

REGIS CORP
Form 10-Q
November 09, 2011
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from to

Commission file number 1-12725

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)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of October 26, 2011:

Edgar Filing: REGIS CORP - Form 10-Q

Common Stock, \$.05 par value
Class

57,716,018
Number of Shares

Table of Contents

REGIS CORPORATION

INDEX

Part I. Financial Information UNAUDITED

<u>Item 1.</u>	<u>Condensed Consolidated Financial Statements:</u>	
	<u>Condensed Consolidated Balance Sheet as of September 30, 2011 and June 30, 2011</u>	3
	<u>Condensed Consolidated Statement of Operations for the three months ended September 30, 2011 and 2010</u>	4
	<u>Condensed Consolidated Statement of Cash Flows for the three months ended September 30, 2011 and 2010</u>	5
	<u>Notes to Condensed Consolidated Financial Statements</u>	6
	<u>Review Report of Independent Registered Public Accounting Firm</u>	27
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	28
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	45
<u>Item 4.</u>	<u>Controls and Procedures</u>	45

Part II. Other Information

<u>Item 1.</u>	<u>Legal Proceedings</u>	45
<u>Item 1A.</u>	<u>Risk Factors</u>	45
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	48
<u>Item 4.</u>	<u>Reserved</u>	48
<u>Item 6.</u>	<u>Exhibits</u>	49
<u>Signatures</u>		50

Table of Contents**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements****REGIS CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)**

As of September 30, 2011 and June 30, 2011
(In thousands, except share data)

	September 30, 2011	June 30, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 75,673	\$ 96,263
Receivables, net	28,040	27,149
Inventories	173,699	150,804
Deferred income taxes	17,876	17,887
Income tax receivable	18,021	22,341
Other current assets	30,464	32,118
Total current assets	343,773	346,562
Property and equipment, net	330,084	347,811
Goodwill	680,588	680,512
Other intangibles, net	108,612	111,328
Investment in and loans to affiliates	251,894	261,140
Other assets	57,269	58,400
Total assets	\$ 1,772,220	\$ 1,805,753
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Long-term debt, current portion	\$ 28,817	\$ 32,252
Accounts payable	66,695	55,107
Accrued expenses	159,041	167,321
Total current liabilities	254,553	254,680
Long-term debt and capital lease obligations	275,198	281,159
Other noncurrent liabilities	222,000	237,295
Total liabilities	751,751	773,134
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Common stock, \$0.05 par value; issued and outstanding 57,704,684 and 57,710,811 common shares at September 30, 2011 and June 30, 2011, respectively	2,885	2,886
Additional paid-in capital	343,445	341,190
Accumulated other comprehensive income	57,839	77,946
Retained earnings	616,300	610,597

Edgar Filing: REGIS CORP - Form 10-Q

Total shareholders' equity		1,020,469		1,032,619
Total liabilities and shareholders' equity	\$	1,772,220	\$	1,805,753

The accompanying notes are an integral part of the unaudited Condensed Consolidated Financial Statements.

Table of Contents**REGIS CORPORATION****CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)****For The Three Months Ended September 30, 2011 and 2010****(In thousands, except per share data)**

	2011	2010
Revenues:		
Service	\$ 431,700	\$ 439,529
Product	126,917	128,605
Royalties and fees	10,132	10,111
	568,749	578,245
Operating expenses:		
Cost of service	246,011	249,501
Cost of product	59,979	61,075
Site operating expenses	52,455	49,009
General and administrative	78,679	74,074
Rent	84,447	85,108
Depreciation and amortization	34,106	26,044
Total operating expenses	555,677	544,811
Operating income	13,072	33,434
Other income (expense):		
Interest expense	(7,360)	(8,923)
Interest income and other, net	1,316	777
Income before income taxes and equity in income of affiliated companies	7,028	25,288
Income taxes	(2,723)	(9,647)
Equity in income of affiliated companies, net of income taxes	4,032	2,679
Net income	\$ 8,337	\$ 18,320
Net income per share:		
Basic	\$ 0.15	\$ 0.32
Diluted	\$ 0.15	\$ 0.30
Weighted average common and common equivalent shares outstanding:		
Basic	56,849	56,629
Diluted	57,098	67,961
Cash dividends declared per common share	\$ 0.06	\$ 0.04

The accompanying notes are an integral part of the unaudited Condensed Consolidated Financial Statements.

Table of Contents**REGIS CORPORATION****CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)****For The Three Months Ended September 30, 2011 and 2010****(In thousands)**

	2011	2010
Cash flows from operating activities:		
Net income	\$ 8,337	\$ 18,320
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	31,638	23,612
Amortization	2,468	2,432
Equity in income of affiliated companies	(4,032)	(2,679)
Dividends received from affiliated companies	270	1,452
Deferred income taxes	(2,800)	(6)
Excess tax benefits from stock-based compensation plans		(3)
Stock-based compensation	2,440	2,369
Amortization of debt discount and financing costs	1,613	1,582
Other noncash items affecting earnings	(477)	815
Changes in operating assets and liabilities (1):		
Receivables	(907)	(267)
Inventories	(23,612)	(7,343)
Income tax receivable	4,260	28,373
Other current assets	1,806	1,748
Other assets	509	(3,095)
Accounts payable	11,376	4,163
Accrued expenses	(7,906)	(11,851)
Other noncurrent liabilities	(11,528)	4,562
Net cash provided by operating activities	13,455	64,184
Cash flows from investing activities:		
Capital expenditures	(16,827)	(16,007)
Proceeds from sale of assets	369	15
Asset acquisitions, net of cash acquired and certain obligations assumed	(2,077)	(3,861)
Proceeds from loans and investments	1,290	15,000
Disbursements for loans and investments		(15,000)
Net cash used in investing activities	(17,245)	(19,853)
Cash flows from financing activities:		
Borrowings on revolving credit facilities	23,900	
Payments on revolving credit facilities	(23,900)	
Repayments of long-term debt and capital lease obligations	(9,669)	(3,334)
Excess tax benefits from stock-based compensation plans		3
Proceeds from issuance of common stock		59
Dividends paid	(3,494)	(2,297)
Other		3
Net cash used in financing activities	(13,163)	(5,566)
Effect of exchange rate changes on cash and cash equivalents	(3,637)	4,199
(Decrease) increase in cash and cash equivalents	(20,590)	42,964

Edgar Filing: REGIS CORP - Form 10-Q

Cash and cash equivalents:			
Beginning of period		96,263	151,871
End of period	\$	75,673	\$ 194,835

(1) Changes in operating assets and liabilities exclude assets acquired and liabilities assumed through acquisitions.

The accompanying notes are an integral part of the unaudited Condensed Consolidated Financial Statements.

Table of Contents

REGIS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION OF UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The unaudited interim Condensed Consolidated Financial Statements of Regis Corporation (the Company) as of September 30, 2011 and for the three months ended September 30, 2011 and 2010, reflect, in the opinion of management, all adjustments necessary to fairly state the consolidated financial position of the Company as of September 30, 2011 and the consolidated results of its operations and its cash flows for the interim periods. Adjustments consist only of normal recurring items, except for any discussed in the notes below. The results of operations and cash flows for any interim period are not necessarily indicative of results of operations and cash flows for the full year.

The Consolidated Balance Sheet data for June 30, 2011 was derived from audited Consolidated Financial Statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America (GAAP). The unaudited interim Condensed Consolidated Financial Statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended June 30, 2011 and other documents filed or furnished with the Securities and Exchange Commission (SEC) during the current fiscal year.

The unaudited condensed consolidated financial statements of the Company as of September 30, 2011 and for the three month periods ended September 30, 2011 and 2010 included in this Form 10-Q have been reviewed by PricewaterhouseCoopers LLP, an independent registered public accounting firm. Their separate report dated November 9, 2011 appearing herein, states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their report on the unaudited financial information because that report is not a report or a part of the registration statement prepared or certified by PricewaterhouseCoopers LLP within the meaning of Sections 7 and 11 of the Act.

Consolidation:

The Condensed Consolidated Financial Statements include the accounts of the Company and its subsidiaries after the elimination of intercompany accounts and transactions. All material subsidiaries are wholly owned. The Company consolidated variable interest entities where it has determined it is the primary beneficiary of those entities' operations.

Stock-Based Employee Compensation:

Edgar Filing: REGIS CORP - Form 10-Q

Stock-based awards are granted under the terms of the 2004 Long Term Incentive Plan (2004 Plan). Additionally, the Company has outstanding stock options under its 2000 Stock Option Plan (2000 Plan), although the Plan terminated in 2010. Under these plans, four types of stock-based compensation awards are granted: stock options, equity-based stock appreciation rights (SARs), restricted stock awards (RSAs) and restricted stock units (RSUs). The stock options and SARs have a maximum term of ten years. The stock-based awards, other than the RSUs, generally vest at a rate of 20.0 percent annually on each of the first five anniversaries of the date of grant. The RSUs cliff vest after five years, and payment of the RSUs is deferred until January 31 of the year following vesting. Unvested awards are subject to forfeiture in the event of termination of employment. The Company utilizes an option-pricing model to estimate the fair value of options and SARs at their grant date. Stock options and SARs are granted at not less than fair market value on the date of grant. The Company generally recognizes compensation expense for its stock-based compensation awards on a straight-line basis over a five-year vesting period. Awards granted do not contain acceleration of vesting terms for retirement eligible recipients. The Company's primary employee stock-based compensation grant occurs during the fourth fiscal quarter.

Total compensation cost for stock-based payment arrangements totaled \$2.4 million for each of the three month periods ended September 30, 2011 and 2010.

Edgar Filing: REGIS CORP - Form 10-Q

Table of Contents

Stock options outstanding, weighted average exercise price and weighted average fair values as of September 30, 2011 were as follows:

Options	Shares (in thousands)	Weighted Average Exercise Price
Outstanding at June 30, 2011	838	\$ 31.48
Granted		
Exercised		
Forfeited or expired	(12)	26.86
Outstanding at September 30, 2011	826	\$ 31.54
Exercisable at September 30, 2011	663	\$ 33.27

Outstanding options of 826,078 at September 30, 2011 had an intrinsic value (the amount by which the stock price exceeded the exercise or grant date price) of zero and a weighted average remaining contractual term of 4.4 years. Exercisable options of 663,318 at September 30, 2011 had an intrinsic value of zero and a weighted average remaining contractual term of 3.6 years. Of the outstanding and unvested options and due to estimated forfeitures, 139,521 are expected to vest with a \$25.29 per share weighted average grant price, a weighted average remaining contractual life of 7.2 years and a total intrinsic value of zero.

All options granted relate to stock option plans that have been approved by the shareholders of the Company.

The table below contains a rollforward of RSAs, RSUs and SARs outstanding, as well as other relevant terms of the awards:

	Restricted Stock Outstanding Shares/Units (in thousands)	Nonvested		SARs Outstanding	
			Weighted Average Grant Date Fair Value	Shares (in thousands)	Weighted Average Exercise Price
Balance, June 30, 2011	1,077	\$	23.48	1,087	\$ 25.54
Granted	20		13.59		
Vested/Exercised	2		22.32		
Forfeited or expired	(26)		19.39	(57)	27.45
Balance, September 30, 2011	1,073	\$	23.39	1,030	\$ 25.43

Outstanding and unvested RSAs of 858,415 at September 30, 2011 had an intrinsic value of \$12.1 million and a weighted average remaining vesting term of 1.9 years. Due to estimated forfeitures, 806,215 are expected to vest with a total intrinsic value of \$11.4 million.

Outstanding and unvested RSUs of 215,000 at September 30, 2011 had an intrinsic value of \$3.0 million and a weighted average remaining vesting term of 0.4 years. All unvested RSUs are expected to vest in fiscal year 2012.

Edgar Filing: REGIS CORP - Form 10-Q

Outstanding SARs of 1,029,780 at September 30, 2011 had a total intrinsic value of zero and a weighted average remaining contractual term of 6.6 years. Exercisable SARs of 561,530 at September 30, 2011 had a total intrinsic value of zero and a weighted average remaining contractual term of 5.6 years. Of the outstanding and unvested rights and due to estimated forfeitures, 402,808 are expected to vest with a \$20.41 per share weighted average grant price, a weighted average remaining contractual life of 7.4 years and a total intrinsic value of zero.

During fiscal year 2011, the Company accelerated the vesting of 68,390 unvested RSAs held by the Company's Chief Executive Officer and the Company's Executive Vice President, Fashion and Education. Under the terms of the modifications, any unvested RSAs granted to the Chief Executive Officer and the Executive Vice President, Fashion and Education fully vest on their last days of employment, which is expected to be February 8, 2012 and June 30, 2012, respectively. As a result of the modifications, the Company recognized an incremental compensation cost of \$0.1 million during the three months ended September 30, 2011.

During the three months ended September 30, 2011 and 2010 total cash received from the exercise of share-based instruments zero and less than \$0.1 million, respectively. As of September 30, 2011, the total unrecognized compensation cost related to all unvested stock-based compensation arrangements was \$17.7 million. The related weighted average period over which such cost is expected to be recognized was approximately 3.0 years as of September 30, 2011.

Table of Contents

The total intrinsic value of all stock-based compensation that was exercised during each of the three month periods ended September 30, 2011 and 2010 was less than \$0.1 million, respectively.

Goodwill:

Goodwill is tested for impairment annually or at the time of a triggering event. 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, 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. The Company considers its various concepts to be reporting units when testing for goodwill impairment because that is where the Company believes the goodwill resides. The Company periodically engages third-party valuation consultants to assist in evaluation of the Company's estimated fair value calculations.

In the situations where a reporting unit's carrying value exceeds its estimated 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 under the assumption of a taxable transaction. The excess of the fair value of the reporting unit over the amount assigned to its 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.

As a result of the Company's impairment testing of goodwill during the third quarter of fiscal year 2011, a \$74.1 million impairment charge was recorded for the excess of the carrying value of goodwill over the implied fair value of the goodwill for the Promenade salon concept. The estimated fair values of the Hair Restoration Centers reporting unit and Regis salon concept exceeded the respective carrying values by approximately 9.0 and 18.0 percent, respectively. The respective fair values of the Company's remaining reporting units exceeded fair value by greater than 20.0 percent. While the Company has determined the estimated fair values of Promenade, Hair Restoration Centers, and Regis to be appropriate based on the historical level of revenue growth, operating income and cash flows, it is reasonably likely that Promenade, Hair Restoration Centers, and Regis 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 the reportable segment are outside the control of management, changes in these underlying assumptions can adversely impact fair value. Potential impairment of a portion or all of the carrying value of the Promenade and Regis salon concepts and Hair Restoration Centers goodwill is dependent on many factors and cannot be predicted with certainty.

