49.0 percent ownership interest in Intelligent Nutrients, LLC. Intelligent Nutrients, LLC currently carries a wide variety of organic, harmonically grown products, including dietary supplements, coffees, teas and aromatics. In addition, professional hair care and personal care products are currently available.

The Company maintains a 50.0 percent ownership in Hair Club for Men, Ltd. Hair Club for Men, Ltd. operates Hair Club centers in Illinois and Wisconsin.

Table of Contents

Corporate Trademarks:

The Company holds numerous trademarks, both in the United States and in many foreign countries. The most recognized trademarks are "Regis Salons," "Supercuts," "MasterCuts," "SmartStyle," "Cost Cutters," "Hair Masters," "First Choice Haircutters," "Magicuts" and "Hair Club for Men and Women."

"Sassoon" is a registered trademark of Procter & Gamble. The Company has a license agreement to use the Sassoon name for existing salons and academies, and new salon development.

Although the Company believes the use of these trademarks is an element in establishing and maintaining its reputation as a national operator of high quality hairstyling salons, and is committed to protecting these trademarks by vigorously challenging any unauthorized use, the Company's success and continuing growth are the result of the quality of its salon location selections and real estate strategies.

Corporate Employees:

During fiscal year 2009, the Company had approximately 59,000 full- and part-time employees worldwide, of which approximately 52,000 employees were located in the United States. None of the Company's employees are subject to a collective bargaining agreement and the Company believes that its employee relations are amicable.

Executive Officers:

Information relating to Executive Officers of the Company follows:

Name	Age	Position
Paul D. Finkelstein	67	Chairman of the Board of Directors, President and Chief Executive Officer
Randy L. Pearce	54	Senior Executive Vice President, Chief Financial and Administrative Officer
Bruce Johnson	56	Executive Vice President, Design and Construction
Mark Kartarik	53	Executive Vice President, Regis Corporation and President, Franchise Division
Norma Knudsen	51	Executive Vice President, Merchandising
Gordon Nelson	58	Executive Vice President, Fashion, Education and Marketing
Eric A. Bakken	42	Senior Vice President, General Counsel and Secretary

Paul D. Finkelstein has served as Chairman of the Board of Directors and CEO since 2004. He served as President and Chief Executive Officer from 1996 to 2004, as President and Chief Operating Officer from 1988 to 1996 and as Executive Vice President from 1987 to 1988. During fiscal year 2009, he was also elected Director of CPI Corp., which operates portrait studios in North America, primarily in Sears and Wal-Mart stores.

Randy L. Pearce has served as Senior Executive Vice President since 2006. He served as Executive Vice President from 1999 to 2006, as Chief Administrative Officer since 1999 and as Chief Financial Officer since 1998. Additionally, he was Senior Vice President, Finance from 1998 to 1999, Vice President of Finance from 1995 to 1997 and Vice President of Financial Reporting from 1991 to 1994. During fiscal year 2006, he was also elected Director and Audit Committee Chair of Dress Barn, Inc., which operates a chain of women's apparel specialty stores.

Table of Contents

Bruce Johnson has served as Executive Vice President of Real Estate and Construction since 2007. He served as Senior Vice President from 1997 to 2007 and in other roles with the Company from 1977 to 1997.

Mark Kartarik has served as Executive Vice President of Regis Corporation since 2007. He served as Senior Vice President from 2001 to 2007, as President of Supercuts, Inc. from 1998 to 2001, as Chief Operating Officer of Supercuts, Inc. from 1997 to 1998 and in other roles with the Company from 1984 to 1997.

Norma Knudsen has served as Executive Vice President, Merchandising since July 2006. She served as Chief Operating Officer, Trade Secret from February 1999 through 2009 and as Vice President, Trade Secret Operations from 1995 to 1999.

Gordon Nelson has served as Executive Vice President, Fashion, Education and Marketing of the Company since 2006. He served as Senior Vice President from 1994 to 2006 and in other roles with the Company from 1977 to 1994.

Eric A. Bakken has served as Senior Vice President since 2006. He served as General Counsel from 2004 to 2006, as Vice President, Law from 1998 to 2004 and as a lawyer to the Company from 1994 to 1998.

Corporate Community Involvement:

Many of the Company's stylists volunteer their time to support charitable events for breast cancer research. Proceeds collected from such events are distributed through the Regis Foundation for Breast Cancer Research. The Company's community involvement also includes a major sponsorship role for the Susan G. Komen Twin Cities Race for the Cure. This 5K run and one mile walk is held in Minneapolis, Minnesota on Mother's Day to help fund breast cancer research, education, screening and treatment. Through its community involvement efforts, the Company has helped raise millions of dollars in fundraising for breast cancer research.

Governmental Regulations:

The Company is subject to various federal, state, local and provincial laws affecting its business as well as a variety of regulatory provisions relating to the conduct of its beauty related business, including health and safety.

In the United States, the Company's franchise operations are subject to the Federal Trade Commission's Trade Regulation Rule on Franchising (the FTC Rule) and by state laws and administrative regulations that regulate various aspects of franchise operations and sales. The Company's franchises are offered to franchisees by means of an offering circular/disclosure document containing specified disclosures in accordance with the FTC Rule and the laws and regulations of certain states. The Company has registered its offering of franchises with the regulatory authorities of those states in which it offers franchises and in which such registration is required. State laws that regulate the franchisor-franchisee relationship presently exist in a substantial number of states and, in certain cases, apply substantive standards to this relationship. Such laws may, for example, require that the franchisor deal with the franchisee in good faith, may prohibit interference with the right of free association among franchisees, and may limit termination of franchisees without payment of reasonable compensation. The Company believes that the current trend is for government regulation of franchising to increase over time. However, such laws have not had, and the Company does not expect such laws to have, a significant effect on the Company's operations.

In Canada, the Company's franchise operations are subject to both the Alberta Franchise Act and the Ontario Franchise Act. The offering of franchises in Canada occurs by way of a disclosure document, which contains certain disclosures required by the Ontario and Alberta Franchise Acts. Both the Ontario and Alberta Franchise Acts primarily focus on disclosure requirements, although each requires certain relationship requirements such as a duty of fair dealing and the right of franchisees to associate and organize with other franchisees.

Governmental regulations surrounding franchise operations in Europe are similar to those in the United States. The Company believes it is operating in substantial compliance with applicable laws and regulations governing all of its operations.

The Company maintains an ownership interest in EEG. Beauty schools derive a significant portion of their revenue from student financial assistance originating from the U.S Department of Education's Title IV Higher Education Act of 1965. For the students to receive financial assistance at the school, the beauty schools must maintain eligibility requirements established by the U.S Department of Education.

(d) Financial Information about Foreign and North American Operations

Financial information about foreign and North American markets is incorporated herein by reference to Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 and segment information in Note 16 to the Consolidated Financial Statements in Part II, Item 8 of this Form 10-K.

(e) Available Information

The Company is subject to the informational requirements of the Securities and Exchange Act of 1934 (Exchange Act). The Company therefore files periodic reports, proxy statements and other information with the Securities and Exchange Commission (SEC). Such reports may be obtained by visiting the Public Reference Room of the SEC at 100 F Street NE, Washington, DC 20549, or by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet site (*http://www.sec.gov*) that contains reports, proxy and information statements and other information regarding issuers that file electronically.

Financial and other information can be accessed in the Investor Information section of the Company's website at *www.regiscorp.com*. The Company makes available, free of charge, copies of its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC.

Item 1A. Risk Factors

Our business and our industry are affected by cyclical and global economic factors, including the risk of a prolonged recession.

Our financial results are substantially dependent upon overall economic conditions in the United States and in Europe. A prolonged or a deepening recession in the United States, or globally, could substantially further decrease the demand for our products and services below current levels and adversely affect our business. Our industry has historically been vulnerable to significant declines in consumption and product and service pricing during prolonged periods of economic downturn such as at present.

Recessions and other periods of economic dislocation typically result in a lower level of discretionary income for consumers. To the extent discretionary income declines, consumers may be more likely to reduce discretionary spending. This could result in our salon customers foregoing salon treatments or using home treatments as a substitute. It could also result in our hair restoration patients decreasing the amount spent on hair restoration treatments.

Table of Contents

The current economic downturn has affected our financial results for the fiscal year ended June 30, 2009. Our comparable same-store sales results for the twelve months ended June 30, 2009 declined 3.1 percent compared to the twelve months ended June 30, 2008. During the fiscal year ended June 30, 2009 the fair value of our common stock declined such that it began trading below our book value per share. Also, we impaired $41.7 million of goodwill associated with our salon concepts in the United Kingdom and $25.7 million of our investment in Provalliance during fiscal year 2009. If the economic downturn continues to result in negative same-store sales and we are unable to offset the impact with operational savings, our financial results may be further affected. We may be required to take additional impairment charges and to impair certain long-lived assets, goodwill and investments, and such impairments could be material to our consolidated balance sheet and results of operations. The concepts that have the highest likelihood of impairment are Regis and Hair Restoration Centers.

Changes in the general economic environment may impact our business and results of operations.

Changes to the United States, Canadian, United Kingdom and other European economies have an impact on our business. As a result of our entrance into the Asian market, changes in the Asian economies may also impact our business. General economic factors that are beyond our control, such as interest rates, recession, inflation, deflation, tax rates and policy, energy costs, unemployment trends, and other matters that influence consumer confidence and spending, may impact our business. In particular, visitation patterns to our salons and hair restoration centers can be adversely impacted by increases in unemployment rates and decreases in discretionary income levels.

If we continue to have negative same-store sales our business and results of operations may be affected.

Our success depends, in part, upon our ability to improve sales, as well as both gross margins and operating margins. A variety of factors affect comparable same-store sales, including fashion trends, competition, current economic conditions, changes in our product assortment, the success of marketing programs and weather conditions. These factors may cause our comparable same-store sales results to differ materially from prior periods and from our expectations. Our comparable same-store sales results excluding the Trade Secret salons presented within discontinued operations for the year ended June 30, 2009 declined 3.1 percent compared to the year ended June 30, 2008.

If we are unable to improve our comparable same-store sales on a long-term basis or offset the impact with operational savings, our financial results may be affected. Furthermore, continued declines in same-store sales performance may cause us to be in default of certain covenants in our financing arrangements.

Changes in our key relationships may adversely affect our operating results.

We maintain key relationships with certain companies, including Wal-Mart. Termination or modification of any of these relationships, including Wal-Mart, could significantly reduce our revenues and have a material and adverse impact on our business, our operating results and our ability to grow.

Changes in fashion trends may impact our revenue.

Changes in consumer tastes and fashion trends can have an impact on our financial performance. For example, trends in wearing longer hair may reduce the number of visits to, and therefore, sales at our salons.

Changes in regulatory and statutory laws may result in increased costs to our business.

With approximately 12,900 locations and 59,000 employees worldwide, our financial results can be adversely impacted by regulatory or statutory changes in laws. Due to the number of people we employ, laws that increase minimum wage rates or increase costs to provide employee benefits may result in additional costs to our company. Compliance with new, complex and changing laws may cause our expenses to increase. In addition, any non-compliance with these laws could result in fines, product

Table of Contents

recalls and enforcement actions or otherwise restrict our ability to market certain products, which could adversely affect our business, financial condition and results of operations. We are also subject to laws that affect the franchisor-franchisee relationship.

If we are not able to successfully compete in our business segments, our financial results may be affected.

Competition on a market by market basis remains strong. Therefore, our ability to raise prices in certain markets can be adversely impacted by this competition. If we are not able to raise prices, our ability to grow same-store sales and increase our revenue and earnings may be impaired.

If our joint ventures are unsuccessful our financial results may be affected.

We have entered into joint venture arrangements with other companies in the hair salon and beauty school businesses in order to maintain and expand our operations in the United States, Asia and continental Europe. If our joint venture partners are unwilling or unable to devote their financial resources or marketing and operational capabilities to our joint venture businesses, or if any of our joint ventures are terminated, we may not be able to realize anticipated revenues and profits in the countries where our joint ventures operate and our business could be materially adversely affected. If our joint venture arrangements are not successful, we may have a limited ability to terminate or modify these arrangements. If any of our joint ventures are terminated, there can be no assurance that we will be able to attract new joint venture partners to continue the activities of the terminated joint venture or to operate independently in the countries in which the terminated joint venture conducted business.

Changes in manufacturers' choice of distribution channels may negatively affect our revenues.

The retail products that we sell are licensed to be carried exclusively by professional salons. The products we purchase for sale in our salons are purchased pursuant to purchase orders, as opposed to long-term contracts and generally can be terminated by the producer without much advance notice. Should the various product manufacturers decide to utilize other distribution channels, such as large discount retailers, it could negatively impact the revenue earned from product sales.

Changes to interest rates and foreign currency exchange rates may impact our results from operations.

Changes in interest rates will have an impact on our expected results from operations. Currently, we manage the risk related to fluctuations in interest rates through the use of variable rate debt instruments and other financial instruments. During fiscal year 2008, the National Association of Insurance Commissioners downgraded our private placement debt from investment-grade private placement to non-investment grade. The downgrade has not had any effect on the private placement debt outstanding or corresponding interest rate. Any future non-investment grade private placement debt would result in a substantially higher interest rate. The downgrade has not impacted our revolving credit facility or our ability to secure bank borrowings. See discussion in Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," for additional information.

If we fail to protect the security of personal information about our customers, we could be subject to costly government enforcement actions or private litigation and our reputation could suffer.

The nature of our business involves processing, transmission and storage of personal information about our customers. If we experience a data security breach, we could be exposed to government enforcement actions and private litigation. In addition, our customers could lose confidence in our ability to protect their personal information, which could cause them to stop visiting our salons altogether. Such events could lead to lost future sales and adversely affect our results of operations.

Table of Contents

Certain of the terms and provisions of the convertible notes we recently issued may adversely affect our financial condition and operating results and impose other risks.

We recently issued $172,500,000 aggregate principal amount of our 5.0% convertible senior notes due 2014 in a public offering. Certain terms of the notes we issued may adversely affect our financial condition and operating results or impose other risks, such as the following:

- Holders of notes may convert their notes into shares of our common stock, which may dilute the ownership interest of our shareholders,
- If we elect to settle all or a portion of the conversion obligation exercised by holders of the notes through the payment of cash, it could adversely affect our liquidity,
- Holders of notes may require us to purchase their notes upon certain fundamental changes, and any failure by us to purchase the notes in such event would result in an event of default with respect to the notes,
- The fundamental change provisions contained in the notes may delay or prevent a takeover attempt of the Company that might otherwise be beneficial to our investors,
- Recent changes in the accounting method for convertible debt securities that may be settled in cash require us to include both the current period's amortization of the debt discount and the instrument's coupon interest as interest expense, which will decrease our financial results,
- Our ability to pay principal and interest on the notes depends on our future operating performance and any failure by us to make scheduled payments could allow the note holders to declare all outstanding principal and interest to be due and payable, result in termination of other debt commitments and foreclosure proceedings by other lends, or force us into bankruptcy or liquidation, and
- The debt obligations represented by the notes may limit our ability to obtain additional financing, require us to dedicate a substantial portion of our cash flow from operations to pay our debt, limit our ability to adjust rapidly to changing market conditions and increase our vulnerability to downtowns in general economic conditions in our business.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company's corporate offices are headquartered in a 270,000 square foot, four building complex in Edina, Minnesota owned or leased by the Company. The Company also operates small offices in Toronto, Canada; Coventry and London, England; and Boca Raton, Florida. These offices are occupied under long-term leases.

The Company owns distribution centers located in Chattanooga, Tennessee and Salt Lake City, Utah. The Chattanooga facility currently utilizes 250,000 square feet while the Salt Lake City facility utilizes 210,000 square feet. The Salt Lake City facility may be expanded to 290,000 square feet to accommodate future growth.

The Company operates all of its salon locations and hair replacement centers under leases or license agreements. Substantially all of its North American locations in regional malls are operating under leases with an original term of at least ten years. Salons operating within strip centers and Wal-Mart Supercenters have leases with original terms of at least five years, generally with the ability to renew, at the Company's option, for one or more additional five year periods. Salons operating within department stores in Canada and Europe operate under license agreements, while freestanding or

Table of Contents

shopping center locations in those countries have real property leases comparable to the Company's domestic locations.

The Company also leases the premises in which certain franchisees operate and has entered into corresponding sublease arrangements with the franchisees. These leases have a five year initial term and one or more five year renewal options. All lease costs are passed through to the franchisees. Remaining franchisees, who do not enter into sublease arrangements with the Company, negotiate and enter into leases on their own behalf.

None of the Company's salon leases is individually material to the operations of the Company, and the Company expects that it will be able to renew its leases on satisfactory terms as they expire. See Note 10 to the Consolidated Financial Statements in Part II, Item 8 of this Form 10-K.

Item 3. Legal Proceedings

The Company is a defendant in various lawsuits and claims arising out of the normal course of business. Like certain other large retail employers, the Company has been faced with allegations of purported class-wide consumer and wage and hour violations. Litigation is inherently unpredictable and the outcome of these matters cannot presently be determined. Although company counsel believes that the Company has valid defenses in these matters, it could in the future incur judgments or enter into settlements of claims that could have a material adverse effect on its results of operations in any particular period.

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

None.

Table of Contents

PART II

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

(a) Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters; Performance Graph

Regis common stock is listed and traded on the New York Stock Exchange under the symbol "RGS."

The accompanying table sets forth the high and low closing bid quotations for each quarter during fiscal years 2009 and 2008 as reported by the New York Stock Exchange (under the symbol "RGS"). The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not necessarily represent actual transactions.

As of August 21, 2009, Regis shares were owned by approximately 27,300 shareholders based on the number of record holders and an estimate of individual participants in security position listings. The common stock price was $16.83 per share on August 21, 2009.

	2009		2008	
Fiscal Quarter	**High**	**Low**	**High**	**Low**
1st Quarter	$31.96	$24.34	$39.13	$30.38
2nd Quarter	27.83	8.21	34.96	26.31
3rd Quarter	16.02	9.81	28.40	22.20
4th Quarter	20.36	13.94	31.39	26.32

The Company paid quarterly dividends of $0.04 per share in fiscal years 2009 and 2008. The Company expects to continue paying regular quarterly dividends for the foreseeable future.

Notwithstanding anything to the contrary set forth in any of our previous filings under the Securities Act of 1933 or the Securities Exchange Act of 1934 that might incorporate future filings or this Annual Report, the following performance graph and accompanying data shall not be deemed to be incorporated by reference into any such filings. In addition, they shall not be deemed to be "soliciting material" or "filed" with the SEC.

The following graph compares the cumulative total shareholder return on the Company's stock for the last five years with the cumulative total return of the Standard and Poor's 500 Stock Index and the cumulative total return of a peer group index (the "Peer Group") constructed by the Company. In addition, the Company has included the Standard and Poor's 400 Midcap Index and the Dow Jones Consumer Services Index in this analysis because the Company believes these two indices provide a comparative correlation to the cumulative total return of an investment in shares of Regis Corporation.

The Peer Group consists of the following companies: Advance Auto Parts, Inc., AutoZone, Inc., Brinker International, Inc., CBRL Group, Inc., DineEquity, Inc., Foot Locker, Inc., GameStop Corp., H&R Block, Inc., Jack in the Box, Inc., Papa John's International, Inc., PetSmart, Inc., RadioShack Corp., Service Corporation International, and Starbucks Corp.

The comparison assumes the initial investment of $100 in the Company's Common Stock, the S&P 500 Index, the Peer Group, the S&P 400 Midcap Index and the Dow Jones Consumer Services Index on June 30, 2004 and those dividends, if any, were reinvested.

Table of Contents

Comparison of 5 Year Cumulative Total Return
Assumes Initial Investment of $100
June 2009

	2004	2005	2006	2007	2008	2009
Regis	100.00	88.00	80.52	86.85	60.16	40.18
S & P 500	100.00	106.32	115.50	139.28	121.01	89.28
S & P 400 Midcap	100.00	114.03	128.83	152.67	141.47	101.83
Dow Jones Consumer Service Index	100.00	105.83	109.50	128.02	101.11	83.45
Peer Group	100.00	116.15	123.21	133.21	98.18	89.67

(b) Share Repurchase Program

In May 2000, the Company's Board of Directors (BOD) approved a stock repurchase program. Originally, the program authorized up to $50.0 million to be expended for the repurchase of the Company's stock. The BOD elected to increase this maximum to $100.0 million in August 2003, to $200.0 million on May 3, 2005, and to $300.0 million on April 26, 2007. The timing and amounts of any repurchases will depend on many factors, including the market price of the common stock and overall market conditions. Historically, the repurchases to date have been made primarily to eliminate the dilutive effect of shares issued in conjunction with acquisitions, restricted stock grants and stock option exercises. All repurchased shares become authorized but unissued shares of the Company. This repurchase program has no stated expiration date. As of June 30, 2009, 2008, and 2007, a total accumulated 6.8, 6.8, and 5.1 million shares have been repurchased for $226.5, $226.5, and $176.5 million, respectively. As of June 30, 2009, $73.5 million remains to be spent on share repurchases under this program.

The Company did not repurchase any of its common stock through its share repurchase program during the twelve months ended June 30, 2009.

CEO and CFO Certifications

The certifications by our chief executive officer and chief financial officer required under Section 302 of the Sarbanes-Oxley Act of 2002, have been filed as exhibits to this Annual Report on Form 10-K. Our CEO's annual certification pursuant to NYSE Corporate Governance Standards Section 303A.12(a) that our CEO was not aware of any violation by the company of the NYSE's Corporate Governance listing standards was submitted to the NYSE on November 4, 2008.

Table of Contents

Item 6. Selected Financial Data

Beginning with the period ended December 31, 2008 the operations of Trade Secret concept within the North American reportable segment were accounted for as a discontinued operation. All periods presented will reflect Trade Secret as a discontinued operation. The following discussion of results of operations will reflect results from continuing operations. Discontinued operations will be discussed at the end of this section.

The following table sets forth, in thousands (except per share data), for the periods indicated, selected financial data derived from the Company's Consolidated Financial Statements in Part II, Item 8.

	2009	2008	2007	2006	2005
Revenues(a)	$2,429,787	$2,481,391	$2,373,338	$2,168,002	$1,941,360
Operating income(b)	109,073	173,340	141,506	179,147	101,613
Income from continuing operations(c)	6,970	83,901	67,739	92,903	41,791
Income from continuing operations per diluted share(c)	0.16	1.92	1.48	2.00	0.90
Total assets	1,892,486	2,235,871	2,132,114	1,985,324	1,725,976
Long-term debt, including current portion	634,307	764,747	709,231	622,269	568,776
Dividends declared	$ 0.16	$ 0.16	$ 0.16	$ 0.16	$ 0.16

a) Revenues from salons, schools or hair restorations centers acquired each year were $82.1, $110.0, $105.1, $158.3, and $172.5 million during fiscal years 2009, 2008, 2007, 2006, and 2005, respectively. Revenues from the 51 accredited cosmetology schools contributed to Empire Education Group, Inc. on August 1, 2007 were $5.6, $68.5, $48.2 and $18.2 million in fiscal years 2008, 2007, 2006 and 2005, respectively. Revenues from the deconsolidated European franchise salon operations were $36.2, $57.0, $52.7 and $55.1 million in fiscal years 2008, 2007, 2006 and 2005, respectively.

b) The following significant items affected operating income:

Operating (loss) income from the 51 accredited cosmetology schools contributed to Empire Education Group, Inc. on August 1, 2007 was ($0.3), ($18.6), $2.3 and $2.5 million in fiscal years 2008, 2007, 2006 and 2005, respectively. Operating (loss) income from the deconsolidated European franchise salon operations was $5.1, $7.5, $4.8 and ($31.0) million in fiscal years 2008, 2007, 2006 and 2005, respectively.

An impairment charge of $41.7 million associated with the Company's United Kingdom salon division, was recorded in fiscal year 2009. An impairment charge of $23.0 million associated with the Company's accredited cosmetology schools was recorded in fiscal year 2007. An impairment charge of $38.3 million related to goodwill associated with the Company's European business was recorded in fiscal year 2005.

A net settlement gain of $33.7 million was recognized during fiscal year 2006 stemming from a termination fee collected from Alberto-Culver Company due to the terminated merger agreement for Sally Beauty Company. The termination fee gain is net of direct transaction-related expenses associated with the terminated merger agreement.

Adjustments were recorded in fiscal years 2009, 2008, 2007, 2006 and 2005 related to a change in estimate of the Company's self-insurance accruals, primarily prior years' workers' compensation claims reserves, due to the continued improvement of our safety and return-to-work programs over the recent years as well as changes in state laws. Site operating expenses decreased by $9.9, $6.9, and $10.0 million in fiscal years 2009, 2008, and 2007,

Table of Contents

respectively, and increased by $0.9 and $2.3 million in fiscal years 2006 and 2005, respectively, as a result in the change in estimate.

Expenses of $10.2, $6.1, $5.1, $6.9, and $3.1 million related to the impairment of property and equipment at underperforming locations were recorded during fiscal years 2009, 2008, 2007, 2006, and 2005, respectively.

A $5.7 million charge associated with disposal charges and lease termination fees related to the closure of salons other than in the normal course of business was recorded in fiscal year 2009. A $5.7 million charge associated with disposal charges and lease termination fees related to the closure of salons other than in the normal course of business was recorded in fiscal year 2006.

Fiscal year 2006 includes a $2.8 million charge related to the settlement of a wage and hour lawsuit under the Fair Labor Standards Act (FLSA).

c)

The following significant items affected income from continuing operations and income from continuing operations per diluted share:

An income tax charge of approximately $3.8 million was recorded during fiscal year 2009 associated with an adjustment to correct our prior year deferred income tax balances. An income tax charge of approximately $3.0 million of which $1.3 million was recorded through income tax expense and $1.7 million was recorded through other comprehensive income during fiscal year 2008 was associated with repatriating approximately $30.0 million of cash previously considered to be indefinitely reinvested outside of the United States. An income tax benefit increased reported net income by approximately $4.1 million during fiscal year 2007 due to the reinstatement of the Work Opportunity and Welfare-to-Work Tax Credits. Approximately $1.3 million of this benefit related to credits earned during fiscal year 2006, as the change in tax law during fiscal year 2007 was retroactive to January 1, 2006. Work Opportunity and Welfare-to-Work Tax Credits increased reported net income by $0.8 and $1.8 million during fiscal years 2006 and 2005, respectively.

