

REGIS CORP
Form 10-Q
February 09, 2011
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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 December 31, 2010

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.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a 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 February 3, 2011:

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Common Stock, \$.05 par value
Class

57,617,211
Number of Shares



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

As Of December 31, 2010 and June 30, 2010
(In thousands, except share data)

	December 31, 2010	June 30, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 174,290	\$ 151,871
Receivables, net	29,277	24,312
Inventories	160,497	153,380
Deferred income taxes	16,863	16,892
Income tax receivable	24,632	46,207
Other current assets	29,951	36,203
Total current assets	435,510	428,865
Property and equipment, net	351,159	359,250
Goodwill	745,676	736,989
Other intangibles, net	114,568	118,070
Investment in and loans to affiliates	203,340	195,786
Other assets	88,279	80,612
Total assets	\$ 1,938,532	\$ 1,919,572
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Long-term debt, current portion	\$ 32,700	\$ 51,629
Accounts payable	53,883	57,683
Accrued expenses	155,671	160,797
Total current liabilities	242,254	270,109
Long-term debt and capital lease obligations	371,445	388,400
Other noncurrent liabilities	259,713	247,770
Total liabilities	873,412	906,279
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Common stock, \$0.05 par value; issued and outstanding 57,617,211 and 57,561,180 common shares at December 31, 2010 and June 30, 2010, respectively	2,881	2,878
Additional paid-in capital	338,514	332,372
Accumulated other comprehensive income	64,489	47,032
Retained earnings	659,236	631,011

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Total shareholders' equity		1,065,120		1,013,293
Total liabilities and shareholders' equity	\$	1,938,532	\$	1,919,572

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 December 31, 2010 and 2009****(In thousands, except per share data)**

	2010	2009
Revenues:		
Service	\$ 430,939	\$ 435,125
Product	133,824	130,671
Royalties and fees	9,609	9,569
	574,372	575,365
Operating expenses:		
Cost of service	249,705	248,812
Cost of product	63,926	62,420
Site operating expenses	50,597	46,409
General and administrative	75,848	72,611
Rent	85,235	85,540
Depreciation and amortization	26,197	27,510
Total operating expenses	551,508	543,302
Operating income	22,864	32,063
Other income (expense):		
Interest expense	(8,738)	(9,069)
Interest income and other, net	2,604	1,411
Income before income taxes and equity in income of affiliated companies	16,730	24,405
Income taxes	(5,345)	(8,908)
Equity in income of affiliated companies, net of income taxes	3,120	2,657
Net income	\$ 14,505	\$ 18,154
Net income per share:		
Basic	\$ 0.26	\$ 0.32
Diluted	\$ 0.24	\$ 0.30
Weighted average common and common equivalent shares outstanding:		
Basic	56,684	56,287
Diluted	68,136	67,570
Cash dividends declared per common share	\$ 0.04	\$ 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 OPERATIONS (Unaudited)****For The Six Months Ended December 31, 2010 and 2009****(In thousands, except per share data)**

	2010	2009
Revenues:		
Service	\$ 870,468	\$ 884,403
Product	262,429	276,824
Royalties and fees	19,720	19,688
	1,152,617	1,180,915
Operating expenses:		
Cost of service	499,206	504,781
Cost of product	125,001	141,915
Site operating expenses	99,606	99,085
General and administrative	149,922	145,171
Rent	170,343	171,390
Depreciation and amortization	52,241	54,701
Lease termination costs		3,552
Total operating expenses	1,096,319	1,120,595
Operating income	56,298	60,320
Other income (expense):		
Interest expense	(17,661)	(36,385)
Interest income and other, net	3,381	3,643
Income from continuing operations before income taxes and equity in income of affiliated companies	42,018	27,578
Income taxes	(14,992)	(10,527)
Equity in income of affiliated companies, net of income taxes	5,799	5,714
Income from continuing operations	32,825	22,765
Income from discontinued operations, net of income taxes (Note 2)		3,161
Net income	\$ 32,825	\$ 25,926
Net income per share:		
Basic:		
Income from continuing operations	0.58	0.41
Income from discontinued operations		0.06
Net income per share, basic	\$ 0.58	\$ 0.47
Diluted:		
Income from continuing operations	0.54	0.40
Income from discontinued operations		0.05
Net income per share, diluted	\$ 0.54	\$ 0.45

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Weighted average common and common equivalent shares outstanding:

Basic	56,657	55,215
Diluted	68,053	65,615
Cash dividends declared per common share	\$ 0.08	\$ 0.08

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

Table of Contents**REGIS CORPORATION****CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)****For The Six Months Ended December 31, 2010 and 2009****(In thousands)**

	2010	2009
Cash flows from operating activities:		
Net income	\$ 32,825	\$ 25,926
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	47,354	49,723
Amortization	4,887	4,978
Equity in income of affiliated companies	(5,799)	(5,714)
Deferred income taxes	628	(3,240)
Impairment on discontinued operations		(154)
Excess tax benefits from stock-based compensation plans	(67)	
Stock-based compensation	5,004	4,636
Amortization of debt discount and financing costs	3,188	3,342
Other noncash items affecting earnings	693	(376)
Changes in operating assets and liabilities (1):		
Receivables	(4,592)	19,925
Inventories	(5,627)	(1,689)
Income tax receivable	21,575	11,854
Other current assets	6,672	4,935
Other assets	(2,046)	(32,063)
Accounts payable	(4,123)	(7,178)
Accrued expenses	(6,439)	(1,914)
Other noncurrent liabilities	8,700	4,330
Net cash provided by operating activities	102,833	77,321
Cash flows from investing activities:		
Capital expenditures	(30,663)	(24,346)
Proceeds from sale of assets	19	32
Asset acquisitions, net of cash acquired and certain obligations assumed	(8,106)	(684)
Proceeds from loans and investments	15,000	16,099
Disbursements for loans and investments	(15,000)	
Net cash used in investing activities	(38,750)	(8,899)
Cash flows from financing activities:		
Borrowings on revolving credit facilities		337,000
Payments on revolving credit facilities		(342,000)
Proceeds from issuance of long-term debt, net of \$5.2 million underwriting discount in 2009		167,325
Repayments of long-term debt and capital lease obligations	(42,592)	(313,289)
Excess tax benefits from stock-based compensation plans	67	
Proceeds from issuance of common stock, net of \$7.2 million underwriting discount in 2009	691	156,436
Dividends paid	(4,599)	(4,569)
Other		(2,878)
Net cash used in financing activities	(46,433)	(1,975)
Effect of exchange rate changes on cash and cash equivalents	4,769	5,499

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Increase in cash and cash equivalents	22,419	71,946
Cash and cash equivalents:		
Beginning of period	151,871	42,538
End of period	\$ 174,290	\$ 114,484

(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.