As of September 30, 2011, the Company's estimated fair value, as determined by the sum of our reporting units' fair value, reconciled to within a reasonable range of our market capitalization which included an assumed control premium. The Company concluded there were no triggering events requiring the Company to perform an interim goodwill impairment test between the annual impairment testing and September 30, 2011.

Edgar Filing: REGIS CORP - Form 10-Q

A summary of the Company's goodwill balance as of September 30, 2011 and June 30, 2011 by reporting unit is as follows:

Reporting Unit	As of	
	September 30, 2011	June 30, 2011
	(Dollars in thousands)	
Regis	\$ 103,500	\$ 103,761
MasterCuts	4,652	4,652
SmartStyle	48,356	48,916
Supercuts	129,486	129,477
Promenade	241,785	240,910
Total North America Salons	527,779	527,716
Hair Restoration Centers	152,809	152,796
Total	\$ 680,588	\$ 680,512

See Note 4 to the Condensed Consolidated Financial Statements for further details on the Company's goodwill balance.

Table of Contents

Property and Equipment:

Historically, because of the Company's large size and scale requirements it has been necessary for the Company to internally develop and support its own proprietary point-of-sale (POS) information system. During the fourth quarter of fiscal year 2011, the Company identified a third party POS alternative that has a system that meets current and enhanced functionality requirements and will cost significantly less to implement and support. Due to the Company's plan to replace the POS information system, the Company reviewed the capitalized software carrying value for impairment at September 30, 2011. As a result of the Company's long-lived asset impairment testing at September 30, 2011 for this applicable grouping of assets, no impairment charges were recorded. As of June 30, 2011, the Company reassessed and adjusted the useful life of the capitalized software as the POS alternative is expected to be implemented in salons during the first half of fiscal year 2012. Depreciation expense related to the existing POS information system totaled \$9.4 million during the three months ended September 30, 2011, including \$8.7 million (\$5.5 million net of tax or \$0.10 per diluted share) of accelerated depreciation related to the change in useful life. The Company expects to fully depreciate the net balance of the existing POS information system, approximately \$9.4 million at September 30, 2011, during the three months ended December 31, 2011 as locations using the Company's existing POS information system move to a third party POS alternative by December 31, 2011.

Recent Accounting Standards Adopted by the Company:

Disclosures about Fair Value of Financial Instruments

In January 2010, the FASB issued guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires a roll forward of activities, presented separately on a gross basis, on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The Company adopted the new disclosure guidance related to Level 3 fair value measurements, including the disclosure on the roll forward activities, on July 1, 2011.

Accounting Standards Recently Issued But Not Yet Adopted by the Company:

Testing Goodwill for Impairment

In September 2011, the FASB issued guidance to allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. If after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is not required. This new guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of the guidance on July 1, 2012 is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Comprehensive Income

In June 2011, the FASB issued guidance on the presentation of comprehensive income. Specifically, the new guidance allows an entity to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. This new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2011. The adoption of the guidance on July 1, 2012 will not have an impact on the Company's financial position, results of operations or cash flows.

Fair Value Measurement

In May 2011, the FASB issued guidance to achieve common fair value measurement and disclosure requirements between GAAP and International Financial Reporting Standards. This new guidance amends current fair value measurement and disclosure guidance to include increased transparency around valuation inputs and investment categorization. This new guidance is effective for fiscal years and interim periods beginning after December 15, 2011. The adoption of the guidance on January 1, 2012 will not have an impact on the Company's consolidated financial position, results of operations or cash flows.

Table of Contents**2. SHAREHOLDERS EQUITY:****Net Income Per Share:**

The Company's basic earnings per share is calculated as net income divided by weighted average common shares outstanding, excluding unvested outstanding RSAs and RSUs. The Company's dilutive earnings per share is calculated as net income divided by weighted average common shares and common share equivalents outstanding, which includes shares issuable under the Company's stock option plan and long-term incentive plan, and dilutive securities. Stock-based awards with exercise prices greater than the average market value of the Company's common stock are excluded from the computation of diluted earnings per share. The Company's dilutive earnings per share will also reflect the assumed conversion under the Company's convertible debt if the impact is dilutive, along with the exclusion of interest expense, net of taxes. The impact of the convertible debt is excluded from the computation of diluted earnings per share when interest expense per common share obtainable upon conversion is greater than basic earnings per share.

The following table sets forth a reconciliation of shares used in the computation of basic and diluted earnings per share:

	2011	For the Three Months Ended September 30, 2010
	(Shares in thousands)	
Weighted average shares for basic earnings per share	56,849	56,629
Effect of dilutive securities:		
Dilutive effect of stock-based compensation	249	174
Dilutive effect of convertible debt		11,158
Weighted average shares for diluted earnings per share	57,098	67,961

The following table sets forth the awards which are excluded from the various earnings per share calculations:

	2011	For the Three Months Ended September 30, 2010
	(Shares in thousands)	
<i>Basic earnings per share:</i>		
RSAs (1)	858	923
RSUs (1)	215	215
	1,073	1,138
<i>Diluted earnings per share:</i>		
Stock options (2)	826	900
SARs (2)	1,030	1,089
RSAs (2)	767	430
Shares issuable upon conversion of debt (3)	11,184	
	13,807	2,419

-
- (1) Awards were not vested
 - (2) Awards were anti-dilutive
 - (3) Shares were anti-dilutive for the three months ended September 30, 2011.

Table of Contents

The following table sets forth a reconciliation of the net income available to common shareholders and the net income for diluted earnings per share under the if-converted method:

	For the Three Months Ended September 30,	
	2011	2010
	(Dollars in thousands)	
Net income available to common shareholders	\$ 8,337	\$ 18,320
Effect of dilutive securities:		
Interest on convertible debt, net of taxes		2,013
Net income for diluted earnings per share	\$ 8,337	\$ 20,333

Additional Paid-In Capital:

The change in additional paid-in capital during the three months ended September 30, 2011 was due to the following:

	(Dollars in thousands)
Balance, June 30, 2011	\$ 341,190
Stock-based compensation	2,440
Vested stock option expirations	(182)
Other	(3)
Balance, September 30, 2011	\$ 343,445

Comprehensive (Loss) Income:

Components of comprehensive (loss) income for the Company include net income, changes in fair market value of financial instruments designated as hedges of interest rate or foreign currency exposure and foreign currency translation charged or credited to the cumulative translation account within shareholders' equity. Comprehensive (loss) income for the three months ended September 30, 2011 and 2010 was as follows:

	For the Three Months Ended September 30,	
	2011	2010
	(Dollars in thousands)	
Net income	\$ 8,337	\$ 18,320
Other comprehensive (loss) income:		
Changes in fair market value of financial instruments designated as cash flow hedges of interest rate exposure, net of taxes	446	(64)
Cumulative foreign currency translation	(20,553)	14,796
Total comprehensive (loss) income	\$ (11,770)	\$ 33,052

3. FAIR VALUE MEASUREMENTS:

The fair value measurement guidance for financial and nonfinancial assets and liabilities defines fair value, establishes a framework for measuring fair value and expands disclosure requirements about fair value measurements. This guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy prescribed by this guidance contains three levels as follows:

Level 1 Unadjusted quoted prices that are available in active markets for the identical assets or liabilities at the measurement date.

Level 2 Other observable inputs available at the measurement date, other than quoted prices included in Level 1, either directly or indirectly, including:

- Quoted prices for similar assets or liabilities in active markets;

- Quoted prices for identical or similar assets in non-active markets;

- Inputs other than quoted prices that are observable for the asset or liability; and

Table of Contents

- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 Unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

Assets and Liabilities that are Measured at Fair Value on a Recurring Basis

The fair value hierarchy requires the use of observable market data when available. In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability. The following tables sets forth by level within the fair value hierarchy, the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis at September 30, 2011 and June 30, 2011, according to the valuation techniques the Company used to determine their fair values.

	Fair Value at September 30, 2011	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
(Dollars in thousands)				
ASSETS				
Non-current assets				
Derivative instruments	\$ 123	\$	\$ 123	\$
Equity call option - Roosters	117			117
LIABILITIES				
Current liabilities				
Derivative instruments	\$ 212	\$	\$ 212	\$
Non-current liabilities				
Equity put option - Provalliance	\$ 21,124	\$	\$	\$ 21,124
Equity put option - Roosters	161			161

	Fair Value at June 30, 2011	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
(Dollars in thousands)				
ASSETS				
Non-current assets				
Derivative instruments	\$ 212	\$	\$ 212	\$
LIABILITIES				
Current liabilities				
Derivative instruments	\$ 599	\$	\$ 599	\$
Non-current liabilities				

Edgar Filing: REGIS CORP - Form 10-Q

Equity put option - Provalliance	\$	22,700	\$	\$	\$	22,700
-------------------------------------	----	--------	----	----	----	--------

Table of Contents*Changes in Financial Instruments Measured at Level 3 Fair Value on a Recurring Basis*

The following tables present the changes during the three months ended September 30, 2011 and 2010 in our Level 3 financial instruments that are measured at fair value on a recurring basis.

	Changes in Financial Instruments Measured at Level 3 Fair Value Classified as		
	Roosters Equity Call Option	Roosters Equity Put Option (Dollars in thousands)	Provalliance Equity Put Option
Balance at July 1, 2011	\$	\$	\$ 22,700
Total realized and unrealized losses:			
Included in other comprehensive loss			(1,576)
Issuances		161	
Purchases	117		
Balance at September 30, 2011	\$ 117	\$ 161	\$ 21,124

	Changes in Financial Instruments Measured at Level 3 Fair Value Classified as		
	Preferred Shares (Dollars in thousands)	Provalliance Equity Put Option	
Balance at July 1, 2010	\$ 3,502	\$ 22,009	
Total realized and unrealized gains:			
Included in other comprehensive loss	230	2,514	
Balance at September 30, 2010	\$ 3,732	\$ 24,523	

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Derivative instruments. The Company's derivative instrument assets and liabilities consist of cash flow hedges represented by interest rate swaps and forward foreign currency contracts. The instruments are classified as Level 2 as the fair value is obtained using observable inputs available for similar liabilities in active markets at the measurement date that are reviewed by the Company. See breakout by type of contract and reconciliation to the balance sheet line item that each contract is classified within Note 7 of the Condensed Consolidated Financial Statements.

Equity put option - Provalliance. The Company's merger of the European franchise salon operations with the operations of the Franck Provost Salon Group on January 31, 2008 contained an equity put (Provalliance Equity Put) and an equity call. During fiscal year 2011, a portion of the Provalliance Equity Put was settled. See further discussion within Note 5 to the Condensed Consolidated Financial Statements. The Provalliance Equity Put is valued using binomial lattice models that incorporate assumptions including the business enterprise value at that date and future estimates of volatility and earnings before interest, taxes, and depreciation and amortization multiples. At September 30, 2011, the fair value of the Provalliance Equity Put was \$21.1 million and is classified within other noncurrent liabilities on the Condensed Consolidated Balance Sheet.

Equity put and call options - Roosters. The purchase agreement for the Company's acquisition of a 60.0 percent ownership interest in Roosters MGC International LLC (Roosters) on July 1, 2011 contained an equity put (Roosters Equity Put) and an equity call (Roosters Equity Call). See

Edgar Filing: REGIS CORP - Form 10-Q

further discussion within Note 5 to the Condensed Consolidated Financial Statements. The Roosters Equity Put and Roosters Equity Call are valued using binomial lattice models that incorporate assumptions including the business enterprise value at that date and future estimates of volatility and earnings before interest, taxes, and depreciation and amortization multiples. At September 30, 2011, the fair value of the Roosters Equity Put and Roosters Equity Call were \$0.2 and \$0.1 million, respectively, and are classified within noncurrent liabilities and other assets, respectively, on the Condensed Consolidated Balance Sheet.

Preferred Shares. The Company has preferred shares in Yamano Holding Corporation. The preferred shares are classified as Level 3 as there are no quoted market prices and minimal market participant data for preferred shares of similar rating. The preferred shares are classified within investment in and loans to affiliates on the Condensed Consolidated Balance Sheet. The fair value of the preferred shares is based on the financial health of Yamano Holding Corporation and terms within the preferred share agreement which allow the Company to convert the subscription amount of the preferred shares into equity of MY Style, a wholly owned subsidiary of Yamano Holding Corporation. The Company recorded an other than temporary impairment for the full carrying value of the preferred shares during the twelve months ended June 30, 2011. See further discussion within Note 5 to the Condensed Consolidated Financial Statements.

Table of Contents

Financial Instruments. In addition to the financial instruments listed above, the Company's financial instruments also include cash, cash equivalents, receivables, accounts payable and debt.

The fair value of cash and cash equivalents, receivables and accounts payable approximated the carrying values as of September 30, 2011. At September 30, 2011, the estimated fair values and carrying amounts of debt were \$330.0 and \$304.0 million, respectively. The estimated fair value of debt was determined based on internal valuation models, which utilize quoted market prices and interest rates for the same or similar instruments.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis. We measure certain assets, including the Company's equity method investments, tangible fixed assets and goodwill, at fair value on a nonrecurring basis when they are deemed to be other than temporarily impaired. The fair values of our investments are determined based on valuation techniques using the best information available, and may include quoted market prices, market comparables, and discounted cash flow projections.

There were no assets measured at fair value on a nonrecurring basis during the three months ended September 30, 2011 and 2010.

4. GOODWILL AND OTHER INTANGIBLES:

The table below contains details related to the Company's recorded goodwill as of and for the three months ended September 30, 2011:

	North America	Salons International	Hair Restoration Centers	Consolidated
	(Dollars in thousands)			
Gross goodwill at June 30, 2011	\$ 715,219	\$ 41,661	\$ 152,796	\$ 909,676
Accumulated impairment losses	(187,503)	(41,661)		(229,164)
Net goodwill at June 30, 2011	527,716		152,796	680,512
Goodwill acquired (1)	4,337			4,337
Translation rate adjustments	(4,274)		13	(4,261)
Gross goodwill at September 30, 2011	715,282	41,661	152,809	909,752
Accumulated impairment losses	(187,503)	(41,661)		(229,164)
Net goodwill at September 30, 2011	\$ 527,779	\$	\$ 152,809	\$ 680,588

(1) See Note 5 to the Condensed Consolidated Financial Statements.