Impairment charges of $25.7 and $7.8 million associated with the Company's investment in Provalliance and for the full carrying value of our investment in and loans to Intelligent Nutrients, LLC were recorded in fiscal year 2009.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is designed to provide a reader of our financial statements with a narrative from the perspective of our management on our financial condition, results of operations, liquidity and certain other factors that may affect our future results. Our MD&A is presented in five sections:

- Management's Overview
- Critical Accounting Policies
- Overview of Fiscal Year 2009 Results
- Results of Operations
- Liquidity and Capital Resources

MANAGEMENT'S OVERVIEW

Regis Corporation (RGS) owns or franchises beauty salons and hair restoration centers. As of June 30, 2009, we owned, franchised or held ownership interests in over 12,900 worldwide locations. Our locations consisted of 10,026 system wide North American and international salons, 95 hair restoration centers, and 2,804 locations in which we maintain an ownership interest less than 100 percent. Our salon concepts offer generally similar products and services and serve mass market consumers. Our salon operations are organized to be managed based on geographical location. Our

Table of Contents

North American salon operations include 9,582 salons, including 2,045 franchise salons, operating in the United States, Canada and Puerto Rico primarily under the trade names of Regis Salons, MasterCuts, SmartStyle, Supercuts and Cost Cutters. Our international salon operations include 444 salons located in Europe, primarily in the United Kingdom. Hair Club for Men and Women includes 95 North American locations, including 33 franchise locations. During fiscal year 2009, we had approximately 59,000 corporate employees worldwide.

Our growth strategy consists of two primary, but flexible, components. Through a combination of organic and acquisition growth, we seek to achieve our long-term objective of six to ten percent annual revenue growth. We anticipate that going forward, the mix of organic and acquisition growth will be roughly equal. However, depending on several factors, including the ability of our salon development program to keep pace with the availability of real estate for new construction, hair restoration lead generation, the availability of attractive acquisition candidates and same-store sales trends, this mix will vary from year to year. Due to the current economic conditions we have recently reduced the pace of our new salon development and salon acquisitions. We expect to continue with our historical trend of building and/or acquiring 700 to 1,000 salons each year once the economy normalizes.

Maintaining financial flexibility is a key element in continuing our successful growth. With strong operating cash flow and balance sheet, we are confident that we will be able to financially support our long-term growth objectives.

Salon Business

The strength of our salon business is in the fundamental similarity and broad appeal of our salon concepts that allow flexibility and multiple salon concept placements in shopping centers and neighborhoods. Each concept generally targets the middle market customer, however, each attracts a different demographic. We believe there are growth opportunities in all of our salon concepts. When commercial opportunities arise, we anticipate testing and developing new salon concepts to complement our existing concepts.

We execute our salon growth strategy by focusing on real estate. Our salon real estate strategy is to add new units in convenient locations with good visibility and customer traffic, as well as appropriate trade demographics. Our various salon and product concepts operate in a wide range of retailing environments, including regional shopping malls, strip centers and Wal-Mart Supercenters. We believe that the availability of real estate will augment our ability to achieve the aforementioned long-term growth objectives. In fiscal year 2010, our outlook for constructed salons will be between 125 and 175 units. Capital expenditures and acquisitions are expected to be approximately $90.0 to $100.0 million in fiscal year 2010, including capital expenditures of approximately $55.0 to $60.0 million.

Organic salon revenue growth is achieved through the combination of new salon construction and salon same-store sales increases. Once the economy normalizes, we expect we will continue with our historical trend of building several hundred company-owned salons. We anticipate our franchisees will open approximately 50 to 100 salons as well in fiscal year 2010. Older, unprofitable salons will be closed or relocated. Our long-term outlook for our salon business is for annual consolidated low single digit same-store sales increases. Based on current fashion and economic cycles (i.e., longer hairstyles and lengthening of customer visitation patterns), we project our annual fiscal year 2010 consolidated same-store sales to be in the range of negative 3.0 to positive 1.0 percent.

Historically, our salon acquisitions have varied in size from as small as one salon to over one thousand salons. The median acquisition size is approximately ten salons. From fiscal year 1994 to fiscal year 2009, we acquired 8,020 salons, net of franchise buybacks. Once the economy normalizes, we anticipate adding several hundred company-owned salons each year from acquisitions. Some of these acquisitions may include buying salons from our franchisees.

Table of Contents

Hair Restoration Business

In December 2004, we acquired Hair Club for Men and Women. Hair Club for Men and Women is a provider of hair loss solutions with an estimated five percent share of the $4 billion domestic market. This industry is comprised of numerous locations domestically and is highly fragmented. As a result, we believe there is an opportunity to consolidate this industry through acquisition. Expanding the hair loss business organically and through acquisition would allow us to add incremental revenue which is neither dependent upon, nor dilutive to, our existing salon businesses.

Our organic growth plans for hair restoration include the construction of a modest number of new locations in untapped markets domestically and internationally. However, the success of our hair restoration business is not dependent on the same real estate criteria used for salon expansion. In an effort to provide confidentiality for our customers, hair restoration centers operate primarily in professional or medical office buildings. Further, the hair restoration business is more marketing intensive. As a result, organic growth at our hair restoration centers will be dependent on successfully generating new leads and converting them into hair restoration customers. Our growth expectations for our hair restoration business are not dependent on referral business from, or cross marketing with, our hair salon business, but these concepts continue to be evaluated closely for additional growth opportunities.

CRITICAL ACCOUNTING POLICIES

The Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the Consolidated Financial Statements, we are required to make various judgments, estimates and assumptions that could have a significant impact on the results reported in the Consolidated Financial Statements. We base these estimates on historical experience and other assumptions believed to be reasonable under the circumstances. Estimates are considered to be critical if they meet both of the following criteria: (1) the estimate requires assumptions about material matters that are uncertain at the time the accounting estimates are made, and (2) other materially different estimates could have been reasonably made or material changes in the estimates are reasonably likely to occur from period to period. Changes in these estimates could have a material effect on our Consolidated Financial Statements.

Our significant accounting policies can be found in Note 1 to the Consolidated Financial Statements contained in Part II, Item 8 of this Form 10-K. We believe the following accounting policies are most critical to aid in fully understanding and evaluating our reported financial condition and results of operations.

Investment In and Loans to Affiliates

The Company has equity investments in securities of certain privately held entities. The Company accounts for these investments under the cost method or equity method of accounting, as appropriate. The Company also has loans receivable from certain of these entities. The valuation of investments accounted for under the cost method considers all available financial information related to the investee. If an unrealized loss for any investment is considered to be other-than-temporary, the loss will be recognized in the Consolidated Statement of Operations in the period the determination is made. Investments accounted for under the equity method are recorded at the amount of the Company's investment and adjusted each period for the Company's share of the investee's income or loss. Investments are reviewed for changes in circumstance or the occurrence of events that suggest the Company's investment may not be recoverable. During fiscal year 2009, we recorded impairments of $25.7 million and $7.8 million ($4.8 million net of tax) related to our investment in Provalliance and investment in and loans to Intelligent Nutrients, LLC, respectively.

Table of Contents

Goodwill

Goodwill is tested for impairment annually or at the time of a triggering event in accordance with the provisions of Statement of Financial Accounting Standard (SFAS) No. 142, *Goodwill and Other Intangible Assets*. In evaluating whether goodwill is impaired, the Company compares the carrying value of each reporting unit, including goodwill, to the estimated fair value of the reporting unit. The carrying value of each reporting unit is based on the assets and liabilities associated with the operations of the reporting unit, including allocation of shared or corporate balances among reporting units. Allocations are generally based on the number of salons in each reporting unit as a percent of total company-owned salons.

The Company calculates the estimated fair value of the reporting units based on discounted future cash flows that utilize estimates in annual revenue growth, gross margins, fixed expense rates, allocated corporate overhead, and long-term growth for determining terminal value. The Company's estimated future cash flows also take into consideration acquisition integration and maturation. Where available and as appropriate, comparative market multiples are used to corroborate the results of the discounted cash flow. We consider our various concepts to be reporting units when we test for goodwill impairment because that is where we believe goodwill resides. We periodically engage third-party valuation consultants to assist in evaluation of the Company's estimated fair value calculations. Our policy is to perform our annual goodwill impairment test during our third quarter of each fiscal year ending June 30.

The discounted cash flow model utilizes projected financial results for each reporting unit. The projected financial results are created from critical assumptions and estimates which are based on management's business plans and historical trends. A summary of the critical assumptions utilized during the fiscal year 2009 annual impairment test are outlined below:

Annual revenue growth. Annual revenue growth is primarily driven by assumed same-store sales rates of negative 3.0 percent to positive 3.0 percent. Other considerations include anticipated economic conditions, moderate acquisition growth, and the anniversary of reduced visitation patterns.

Gross margins. Adjusted for anticipated salon closures, new salon construction and acquisitions estimated future gross margins were held constant in each year for all reporting units.

Fixed expense rates. Fixed expense rate increases of 2.5 percent based on anticipated inflation were used in each year for all reporting units. Fixed expenses consisted of rent, site operating, and allocated general and administrative corporate overhead.

Allocated corporate overheads. Corporate overhead incurred by the home office on behalf of the reporting units is allocated to certain reporting units based on the number of salons in each reporting unit as a percent of total company-owned salons.

Long-term growth. Terminal value earnings before interest, taxes, depreciation and amortization (EBITDA) multiples of 5.0x were used for all reporting units other than Hair Restoration Centers which used a terminal value EBITDA multiple of 6.0x to reflect the relevant expected acquisition price for this reporting unit.

Discount rates. Discount rates of 11.0 percent were used for all reporting units other than Hair Restoration Centers which used a discount rate of 13.0 percent, which were consistent with a weighted average cost of capital for a potential market participant.

In the situations where a reporting unit's carrying value exceeds its fair value, the amount of the impairment loss must be measured. The measurement of impairment is calculated by determining the implied fair value of a reporting unit's goodwill. In calculating the implied fair value of goodwill, the fair value of the reporting unit is allocated to all other assets and liabilities of that unit based on the relative fair values. The excess of the fair value of the reporting unit over the amount assigned to its

Table of Contents

assets and liabilities is the implied fair value of goodwill. The goodwill impairment is measured as the excess of the carrying value of goodwill over its implied fair value.

Based on the Company's annual impairment analysis of goodwill performed during the third quarter of fiscal year 2009, no impairment of goodwill was recorded. The estimated fair value of the Regis salon concept exceeded its carrying value by approximately 4.0 percent or $8.0 million and the estimated fair value of Hair Restoration Centers exceeded carrying value by approximately 12.0 percent or $30.0 million. The respective fair values of the Company's remaining reporting units exceeded fair value by a much larger percentage. While the Company has determined the estimated fair values of the Regis salon concept and Hair Restoration Centers to be appropriate based on the historical level of revenue growth, operating income and cash flows, it is reasonably likely these reportable segments may become impaired in future periods. The term "reasonably likely" refers to an occurrence that is more than remote but less than probable in the judgment of the Company. Because some of the inherent assumptions and estimates used in determining the fair value of this reportable segment are outside the control of management, changes in these underlying assumptions can adversely impact fair value. The amount of impairment is dependent on factors which cannot be predicted with certainty, and can result in impairment of a portion or all of the carrying values of the Regis salon concept and Hair Restoration Centers' goodwill.

As a result of the higher likelihood of impairment of the Regis salon concept and Hair Restoration Centers' goodwill and sensitivity of the Company's critical assumptions in estimating fair value of these reporting units, the Company has provided additional information related to these two reporting units.

The following table summarizes the approximate impact that a change in certain critical assumptions would have on the estimated fair value of our Regis goodwill balance (the approximate impact of the change in the critical assumptions assumes all other assumptions and factors remain constant, in thousands, except percentages):

Critical Assumptions	**Change**	**Approximate Impact on Fair Value (in thousands)**
Discount Rate	1.0%	$ 5,900
Same-Store Sales	1.0%	19,000

The following table summarizes the approximate impact that a change in certain critical assumptions would have on the estimated fair value of our Hair Restoration Centers' goodwill balance (the approximate impact of the change in the critical assumptions assumes all other assumptions and factors remain constant, in thousands, except percentages):

Critical Assumptions	**Change**	**Approximate Impact on Fair Value (in thousands)**
Discount Rate	1.0%	$ 20,300
Same-Store Sales	1.0%	17,800

As part of our annual impairment testing as of March 31, 2009, our estimated fair value as determined by the sum of our reporting units based upon discounted cash flow calculations reconciled to within a reasonable range of our market capitalization which included an assumed control premium. Subsequent to June 30, 2009, the fair value of our stock continues to fluctuate and regularly trades below our book value per share. Adverse changes in expected operating results, an extended period of our stock trading significantly below book value per share, and unfavorable changes in other economic factors may result in further impairment of goodwill. The Company concluded there were no triggering events between the annual impairment testing and June 30, 2009.

Table of Contents

A summary of the Company's goodwill balance as of June 30, 2009 by reporting unit is as follows:

Reporting Unit	**As of June 30, 2009 (Dollars in thousands)**
Regis	$ 136,274
MasterCuts	4,652
SmartStyle	47,783
Supercuts	120,360
Promenade	305,986
Total North America Salons	615,055
Hair Restoration Centers	149,367
Consolidated Goodwill	$ 764,422

Prior to the annual goodwill impairment analysis for fiscal year 2009, the fair value of the Company's stock declined such that it began trading below book value per share. Due to the adverse changes in operating results and the continuation of the Company's stock trading below book value per share, the Company performed an interim impairment test of goodwill during the three months ended December 31, 2008.

As a result of the Company's interim impairment test of goodwill during the three months ended December 31, 2008, a $41.7 million impairment charge for the full carrying amount of goodwill within the salon concepts in the United Kingdom was recorded within continuing operations. The recent performance challenges of the international salon operations indicated that the estimated fair value was less than the current carrying of this reporting units net assets, including goodwill.

During the three months ended March 31 of fiscal years 2008 and 2007, we performed our annual goodwill impairment analysis on our reporting units. Based on our testing, a $23.0 million impairment charge was recorded during fiscal year 2007 related to our beauty school business. No impairment charges were recorded during fiscal years 2008.

Long-Lived Assets, Excluding Goodwill

We assess the impairment of long-lived assets annually or when events or changes in circumstances indicate that the carrying value of the assets or the asset grouping may not be recoverable. Our impairment analysis is performed on a salon by salon basis. The Company's test for impairment is performed at a salon level as this is the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. Factors considered in deciding when to perform an impairment review include significant under-performance of an individual salon in relation to expectations, significant economic or geographic trends, and significant changes or planned changes in our use of the assets. Impairment is evaluated based on the sum of undiscounted estimated future cash flows expected to result from use of the related salon assets that does not recover the carrying value of the salon assets. When the sum of a salon's undiscounted estimated future cash flow is zero or negative, impairment is measured as the full carrying value of the related salon's equipment and leasehold improvements. When the sum of a salon's undiscounted cash flows is greater than zero but less than the carrying value of the related salon's equipment and leasehold improvements, a discounted cash flow analysis is performed to estimate the fair value of the salon assets and impairment is measured as the difference between then carrying value of the salon assets and the estimated fair value. The fair value estimate is based on the best information available, including market data.

Judgments made by management related to the expected useful lives of long-lived assets and the ability to realize undiscounted cash flows in excess of the carrying amounts of such assets are affected by factors such as the ongoing maintenance and improvement of the assets, changes in economic conditions and changes in operating performance. As the ongoing expected cash flows and carrying

Table of Contents

amounts of long-lived assets are assessed, these factors could cause us to realize material impairment charges.

During fiscal years 2009, 2008 and 2007, $10.2, $6.1, and $5.1 million, respectively, of impairment was recorded within depreciation and amortization in the Consolidated Statement of Operations. In June 2009, we approved a plan to close up to 80 underperforming United Kingdom company-owned salons in fiscal year 2010 that was in addition to the July 2008 approved plan of closing up to 160 underperforming company-owned salons in fiscal year2009. We also evaluated the appropriateness of the remaining useful lives of its affected property and equipment and whether a change to the depreciation charge was warranted. Impairment charges are included in depreciation related to company-owned salons in the Consolidated Statement of Operations.

Purchase Price Allocation

We make numerous acquisitions. The purchase prices are allocated to assets acquired, including identifiable intangible assets, and liabilities assumed based on their estimated fair values at the dates of acquisition. Fair value is estimated based on the amount for which the asset or liability could be bought or sold in a current transaction between willing parties. For our acquisitions, the majority of the purchase price that is not allocated to identifiable assets, or liabilities assumed, is accounted for as residual goodwill rather than identifiable intangible assets. This stems from the value associated with the walk-in customer base of the acquired salons, the value of which is not recorded as an identifiable intangible asset under current accounting guidance and the limited value of the acquired leased site and customer preference associated with the acquired hair salon brand. Residual goodwill further represents our opportunity to strategically combine the acquired business with our existing structure to serve a greater number of customers through our expansion strategies. Identifiable intangible assets purchased in fiscal year 2009, 2008 and 2007 acquisitions totaled $1.3, $16.1, and $4.5 million, respectively. The residual goodwill generated by fiscal year 2009, 2008, and 2007 acquisitions totaled $30.8, $105.3, and $50.8 million, respectively.

Self-insurance Accruals

The Company uses a combination of third party insurance and self-insurance for a number of risks including workers' compensation, health insurance, employment practice liability and general liability claims. The liability represents an estimate of the undiscounted ultimate cost of uninsured claims incurred as of the balance sheet date.

The workers' compensation, general liability and employment practices liability analysis includes applying loss development factors to the Company's historical claims data (total paid and incurred amounts per claim) for all policy years where the Company has not reached its aggregate limits to project the future development of incurred claims. The workers' compensation analysis is performed for four models; California, Ohio, Texas and all other states. A variety of accepted actuarial methodologies are followed to determine these liabilities, including several methods to predict the loss development factors for each policy period. These liabilities are determined by modeling the frequency (number of claims) and severity (cost of claims), fitting statistical distributions to the experience, and then running simulations. A similar analysis is performed for both general liability and employment practices liability, however, it is a single model for all liability claims rather than the four separate models used for workers' compensation.

The health insurance analysis utilizes trailing twelve months of paid and 24 months of incurred medical and prescription claims to project the amount of incurred but not yet reported claims liability amount. The lag factors are developed based on the Company's specific claim data utilizing a completion factor methodology. The developed factor, expressed as a percentage of paid claims, is applied to the trailing twelve months of paid claims to calculate the estimated liability amount. The calculated liability amount is reviewed for reasonableness based on reserve adequacy ranges for historical periods by testing prior reserve levels against actual expenses to date.

Table of Contents

Although the Company does not expect the amounts ultimately paid to differ significantly from the estimates, self-insurance accruals could be affected if future claims experience differs significantly from the historical trends and actuarial assumptions. For fiscal years 2009, 2008, and 2007, we recorded decreases in expense from changes in estimates related to prior year open policy periods continuing operations of $9.9, $6.9, and $10.0 million, respectively. A 10.0 percent change in the self-insurance reserve would affect income from continuing operations before income taxes and equity in income of affiliated companies by $4.0, $4.7 and $4.8 million for the three years ended June 30, 2009, 2008 and 2007, respectively. The Company updates loss projections each year and adjusts its recorded liability to reflect the current projections. The updated loss projections consider new claims and developments associated with existing claims for each open policy period. As certain claims can take years to settle, the Company has multiple policy periods open at any point in time.

Income Taxes

In determining income for financial statement purposes, management must make certain estimates and judgments. These estimates and judgments occur in the calculation of certain tax liabilities and in the determination of the recoverability of certain deferred tax assets, which arise from temporary differences between the tax and financial statement recognition of revenue and expense.

Management must assess the likelihood that deferred tax assets will be recovered. If recovery is not likely, we must increase our provision for taxes by recording a reserve, in the form of a valuation allowance, for the deferred tax assets that will not be ultimately recoverable. Should there be a change in our ability to recover our deferred tax assets, our tax provision would increase in the period in which it is determined that the recovery is not more likely than not.

In addition, the calculation of tax liabilities involves dealing with uncertainties in the application of complex tax regulations. Management recognizes potential liabilities for anticipated tax audit issues in the United States and other tax jurisdictions based on our estimate of whether and the extent to which additional taxes will be due. If payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary. If our estimate of tax liabilities proves to be less than the ultimate assessment, a further charge to expense would result. In the United States, fiscal years 2006 and after remain open for federal tax audit. For state tax audits, the statute of limitations generally spans three to four years, resulting in a number of states remaining open for tax audits dating back to fiscal year 2005. However, the company is under audit in a number of states in which the statute of limitations has been extended to fiscal years 2000 and forward. Internationally (including Canada), the statute of limitations for tax audits varies by jurisdiction, but generally ranges from three to five years.

We adopted the provisions of FASB Interpretation ("FIN") No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109*, effective July 1, 2007. FIN No. 48 provides guidance regarding the recognition, measurement, presentation, and disclosure in the financial statements of tax positions taken or expected to be taken on a tax return, including the decision whether to file or not to file in a particular jurisdiction. As a result of the adoption of FIN No. 48, effective July 1, 2007, the Company recognized a $20.7 million increase in the liability for unrecognized income tax benefits, including interest and penalties. As of June 30, 2009 the Company's unrecognized income tax benefits were $14.8 million. See Note 13, to the Consolidated Financial Statements, for further information.

Contingencies

We are involved in various lawsuits and claims that arise from time to time in the ordinary course of our business. Accruals are recorded for such contingencies based on our assessment that the occurrence is probable, and where determinable, an estimate of the liability amount. Management considers many factors in making these assessments including past history and the specifics of each case. However, litigation is inherently unpredictable and excessive verdicts do occur, which could have a material impact on our Consolidated Financial Statements.

Table of Contents

OVERVIEW OF FISCAL YEAR 2009 RESULTS

The following summarizes key aspects of our fiscal year 2009 results:

Revenues decreased 2.1 percent to $2.4 billion and consolidated same-store sales decreased 3.1 percent during fiscal year 2009. The Company experienced a decline in customer visitation as a result of the continued global economic decline, partially offset by an increase in average ticket price, resulted in a decrease in consolidated same-store sales of 3.1 percent. The revenue decrease was partially offset by $32.2 million of product sold to the purchaser of Trade Secret. The Company expects fiscal year 2010 same-store sales to be in the range of negative 3.0 to positive 1.0 percent.

The Trade Secret concept was sold on February 16, 2009 and results have been reported within discontinued operations within the Consolidated Financial Statements. Reported as part of the loss on discontinued operations was a pre-tax $183.3 million non-cash write-off consisting primarily of inventories, property and equipment, and goodwill. The Trade Secret concept locations sold included 655 company-owned salons and 57 franchised salons.

Goodwill impairment charges of $41.7 million associated with our salon concepts in the United Kingdom were recorded during fiscal year 2009.

Other-than-temporary impairment charges of $25.7 million of our investment in Provalliance were recorded during fiscal year 2009.

Other-than-temporary impairment charges of $7.8 million for the full carrying value of our investment in and loans to Intelligent Nutrients, LLC were recorded during fiscal year 2009.

Long-lived asset impairment charges of $10.2 million were recorded during fiscal year 2009.

Total debt at the end of the fiscal year was $634.3 million and our debt-to-capitalization ratio, calculated as total debt as a percentage of total debt and shareholders' equity at fiscal year end, increased 20 basis points to 44.1 percent as compared to June 30, 2008.

The annual effective income tax rate of 53.3 percent was adversely impacted by the pre-tax non-cash goodwill impairment charge of $41.7 million and an adjustment to correct our prior year deferred income tax balances of $3.8 million. Offsetting these amounts were favorable releases of FIN 48 reserves primarily due to the expiration of statutes of limitation resulting in a decrease in income tax expense of $5.7 million.

Site operating expenses were positively impacted by a $9.9 million pre-tax change in estimate of the Company's self-insurance accruals, primarily workers' compensation, due to the continued improvement of our safety and return-to-work programs over the recent years.

Lease termination costs of $6.2 million ($5.7 million pre-tax included in continuing operations, with $0.5 million included in loss from discontinued operations) were incurred as a result of the 76 salons that ceased using the right to use the leased property or negotiated a lease termination agreement in connection with the Company's planned closure of up to 160 underperforming company-owned salons.

Table of Contents

RESULTS OF OPERATIONS

Beginning with the period ended December 31, 2008 the operations of Trade Secret concept within the North American reportable segment were accounted for as a discontinued operation. All periods presented will reflect Trade Secret as a discontinued operation. The following discussion of results of operations will reflect results from continuing operations. Discontinued operations will be discussed at the end of this section.

Consolidated Results of Operations

The following table sets forth, for the periods indicated, certain information derived from our Consolidated Statement of Operations in Item 8, expressed as a percent of revenues. The percentages are computed as a percent of total revenues, except as noted.

Results of Operations as a Percent of Revenues

	For the Years Ended June 30,		
	2009	**2008**	**2007**
Service revenues	75.5%	75.1%	74.3%
Product revenues	22.9	22.2	22.3
Royalties and fees	1.6	2.7	3.4
Operating expenses:			
Cost of service(1)	57.0	57.1	56.0
Cost of product(2)	50.9	48.0	48.8
Site operating expenses	7.8	7.4	8.0
General and administrative	12.0	13.0	13.4
Rent	14.3	14.6	14.4
Depreciation and amortization	4.8	4.6	4.7
Goodwill impairment	1.7		1.0
Lease termination costs	0.2		
Operating income	4.5	7.0	6.0
Income from continuing operations before income taxes and equity in (loss) income of affiliated companies	3.2	5.5	4.4
Income from continuing operations	0.3	3.4	2.9
(Loss) income from discontinued operations	(5.4)	0.1	0.7
Net (loss) income	(5.1)	3.4	3.5

(1) Computed as a percent of service revenues and excludes depreciation expense.