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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 December 31, 2010 and for the three and six months ended December 31, 2010 and 2009, reflect, in the opinion of management, all adjustments necessary to fairly state the consolidated financial position of the Company as of December 31, 2010 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, 2010 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, 2010 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 December 31, 2010 and for the three and six month periods ended December 31, 2010 and 2009 included in this Form 10-Q have been reviewed by PricewaterhouseCoopers LLP, an independent registered public accounting firm. Their separate report dated February 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.

Stock-Based Employee Compensation:

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 1991 Stock Option Plan (1991 Plan) and 2000 Stock Option Plan (2000 Plan), although the Plans terminated in 2001 and 2010, respectively. On October 28, 2010 our stockholders approved an amendment to the 2004 Plan to increase the maximum number of shares of the Company's common stock authorized for issuance from 2,500,000 to 6,750,000. 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-based awards, other than the RSUs, expire within ten years from the grant date. 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's primary employee stock-based compensation grant occurs during the fourth fiscal quarter. 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.

Total compensation cost for stock-based payment arrangements totaled \$2.6 and \$2.3 million for the three months ended December 31, 2010 and 2009 respectively, and \$5.0 and \$4.6 million for the six months ended December 31, 2010 and 2009, respectively.

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Stock options outstanding, weighted average exercise price and weighted average fair values as of December 31, 2010 were as follows:

Options	Shares (in thousands)	Weighted Average Exercise Price
Outstanding at June 30, 2010	980	\$ 29.48
Granted		
Exercised	(4)	15.09
Forfeited or expired	(4)	22.90
Outstanding at September 30, 2010	972	\$ 29.56
Granted		
Exercised	(42)	15.04
Forfeited or expired	(32)	15.90
Outstanding at December 31, 2010	898	\$ 30.73
Exercisable at December 31, 2010	623	\$ 32.77

Outstanding options of 898,338 at December 31, 2010 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 5.0 years. Exercisable options of 623,238 at December 31, 2010 had an intrinsic value of zero and a weighted average remaining contractual term of 3.7 years. Of the outstanding and unvested options, 255,755 are expected to vest with a \$26.44 per share weighted average grant price, a weighted average remaining contractual life of 7.9 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.

A rollforward of RSAs, RSUs and SARs outstanding, as well as other relevant terms of the awards, were as follows:

	Nonvested		SARs Outstanding	
	Restricted Stock Outstanding Shares/Units (in thousands)	Weighted Average Grant Date Fair Value	Shares (in thousands)	Weighted Average Exercise Price
Balance, June 30, 2010	1,146	\$ 24.70	1,110	\$ 26.24
Granted	7	16.77		
Vested/Exercised	3	19.50		
Forfeited or expired	(18)	21.94	(21)	25.58
Balance, September 30, 2010	1,138	\$ 24.68	1,089	\$ 26.25
Granted				
Vested/Exercised	(11)	21.31		
Forfeited or expired			(13)	28.36
Balance, December 31, 2010	1,127	\$ 24.71	1,076	\$ 26.23

Outstanding and unvested RSAs of 911,666 at December 31, 2010 had an intrinsic value of \$15.1 million and a weighted average remaining unvested term of 1.9 years. Of the outstanding and unvested awards, 866,121 are expected to vest with a total intrinsic value of \$14.4 million.

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Outstanding and unvested RSUs of 215,000 at December 31, 2010 had an intrinsic value of \$3.6 million and a weighted average remaining contractual term of 1.2 years. All unvested RSUs are expected to vest in fiscal year 2012.

Outstanding SARs of 1,075,700 at December 31, 2010 had a total intrinsic value of zero and a weighted average remaining contractual term of 7.1 years. Exercisable SARs of 452,670 at December 31, 2010 had a total intrinsic value of zero and a weighted average remaining contractual term of 6.0 years. Of the outstanding and unvested rights, 603,000 are expected to vest with a \$22.10 per share weighted average grant price, a weighted average remaining contractual life of 8.0 years and a total intrinsic value of zero.

During the three and six months ended December 31, 2010 total cash received from the exercise of share-based instruments was \$0.6 and \$0.7 million, respectively. During the three and six months ended December 31, 2009 total cash received from the exercise of share-based instruments was zero.

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As of December 31, 2010, the total unrecognized compensation cost related to all unvested stock-based compensation arrangements was \$23.0 million. The related weighted average period over which such cost is expected to be recognized was approximately 3.1 years as of December 31, 2010.

The total intrinsic value of all stock-based compensation that was exercised during the three and six months ended December 31, 2010 was \$0.2 and \$0.2 million, respectively. The total intrinsic value of all stock-based compensation that was exercised during the three and six months ended December 31, 2009 was zero.

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. The Company's policy is to perform its annual goodwill impairment test during its third quarter of each fiscal year ending June 30.

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. 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 annual impairment analysis of goodwill during the third quarter of fiscal year 2010, a \$35.3 million impairment charge was recorded within continuing operations for the excess of the carrying value of goodwill over the implied fair value of goodwill for the Regis salon concept. The estimated fair value of the Promenade salon concept exceeded its respective carrying value by approximately 10.0 percent. 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 value of Promenade to be appropriate based on the historical level of revenue growth, operating income and cash flows, it is reasonably likely that Promenade 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 factors that influence 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 salon concept goodwill is dependent on many factors and cannot be predicted with certainty.

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As of December 31, 2010, 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 December 31, 2010.