Table of Contents

The table below presents other intangible assets as of September 30, 2011 and June 30, 2011:

	September 30, 2011			June 30, 2011		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
	(Dollars in thousands)					
Amortized intangible assets:						
Brand assets and trade names	\$ 79,797	\$ (14,703)	\$ 65,094	\$ 80,310	\$ (14,329)	\$ 65,981
Customer lists	53,188	(35,478)	17,710	53,188	(34,096)	19,092
Franchise agreements	22,109	(8,897)	13,212	22,221	(8,909)	13,312
Lease intangibles	14,855	(5,312)	9,543	14,948	(5,168)	9,780
Non-compete agreements	201	(89)	112	353	(232)	121
Other	4,378	(1,437)	2,941	4,429	(1,387)	3,042
	\$ 174,528	\$ (65,916)	\$ 108,612	\$ 175,449	\$ (64,121)	\$ 111,328

All intangible assets have been assigned an estimated finite useful life and are amortized over the number of years that approximate their respective useful lives (ranging from one to 40 years). The cost of intangible assets is amortized to earnings in proportion to the amount of economic benefits obtained by the Company in that reporting period. The weighted average amortization periods, in total and by major intangible asset class, are as follows:

	Weighted Average Amortization Period	
	September 30, 2011	June 30, 2011
	(In years)	
Amortized intangible assets:		
Brand assets and trade names	39	39
Customer lists	10	10
Franchise agreements	22	22
Lease intangibles	20	20
Non-compete agreements	6	5
Other	22	25
Total	26	26

Total amortization expense related to the amortizable intangible assets was \$2.5 and \$2.4 million during the three months ended September 30, 2011 and 2010, respectively. As of September 30, 2011, future estimated amortization expense related to amortizable intangible assets is estimated to be:

Fiscal Year	(Dollars in thousands)
2012 (Remainder: nine-month period)	\$ 7,227
2013	9,393
2014	9,181
2015	6,140
2016	3,982

Table of Contents**5. ACQUISITIONS, INVESTMENT IN AND LOANS TO AFFILIATES:***Acquisitions*

During the three months ended September 30, 2011 and 2010, the Company made salon acquisitions and the purchase prices have been allocated to assets acquired and liabilities assumed based on their estimated fair values at the dates of acquisition. These acquisitions individually and in the aggregate are not material to the Company's operations. Operations of the acquired companies have been included in the operations of the Company since the date of the respective acquisition.

Based upon purchase price allocations, the components of the aggregate purchase prices of the acquisitions made during the three months ended September 30, 2011 and 2010 and the allocation of the purchase prices were as follows:

Allocation of Purchase Prices	For the Three Months Ended September 30,	
	2011	2010
	(Dollars in thousands)	
Components of aggregate purchase prices:		
Cash (net of cash acquired)	\$ 2,077	\$ 3,861
Allocation of the purchase price:		
Current assets	\$ 304	\$ 347
Property and equipment	145	1,231
Goodwill	4,337	2,299
Identifiable intangible assets	572	285
Accounts payable and accrued expenses	(1,068)	(301)
Other noncurrent liabilities	(1,313)	
Noncontrolling interest	(900)	
	\$ 2,077	\$ 3,861

The majority of the purchase price in salon acquisitions 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, which is not recorded as an identifiable intangible asset under current accounting guidance, as well as the limited value and customer preference associated with the acquired hair salon brand. Key factors considered by consumers of hair salon services include personal relationships with individual stylists, service quality and price point competitiveness. These attributes represent the going concern value of the salon.

Residual goodwill further represents the Company's opportunity to strategically combine the acquired business with the Company's existing structure to serve a greater number of customers through its expansion strategies. In the acquisitions of international salons and hair restoration centers, the residual goodwill primarily represents the growth prospects that are not captured as part of acquired tangible or identified intangible assets. Generally, the goodwill recognized in the North American salon transactions is expected to be fully deductible for tax purposes and the goodwill recognized in the international salon transactions is non-deductible for tax purposes. Goodwill generated in certain acquisitions, such as the acquisition of hair restoration centers, is not deductible for tax purposes due to the acquisition structure of the transaction.

Edgar Filing: REGIS CORP - Form 10-Q

During the three months ended September 30, 2011, certain of the Company's salon acquisitions were from its franchisees. The Company evaluated the effective settlement of the pre-existing franchise contracts and associated rights afforded by those contracts. The Company determined that the effective settlement of the pre-existing franchise contracts at the date of the acquisition did not result in a gain or loss, as the agreements were neither favorable nor unfavorable when compared to similar current market transactions, and no settlement provisions exist in the pre-existing contracts. Therefore, no settlement gain or loss was recognized with respect to the Company's franchise buybacks.

On July 1, 2011, the Company acquired 31 franchise salon locations through its acquisition of a 60.0 percent ownership interest in Roosters for \$2.3 million. The purchase agreement contains a right, Roosters Equity Put, to require the Company to purchase additional ownership interest in Roosters between specified dates in 2012 to 2015, and an option, Roosters Equity Call, whereby the Company can acquire additional ownership interest in Roosters beginning in 2015. The acquisition price is determined based on a multiple of the earnings before interest, taxes, depreciation and amortization of Roosters for a trailing twelve month period adjusted for certain items as defined in the agreement which is intended to approximate fair value. The initial estimated fair values as of July 1, 2011 of the Roosters Equity Put and Roosters Equity Call were \$0.2 and \$0.1 million, respectively. Any changes in the estimated fair value of the Roosters Equity Put and Roosters Equity Call are recorded in the Company's Condensed Consolidated Statement of Operations.

Table of Contents

The Company utilized the consolidation of variable interest entities guidance to determine whether or not its investment in Roosters was a VIE, and if so, whether the Company was the primary beneficiary of the VIE. The Company concluded that Roosters is a VIE based on the fact that the holders of the equity investment at risk, as a group, lack the obligation to absorb the expected losses of the entity. The Roosters Equity Put is based on a formula that may or may not be at market when exercised, therefore, it could prevent the minority interest owners from absorbing its share of expected losses by transferring such obligation to the Company. Under certain circumstances, including a decline in the fair value of Roosters, the Roosters Equity Put could be exercised and the minority interest owners could be protected from absorbing the downside of the equity interest. As the Roosters Equity Put absorbs a large amount of variability this characteristic results in Roosters being a VIE.

Regis determined that the Company has met the power criterion due to the Company having the authority to direct the activities that most significantly impact Roosters' economic performance. The Company concluded based on the considerations above that it is the primary beneficiary of Roosters and therefore the financial positions, results of operations, and cash flows of Roosters are consolidated in the Company's financial statements from the acquisition date. Total assets, total liabilities and total shareholders' equity of Roosters as of September 30, 2011 were \$5.3, \$2.2 and \$3.1 million, respectively. Net loss attributable to the noncontrolling interest in Roosters was less than \$0.1 million for the three months ended September 30, 2011 and was recorded in interest income and other, net within the Condensed Consolidated Statement of Operations. Shareholders' equity attributable to the noncontrolling interest in Roosters was \$0.9 million as of September 30, 2011 and was recorded in retained earnings within the Condensed Consolidated Balance Sheet.

Investment in and loans to affiliates

The table below presents the carrying amount of investments in and loans to affiliates as of September 30, 2011 and June 30, 2011:

	September 30, 2011	June 30, 2011
	(Dollars in thousands)	
Empire Education Group, Inc.	\$ 105,547	\$ 104,540
Provalliance	140,532	149,245
MY Style	677	2,210
Hair Club for Men, Ltd.	5,138	5,145
	\$ 251,894	\$ 261,140

Empire Education Group, Inc.

On August 1, 2007, the Company contributed its 51 wholly-owned accredited cosmetology schools to Empire Education Group, Inc. (EEG) in exchange for a 49.0 percent equity interest in EEG. In January 2008, the Company's effective ownership interest increased to 55.1 percent related to the buyout of EEG's minority interest shareholder. EEG operates 102 accredited cosmetology schools.

At September 30, 2011 and 2010, the Company had a \$21.4 million outstanding loan receivable with EEG. The Company has also provided EEG with a \$15.0 million revolving credit facility, against which there were no outstanding borrowings as of September 30, 2011 and 2010. During the three months ended September 30, 2011 and 2010, the Company recorded \$0.1 and \$0.2 million, respectively, of interest income related to the loan and revolving credit facility. The Company has also guaranteed a credit facility of EEG. The exposure to loss related to the Company's involvement with EEG is the carrying value of the investment, the outstanding loan and the guarantee of the credit facility.

The Company utilized consolidation of variable interest entities guidance to determine whether or not its investment in EEG was a variable interest entity (VIE), and if so, whether the Company was the primary beneficiary of the VIE. The Company concluded that EEG was not a VIE based on the fact that EEG had sufficient equity at risk. As the substantive voting control relates to the voting rights of the Board of Directors, the Company granted the other shareholder a proxy to vote such number of the Company's shares such that the other shareholder would have voting control of 51.0 percent of the common stock of EEG. The Company accounts for EEG as an equity investment under the voting interest model. During the three months ended September 30, 2011 and 2010, the Company recorded \$1.0 and \$1.2 million, respectively, of equity earnings related to its investment in EEG.

Table of Contents

Provalliance

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 2,600 company-owned and franchise salons as of September 30, 2011.

The merger agreement contains a right, Provalliance Equity Put, to require the Company to purchase an additional ownership interest in Provalliance between specified dates in 2010 to 2018. The acquisition price is determined based on a multiple of the earnings before interest, taxes, depreciation and amortization of Provalliance for a trailing twelve month period adjusted for certain items as defined in the agreement which is intended to approximate fair value. The initial estimated fair value of the Provalliance Equity Put as of January 31, 2008, approximately \$24.8 million, has been included as a component of the Company's investment in Provalliance. A corresponding liability for the same amount as the Provalliance Equity Put was recorded in other noncurrent liabilities. Any changes in the estimated fair value of the Provalliance Equity Put are recorded in the Company's consolidated statement of operations. There was no change in the fair value of the Provalliance Equity put during the three months ended September 30, 2011 and 2010. Any changes related to foreign currency translation are recorded in accumulated other comprehensive income. The Company recorded a \$1.6 million decrease and \$2.5 million increase in the Provalliance Equity Put related to foreign currency translation during the three months ended September 30, 2011 and 2010, respectively. See further discussion within Note 3 to the Condensed Consolidated Financial Statements. If the Provalliance Equity Put is exercised, and the Company fails to complete the purchase, the parties exercising the Provalliance Equity Put will be entitled to exercise various remedies against the Company, including the right to purchase the Company's interest in Provalliance for a purchase price determined based on a discounted multiple of the earnings before interest and taxes of Provalliance for a trailing twelve month period. The merger agreement also contains an option, Provalliance Equity Call, whereby the Company can acquire additional ownership interest in Provalliance between specific dates in 2018 to 2020 at an acquisition price determined consistent with the Provalliance Equity Put.

In December 2010, a portion of the Provalliance Equity Put was exercised. In March of 2011, the Company elected to honor and settle a portion of the Provalliance Equity Put and acquired approximately 17 percent additional equity interest in Provalliance for \$57.3 million (approximately 40.4 million), bringing the Company's total equity interest to 46.7 percent. The Company's liability under the Provalliance Equity Put to purchase the remainder of the equity interest in Provalliance continues to exist through 2018 and is valued at \$21.1 million as of September 30, 2011.

The Company utilized the consolidation of variable interest entities guidance to determine whether or not its investment in Provalliance was a VIE, and if so, whether the Company was the primary beneficiary of the VIE. The Company concluded that Provalliance is a VIE based on the fact that the holders of the equity investment at risk, as a group, lack the obligation to absorb the expected losses of the entity. The Provalliance Equity Put is based on a formula that may or may not be at market when exercised, therefore, it could provide the Company with the characteristic of a controlling financial interest or could prevent the Franck Provost Salon Group from absorbing its share of expected losses by transferring such obligation to the Company. Under certain circumstances, including a decline in the fair value of Provalliance, the Provalliance Equity Put could be exercised and the Franck Provost Group could be protected from absorbing the downside of the equity interest. As the Provalliance Equity Put absorbs a large amount of variability this characteristic results in Provalliance being a VIE.

Regis determined that the Franck Provost Group has met the power criterion due to the Franck Provost Group having the authority to direct the activities that most significantly impact Provalliance's economic performance. The Company concluded based on the considerations above that the primary beneficiary of Provalliance is the Franck Provost Group. The Company has accounted for its interest in Provalliance as an equity method investment. The exposure to loss related to the Company's involvement with Provalliance is the carrying value of the investment and future changes in fair value of the Provalliance Equity Put that is unable to be quantified as of this date.

Table of Contents

The tables below contain details related to the Company's investment in Provalliance for the three months ended September 30, 2011 and 2010:

Impact on Condensed Consolidated Balance Sheet

Classification	Carrying Value at		
	September 30, 2011	June 30, 2011	
(Dollars in thousands)			
Investment in Provalliance	Investment in and loans to affiliates	\$ 140,532	\$ 149,245
Equity put option - Provalliance	Other noncurrent liabilities	21,124	22,700

Impact on Condensed Consolidated Statement of Operations

Classification	For the Three Months Ended		
	September 30, 2011	September 30, 2010	
(Dollars in thousands)			
Equity in income, net of income taxes	Equity in income of affiliates companies, net of income taxes	\$ 2,862	\$ 1,379

Impact on Condensed Consolidated Statement of Cash Flows

Classification	For the Three Months Ended		
	September 30, 2011	September 30, 2010	
Equity in income, net of income taxes	Equity in (income) of affiliated companies	\$ (2,862)	\$ (1,379)
Cash dividends received	Dividends received from affiliated companies		1,224

MY Style

In April 2007, the Company purchased exchangeable notes issued by Yamano Holding Corporation (Exchangeable Note) and a loan obligation of a Yamano Holdings subsidiary, MY Style, formally known as Beauty Plaza Co. Ltd., (MY Style Note) for an aggregate amount of \$11.3 million (1.3 billion Yen as of April 2007). The Exchangeable Note contains an option for the Company to exchange a portion of the Exchangeable Note for 27.1 percent of the 800 outstanding shares of common stock of MY Style. This exchange feature is akin to a deep-in-the-money option permitting the Company to purchase shares of common stock of MY Style. The option is embedded in the Exchangeable Note and does not meet the criteria for separate accounting under accounting for derivative instruments and hedging activities. In connection with the issuance of the Exchangeable Note, the Company paid a premium of approximately \$5.5 million (573,000,000 Yen as of April 2007).

In March 2010 the Company amended the agreement with Yamano for which the Company purchased one share of Yamano Class A Preferred Stock with a subscription amount of \$1.1 million (100,000,000 Yen) and one share of Yamano Class B Preferred Stock with a subscription amount of \$2.3 million (211,131,284 Yen), collectively the Preferred Shares. Portions of the Exchangeable Note that became due as a result of the March 2010 amendments were contributed in-kind as payment for the Preferred Shares. The Preferred Shares have the same terms and rights, yield a 5.0 percent dividend that accrues if not paid and have no voting rights. The preferred shares are accounted for as an available for sale debt security.

Due to the natural disasters in Japan that occurred in March 2011, the Company was required to assess the preferred shares and premium for other than temporary impairment. The fair value of the collateral which is the equity value of MY Style, declined due to changes in projected revenue growth rates after the natural disasters. As MY Style is highly leveraged, any change in growth rates has a significant impact on fair value. The estimated fair value was negligible. The Company recorded an other than temporary impairment during the third quarter of fiscal year 2011 for the carrying value of the preferred shares and premium of \$3.9 million (326,700,000 Yen) and \$5.3 million (435,000,000 Yen), respectively.