(2) Computed as a percent of product revenues and excludes depreciation expense.

Table of Contents

Consolidated Revenues

Consolidated revenues primarily include revenues of company-owned salons, product and equipment sales to franchisees, hair restoration center revenues, and franchise royalties and fees. As compared to the prior fiscal year, consolidated revenues decreased 2.1 percent to $2.4 billion during fiscal year 2009 and increased 4.6 percent to $2.5 billion during fiscal year 2008. The following table details our consolidated revenues by concept. All service revenues, product revenues (which include product and equipment sales to franchisees), and franchise royalties and fees are included within their respective concept within the table.

	For the Years Ended June 30,		
	2009	2008	2007
	(Dollars in thousands)		
North American salons:			
Regis	$ 474,964	$ 514,219	$ 498,577
MasterCuts	170,338	175,974	174,287
SmartStyle	529,782	507,349	462,321
Supercuts(1)	310,913	305,104	287,416
Promenade(1)(6)	631,701	581,542	489,579
Other(3)		5,558	
Total North American Salons(5)	2,117,698	2,089,746	1,912,180
International salons(1)(2)	171,569	256,063	253,430
Beauty schools(3)			85,627
Hair restoration centers(1)	140,520	135,582	122,101
Consolidated revenues	$2,429,787	$2,481,391	$2,373,338
Percent change from prior year	(2.1)%	4.6%	9.5%
Salon same-store sales (decrease) increase(4)	(3.1)%	1.5%	0.9%

(1) Includes aggregate franchise royalties and fees of $39.6, $67.6, and $79.9 million in fiscal years 2009, 2008, and 2007, respectively. North American salon franchise royalties and fees represented 93.7, 58.6, and 47.8 percent of total franchise revenues in fiscal years 2009, 2008, and 2007, respectively. The decrease in aggregate franchise royalties and fees and the increase in North American salon franchise royalties and fees as a percent of total revenues for fiscal years 2009 and 2008 is a result of the deconsolidation of the Company's European franchise salon operations.

(2) On January 31, 2008, the Company deconsolidated the results of operations of its European franchise salon operations. Accordingly, revenue growth was negatively impacted as a result of the deconsolidation. See Item 6, Selected Financial Data, for further information

(3) On August 1, 2007, the Company contributed its 51 accredited cosmetology schools to Empire Education Group, Inc. Accordingly, revenue growth was negatively impacted as a result of the deconsolidation. See Item 6, Selected Financial Data, for further information. For the fiscal year ended June 30, 2008, the results of operations for the month ended July 31, 2007 for the accredited cosmetology schools are reported in the North American salons segment. The Company retained ownership of its one North American and four United Kingdom Sassoon schools. Subsequent to August 1, 2007 results of operations for the Sassoon schools are included in the respective North American and international salon segments.

(4) Same-store sales increases or decreases are calculated on a daily basis as the total change in sales for company-owned locations which were open on a specific day of the week during the current period and the corresponding prior period. Annual same-store sales increases are the sum of the same-store sales increases computed on a daily basis. Relocated locations are included in

Table of Contents

same-store sales as they are considered to have been open in the prior period. International same-store sales are calculated in local currencies so that foreign currency fluctuations do not impact the calculation. We began including hair restoration centers in same-store sales calculations beginning with the third fiscal quarter of 2007. Management believes that same-store sales, a component of organic growth, are useful in order to help determine the increase in salon revenues attributable to its organic growth (new salon construction and same-store sales growth) versus growth from acquisitions.

(5)
Beginning with the period ended December 31, 2008, the operations of Trade Secret concept within the North American reportable segment were accounted for as a discontinued operation. All periods presented reflect Trade Secret as a discontinued operation. Accordingly, Trade Secret revenues are excluded from this presentation.

(6)
Trade Secret, Inc. was sold by Regis Corporation on February 16, 2009. The agreement included a provision that Regis Corporation will supply product to the purchaser of Trade Secret at cost for a transition period of approximately six months following the date of the sale, with possible extension to not more than eleven months. For the fiscal year ended June 30, 2009, the Company generated revenue of $32.2 million in product revenues, which represented 1.3 percent of consolidated revenues.

The decrease of 2.1 percent and the increases of 4.6, and 9.5 percent in consolidated revenues during fiscal years 2009, 2008 and 2007, respectively, were driven by the following:

	Percentage Increase (Decrease) in Revenues For the Years Ended June 30,		
Factor	**2009**	**2008**	**2007**
Acquisitions (previous twelve months)	3.4%	4.6%	4.8%
Organic	(1.4)	3.4	4.0
Foreign currency	(2.2)	1.1	1.1
Franchise revenues	(1.1)	(0.6)	0.0
Closed salons	(0.8)	(3.9)	(0.4)
	(2.1)%	4.6%	9.5%

We acquired 177 company-owned salons (including 83 franchise buybacks), and bought back two hair restoration centers from franchisees during fiscal year 2009 compared to 354 company-owned salons (including 145 franchise buybacks) and bought back six hair restoration centers from franchisees during fiscal year 2008. The organic decrease was primarily due to consolidated same-store sales decrease of 3.1 percent, partially offset by the construction of 172 company-owned salons during the twelve months ended June 30, 2009. The organic increase was primarily from the construction of 309 company-owned salons during the 12 months ended June 30, 2008, as well as consolidated same-store sales of 1.5 percent. We closed 281and 264 salons (including 51 and 103 franchise salons) during the twelve months ended June 30, 2009 and 2008, respectively.

We acquired 354 company-owned salons (including 145 franchise buybacks), and bought back 6 hair restoration centers from franchisees during fiscal year 2008 compared to 351 company-owned salons (including 97 franchise buybacks), one beauty school and two company-owned hair restoration centers (including one franchise buyback) during fiscal year 2007. The organic growth was primarily from the construction of 309 and 400 company-owned salons during the twelve months ended June 30, 2008 and 2007, respectively, as well as consolidated same-store sales increases. Franchise revenues decreased primarily due to the merger of our 1,587 continental Europe franchise salons with Franck Provost Salon Group on January 31, 2008. We closed 264 and 288 salons (including 103 and

Table of Contents

168 franchise salons) during the twelve months ended June 30, 2008 and 2007, respectively. The decrease in closed salons as a percent of revenues was primarily due to the 51 accredited cosmetology schools contributed to Empire Education Group, Inc. on August 1, 2007.

During fiscal year 2009, the foreign currency impact was driven by the strengthening of the United States dollar against the Canadian dollar, British pound and Euro as compared to the prior fiscal year's exchange rates. During fiscal years 2008 and 2007, the foreign currency impact was driven by the continued weakening of the United States dollar against the Canadian dollar, British pound, and Euro as compared to the prior fiscal year's exchange rates. Consolidated revenues are primarily composed of service and product revenues, as well as franchise royalties and fees. Fluctuations in these three major revenue categories were as follows:

Service Revenues. Service revenues include revenues generated from company-owned salons and service revenues generated by hair restoration centers. Consolidated service revenues were as follows:

Years Ended June 30,	Revenues	(Decrease) Increase Over Prior Fiscal Year Dollar	Percentage
	(Dollars in thousands)		
2009	$1,833,958	$ (28,532)	(1.5)%
2008	1,862,490	98,010	5.6
2007	1,764,480	159,969	10.0

The decrease in service revenues during fiscal year 2009 was due to same-store service sales decreasing 2.5 percent. Same-store service sales decreased 2.5 percent due to a decline in customer visits. Service revenues were also negatively impacted due to the strengthening of the United States dollar against the Canadian dollar, British pound, and Euro and the deconsolidation of the European franchise salon operations on January 31, 2008. Partially offsetting the decrease was growth due to acquisitions during the twelve months and an increase in average ticket.

The growth in service revenues during fiscal year 2008 was driven by acquisitions and new salon construction (a component of organic growth). Service revenue growth was driven by a consolidated same-store service sales increase of 2.2 percent during the twelve months ended June 30, 2008 as a result of price increases. Growth was negatively impacted as a result of the deconsolidation of our 51 accredited cosmetology schools to Empire Education Group, Inc. on August 31, 2007.

The growth in service revenues during fiscal year 2007 was driven primarily by acquisitions and new salon construction (a component of organic growth). Consolidated same-store service sales increased 1.1 percent during the twelve months ended June 30, 2007. Additionally, hair restoration service revenues contributed to the increase in consolidated service revenues during the twelve months ended June 30, 2007 due to strong recurring and new customer revenues and increases in hair transplant management fees. Same-store sales were negatively impacted by the sustained long-hair trend, as customer visitation patterns continued to be modest related to the fashion trend towards longer hairstyles.

Table of Contents

Product Revenues. Product revenues are primarily sales at company-owned salons, hair restoration centers, and sales of product and equipment to franchisees. Consolidated product revenues were as follows:

Years Ended June 30,	Revenues	Increase Over Prior Fiscal Year Dollar	Percentage
	(Dollars in thousands)		
2009	$556,205	$ 4,919	0.9%
2008	551,286	22,374	4.2
2007	528,912	42,661	8.8

The growth in product revenues during fiscal year 2009 was primarily due to product sales of $32.2 million to the purchaser of Trade Secret, partially offset by same-store product sales decreasing 5.1 percent. Same-store product sales decreased 5.1 percent during the fiscal year 2009 due to a decline in customer visits and a change in product mix, as a larger percentage of product sales came from promotional items.

The growth in product revenues during fiscal year 2008 was primarily due to acquisitions, offset by same-store product sales decrease of 0.8 percent during the twelve months ended June 30, 2008. This decrease is due to the recent decline in the global economic condition and the continued trend of product diversion and increased appeal of mass hair care lines by the consumer.

The growth in product revenues during fiscal year 2007 was primarily due to acquisitions. Growth was not as robust compared to the prior fiscal year due to a same-store product sales increase of 0.2 percent during the twelve months ended June 30, 2007, related to product diversion, reduced promotions and increased appeal of mass retail hair care lines by the consumer.

Royalties and Fees. Consolidated franchise revenues, which include royalties and franchise fees, were as follows:

Years Ended June 30,	Revenues	Increase (Decrease) Over Prior Fiscal Year Dollar	Percentage
	(Dollars in thousands)		
2009	$39,624	$(27,991)	(41.4)%
2008	67,615	(12,331)	(15.4)
2007	79,946	2,706	3.5

Total franchise locations open at June 30, 2009 and 2008 were 2,078 (including 33 franchise hair restoration centers) and 2,134 (including 35 franchise hair restoration centers). The decrease in consolidated franchise revenues during fiscal year 2009 was primarily due to the merger of the 1,587 European franchise salon operations with Franck Provost Salon Group on January 31, 2008.

Total franchise locations open at June 30, 2008 and 2007 were 2,134 (including 35 franchise hair restoration centers) and 3,764 (including 41 franchise hair restoration centers). The decrease in consolidated franchise revenues during fiscal year 2008 was primarily due to the merger of the 1,587 European franchise salon operations with Franck Provost Salon Group on January 31, 2008. The decrease in consolidated franchise revenues during fiscal year 2008 was partially offset due to the weakening of the United States dollar against the Canadian dollar, British pound and Euro as compared to the exchange rates for fiscal year 2007.

Total franchise locations open at June 30, 2007 and 2006 were 3,764 (including 41 franchise hair restoration centers) and 3,797 (including 42 franchise hair restoration centers). We purchased 97 of our franchise salons during the twelve months ended June 30, 2007 compared to 137 during the twelve

Table of Contents

months ended June 30, 2006, which drove the overall decrease in the number of franchise salons between periods. The increase in consolidated franchise revenues during fiscal year 2007 was primarily due to the weakening of the United States dollar against the Canadian dollar, British pound and Euro as compared to the exchange rates for fiscal year 2006, partially offset by a decreased number of franchise salons, as discussed above.

Gross Margin (Excluding Depreciation)

Our cost of revenues primarily includes labor costs related to salon employees and hair restoration center employees, the cost of product used in providing services and the cost of products sold to customers and franchisees. The resulting gross margin was as follows:

Years Ended June 30,	Gross Margin	Margin as % of Service and Product Revenues	Increase (Decrease) Over Prior Fiscal Year: Dollar	Percentage	Basis Point(1)
		(Dollars in thousands)			
2009	$1,062,406	44.4%	$(24,420)	(2.2)%	(60)
2008	1,086,826	45.0	40,643	3.9	(60)
2007	1,046,183	45.6	98,167	10.4	30

(1) Represents the basis point change in gross margin as a percent of service and product revenues as compared to the corresponding period of the prior fiscal year.

Service Margin (Excluding Depreciation). Service margin was as follows:

Years Ended June 30,	Service Margin	Margin as % of Service Revenues	Increase (Decrease) Over Prior Fiscal Year: Dollar	Percentage	Basis Point(1)
		(Dollars in thousands)			
2009	$789,239	43.0%	$(10,692)	(1.3)%	10
2008	799,931	42.9	24,397	3.1	(110)
2007	775,534	44.0	73,650	10.5	30

(1) Represents the basis point change in service margin as a percent of service revenues as compared to the corresponding period of the prior fiscal year.

The basis point improvement in service margins as a percent of service revenues during fiscal year 2009 was primarily due to an improvement in labor expenses. Labor expenses improved as a result of cost control initiatives and revised salon commission plans.

The basis point decrease in service margins as a percent of service revenues during fiscal year 2008 was primarily due to the absence of the beauty school segment service revenue from consolidated service revenues. The decrease was also due to a change made during the first fiscal quarter as a result of refinements made to our inventory tracking systems. The refinements resulted in better tracking and accounting for retail products that our salon stylists transfer from retail shelves to the back bar for use in servicing customers. The cost of these products had historically been included as a component of our product gross margin, whereas they are now more appropriately included in our service margin.

The basis point improvement in service margins as a percent of service revenues during fiscal year 2007 was primarily due to a same-store service sales increase of 1.1 percent during the twelve months ended June 30, 2007 compared to 0.6 percent during the twelve months ended

June 30, 2006. The improvement was also due to increased tuition in the schools segment, increased hair restoration service revenues due to strong recurring and new customer revenues and increases in hair transplant management fees and the continued focus on management of salon payroll costs.

Table of Contents

Product Margin (Excluding Depreciation). Product margin was as follows:

Years Ended June 30,	Product Margin	Margin as % of Product Revenues	Increase (Decrease) Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
		(Dollars in thousands)			
2009	$273,167	49.1%	$(13,728)	(4.8)%	(290)
2008	286,895	52.0	16,246	6.0	80
2007	270,649	51.2	24,517	10.0	60

(1) Represents the basis point change in product margin as a percent of product revenues as compared to the corresponding period of the prior fiscal year.

Trade Secret, Inc. was sold by Regis Corporation on February 16, 2009. The agreement included a provision that Regis Corporation will supply product to the purchaser at cost for a transition period of six months following the date of the sale, with possible extension to not more than eleven months.

The following tables breakout product revenue, cost of product and product margin as a percent of product revenues between product and product sold to the purchaser of Trade Secret.

Breakout of Product Revenue	For the Years Ended June 30, 2009	2008	2007
Product	$523,968	$551,286	$528,912
Product sold to purchaser of Trade Secret	32,237		
Total product revenues	$556,205	$551,286	$528,912

Breakout of Cost of Product	For the Years Ended June 30, 2009	2008	2007
Cost of product	$250,801	$264,391	$258,263
Cost of product sold to purchaser of Trade Secret	32,237		
Total cost of product	$283,038	$264,391	$258,263

Product Margin as % of Product Revenues	For the Years Ended June 30, 2009	2008	2007
Margin on product other than sold to purchaser of Trade Secret	52.1%	52.0%	51.2%
Margin on product sold to purchaser of Trade Secret			
Total product margin	49.1%	52.0%	51.2%

The basis point improvement in product margin other than sold to purchaser of Trade Secret as a percentage of product revenues during fiscal year 2009 was due to selling higher cost inventories in fiscal year 2008 obtained in conjunction with several acquisitions. In addition, product margins improved due to the deconsolidation of the European franchise salon operations and a write-off of slow moving inventories in fiscal year 2008. Partially offsetting the improvement was mix play, as a larger than expected percentage of product sales came from lower-margin promotional items. We are not promoting or discounting at a higher rate, but we are continuing to see customers be more value-focused through buying promotional items at a higher rate than prior periods.

The basis point improvement in product margins as a percentage of product revenues during fiscal year 2008 was due to refinements made to our inventory tracking systems. The refinements resulted in better tracking and accounting for retail products that our salon stylists transfer from retail shelves to the back bar for use in servicing customers. The cost of these products had historically been included as a component of our product gross margin, whereas they are now more appropriately included in our service margin. In addition, product margins improved due to the deconsolidation of the beauty schools and European franchise salon operations.

The basis point improvement in product margins as a percent of product revenues during fiscal year 2007 was primarily due to a reduction in retail promotional discounting as compared to fiscal year 2006.

Site Operating Expenses

This expense category includes direct costs incurred by our salons and hair restoration centers, such as on-site advertising, workers' compensation, insurance, utilities and janitorial costs. Site operating expenses were as follows:

Years Ended June 30,	Site Operating	Expense as % of Consolidated Revenues	Increase (Decrease) Over Prior Fiscal Year: Dollar	Percentage	Basis Point(1)
	(Dollars in thousands)				
2009	$190,456	7.8%	$ 5,687	3.1%	40
2008	184,769	7.4	(5,845)	(3.1)	(60)
2007	190,614	8.0	9,664	5.3	(30)

(1) Represents the basis point change in site operating expenses as a percent of consolidated revenues as compared to the corresponding period of the prior fiscal year.

The basis point increase in site operating expenses as a percent of consolidated revenues during fiscal year 2009 was primarily due to the reclassification of rubbish removal and utilities that we pay our landlords as part of our operating lease agreements from rent into site operating expense. Partially offsetting the basis point increase was an incremental $3.0 million benefit due to the reduction in self insurance accruals compared to the fiscal year 2008 reduction in self insurance accruals. The reduction was primarily related to prior years' workers' compensation reserves as a result of successful safety and return-to-work programs implemented over the past few years.

The basis point improvement in site operating expenses as a percent of consolidated revenues during fiscal year 2008 was primarily due to a decrease in workers' compensation expense due to a continued reduction in the frequency and severity of injury claims from our successful salon safety programs.

The basis point improvement in site operating expenses as a percent of consolidated revenues during fiscal year 2007 was primarily due to an actuarial reduction in insurance claims reserves, primarily workers' compensation, as a result of the continued improvement of our safety and return-to-work programs over the recent years, as well as changes in state laws, providing an additional benefit of $10.0 million during fiscal year 2007. The basis point improvement in site operating expenses as a percent of consolidated revenues during fiscal year 2006 was primarily due to reduced workers' compensation insurance-related costs stemming from decreased claims activity.

Table of Contents

General and Administrative

General and administrative (G&A) includes costs associated with our field supervision, salon training and promotions, product distribution centers and corporate offices (such as salaries and professional fees), including costs incurred to support franchise and hair restoration center operations. G&A expenses were as follows:

			Increase (Decrease) Over Prior Fiscal Year		
Years Ended June 30,	G&A	Expense as % of Consolidated Revenues	Dollar	Percentage	Basis Point(1)
		(Dollars in thousands)			
2009	$291,661	12.0%	$(29,902)	(9.3)%	(100)
2008	321,563	13.0	3,840	1.2	(40)
2007	317,723	13.4	32,729	11.5	30

(1) Represents the basis point change in G&A as a percent of consolidated revenues as compared to the corresponding period of the prior fiscal year.

The basis point improvement in G&A costs as a percentage of consolidated revenues during fiscal year 2009 was primarily due to cost savings initiatives implemented by the Company during the first half of fiscal year 2009 including the reduction of field supervisory staff and the reduction of the fiscal year 2009 marketing budget. The basis point improvement was also related to the deconsolidation of the European franchise salon operations.

The basis point improvement in G&A costs as a percentage of consolidated revenues during fiscal year 2008 was primarily due to the deconsolidation of the European franchise salon operations and accredited cosmetology schools.

The planned basis point increase in G&A costs as a percent of consolidated revenues during fiscal year 2007 was primarily due to increases in salon supervisor salaries, benefits, travel expenses, professional fees and the timing of promotional salon and hair restoration advertising.

Rent

Rent expense, which includes base and percentage rent, common area maintenance and real estate taxes, was as follows:

			Increase (Decrease) Over Prior Fiscal Year		
Years Ended June 30,	Rent	Expense as % of Consolidated Revenues	Dollar	Percentage	Basis Point(1)
		(Dollars in thousands)			
2009	$347,792	14.3%	$(13,684)	(3.8)%	(30)
2008	361,476	14.6	19,654	5.7	20
2007	341,822	14.4	31,048	10.0	10

(1) Represents the basis point change in rent expense as a percent of consolidated revenues as compared to the corresponding period of the prior fiscal year.

The basis point improvement in rent expense as a percent of consolidated revenues during fiscal year 2009 was primarily due to the reclassification of rubbish removal and utilities that we pay our landlords as part of our operating lease agreements to site operating expense from rent expense. Partially offsetting the basis point improvement was negative leverage in this fixed cost category due to negative same-store sales.

47

Table of Contents

The basis point increase in rent expense as a percent of consolidated revenues during fiscal year 2008 was primarily due to rent expense increasing at a faster rate than location same-store sales and the deconsolidation of the schools and European franchise salon operations, offset by recent salon acquisitions having a lower occupancy cost.

The basis point increase in rent expense as a percent of consolidated revenues during fiscal years 2007 and 2006 was primarily due to rent expense increasing at a faster rate than location same-store sales. Additionally, fiscal year 2007 is impacted by an extra week of rent in the United Kingdom.

Depreciation and Amortization

Depreciation and amortization expense (D&A) was as follows:

			Increase (Decrease) Over Prior Fiscal Year		
Years Ended June 30,	**D&A**	**Expense as % of Consolidated Revenues**	**Dollar**	**Percentage**	**Basis Point(1)**
		(Dollars in thousands)			
2009	$115,655	4.8%	$2,362	2.1%	20
2008	113,293	4.6	1,829	1.6	(10)
2007	111,464	4.7	8,390	8.1	(10)

(1) Represents the basis point change in depreciation and amortization as a percent of consolidated revenues as compared to the corresponding period of the prior fiscal year.

The basis point increase in D&A as a percent of consolidated revenues during fiscal year 2009 was primarily due to the decrease in same-store sales. In addition, the Company recorded impairment charges of $10.2 million related to the impairment of property and equipment at underperforming locations, including those salons under the Company approved plan to close up to 80 underperforming United Kingdom company-owned salons.

The basis point improvement in D&A as a percent of consolidated revenues during fiscal year 2008 was primarily due to same-store sales increasing at a faster rate than D&A. The improvement was partially offset by higher salon impairment charges in fiscal year 2008 related to the Company's decision to close 160 (112 continuing operations) underperforming salons in fiscal year 2009, when compared to salon impairment charges in fiscal year 2007. Impairment charges of $6.1 million were recorded during fiscal 2008 related to the impairment of property and equipment at underperforming locations. The majority of closings are expected to occur in the first half of fiscal year 2009. The decision to close the underperforming stores was the result of a comprehensive review of our salon portfolio, further continuing our initiative to enhance profitability.

The basis point improvement in D&A for fiscal year 2007 relates primarily to lower salon impairment charges in fiscal year 2007 when compared to salon impairment charges in fiscal year 2006. Impairment charges of $5.1 million were recorded during fiscal 2007 related to the impairment of property and equipment at underperforming locations.

Table of Contents

Goodwill Impairment

Goodwill impairment was as follows:

Years Ended June 30,	Goodwill Impairment	Expense as % of Consolidated Revenues	Increase (Decrease) Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
	(Dollars in thousands)				
2009	$ 41,661	1.7%	$ 41,661	100.0%	170
2008			(23,000)	(100.0)	(100)
2007	23,000	1.0	23,000	100.0	100

(1) Represents the basis point change in goodwill impairment as a percent of consolidated revenues as compared to the corresponding period of the prior fiscal year.

The Company recorded a $41.7 million goodwill impairment charge related to the salon concepts in the United Kingdom during fiscal year 2009. The recent performance challenges of the International salon operations indicated that the estimated fair value of the International salon operations was less than the current carrying value of the reporting unit's net assets, including goodwill. There is no remaining goodwill recorded within the salon concepts in the United Kingdom.

No impairment charges were recorded during fiscal years 2008.

The Company recorded a $23.0 million impairment charge related to the Company's beauty school operating segment during fiscal year 2007. During fiscal year 2007, the Company entered into an agreement to merge its 51 accredited cosmetology schools into Empire Education Group, Inc. The terms of the transaction indicated the estimated fair value of the accredited cosmetology schools was less than the carrying value of the beauty school's net assets, including goodwill, immediately prior to the merger.

Lease Termination Costs

Lease termination costs were as follows:

Years Ended June 30,	Lease Termination Costs	Expense as % of Consolidated Revenues	Increase (Decrease) Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
	(Dollars in thousands)				
2009	$ 5,732	0.2%	$ 5,732	100.0%	20
2008					
2007					

(1) Represents the basis point change in lease termination costs as a percent of consolidated revenues as compared to the corresponding periods of the prior fiscal year.

The lease termination costs are associated with the Company's plan to close up to 160 (112 from continuing operations) underperforming company-owned salons in fiscal year 2009. During fiscal year 2009 we closed 71 salons. During the first fiscal quarter of 2010, we anticipate recording lease termination costs of approximately $3.4 million in connection with closing underperforming salons in the United Kingdom.

See further discussion within Note 11 of the Condensed Consolidated Financial Statements.