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A summary of the Company's goodwill balance as of December 31, 2010 by reporting unit is as follows:

Reporting Unit	As of December 31, 2010 (Dollars in thousands)	
Regis	\$	103,654
MasterCuts		4,652
SmartStyle		48,686
Supercuts		123,376
Promenade		313,734
Total North America Salons		594,102
Hair Restoration Centers		151,574
Total	\$	745,676

Recent Accounting Standards Adopted by the Company:*Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*

In July 2010, the FASB issued guidance to amend the disclosure requirements related to the credit quality of financing receivables and the allowance for credit losses. The guidance requires disclosures on a disaggregated basis on two defined levels: (1) portfolio segment; and (2) class of financing receivable. The guidance amends existing disclosures to require an entity to provide the following disclosures on a disaggregated basis: rollforward schedule of the allowance for credit losses from the beginning to the end of the reporting period on a portfolio segment basis, the related recorded investment in financing receivables for each disaggregated ending balance, the nonaccrual status of financing receivables by class of financing receivables, and impaired financing receivables by class of financing receivables. Additionally, the guidance requires, among other things, new disclosures on the credit quality indicators of financing receivables at the end of the reporting period by class of financing receivables and the aging of past due financing receivables at the end of the reporting period by class of financing receivables. The new and amended disclosures presented as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The new and amended disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of the new guidance on October 1, 2010, for disclosure requirements related to the credit quality of financing receivables and allowance for credit losses, did not have a material effect on the Company's financial position, results of operations, and cash flows.

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 new disclosures on the transfers of assets and liabilities between Level 1 (quoted prices in active market for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a roll forward of activities on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements).

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The Company adopted the new disclosure guidance on January 1, 2010 and the disclosure on the roll forward activities for Level 3 fair value measurements will be adopted by the Company on July 1, 2011.

Multiple-Deliverable Revenue Arrangements

In October 2009, the FASB issued guidance on the accounting for multiple-deliverable revenue arrangements. The guidance removes the criterion that entities must use objective and reliable evidence of fair value in separately accounting for deliverables and provides entities with a hierarchy of evidence that must be considered when allocating arrangement consideration. The new guidance also requires entities to allocate arrangement consideration to the separate units of accounting based on the deliverables' relative selling price. The adoption of the new guidance on July 1, 2010, for multiple-deliverable revenue arrangements, did not have a material effect on the Company's financial position, results of operations, and cash flows.

Table of Contents*Amendments to Accounting for Variable Interest Entities*

In June 2009, the FASB issued guidance on the accounting for variable interest entities (VIE). The guidance requires a qualitative approach to identifying a controlling financial interest in a VIE and requires ongoing assessment of whether an entity is a VIE and whether an entity is a primary beneficiary of a VIE. This guidance requires enhanced disclosures that will provide users of financial statements with more transparent information about an enterprise's involvement in a VIE. The adoption of the new guidance on July 1, 2010, for variable interest entities, did not have a material effect on the Company's financial position, results of operations, and cash flows.

2. DISCONTINUED OPERATIONS:

On February 16, 2009, the Company sold its Trade Secret salon concept (Trade Secret). The Company concluded, after a comprehensive review of strategic and financial options, to divest Trade Secret. The sale of Trade Secret included 655 company-owned salons and 57 franchise salons, all of which had historically been reported within the Company's North America reportable segment. The sale of Trade Secret included Cameron Capital I, Inc. (CCI). CCI owned and operated PureBeauty and BeautyFirst salons which were acquired by the Company on February 20, 2008.

The Company concluded that Trade Secret qualified as held for sale as of December 31, 2008, under accounting for the impairment or disposal of long-lived asset guidance, and is presented as discontinued operations in the Condensed Consolidated Statements of Operations for all periods presented. The operations and cash flows of Trade Secret have been eliminated from ongoing operations of the Company and there will be no significant continuing involvement in the operations after disposal pursuant to guidance in determining whether to report discontinued operations. The agreement included a provision that the Company would supply product to the purchaser of Trade Secret and provide certain administrative services for a transition period. Under this agreement, the Company recognized \$20.0 million of product revenues on the supply of product sold to the purchaser of Trade Secret during the six months ended December 31, 2009, and \$1.9 million of other income related to the administrative services during the six months ended December 31, 2009. The agreement was substantially complete as of September 30, 2009.

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 \$0.7 and \$1.1 million of other income related to warehouse services during the three months ended December 31, 2010 and 2009, respectively. During the six months ended December 31, 2010 and 2009, the Company recognized \$1.4 and \$1.1 million, respectively, of other income related to warehouse services.

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

	Classification	December 31, 2010	June 30, 2010
(Dollars in thousands)			
Carrying value:			
Warehouse services	Receivables, net	\$ 244	\$ 359
Note receivable, current	Other current assets	500	2,838
Note receivable, current valuation allowance	Other current assets		(611)
Note receivable, long-term	Other assets	32,026	29,000

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Note receivable, long-term valuation allowance	Other assets		(1,299)		
Total note receivable, net		\$	31,471	\$	31,586

During fiscal year 2010, the Company entered into a formal note receivable agreement with the purchaser of Trade Secret. On July 6, 2010, the purchaser of Trade Secret filed for Chapter 11 bankruptcy. In connection with the bankruptcy by the purchaser of Trade Secret, the note receivable agreement was amended in October 2010. The note receivable agreement accrues interest at 8.0 percent which is payable quarterly beginning in December 2010. Principal payments of \$0.5 million are due quarterly beginning in December 2011 with the remainder of the principal due in September 2015.

The Company concluded that the note receivable is an impaired loan as the Company's cash flows were affected through the extension of payment term concessions. The Company evaluated the note receivable for impairment by comparing the carrying amount of the note receivable to the estimated fair value of the collateral. Collateral for the note receivable under the agreement is assets, including property and equipment, inventory, promissory notes and cash, of the purchaser of Trade Secret that the Company believes fully collateralizes the \$31.5 million net receivable as of December 31, 2010. Should the collateral decline there is a risk the Company may need to record reserves in future quarters.

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The long-term valuation allowance on the note receivable is related to accrued interest from April 2010 through October 2010 that the Company has determined the collectability to be less than probable. The Company suspended recognition of interest income effective April 2010 and will use the cash basis method for recognizing future interest income. During the three months ended December 31, 2010, the Company received a quarterly interest payment from the purchaser of Trade Secret totaling approximately \$0.7 million.

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 it is not the primary beneficiary of Trade Secret based on its exposure to the expected losses of Trade Secret and as it is not the variable interest holder that is most closely associated with the relationship and the significance of the activities of Trade Secret. The exposure to loss related to the Company's involvement with Trade Secret is the carrying value of the amount due from the purchaser of Trade Secret and the guarantee of less than 30 operating leases. The Company has determined the exposure to the risk of loss on the guarantee of the operating leases to be remote.