Exchangeable Note. As of September 30, 2011, the principal amount outstanding under the Exchangeable Note is \$1.3 million (100,000,000 Yen) and is due in September 2012. The Company reviews the Exchangeable Note with Yamano for changes in circumstances or the occurrence of events that suggest the Company's note may not be recoverable. The \$1.3 million outstanding Exchangeable Note with Yamano as of September 30, 2011 is in good standing with no associated valuation allowance. The Company has determined the future cash flows of Yamano support the ability to make payments on the Exchangeable Note. The Exchangeable Note accrues interest at 1.845 percent and interest is payable on September 30,

Table of Contents

2012 with the final principal payment. The Company recorded less than \$0.1 million in interest income related to the Exchangeable Note during the three months ended September 30, 2011 and 2010.

MY Style Note. As of September 30, 2011, the principal amount outstanding under the MY Style Note is \$1.4 million (104,328,000 Yen). Principal payments of 52,164,000 Yen along with accrued interest are due annually on May 31 through May 31, 2013. The Company reviews the outstanding note with MY Style for changes in circumstances or the occurrence of events that suggest the Company's note may not be recoverable. The \$1.4 million outstanding note with MY Style as of September 30, 2011 is in good standing with no associated valuation allowance. The Company has determined the future cash flows of MY Style support the ability to make payments on the outstanding note. The MY Style Note accrues interest at 3.0 percent. The Company recorded less than \$0.1 million in interest income related to the MY Style Note during the three months ended September 30, 2011 and 2010.

As of September 30, 2011, \$2.3 and \$0.7 million are recorded in the Condensed Consolidated Balance Sheet as current assets and investment in and loans to affiliates, respectively, representing the Company's Exchangeable Note and outstanding note with MY Style. The exposure to loss related to the Company's involvement with MY Style is the carrying value of the outstanding notes.

All foreign currency transaction gains and losses on the Exchangeable Note and MY Style Note are recorded through other income within the Condensed Consolidated Statement of Operations. The foreign currency transaction gain (loss) was \$0.5 and \$(0.6) million during the three months ended September 30, 2011 and 2010, respectively.

Hair Club for Men, Ltd.

The Company acquired a 50.0 percent interest in Hair Club for Men, Ltd. through its acquisition of Hair Club in fiscal year 2005. The Company accounts for its investment in Hair Club for Men, Ltd. under the equity method of accounting. Hair Club for Men, Ltd. operates Hair Club centers in Illinois and Wisconsin. During the three months ended September 30, 2011 and 2010 the Company recorded income of \$0.2 and \$0.1 million, and received cash dividends of \$0.3 and \$0.2 million, respectively. The exposure to loss related to the Company's involvement with Hair Club for Men, Ltd. is the carrying value of the investment.

6. DISCONTINUED OPERATIONS:

On February 16, 2009, the Company sold its Trade Secret salon concept (Trade Secret). The Company reported Trade Secret as a discontinued operation.

The Company has a formal note receivable agreement with the purchaser of Trade Secret. The Company recorded valuation reserves of \$9.0 and \$22.2 million during the three months ended March 31, 2011 and June 30, 2011, respectively. The carrying value of the note receivable was fully reserved as of June 30, 2011. As of September 30, 2011, there were no significant changes in the amount or timing of the expected future cash flows of the note receivable with the purchaser of Trade Secret. The Company has determined the collectibility of accrued interest on the note receivable to be less than probable. The Company suspended recognition of interest income effective April 2010, has recorded a valuation

Edgar Filing: REGIS CORP - Form 10-Q

allowance of \$3.1 million as of September 30, 2011 related to the accrued interest, and will use the cash basis method for recognizing future interest income. The Company did not receive interest payments from the purchaser of Trade Secret during the three months ended September 30, 2011.

Beginning within the second quarter of fiscal year 2010, the Company has an agreement in which the Company provides warehouse services to the purchaser of Trade Secret. Under the warehouse services agreement, the Company recognized \$0.5 and \$0.7 million of other income related to warehouse services during the three months ended September 30, 2011 and 2010, respectively.

The following table provides the amounts due to the Company from the purchaser of Trade Secret:

	Classification	September 30, 2011	June 30, 2011
(Dollars in thousands)			
Carrying value:			
Warehouse services	Receivables, net	\$ 239	\$ 320
Note receivable, current	Other current assets	3,777	2,607
Note receivable, current valuation allowance	Other current assets	(3,777)	(2,607)
Note receivable, long-term	Other assets	30,586	31,086
Note receivable, long-term valuation allowance	Other assets	(30,586)	(31,086)
Total note receivable, net		\$ 239	\$ 320

Table of Contents

The Company utilized the consolidation of variable interest entities guidance to determine whether or not Trade Secret was a VIE, and if so, whether the Company was the primary beneficiary of Trade Secret. The Company concluded that Trade Secret is a VIE based on the fact that the equity investment at risk in Trade Secret is insufficient. The Company determined that the purchaser of Trade Secret has met the power criterion due to the purchaser of Trade Secret having the authority to direct the activities that most significantly impact Trade Secret's economic performance. The Company concluded based on the consideration above that the primary beneficiary of Trade Secret is the purchaser of Trade Secret. The exposure to loss related to the Company's involvement with Trade Secret is the guarantee of approximately 30 operating leases. The Company has determined the exposure to the risk of loss on the guarantee of the operating leases to be reasonably possible.

7. DERIVATIVE FINANCIAL INSTRUMENTS:

The Company's primary market risk exposures in the normal course of business are changes in interest rates and foreign currency exchange rates. The Company has established policies and procedures that govern the management of these exposures through the use of a variety of strategies, including the use of derivative financial instrument contracts. By policy, the Company does not enter into such contracts for the purpose of speculation or trading. Hedging transactions are limited to an underlying exposure. The Company has established an interest rate management policy that manages the interest rate mix of its total debt portfolio and related overall cost of borrowing. The Company's foreign currency exchange rate risk management policy includes frequently monitoring market data and external factors that may influence exchange rate fluctuations in order to minimize fluctuation in earnings due to changes in exchange rates. The Company enters into arrangements with counterparties that the Company believes are creditworthy. Generally, derivative contract arrangements settle on a net basis. The Company assesses the effectiveness of its hedges on a quarterly basis using the critical terms method in accordance with guidance for accounting for derivative instruments and hedging activities.

The Company has primarily utilized derivatives which are designated as either cash flow or fair value hedges and qualify for hedge accounting treatment. For cash flow hedges and fair value hedges, changes in fair value are deferred in accumulated other comprehensive income (loss) within shareholders' equity until the underlying hedged item is recognized in earnings. Any hedge ineffectiveness is recognized immediately in current earnings. To the extent the changes offset, the hedge is effective. Any hedge ineffectiveness the Company has historically experienced has not been material. By policy, the Company designs its derivative instruments to be effective as hedges and aims to minimize fluctuations in earnings due to market risk exposures. If a derivative instrument is terminated prior to its contract date, the Company continues to defer the related gain or loss and recognizes it in current earnings over the remaining life of the related hedged item.

The Company also utilizes freestanding derivative contracts which do not qualify for hedge accounting treatment. The Company marks to market such derivatives with the resulting gains and losses recorded within current earnings in the Condensed Consolidated Statement of Operations. For purposes of the Condensed Consolidated Statement of Cash Flows, cash flows associated with all derivatives (designated as hedges or freestanding economic hedges) are classified in the same category as the related cash flows subject to the hedging relationship.

Cash Flow Hedges

As of September 30, 2011, the Company's cash flow hedges consist of forward foreign currency contracts.

Edgar Filing: REGIS CORP - Form 10-Q

In the past, the Company used interest rate swaps to maintain its variable to fixed rate debt ratio in accordance with its established policy. As of September 30, 2010, the Company had \$85.0 million of total variable rate debt outstanding, of which \$40.0 million was swapped to fixed rate debt, resulting in \$45.0 million of variable rate debt. The interest rate swap contracts paid fixed rates of interest and received variable rates of interest. The contracts and related debt had maturity dates during fiscal year 2012. The interest rate swaps were terminated prior to the maturity dates in conjunction with the repayments of debt and were settled for an aggregate loss of \$0.1 million. The \$0.1 million loss was recorded during the fourth quarter of fiscal year 2011 on the termination of the interest rate swaps and was recorded within interest expense in the Consolidated Statement of Operations.

The Company uses forward foreign currency contracts to manage foreign currency rate fluctuations associated with certain forecasted intercompany transactions. The Company's primary forward foreign currency contracts hedge approximately \$0.6 million of monthly payments in Canadian dollars for intercompany transactions. The Company's forward foreign currency contracts hedge transactions through September 2012.

These cash flow hedges were designed and are effective as cash flow hedges. They were recorded at fair value within other noncurrent liabilities or other current assets in the Condensed Consolidated Balance Sheet, with corresponding offsets primarily recorded in other comprehensive income (loss), net of tax.

Table of Contents*Freestanding Derivative Forward Contracts*

The Company uses freestanding derivative forward contracts to offset the Company's exposure to the change in fair value of certain foreign currency denominated investments and intercompany assets and liabilities. These derivatives are not designated as hedges and therefore, changes in the fair value of these forward contracts are recognized currently in earnings, thereby offsetting the current earnings effect of the related foreign currency denominated assets and liabilities.

The Company had the following derivative instruments in its Condensed Consolidated Balance Sheet as of September 30, 2011 and June 30, 2011:

Type	Classification	Asset Fair Value		Classification	Liability Fair Value		
		September 30, 2011	June 30, 2011		September 30, 2011	June 30, 2011	
		(In thousands)				(In thousands)	
Designated as hedging instruments							
Cash Flow Hedges:							
Forward foreign currency contracts	Other current assets	\$ 123	\$	Other current liabilities	\$	\$	(599)
Freestanding derivative contracts not designated as hedging instruments:							
Forward foreign currency contracts	Other current assets	\$	\$ 212	Other current liabilities	\$ (212)	\$	
Total		\$ 123	\$ 212		\$ (212)	\$	(599)

The table below sets forth the gain or (loss) on the Company's derivative instruments recorded within accumulated other comprehensive income (AOCI) in the Consolidated Balance Sheet for the three months ended September 30, 2011 and 2010. The table also sets forth the loss on the Company's derivative instruments that has been reclassified from AOCI into current earnings during the three months ended September 30, 2011 and 2010 within the following line items in the Condensed Consolidated Statement of Operations.

Type	Gain (Loss) Recognized in Other Comprehensive Income		Classification	Loss Reclassified from Accumulated OCI into Income	
	Three Months Ended September 30, 2011	2010		Three Months Ended September 30, 2011	2010
		(In thousands)		(In thousands)	
Designated as hedging instruments					
Cash Flow Hedges:					
Interest rate swaps	\$	\$ 97		\$	\$
Forward foreign currency contracts	446	(122)	Cost of sales		(39)
Total	\$ 446	\$ (25)		\$	\$ (39)

Edgar Filing: REGIS CORP - Form 10-Q

As of September 30, 2011 the Company estimates that it will reclassify into earnings during the next twelve months a loss of less than \$0.1 million from the pretax amount recorded in AOCI as the anticipated cash flows occur.

The table below sets forth the (loss) gain on the Company's derivative instruments for the three months ended September 30, 2011 and 2010 recorded within interest income and other, net in the Condensed Consolidated Statement of Operations.

Type	Classification	Derivative Impact on Income at September 30,	
		2011	2010
(In thousands)			
Freestanding derivative contracts not designated as hedging instruments:			
Forward foreign currency contracts	Interest income and other, net	\$ (425)	\$ 386

8. LITIGATION:

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 the Company's 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 Condensed Consolidated Financial Statements in any particular period.

Table of Contents**9. FINANCING ARRANGEMENTS:**

The table below contains details related to the Company's debt for the three months ending September 30, 2011 and 2010:

Total Debt	For the Three Months Ended September 30,	
	2011	2010
	(Dollars in Thousands)	
Balance at June 30,	\$ 313,411	\$ 440,029
Repayment of long-term debt and capital lease obligations	(9,669)	(3,334)
Amortized debt discount	1,183	1,086
Other	(910)	1,888
Balance at September 30,	\$ 304,015	\$ 439,669

In September 2011 the Company entered into an agreement to refinance existing capital leases to a three year term with a contract rate of 4.9 percent. Capital leases of \$20.5 million will be amortized at the historical rate of 9.2 percent. There was no gain or loss recorded on the refinance. The Company entered into the refinancing to reduce cash interest payments.

In July 2009, the Company issued \$172.5 million aggregate principal amount of 5.0 percent convertible senior notes due July 2014. The notes are unsecured, senior obligations of the Company and interest will be payable semi-annually in arrears on January 15 and July 15 of each year at a rate of 5.0 percent per year. Upon the July 2009 issuance the notes were convertible subject to certain conditions further described below at an initial conversion rate of 64.6726 shares of the Company's common stock per \$1,000 principal amount of notes (representing an initial conversion price of approximately \$15.46 per share of the Company's common stock). As of September 30, 2011, the conversion rate was 64.9168 shares of the Company's common stock per \$1,000 principal amount of notes (representing a conversion price of approximately \$15.40 per share of the Company's common stock).

Holders may convert their notes at their option prior to April 15, 2014 if the Company's stock price meets certain price triggers or upon the occurrence of specified corporate events as defined in the convertible senior note agreement. On or after April 15, 2014, holders may convert each of their notes at their option at any time prior to the maturity date for the notes.

The Company has the choice of net-cash settlement, settlement in its own shares or a combination thereof and concluded the conversion option is indexed to its own stock. As a result, the Company allocated \$24.7 million of the \$172.5 million principal amount of the convertible senior notes to equity, which resulted in a \$24.7 million debt discount. The allocation was based on measuring the fair value of the convertible senior notes using a discounted cash flow analysis. The discount rate was based on an estimated credit rating for the Company. The estimated fair value of the convertible senior notes was \$147.8 million, the resulting \$24.7 million debt discount will be amortized over the period the convertible senior notes are expected to be outstanding, which is five years, as additional non-cash interest expense. The combined debt discount amortization and the contractual interest coupon resulted in an effective interest rate on the convertible debt of 8.9 percent.