Table of Contents

Interest Expense

Interest expense was as follows:

Years Ended June 30,	Interest	Expense as % of Consolidated Revenues	Increase (Decrease) Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
		(Dollars in thousands)			
2009	$39,768	1.6%	$(4,511)	(10.2)%	(20)
2008	44,279	1.8	2,632	6.3	
2007	41,647	1.8	6,734	19.3	20

(1) Represents the basis point change in interest expense as a percent of consolidated revenues as compared to the corresponding period of the prior fiscal year.

The basis point improvement in interest as a percent of consolidated revenues during the twelve months ended June 30, 2009 was primarily due to lower average interest rates on variable rate debt and decreased debt levels as a result of the Company's commitment to reduce debt levels.

Interest as a percent of consolidated revenues during the twelve months ended June 30, 2008 was consistent with the twelve months ended June 30, 2007.

The basis point increase in interest expense as a percent of consolidated revenues during fiscal year 2007 was primarily due to increased debt levels due to the Company's repurchase of $79.7 million of our outstanding common stock, acquisitions and the timing of income tax payments during the fiscal year.

Interest Income and Other, net

Interest income and other, net was as follows:

Years Ended June 30,	Interest	Income as % of Consolidated Revenues	Increase Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
		(Dollars in thousands)			
2009	$9,461	0.4%	$1,288	15.8%	10
2008	8,173	0.3	3,120	61.7	10
2007	5,053	0.2	4,432	713.7	20

(1) Represents the basis point change in interest income and other, net as a percent of consolidated revenues as compared to the corresponding period of the prior fiscal year.

The basis point improvement in interest income and other, net as a percent of consolidated revenues during the twelve months ended June 30, 2009 was primarily due to the Company receiving $2.9 million for administrative services from the purchaser of Trade Secret and foreign currency transaction gains. Partially offsetting the basis point improvement was a decrease in interest income due to a decline in interest rates.

The basis point improvement in interest income and other, net as a percent of consolidated revenues during the twelve months ended June 30, 2008 and 2007 was primarily due to the increased interest income as a result of higher cash balances available to earn interest.

Table of Contents

Income Taxes

Our reported effective tax rate was as follows:

Years Ended June 30,	Effective Rate	Basis Point Increase (Decrease)
2009	53.3%	1,380
2008	39.5	410
2007	35.4	(50)

The basis point increase in our overall effective income tax rate for the fiscal year ended June 30, 2009 was primarily the result of the pre-tax non-cash goodwill impairment charge of $41.7 million recorded during the three months ended December 31, 2008 which caused an increase in the tax rate of 14.5 percent. The majority of the impairment charge was not deductible for tax purposes. In addition, a 4.8 percent increase in the tax rate was due to an adjustment of prior year deferred income taxes. Offsetting the unfavorable shifts in the income tax rate was a 7.3 percent decrease in the tax rate due to the release of reserves for unrecognized tax benefits upon the expiration of the statute of limitation in federal, state and international jurisdictions.

The basis point increase in our overall effective income tax rate for the fiscal year ended June 30, 2008 was primarily the result of the shift in income from low to high tax jurisdictions as a result of the merger of European franchise salon operations with the Franck Provost Salon Group. As a result of the merger with the Franck Provost Salon Group, the Company repatriated approximately $30 million cash previously considered to be indefinitely reinvested outside of the United States. In addition, certain costs related to the transaction were not deductible for tax purposes. The combined effect of these items caused an increase in the tax rate of 2.1 percent. In addition, Texas and other states introduced new taxes or restrictive rules. The combined effect of these new taxes, together with other adjustments, caused an increase in the tax rate of 1.9 percent.

The basis point improvement in our overall effective income tax rate for the fiscal year ended June 30, 2007 was primarily due to the tax benefit received during the three months ended December 31, 2006 related to the retroactive reinstatement to January 1, 2006 of the Work Opportunity and Welfare-to-Work Tax Credits. The basis point improvement was also due to increases in international income subject to tax in lower tax foreign jurisdictions, partially offset by the pre-tax, non-cash goodwill impairment charge of $23.0 million recorded during the three months ended March 31, 2007. The majority of the impairment charge was not deductible for tax purposes.

In December 2006, President Bush signed the Tax Relief and Health Care Act of 2006 into law. This Act retroactively reinstated the Work Opportunity and Welfare-to-Work Tax Credits for a two year period beginning January 1, 2006. In accordance with generally accepted accounting principles, the financial impact of the tax credits earned during the entire calendar year was required to be reflected in the Company's tax rate for the quarter in which the Act was signed into law, which was the Company's quarter ended December 31, 2006. The fiscal year 2007 tax rate reflects $4.1 million related to Work Opportunity and Welfare-to-Work Tax Credits, a portion of which was earned during fiscal year 2006, but not reflected in the related financial statements due to the expiration of the prior statute. Under the prior law which was retroactive to January 1, 2004 and expired on December 31, 2005, the Company earned employment credits of $0.8 and $1.8 million during fiscal years 2006 and 2005, respectively. On May 26, 2007, President Bush signed into law the Small Business and Work Opportunity Tax Act of 2007. Whereas under the Tax Relief and Health Care Act of 2006 the Work Opportunity and Welfare-to-Work Tax Credits were to expire on December 31, 2007, this Act enhances and extends the credits to September 1, 2011.

Table of Contents

Equity in (Loss) Income of Affiliated Companies, Net of Income Taxes

Equity in (loss) income of affiliates, represents the income or loss generated by our equity investment in Empire Education Group, Inc., Provalliance, and other equity method investments was as follows:

Years Ended June 30,	Equity (Loss) Income	Increase (Decrease) Over Prior Fiscal Year	
		Dollar	Percentage
	(Dollars in thousands)		
2009	$(29,846)	$(30,695)	(3,615.4)%
2008	849	849	100.0
2007			

The increase in losses was primarily due to the impairment losses of $25.7 and $4.8 million, on our investment in Provalliance and investment in and loans to Intelligent Nutrients, LLC, respectively. Primarily the result of the weakened economy across continental Europe, Provalliance has recorded income at levels much less than expected by Regis management during the Company's fiscal year ended June 30, 2009. In addition, Provalliance significantly increased its debt levels resulting from acquisitions since January 31, 2008 but had significantly reduced future income expectations as a result of current economic conditions. The Company calculated the estimated fair value of Provalliance based on discounted future cash flows that utilize estimates in annual revenue growth, gross margins, capital expenditures, income taxes and long-term growth for determining terminal value. The discounted cash flow model utilizes projected financial results based on Provalliance's business plans and historical trends. The increased debt and reduced earnings expectations reduced the fair value of Provalliance as of June 30, 2009. Accordingly, the Company could no longer justify the carrying amount of its investment in Provalliance and recorded a $25.7 million "other-than-temporary" impairment charge in its fourth quarter ended June 30, 2009.The $4.8 million impairment charge was based on Intelligent Nutrients, LLC's inability to develop a professional organic brand of shampoo and conditioner with broad consumer appeal. The Company determined the losses in value to be "other-than-temporary." Partially offsetting the impairment losses was equity in income recorded for our investments in Provalliance, Empire Education Group, Inc. and Hair Club for Men, Ltd. See Note 6 to the Consolidated Financial Statements for further discussion of each respective affiliated company.

Equity in income of affiliated companies, net of taxes for the year ended June 30, 2008 was due to equity in income recorded for our investments in Provalliance and Empire Education Group, Inc., partially offset by equity in losses recorded for our investments in Intelligent Nutrients, LLC and PureBeauty and BeautyFirst. 1,499,204 US$ 469,406 1,388,504 US$ 541,976 1,560,891

Deposits in local banks

US$ 2.94 US$ 112,256 327,564 US$ 175,210 504,605

Deposits in foreign banks

US$ 224,616 2.94 660,145 US$ US$

Trade accounts receivable

Accounts receivable

US$ 325,346 2.94 956,193 US$ 1,365 3,983 US$ 27,153 78,202

Other receivables and prepaid expenses:

Secured by mortgages

US$ 359,202 2.94 1,055,695 US$ 354,351 1,033,997 US$ 368,726 1,061,931

Guarantee deposits

US$ 107,327 2.94 315,433 US$ 750,171 2,188,998 US$ 502,324 1,446,694

Non Current Assets

Other receivables and prepaid expenses:

Secured by mortgages

US$ US$ US$ 350,000 1,008,000

Investments:

Convertible Bonds 2007-IRSA

Subsidiaries related companies Law N° 19,550 Section 33 and related parties:

IRSA Inversiones y Representaciones Sociedad Anónima

US$45,293,168 2.98 134,928,347 US$ 44,943,168 132,941,891 US$ 49,943,188 146,333,542

Total Assets

US$55,646,960 165,378,275 US$ 49,107,716 145,112,819 US$ 58,521,285 171,038,462

Current liabilities

Trade account payable:

Suppliers

US$ 953,321 2.98 2,839,943 US$ 383,048 1,133,055 US$ 339,120 993,622

Accrual for other expenses

US$ 870,929 2.98 2,129,666 US$ 499,662 1,477,683 US$ 155,191 454,710

Loans:

Local financial loans

US$ 4,068,000 2.98 12,118,572 US$ US$

Interest of Convertible Bonds 2007

US$ 199,036 2.98 592,928 US$ 199,202 589,239 US$ 209,153 612,819

Subsidiaries, related companies Law N° 19,550 Section 33 and related parties:

Shareholders

US$ 266,145 2.98 792,845 US$ 250,176 740,021 US$ 261,887 767,329

Directors

US$ 85 2.98 252 US$ 1,124 3,324 US$ 1,148 3,363

Other debts

Advances to customers

US$ 1,411,516 2.98 4,204,906 US$ 1,500,000 4,432,500 US$

Subsidiaries, related companies Law N° 19,550 Section 33 and related parties:

Cactus Argentina S.A.

US$ 70,000 2.94 205,730 US$ US$

Cactus Feeders Inc.

US$ 13,961 2.98 41,590 US$ 13,263 39,231 US$ 9,076 35,670

Non-current liabilities

Loans:

Convertible Bonds 2007

US$

17,913,238 2.98 53,363,537 US$ 19,072,528 56,416,538 US$ 19,608,130 57,451,821

Subsidiaries, related companies Law N° 19,550 Section 33 and related parties:

Shareholders

US$23,953,025 2.98 71,356,061 US$ 23,953,025 70,853,048 US$ 24,551,900 71,937,067

Directo rs

US$ 7,600 2.98 22,640 US$ 107,600 318,281 US$ 107,600 315,268

Total Liabilities					
US$ 49,726,856	147,668,670	US$ 45,979,628	136,002,920	US$ 45,243,205	132,571,669

US$: US dollars

Cresud Sociedud Anónima, Comercial,

Inmobiliaria, Financiera y Agropecuaria and Subsidiaries

Unaudited Consolidated Information submitted in compliance with Section 64, subsection B of Law N° 19,550

Corresponding to the periods beginning as from July 1, 2004 and 2003

and ended on December 31, 2004 and 2003

(Notes 1, 2, and 3)

Schedule H

		Operating Expenses						Expenses		
Items	**Total December 31, 2004**	**Total**	**Crops**	**Beef cattle**	**Milk**	**Feed Lot**	**Others**	**Selling**	**Administrative**	**Total December 31, 2003**
	Pesos	**Pesos**	**Pesos**	**Pesos**	**Pesos**	**Pesos**	**Pesos**	**Pesos**	**Pesos**	**Pesos**
Directors fees	46,408								46,408	3,730
Fees and payments for services	608,422	132,330	5,726	84,599	6,875		35,130		476,092	759,431
Salaries and wages	3,183,508	1,569,861	249,754	830,780	146,061		343,266	39,431	1,574,216	3,612,925
Social security contributions	494,327	202,965	81,521	108,932	12,512				291,362	438,033
Taxes, rates and contributions	217,611	191,547	54,344	114,950	15,370		6,883		26,064	221,269
Gross sales taxes	286,533							286,533		288,287
Office and administrative expenses	352,376	73,903		1,824			72,079	1,320	277,153	165,577
Bank commissions and expenses	15,466	15,466	1,891	4,466	182		8,927			22,107
Depreciation of fixed assets	1,765,735	1,613,438	759,378	574,844	100,400	137,349	41,467		152,297	1,590,958
Vehicle and travelling expenses	331,332	175,735	58,029	88,155	6,901		22,650	8,026	147,571	259,172
Spare parts and repairs	617,545	614,368	311,710	265,241	36,717		700		3,177	521,117
Insurance	123,954	33,496	13,667	14,317	1,372		4,140		90,458	161,729
Employees benefits	183,077	134,766	21,643	101,090	4,468		7,565	144	48,167	80,941
Amortization of intangible assets										246,425
Livestock expenses	7,866,754	7,260,478		7,260,478				606,276		5,005,637
Dairy farm expenses	643,214	636,126			636,126			7,088		584,715
Agricultural expenses	4,465,418	2,929,287	2,929,287					1,536,131		3,040,597
Feed lot expenses	252,482	252,482				252,482				223,531
Silo expenses	41,963	41,963	41,963							123,395
Coal expenses										8,060
Firewood expenses										338
FyO expenses	25,984	4,500					4,500	21,484		76,680

General expenses	144,081	143,707	33,103	85,389	9,666		15,549	374		278,688
Total at December 31, 2004	21,666,190	16,026,418	4,562,016	9,535,065	976,650	389,831	562,856	2,506,807	3,132,965	
Total at December 31, 2003		11,975,259	3,397,918	6,660,866	933,330	331,666	651,479	2,192,027	3,546,056	17,713,342

Cresud Sociedad Anónima

Comercial, Inmobiliaria, Financiera y Agropecuaria

Unaudited Balance Sheet as at December 31, 2004, June 30, 2004 and December 31, 2003

	December 31, 2004 (Notes 1 and 2)	June 30,2004 (Notes 1 and 2)	December 31, 2003 (Notes 1 and 2)		December 31,2004 (Notes 1 and 2)	June 30, 2004 (Notes 1 and 2)	December 31, 2003 (Notes 1 and 2)
	Pesos	Pesos	Pesos		Pesos	Pesos	Pesos
ASSETS				**LIABILITIES**			
Current Assets				**Current Liabilities**			
Cash and banks (Note 8.a.)	26,578,404	12,522,961	19,903,682	**Debts:**			
Investments (Note 8.b.)	1,639,729	1,490,311	1,655,808	Trade accounts payable (Note 8.f.)	11,649,093	11,051,036	5,995,956
Trade accounts receivable (Note 8.c.)	6,298,620	3,577,620	3,941,177	Loans (Note 8.g.)	38,606,380	8,090,261	1,383,511
Other receivables and prepaid expenses (Note 8.d.)	7,845,706	15,915,028	8,542,617	Salaries and social security payable (Note 8.h.)	765,705	1,359,719	689,109
Inventories (Note 8.e.)	45,284,709	34,330,261	31,429,530	Taxes payable (Note 8.i.)	4,372,111	1,722,271	959,654
Total Current Assets	87,647,168	67,836,181	65,472,814	Other debts (Note 8.j.)	11,857,335	8,170,624	2,913,384
				Total Debts	67,250,624	30,393,911	11,941,614
Non-Current Assets				**Total Current Liabilities**	67,250,624	30,393,911	11,941,614
Other receivables and prepaid expenses (Note 8.d.)	5,279,475	4,138,826	3,918,883				
Inventories (Note 8.e.)	46,102,732	40,982,536	35,852,040	**Non-Current Liabilities**			
Investments (Note 8.b.)	305,920,570	274,977,554	220,366,049	Loans (Note 8.g.)	123,285,777	125,880,874	127,670,143
Other investments (Note 8.b.)	134,949,064	132,962,608	146,354,259	Taxes payable (Note 8.i.)	27,491,943	25,132,570	23,111,814
Fixed assets, net (Schedule A)	155,026,463	151,547,192	141,427,910	Other debts (Note 8.j.)	480,640		
Subtotal Non-Current Assets	647,278,304	604,608,716	547,919,141	**Total Non-Current Liabilities**	151,258,360	151,013,444	151,781,957

Goodwill (Note 8.b.)	(36,326,481)	(25,869,346)	(19,931,610)	**Total liabilities**	218,508,984	181,407,355	162,723,571
Total Non-Current Assets	610,951,823	578,739,370	527,987,531	**SHAREHOLDERS EQUITY** (as per corresponding statement)	480,090,007	465,168,196	430,736,774
Total Assets	698,598,991	646,575,551	593,460,345	**Total Liabilities and Shareholders Equity**	698,598,991	646,575,551	593,460,345

The accompanying notes and schedules are an integral part of these financial statements.

Saúl Zang

First Vice-Chairman

serving as Acting Chairman

26

Cresud Sociedad Anónima

Comercial, Inmobiliaria, Financiera y Agropecuaria

Unaudited Statement of Income

Corresponding to the periods beginning as from July 1, 2004 and 2003

and ended on December 31, 2004 and 2003

	December 31, 2004 (Notes 1 and 2)	December 31, 2003 (Notes 1 and 2)
	Pesos	Pesos
Sales		
Crops	11,236,161	8,793,868
Beef cattle	18,129,885	11,071,481
Milk	1,567,574	1,831,837
Other	1,923,693	1,822,775
Total Sales	32,857,313	23,519,961
Cost of sales (Schedule F)		
Crops	(11,391,820)	(7,143,937)
Beef cattle	(14,531,019)	(8,386,427)
Milk	(876,965)	(396,276)
Other	(8,554)	(1,418)
Total cost of sale	(26,808,358)	(15,928,058)
Gross income	**6,048,955**	**7,591,903**
Selling expenses (Schedule H)	(2,408,431)	(2,102,952)
Administrative expenses (Schedule H)	(2,822,516)	(3,236,153)
Net gain on sale of farms		1,085,345
Gain from inventory holdings (Schedule F)	5,744,136	1,240,082
Operating income	**6,562,144**	**4,578,225**
Financial results		
Generated by assets:		
Exchange differences and discounts	38,496	8,182,662
Interest income	223,891	94,913
Bad debts (Schedule E)		29,928
Reference stabilization index (CER)		(302,136)
Tax on debts and credits	(585,499)	(443,589)
Convertible Bonds purchase interest	5,473,411	5,846,354
Others	82,666	6,625

	5,232,965	13,414,757
Generated by liabilities:		
Financial expenses		
Convertible Bonds issued interest	(5,160,478)	(5,625,121)
Others	(1,152,651)	(817,230)
Exchange differences and discounts	(947,991)	(6,305,896)
	(7,261,120)	(12,748,247)
Other income and expenses:		
Gains from others fixed assets sales	20,061	251,561
Others	(3,315,633)	1,656
	(3,295,572)	253,217
Gain from controlled and related companies	14,229,684	2,483,250
Management fees (Note 5)	(1,059,305)	(529,129)
Income before income tax	**14,408,796**	**7,452,073**
Income tax expense (Note 6)	(4,875,059)	(2,689,917)
Net income for the period	**9,533,737**	**4,762,156**

The accompanying notes and schedules are an integral part of these financial statements.

Saúl Zang

First Vice-Chairman

serving as Acting Chairman

Cresud Sociedad Anónima

Comercial, Inmobiliaria, Financiera y Agropecuaria

Unaudited Statement of Changes in Shareholders Equity

Corresponding to the periods beginning as from July 1, 2004 and 2003

and ended on December 31, 2004 and 2003

(Notes 1 and 2)

	Shareholders contributions					Retained earnings			
	Capital (Note 3)		Inflation adjustment						
Items	**Common stock**	**Treasury stock**	**of Common stock**	**Paid-in capital**	**Total**	**Legal reserve**	**Unappropriated earnings**	**Total at December 31, 2004**	**Total at December 31, 2003**
	Pesos	**Pesos**	**Pesos**	**Pesos**	**Pesos**	**Pesos**	**Pesos**	**Pesos**	**Pesos**
Balances at the beginning of the year	150,532,819	240,000	166,218,124	106,323,100	423,314,043	6,087,440	35,766,713	465,168,196	391,799,125
Subscription of incentive plan (Note 12)	173,200	(173,200)					173,200	173,200	319,437
Conversion of bonds in common stock (Note 13)	2,479,890			1,260,738	3,740,628			3,740,628	16,097,982
Exercise of Warrants (Note 13)	2,464,833			2,009,413	4,474,246			4,474,246	19,258,074
Appropriation of profits resolved by Shareholders Meeting held on October 31, 2004									
Increase in legal reserve						1,605,151	(1,605,151)		
Cash dividends							(3,000,000)	(3,000,000)	(1,500,000)
Net income for the period							9,533,737	9,533,737	4,762,156
	155,650,742	66,800	166,218,124	109,593,251	431,528,917	7,692,591	40,868,499	480,090,007	

Balances at December 31, 2004									
Balances at December 31, 2003	146,121,345	253,000	166,218,124	103,644,018	416,236,487	6,087,440	8,412,847		430,736,774

The accompanying notes and schedules are an integral part of these financial statements.

Saúl Zang

First Vice-Chairman

serving as Acting Chairman

Cresud Sociedad Anónima

Comercial, Inmobiliaria, Financiera y Agropecuaria

Unaudited Statement of Cash Flow

Corresponding to the periods beginning as from July 1, 2004 and 2003

and ended on December 31, 2004 and 2003

	December 31, 2004 (Notes 1 and 2)	December 31, 2003 (Notes 1 and 2)
	Pesos	Pesos
Changes in funds		
Funds at the beginning of the year	12,527,042	20,739,345
Funds at the end of the period	26,605,956	19,907,681
Net increase (decrease) in funds	14,078,914	(831,664)
Causes of changes in funds		
Operation activities		
Income for the period	9,533,737	4,762,156
Liabilities interest	5,911,384	5,625,120
Income tax	4,875,059	2,478,164
Adjustments made to reach net cash flow from operation activities		
Results from interest in controlled and related companies	(14,229,684)	(2,483,250)
Increase in allowances and reserves	3,648,938	2,306,749
Depreciation	1,501,016	1,358,544
Results from inventory holdings	(5,744,136)	(1,240,082)
Financial results	(4,817,103)	(4,677,012)
Result from sale of fixed assets	(20,061)	(1,336,906)
Changes in operating assets and liabilities		
Decrease in current investments	5,362,711	5,707,778
(Increase) decrease in trade accounts receivable	(2,721,637)	486,106
Decrease (increase) in other receivables	7,101,433	(3,119,130)
Increase in inventories	(10,834,356)	(9,044,234)
Decrease in social securities charges & taxes payable and advances to customers	(459,860)	(3,198,756)
Decrease in trade accounts payable	(1,991,576)	(3,536,008)
Dividends collected	981,315	1,104,139
Increase (decrease) in other debts	3,108,046	(1,195,455)
Net funds provided by (applied to) operation activities	1,205,226	(6,002,077)
Investment activities		
Increase in permanent investments	(1,502,678)	(1,199,670)
Increase in interest in related companies	(7,418,437)	(5,204,531)
Acquisition and upgrading of fixed assets	(4,701,940)	(3,043,197)
Sale of fixed assets	245,562	3,513,258
Net funds applied to investment activities	(13,377,493)	(5,934,140)

Financing activities		
Exercise of Warrants	4,474,246	19,258,074
Dividends paid	(3,000,000)	(1,500,000)
Exercise of rights offering on treasury stock	173,200	319,437
Increase in financial loans	36,468,450	
Decrease in financial loans	(11,864,715)	(5,667,108)
Issuance expenses of Convertible Bonds		(1,305,850)
Net funds provided by financing activities	26,251,181	11,104,553
Net increase (decrease) in funds	**14,078,914**	**(831,664)**
Items not involving changes in funds		
Transfer of inventory to fixed assets	503,848	37,227
Repayment of financial loans through issue of stock by exercise of conversion right	3,740,628	16,097,982
Complementary information		
Interest paid	5,107,038	5,667,108
Income tax paid	244,857	727,313

Saúl Zang

First Vice-Chairman

serving as Acting Chairman

Cresud Sociedad Anónima, Comercial,

Inmobiliaria, Financiera y Agropecuaria

Notes to the Unaudited Financial Statements

Corresponding to the periods beginning as from July 1, 2004 and 2003

and ended on December 31, 2004 and 2003

NOTE 1: STANDARDS ACCOUNTING

Below is a description of the most relevant accounting standards used by the Company in the preparation of these Financial Statements, which have been applied on a consistent basis from the previous fiscal year.

a. Presentation standards

These financial statements are stated in Argentine pesos, and have been prepared in accordance with the disclosure and valuation accounting standards contained in the Technical Resolutions issued by the Federación Argentina de Consejos Profesionales de Ciencias Económicas, as approved, with resolutions issued by the Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires and the Comisión Nacional de Valores.

b. New Accounting Standards

The Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires enacted the following technical resolutions: N° 16: Conceptual regime for professional accounting regulations ; N° 17: Professional accounting regulations: development of matters of general application , N° 18: Professional accounting regulations: development of some matters of particular application and N° 19 Modifications to technical resolutions N° 6, 8, 9, 11 and 14 and N° 20 Derivative instruments and hedging transactions , through Resolutions C 238/01, C 243/01,C 261/01, C 262/01 and C 187/02, respectively; establishing that such technical resolutions and the modifications incorporated, will be in force for fiscal years initiated as from July 1, 2002 (other than Technical Resolution No. 20, which shall become effective for fiscal years beginning as from January 1, 2003).

The Comisión Nacional de Valores, through Resolution N° 434/03 has adopted such technical resolutions with some exceptions and modifications, which have been in force for fiscal years initiated as from January 1, 2003.

The main changes basically result from the registration of income tax under the deferred tax method, as concerns agreements involving derivative instruments at their current value and the valuation of receivables and payables with no stated rate at their discounted value.

As at February 19, 2003, the Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires, enacted Technical Resolution N° 21   Proportional value- merge of financial statements- information to provide on related parties   through Resolution M.D. N° 5/2003.