The income from discontinued operations is summarized below:

	For the Six Months Ended December 31,	
	2010	2009
	(Dollars in thousands)	
Income from discontinued operations, before income taxes	\$	\$ 154
Income tax benefit on discontinued operations		3,007
Income from discontinued operations, net of income taxes	\$	\$ 3,161

During the first quarter of fiscal year 2010, the Company recorded a \$3.0 million tax benefit in discontinued operations to correct the prior year calculation of the income tax benefit related to the disposition of the Trade Secret salon concept. The Company does not believe the adjustment is material to its results of operations for the six months ended December 31, 2009 or its financial position or results of operations of any prior periods.

3. **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. 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.

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

	For the Periods Ended December 31,			
	2010	Three Months 2009	2010	Six Months 2009
	(Shares in thousands)			
Weighted average shares for basic earnings per share	56,684	56,287	56,657	55,215
Effect of dilutive securities:				
Dilutive effect of stock-based compensation	294	125	238	91
Dilutive effect of convertible debt	11,158	11,158	11,158	10,309
Weighted average shares for diluted earnings per share	68,136	67,570	68,053	65,615

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

	For the Periods Ended December 31,			
	Three Months		Six Months	
	2010	2009	2010	2009
	(Shares in thousands)		(Shares in thousands)	
<i>Basic earnings per share:</i>				
RSAs (1)	912	819	912	819
RSUs (1)	215	215	215	215
	1,127	1,034	1,127	1,034
<i>Diluted earnings per share:</i>				
Stock options (2)	898	1,026	898	1,026
SARs (2)	1,076	1,108	1,076	1,108
RSAs (2)	109	184	109	806
	2,083	2,318	2,083	2,940

(1) Shares were not vested

(2) Shares were anti-dilutive

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

	For the Periods Ended December 31,			
	Three Months		Six Months	
	2010	2009	2010	2009
	(Dollars in thousands)			
Net income from continuing operations available to common shareholders	\$ 14,505	\$ 18,154	\$ 32,825	\$ 22,765
Effect of dilutive securities:				
Interest on convertible debt	2,013	1,936	4,027	3,565
Net income from continuing operations for diluted earnings per share	\$ 16,518	\$ 20,090	\$ 36,852	\$ 26,330

Additional Paid-In Capital:

The change in additional paid-in capital during the six months ended December 31, 2010 was due to the following:

(Dollars in thousands)

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Balance, June 30, 2010	\$	332,372
Stock-based compensation		5,004
Exercise of stock options		689
Franchise stock incentive plan		389
Tax benefit realized upon exercise of stock options		67
Other		(7)
Balance, December 31, 2010	\$	338,514

Table of Contents**Comprehensive Income:**

Components of comprehensive 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 income for the three and six months ended December 31, 2010 and 2009 was as follows:

	For the Periods Ended December 31,			
	Three Months		Six Months	
	2010	2009	2010	2009
	(Dollars in thousands)		(Dollars in thousands)	
Net income	\$ 14,505	\$ 18,154	\$ 32,825	\$ 25,926
Other comprehensive income (loss):				
Changes in fair market value of financial instruments designated as cash flow hedges of interest rate exposure, net of taxes	(31)	31	(95)	2,132
Change in cumulative foreign currency translation	2,756	(641)	17,552	12,645
Total comprehensive income	\$ 17,230	\$ 17,544	\$ 50,282	\$ 40,703

4. FAIR VALUE MEASUREMENTS:

On July 1, 2008, the Company adopted fair value measurement guidance for financial assets and liabilities. On July 1, 2009, the Company adopted fair value measurement guidance for nonfinancial assets and liabilities. This guidance 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
- 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.

Table of Contents*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 December 31, 2010 and June 30, 2010, according to the valuation techniques the Company used to determine their fair values.

	Fair Value at December 31, 2010	Level 1	Fair Value Measurements Using Inputs Considered as Level 2 (Dollars in thousands)	Level 3
ASSETS				
Non-current assets				
Preferred shares	\$ 3,831	\$	\$	\$ 3,831
LIABILITIES				
Current liabilities				
Derivative instruments	\$ 380	\$	\$ 380	\$
Non-current liabilities				
Derivative instruments	\$ 587	\$	\$ 587	\$
Equity put option	24,082			24,082

	Fair Value at June 30, 2010	Level 1	Fair Value Measurements Using Inputs Considered as Level 2 (Dollars in thousands)	Level 3
ASSETS				
Non-current assets				
Derivative instruments	\$ 274	\$	\$ 274	\$
Preferred shares	3,502			3,502
LIABILITIES				
Current liabilities				
Derivative instruments	\$ 401	\$	\$ 401	\$
Non-current liabilities				
Derivative instruments	\$ 1,039	\$	\$ 1,039	\$
Equity put option	22,009			22,009

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 and six months ended December 31, 2010 and 2009 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		
	Preferred Shares	Equity Put Option (Dollars in thousands)	Total
Balance at July 1, 2010	\$ 3,502	\$ 22,009	\$ 25,511
Total realized and unrealized gains (losses) including translation:			
Included in other comprehensive income	230	2,514	2,744
Balance at September 30, 2010	\$ 3,732	\$ 24,523	\$ 28,255
Total realized and unrealized gains (losses) including translation:			
Included in other comprehensive income	99	(441)	(342)
Balance at December 31, 2010	\$ 3,831	\$ 24,082	\$ 27,913

	Changes in Financial Instruments Measured at Level 3 Fair Value Classified as		
	Equity Put Option (Dollars in thousands)	Total	
Balance at July 1, 2009	\$ 24,161	\$ 24,161	
Total realized and unrealized gains (losses) including translation:			
Included in other comprehensive income	1,029	1,029	
Balance at September 30, 2009	\$ 25,190	\$ 25,190	
Total realized and unrealized gains (losses) including translation:			
Included in other comprehensive income	(551)	(551)	
Balance at December 31, 2009	\$ 24,639	\$ 24,639	

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, as provided by sources independent from 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. 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 and an equity call. In December 2010, a portion of the Equity Put was exercised. See further discussion within Note 6 to the Condensed Consolidated Financial Statements. The equity put option 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.