The following table provides equity and debt information for the convertible senior notes:

Edgar Filing: REGIS CORP - Form 10-Q

Convertible Senior Notes Due 2014	September 30,	
	2011	2010
	(Dollars in Thousands)	
Principal amount on the convertible senior notes	\$ 172,500	\$ 172,500
Unamortized debt discount	(15,069)	(19,653)
Net carrying amount of convertible debt	\$ 157,431	\$ 152,847

The following table provides interest rate and interest expense amounts related to the convertible senior notes:

Convertible Senior Notes Due 2014	For the Three Months Ended	
	2011	2010
	September 30,	
	(Dollars in thousands)	
Interest cost related to contractual interest coupon 5.0%	\$ 2,156	\$ 2,156
Interest cost related to amortization of the discount	1,183	1,086
Total interest cost	\$ 3,339	\$ 3,242

Table of Contents

10. INCOME TAXES:

The determination of the annual effective income tax rate is based upon a number of significant estimates and judgments, including the estimated annual pretax income of the Company in each tax jurisdiction in which it operates and the development of tax planning strategies during the year. In addition, as a global enterprise, the Company's interim tax expense can be impacted by changes in tax rates or laws, the finalization of tax audits or reviews, as well as other factors that cannot be predicted with certainty. As such, there can be significant volatility in interim tax provisions.

During the three months ended September 30, 2011 and 2010, the Company recognized tax expense of \$2.7 million and \$9.6 million, respectively, with corresponding effective tax rates of 38.7 and 38.1 percent. The effective income tax rate for the three months ended September 30, 2011 increased primarily due to state audit settlements having a greater impact on the quarterly tax rate for the three months ended September 30, 2011 as compared to the three months ended September 30, 2010.

The Company accrues for the effects of open uncertain tax positions and the related potential penalties and interest. There were no material adjustments to our recorded liability for unrecognized tax benefits during the three months ended September 30, 2011. It is reasonably possible that the amount of the unrecognized tax benefit with respect to certain of our unrecognized tax positions will increase or decrease during the next 12 months. However, we do not expect the change to have a significant effect on our consolidated results of operations or financial position.

The Company files tax returns and pays tax primarily in the United States, Canada, the United Kingdom, Luxembourg and the Netherlands as well as states, cities, and provinces within these jurisdictions. In the United States, fiscal years 2007 and after remain open for federal tax audit. The Company's United States federal income tax returns for the years 2007 through 2009 are currently under 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 2007. 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.

11. SEGMENT INFORMATION:

As of September 30, 2011, the Company owned, franchised, or held ownership interests in approximately 12,770 worldwide locations. The Company's locations consisted of 9,470 North American salons (located in the United States, Canada and Puerto Rico), 397 international salons, 97 hair restoration centers and approximately 2,800 locations in which the Company maintains an ownership interest.

The Company operates its North American salon operations through five primary concepts: Regis Salons, MasterCuts, SmartStyle, Supercuts and Promenade salons. The concepts offer similar products and services, concentrate on the mass market consumer marketplace and have consistent distribution channels. All of the company-owned and franchise salons within the North American salon concepts are located in high traffic, retail shopping locations that attract mass market consumers, and the individual salons display similar long-term economic characteristics. The salons share interdependencies and a common support base.

Edgar Filing: REGIS CORP - Form 10-Q

The Company operates its international salon operations, primarily in the United Kingdom, through three primary concepts: Regis, Supercuts, and Sassoon salons. Consistent with the North American concepts, the international concepts offer similar products and services, concentrate on the mass market consumer marketplace and have consistent distribution channels. All of the international salon concepts are company-owned and are located in malls, leading department stores, and high-street locations. Individual salons display similar long-term economic characteristics. The salons share interdependencies and a common support base.

The Company's company-owned and franchise hair restoration centers are located in the United States and Canada. 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. Hair restoration centers are located primarily in office and professional buildings within larger metropolitan areas.

Based on the way the Company manages its business, it has reported its North American salons, international salons and hair restoration centers as three separate reportable segments.

Table of Contents

Financial information for the Company's reporting segments is shown in the following tables:

Total Assets by Segment	September 30, 2011		June 30, 2011	
	(Dollars in thousands)			
North American salons	\$	873,114	\$	881,526
International salons		69,541		69,932
Hair restoration centers		305,772		306,005
Unallocated corporate		523,793		548,290
Consolidated	\$	1,772,220	\$	1,805,753

	For the Three Months Ended September 30, 2011					Consolidated				
	North America	Salons		Hair Restoration Centers	Unallocated Corporate					
		International								
(Dollars in thousands)										
Revenues:										
Service	\$	390,164	\$	24,853	\$	16,683	\$	431,700		
Product		98,137		8,636		20,144		126,917		
Royalties and fees		9,556				576		10,132		
		497,857		33,489		37,403		568,749		
Operating expenses:										
Cost of service		223,279		12,690		10,042		246,011		
Cost of product		48,444		4,579		6,956		59,979		
Site operating expenses		48,296		2,675		1,484		52,455		
General and administrative		29,706		2,925		9,273	36,775	78,679		
Rent		73,215		8,764		2,271	197	84,447		
Depreciation and amortization		17,970		1,306		3,309	11,521	34,106		
Total operating expenses		440,910		32,939		33,335	48,493	555,677		
Operating income (loss)		56,947		550		4,068	(48,493)	13,072		
Other income (expense):										
Interest expense							(7,360)	(7,360)		
Interest income and other, net							1,316	1,316		
Income (loss) before income taxes and equity in income of affiliated companies	\$	56,947	\$	550	\$	4,068	\$	(54,537)	\$	7,028

Table of Contents

	For the Three Months Ended September 30, 2010					
	Salons		Hair		Unallocated	Consolidated
	North America	International	Restoration Centers		Corporate	
	(Dollars in thousands)					
Revenues:						
Service	\$ 397,321	\$ 25,363	\$ 16,845	\$	\$	\$ 439,529
Product	100,120	9,695	18,790			128,605
Royalties and fees	9,492		619			10,111
	506,933	35,058	36,254			578,245
Operating expenses:						
Cost of service	227,297	12,728	9,476			249,501
Cost of product	49,733	5,245	6,097			61,075
Site operating expenses	46,329	2,190	490			49,009
General and administrative	29,878	2,952	8,579		32,665	74,074
Rent	73,618	8,670	2,264		556	85,108
Depreciation and amortization	17,232	1,087	3,143		4,582	26,044
Total operating expenses	444,087	32,872	30,049		37,803	544,811
Operating income (loss)	62,846	2,186	6,205		(37,803)	33,434
Other income (expense):						
Interest expense					(8,923)	(8,923)
Interest income and other, net					777	777
Income (loss) before income taxes and equity in income of affiliated companies	\$ 62,846	\$ 2,186	\$ 6,205	\$	(45,949)	\$ 25,288

Table of Contents

REVIEW REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Directors of Regis Corporation:

We have reviewed the accompanying condensed consolidated balance sheet of Regis Corporation as of September 30, 2011 and the related condensed consolidated statements of operations for the three month periods ended September 30, 2011 and 2010 and of cash flows for the three month periods ended September 30, 2011 and 2010. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), 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.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of June 30, 2011, and the related consolidated statements of operations, of changes in shareholders' equity and comprehensive income and of cash flows for the year then ended (not presented herein), and in our report dated August 26, 2011, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the accompanying consolidated balance sheet information as of June 30, 2011, is fairly stated, in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP

Minneapolis, Minnesota
November 9, 2011

Table of Contents

Item 2. 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 Results

- Results of Operations

- Liquidity and Capital Resources

MANAGEMENT'S OVERVIEW

Regis Corporation (RGS, we, our, or us) owns, franchises or holds ownership interests in beauty salons, hair restoration centers and educational institutions. As of September 30, 2011, we owned, franchised or held ownership interests in approximately 12,770 worldwide locations. Our locations consisted of 9,867 system wide North American and international salons, 97 hair restoration centers and approximately 2,800 locations in which we maintain an ownership interest. 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 North American salon operations include 9,470 salons, including 1,983 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 397 company-owned salons, located in the United Kingdom. Our hair restoration centers, operating under the trade name Hair Club for Men and Women, include 97 North American locations, including 29 franchise locations. As of September 30, 2011, we had approximately 54,000 corporate employees worldwide.

On August 1, 2007, we contributed our 51 accredited cosmetology schools to Empire Education Group, Inc., creating the largest beauty school operator in North America. As of September 30, 2011, we own a 55.1 percent equity interest in Empire Education Group, Inc. (EEG). Our investment in EEG is accounted for under the equity method. The combined Empire Education Group, Inc. includes 102 accredited cosmetology schools with annual revenues of approximately \$193 million.

On January 31, 2008, we merged our continental European franchise salon operations with the Franck Provost Salon Group in exchange for a 30.0 percent equity interest in the newly formed entity, Provalliance. In March 2011 the Company acquired approximately 17 percent additional equity interest in Provalliance for \$57.3 million (approximately 40.4 million). As of September 30, 2011, we own approximately 47 percent of the equity interest in Provalliance. Our investment in Provalliance is accounted for under the equity method. 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 2,600 company-owned and franchise salons as of September 30, 2011.

Our fiscal year 2012 growth strategy is focused on increasing customer visits. We plan to execute our strategy through four focus areas of putting customers and stylists first, leveraging the power of our salon brands, technology and connectivity, and delivering improved financial performance. Initiatives of these four focus areas include:

- Putting customers and stylists first through improving both the experience for the person in the chair and behind the chair. The Company will work on attracting, developing and retaining the best stylists through orientation programs, training and development and rewards and recognition.
- Leveraging the power of our salon brands through focusing on the best brands within the best markets, enhanced focus and alignment and aggressive strategies including discounting.
- Using technology and connectivity, including internet in the salons, to enhance effectiveness of field management and improve customer satisfaction and retention.
- Delivering improved financial performance through undertaking cost savings initiatives in the range of \$25.0 to \$35.0 million with examples including renegotiated interest rates and a planned reduction in travel costs.

Table of Contents

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.

We are in compliance with all covenants and other requirements of our financing arrangements as of September 30, 2011.

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 Walmart Supercenters. We believe that the availability of real estate will augment our ability to achieve the aforementioned long-term growth objectives. In fiscal year 2012, our outlook for constructed salons is approximately 285 units. In fiscal year 2012, capital expenditures and acquisitions are expected to be approximately \$110.0 and \$25.0 million, respectively.

Organic salon revenue is achieved through the combination of new salon construction and salon same-store sales results. Once customer visitations stabilize, we expect we will continue with our historical trend of building several hundred company-owned salons. We anticipate our franchisees will open approximately 100 to 120 salons in fiscal year 2012. Older, unprofitable salons will be closed or relocated. Our long-term outlook for our salon business is annual consolidated low single digit same-store sales increases. We project our annual fiscal year 2012 consolidated same-store sales to be in a range of negative 1.0 percent 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 the first fiscal quarter of 2012, we acquired 8,051 salons, net of franchise buybacks. Once customer visitations normalize, we anticipate adding several hundred company-owned salons each year from acquisitions. Some of these acquisitions may include buying salons from our franchisees.

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 the hair restoration business 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, our 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 Condensed Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the Condensed 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 Condensed 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 Condensed 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 the June 30, 2011 Annual Report on Form 10-K, as well as Note 1 to the Condensed Consolidated Financial Statements contained within this Quarterly Report on Form 10-Q. We believe the accounting policies related to the valuation of goodwill, the valuation and estimated useful lives of long-lived assets, investment in and loans to affiliates, purchase price allocations, revenue recognition, self-

Table of Contents

insurance accruals, stock-based compensation expense, legal contingencies and estimates used in relation to tax liabilities and deferred taxes are most critical to aid in fully understanding and evaluating our reported financial condition and results of operations. Discussion of each of these policies is contained under "Critical Accounting Policies" in Part II, Item 7 of our June 30, 2011 Annual Report on Form 10-K. There were no significant changes in or application of our critical accounting policies during the three months ended September 30, 2011.

Goodwill:

Goodwill is tested for impairment annually or at the time of a triggering event. 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, 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. The Company considers its various concepts to be reporting units when testing for goodwill impairment because that is where the Company believes the goodwill resides. The Company periodically engages third-party valuation consultants to assist in evaluation of the Company's estimated fair value calculations.

In the situations where a reporting unit's carrying value exceeds its estimated 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 under the assumption of a taxable transaction. The excess of the fair value of the reporting unit over the amount assigned to its 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.

As a result of the Company's impairment testing of goodwill during the third quarter of fiscal year 2011, a \$74.1 million impairment charge was recorded for the excess of the carrying value of goodwill over the implied fair value of the goodwill for the Promenade salon concept. The estimated fair values of the Hair Restoration Centers reporting unit and Regis salon concept exceeded the respective carrying values by approximately 9.0 and 18.0 percent, respectively. The respective fair values of the Company's remaining reporting units exceeded fair value by greater than 20.0 percent. While the Company has determined the estimated fair values of Promenade, Hair Restoration Centers, and Regis to be appropriate based on the historical level of revenue growth, operating income and cash flows, it is reasonably likely that Promenade, Hair Restoration Centers, and Regis 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 the reportable segment are outside the control of management, changes in these underlying assumptions can adversely impact fair value. Potential impairment of a portion or all of the carrying value of the Promenade and Regis salon concepts and Hair Restoration Centers goodwill is dependent on many factors and cannot be predicted with certainty.

As of September 30, 2011, the Company's estimated fair value, as determined by the sum of our reporting units' fair value, reconciled to within a reasonable range of our market capitalization which included an assumed control premium. The Company concluded there were no triggering events requiring the Company to perform an interim goodwill impairment test between the annual impairment testing and September 30, 2011.

OVERVIEW OF RESULTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2011

- Revenues decreased 1.6 percent to \$568.7 million and consolidated same-store sales decreased 3.1 percent. The Company experienced a decline in customer visitations and average ticket price.

- We acquired six corporate salon locations, of which five were franchise location buybacks. We built 47 corporate locations and closed, converted or relocated 52 locations. Our franchisees constructed 29 locations and closed, converted or relocated seven locations. During the three months ended September 30, 2011, we purchased a 60.0 percent ownership interest in the franchise network, Roosters, consisting of 31 franchise locations. As of September 30, 2011, we had 7,884 company-owned salon locations, 1,983 franchise salon locations and 97 hair restoration centers (68 company-owned and 29 franchise locations).

Table of Contents

- The Company recorded \$9.4 million in depreciation expense associated with its internally developed POS system. Of the \$9.4 million, there was incremental depreciation expense of \$8.7 million (\$5.5 million net of tax or \$0.10 per diluted share) associated with the adjustment at June 30, 2011 to the useful life.