The above mentioned Technical Resolution and the amendments introduced became effective for fiscal years ended as from April 1, 2003. Furthermore, The Comisión Nacional de Valores has adopted such Technical Resolution, through Resolution Nª 459/04 introducing some modifications, which will be in force for fiscal years started as from April 1, 2004, consequently the Company has considered their application.

Cresud Sociedad Anónima, Comercial,

Inmobiliaria, Financiera y Agropecuaria

Notes to the Unaudited Financial Statements (Continued)

NOTE 1: (Continued)

Financial statements corresponding to the six month economic periods ended to December 31, 2004 and 2003 have not been audited yet. The management believes they include all necessary settlements to reasonably show the results of each period. Results for the six month economic periods ended to December 31, 2004 and 2003 do not necessarily reflect the proportion of the company s result for such complete years.

c. Accounting for inflation

The Company s financial statements have been prepared in accordance with Resolution M.D. 3/02 of the Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires, which has established the application of Technical Resolution No. 6, as amended by Technical Resolution No. 19 of the Federación Argentina de Consejos Profesionales de Ciencias Económicas, as from fiscal years or interim periods ended on or after March 31, 2002.

On March 25, 2003, the Poder Ejecutivo Nacional issued Decree No. 664 establishing that financial statements for fiscal years ended as from that date should be stated in nominal currency. Therefore, in accordance with Resolution No. 441 issued by the Comisión Nacional de Valores on April 8, 2003, the Company discontinued restatement of its financial statements effective March 1, 2003. This criteria does not comply with Resolution M.D. 041/2003, enacted by the Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires, by means of which the restatement of financial statements as of October 1, 2003 is no longer compulsory. However, as of December 31, 2004, this deviation did not have a material effect on the Company s financial statements.

As a consequence of the above, the initial balances at the Company s financial statements are presented in constant currency as of February 28, 2003, having considered the accounting measurements restated by the changes in the purchasing power of the currency until interruption of the adjustment and those arising in the period of stability, restated into currency of December 2001. Transactions subsequent to February 28, 2003 have been recorded at their historical values.

The coefficients prepared based on the domestic wholesale price index, published by the Instituto Nacional de Estadísticas y Censos, have been applied for purposes of the abovementioned restatement of comparative information.

d. Comparative Information

For comparison purposes, reclassifications have been made as of December 21, 2003 and June 30, 2004.

Cresud Sociedad Anónima, Comercial,

Inmobiliaria, Financiera y Agropecuaria

Notes to the Unaudited Financial Statements (Continued)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

a. Use of estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Estimates are used when accounting for the allowance for doubtful accounts, depreciation, amortization, impairment of current and non-current assets, income taxes, deferred liabilities and allowances for contingencies, accrual for expenses and assets recoverable value. Actual results could differ from those estimates.

b. Local currency assets and liabilities

The local currency assets and liabilities are stated at period-end nominal currency.

c. Foreign currency assets and liabilities

Assets and liabilities denominated in foreign currency have been valued at the amount of such currency as of the closing of the financial statements, converted at the buying and selling exchange rate, respectively, prevailing at year-end.

d. Temporary investments

Mutual funds and notes are carried at market value as of period-end.

Temporary investments do not exceed their recoverable value estimated at fiscal period-end.

e. Trade accounts receivable and payable

Trade accounts receivable and payable have been valued at their cash price estimated at the time of the transaction, plus interest and implied financial components accrued on the basis of the internal rate of return determined at such time, provided they are significant.

f. Credits and loans

Credits and loans have been valued in accordance with the sum of money delivered and received, respectively, net of transaction costs, plus financial results accrued on the basis of the rate estimated at such time as of period-end.

g. Futures and Options

Futures relate to cereal commitments deliverable at a previously agreed price (see Note 4). Premiums collected or paid correspond to options bought or written.

Cresud Sociedad Anónima, Comercial,

Inmobiliaria, Financiera y Agropecuaria

Notes to the Unaudited Financial Statements (Continued)

NOTE 2: (Continued)

The assets or liabilities originated in derivatives instruments have been valued at their market value at the closing of the period.

Differences generated by the application of the above mentioned valuation criteria to assets and liabilities from derivative instruments have been recognized under net income.

h. Other receivables and payables

Other receivables and payables have been valued on the basis of the agreed values plus interest accrued as of the closing of the financial statements.

Other receivables and payables in foreign currency have been valued at their amount in such currency at the fiscal period-end closing date, converted to the buyer and seller exchange rate, respectively, prevailing at the fiscal period-end closing date.

i. Balances with related parties

Receivables and payables with related parties have been valued in accordance with the conditions agreed between the parties involved.

j. Inventories

1. Livestock for raising and grazing cattle have been stated at their market value at the end of the period, net of estimated selling expenses. The livestock for dairy production and other purposes not related to direct sale over the next 12 months were valued at replacement cost.

2. Crops: at their quoted market value at the end of the period, less estimated sale expenses.

3. Sown lands: Sown lands are valued at the replacement cost of the supplies used, plus expenses accrued as of the closing of the financial statements.

4. The remaining inventories were valued at replacement value.

The carrying values of inventories, which are determined as discussed above, do not exceed their estimated recoverable values at the end of the period.

k. Long term investments in other companies

1. Investments in subsidiaries and affiliates

The investments in subsidiaries and affiliates in which the Company has significant influence have been accounted for under the equity method, as required by Technical Resolution No. 21of the Federación Argentina de Consejos Profesionales de Ciencias Económicas approved by Comisión Nacional de Valores.

Cresud Sociedad Anónima, Comercial,

Inmobiliaria, Financiera y Agropecuaria

Notes to the Unaudited Financial Statements (Continued)

NOTE 2: (Continued)

Holdings at December 31, 2004 are as follows:

Subsidiaries and affiliates	% Equity interest
Inversiones Ganaderas S.A.	99.99
Futuros y Opciones.Com S.A.	70.00
Cactus Argentina S.A.	50.00
Agro Uranga S.A.	35.72
IRSA Inversiones y Representaciones Sociedad Anónima	26.48

Consolidated financial statements with Inversiones Ganaderas S.A., Futuros y Opciones.Com and Cactus Argentina S.A. in proportional consolidation of 50% at December 31, 2004 and 2003 are presented as complementary information.

Current valuations and economic conditions reduce the risks inherent to long-term investment opportunities and increase the possibility of obtaining significant return in the long term. In view of these circumstances: (i) the value of the investment was set at market value; (ii) the value of the investment was calculated by the equity method of accounting; and (iii) the difference between (i) and (ii) was recognized as negative goodwill to be amortized over 20 years.

As of December 31, 2004, the Company recorded as negative goodwill the difference between the prices of conversions of warrants into IRSA s shares and the value assigned according to the calculation of the proportional equity value. In such negative goodwill the impact of IRSA s results from third-party dilutions resulting from the exercise of conversion and warrants for shares will be recognized. Therefore, such amount will not be subject to amortization.

2. Other Investments

Investments in debt securities

IRSA s Convertible Bonds were valued taking into account the amount existing at period-end in dollars, at the sellers exchange rate plus interest accrued as of the closing date of these financial statements.

Other investments

The remaining investments correspond to non-listed securities, which were valued at their restated cost as of February 28, 2003 (Note 1.c.).

Goodwill

The goodwill relating to the purchase of the subsidiary Futuros y Opciones.Com S.A. has been valued at its restated cost as of February 28, 2003, calculated as the difference between the price paid for such investment and its equity value calculated at the time of purchase, which was also restated as of that date (Note. 1.c.).

Cresud Sociedad Anónima, Comercial,

Inmobiliaria, Financiera y Agropecuaria

Notes to the Unaudited Financial Statements (Continued)

NOTE 2: (Continued)

Depreciation is calculated in accordance with the estimated useful life, which is 5 years and has been classified under Result from interest in subsidiaries and related companies in the statement of income.

l. Fixed assets

Purchase value:
Valued at cost restated into period-end currency applying the coefficients mentioned in Note 1. c., based on the corresponding dates of origin.

Depreciation

Calculated by the straight-line method based on the estimated useful lives of the assets as from the period of addition.

The carrying value

The carrying value of fixed assets does not exceed their estimated recoverable value at the end of the period.

m. Shareholders equity

Initial balances have been restated into period-end currency following the criteria set forth in Note 1.c. Movements for the period are recorded at their historical values.

n. Results for the period

The results for the period are disclosed in the paid cost.

The income statement shows the financial results, discriminating those generated by assets and those generated by liabilities.

o. Income Tax

The Company has recognized the income tax liability on the basis of the deferred tax liability method, thus considering temporary differences between registration of assets and liabilities for accounting and tax purposes. The principal temporary differences originate in the valuation of livestock and the sale and replacement of fixed assets.

In order to determine deferred assets and liabilities the tax rate expected to be in effect at the temporary of reversal or use has been applied on the temporary differences identified and tax loss carryforwards, considering the laws enacted as of the date of issuance of these financial statements (35%).

Assets and liabilities generated by the application of the deferred tax method have been valued at face value.

Cresud Sociedad Anónima, Comercial,

Inmobiliaria, Financiera y Agropecuaria

Notes to the Unaudited Financial Statements (Continued)

NOTE 2: (Continued)

p. Tax on minimum hypothetical income

The Company determines the tax on minimum hypothetical income applying the prevailing rate of 1% on computable assets at fiscal period-end. This tax is supplementary to the income tax. The Company s tax liability for each period will be the higher of these two taxes. However, if the tax on minimum hypothetical income exceeds the income tax in any fiscal year, such excess may be computed as payment on account of the income tax that may be payable in any of the following ten fiscal years.

q. Revenue recognition

Revenue is recognized on sales of products when the customer receives title to the goods, generally upon delivery.

NOTE 3: COMMON AND TREASURY STOCK

The activity in the Company s shares during the last three financial years was as follows:

	Authorized	**Subscribed**	**Paid in**
	Pesos	**Pesos**	**Pesos**
Common and treasury stock at June 30, 2001	119,669,749	119,669,749	119,669,749
Preferred offering			
Fiscal year ended June 30, 2002 (Note 12)	2,353	2,353	2,353
Incentive Plan			
Fiscal year 02 (Note 12)	480,000	480,000	480,000
Incentive Plan			
Fiscal year 03 (Note 12)	3,559,853	3,559,853	3,559,853
Conversion of bonds in common stock (Note 13)-Fiscal year 2003	386,140	386,140	386,140
Incentive Plan (Note 12) - Fiscal year 04	332,437	332,437	332,437
Conversion of bonds in common stock (Note 13)-Fiscal year 2004	13,136,577	13,136,577	13,136,577
Exercise of Warrants (Note13)-Fiscal year 2004	12,965,710	12,965,710	12,965,710
Incentive Plan (Note 12)-Fiscal year 05-1st and 2nd quarter	173,200	173,200	173,200
Conversion of bonds in common stock (Note 13)-Fiscal year 2005-1st and 2nd quarter	2,479,890	2,479,890	2,479,890
Exercise of Warrants (Note13)-Fiscal year 2005-1st and 2nd quarter	2,464,833	2,464,833	2,464,833
Common and treasury stock at December 31, 2004	155,650,742	155,650,742	155,650,742

Cresud Sociedad Anónima, Comercial,

Inmobiliaria, Financiera y Agropecuaria

Notes to the Unaudited Financial Statements (Continued)

NOTE 3: (Continued)

As of December 31, 2004, the capital authorized to be publicly offered is formed of 155,650,742 common, book-entry shares of $ 1 par value each and entitled to one vote per share, all of which were outstanding.

NOTE 4: FUTURES

At December 31, 2004 the Company had arranged futures and options on the futures market as follows:

OPTIONS C.B.O.T. SELL CALL SEASON 2004/2005

Cereal	Tons	Average price US$ (1)	Premium US$ (2)
Soybean	5,440	227.81	(37,979)
Corn	12,700	98.42	(10,874)

OPTIONS C.B.O.T. - PURCHASE CALL SEASON 2004/2005

Cereal	Tons	Average price US$ (1)	Premium US$ (2)
Corn	12,700	86.61	39,248

OPTIONS C.B.O.T. PURCHASE PUT SEASON 2004/2005

Cereal	Tons	Average price US$ (1)	Premium US$ (2)
Soybean	2,720	205.77	37,979

FUTURES C.B.O.T. SEASON 2004/2005

Cereal	Tons	Average price US$ (1)	Premium US$ (2)
Corn-sell	12,700	93.57	(1,188,312)

As of December 2004 and 2003, the Company charged to income Ps. 2,088,522 and Ps. 753,010, respectively, in connection with the transactions closed during such periods. These results are disclosed combining the cost of grains in one line of Schedule F.

At December 31, 2003 the Company had arranged futures and options on the forward market as follows:

OPTIONS C.B.O.T. SELL CALL SEASON 2003/2004

Cereal	Tons	Average price US$ (1)	Premium US$ (2)
Soybean	13,600	323.35	(99,944)
Corn	17,780	106.29	(33,598)
Wheat	14,960	168.35	(58,467)

Cresud Sociedad Anónima, Comercial,

Inmobiliaria, Financiera y Agropecuaria

Notes to the Unaudited Financial Statements (Continued)

NOTE 4: (Continued)

OPTIONS C.B.O.T. PURCHASE CALL - SEASON 2003/2004

Cereal	Tons	Average price US$ (1)	Premium US$ (2)
Soybean	10,880	293.95	135,124
Corn	45,720	90.55	305,984
Wheat	14,960	146.64	176,900

OPTIONS C.B.O.T. SELL PUT - SEASON 2003/2004

Cereal	Tons	Average price US$ (1)	Premium US$ (2)
Soybean	10,880	252.62	(127,928)
Corn	45,720	94.48	(102,595)
Wheat	14,960	142.63	(56,468)

OPTIONS C.B.O.T.-PURCHASE PUT - SEASON 2003/2004

Cereal	Tons	Average price US$ (1)	Premium US$ (2)
Soybean	13,600	264.56	199,887

OPTIONS SELL CALL SEASON 2003/2004

Cereal	Tons	Average price US$ (1)	Premium US$

Corn	3,100	100.26	(14,923)

OPTIONS SELL PUT SEASON 2003/2004

Cereal	Tons	Average price US$ (1)	Premium US$ (2)
Wheat	200	100.00	(630)

FUTURES C.B.O.T. - SEASON 2003/2004

Cereal	Tons	Average price US$ (1)	Total amount US$ (2)
Corn-purchase	3,100	89.00	287,959

(1) Strike price without deducting expenses.

(2) Premiums paid (collected).

NOTE 5: MANAGEMENT AGREEMENT

The Company signed a management agreement with Dolphin Fund Management S.A. (formerly called Consultores Asset Management S.A.), for consulting in relation to livestock and farming activities serving as an intermediary in transactions and investment consulting in relation to security investments.

Cresud Sociedad Anónima, Comercial,

Inmobiliaria, Financiera y Agropecuaria

Notes to the Unaudited Financial Statements (Continued)

NOTE 5: (Continued)

In exchange for its services, such company will receive a payment equivalent to 10% of the net income resulting from the annual or the special financial statements.

Since certain directors of Cresud Sociedad Anónima Comercial, Inmobiliaria, Financiera y Agropecuaria are also executive directors and shareholders of Dolphin Fund Management S.A., the above-mentioned agreement was approved by the Extraordinary Shareholders´ Meeting held on October 25, 1994, in compliance with Article N° 271 of Law N° 19,550.

On November 2003, Dolphin Fund Management S.A. was divided into two companies: Consultores Asset Management S.A. and Dolphin Fund Management S.A. As from that moment the management contract is held by Consultores Asset Management S.A.

In relation to this issue, the financial statements as of December 31, 2004 and December 31, 2003 includes a charge in the Statement of Income of Ps. 1,059,305 and a Ps. 529,129 respectively and the same provision for this periods.

NOTE 6: INCOME TAX DEFERRED TAX

The following tables show the development and composition of deferred tax Assets and Liabilities.

Deferred assets as of December 31, 2004:

	Cumulative tax loss carryforwards	Provisions	Other	TOTAL
Initial Balance	2,224,649	20	1,191	2,225,860
Charge to results	(20,840)		80,289	59,449
Closing Balance	2,203,809	20	81,480	2,285,309

Deferred liabilities as of December 31, 2004:

	Fixed Assets	Inventories	Investments	Accrual	TOTAL
Initial Balance	(13,522,161)	(11,545,458)	(1,220,989)	(1,069,822)	(27,358,430)
Charge to results	106,320	(1,062,968)	(1,509,122)	46,947	(2,418,823)
Closing Balance	(13,415,841)	(12,608,426)	(2,730,111)	(1,022,875)	(29,777,253)

As of December 31, 2004, net liabilities at period-end as per the information included in the preceding tables amount to Ps. 27,491,944.

Below is a conciliation between the Income Tax charged to Income and that which would result from applying the prevailing tax rate on the Income for accounting purposes:

Cresud Sociedad Anónima, Comercial,

Inmobiliaria, Financiera y Agropecuaria

Notes to the Unaudited Financial Statements (Continued)

NOTE 6: (Continued)

Description	December 31, 2004	December 31, 2003
Income before income tax	14,408,796	7,452,073
Tax rate	35%	35%
Net results at tax rates:	5,043,079	2,608,226
Permanent differences at tax rate:		
Restatement into constant currency	62,175	724,011
Penalties	159	847
Donations		(92,333)
Amortization FYO Goodwill	55,643	55,066
Result from purchase and sale of stock	2,066,984	244,230
Loss from controlled and related companies	(4,980,389)	(869,138)
Personal asset tax	1,157,197	
Conversion of bonds in common stock	1,509,585	
Miscellaneous permanent differences	(39,374)	19,008
	4,875,059	2,689,917

During this period the Income Tax rate was 35%.

Cumulative tax loss carryforwards recorded by the Company pending utilization at period-end amount to approximately Ps. 2,203,809 and may be offset against taxable income of future fiscal years, as follows:

Origination year	Amount	Expiration Year
2003	2,003,809	2008

Deferred assets as of December 31, 2003:

	Cumulative tax loss carryforwards	Provisions	Other	TOTAL
Initial Balance	2,257,116	(6,335)	250,802	2,501,583

Charge to income	66,425	(10,475)	(253,313)	(197,363)
Closing Balance	2,323,541	(16,810)	(2,511)	2,304,220

Cresud Sociedad Anónima, Comercial,

Inmobiliaria, Financiera y Agropecuaria

Notes to the Unaudited Financial Statements (Continued)

NOTE 6: (Continued)

Deferred liabilities as of December 31, 2003:

	Fixed Assets	Inventories	Investments	Provisions	TOTAL
Initial Balance	(13,019,043)	(10,355,850)	(2,705)	(1,001,793)	(24,379,391)
Charge to income	(672,657)	(126,040)	2,269	(240,215)	(1,036,643)
Closing Balance	(13,691,700)	(10,481,890)	(436)	(1,242,008)	(25,416,034)

As of December 31, 2003, net liabilities at period-end as per the information included in the preceding tables amount to Ps. 23,111,814.

Cresud Sociedad Anónima

Comercial, Inmobiliaria, Financiera y Agropecuaria

Notes to the Unaudited Financial Statements (Continued)

NOTE 7: BALANCES AND RESULTS WITH SUBSIDIARIES, RELATED COMPANIES LAW N° 19,550 SECTION 33 AND RELATED PARTIES:

a. **Balances at December 31, 2004, June 30, 2004 and December 31, 2003 with Subsidiaries, related companies and related parties:**

	December 31, 2004	June 30, 2004	December 31, 2003
IRSA Invesiones y Representaciones S.A.(3)			
Current Investments			
- Interest of Convertible Bonds 2007 -IRSA (US$)	1,499,204	1,388,504	1,560,891
Non-Current Investments			
- Convertible Bonds 2007 -IRSA (US$)	134,928,347	132,941,891	146,333,542
Current Trade accounts receivable		637	18,371
Current Trade accounts payable	116,259	1,108	35,378
Inversiones Ganaderas S.A.(1)			
Current Trade accounts receivable	29,195	9,216	78,555
Current Other debts	1,747,984	2,196,666	2,384,255
Non-Current Other debts	480,640		
Futuros y opciones.Com S.A(1)			
Current Trade accounts receivable	424,147		
Current Other receivables and prepaid expenses	23,603	738,735	321,310
Current Trade accounts payable		3,720	14,033
Cactus Argentina S.A.(3)			
Current Trade accounts receivable	30,261	29,845	13,709
Current Other receivables and prepaid expenses	1,354,328	1,346,401	1,337,986
Current Trade accounts payable	530,217	1,853,969	434,578
Current Other debts	205,730		
Agro-Uranga S.A.(3)			
Current Other receivables and prepaid expenses	234,279		
Fundación IRSA (4)			
Current Trade accounts payable	1,177,988	1,177,988	460,642
Inversora Bolivar (4)			
Current Trade accounts payable	6,341	5,349	
Alto Palermo S.A.(4)			
Current Trade accounts receivable		87,359	40,003
Current Trade accounts payable	44,233	175,133	38,931
Credits to employees (4)			
Current credits to Senior management, directors and staff of the company	15,362	37,751	43,020
Estudio Zang, Bergel & Viñes(4)			
Current Trade accounts payable	23,486	81,646	15,757
Directors(4)			
Current Trade accounts payable	43,543	3,471	967
Current Loans			
Convertible Bonds 2007 Interest payable (Schedule G)			
Directors	252	3,324	3,363

Non-Current Loans			
Convertible Bonds 2007 (Schedule G)	22,640	318,281	315,268
Directors			
Shareholders (2)			
Current Loans			
Convertible Bonds 2007 Interest payable (Schedule G)	592,928	589,239	612,819
Directors	792,845	740,021	767,329
Non-Current Loans			
Convertible Bonds 2007 (Schedule G)	53,363,537	56,416,538	57,451,821
Directors	71,356,061	70,853,048	71,937,067

(1) Controlled company

(2) Shareholder

(3) Related company

(4) Related party

Cresud Sociedad Anónima

Comercial, Inmobiliaria, Financiera y Agropecuaria

Notes to the Unaudited Financial Statements (Continued)

NOTE 7: (Continued)

b. Results provided by Subsidiaries, related companies and related parties corresponding to the periods ended at December 31, 2004 and 2003:

Subsidiaries, related companies Law Nº19,550 Section 33 and related parties:	Year	Sales and Fees for shared services	Interest paid	Salaries and social securities	Fees	Livestock expenses	Interest income	Administrative services	Others
Shareholders	2004		(2,951,938)						
	2003		(3,119,828)						
Agro-Uranga S.A.	2004								106,780
	2003								
Alto Palermo S.A.	2004	(8,765)							
	2003	(50,887)							
Cactus Argentina S.A.	2004					(3,002,994)	10,634	83,520	26,353
	2003					(3,035,337)	9,273	92,960	7,048
Directors	2004		(937)	(131,053)	(46,408)		9,859		
	2003		(13,673)	(158,841)	(3,730)		11,226		
Estudio Zang, Bergel & Viñes	2004				(62,024)				
	2003				(24,058)				
Fundación IRSA	2004								
	2003								
Futuros y opciones.Com S.A.	2004							19,200	(608)
	2003							19,200	(25,052)
Inversiones Ganaderas S.A.	2004		(70,093)					43,289	80,744
	2003		(63,213)						(653)
Inversora Bolívar	2004								(82,317)
	2003								
IRSA Inversiones y Representaciones S.A.	2004	(43,787)							(16,487)
	2003	(54,058)							
Credits to employees	2004						14,042		
	2003						12,971		
Senior Management	2004			(864,019)					
	2003			(758,667)					
Total at December 31, 2004		(52,552)	(3,022,968)	(995,072)	(108,432)	(3,002,994)	34,535	146,009	114,465
Total at December 31, 2003		(104,945)	(3,196,714)	(917,508)	(27,788)	(3,035,337)	33,470	112,160	(18,657)

Cresud Sociedad Anónima

Comercial, Inmobiliaria, Financiera y Agropecuaria

Notes to the Unaudited Financial Statements (Continued)

NOTE 8: Details of balance sheet and income statement accounts

a. Cash and banks

	December 31, 2004	June 30, 2004	December 31, 2003
	Pesos	Pesos	Pesos
Cash	59,966	69,859	58,924
Foreign currency (Schedule G)	293,009	46,431	36,870
Patacones currency	39	39	
Local currency checking account	162,493	4,781,351	675,868
Patacones currency checking account	22	22	22
Foreign currency checking account (Schedule G)	9,055,590	1,220,084	18,898,279
Local currency saving account	9,897	12,295	18,541
Foreign currency saving account (Schedule G)	16,610,427	5,949,506	
Checks to be deposited	386,961	443,374	215,178
	26,578,404	12,522,961	19,903,682

b. Investments and Goodwill

	December 31, 2004	June 30, 2004	December 31, 2003
	Pesos	Pesos	Pesos
Investment			
Investment (Schedule C and G)	1,639,729	1,490,311	1,655,808
	1,639,729	1,490,311	1,655,808
Investment			
Investment from controlled and related companies (Schedule C)	305,920,570	274,977,554	220,366,049
	305,920,570	274,977,554	220,366,049
Other investments			
Other investments (Schedule C and G)	134,949,064	132,962,608	146,354,259
	134,949,064	132,962,608	146,354,259

Goodwill			
Goodwill (Schedule C)	(36,326,481)	(25,869,346)	(19,931,610)
	(36,326,481)	(25,869,346)	(19,931,610)

Cresud Sociedad Anónima

Comercial, Inmobiliaria, Financiera y Agropecuaria

Notes to the Unaudited Financial Statements (Continued)