Preferred Shares. The Company has preferred shares in Yamano Holding Corporation. See further discussion within Note 6 to the Condensed Consolidated Financial Statements. 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. As of December 31, 2010, the subscription value of the preferred shares of 311,131,284 Yen (\$3.8 million) represents the fair value of the preferred shares.

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 December 31, 2010. At December 31, 2010, the estimated fair values and carrying amounts of debt were \$425.2 and \$404.1 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.

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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 and six months ended December 31, 2010 and 2009.

5. GOODWILL AND OTHER INTANGIBLES:

The table below contains details related to the Company's recorded goodwill as of December 31, 2010 and June 30, 2010:

	North America	Salons International	Hair Restoration Centers	Consolidated
	(Dollars in thousands)			
Gross goodwill at June 30, 2010	\$ 700,012	\$ 41,661	\$ 150,380	\$ 892,053
Accumulated impairment losses	(113,403)	(41,661)		(155,064)
Net goodwill at June 30, 2010	586,609		150,380	736,989
Goodwill acquired (1)	3,949		1,197	5,146
Translation rate adjustments	3,544		(3)	3,541
Gross goodwill at December 31, 2010	707,505	41,661	151,574	900,740
Accumulated impairment losses	(113,403)	(41,661)		(155,064)
Net goodwill at December 31, 2010	\$ 594,102	\$	\$ 151,574	\$ 745,676

(1) See Note 6 to the Condensed Consolidated Financial Statements.

The table below presents other intangible assets as of December 31, 2010 and June 30, 2010:

	Cost	December 31, 2010 Accumulated Amortization	Net (Dollars in thousands)	Cost	June 30, 2010 Accumulated Amortization	Net
Amortized intangible assets:						
Brand assets and trade names	\$ 80,088	\$ (13,223)	\$ 66,865	\$ 79,596	\$ (12,139)	\$ 67,457

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Customer lists	52,272	(31,369)	20,903	52,045	(28,652)	23,393
Franchise agreements	21,768	(8,264)	13,504	21,245	(7,543)	13,702
Lease intangibles	14,886	(4,778)	10,108	14,674	(4,360)	10,314
Non-compete agreements	341	(190)	151	320	(146)	174
Other	5,297	(2,260)	3,037	6,755	(3,725)	3,030
	\$ 174,652	\$ (60,084)	\$ 114,568	\$ 174,635	\$ (56,565)	\$ 118,070

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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 (In years)	
	December 31, 2010	June 30, 2010
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	5	5
Other	22	18
Total	26	26

Total amortization expense related to the amortizable intangible assets was approximately \$2.5 million during each of the three months ended December 31, 2010 and 2009, respectively, and \$4.9 and \$5.0 million during the six months ended December 31, 2010 and 2009, respectively. As of December 31, 2010, future estimated amortization expense related to amortizable intangible assets is estimated to be:

Fiscal Year	(Dollars in thousands)
2011 (Remainder: six-month period)	\$ 4,886
2012	9,527
2013	9,216
2014	9,002
2015	5,977

6. ACQUISITIONS, INVESTMENT IN AND LOANS TO AFFILIATES:

Acquisitions

During the six months ended December 31, 2010 and 2009, the Company made salon and hair restoration center 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. 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 six months ended December 31, 2010 and 2009 and the allocation of the purchase prices were as follows:

Allocation of Purchase Prices	For the Six Months Ended December 31,	
	2010	2009
(Dollars in thousands)		
Components of aggregate purchase prices:		
Cash	\$ 8,106	\$ 684
Deferred purchase price	154	
	\$ 8,260	\$ 684
Allocation of the purchase price:		
Current assets	\$ 470	\$ 69
Property and equipment	2,424	385
Goodwill	5,146	208
Identifiable intangible assets	649	86
Accounts payable and accrued expenses	(356)	(64)
Other noncurrent liabilities	(73)	
	\$ 8,260	\$ 684

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

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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.

During the six months ended December 31, 2010 and 2009, 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.

Investment in and loans to affiliates

The table below presents the carrying amount of investments in and loans to affiliates as of December 31, 2010 and June 30, 2010:

	December 31, 2010	June 30, 2010
	(Dollars in thousands)	
Empire Education Group, Inc.	\$ 101,609	\$ 102,882
Provalliance	84,442	75,481
MY Style	12,139	12,116
Hair Club for Men, Ltd.	5,150	5,307
	\$ 203,340	\$ 195,786

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 December 31, 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 December 31, 2010. The Company reviews the outstanding loan with EEG for changes in circumstances or the occurrence of events that suggest the Company's loan may not be recoverable. The \$21.4 million outstanding loan with EEG as of December 31, 2010 is in good standing with no associated valuation allowance. During each

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of the three months ended December 31, 2010 and 2009, the Company recorded \$0.2 million of interest income related to the loan and revolving credit facility. During the six months ended December 31, 2010 and 2009, the Company recorded \$0.4 and \$0.3 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 six months ended December 31, 2010 and 2009, the Company recorded \$2.9 and \$2.7 million of equity earnings related to its investment in EEG. EEG declared and distributed a dividend in December 2010 for which the Company received \$4.1 million in cash and recorded tax expense of \$0.3 million.

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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 2,500 company-owned and franchise salons as of December 31, 2010.

The merger agreement contains a right (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 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 Equity Put was recorded in other noncurrent liabilities. Any changes in the estimated fair value of the Equity Put are recorded in the Company's consolidated statement of operations. There was no change in the fair value of the Equity put during the six months ended December 31, 2010 and 2009. Any changes related to foreign currency translation are recorded in accumulated other comprehensive income. The Company recorded a \$2.1 million and \$0.4 million increase in the Equity Put related to foreign currency translation during the six months ended December 31, 2010 and 2009, respectively, see further discussion within Note 4 to the Condensed Consolidated Financial Statements. If the Equity Put is exercised, and the Company fails to complete the purchase, the parties exercising the 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 (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 Equity Put.

In December 2010, a portion of the Equity Put was exercised. In January of 2011, the Company elected to honor the Equity Put and plans to acquire an additional 17 percent equity interest in Provalliance, bringing the Company's total equity interest to approximately 46 percent. The option to purchase the remainder of Provalliance's equity interest under the Equity Put continues to exist through 2018.