RESULTS OF OPERATIONS**Consolidated Results of Operations**

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

Results of Operations as a Percent of Revenues	For the Three Months Ended September 30,	
	2011	2010
Service	75.9%	76.0%
Product	22.3	22.2
Royalties and fees	1.8	1.8
Operating expenses:		
Cost of service (1)	57.0	56.8
Cost of product (2)	47.3	47.5
Site operating expenses	9.2	8.5
General and administrative	13.8	12.8
Rent	14.8	14.7
Depreciation and amortization	6.0	4.5
Operating income	2.3	5.8
Income before income taxes and equity in income of affiliated companies	1.2	4.4
Net income	1.5	3.2

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

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

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 respective prior period, consolidated revenues decreased 1.6 percent to \$568.7 million during the three months ended September 30, 2011. The following table details our consolidated revenues by concept. All service

Edgar Filing: REGIS CORP - Form 10-Q

revenues, product revenues (which include product and equipment sales to franchisees), and franchise royalties and fees are included within their respective concept detailed in the table below:

	For the Three Months Ended	
	September 30,	
	2011	2010
	(Dollars in thousands)	
North American salons:		
Regis	\$ 104,866	\$ 107,504
MasterCuts	40,459	42,040
SmartStyle	128,484	132,554
Supercuts	83,603	79,323
Promenade	140,445	145,512
Total North American salons	497,857	506,933
International salons	33,489	35,058
Hair restoration centers	37,403	36,254
Consolidated revenues	\$ 568,749	\$ 578,245
Percent change from prior year	(1.6)%	(4.5)%
Salon same-store sales decrease (1)	(3.1)%	(1.5)%

Table of Contents

The percent changes in consolidated revenues during the three months ended September 30, 2011 and 2010, respectively, were driven by the following:

Percentage Increase (Decrease) in Revenues	For the Three Months Ended	
	September 30,	
	2011	2010
Acquisitions (previous twelve months)	1.3%	0.5%
Organic	(2.0)	(4.0)
Foreign currency	0.7	(0.1)
Closed salons	(1.6)	(0.9)
	(1.6)%	(4.5)%

(1) Salon same-store sales are calculated on a daily basis as the total change in sales for company-owned salons which were open on a specific day of the week during the current period and the corresponding prior period. Quarterly and year-to-date salon same-store sales are the sum of the same-store sales computed on a daily basis. Salons relocated within a one mile radius are included in 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. Management believes that same-store sales, a component of organic growth, are useful in determining the increase in salon revenues attributable to its organic growth (new salon construction and same-store sales growth) versus growth from acquisitions.

We acquired 85 salons (including 83 franchise salon buybacks) and four hair restoration centers (all of which were franchise buybacks) during the twelve months ended September 30, 2011. The organic decrease was primarily due to consolidated same-store sales decrease of 3.1 percent, partially offset by the construction of 153 company-owned salons during the twelve months ended September 30, 2011. We closed 286 salons (including 49 franchise salons) and one hair restoration center during the twelve months ended September 30, 2011.

During the three months ended September 30, 2011 the foreign currency impact was driven by the weakening of the United States dollar against the Canadian dollar, British Pound, and Euro, as compared to the exchange rates for the comparable prior period. The impact of foreign currency was calculated by multiplying current year revenues in local currencies by the change in the foreign currency exchange rate between the current and prior fiscal year.

We acquired 46 salons (including 19 franchise salon buybacks) during the twelve months ended September 30, 2010. The organic decrease was primarily due to consolidated same-store sales decrease of 1.5 percent, partially offset by the construction of 122 company-owned salons during the twelve months ended September 30, 2010. We closed 275 salons (including 69 franchise salons) during the twelve months ended September 30, 2010.

During the three months ended September 30, 2010 the foreign currency impact was driven by the strengthening of the United States dollar against the British Pound and Euro, partially offset by the weakening of the United States dollar against the Canadian dollar, as compared to the exchange rates for the comparable prior period. The impact of foreign currency was calculated by multiplying current year revenues in local currencies by the change in the foreign currency exchange rate between the current and prior fiscal year.

Edgar Filing: REGIS CORP - Form 10-Q

Consolidated revenues are primarily comprised 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. Total service revenues for the three months ended September 30, 2011 and 2010 were as follows:

Periods Ended September 30,	Revenues	Decrease Over Prior Fiscal Year	
		Dollar	Percentage
(Dollars in thousands)			
2011	\$ 431,700	\$ (7,829)	(1.8)%
2010	439,529	(9,749)	(2.2)

The decrease in service revenues during the three months ended September 30, 2011 was due to same-store service sales decreasing 3.1 percent, which was primarily the result of a decline in same-store customer visits. In addition, average ticket decreased slightly due to a multi-brand haircut sale during the back-to-school season. The decrease in service revenues was partially offset by growth due to new and acquired salons during the previous twelve months and the weakening of the United States dollar against the British Pound, Canadian dollar, and Euro.

Table of Contents

The decrease in service revenues during the three months ended September 30, 2010 was due to same-store service sales decreasing 2.4 percent. Same-store service sales decreased due to a decline in same-store customer visits, partially offset by price increases and sales mix as the Company continues to increase hair color and waxing services. The decrease in service revenues was also due to the strengthening of the United States dollar against the Euro and British Pound. Partially offsetting the decrease was growth due to acquisitions during the previous twelve months and the weakening of the United States dollar against the Canadian dollar.

Product Revenues. Product revenues are primarily sales at company-owned salons, hair restoration centers and sales of product and equipment to franchisees. Total product revenues for the three months ended September 30, 2011 and 2010 were as follows:

Periods Ended September 30,	Revenues	Decrease Over Prior Fiscal Year	
		Dollar	Percentage
		(Dollars in thousands)	
2011	\$ 126,917	\$ (1,688)	(1.3)%
2010	128,605	(17,548)	(12.0)

The decrease in product revenues during the three months ended September 30, 2011 was due to same-store product sales decreasing 3.2 percent. Product sales were unfavorably impacted in the first half of the quarter as two vendor lines were repackaged. The decrease in product revenues was partially offset by growth due to new and acquired salons during the previous twelve months, and the weakening of the United States dollar against the British Pound, Canadian dollar, and Euro.

The decrease in product revenues during the three months ended September 30, 2010 was due to the completion of the agreement as of September 30, 2009 in which we supplied product to the purchaser of Trade Secret. The three months ended September 30, 2009 included \$20.0 million of product sales while the three months ended September 30, 2010 had no product sales to the purchaser of Trade Secret. The decrease was partially offset by a same-store product sales increase of 1.7 percent.

Royalties and Fees. Total franchise revenues, which include royalties and fees, for the three months ended September 30, 2011 and 2010 were as follows:

Periods Ended September 30,	Revenues	Increase (Decrease) Over Prior Fiscal Year	
		Dollar	Percentage
		(Dollars in thousands)	
2011	\$ 10,132	\$ 21	0.2%
2010	10,111	(8)	(0.1)

Total franchise locations open at September 30, 2011 were 2,012, including 29 franchise hair restoration centers, as compared to 2,050, including 33 franchise hair restoration centers, at September 30, 2010. We purchased 83 of our franchise salons and four franchise hair restoration centers during the twelve months ended September 30, 2011. During the three months ended September 30, 2011, we purchased a franchise network, consisting of 31 franchise locations. The increase in royalties and fees was primarily due to franchise same-store sales and the weakening of the United States dollar against the Canadian dollar, partially offset by a reduction in franchise locations as of September 30, 2011 compared to September 30, 2010.

Total franchise locations open at September 30, 2010 were 2,050, including 33 franchise hair restoration centers, as compared to 2,083, including 33 franchise hair restoration centers, at September 30, 2009. We purchased 19 of our franchise salons and zero franchise hair restoration centers during the twelve months ended September 30, 2010. Offsetting a decrease in royalties and fees due to a reduction in franchise locations as of September 30, 2010 compared to September 30, 2009 was the weakening of the United States dollar against the Canadian dollar.

Table of Contents**Gross Margin (Excluding Depreciation and Amortization)**

Our cost of revenues primarily includes labor costs related to salon 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 for the three months ended September 30, 2011 and 2010 was as follows:

Periods Ended September 30,	Gross Margin	Margin as % of Service and Product Revenues	(Decrease) Increase Over Prior Fiscal Year		
			Dollar	Percentage	Basis Point(1)
			(Dollars in thousands)		
2011	\$ 252,627	45.2%	\$ (4,931)	(1.9)%	(10)
2010	257,558	45.3	(2,409)	(0.9)	160

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

Service Margin (Excluding Depreciation and Amortization). Service margin for the three months ended September 30, 2011 and 2010 was as follows:

Periods Ended September 30,	Service Margin	Margin as % of Service Revenues	(Decrease) Increase Over Prior Fiscal Year		
			Dollar	Percentage	Basis Point(1)
			(Dollars in thousands)		
2011	\$ 185,689	43.0%	\$ (4,339)	(2.3)%	(20)
2010	190,028	43.2	(3,281)	(1.7)	20

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

The basis point decrease in service margin as a percent of service revenues during the three months ended September 30, 2011 was primarily due to an increase in payroll taxes as a result of states increasing unemployment taxes, negative leverage on fixed payroll costs due to negative same-store service sales, and a decrease in higher-margin hair transplants, partially offset by lower commissions as a result of leveraged pay plans for new stylists.

The basis point improvement in service margin as a percent of service revenues during the three months ended September 30, 2010 was primarily due to operational payroll control and a reduction in the cost of supplies used in service.

Edgar Filing: REGIS CORP - Form 10-Q

Product Margin (Excluding Depreciation and Amortization). Product margin for the three months ended September 30, 2011 and 2010 was as follows:

Periods Ended September 30,	Product Margin	Margin as % of Product Revenues	(Decrease) Increase Over Prior Fiscal Year		Basis Point(1)
			Dollar	Percentage	
(Dollars in thousands)					
2011	\$ 66,938	52.7%	\$ (592)	(0.9)%	20
2010	67,530	52.5	872	1.3	690

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

The basis point improvement in product margin as a percent of product revenues during the three months ended September 30, 2011 was due to a reduction in commissions paid to new employees on retail product sales in our North American segment and improved product margins in our International segment due to the prior year comparable period including promotions of lower profit margin appliances. Partially offsetting the basis point improvement was an increase in the cost of hair systems in our Hair Restoration Centers segment.

The basis point decrease in product margin as a percent of product revenues during the three months ended September 30, 2010 was due to a planned increase in sales of slightly lower profit margin appliances in our International segment, partially offset by the continued reduction in commissions paid to new employees on retail product sales.

Table of Contents**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 for the three months ended September 30, 2011 and 2010 were as follows:

Periods Ended September 30,	Site Operating	Expense as % of Consolidated Revenues	Increase (Decrease) Over Prior Fiscal Year		
			Dollar	Percentage	Basis Point(1)
			(Dollars in thousands)		
2011	\$ 52,455	9.2%	\$ 3,446	7.0%	70
2010	49,009	8.5	(3,667)	(7.0)	(20)

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

The basis point increase in site operating expenses as a percent of consolidated revenues during the three months ended September 30, 2011 was primarily due to planned increases in advertising expense related to promotional activity to increase customer trial and charges for salon internet connectivity.

The basis point improvement in site operating expenses as a percent of consolidated revenues during the three months ended September 30, 2010 was primarily due to prior year comparable period included \$3.6 million of expense related to two legal claims on customer and employee matters. Offsetting the basis point improvement was negative leverage from negative same-store sales.

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 for the three months ended September 30, 2011 and 2010 were as follows:

Periods Ended September 30,	G&A	Expense as % of Consolidated Revenues	Increase Over Prior Fiscal Year		
			Dollar	Percentage	Basis Point(1)
			(Dollars in thousands)		
2011	\$ 78,679	13.8%	\$ 4,605	6.2%	100
2010	74,074	12.8	1,514	2.1	80

Edgar Filing: REGIS CORP - Form 10-Q

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

The basis point increase in G&A costs as a percent of consolidated revenues during the three months ended September 30, 2011 was primarily due to incremental costs associated with the Company's senior management restructuring and professional fees incurred in connection with the contested proxy.

The basis point increase in G&A costs as a percent of consolidated revenues during the three months ended September 30, 2010 was due to the timing of certain advertising expenditures and negative leverage from the decrease in same-store sales.

Rent

Rent expense, which includes base and percentage rent, common area maintenance, and real estate taxes, for the three months ended September 30, 2011 and 2010, was as follows:

Periods Ended September 30,	Rent	Expense as % of Consolidated Revenues	(Decrease) Increase Over Prior Fiscal Year		Basis Point(1)
			Dollar	Percentage	
2011	\$ 84,447	14.8%	\$ (661)	(0.8)%	10
2010	85,108	14.7	(717)	(0.8)	50

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

Table of Contents

The basis point increase in rent expense as a percent of consolidated revenues for the three months ended September 30, 2011 was due to negative leverage in this fixed cost category due to negative same-stores sales.

The basis point increase in rent expense as a percent of consolidated revenues for the three months ended September 30, 2010 was primarily due to negative leverage in this fixed cost category due to negative same-stores sales. Partially offsetting the basis point increase was savings achieved from our recent store closure initiatives.

Depreciation and Amortization

Depreciation and amortization expense (D&A) for the three months ended September 30, 2011 and 2010 was as follows:

Periods Ended September 30,	D&A	Expense as % of Consolidated Revenues	Increase (Decrease) Over Prior Fiscal Year		
			Dollar (Dollars in thousands)	Percentage	Basis Point(1)
2011	\$ 34,106	6.0%	\$ 8,062	31.0%	150
2010	26,044	4.5	(1,147)	(4.2)	

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

D&A as a percent of consolidated revenues during the three months ended September 30, 2011 increased primarily due to accelerated depreciation expense resulting from a June 30, 2011 adjustment to the useful life of the Company's internally developed point-of-sale (POS) system. The Company expects to fully depreciate the net balance of the existing POS system, approximately \$9.4 million at September 30, 2011, during the three months ended December 31, 2011.

D&A as a percent of consolidated revenues during the three months ended September 30, 2010 was consistent with the twelve months ended September 30, 2009 as the negative leverage from the decrease in same-store sales was offset by a decrease in depreciation expense due to a reduction in salon construction.

Interest

Interest expense for the three months ended September 30, 2011 and 2010 was as follows:

Edgar Filing: REGIS CORP - Form 10-Q

Periods Ended September 30,	Interest	Expense as % of Consolidated Revenues	Decrease Over Prior Fiscal Year		
			Dollar (Dollars in thousands)	Percentage	Basis Point(1)
2011	\$ 7,360	1.3%	\$ (1,563)	(17.5)%	(20)
2010	8,923	1.5	(18,393)	(67.3)	(300)

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

The basis point improvement in interest expense as a percent of consolidated revenues during the three months ended September 30, 2011 was primarily due to decreased debt levels as compared to the three months ended September 30, 2010.

The basis point improvement in interest expense as a percent of consolidated revenues during the three months ended September 30, 2010 was due to the prior year comparable period including \$18.0 million of make-whole payments including \$5.2 million of interest rate settlement and other fees associated with the prepayment of private placement debt.