NOTE 8: (Continued)

c. Trade accounts receivable

	December 31, 2004	June 30, 2004	December 31, 2003
	Pesos	Pesos	Pesos
Current			
Accounts receivable in local currency	5,207,564	3,833,851	4,151,088
Less:			
Provision for defaulting debtors (Schedule E)	(348,535)	(387,067)	(424,197)
Accounts receivable in foreign currency (Schedule G)	955,988	3,779	63,648
Subsidiaries, related companies Law Nº 19,550 Section 33 and related parties:			
Inversiones Ganaderas S.A.	29,195	9,216	78,555
Futuros y Opciones.Com S.A.	424,147		
Cactus Argentina S.A.	30,261	29,845	13,709
Alto Palermo S.A.		87,359	40,003
IRSA Inversiones y Representaciones Sociedad Anónima		637	18,371
	6,298,620	3,577,620	3,941,177

d. Other receivables and prepaid expenses

	December 31, 2004	June 30, 2004	December 31, 2003
	Pesos	Pesos	Pesos
Current			
Prepaid leases	30,727	4,465,136	32,016
Guarantee deposits and premiums (Schedule G)	232,112	2,188,998	1,446,694
Secured by mortgage (Schedule G)	1,055,695	1,033,997	1,061,931
Prepaid expenses	1,102,780	897,192	446,759
Tax prepayments (net of provisions)	3,491,577	3,368,062	2,817,630
Subsidiaries, related companies Law Nº 19,550 Section 33 and related parties:			
Cactus Argentina S.A.	1,354,328	1,346,401	1,337,986
Futuros y Opciones.Com S.A.	23,603	738,735	321,310
Agro-Uranga S.A.	234,279		
Credits to employees	15,362	37,751	43,020
Shareholders		1,711,833	455,583
Others	305,243	126,923	579,688

	7,845,706	15,915,028	8,542,617
Non-current			
Secured by mortgage (Schedule G)			1,008,000
Value Added Tax	5,180,327	4,121,672	2,129,515
Tax on Minimum Hypothetical Income	99,148	17,154	781,368
	5,279,475	4,138,826	3,918,883

Cresud Sociedad Anónima

Comercial, Inmobiliaria, Financiera y Agropecuaria

Notes to the Unaudited Financial Statements (Continued)

NOTE 8: (Continued)

e. Inventories

	December 31, 2004	June 30, 2004	December 31, 2003
	Pesos	Pesos	Pesos
Current			
Livestock	16,877,063	18,366,149	15,535,226
Crops	4,803,409	8,639,910	3,782,649
Unharvested crops	20,090,681	1,603,897	9,374,173
Seeds and fodder	166,898	238,378	139,344
Materials and others	3,024,911	4,041,594	1,580,539
Advances to suppliers	321,747	1,440,333	1,017,599
	45,284,709	34,330,261	31,429,530
Non-Current			
Livestock	46,102,732	40,982,536	35,852,040
	46,102,732	40,982,536	35,852,040

f. Trade accounts payable

	December 31, 2004	June 30, 2004	December 31, 2003
	Pesos	Pesos	Pesos
Current			
Suppliers in local currency	4,071,023	4,339,383	1,880,406
Suppliers in foreign currency (Schedule G)	2,709,862	1,110,314	924,954
Subsidiaries, related companies Law Nº 19,550 Section 33 and related parties:			
Inversora Bolívar S.A.	6,341	5,349	
Alto Palermo S.A.	44,233	175,133	38,931
IRSA Inversiones y Representaciones S.A.	116,259	1,108	35,378
Cactus Argentina S.A.	530,217	1,853,969	434,578
Futuros y Opciones.Com S.A.		3,720	14,033
Estudio Zang, Bergel & Viñes	23,486	81,646	15,757
Fundación IRSA	1,177,988	1,177,988	460,642
Directors	43,543	3,471	967
Accrual for other expenses (Schedule G)	2,631,011	2,085,778	1,989,355

Accrual for cereal expenses	295,130	213,177	200,955
	11,649,093	11,051,036	5,995,956

Cresud Sociedad Anónima

Comercial, Inmobiliaria, Financiera y Agropecuaria

Notes to the Unaudited Financial Statements (Continued)

NOTE 8: (Continued)

g. Loans

	December 31, 2004	June 30, 2004	December 31, 2003
	Pesos	Pesos	Pesos
Current			
Local financial loans (Note 16) (Schedule G)	37,220,355	6,757,677	
Convertible Bonds 2007 Interest payable (Schedule G)	592,928	589,239	612,819
Subsidiaries, related companies Law Nº 19,550 Section 33 and related parties:			
Shareholders	792,845	740,021	767,329
Directors	252	3,324	3,363
	38,606,380	8,090,261	1,383,511
Non-Current			
Convertible Bonds 2007 (Schedule G)	53,363,537	56,416,538	57,451,821
Subsidiaries, related companies Law Nº 19,550 Section 33 and related parties:			
Shareholders	71,356,061	70,853,048	71,937,067
Directors	22,640	318,281	315,268
Convertible Bonds 2007 expenses	(1,456,461)	(1,706,993)	(2,034,013)
	123,285,777	125,880,874	127,670,143

h. Salaries and social security payable

	December 31, 2004	June 30, 2004	December 31, 2003
	Pesos	Pesos	Pesos
Current			
Vacation, statutory annual bonus allowance	594,686	1,001,301	436,826
Social security administration	161,927	166,415	135,266
Salaries payable	1,263	180,340	111,956
Health care scheme	1,891	2,533	1,979
Others	5,938	9,130	3,082

	765,705	1,359,719	689,109

Cresud Sociedad Anónima Comercial,

Inmobiliaria, Financiera y Agropecuaria

Notes to the Unaudited Financial Statements (Continued)

NOTE 8: (Continued)

i. Taxes payable

	December 31, 2004	June 30, 2004	December 31, 2003
	Pesos	Pesos	Pesos
Current			
Accrual for income tax	2,617,633	4,246,881	
Advances to Income tax		(2,808,338)	
Tax on Minimum Hypothetical Income (Note 2.p.)	99,147	17,154	781,367
Value Added Tax			7,317
Property tax payable	80,613	103,284	79,590
Taxes withheld for income tax	47,534	163,926	26,427
Gross sales taxes	(196,384)	80,085	152,265
Taxes withheld-Gross sales taxes	128,575	(81,215)	(87,312)
Others (1)	1,594,993	494	
	4,372,111	1,722,271	959,654
Non-Current			
Deferred tax	27,491,943	25,132,570	23,111,814
	27,491,943	25,132,570	23,111,814

(1) Including Personal Assets Tax of shareholders

j. Other debts

	December 31, 2004	June 30, 2004	December 31, 2003
	Pesos	Pesos	Pesos
Current			
Advances to customers (Schedule G)	8,718,400	4,432,500	
Accrual for Management fees (Note 5)	1,059,305	1,537,173	529,129
Subsidiaries, related companies Law Nº 19,550 Section 33 and related parties:			
Inversiones Ganaderas S.A.	1,747,984	2,196,666	2,384,255

Cactus Argentina S.A. (Schedule G)	205,730		
Others	125,916	4,285	
	11,857,335	8,170,624	2,913,384
Non-current			
Subsidiaries, related companies Law Nº 19,550 Section 33 and related parties:			
Inversiones Ganaderas S.A.	480,640		
	480,640		

Cresud Sociedad Anónima, Comercial, Inmobiliaria, Financiers y Agropecuaria

Notes to the Unaudited Financial Statements (Continued)

NOTE 9:

a) Assets based on their estimated collection or payment term (in pesos)

Based on their estimated collection or payment term	Current and non-current investment December 31, 2004	Current and non-current investment June 30, 2004	Current and non-current investment December 31, 2003	Trade accounts receivable December 31, 2004	Trade accounts receivable June 30, 2004	Trade accounts receivable December 31, 2003	Other receivables and prepaid expenses December 31, 2004	Other receivables and prepaid expenses June 30, 2004	Other receivables and prepaid expenses December 31, 2003
3rd quarter 2004/2003 financial year			1,560,891			3,941,177			3,875,503
4th quarter 2004/2003 financial year									
1st quarter 2005/2004 financial year					3,577,620			3,250,227	
2nd quarter 2005/2004 financial year		1,388,504							
3rd quarter 2005/2004 financial year				6,298,620			2,411,856	1,033,997	1,008,000
4th quarter 2005/2004 financial year	1,499,204						597,727	305,826	
1st quarter 2006/2005 financial year									
2nd quarter 2006/2005 financial year									
3rd quarter 2006/2005 financial year									
4th quarter 2006/2005 financial year							99,148	17,154	781,368
1st quarter 2007/2006 financial year									
2nd quarter 2007/2006 financial year									
3rd quarter 2007/2006 financial year									
4th quarter 2007/2006 financial year									
2nd quarter 2008/2007 financial year	134,928,347	132,941,891	146,333,542						
Overdue									
With no stated current term	140,525	101,807	94,917				4,836,123	11,324,978	4,667,114
With no stated non-current term	20,717	20,717	20,717				5,180,327	4,121,672	2,129,515
Total	136,588,793	134,452,919	148,010,067	6,298,620	3,577,620	3,941,177	13,125,181	20,053,854	12,461,500

b) Assets classified according to the interest rate that they accrued (in pesos)

Interest rate that they accrue	Current and non-current investment December 31, 2004	Current and non-current investment June 30, 2004	Current and non-current investment December 31, 2003	Trade accounts receivable December 31, 2004	Trade accounts receivable June 30, 2004	Trade accounts receivable December 31, 2003	Other receivables and prepaid expenses December 31, 2004	Other receivables and prepaid expenses June 30, 2004	Other receivables and prepaid expenses December 31, 2003
At fixed interest rate	134,928,347	132,941,891	146,333,542				1,342,403	1,327,126	2,313,411
At variable interest rate	140,525	101,807	94,917				153,498	2,307,893	571,094

Non-interest bearing	1,519,921	1,409,221	1,581,608	6,298,620	3,577, 620	3,941,177	11,629,280	16,418,835	9,576,995
Total	136,588,793	134,452,919	148,010,067	6,298,620	3,577,620	3,941,177	13,125,181	20,053,854	12,461,500

Cresud Sociedad Anónima, Comercial, Inmobiliaria, Financiera y Agropecuaria

Notes to the Unaudited Financial Statements (Continued)

NOTE 9:

a) Liabilities based on their estimated collection or payment term (in pesos)

d on their ed collection yment term	Trade accounts payable			Loans			Salaries and social security payable			Taxes payable			Other debts		
	Dec. 31, 2004	June 30, 2004	Dec. 31, 2003	Dec. 31, 2004	June 30, 2004	Dec. 31, 2003	Dec. 31, 2004	June 30, 2004	Dec. 31, 2003	Dec. 31, 2004	June 30, 2004	Dec. 31, 2003	Dec. 31 2004	June 30, 2004	D
rter 03 financial			5,994,989			1,383,511			689,109			959,654			
rter 03 financial															
rter 04 financial		11,047,565			6,757,677			1,359,719			266,574			1,541,458	
rter 04 financial		3,471	967		1,332,584						1,455,697			2,196,666	2,
rter 04 financial	11,649,093			22,353,572			444,433			160,017			4,396,907		
rter 04 financial				1,386,025						1,594,461			5,506,714	4,432,500	
rter 05 financial				14,866,783			321,272								
rter 05 financial										2,617,633			1,747,984		
rter 05 financial															
rter 05 financial															
rter 06 financial															
rter 06 financial													480,640		
rter 06 financial															
rter 06 financial															
rter 07 financial				123,285,777	125,880,874	127,670,143									

e															
stated term													205,730		
stated rent term										27,491,943	25,132,570	23,111,814			
	11,649,093	11,051,036	5,995,956	161,892,157	133,971,135	129,053,654	765,705	1,359,719	689,109	31,864,054	26,854,841	24,071,468	12,337,975	8,170,624	2,

b) Liabilities classified according to the interest rate that they accrued (in pesos)

	Trade accounts payable			Loans			Salaries and social security payable			Taxes payable			Other debts		
st rate that accrue	Dec. 31, 2004	June 30, 2004	Dec. 31, 2003	Dec. 31, 2004	June 30, 2004	Dec. 31, 2003	Dec. 31, 2004	June 30, 2004	Dec. 31, 2003	Dec. 31, 2004	June 30, 2004	Dec. 31, 2003	Dec. 31, 2004	June 30, 2004	De 2
d interest				161,962,593	132,638,551	127,670,143							2,228,624	2,196,666	
able rate															
terest	11,649,093	11,051,036	5,995,956	(70,436)	1,332,584	1,383,511	765,705	1,359,719	689,109	31,864,054	26,854,841	24,071,468	10,109,351	5,973,958	2,9
	11,649,093	11,051,036	5,995,956	161,892,157	133,971,135	129,053,654	765,705	1,359,719	689,109	31,864,054	26,854,841	24,071,468	12,337,975	8,170,624	2,9

Cresud Sociedad Anónima Comercial,

Inmobiliaria, Financiera y Agropecuaria

Notes to the Unaudited Financial Statements (Continued)

NOTE 10: RESTRICTIONS ON DISTRIBUTION OF PROFITS

In accordance with the Argentine Corporations Law, the Company s by-laws and Resolution N° 368/2001 of the Comisión Nacional de Valores (C.N.V.), 5% of the net and realized profit for the year plus (less) prior year adjustments must be appropriated by resolution of shareholders to a legal reserve until such reserve equals 20% of the Company s outstanding capital.

NOTE 11: SALE OF FARMS

On June 30, 2004 a bill of sale was signed for the farm San Enrique , of 977 hectares, located in the Department of General López, Province of Santa Fe. The price for the sale of the farm was of US$ 5,000,000 (US Dollars five million). The title deed had not been executed as of the closing of the financial statements. This sale will generate a profit of US$ 4,300,000 (US Dollars four million and three hundred) approximately.

On August 25, 2004, a preliminary sales agreement was signed for the Ñacurutú farm, and on February 1, 2005 the title deed was signed. Ñacurutú is a 30,353-hectare property located in the Departments of Gral. Obligado and Vera in the Province of Santa Fe. The price was agreed at US$ 5,615,256 (US Dollars five million six hundred and fifteen thousand, tow thousand and fifty six). This sale will provide a profit of approximately US$ 2,600,000.

NOTE 12: STOCK OPTION PLAN

As resolved upon at the General Extraordinary Shareholders Meeting at second call held on November 19, 2001 and in accordance with the resolutions adopted by the Board of Directors at its meeting dated December 7, 2001, the shareholders approved a Stock Option Plan (the Plan) relating to the shares that would remain after the shareholders exercised their pre-emptive rights to acquire treasury stock (the Shares), covering 4,614,643 shares.

The stock balance remaining after expiration of the preemptive and accretion periods is intended to be offered under the Incentive Plan approved at the above mentioned Shareholders Meeting, at Ps. 1 (one peso) par value, plus interest accrued as from actual exercise at a six-months LIBOR rate per annum. In accordance with the terms approved at the referred Shareholders Meeting, from a legal standpoint the implementation of the Plan is made by means of the transfer of the Shares in trust. From this balance, two thirds of the options relating to the Shares under the Plan were allocated for distribution by the Company s Board of Directors among certain executive officers. The remaining third was set aside for allotment by the Company s Board of Directors among any employees or executives at the time of allotment and 6 (six) months after the initial allotment, and up to 3 (three) months before the expiration of the exercise period.

In January 2002 an aggregate of 2,353 shares of Ps. 1 par value each were issued under the preferred offering of treasury stock.

In April and June 2002, an aggregate of 480,000 shares of Ps. 1 par value each were issued to executive officers of the Company under the preferred offering of treasury stock.

Cresud Sociedad Anónima Comercial,

Inmobiliaria, Financiera y Agropecuaria

Notes to the Unaudited Financial Statements (Continued)

NOTE 12: (Continued)

During the fiscal year ended on June 30, 2003, an aggregate of 3,559,853 shares of Ps. 1 per value each were issued to directors and executive officers of the Company under the preferred offering of treasury stock.

During the fiscal year ended on June 30, 2004, an aggregate of 332,437 shares of Ps. 1 per value each were issued to directors and executive officers of the Company under the preferred offering of treasury stock.

During the current period, an aggregate of 173,200 shares of Ps. 1 per value each were issued to directors and executive officers of the Company under the preferred offering of treasury stock.

After the exercise of the preference offer above mentioned, the remaining balance is 66,800 shares, at the end of the current period.

After the closing of the period, an aggregate of 66,800 shares of Ps. 1 per value each were issued to directors and executive officers of the Company under the preferred offering of treasury stock. As of January 15, 2005, the deadline for exercising the Stock Purchase Option, there was no pending exercise balance.

NOTE 13: ISSUANCE OF CONVERTIBLE BONDS

The Shareholders meeting held on March 8, 2002 approved:

a) The issue of simple convertible bonds, non-convertible into shares of the Company, for an amount of up to US$ 50,000,000 (or its equivalent in other currencies) for a maximum term of 5 years, accruing interest at a fixed rate not to exceed 12%; and/or,

b) the issuance of convertible bonds into company s common stock, for a total amount of US$ 50,000,000 (or its equivalent in other currency) with a maturity date in a term of 5 years or more according to the management s decision and a fix rate not exceeding 12% or floating rate with a reference rate such as LIBOR plus a spread not exceeding 10%.

c) the subscription option, for the holders of convertible bonds, with a premium determined by the management, between 20 and 30% over the conversion price of the convertible bond, with a value that will remain constant in terms of US currency. The exercise of the above mentioned would occur quarterly, only for the holders of the convertible bonds who have exercised their conversion rights.

Authorization for the public offer and quotation of convertible bonds has been approved by Resolution N° 14,320 of the Argentine Securities and Exchange Commission dated October 1, 2002 and by the Buenos Aires Stock Exchange, authorizing the issue up to US$ 50,000,000 in securities composed by convertible bonds into common stock with an 8% annual interest rate due in the year 2007, granting the right at the moment of conversion to achieve 50,000,000 common stock subscription options. Likewise, the conversion price and the Warrants price established are as follows:

a) The conversion price is US$ 0.5078 stocks (US$ 5.0775 ADS), while the Warrant price is US$ 0.6093 stocks (US$ 6.0930 ADS).

Cresud Sociedad Anónima Comercial,

Inmobiliaria, Financiera y Agropecuaria

Notes to the Unaudited Financial Statements (Continued)

NOTE 13: (Continued)

b) For each of Cresud s convertible bond the holder has the right to convert it to US$ 1.96928 stocks (US$ 0.1969 ADS) and has an option to purchase the same amount of stock at the price of the Warrant.

Convertible bonds and options will be due on November 14, 2007.

Convertible bonds were paid in cash and the proceeds will be destined to the subscription of IRSA s Convertible Bonds and for the generation of working capital.

During the fiscal year ended on June 30, 2003, 196,084 Convertible Bonds were converted into 386,140 ordinary shares, which resulted in a Ps. 593,038 increase in the Company s net shareholders equity.

During the fiscal year ended on June 30, 2004, 6,670,763 Convertible Bonds were converted into 13,136,577 ordinary shares, which resulted in a Ps. 19,364,974 increase in the Company s net shareholders equity. During the same year, 6,583,995 Warrants were exercised, resulting in the issuance of 12,965,710 ordinary shares for Ps. 23,068,638.

During the current period, 1,259,290 Convertible Bonds were converted into 2,479,890 ordinary shares, which resulted in a Ps. 3,740,628 increase in the Company s net shareholders equity. In the same period, 1,251,644 warrants were exercised, resulting in the issuance of 2,464,833 common shares for Ps. 4,474,246.

NOTE 14: PURCHASE OF CONVERTIBLE BONDS

During November and December 2002 49,692,688 convertible bonds issued by IRSA were purchased; these can be converted into common stock with an 8% annual interest rate and due in 2007, and grant the holder at the time of conversion to 49,692,688 options to subscribe common stock. The conversion price and the warrants price established are as follows:

a) The conversion price is US$ 0.5571 stocks (US$ 5.5713 GDS), while the warrant price is US$ 0.6686 stocks (US$ 6.6856 GDS)

b) For each of IRSA s convertible bond the holder has the right to convert it to 1.7949 stocks (0.1795 GDS) and has an option to purchase the same amount of stock at the price of the warrant.

Due to the distribution of 4,587,285 stocks of the company s portfolio, IRSA has re stated the conversion price of its convertible bonds according to the subscription clauses.

The conversion price of the convertible bonds went from US$ 0.5571 to US$ 0.54505 and the warrants price went from US$ 0.6686 to US$ 0.6541. Such adjustment was effective as from December 20, 2002.

Convertible bonds and options are due on November 14, 2007.

During the months of July and November 2003 the Company purchased 250,500 Notes, and in May 2004 it converted 5,000,000 Notes into 9,174,312 common shares. Therefore, as of June 30, 2004, the Company held 44,943,168 Notes.

Cresud Sociedad Anónima Comercial,

Inmobiliaria, Financiera y Agropecuaria

Notes to the Unaudited Financial Statements (Continued)

NOTE 14: (Continued)

During the fiscal year ended on June 30, 2004, third parties bearers of convertible bonds into IRSA s ordinary stock have exercised their conversion and warrant rights for a total amount of Ps. 62,8 million originating the issuance of 27,616,878 ordinary shares with a nominal value of Ps. 1 each. As a consequence of the exercise of such conversion rights, the company has registered a Ps. 10.3 million loss originated by the dilution of their equity share in IRSA, which is shown in Results of subsidiaries Law 19,550 and related companies in the Statements of Income.

As of June 30, 2004, this effect was reverted due to the exercise of share conversion rights mentioned above.

In July 2004 the Company purchased 350,000 Notes issued by IRSA Inversiones y Representaciones Sociedad Anónima for US$ 511,115.

During this period, third parties holders of Notes Convertible into common shares of IRSA have exercised their conversion and have effective their exercise of warrants for a total of Ps. 6.3 million, resulting in the issuance of 3,542,943 common shares of Ps. 1 par value each. On the other hand, the Company exercised warrants for a total of Ps. 17.7 million, resulting in the issuance of 9,174,311 common shares of Ps. 1 par value each. As a result of these transactions, as of December 31, 2004 the Company recorded Ps. 12.6 million as negative goodwill against which the impact of losses for dilutions due to the exercise of conversions and/or warrants from third party holders of IRSA s Convertible Notes will be recognized.

NOTE 15: IRSA Inversiones y Representaciones Sociedad Anónima (IRSA) INCREASE TO INVESMENT IN BANCO HIPOTECARIO S.A. (BHSA)

On December 30, 2003, IRSA Group purchased 4,116,267 shares of Banco Hipotecario S.A. at US$ 2.3868 each and 37,537 options at US$ 33.86 each, achieving the right to purchase an additional amount totaling 3,753,700 shares. Such transaction implied a disburse amounting US$ 11.1 million.

Furthermore, on February 2, 2004, IRSA Group exercised a substantial portion of the options acquired mentioned above, jointly with the options held before the end of the year. In this respect, 4,773,853 shares were acquired for a total amount of Ps. 33.4 million.

During the last quarter of fiscal year 2004, the IRSA Group sold a portion of its shareholding in Banco Hipotecario S.A. (2,487,571 shares) to IFIS S.A. (indirect shareholder of the Company) for a unit price of Ps. 7 (market value). The total amount of the transaction was US$ 6.1 million and generated a loss of Ps. 1.61 million.

At the date of issuance of the present financial statements, IRSA´s ownership of BHSA shares amounts 17,641,015.

Cresud Sociedad Anónima Comercial,

Inmobiliaria, Financiera y Agropecuaria

Notes to the Unaudited Financial Statements (Continued)

NOTA 16: LOANS

During this semester, the Company has developed an external funding strategy to raise working capital for the crop season at convenient rates and terms consisting in the pre-financing of exports, which allow us to develop new businesses optimizing risks and have the liquidity required to take advantage of any investment opportunities that may arise.

Therefore, as of December 31, 2004, current loans with local financial institutions amounted to Ps. 37.2 million. This allowed us to promote new production projects and generate a more efficient capital structure for the Company.