The Company expects to acquire the 17 percent additional equity interest prior to June 30, 2011 for approximately \$56 million (approximately 40 million) in cash. When the equity interest is purchased, the Company expects to recognize a gain of approximately \$1.0 to \$3.0 million representing the reversal of the Equity Put liability which will be extinguished upon settlement. After the reversal of the Equity Put liability associated with the additional 17 percent equity interest, the remaining Equity Put liability will be approximately \$21.0 million to \$23.0 million.

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 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 Equity Put could be exercised and the Franck Provost Group could be protected from absorbing the downside of the equity interest. As the Equity Put absorbs a large amount of variability this characteristic results in Provalliance being a VIE.

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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 Equity Put that is unable to be quantified as of this date.

In connection with the future purchase of the additional equity interest the Company will reassess the consolidation of variable interest entities guidance to determine whether the Company will now be considered the primary beneficiary of the VIE. The Company believes the future purchase will not have a significant impact on the conclusion that the primary beneficiary of Provalliance is the Franck Provost Group.

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The tables below contain details related to the Company's investment in Provalliance:

Impact on Condensed Consolidated Balance Sheet

Classification	December 31, 2010	Carrying Value at	
		June 30, 2010	
(Dollars in thousands)			
Investment in Provalliance	\$ 84,442	\$ 75,481	
Equity Put Option	24,082	22,009	

Impact on Condensed Consolidated Statement of Operations

Classification	2010	For the Three Months Ended December 31,	
		2010	2009
(Dollars in thousands)			
Equity in income, net of income taxes	\$ 1,676	\$ 1,382	

Impact on Condensed Consolidated Statement of Operations

Classification	2010	For the Six Months Ended December 31,	
		2010	2009
(Dollars in thousands)			
Equity in income, net of income taxes	\$ 3,055	\$ 2,607	

Impact on Condensed Consolidated Statement of Cash Flows

Classification	2010	Six Months Ended December 31,	
		2010	2009
Equity in income, net of income taxes	\$ 3,055	\$ 2,607	
Cash dividends received	1,224	1,141	

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 shares of common stock of My Style. 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).

Exchangeable Note. In September 2008, the Company advanced an additional \$3.0 million (300,000,000 Yen as of September 2008) to Yamano Holding Corporation (Yamano). In connection with the 300,000,000 Yen advance, the exchangeable portion of the Exchangeable Note increased

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from approximately 14.8 percent to 27.1 percent of the 800 outstanding shares of MY Style for 21,700,000 Yen. 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.

On March 28, 2010, the Company entered into an amendment agreement with Yamano in connection with the Exchangeable Note. The amendment revised the redemptions schedule for the 100,000,000 Yen and 211,131,284 Yen payments due September 30, 2013 and 2014, respectively, to March 28, 2010. The amendment was entered into in connection with a preferred share subscription agreement dated March 29, 2010 between the Company and Yamano. Under the preferred share subscription agreement, Yamano issued and 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. The portions of the Exchangeable Note that became due as of March 28, 2010 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 no voting rights.

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The Company determined that the March 2010 modifications were minor and the loan modification should not be treated as an extinguishment. The preferred shares will be accounted for as an available for sale debt security and recorded as part of the Company's investment within the investment in and loans to affiliates line item on the Condensed Consolidated Balance Sheet with any changes in fair value recorded in other comprehensive income.

As of December 31, 2010, the principal amount outstanding under the Exchangeable Note is \$2.5 million (200,000,000 Yen). Principal payments of 100,000,000 Yen are due annually on September 30 through September 30, 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 \$2.5 million outstanding Exchangeable Note with Yamano as of December 31, 2010 is in good standing with no associated valuation allowance. The Exchangeable Note accrues interest at 1.845 percent and interest is payable on September 30, 2012 with the final principal payment. The Company recorded less than \$0.1 million in interest income related to the Exchangeable Note during the six months ended December 31, 2010 and 2009.

MY Style Note. As of December 31, 2010, the principal amount outstanding under the MY Style Note is \$1.9 million (156,492,000 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 \$1.9 million outstanding note with MY Style as of December 31, 2010 is in good standing with no associated valuation allowance. 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 six months ended December 31, 2010 and 2009.

As of December 31, 2010, \$1.9 and \$12.1 million are recorded in the Condensed Consolidated Balance Sheet as current assets and investment in affiliates and loans, respectively, representing the Company's total investment in MY Style. The exposure to loss related to the Company's involvement with MY Style is the carrying value of the premium paid and 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 (loss) gain recorded through other income was \$(0.1) and \$0.1 million during the six months ended December 31, 2010 and 2009, 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 six months ended December 31, 2010 and 2009 the Company recorded income of \$0.2 and \$0.4 million, respectively, and received cash dividends of \$0.5 and \$0.3 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.

7. DERIVATIVE FINANCIAL INSTRUMENTS:

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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 variable rate debt typically represents 35.0 to 45.0 percent of the total debt portfolio. 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

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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

The Company's cash flow hedges include interest rate swaps, forward foreign currency contracts and treasury lock agreements.

The Company uses interest rate swaps to maintain its variable to fixed rate debt ratio in accordance with its established policy. As of December 31, 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 pay fixed rates of interest and receive variable rates of interest. The contracts have maturity dates in July 2011 and the related debt have maturity dates in July 2012.

The Company repaid variable and fixed rate debt during the six months ended December 31, 2009. Prior to the repayments, the Company had two outstanding interest rate swaps totaling \$50.0 million on \$100.0 million aggregate variable rate debt with maturity dates between fiscal years 2013 and 2015. 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 \$5.2 million during the six months ended December 31, 2009 recorded within interest expense in the Condensed Consolidated Statement of Operations. The Company also had two outstanding treasury lock agreements with maturity dates between fiscal years 2013 and 2015. The treasury lock agreements were terminated prior to the maturity dates in conjunction with the repayments of debt and were settled for a loss of less than \$0.1 million during the six months ended December 31, 2009 and recorded within interest expense in the Condensed 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 June 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, net of tax.

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.

In November 2009, the Company terminated its freestanding derivative contract on its remaining payments on the MY Style Note for a gain of \$0.7 million. The contract was settled in cash, discounted to present value. Gains and losses over the life of the contract were recognized currently in earnings in conjunction with marking the contract to fair value. A loss of \$0.2 million was recognized during the six months ended December 31, 2009.