Interest Income and Other, net

Interest income and other, net for the three months ended September 30, 2011 and 2010 was as follows:

Periods Ended September 30,	Interest	Income as % of Consolidated Revenues	Increase (Decrease) Over Prior Fiscal Year		
			Dollar (Dollars in thousands)	Percentage	Basis Point(1)
2011	\$ 1,316	0.2%	\$ 539	69.4%	10
2010	777	0.1	(1,455)	(65.2)	(30)

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

Table of Contents

The basis point improvement in interest income and other, net as a percent of consolidated revenues during the three months ended September 30, 2011 was primarily due to the foreign currency impact in the current year related to the Company's investment in MY Style, partially offset by lower fees received for warehousing services provided to the purchaser of Trade Secret as compared to the three months ended September 30, 2010.

The basis point decrease in interest income and other, net as a percent of consolidated revenues during the three months ended September 30, 2010 was primarily due to the Company receiving \$0.7 million for warehousing services from the purchaser of Trade Secret during the three months ended September 30, 2010, compared to \$1.9 million received from the purchaser of Trade Secret for administrative services during the three months ended September 30, 2009.

Income Taxes

Our reported effective income tax rate for the three months ended September 30, 2011 and 2010 was as follows:

Periods Ended September 30,	Effective Rate	Basis Point(1) Increase (Decrease)
2011	38.7%	60
2010	38.1	(1,290)

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

The basis point increase in our overall effective income tax rate for the three months ended September 30, 2011 was due primarily to state audit settlements having a greater impact on the quarterly tax rate for the three months ended September 30, 2011 as compared to the three months ended September 30, 2010.

The basis point decrease in our overall effective income tax rate for the three months ended September 30, 2010 was due primarily to the comparable prior period including an adjustment to correct deferred income tax balances.

Equity in Income of Affiliated Companies, Net of Income Taxes

Equity in income of affiliated companies represents the income or loss generated by our equity investment in Empire Education Group, Inc., Provalliance, and other equity method investments. Equity in income of affiliated companies for the three months ended September 30, 2011 and 2010 was as follows:

Periods Ended September 30,	Equity in Income	Increase (Decrease) Over Prior Fiscal Year	
		Dollar (Dollars in thousands)	Percentage
2011	\$ 4,032	\$ 1,353	50.5%
2010	2,679	(378)	(12.4)

The increase in equity in income of affiliated companies during the three months ended September 30, 2011 was a result of an increase in the Company's share of Provalliance's net income over the comparable prior period due to the Company's 16.7 percent increase in ownership in March 2011.

The decrease in equity in income of affiliated companies during the three months ended September 30, 2010 was a result of a decrease in EEG's and Hair Club for Med, Ltd.'s net income over the comparable prior period, partially offset by an increase in Provalliance's net income over the comparable prior period.

Recent Accounting Pronouncements

Recent accounting pronouncements are discussed in Note 1 to the Condensed Consolidated Financial Statements.

Effects of Inflation

We compensate some of our salon employees with percentage commissions based on sales they generate, thereby enabling salon payroll expense as a percent of company-owned salon revenues to remain relatively constant. Accordingly, this provides us certain protection against inflationary increases, as payroll expense and related benefits (our major expense components) are variable costs of sales. In addition, we may increase pricing in our salons to offset any significant increases in wages. Therefore, we do not believe inflation has had a significant impact on the results of our operations.

Table of Contents**Constant Currency Presentation**

The presentation below demonstrates the effect of foreign currency exchange rate fluctuations from year to year. To present this information, current period results for entities reporting in currencies other than United States dollars are converted into United States dollars at the average exchange rates in effect during the corresponding period of the prior fiscal year, rather than the actual average exchange rates in effect during the current fiscal year. Therefore, the foreign currency impact is equal to current year results in local currencies multiplied by the change in the average foreign currency exchange rate between the current fiscal period and the corresponding period of the prior fiscal year. During the three months ended September 30, 2011, foreign currency translation had a favorable impact on consolidated revenues due to the weakening of the United States dollar against the British Pound, Canadian dollar, and Euro, as compared to the exchange rates for the comparable prior period. During the three months ended September 30, 2010, foreign currency translation had an unfavorable impact on consolidated revenues due to the strengthening of the United States dollar against the British Pound and Euro, partially offset by the weakening of the United States dollar against the Canadian dollar, as compared to the exchange rates for the comparable prior period.

Impact of Foreign Currency Exchange Rate Fluctuations	Impact on Revenues		Impact on Income Before Income Taxes	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
	(Dollars in thousands)			
Canadian dollar	\$ 2,549	\$ 1,868	\$ 399	\$ 268
British pound	1,374	(2,075)	14	(121)
Euro	183	(235)	38	83
Total	\$ 4,106	\$ (442)	\$ 451	\$ 230

Results of Operations by Segment

Based on our internal management structure, we report three segments: North American salons, international salons and hair restoration centers. Significant results of operations are discussed below with respect to each of these segments.

North American Salons

North American Salon Revenues. Total North American salon revenues for the three months ended September 30, 2011 and 2010 were as follows:

Periods Ended September 30,	Revenues	Decrease Over Prior Fiscal Year		Same- Store Sales Decrease
		Dollar (Dollars in thousands)	Percentage	
2011	\$ 497,857	\$ (9,076)	(1.8)%	(3.0)%
2010	506,933	(24,845)	(4.7)	(1.7)

Edgar Filing: REGIS CORP - Form 10-Q

The percentage decreases during the three months ended September 30, 2011 and 2010 were due to the following factors:

Percentage Increase (Decrease) in Revenues	For the Three Months Ended September 30,	
	2011	2010
Acquisitions (previous twelve months)	1.4%	0.6%
Organic	(2.0)	(5.1)
Foreign currency	0.5	0.3
Closed salons	(1.7)	(0.5)
	(1.8)%	(4.7)%

We acquired 85 North American salons during the twelve months ended September 30, 2011, including 83 franchise buybacks. In addition, we closed 221 North American salons during the twelve months ended September 30, 2011. The organic decrease was the result of same-store sales decrease of 3.0 percent for the three months ended September 30, 2011 due to a decline in same-store customer visits and average ticket. The foreign currency impact during the three months ended September 30, 2010 was driven by the weakening of the United States dollar against the Canadian dollar as compared to the prior period's exchange rate.

We acquired 46 North American salons during the twelve months ended September 30, 2010, including 19 franchise buybacks. The organic decrease was the result of same-store sales decrease of 1.7 percent for the three months ended September 30, 2010 due to a decline in same-store customer visits, partially offset by an increase in average ticket. Contributing to the organic sales decline during the three months ended September 30, 2010 was the completion of an agreement to supply the purchaser of Trade Secret product at

Table of Contents

cost. The Company generated revenues of \$0.0 and \$20.0 million for product sold to the purchaser of Trade Secret during the three months ended September 30, 2010 and 2009, respectively. The foreign currency impact during the three months ended September 30, 2010 was driven by the weakening of the United States dollar against the Canadian dollar as compared to the prior period's exchange rate.

North American Salon Operating Income. Operating income for the North American salons for the three months ended September 30, 2011 and 2010 was as follows:

Periods Ended September 30,	Operating Income	Operating Income as % of Total Revenues	(Decrease) Increase Over Prior Fiscal Year		Basis Point(1)
			Dollar	Percentage	
			(Dollars in thousands)		
2011	\$ 56,947	11.4%	\$ (5,899)	(9.4)%	(100)
2010	62,846	12.4	227	0.4	60

(1) Represents the basis point change in North American salon operating income as a percent of North American salon revenues as compared to the corresponding periods of the prior fiscal year.

The basis point decrease in North American salon operating income as a percent of North American salon revenues for the three months ended September 30, 2011 was primarily due to \$1.2 million of accelerated depreciation expense recorded as a result of an adjustment at June 30, 2011 to the useful life of the Company's internally developed point-of-sale system, a planned increase in advertising expense related to promotional activity to increase customer trial and negative leverage in fixed cost categories due to negative same-store sales.

The basis point improvement in North American salon operating income as a percent of North American salon revenues for the three months ended September 30, 2010 was primarily due to gross margin improvement, the completion of the agreement to supply the purchaser of Trade Secret product at cost due and the three months ended September 30, 2009 included \$3.6 million of expense related to two legal claims on customer and employee matters. Partially offsetting the basis point improvement was negative leverage in fixed cost categories due to negative same-store sales.

International Salons

International Salon Revenues. Total international salon revenues for the three months ended September 30, 2011 and 2010 were as follows:

Periods Ended September 30,	Revenues	Decrease Over Prior Fiscal Year		Same- Store Sales Decrease
		Dollar	Percentage	
		(Dollars in thousands)		
2011	\$ 33,489	\$ (1,569)	(4.5)%	(9.4)%
2010	35,058	(3,741)	(9.6)	(1.9)

Edgar Filing: REGIS CORP - Form 10-Q

The percentage decreases during the three months ended September 30, 2011 and 2010 were due to the following factors:

Percentage Increase (Decrease) in Revenues	For the Three Months Ended September 30,	
	2011	2010
Acquisitions (previous twelve months)	%	%
Organic	(6.8)	3.8
Foreign currency	4.5	(6.0)
Closed salons	(2.2)	(7.4)
	(4.5)%	(9.6)%

We did not acquire any international salons during the twelve months ended September 30, 2011. The decrease in organic was due to the same-store sales decrease of 9.4 percent as the retail environment in the United Kingdom remains challenging. The foreign currency impact during the three months ended September 30, 2011 was driven by the weakening of the United States dollar against the British pound and Euro as compared to the comparable prior period. We closed 16 company-owned salons during the twelve months ended September 30, 2011.

We did not acquire any international salons during the twelve months ended September 30, 2010. The increase in organic was primarily due to the rebranding of certain salons that had previously been operating under a different salon concept, partially offset by

Table of Contents

the same-store sales decrease of 1.9 percent. The foreign currency impact during the three months ended September 30, 2010 was driven by the strengthening of the United States dollar against the British pound and Euro as compared to the comparable prior period. We closed 33 company-owned salons during the twelve months ended September 30, 2010.

International Salon Operating Income. Operating income for the international salons for the three months ended September 30, 2011 and 2010 was as follows:

Periods Ended September 30,	Operating Income	Operating Income as % of Total Revenues	(Decrease) Increase Over Prior Fiscal Year		Basis Point(1)
			Dollar (Dollars in thousands)	Percentage	
2011	\$ 550	1.6%	\$ (1,636)	(74.8)%	(460)
2010	2,186	6.2	3,315	393.6	910

(1) Represents the basis point change in international salon operating income as a percent of international salon revenues as compared to the corresponding periods of the prior fiscal year.

The basis point decrease in international salon operating income as a percent of international salon revenues during the three months ended September 30, 2011 was primarily due to negative leverage on fixed payroll costs due to decreased same-store sales and the timing of expenses incurred for an annual marketing event held by our Sassoon salons.

The basis point improvement in international salon operating income as a percent of international salon revenues during the three months ended September 30, 2010 was primarily due to \$3.6 million of lease termination costs recognized during the three months ended September 30, 2009 associated with the Company's planned closure of up to 80 underperforming United Kingdom salons.

Hair Restoration Centers

Hair Restoration Revenues. Total hair restoration revenues for the three months ended September 30, 2011 and 2010 were as follows:

Periods Ended September 30,	Revenues	Increase Over Prior Fiscal Year		Same- Store Sales Increase
		Dollar (Dollars in thousands)	Percentage	
2011	\$ 37,403	\$ 1,149	3.2%	1.3%
2010	36,254	1,281	3.7	1.5

The percentage increases during the three months ended September 30, 2011 and 2010 were due to the following factors:

Percentage Increase (Decrease) in Revenues	For the Three Months Ended September 30,		
	2011	2010	
Acquisitions (previous twelve months)	1.8%		%
Organic	1.5		2.8
Franchise revenues	(0.1)		0.9
	3.2%		3.7%

We acquired four hair restoration centers during the twelve months ended September 30, 2011, all of which were franchise buybacks. The increase in organic was due to the same-store sales increase of 1.3 percent during the three months ended September 30, 2011.

We did not acquire any hair restoration centers during the twelve months ended September 30, 2010. The increase in organic was primarily due to the same-store sales increase of 1.5 percent during the three months ended September 30, 2010.

Table of Contents

Hair Restoration Operating Income. Operating income for our hair restoration centers for the three months ended September 30, 2011 and 2010 was as follows:

Periods Ended September 30,	Operating Income	Operating Income as % of Total Revenues	Increase Over Prior Fiscal Year		
			(Decrease) Dollar	Percentage	
			(Dollars in thousands)		Basis Point(1)
2011	\$ 4,068	10.9%	\$ (2,137)	(34.4)%	
2010	6,205	17.1	618	11.1	110

(1) Represents the basis point change in hair restoration operating income as a percent of hair restoration revenues as compared to the corresponding periods of the prior fiscal year.

The basis point decrease in hair restoration operating income as a percent of hair restoration revenues during the three months ended September 30, 2011 was primarily due to a decrease in higher-margin services, an increase in the cost of hair systems, and the prior year comparable period including a favorable ruling on a state sales tax issue.

The basis point increase in hair restoration operating income as a percent of hair restoration revenues during the three months ended September 30, 2010 was primarily due to a benefit related to a favorable ruling on a state sales tax issue.

Unallocated Corporate

Unallocated Corporate Operating Loss. Unallocated corporate operating expenses include salaries, stock-based compensation, professional fees, rent, depreciation and other expenses that are not allocated. Unallocated corporate operating losses were as follows:

Periods Ended September 30,	Operating Loss	Increase (Decrease) Over Prior Fiscal Year	
		Dollar	Percentage
		(Dollars in thousands)	
2011	\$ (48,493)	\$ 10,690	28.3%
2010	(37,803)	(1,017)	(2.6)

The increase in unallocated corporate operating loss during the three months ended September 30, 2011 as compared to the three months ended September 30, 2010 was primarily due to \$7.4 million of accelerated depreciation expense recorded as a result of an adjustment at June 30, 2011 to the useful life of the Company's internally developed point-of-sale system, incremental costs associated with the Company's senior management restructuring, and professional fees as a result of the contested proxy.

Edgar Filing: REGIS CORP - Form 10-Q

The decrease in unallocated corporate operating loss during the three months ended September 30, 2010 as compared to the three months ended September 30, 2009 was primarily due to a decrease in distribution costs from an agreement with the purchaser of Trade Secret.

LIQUIDITY AND CAPITAL RESOURCES

Overview

We continue to maintain a strong balance sheet to support system growth and financial flexibility. Our debt to capitalization ratio, calculated as total debt as a percentage of total debt and shareholders' equity at fiscal quarter end, was as follows:

Periods Ended	Debt to Capitalization	Basis Point Decrease (1)
September 30, 2011	23.0%	(30)
June 30, 2011	23.3	(700)

(1) Represents the basis point change in total debt as a percent of total debt and shareholders' equity as compared to prior fiscal year end (June 30).