Cresud Sociedad Anónima

Comercial, Inmobiliaria, Financiera y Agropecuaria

Unaudited Fixed Assets

Corresponding to the period beginning as from July 1, 2004

and ended on December 31, 2004

comparative with the year ended on June 30, 2004 and with the period ended on December 31, 2003

(Notes 1 and 2)

Schedule A

						Depreciation						
ncipal Account	**Value at the beginning of the year**	**Additions and/or transfers**	**Deductions and/or transfers**	**Value at the end of period/year**	**Rate %**	**Accumulated at the beginning of the year**	**Decrease of the period/ year**	**Current period/ year**	**Accumulated at the end of period/year**	**Net carrying value at December 31, 2004**	**Net carrying value at June 30, 2004**	**Net carry value a December 2003**
	Pesos	**Pesos**	**Pesos**	**Pesos**		**Pesos**	**Pesos**	**Pesos**	**Pesos**	**Pesos**	**Pesos**	**Pesos**
l estate	120,668,102	352,353		121,020,455						121,020,455	120,668,102	118,017
e fences	4,176,054			4,176,054	3	834,294		62,897	897,191	3,278,863	3,341,760	3,404
ering troughs	3,136,281			3,136,281	5	895,579		80,020	975,599	2,160,682	2,240,702	2,288
lfa fields and dows	1,686,488	316,797		2,003,285	12-25-50	1,105,794		198,255	1,304,049	699,236	580,694	735
dings and structions	5,431,487	118,986		5,550,473	2	2,063,502		45,270	2,108,772	3,441,701	3,367,985	3,310
hinery	8,285,123	9,335	34,177	8,260,281	10	5,633,188	29,397	384,284	5,988,075	2,272,206	2,651,935	3,041
icles	1,304,710	224,475	105,098	1,424,087	20	654,956	62,006	127,142	720,092	703,995	649,754	419
ls	193,361	1,450		194,811	10	130,040		7,350	137,390	57,421	63,321	66
niture and ipment	996,477	35,046		1,031,523	10	644,610		44,671	689,281	342,242	351,867	329
ral and leading s	608,664			608,664	3	111,773		9,078	120,851	487,813	496,891	493
ds	1,093,420	2,146		1,095,566	10	603,155		54,800	657,955	437,611	490,265	547
lities	7,414,628	6,080	32,946	7,387,762	10-20-33	3,567,870		385,078	3,952,948	3,434,814	3,846,758	2,818
nputer ipment	1,199,977	196,375	296	1,396,056	20	969,121	296	70,634	1,039,459	356,597	230,856	207
plants	1,169,114			1,169,114	5	315,645		31,537	347,182	821,932	853,469	882
structions in gress	11,568,150	3,408,521		14,976,671						14,976,671	11,568,150	4,847
ances to pliers	144,683	534,224	144,683	534,224						534,224	144,683	17
l at December 2004	169,076,719	5,205,788	317,200	173,965,307		17,529,527	91,699	1,501,016	18,938,844	155,026,463		

l at June 30, 4	159,535,365	14,880,715	5,339,361	169,076,719		17,652,983	3,116,505	2,993,049	17,529,527		151,547,192	
l at December 2003	159,535,365	3,080,424	4,265,027	158,350,762		17,652,983	2,088,675	1,358,544	16,922,852			141,427

Cresud Sociedad Anónima

Comercial, Inmobiliaria, Financiera y Agropecuaria

Unaudited Investments

Corresponding to the period beginning as from July 1, 2004 and ended on December 31, 2004

comparative with the year ended on June 30, 2004 and with the period ended on December 31, 2003

(Notes 1 and 2)

Schedule C

Type and characteristics of the securities	**Amount**	**Value at December 31, 2004**	**Value at June 30, 2004**	**Value at December 31, 2003**	**Market Value**	**INFORMATION ON THE ISSUER** Principal activity	**Latest financial statements** Capital	Income (loss)	Shareholders Equity
		Pesos	**Pesos**	**Pesos**	**Pesos**		**Pesos**	**Pesos**	**Pesos**
Current Investments									
Mutual Funds									
Fondo especial Banco Rio in pesos	110,475	25,029			0.226558				
Fondo plazo fijo Banco Rio in dollars	1,.862	2,523	4,081	3,999	1.354995				
		27,552	4,081	3,999					
Notes and Convertible Bonds									
Interest of Convertible Bonds 2007-IRSA(US$)									
Subsidiaries, related companies Law N° 19,550 Section 33 and related parties:									
IRSA Inversiones y Representaciones S.A.		1,499,204	1,388,504	1,560,891					
Bonos Global 2010	110, 000	112,343	97,096	90,288	1.021300				
Bocon Pro 1	157,647	630	630	630	0.003996				
		1,612,177	1,486,230	1,651,809					
Total current investment		1,639,729	1,490,311	1,655,808					
Non-current investments									
Subsidiaries, related companies Law N° 19,550 Section 33 and related parties:									
AGRO-URANGA S.A.					unlisted	Agricultural and livestock	2,500,000	1,551,749	13,035,586

Shares	893,069	4,523,238	5,230,031	4,313,051					
Contribution on account of future subscriptions of shares		7,865	7,865	7,865					
Higher value of property		11,179,150	11,179,150	11,179,150					
		15,710,253	16,417,046	15,500,066					
INVERSIONES GANADERAS S.A.					unlisted	Raising and grazing cattle	5,326,589	351,644	11,477,885
Shares	5,326,588	10,748,274	10,396,631	10,253,055					
Contribution on account of future subscriptions of shares		729,585	729,585	729,584					
		11,477,859	11,126,216	10,982,639					
CACTUS ARGENTINA S.A.					unlisted	Explotation and administration of agricultural and beef cattle products	1,300,000	(138,566)	6,419,664
Shares	650,000	1,074,214	1,143,497	937,100					
Contribution on account of future subscriptions of shares		2,135,618	2,135,618	2,135,543					
		3,209,832	3,279,115	3,072,643					
FUTUROS Y OPCIONES.COM S.A.					unlisted	Gives information about markets and services of economic and financial consulting through internet	12,000	(200,285)	17,795
Shares	8,400	(2,714,336)	(2,574,138)	(2,483,616)					
Contribution on account of future subscriptions of shares		2,726,793	2,726,793	2,726,641					
		12,457	152,655	243,025					
IRSA Inversiones y Representaciones S.A.									
Shares	69,242,276	275,510,169	244,002,522	190,567,676	listed	Real state	261,520,248	56,756,060	1,040,570,752
		275,510,169	244,002,522	190,567,676					
	Subtotal	305,920,570	274,977,554	220,366,049					
Other Investments									
Convertible Bonds 2007- IRSA (US$)									
Subsidiaries, related companies Law N° 19,550 Section 33 and related parties:									
IRSA Inversiones y Representaciones S.A.	45,293,168	134,928,347	132,941,891	146,333,542					
Coprolán		20,717	20,717	20,717	unlisted				
	Subtotal	134,949,064	132,962,608	146,354,259					
Goodwill									
Goodwill		329,838	659,676	989,514					
IRSA negative goodwill		(36,656,319)	(26,529,022)	(20,921,124)					

Subtotal	(36,326,481)	(25,8f69,346)	(19,931,610)
Total non-current investments	404,543,153	382,070,816	346,788,698

Cresud Sociedad Anónima

Comercial, Inmobiliaria, Financiera y Agropecuaria

Unaudited Allowances

Corresponding to the period beginning as from July 1, 2004

and ended on December 31, 2004

comparative with the year ended on June 30, 2004 and with the period ended on December 31, 2003

(Notes 1 and 2)

Schedule E

Item	**Opening balances**	**Deductions**	**Value at December 31, 2004**	**Value at June 30, 2004**	**Value at December 31, 2003**
	Pesos	**Pesos**	**Pesos**	**Pesos**	**Pesos**
Deducted from assets					
Defaulting debtors	387,067	(38,532)	348,535	387,067	424,197
Total at December 31, 2004	387,067	(38,532)	348,535		
Total at June 30, 2004	454,125	(67,058)		387,067	
Total at December 31, 2003	454,125	(29,928)			424,197

Cresud Sociedad Anónima

Comercial, Inmobiliaria, Financiera y Agropecuaria

Unaudited Cost of sales

Corresponding to the periods beginning as from July 1, 2004 and 2003

and ended on December 31, 2004 and 2003

(Notes 1 and 2)

Schedule F

	Crops		Beef cattle		Milk		Others		Total		
	December 31, 2004	**December 31, 2003**	**December 31, 2004**	**December 31, 2003**	**December 31, 2004**	**December 31, 2003**	**December 31, 2004**	**December 31, 2003**	**December 31, 2004**		**Decem 31, 20**
	Pesos	**Pesos**	**Pesos**	**Pesos**	**Pesos**	**Pesos**	**Pesos**	**Pesos**	**Pesos**	**Pesos**	**Pesos**
			55,198,055	45,097,923	4,150,630	2,294,684			59,348,685		47,392,607
	8,639,910	6,301,776							8,639,910		6,301,776
	1,603,897	1,112,230							1,603,897		1,112,230
			134,870	106,386	103,508	58,969			238,378		165,355
	3,842,219	1,222,255			44,982	33,362	154,393	169,094	4,041,594		1,424,711
	14,086,026	8,636,261	55,332,925	45,204,309	4,299,120	2,387,015	154,393	169,094		73,872,464	
			5,484,966	1,010,632	259,170	229,450				5,744,136	
	2,088,522	753,010								2,088,522	
	(149,403)	(164,529)								(149,403)	
	(464,153)	(35,860)					(39,695)	(1,367)		(503,848)	
	(6,646,273)	(2,783,694)	(136,871)	(149,777)	(376,780)	(204,552)	(262,674)	(283,890)		(7,422,598)	

		101,950	139,734	(101,950)	(139,734)					
25,562,280	11,876,012	3,097,849	4,009,929	398,128	563,961	335,654	277,057		29,393,911	
4,562,016	3,397,918	9,279,058	6,367,720	976,650	933,330	33,144			14,850,868	
		(58,540,015)	(48,133,395)	(4,439,780)	(3,253,871)			(62,979,795)		(51,387,266)
(4,803,409)	(3,782,649)							(4,803,409)		(3,782,649)
(20,090,681)	(9,374,173)							(20,090,681)		(9,374,173)
		(88,843)	(62,725)	(78,055)	(76,619)			(166,898)		(139,344)
(2,753,105)	(1,378,359)			(59,538)	(42,704)	(212,268)	(159,476)	(3,024,911)	(91,065,694)	(1,580,539)
11,391,820	7,143,937	14,531,019	8,386,427	876,965	396,276	8,554	1,418		26,808,358	

Cresud Sociedad Anónima

Comercial, Inmobiliaria, Financiera y Agropecuaria

Unaudited Foreign currency assets and liabilities

Corresponding to the period beginning as from July 1, 2004 and ended on December 31, 2004

comparative with the year ended on June 30, 2004 and with the period ended on December 31, 2003

(Notes 1 and 2)

Schedule G

Item	**December 31, 2004** Type and amount of foreign currency	**December 31, 2004** Current exchange rate	**December 31, 2004** Amount in local currency	**June 30, 2004** Type and amount of foreign currency	**June 30, 2004** Amount in local currency	**December 31, 2003** Type and amount of foreign currency	**December 31, 2003** Amount in local currency
		Pesos	**Pesos**		**Pesos**		**Pesos**
Current Assets							
Cash and banks							
Cash and banks	US$ 8,832,605	2.94	25,959,026	US$ 2,472,934	7,216,021	US$ 6,574,705	18,935,149
Investments:							
Mutual funds	US$ 858	2.94	2,523	US$ 1,399	4,081	US$ 1,389	3,999
Interest of Convertible Bonds 2007 - IRSA							
Subsidiaries, related companies Law 19,550 Article 33 and related parties:							
IRSA Inversiones y Representaciones Sociedad Anónima	US$ 503,257	2.98	1,499,204	US$ 469,406	1,388,504	US$ 541,976	1,560,891
Trade accounts receivable:							
Trade accounts receivable	US$ 325,277	2.94	955,988	US$ 1,295	3,779	US$ 22,100	63,648
Other receivables and prepaid expenses:							
Secured by mortgages	US$ 359,202	2.94	1,055,695	US$ 354,351	1,033,997	US$ 368,726	1,061,931
Guarantee deposits	US$ 78,977	2.94	232,112	US$ 750,171	2,188,998	US$ 502,324	1,446,694
Non-Current Assets							
Other receivables and prepaid expenses:							
Secured by mortgages	US$			US$		US$ 350,000	1,008,000
Investments:							
Convertible Bonds 2007 - IRSA							

Subsidiaries, related companies Law 19,550 Article 33 and related parties:							
IRSA Inversiones y Representaciones Sociedad Anónima	US$ 45,293,168	2.98	134,928,347	US$ 44,943,168	132,941,891	US$ 49,943,188	146,333,542
Total Assets	US$ 55,393,344		164,632,895	US$ 48,992,724	144,777,271	US$ 58,304,408	170,413,854
Current liabilities							
Trade accounts payable:							
Suppliers	US$ 909,655	2.98	2,709,862	US$ 375,360	1,110,314	US$ 315,684	924,954
Accrual for other expenses	US$ 714,893	2.98	2,129,666	US$ 499,662	1,477,683	US$ 155,191	454,710
Loans:							
Local financial loans	US$ 4,068,000	2.98	12,118,572	US$		US$	
Interest of Convertible Bonds 2007	US$ 199,036	2.98	592,928	US$ 199,202	589,239	US$ 209,153	612,819
Subsidiaries, related companies Law 19,550 Article 33 and related parties:							
Shareholders	US$ 266,145	2.98	792,845	US$ 250,176	740,021	US$ 261,887	767,329
Directors	US$ 85	2.98	252	US$ 1,124	3,324	US$ 1,148	3,363
Other debts:							
Advances to customers	US$ 1,411,516	2.98	4,204,906	US$ 1,500,000	4,432,500	US$	
Subsidiaries, related companies Law 19,550 Article 33 and related parties:							
Cactus Argentina S.A.	US$ 70,000	2.94	205,730				
Non-current liabilities							
Loans:							
Convertible Bonds 2007	US$ 17,913,238	2.98	53,363,537	US$ 19,072,528	56,416,538	US$ 19,608,130	57,451,821
Subsidiaries, related companies Law 19,550 Article 33 and related parties:							
Shareholders	US$ 23,953,025	2.98	71,356,061	US$ 23,953,025	70,853,048	US$ 24,551,900	71,937,067
Directors	US$ 7,600	2.98	22,640	US$ 107,600	318,281	US$ 107,600	315,268
Total Liabilities	US$ 49,513,192		147,496,999	US$ 45,958,677	135,940,948	US$ 45,210,693	132,467,331

US$: US dollars

Cresud Sociedad Anónima

Comercial, Inmobiliaria, Financiera y Agropecuaria

Unaudited Infonnation submitted in compliance with Section 64, subsection B of Law N° 19,550

Corresponding to the periods beginning as from July 1, 2004 and 2003

and ended on December 31, 2004 and 2003

(Notes 1 and 2)

Schedule H

Items	Total December 31, 2004	Operating Expenses					Expenses		Total December 31, 2003
		Total	Crops	Beef cattle	Milk	Others	Selling	Administrative	
	Pesos	Pesos	Pesos	Pesos	Pesos	Pesos	Pesos	Pesos	Pesos
Directors fees	46,408							46,408	3,730
Fees and payments for services	503,171	99,766	5,726	84,599	6,875	2,566		403,405	632,450
Salaries and wages	2,554,573	1,117,629	249,754	721,814	146,061			1,436,944	3,223,972
Social security contributions	464,522	193,744	81,521	99,711	12,512			270,778	382,284
Taxes, rates and contributions	203,632	179,811	54,344	110,097	15,370			23,821	196,533
Gross sales taxes	260,488						260,488		266,305
Office and administrative expenses	219,318							219,318	79,991
Bank commissions and expenses	6,855	6,855	1,891	3,992	182	790			9,961
Depreciation of fixed assets	1,501,016	1,355,948	759,378	487,833	100,400	8,337		145,068	1,358,544
Vehicle and travelling expenses	295,806	154,337	58,029	82,165	6,901	7,242		141,469	233,684
Spare parts and repairs	598,008	598,008	311,710	248,881	36,717	700			503,317
Insurance	118,787	30,585	13,667	13,000	1,372	2,546		88,202	160,596
Employees maintenance	174,362	127,259	21,643	101,090	4,468	58		47,103	76,324
Livestock expenses	7,852,215	7,247,491		7,247,491			604,724		4,907,955
Dairy farm expenses	643,214	636,126			636,126		7,088		584,715
Agricultural expenses	4,465,418	2,929,287	2,929,287				1,536,131		3,058,699
Silo expenses	41,963	41,963	41,963						123,395
General expenses	132,059	132,059	33,103	78,385	9,666	10,905			235,618
Total at December 31, 2004	20,081,815	14,850,868	4,562,016	9,279,058	976,650	33,144	2,408,431	2,822,516	
Total at December 31, 2003		10,698,968	3,397,918	6,367,720	933,330		2,102,952	3,236,153	16,038,073

Cresud Sociedad Anónima

Comercial, Inmobiliaria, Financiera y Agropecuaria

Additional Information to the Notes to the Unaudited Financial Statements

for the period ended December 31, 2004

1. LEGAL FRAMEWORK

There are no specific significant legal regimes that would imply contingent suspension or application of the benefits included in these regulations.

2. RELEVANT MODIFICATONS IN THE COMPANY S ACTIVITIES

They are detailed in the Unaudited Business Highlight, which is attached to the present financial statements.

3. CLASSIFICATION OF OUTSTANDING ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES ACCORDING TO THEIR MATURITY

a. Other Receivables without a due date at December 31, 2004.

		Intercompany Law Nº 19,550 Section 33		
		FYO	Agro-Uranga	Cactus
	Other Receivables	Other Receivables	Other Receivables	Other Receivables
	Pesos	Pesos	Pesos	Pesos
Current	3,537,666	23,603	234,279	1,040,575

b. Accounts Receivable and other receivables to fall due at December 31, 2004

	Intercompany Law Nº 19,550 Section 33			Intercompany Law Nº 19,550 Section 33
	IGSA	FYO	Cactus	Cactus

	Trade Accounts Receivable	Trade Accounts Receivable	Trade Accounts Receivable	Trade Accounts Receivable	Other Receivables	Other Receivables
	Pesos	Pesos	Pesos	Pesos	Pesos	Pesos
03.31.05	5,815,017	29,195	424,147	30,261	2,411,856	
06.30.05					283,975	313,753
09.30.05						
06.30.06					99,148	

4. CLASSIFICATION OF OUTSTANDING DEBTS ACCORDING TO THEIR MATURITY

a. There are no past due debts at December 31, 2004.

b. Debts without a due date at December 31, 2004 amount to Ps. 205,730 current and Ps. 27,491,943 non-current.

Cresud Sociedad Anónima

Comercial, Inmobiliaria, Financiera y Agropecuaria

Additional Information to the Notes to the Unaudited Financial Statements

(Continued)

4. CLASSIFICATION OF OUTSTANDING DEBTS ACCORDING TO THEIR MATURITY (Continued)

c. Debts to fall due at December 31, 2004

	Accounts Payable	Intercompany Law Nº 19,550 Section 33 IRSA Accounts Payable	Intercompany Law Nº 19,550 Section 33 Cactus Accounts Payable	Loans	Salaries and Social Security Charges	Tax Payable	Other Debts	Intercompany Law Nº 19,550 Section 33 IGSA Other Debts
	Pesos	Pesos	Pesos	Pesos	Pesos	Pesos	Pesos	Pesos
03.31.05	11,002,617	116,259	530,217	22,353,572	444,433	160,017	4,396,907	
06.30.05				1,386,025		1,594,461	5,506,714	
09.30.05				14,866,783	321,272			
12.31.05						2,617,633		1,747,984
12.31.06								480,640
12.31.07				123,285,777				

5. CLASSIFICATION OF OUTSTANDING ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES ACCORDING TO THEIR FINANCIAL EFFECTS

a.

	Trade Accounts Receivable	Intercompany Law Nº 19,550 Section 33 IGSA Trade Accounts Receivable	Intercompany Law Nº 19,550 Section 33 FYO Trade Accounts Receivable	Intercompany Law Nº 19,550 Section 33 Cactus Trade Accounts Receivable	Other Receivables	Intercompany Law Nº 19,550 Section 33 Cactus Other Receivables	Intercompany Law Nº 19,550 Section 33 FYO Other Receivables	Intercompany Law Nº 19,550 Section 33 Agro-Uranga Other Receivables
	Pesos	Pesos	Pesos	Pesos	Pesos	Pesos	Pesos	Pesos
In pesos	4,859,029	29,195	424,147	30,261	5,044,837	1,354,328	23,603	234,279
In US Dollars	955,988				1,287,807			

b. All accounts receivable and other receivables are not subject to adjustment provisions.

Cresud Sociedad Anónima

Comercial, Inmobiliaria, Financiera y Agropecuaria

Additional Information to the Notes to the Unaudited Financial Statements

(Continued)

c.

		Intercompany Law Nº 19,550 Section 33				Intercompany Law Nº 19,550 Section 33		
		IGSA	FYO	Cactus		Cactus	FYO	IRSA
	Trade Accounts Receivable Pesos	Trade Accounts Receivables Pesos	Trade Accounts Receivables Pesos	Trade Accounts Receivables Pesos	Other Receivables Pesos	Other Receivables Pesos	Other Receivables Pesos	Other Receivables Pesos
Outstanding balances accruing interests					1,182,148	313,753		
Outstanding balances not accruing interests	5,815,017	29,195	424,147	30,261	10,330,823	1,040,575	23,603	234,279

6. CLASSIFICATION OF DEBTS ACCORDING TO THEIR FINANCIAL EFFECTS

a.

		Intercompany Law Nº 19,550 Section 33						Intercompany Law Nº 19,550 Section 33	
		IRSA	Cactus					IGSA	Cactus
	Accounts Payable	Accounts Payable		Loans	Salaries and Social Security Charges	Taxes Payable	Other Debts	Other Debts	
	Pesos	Pesos	Pesos	Pesos	Pesos	Pesos		Pesos	Pesos
In pesos	6.163.089	116.259	530.217	23.645.322	765.705	31.864.054	5.698.715	2.228.624	
In US Dollars	4.839.528			138.246.835			4.204.906		205.730

b. All debts outstanding are not subject to adjustment provisions.

Cresud Sociedad Anónima

Comercial, Inmobiliaria, Financiera y Agropecuaria

Additional Information to the Notes to the Unaudited Financial Statements

(Continued)

c.

	Accounts Payable Pesos	Intercompany Law Nº 19,550 Section 33		Loans Pesos	Salaries and Social Security Charges Pesos	Taxes Payable Pesos	Other Debts	Intercompany Law Nº 19,550 Section 33	
		IRSA	Cactus					Cactus	IGSA
		Accounts Payable						Other Debts	
	Pesos	Pesos	Pesos	Pesos	Pesos	Pesos	Pesos	Pesos	Pesos
Outstanding debts accruing Interests				161.962.593					2.228.624
Outstanding debts not accruing interests	11.002.617	116.259	530.217	(70.436)	765.705	31.864.054	9.903.621	205.730	

7. INTEREST IN OTHER COMPANIES (Law Nº 19,550 Section 33)

Interests in other companies capital and the number of votes held in those companies governed by Law Nº 19,550 Section 33 are explained in Note 2 to the unaudited consolidated financial statements and intercompany balances as of December 31, 2004 are described in points 4 and 5 above.

8. RECEIVABLES FROM OR LOANS TO DIRECTORS AND SUPERVISORY COMMITTEE MEMBERS

At December 31, 2004 there were advance payments to directors for Ps. 2,865, and there were no receivables due from or loans to syndics and relatives up to and including second degree, of directors and syndics.

9. PHYSICAL INVENTORIES

The company conducts physical inventories once a year in each property, covering all the assets under such account. There is no relevant immobilization of inventory.

10. VALUATION OF INVENTORIES

We further inform the sources for the information used to calculate the current value:

a. Cattle for fattening, valued at the market value net of estimated sale expenses: quotation in the Liniers Livestock Market (Mercado de Hacienda de Liniers).

b. Cattle for raising and daily production valued at its replacement cost: according to specific appraisals made by renowned experts.

c. Crops: official quotation of the Cámara Arbitral de Cereales for the port closest to the warehouse, published by media of wide circulation (La Nación Newspaper) net of estimated sale expenses.

Cresud Sociedad Anónima

Comercial, Inmobiliaria, Financiera y Agropecuaria

Additional Information to the Notes to the Unaudited Financial Statements

(Continued)

d. The remaining inventory stated at its replacement cost: seeds, forage and materials: replacement cost published by a well-known magazine (Revista Agromercado).

11. TECHNICAL REVALUATION OF FIXED ASSETS

There are no fixed assets subject to technical revaluation.

12. OBSOLETE FIXED ASSETS

There are no obsolete fixed assets with accounting value.

13. MINORITY INTEREST

There are no minority interests in other companies in excess of the provisions of Law Nº 19,550 Section 33.

14. RECOVERABLE VALUES

The recoverable value of the inventory under consideration is the net realizable value (selling price at the end of the year less estimated selling expenses). The recoverable value of fixed assets under consideration is the economic use value determined by the possibility of absorbing the amortizations with the income of the Company.

15. INSURANCES

The types of insurance used by the company are the following:

Insured property	Risk covered	Amount insured	Account Value

		Pesos	Pesos
Buildings, machinery, silos and furniture	Theft. fire and technical insurance	2.792.050	7.234.678
Vehicles	Theft, fire and civil and third parties liability	1.420.707	703.995

16. PROVISIONS

There are no provisions in excess of 2% of the shareholders equity.

17. CONTINGENCIES

At December 31, 2004 there are no contingent situations that have not been accounted for.

18. IRREVOCABLE CONTRIBUTIONS TO CAPITAL ON ACCOUNT OF FUTURE SUBSCRIPTIONS

None.

19. DIVIDENDS ON PREFERED STOCK

There are no cumulative dividends not paid on preferred stock.

Cresud Sociedad Anónima

Comercial, Inmobiliaria, Financiera y Agropecuaria

Additional Information to the Notes to the Unaudited Financial Statements

(Continued)

20. LIMITATIONS OF PROFIT DISTRIBUTIONS

See Note 10 to the Unaudited Financial Statements.