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The Company had the following derivative instruments in its Condensed Consolidated Balance Sheet as of December 31, 2010 and June 30, 2010:

Type	Classification	Asset Fair Value		Classification	Liability Fair Value	
		December 31, 2010	June 30, 2010		December 31, 2010	June 30, 2010
(In thousands)						
Designated as hedging instruments Cash Flow Hedges:						
Interest rate swaps		\$	\$	Other noncurrent liabilities	\$ (587)	\$ (1,039)
Forward foreign currency contracts	Other current assets	\$	\$ 274	Other current liabilities	\$ (380)	\$
Freestanding derivative contracts not designated as hedging instruments:						
Forward foreign currency contracts	Other current assets	\$	\$	Other current liabilities	\$	\$ (401)
Total		\$	\$ 274		\$ (967)	\$ (1,440)

The tables below sets forth the (gain) or loss on the Company's derivative instruments recorded within accumulated other comprehensive income (AOCI) in the Condensed Consolidated Balance Sheet for the three and six months ended December 31, 2010 and 2009. The tables also sets forth the (gain) or loss on the Company's derivative instruments that has been reclassified from AOCI into current earnings during the three and six months ended December 31, 2010 and 2009 within the following line items in the Condensed Consolidated Statement of Operations.

Type	(Gain) / Loss Recognized in Other Comprehensive Income		Classification	(Gain) / Loss Reclassified from Accumulated OCI into Income	
	Six Months Ended December 31, 2010	2009		Six Months Ended December 31, 2010	2009
(In thousands)					
Designated as hedging instruments Cash Flow Hedges:					
Interest rate swaps	\$ (274)	\$ (2,783)		\$	\$
Forward foreign currency contracts	321	666	Cost of sales	48	(257)
Treasury lock contracts		242	Interest expense (income)		
Total	\$ 47	\$ (1,875)		\$ 48	\$ (257)

As of December 31, 2010 the Company estimates that it will reclassify into earnings during the next twelve months a gain of \$0.4 million from the pretax amount recorded in AOCI as the anticipated cash flows occur.

The table below sets forth the (gain) or loss on the Company's derivative instruments for six months ended December 31, 2010 and 2009 recorded within interest income and other, net in the Condensed Consolidated Statement of Operations.

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Type	Classification	Derivative Impact on Income at December 31,		2009
		2010	(In thousands)	
Freestanding derivative contracts not designated as hedging instruments:				
Forward foreign currency contracts	Interest income and other, net	\$	401	\$ 411
		\$	401	\$ 411

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The Company approved plans in June 2009 and July 2008 to close approximately 80 and 160, respectively, underperforming company-owned salons. As lease settlements were negotiated, the Company found that some lessors were willing to negotiate rent reductions which allowed the Company to keep operating certain salons. As a result, the number of salons closed was less than the amount of salons per the approved plans. For salons that did not receive rent reductions, the Company ceased using the right to use the leased property or negotiated a lease termination agreement with the lessors. Lease termination costs represents either the lease settlement or the net present value of remaining contractual lease payments related to closed salons, reduced by estimated sublease rentals. Lease termination costs from continuing operations are presented as a separate line item in the Condensed Consolidated Statement of Operations. The plans are substantially complete.

The activity reflected in the accrual for lease termination costs is as follows:

Accrual for Lease Terminations	For the Six Months Ended December 31,	
	2010	2009
	(Dollars in thousands)	
Balance at July 1	\$ 1,386	\$ 2,760
Provision for lease termination costs:		
Provisions associated with store closings		3,552
Cash payments	(824)	(1,026)
Balance at September 30,	\$ 562	\$ 5,286
Provision for lease termination costs:		
Provisions associated with store closings		
Cash payments	(114)	(1,377)
Balance at December 31,	\$ 448	\$ 3,909

9. 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 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 results of operations in any particular period.

During fiscal year 2010, the Company settled two legal claims regarding certain customer and employee matters for an aggregate charge of \$5.2 million plus a commitment to provide discount coupons. As of December 31, 2010 there was a \$4.3 million remaining liability recorded within accrued expenses related to the settlements.

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The table below contains details related to the Company's debt for the six months ending December 31, 2010 and 2009:

Total Debt	For the Six Months Ended December 31,	
	2010	2009
	(Dollars in Thousands)	
Balance at June 30,	\$ 440,029	\$ 634,307
Net payments on revolving credit facilities		(5,000)
Issuance of convertible debt		172,500
Repayment of long-term debt and capital lease obligations	(3,334)	(301,004)
Debt discount		(24,696)
Amortization of debt discount	1,086	868
Debt associated with capital lease obligations	1,888	1,736
Balance at September 30,	\$ 439,669	\$ 478,711
Net payments on revolving credit facilities		
Repayment of long-term debt and capital lease obligations	(39,258)	(12,285)
Amortization of debt discount	1,110	984
Debt associated with capital lease obligations	2,624	2,931
Balance at December 31,	\$ 404,145	\$ 470,341

In July 2009, the Company amended the Fourth Amended and Restated Credit Agreement, the Term Loan Agreement and the Amended and Restated Private Shelf Agreement. The amendments included increasing the Company's minimum net worth covenant from \$675.0 million to \$800.0 million, lowering the fixed charge coverage ratio requirement from 1.5x to 1.3x, amending certain definitions, including EBITDA and Fixed Charges, and limiting the Company's Restricted Payments (as defined in the agreement) to \$20 million if the Company's Leverage Ratio is greater than 2.0x. In addition, the amendments to the Fourth Amended and Restated Credit Agreement reduced the borrowing capacity of the revolving credit facility from \$350.0 million to \$300.0 million and the amendments to the Restated Private Shelf Agreement included the addition of one year after the amendment effective date, a risk based capital fee calculated on the daily average outstanding principal amount equal to an annual rate of 1.0 percent.

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. The notes will be 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).