The improvement in the debt to capitalization ratio as of September 30, 2011 compared to June 30, 2011 was primarily due to decreased debt levels stemming from the repayments of debt and foreign currency translation during the three months ended September 30, 2011.

Table of Contents

The basis point improvement in the debt to capitalization ratio as of June 30, 2011 compared to June 30, 2010 was primarily due to the repayment of an \$85.0 million term loan during fiscal year 2011 and foreign currency translation adjustments due to the weakening of the United States dollar against the Canadian dollar and British Pound.

Total assets at September 30, 2011 and June 30, 2011 were as follows:

	September 30, 2011	June 30, 2011	\$ Decrease Over Prior Period(1)	% Decrease Over Prior Period(1)
	(Dollars in thousands)			
Total Assets	\$ 1,772,220	\$ 1,805,753	\$ (33,533)	(1.9)%

(1) Change as compared to prior fiscal year end (June 30).

During the three months ended September 30, 2011, total assets decreased primarily due to the accelerated depreciation expense recorded as a result of an adjustment at June 30, 2011 to the useful life of the Company's internally developed POS system, a decrease in capital expenditures to an amount less than depreciation expense for the three months ended September 30, 2011, and the impact of foreign currency translation on our investment in Provalliance.

Total shareholders' equity at September 30, 2011 and June 30, 2011 was as follows:

	September 30, 2011	June 30, 2011	\$ Decrease Over Prior Period(1)	% Decrease Over Prior Period(1)
	(Dollars in thousands)			
Shareholders' Equity	\$ 1,020,469	\$ 1,032,619	\$ (12,150)	(1.2)%

(1) Change as compared to prior fiscal year end (June 30).

During the three months ended September 30, 2011, equity decreased as a result of foreign currency translation, partially offset by net income recorded for the period.

Cash Flows*Operating Activities*

Edgar Filing: REGIS CORP - Form 10-Q

Net cash provided by operating activities was \$13.5 and \$64.2 million during the three months ended September 30, 2011 and 2010, respectively, and was the result of the following:

Operating Cash Flows	For the Three Months Ended September 30,	
	2011	2010
	(Dollars in thousands)	
Net income	\$ 8,337	\$ 18,320
Depreciation and amortization	34,106	26,044
Equity in income of affiliated companies	(4,032)	(2,679)
Dividends received from affiliated companies	270	1,452
Deferred income taxes	(2,800)	(6)
Receivables	(907)	(267)
Inventories	(23,612)	(7,343)
Income tax receivable	4,260	28,373
Other current assets	1,806	1,748
Other assets	509	(3,095)
Accounts payable and accrued expenses	3,470	(7,688)
Other noncurrent liabilities	(11,528)	4,562
Other	3,576	4,763
	\$ 13,455	\$ 64,184

During the three months ended September 30, 2011, cash provided by operating activities was lower than the corresponding period of the prior fiscal year due to increased inventory levels in preparation for the holiday season along with additional purchases of inventory as a result of discounts offered by suppliers and the income tax refunds received in the prior year comparable period.

Table of Contents*Investing Activities*

Net cash used in investing activities was \$17.2 and \$19.9 million during the three months ended September 30, 2011 and 2010, respectively, and was the result of the following:

Investing Cash Flows	For the Three Months Ended September 30,	
	2011	2010
	(Dollars in thousands)	
Capital expenditures for remodels or other additions	\$ (8,247)	\$ (12,345)
Capital expenditures for the corporate office (including all technology-related expenditures)	(4,172)	(2,299)
Capital expenditures for new salon construction	(4,408)	(1,363)
Proceeds from sale of assets	369	15
Business and salon acquisitions	(2,077)	(3,861)
Proceeds from loans and investments	1,290	15,000
Disbursements for loans and investments	(17,245)	(19,853)
	\$ (17,245)	\$ (19,853)

Cash was used in investing activities during the three months ended September 30, 2011 and 2010 primarily for capital expenditures and acquisitions.

The company-owned constructed and acquired locations (excluding franchise buybacks) consisted of the following number of locations in each concept:

	For the Three Months Ended September 30, 2011		For the Three Months Ended September 30, 2010	
	Constructed	Acquired	Constructed	Acquired
Regis Salons	2		4	9
MasterCuts	4		2	
SmartStyle	16		19	
Supercuts	13	1	5	
Promenade	10		8	17
International	2		2	
	47	1	40	26

Financing Activities

Net cash used in financing activities was \$13.2 and \$5.6 million during the three months ended September 30, 2011 and 2010, respectively, was the result of the following:

Edgar Filing: REGIS CORP - Form 10-Q

Financing Cash Flows	For the Three Months Ended September 30,	
	2011	2010
	(Dollars in thousands)	
Repayments of long-term debt	\$ (9,669)	\$ (3,334)
Proceeds from the issuance of common stock		59
Excess tax benefits from stock-based compensation plans		3
Dividend paid	(3,494)	(2,297)
Other		3
	\$ (13,163)	\$ (5,566)

During the three months ended September 30, 2011 and 2010, cash was used in financing activities for repayments on long-term debt and dividends.

Table of Contents

Acquisitions

Acquisitions during the three months ended September 30, 2011 consisted of six acquired corporate salons. On July 1, 2011, the Company acquired a 60.0 percent ownership interest in Roosters MGC International LLC (Roosters), consisting of 31 franchise salons. Acquisitions during the three months ended September 30, 2010 consisted of 26 acquired corporate salons.

Contractual Obligations and Commercial Commitments

As a part of our salon development program, we continue to negotiate and enter into leases and commitments for the acquisition of equipment and leasehold improvements related to future salon locations, and continue to enter into transactions to acquire established hair care salons and businesses. In connection with the sale of Trade Secret, the Company maintains a guarantee of approximately 30 salons operated by the purchaser of Trade Secret.

Financing

Financing activities are discussed above and derivative activities are discussed in Item 3, Quantitative and Qualitative Disclosures about Market Risk. There were no other significant financing activities during the three months ended September 30, 2011.

We believe that cash generated from operations and amounts available under our existing debt facilities will be sufficient to fund anticipated capital expenditures, acquisitions and required debt repayments for the foreseeable future.

We are in compliance with all covenants and other requirements of our financing arrangements as of September 30, 2011.

Dividends

We paid dividends of \$0.06 and \$0.04 per share during the three months ended September 30, 2011 and 2010, respectively. On October 27, 2011, our Board of Directors declared a \$0.06 per share quarterly dividend payable November 24, 2011 to shareholders of record on November 10, 2011.

SAFE HARBOR PROVISIONS UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Edgar Filing: REGIS CORP - Form 10-Q

This Quarterly Report on Form 10-Q, as well as information included in, or incorporated by reference from, future filings by the Company with the Securities and Exchange Commission and information contained in written material, press releases and oral statements issued by or on behalf of the Company contains or may contain forward-looking statements within the meaning of the federal securities laws, including statements concerning anticipated future events and expectations that are not historical facts. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The forward-looking statements in this document reflect management's best judgment at the time they are made, but all such statements are subject to numerous risks and uncertainties, which could cause actual results to differ materially from those expressed in or implied by the statements herein. Such forward-looking statements are often identified herein by use of words including, but not limited to, may, believe, project, forecast, expect, estimate, anticipate, and plan. The following factors could affect the Company's actual results and cause such results to differ materially from those expressed in forward-looking statements. These factors include competition within the personal hair care industry, which remains strong, both domestically and internationally, price sensitivity; changes in economic conditions; changes in consumer tastes and fashion trends; the ability of the Company to implement its planned spending and cost reduction plan and to continue to maintain compliance with financial covenants in its credit agreements; labor and benefit costs; legal claims; risk inherent to international development (including currency fluctuations); the continued ability of the Company and its franchisees to obtain suitable locations and financing for new salon development and to maintain satisfactory relationships with landlords and other licensors with respect to existing locations; governmental initiatives such as minimum wage rates, taxes and possible franchise legislation; the ability of the Company to successfully identify, acquire and integrate salons that support its growth objectives; the ability of the Company to maintain satisfactory relationships with suppliers; or other factors not listed above. The ability of the Company to meet its expected revenue target is dependent on salon acquisitions, new salon construction and same-store sales increases, all of which are affected by many of the aforementioned risks. Additional information concerning potential factors that could affect future financial results is set forth in the Company's Annual Report on Form 10-K for the year ended June 30, 2011. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

However, your attention is directed to any further disclosures made in our subsequent annual and periodic reports filed or furnished with the SEC on Forms 10-K, 10-Q and 8-K and Proxy Statements on Schedule 14A.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The primary market risk exposure of the Company relates to changes in interest rates in connection with its debt, some of which bears interest at variable rates based on LIBOR plus an applicable borrowing margin. Additionally, the Company is exposed to foreign currency translation risk related to its net investments in its foreign subsidiaries and notes receivable with certain affiliated companies and, to a lesser extent, changes in the Canadian dollar exchange rate. The Company has established policies and procedures that govern the management of these exposures through the use of derivative financial instrument contracts. By policy, the Company does not enter into such contracts for the purpose of speculation.

The Company has established an interest rate management policy that attempts to minimize its overall cost of debt, while taking into consideration the earnings implications associated with the volatility of short-term interest rates. On occasion, the Company uses interest rate swaps to further mitigate the risk associated with changing interest rates and to maintain its desired balances of fixed and floating rate debt. The Company is currently assessing the amount of fixed and variable rate debt. The Company had outstanding fixed rate debt balances of \$304.0 and \$313.4 million at September 30, 2011 and June 30, 2011, respectively, considering the effect of interest rate swaps.

For additional information, including a tabular presentation of the Company's debt obligations and derivative financial instruments, refer to Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," in the Company's June 30, 2011 Annual Report on Form 10-K. Other than the information included above, there have been no material changes to the Company's market risk and hedging activities during the three months ended September 30, 2011.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to management, including the chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Our Disclosure Committee, consisting of certain members of management, assists in this evaluation. The Disclosure Committee meets on a quarterly basis and more often if necessary.

With the participation of management, the Company's president and chief financial officer evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-5(e) and 15d-15(e) promulgated under the Exchange Act) at the conclusion of the period ended September 30, 2011. Based upon this evaluation, the president and chief financial officer concluded that the Company's disclosure controls and procedures were effective.

Changes in Internal Controls

Based on management's most recent evaluation of the Company's internal control over financial reporting, management determined that there were no changes in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter.

PART II OTHER INFORMATION

Item 1. 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 1A. Risk Factors

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

Changes to the United States, Canadian, United Kingdom, Asian and other European economies have an impact on 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

Table of Contents

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. Comparable same-store sales are affected by average ticket and same-store customer visits. A variety of factors affect same-store customer visits, 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 for the three months ended September 30, 2011 declined 3.1 percent compared to the three months ended September 30, 2010. We impaired \$74.1 million of goodwill associated with our Promenade salon concept during fiscal year 2011 and \$35.3 million of goodwill associated with our Regis salon concept during fiscal year 2010. We also impaired \$41.7 million of goodwill associated with our salon concepts in the United Kingdom during fiscal year 2009. If negative same-store sales continue 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 and goodwill 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 Promenade, Regis, and Hair Restoration Centers.

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.

Failure to control cost may adversely affect our operating results.

We must continue to control our expense structure. Failure to manage our cost of product, labor and benefit rates, advertising and marketing expenses, operating lease costs, other store expenses or indirect spending could delay or prevent us from achieving increased profitability or otherwise adversely affect our operating results.

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

We maintain key relationships with certain companies, including Walmart. Termination or modification of any of these relationships, including Walmart, 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.

Edgar Filing: REGIS CORP - Form 10-Q

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 12,770 locations and 54,000 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 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.

Table of Contents

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.

During fiscal year 2011, we recorded an impairment of \$9.2 million related to our investment in MY Style. 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. Due to economic and other factors, we may be required to take additional impairment charges related to our investments and such impairments could be material to our consolidated balance sheet and results of operations. In addition, our joint venture partners may be required to take impairment charges related to long-lived assets and goodwill, and our share of such impairment charges could be material to our consolidated balance sheet and results of operations. Our share of our investment's goodwill balances as of June 30, 2011 is \$102.1 million

We are subject to default risk on our accounts and notes receivable.

We have outstanding accounts and notes receivable subject to collectability. If the counterparties are unable to repay the amounts due or if payment becomes unlikely our results of operations would be adversely affected. For example, during the twelve months ended June 30, 2011 the Company recorded a \$31.2 million valuation reserve on the note receivable from the purchaser of Trade Secret to reflect the net realizable value.

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.

We rely heavily on our management information systems. If our systems fail to perform adequately or if we experience an interruption in their operation, our results of operations may be affected.

The efficient operation of our business is dependent on our management information systems. We rely heavily on our management information systems to collect daily sales information and customer demographics, generate payroll information, monitor salon performance, manage salon staffing and payroll costs, inventory control and other functions. The failure of our management information systems to perform as we anticipate, or to meet the continuously evolving needs of our business, could disrupt our business and may adversely affect our operating results.

The Company plans to implement a new point-of-sale system in our salons during fiscal year 2012. Failure to effectively implement the point-of-sale system may adversely affect our operating results.

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

Table of Contents

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.

Certain of the terms and provisions of the convertible notes we issued in July 2009 may adversely affect our financial condition and operating results and impose other risks.

In July 2009, we issued \$172.5 million aggregate principal amount of our 5.0 percent 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 lenders, 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 downturns in general economic conditions in our business.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Company did not repurchase any of its common stock through its share repurchase program during the three months ended September 30, 2011.

Item 4. Reserved

Table of Contents

Item 6. Exhibits

Exhibit 15	Letter Re: Unaudited Interim Financial Information.
Exhibit 31.1	President of Regis Corporation: Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Senior Vice President and Chief Financial Officer of Regis Corporation: Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1	President of Regis Corporation: Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.2	Senior Vice President and Chief Financial Officer of Regis Corporation: Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 101.INS (**)	XBRL Instance Document
Exhibit 101.SCH (**)	XBRL Taxonomy Extension Schema
Exhibit 101.CAL (**)	XBRL Taxonomy Extension Calculation Linkbase
Exhibit 101.LAB (**)	XBRL Taxonomy Extension Label Linkbase
Exhibit 101.PRE (**)	XBRL Taxonomy Extension Presentation Linkbase
Exhibit 101.DEF (**)	XBRL Taxonomy Extension Definition Linkbase

-
- (*) Management contract, compensatory plan or arrangement required to be filed as an exhibit to the Company's Report on Form 10-Q.
- (**) The XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.

Table of Contents

SIGNATURES

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

REGIS CORPORATION

Date: November 9, 2011

By:

/s/ Brent A. Moen
Brent A. Moen
Senior Vice President and Chief Financial Officer

Signing on behalf of the registrant and as principal
accounting officer