Cresud Sociedad Anónima

Comercial, Inmobiliaria, Financiera y Agropecuaria

UNAUDITED BUSINESS HIGHLIGHTS

Comparative Shareholders Equity Structure

	At December 31, 2004	At December 31, 2003	At December 31, 2002	At December 31, 2001	At December 31, 2000
	Pesos	Pesos	Pesos	Pesos	Pesos
Current Assets	89,091,991	69,522,344	82,707,765	131,390,490	160,544,471
Non Current Assets	609,533,419	525,729,702	497,572,921	235,135,415	266,777,336
Total Assets	698,625,410	595,252,046	580,280,686	366,525,905	427,321,807
Current Liabilities	66,430,672	12,520,393	27,866,941	61,417,713	30,154,605
Non Current Liabilities	152,099,365	151,890,701	193,294,773	1,164,992	1,370,658
Total Liabilities	218,530,037	164,411,094	221,161,714	62,582,705	31,525,263
Minority Interest	5,366	104,178	318,671	347,591	126,600
Shareholders Equity	480,090,007	430,736,774	358,800,301	303,595,609	395,669,944
	698,625,410	595,252,046	580,280,686	366,525,905	427,321,807

Comparative Income Structure

	At December 31, 2004	At December 31, 2003	At December 31, 2002	At December 31, 2001	At December 31, 2000
	Pesos	Pesos	Pesos	Pesos	Pesos
Operating income	7,058,416	5,486,663	20,659,485	1,312,814	6,227,497
Financial and holding results	(2,194,831)	602,205	(13,012,668)	(83,463,137)	7,204,226
Other income and expenses and results from related companies	10,781,030	2,359,620	39,728,645	(589,446)	(669,708)
Management fees	(1,059,305)	(529,129)	(3,419,171)		(1,104,648)
Operating net income (loss)	14,585,310	7,919,359	43,956,291	(82,739,769)	11,657,367
Income tax	(5,111,658)	(3,259,735)	(7,964,246)		(1,904,747)

Minority interest	60,085	102,532	112,129	186,145	189,208
Net income (loss)	9,533,737	4,762,156	36,104,174	(82,553,624)	9,941,828

Production volume

	2Q December 31, 2004	Accumulated July 1, 2004 to December 31, 2004	2Q December 31, 2003	Accumulated July 1, 2003 to December 31, 2003	2Q December 31, 2002	Accumulated July 1, 2002 to December 31, 2002	2Q December 31, 2001	Accumulated July 1, 2001 to December 31, 2001	2Q December 31, 2000	Accumu July 2000 Decemb 200
Cattle gs.)	4,261,029	5,987,932	3,027,981	5,111,038	3,253,774	5,505,936	1,960,698	5,249,556	4,117,652	7,20
aceous gs.)	72,518	125,596	71,199	135,196	56,314	113,688	70,843	153,063	66,024	13
intals)*	205,947	224,380	115,712	140,050	74,744	128,056	187,752	211,134	81,956	18

* One quintals equals one hundred kilograms

Saúl Zang
First Vice-Chairman
serving as Acting Chairman

Cresud Sociedad Anónima

Comercial, Inmobiliaria, Financiera y Agropecuaria

UNAUDITED BUSINESS HIGHLIGHTS (Continued)

Sales volume

2Q December 31, 2004	Accumulated July 1, 2004 to December 31, 2004	2Q December 31, 2003	Accumulated July 1, 2003 to December 31, 2003	2Q December 31, 2002	Accumulated July 1, 2002 to December 31, 2002	2Q December 31, 2001	Accumulated July 1, 2001 to December 31.2001	2Q December 31, 2000
4,037,087	8,952,625	3,454,520	6,621,506	2,250,703	4,855,825	4,448,217	9,531,526	4,544,073
72,518	125,596	71,199	135,196	56,314	113,688	70,843	153,063	66,024
125,556	319,058	113,710	236,011	338,738	711,420	80,809	506,789	506,077

* One quintals equals one hundred kilograms

Local Market

	2Q December 31, 2004	Accumulated July 1, 2004 to December 31, 2004	2Q December 31, 2003	Accumulated July 1, 2003 to December 31, 2003	2Q December 31, 2002	Accumulated July 1, 2002 to December 31, 2002	2Q December 31, 2001	Accumulated July 1, 2001 to December 31, 2001	2Q December 31, 2000
e	4,037,087	8,952,625	3,454,520	6,621,506	2,250,703	4,855,825	4,448,217	9,531,526	4,544,073
	72,518	125,596	71,199	135,196	56,314	113,688	70,843	153,063	66,024

ous									
	125,556	319,058	113,710	236,011	338,738	711,420	80,809	506,789	506,077

* One quintals equals one hundred kilograms

Exports

		Accumulated July 1, 2004		Accumulated July 1, 2003		Accumulated July 1,2002		Accumulated July 1, 2001		Ac Ju
	2Q December 31, 2004	to December 31, 2004	2Q December 31, 2003	to December 31, 2003	2Q December 31, 2002	to December 31, 2002	2Q December 31, 2001	to December 31, 2001	2Q December 31, 2000	to De
s										

* One quintals equals one hundred kilograms

Ratios

	At December 31, 2004	At December 31, 2003	At December 31, 2002	At December 31, 2001	At December 31, 2000
	Pesos	Pesos	Pesos	Pesos	Pesos
Liquidity	1.341	5.553	2.968	2.139	5.324
Solvency	2.197	2.620	1.622	4.851	12.551
Fixed of capital	0.872	0.883	0.857	0.642	0.624
Return on Equity	0.020	0.012	0.106	(0.245)	0.026

Saúl Zang
First Vice-Chairman

serving as Acting Chairman

Cresud Sociedad Anónima Comercial,

Inmobiliaria, Financiera y Agropecuaria

Unaudited Business Highlight

Buenos Aires, February 10, 2005 - Cresud S.A.C.I.F. y A. (Nasdaq: CRESY BASE: CRES), one of the leading agricultural companies in Argentina, announces today the results corresponding to the first semester of fiscal year 2005 ended on December 31, 2004.

Results for the first semester of Fiscal Year 2005 showed a net profit of Ps. 9.5 million as compared to a Ps. 4.8 million profit registered during the same period of the previous Fiscal Year, denoting a 100.2% increase.

The increase in the net result is mainly a consequence of: (i) the higher results registered in our cattle stock holdings (generated by a stronger market value) which went from Ps. 1.3 million during the same period of fiscal year 2004 to Ps. 6.3 million for the current semester, (ii) and the performance of our share in IRSA Inversiones y Representaciones S. A. (NYSE: IRS) (BASE: IRSA) which went from Ps. 1.8 million for December 2003 to Ps. 14.0 million at December 31, 2004; partly offset by lower results from exchange differences generated by assets and liabilities which decreased from a Ps. 1.9 million profit during the first semester of fiscal year 2004 to a Ps. 1.0 million loss for the current semester.

Consolidated net sales for the period amounted Ps. 35.2 million, 19.9% higher than those registered during the same period of the previous Fiscal Year, mainly due to the higher volume of crops and cattle sold during the semester.

Gross Income during the first six months of FY 2005 amounted to Ps. 6.4 million as compared to Ps. 8.2 million gross profit registered during the same period of the previous year.

This reduction in gross profit is partly a consequence of crop s lower prices. At the beginning of the first semester of FY 2004 the company had accumulated agricultural commodities that when appreciated generated profits due to their revalorization. On the contrary, the stocks accumulated at the beginning of the first semester of FY 2005 did not follow during the semester ended on December 31, 2004 similar trends.

On the other hand, milk sales decreased and at slightly lower prices, consequently decreasing the margins for such activity. Besides, the costs of this business unit increased as a result of the expenses incurred in the development of the milking facility located at the El Tigre farm, which does not generate revenues yet.

Operating Income showed for the six-month period ended on December 31, 2004 a Ps. 7.1 million profit, compared to a Ps. 5.5 million profits registered during the same period of the previous fiscal year.

Results from related companies generated a Ps. 14.1 million profit, mainly due to our 26.5% share ownership in IRSA Inversiones y Representaciones S.A.

Saúl Zang

First Vice-Chairman

serving as Acting Chairman

Cresud Sociedad Anónima Comercial,

Inmobiliaria, Financiera y Agropecuaria

Unaudited Business Highlight (Continued)

Summary of operations

Crops

During the semester crop sales amounted Ps. 11.2 million, compared to Ps. 8.8 million registered during the previous year. Crop volume sold amounted 31,906 tons at an average price of Ps. 352 per ton compared to 23,601 tons sold at an average price of Ps. 373 during the same semester of the previous fiscal year.

The stock of grain as of the closing of the six-month period is 23,392 tons, consisting of 19,815 tons of wheat and 3,046 tons of corn.

Gross loss for the segment for the semester ended on December 31, 2004 amounted Ps. 0.2 million compared to a Ps. 1.6 million profit for the same period of the previous fiscal year. The drop registered in this item is partly consequence of crop s lower prices. At the beginning of the first semester of FY 2004 the company had accumulated agricultural commodities that when appreciated generated profits due to their revalorization. On the contrary, the stocks accumulated at the beginning of the first semester of FY 2005 did not follow during the semester ended on December 31, 2004 similar trends.

For the current season we have destined 35,848 hectares to agriculture, of which 16,142 hectares were leased to third parties. As compared to the previous fiscal year we have increased the amount of total hectares destined to agriculture in 13,303 hectares, mainly due to the commencement of operations in El Tigre farm, which increased the company s area under production, and due to the higher amount of hectares leased to third parties.

Most of the leases were agreed with a fix payment prior to harvest and only small percentages were crop-sharing agreements.

The increase in the number of hectares leased from third parties for exploitation by the Company is explained by the fact that after the strong fall in the price of grains, many owners lowered leasehold prices, thus allowing higher potential yields. During the previous season, faced with the increase in land prices, the strategy was not to go along with market prices and lease lands only at those prices which enabled the Company to obtain adequate margins without having to speculate on future commodity prices.

Beef Cattle

As of December 31, 2004, the Company s cattle stock amounted to 99,797 heads (7% higher than at December 31, 2003) with 126,964 hectares destined to this activity.

Saúl Zang

First Vice-Chairman

serving as Acting Chairman

Cresud Sociedad Anónima Comercial,

Inmobiliaria, Financiera y Agropecuaria

Unaudited Business Highlight (Continued)

Sale of livestock experienced a material increase of 53.6% from Ps. 12.2 million as of December 31, 2003 to Ps. 18.7 million as of December 31, 2004. During the semester a total of 8,953 tons were sold, while during the first six months of Fiscal Year 2004 tons sold amounted to 6,622. The sustained increase which beef cattle prices have been experiencing was also determinant for increasing Company s revenues within this business unit.

Gross profit for the cattle beef segment amounted to Ps. 4.0 million, as compared to Ps. 3.0 million profit registered during the first semester of the previous Fiscal Year. This increase in the gross profit was a consequence both of the increase in the cattle beef sales and of the rise in margins produced by higher market values.

Cattle beef production amounted 5,988 tons, representing a 17% increase compared to the previous fiscal year.

Livestock prices had a favourable evolution during the course of the first semester of Fiscal Year 2005. After the advance of the agriculture business over the cattle beef business, livestock offers experienced sever cuts, therefore helping to push up rising prices of livestock.

Additionally, there are promising perspectives for this market, mostly referring to reductions in commercial barriers worldwide, which would make for a better use of the cattle cuts and a higher final price for the cattle producer. After a year of the appearance of the last foot and mouth disease focus within the country, the country has obtained the free foot and mouth disease status with vaccination on behalf of the Animal Health Organization (OIE), which will grant an additional benefit to seek new markets, such as the US and Canada, were initial correspondence has taken place.

Saúl Zang

First Vice-Chairman

serving as Acting Chairman

Cresud Sociedad Anónima Comercial,

Inmobiliaria, Financiera y Agropecuaria

Unaudited Business Highlight (Continued)

Furthermore, the export of thermo-processed cattle beef to China was approved, shortly enabling the opening of the commercialization of fresh meat market.

Likewise, the price of livestock in Argentina could result in similar prices to those found in Uruguay (which is actually 26% above local prices) whose evolution after the opening of international markets had a positive outcome. In that sense, and in order to sustain its offer, Uruguay started importing livestock from Argentina, therefore arbitrating cattle markets.

Milk

Milk production fell slightly by 8% during the semester from 3.9 million liters as of December 31, 2003 to 3.5 million liters as of December 31, 2004.

Gross profit at December 31, 2004, amounted Ps. 0.7 million, 52% lower than that registered during the same semester of the previous fiscal year. The main reason for this reduction was the increase of costs in this business unit as a consequence of the expenses incurred in the development of dairy facilities that due to their condition are not generating income yet.

It is worth mentioning that the company is currently developing oversize dairy facilities with state of the art technology in our El Tigre farm. In this sense, once the project is concluded, it would increase the actual productive capacity in approximately 36,000 litters daily. We are forecasting for this business unit yields above those of the agriculture segment. The estimated investment in this project amounts US$ 1.0 million approximately.

Currently the Company s only productive dairy farm is located at La Juanita, where the feeding system is based solely on pastures. This feeding system, of lower cost, allows an enhancement of milk margins as compared to systems based on grains.

The milk business in Argentina went through severe oscillations during the course of time, from the euphoria of 1997 and 1998 to the 2001 crisis. Currently, with firm prices, this segment is once again attractive.

Feed Lot

During the semester, our 170-hectare Feed Lot, located in the province of San Luis, where the Company s equity interest through Cactus Argentina S.A. is 50%, was affected by the seasonality of the business hence decreasing the occupation levels and revenues.

Saúl Zang

First Vice-Chairman

serving as Acting Chairman

Cresud Sociedad Anónima Comercial,

Inmobiliaria, Financiera y Agropecuaria

Unaudited Business Highlight (Continued)

Due to these facts, income decreased from Ps. 10.7 million at December 31, 2003 to Ps. 5.9 million during the current semester. It is worth mentioning that draughts registered during the first semester of the fiscal year, had a positive effect rising the occupation levels of the feed lot and also reverting the trend generated during this time of the year.

The uniformity obtained in the final product of the feed lot cattle has granted buyers a high quality product, making its commercialization easy and obtaining higher prices at the moment of selling.

Due to the consistent occupation level the Feed Lot has been registering quarter after quarter we plan the development of a second enterprise of similar characteristics, which could be located within Argentina or abroad.

Regarding the above mentioned, during the semester closed December 31, 2004, Cactus Argentina S.A. registered a Ps. 0.1 million loss compared to a Ps. 0.4 million profit registered for the semester ended on December 31, 2003.

Sale of farms

At the end of Fiscal Year 2004 and commencement of Fiscal Year 2005 bills of sale for the farms Ñacurutu (sold after the closing of the semester) and San Enrique were signed which will result in profits for the Company amounting US$ 2.7 million and US$ 4,3 million respectively, thus positively impacting on future financial statements corresponding to the current Fiscal Year. The produce of such operations will suppose a yield close to 100 % in the first case and margin record of approximately 750 % in the second case. These transactions, besides confirming the excellent Company s background regarding such operations, are clear examples of the unrealized value of corporate assets.

Development of marginal lands

We believe that the business s potential, as has happened in various countries worldwide, relies on the development of marginal land; using state of the art technology, yields comparable to those of the nucleus area can be obtained.

For the current season, to the 12,700 productive hectares destined to cattle in our Los Pozos farm, located in Salta, we have added 4,000 additional hectares, while 1,300 hectares are destined to agriculture.

Besides, clearing works on 6,000 additional hectares for cattle are being performed, and will enter into production next season. Currently, Los Pozos farm shows the highest returns in the cattle business for the Company s and is above the industry s average

Saúl Zang

First Vice-Chairman

serving as Acting Chairman

Cresud Sociedad Anónima Comercial,

Inmobiliaria, Financiera y Agropecuaria

Unaudited Business Highlight (Continued)

Additionally, the 1,185 hectares already developed in our AgroRiego San Luis farm, located in the province of San Luis, for crop irrigation, will enter into production the current season.

Cresud s land reserves amount to 263,000 hectares which were acquired at very low prices. We believe that with the development of these areas, together with proper technology, the value of land will rise generating interesting returns for the Company.

Internet

Fyo.com, internet site where the Company s equity interest amounts 70%, maintains its position as leading agriculture site and has started to expand the scope of commercial services for the farming community through the direct sale of inputs and crop brokerage.

Currently, Futuros y Opciones.com S.A. has a database of 40,000 users and more than 5,000 farmers entitled to perform deals. Our strategy is focused in commercial services for farmers, using Cresud s expertise and operative capacity in the business, being FyO the link with the client.

During the semester ended on December 31, 2004, Futuros y Opciones.com S.A. s revenues amounted to Ps. 0.5 million, 38% higher than that registered during the same semester of the previous Fiscal Year. The net result for the semester showed a Ps. 0.2 million loss, lower than the Ps. 0.3 million loss registered during Fiscal Year 2004.

Saúl Zang

First Vice-Chairman

serving as Acting Chairman

Cresud Sociedad Anónima Comercial,

Inmobiliaria, Financiera y Agropecuaria

Unaudited Business Highlight (Continued)

Principal indicators for the six-month period

ended December 31, 2004 and 2003:

		6 months as of December 31, 2004	6 months as of December 31, 2003	%
Sales Volume				
Wheat (tons)		950	2.490	(62%)
Corn (tons)		19.959	11.472	74%
Sunflowers (tons)				0%
Soybean (tons)		9.994	9.611	4%
Others (tons)		1.002	28	3479%
Total crops (tons)		**31.906**	**23.601**	**35%**
Beef Cattle (tons)		8.953	6.622	35%
Milk (Thousand of liters)		3.525	3.851	(8%)
Production				
Wheat (tons)		20.595	11.571	78%
Corn (tons)		1.765		
Sunflowers (tons)				
Soybean (tons)		79		
Beef Cattle (tons)		5.988	5.111	17%
Milk (Thousand of liters)		3.525	3.851	(8%)
Exploited surface (hectares)				
Crops	Owned Farms	19.706	12.312	60%
	Leased Farms	16.142	9.755	65%
Beef Cattle	Owned Farms	126.964	126.190	1%
	Leased Farms			
Dairy	Owned Farms	1.583	820	93%
Land Reserve (hectares)		263.177	266.916	(1%)
Surface under irrigation		3.750	2.841	32%
Storage Capacity (tons)		12.660	18.360	(31%)
Total head of cattle		**99.797**	**92.954**	**7%**
Dairy Farm Stock (heads)		3.575	2.812	27%
Milking cows (heads)		1.406	1.190	18%

Saúl Zang
First Vice-Chairman

serving as Acting Chairman

Cresud Sociedad Anónima Comercial,

Inmobiliaria, Financiera y Agropecuaria

Unaudited Business Highlight (Continued)

Results from IRSA Inversiones y Representaciones S.A.

The result derived from our equity interest in IRSA Inversiones y Representaciones S. A. (NYSE: IRS BASE: IRSA) showed a Ps. 14.0 million profit for the semester compared to a Ps. 1.8 million profit as of December 31, 2003.

IRSA s result was strongly influenced by an increase in the operative result which grew 142.4%, from Ps. 24.5 million for the first six months of Fiscal Year 2004 to Ps. 59.3 million for the same period of the current Fiscal Year, mainly due to the better performance of revenues, which grew 49.3% amounting Ps. 185.2 million compared to the previous Ps. 124.1 million. The following is the share of the different segments in revenues from net consolidated sales: sales and development Ps. 27.5 million, offices and other property for lease Ps. 8.9 million, shopping centers Ps. 103.6 million and hotels Ps. 45.3 million.

IRSA is Argentina s leading real estate company with a totally diversified portfolio of properties. IRSA participates in the following business segments:

Office rental with more than 85,000 m2 for lease.

Operation of **Shopping Centers** through its 61% equity interest in Alto Palermo S.A. (APSA) (NASDAQ: APSA, BASE: APSA). APSA is one of the leading operators of shopping centers in Argentina and owns or has majority interest in 9 shopping centers with 195,132 m2 of gross leasable area.

Sale of **residential properties**

Holding and operation of luxury **hotels** through its equity interest in 3 five star hotels

Besides, IRSA owns land reserves for current and **future developments** valued at Ps. 352.0 million.

IRSA s total Consolidated Assets amount to Ps. 2,346.1 million and its Shareholder s Equity amounts Ps. 1,040.6 million.

At December 31, 2004 our ownership in IRSA amounted 26.5% of total shares in circulation. Additionally, we own u$ 45.3 million of convertible bonds issued by IRSA which contain a warrant attached to purchase additional shares of the company. If both the convertible notes and warrants are exercised like the rest of the bearers, Cresud would own 41% of IRSA equity. Currently, our equity interest in IRSA is valued through the proportional equity value method.

Saúl Zang
First Vice-Chairman
serving as Acting Chairman

Cresud Sociedad Anónima Comercial,

Inmobiliaria, Financiera y Agropecuaria

Unaudited Business Highlight (Continued)

Other relevant highlights

Reduction of debt due to the conversion of notes and exercise of Warrants

During the semester, Cresud s debt under Convertible Notes was reduced by US$ 1,259,290 as a consequence of the exercise of conversion rights.

Likewise during the semester, 1,251,644 Warrants have been exercised, resulting in an inflow of US$ 1.5 million in the Company

In this way, considering all conversions and exercise of warrants, the number of outstanding Convertible Notes as of today has reached US$ 41,723,863 while the number of outstanding Warrants amounts to 42,164,361. Shares issued amounted 31,728,541, increasing the Company s total number of outstanding shares to 156,012,933.

It should be noted that since the Company holds Convertible Bonds issued by IRSA for a total 45.3 million, which bear interest at the same rate as those issued by us, funds to be collected from our holding in IRSA exceeds from those required to cover payment of our Convertible Notes.

The following graphics show past, actual and potential situation in the future of the Convertible Notes issued by Cresud on November 14, 2002, under New York Law, at an interest rate of 8% (paid semi-annually), due to November 14, 2007, which are convertible at a price of US$ 0.5078 per share of face value Ps. 1.00 (1.9693 shares of face value Ps. 1.00 per Note). Additionally, each Convertible Note holds a warrant which allows the holder to obtain for each Convertible Note 1.9693 shares, of face value Ps. 1.00, at a price of US$ 0.6093.

Notes:

1 ADR represents 10 common shares

Assuming Conversion (Fully Diluted) refers to the situation where all the holders of the Convertible Notes convert those securities into shares and where all the Warrants are exercised.

Saúl Zang
First Vice-Chairman
serving as Acting Chairman

Cresud Sociedad Anónima Comercial,

Inmobiliaria, Financiera y Agropecuaria

Unaudited Business Highlight (Continued)

Financial Structure

During the current semester, the Company has developed an external financing strategy of its working capital for the productive season, at convenient rates and terms through export pre financing, which allows us to develop new business units optimising risks and acquiring the necessary liquidity to take advantage of investment opportunities that could arise.

Hence, at December 31, 2004 current loans with local financial entities amounted Ps. 37.2 million, enabling the development of new productive projects and generating a more efficient capital structure for the Company.

Distribution of dividends

On November 17, 2004, and pursuant to the Ordinary and Extraordinary Shareholder s Meeting held on October 22, 2004, cash dividends for a total amount of Ps. 3.0 million or Ps. 0.01983007 per common share of nominal value 1 each (Ps. 0.1983007 per ADR) were at shareholder s availability.

Perspectives for the coming quarter

Perspectives for the upcoming quarter are highly promising with firm livestock prices, hence we are expecting an increase in our profits from this business unit. Additionally, the opening of new international markets could continue impacting positively on this business unit.

Besides, there are promising perspectives on the evolution of corn yields for the coming quarter, which are already above our budget. Notwithstanding the foregoing, price perspectives are conservative due to promising productive seasons in the U.S. and South America.

Regarding our investment in the dairy farm project, its opening will occur promptly. At the commencement, it will have 600 milking cows and will reach 2,000 heads within 18 months.

Saúl Zang
First Vice-Chairman
serving as Acting Chairman

Cresud Sociedad Anónima Comercial,

Inmobiliaria, Financiera y Agropecuaria

Unaudited Business Highlight (Continued)

According to our development of new agriculture project strategy, we will maintain evaluating different investment alternatives, which could be accomplished during the current fiscal period.

Saúl Zang
First Vice-Chairman
serving as Acting Chairman

Free translation from the original prepared in Spanish for publication in Argentina

Report of Independent Auditors

To the Shareholders, President and Board of Directors of

Cresud Sociedad Anónima Comercial,

Inmobiliaria, Financiera y Agropecuaria

1. We have reviewed the balance sheets of Cresud Sociedad Anónima Comercial, Inmobiliaria, Financiera y Agropecuaria at December 31, 2004 and 2003, and the related statements of income, of changes in shareholders equity and of cash flows for the six-month periods ended December 31, 2004 and 2003 and the complementary notes 1 to 16 and schedules A, C, E, F, G and H. Furthermore, we have reviewed the consolidated financial statements of Cresud Sociedad Anónima Comercial, Inmobiliaria, Financiera y Agropecuaria, which are presented as complementary information. These financial statements are the responsibility of the Company s management.

2. We conducted our review in accordance with standards established by Technical Resolution N° 7 of the Argentine Federation of Professional Councils of Economic Sciences for limited reviews of financial statements. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters, It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

3. Based on our work and our examinations of the financial statements of this Company and the consolidated financial statements for the years ended June 30, 2004 and 2003, on which we issued our unqualified report dated September 7, 2004, we report that:

   a) The financial statements of Cresud Sociedad Anónima Comercial, Inmobiliaria, Financiera y Agropecuaria at December 31, 2004 and 2003 and its consolidated financial statements at those dates, set out in point 1, prepared in accordance with accounting standards prevailing in the Autonomous City of Buenos Aires, include all significant facts and circumstances of which we are aware, and we have no observations to make on them.

b) The comparative information included in the basic and consolidated balance sheets and the suplementary notes and schedules to the attached financial statements arise from Company financial statements at June 30, 2004.

4. In accordance with current regulations, we report that:

a) the financial statements of Cresud Sociedad Anónima Comercial, Inmobiliaria, Financiera y Agropecuaria and its consolidated financial statements have been transcribed to the Inventory and Balance Sheet Book and comply, within the field of our competence, with the Corporations Law and pertinent resolutions of the National Securities Commission;

b) the financial statements of Cresud Sociedad Anónima Comercial, Inmobiliaria, Financiera y Agropecuaria arise from official accounting records carried in all formal respects in accordance with legal requirements; that maintain the security and integrity conditions based on which they were authorized by the National Securities Commission;

c) we have read the business highlights and the additional information to the notes to the financial statements required by section 68 of the Buenos Aires Stock Exchange Regulations, on which, as regards those matters that are within our competence, we have no observations to make;

d) At December 31, 2004, the debt accrued of Cresud Sociedad Anónima Comercial, Inmobiliaria, Financiera y Agropecuaria accrued in favor of the Integrated Pension and Survivors Benefit System according to the accounting records amounted to $ 108.211,60 which is not yet due.

Autonomus City of Buenos Aires, February 10, 2005

PRICE WATERHOUSE & CO. S.R.L.

(Partner)
C.P.C.E.C.A.B.A. Tº 1 Fº 1
Dr. Andrés Suarez
Public Accountant (UBA)
C.P.C.E. Ciudad Autónoma de Buenos Aires
Tomo 245 - Folio 61

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Buenos Aires, Argentina.

CRESUD SOCIEDAD ANONIMA COMERCIAL INMOBILIARIA

FINANCIERA Y AGROPECUARIA

By: /S/ Saúl Zang
Name: Saúl Zang
Title: Vice Chairman of the Board of Directors

Dated: February 18, 2005