Holder 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

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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:

Convertible Senior Notes Due 2014	For the Six Months Ended December 31,	
	2010	2009
	(Dollars in Thousands)	
Principal amount on the convertible senior notes	\$ 172,500	\$ 172,500
Unamortized debt discount	(18,544)	(22,844)
Net carrying amount of convertible debt	\$ 153,956	\$ 149,656

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

Convertible Senior Notes Due 2014	For the Six Months Ended December 31,	
	2010	2009
	(Dollars in thousands)	
Interest cost related to contractual interest coupon 5.0%	\$ 4,313	\$ 3,953
Interest cost related to amortization of the discount	2,196	1,852
Total interest cost	\$ 6,509	\$ 5,805

In connection with the convertible senior note offering, the Company issued 13,225,000 shares of common stock resulting in net proceeds of \$163.5 million. The proceeds from the convertible senior notes and the common stock issuance were utilized to repay \$267.0 million of private placement senior term notes of varying maturities and \$30.0 million of additional senior term notes under a Private Shelf Agreement. As a result of the repayment of debt during the six months ended December 31, 2009, the Company incurred \$12.8 million in make-whole payments and other fees along with \$5.2 million in interest rate swap settlements, as discussed in Note 7 of the Condensed Consolidated Financial Statements, totaling \$18.0 million that was recorded as interest expense within the Condensed Consolidated Statement of Operations.

11. 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 and six months ended December 31, 2010, the Company's continuing operations recognized tax expense of \$5.3 and \$15.0 million, respectively, with corresponding effective tax rates of 31.9 and 35.7 percent. This was compared to tax expense of \$8.9 and \$10.5 million with corresponding effective tax rates of 36.5 and 38.2 percent in the comparable periods of the prior year. The effective income tax rate for the three and six months ended December 31, 2010 was positively impacted by certain discrete items and a shift in the mix of worldwide income to lower taxing jurisdictions. The shift in the mix of worldwide income decreased the Company's income tax provision for the three and six months ended December 31, 2010 by \$0.7 million and decreased its effective income tax rate by 4.4 and 1.8 percent, respectively. The effective income tax rate for the six months ended December 31, 2009 was negatively impacted by an adjustment to correct its prior year deferred income tax balances. The adjustment increased the Company's income tax provision for the six months ended December 31, 2009 by \$0.4 million and increased its effective income tax rate by 1.5 percent. The Company does not believe the adjustment is material to the six months ended December 31, 2009 results of operations or its financial position or results of operations of any prior periods.

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 and six months ended December 31, 2010. 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 twelve months; however, we do not expect the change to have a significant effect on our consolidated results of operations or financial position.

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The Company files tax returns and pays tax primarily in the United States, Canada, the United Kingdom, 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 has been notified that the United States federal income tax returns for the years 2007 through 2009 have been selected for 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 2006. 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.

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As of December 31, 2010, the Company owned, franchised, or held ownership interests in approximately 12,750 worldwide locations. The Company's locations consisted of 9,496 North American salons (located in the United States, Canada and Puerto Rico), 402 international salons, 96 hair restoration centers and approximately 2,750 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.

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.

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

Total Assets by Segment	December 31, 2010		June 30, 2010	
	(Dollars in thousands)			
North American salons	\$	989,368	\$	992,410
International salons		84,349		74,633
Hair restoration centers		291,067		284,615
Unallocated corporate		573,748		567,914
Consolidated	\$	1,938,532	\$	1,919,572

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For the Three Months Ended December 31, 2010

	Salons		Hair Restoration Centers		Unallocated Corporate	Consolidated
	North America	International				
	(Dollars in thousands)					
Revenues:						
Service	\$ 388,656	\$ 25,634	\$ 16,649	\$	\$	\$ 430,939
Product	103,775	11,443	18,606			133,824
Royalties and fees	9,018		591			9,609
	501,449	37,077	35,846			574,372
Operating expenses:						
Cost of service	226,739	13,314	9,652			249,705
Cost of product	51,622	6,266	6,038			63,926
Site operating expenses	46,739	2,593	1,265			50,597
General and administrative	32,485	3,259	8,276	31,828		75,848
Rent	73,454	8,903	2,314	564		85,235
Depreciation and amortization	17,423	1,161	3,169	4,444		26,197
Total operating expenses	448,462	35,496	30,714	36,836		551,508
Operating income (loss)	52,987	1,581	5,132	(36,836)		22,864
Other income (expense):						
Interest expense				(8,738)		(8,738)
Interest income and other, net				2,604		2,604
Income (loss) before income taxes and equity in income of affiliated companies	\$ 52,987	\$ 1,581	\$ 5,132	\$ (42,970)	\$	\$ 16,730

For the Three Months Ended December 31, 2009

	Salons		Hair Restoration Centers		Unallocated Corporate	Consolidated
	North America	International				
	(Dollars in thousands)					
Revenues:						
Service	\$ 390,318	\$ 28,366	\$ 16,441	\$	\$	\$ 435,125
Product	100,614	11,980	18,077			130,671
Royalties and fees	8,969		600			9,569
	499,901	40,346	35,118			575,365
Operating expenses:						
Cost of service	224,952	14,854	9,006			248,812
Cost of product	50,828	6,109	5,483			62,420
Site operating expenses	42,298	2,744	1,367			46,409
General and administrative	29,776	3,460	8,794	30,581		72,611
Rent	73,109	9,730	2,235	466		85,540
Depreciation and amortization	18,131	1,538	3,061	4,780		27,510
Total operating expenses	439,094	38,435	29,946	35,827		543,302
Operating income (loss)	60,807	1,911	5,172	(35,827)		32,063
Other income (expense):						
Interest expense				(9,069)		(9,069)
Interest income and other, net				1,411		1,411
Income (loss) before income taxes and equity in income of affiliated companies	\$ 60,807	\$ 1,911	\$ 5,172	\$ (43,485)	\$	\$ 24,405

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For the Six Months Ended December 31, 2010

	Salons		Hair	Unallocated	Consolidated
	North America	International	Restoration Centers	Corporate	
	(Dollars in thousands)				
Revenues:					
Service	\$ 785,977	\$ 50,997	\$ 33,494	\$	\$ 870,468
Product	203,895	21,138	37,396		262,429
Royalties and fees	18,510		1,210		19,720
	1,008,382	72,135	72,100		1,152,617
Operating expenses:					
Cost of service	454,036	26,042	19,128		499,206
Cost of product	101,355	11,511	12,135		125,001
Site operating expenses	93,068	4,783	1,755		99,606
General and administrative	62,363	6,211	16,855	64,493	149,922
Rent	147,072	17,573	4,578	1,120	170,343
Depreciation and amortization	34,655	2,248	6,312	9,026	52,241
Lease termination costs					
Total operating expenses	892,549	68,368	60,763	74,639	1,096,319
Operating income (loss)	115,833	3,767	11,337	(74,639)	56,298
Other income (expense):					
Interest expense					