

REGIS CORP
Form 10-Q
May 11, 2009
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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 March 31, 2009

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.)

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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 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 the 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
(Do not check if a smaller reporting company)

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of May 7, 2009:

Common Stock, \$.05 par value
Class

43,864,304
Number of Shares

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REGIS CORPORATION

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as of March 31, 2009 and June 30, 2008

(In thousands, except share data)

	March 31, 2009	June 30, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 57,063	\$ 127,627
Receivables, net	35,713	37,824
Inventories	165,022	212,468
Deferred income taxes	19,963	15,954
Income tax receivable	52,491	12,512
Other current assets	39,515	38,766
Total current assets	369,767	445,151
Property and equipment, net	407,660	481,851
Goodwill	760,565	870,993
Other intangibles, net	128,205	144,291
Investment in and loans to affiliates	218,330	247,102
Other assets	43,305	46,483
Total assets	\$ 1,927,832	\$ 2,235,871
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Long-term debt, current portion	\$ 121,260	\$ 230,224
Accounts payable	63,297	69,693
Accrued expenses	156,634	207,605
Total current liabilities	341,191	507,522
Long-term debt and capital lease obligations	580,347	534,523
Other noncurrent liabilities	222,843	217,640
Total liabilities	1,144,381	1,259,685
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Common stock, \$0.05 par value; issued and outstanding 43,202,231 and 43,070,927 common shares at March 31, 2009 and June 30, 2008, respectively	2,160	2,153
Additional paid-in capital	152,028	143,265
Accumulated other comprehensive income	25,560	101,973
Retained earnings	603,703	728,795

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Total shareholders' equity		783,451		976,186
Total liabilities and shareholders' equity	\$	1,927,832	\$	2,235,871

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

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REGIS CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)
for the three months ended March 31, 2009 and 2008
(In thousands, except per share data)

	2009	2008
Revenues:		
Service	\$ 453,301	\$ 467,145
Product	141,169	137,667
Royalties and fees	9,616	14,045
	604,086	618,857
Operating expenses:		
Cost of service	259,465	267,705
Cost of product	74,217	66,060
Site operating expenses	49,864	47,506
General and administrative	69,592	77,825
Rent	85,654	89,662
Depreciation and amortization	27,384	26,958
Lease termination costs	838	
Total operating expenses	567,014	575,716
Operating income	37,072	43,141
Other income (expense):		
Interest expense	(9,684)	(11,266)
Interest income and other, net	1,316	1,829
Income from continuing operations before income taxes and equity in income of affiliated companies	28,704	33,704
Income taxes	(9,667)	(15,196)
Equity in income of affiliated companies, net of income taxes	1,988	638
Income from continuing operations	21,025	19,146
Loss from discontinued operations, net of income taxes (Note 2)	(12,171)	(178)
Net income	\$ 8,854	\$ 18,968
Net income (loss) per share:		
Basic:		
Income from continuing operations	0.49	0.45
Loss from discontinued operations, net of income taxes	(0.28)	(0.01)
Net income per share, basic	\$ 0.21	\$ 0.44
Diluted:		
Income from continuing operations	0.49	0.44
Loss from discontinued operations, net of income taxes	(0.28)	
Net income per share, diluted	\$ 0.21	\$ 0.44

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Weighted average common and common equivalent shares outstanding:

Basic	42,905	42,638
Diluted	42,917	43,025
Cash dividends declared per common share	\$ 0.04	\$ 0.04

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

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REGIS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)

for the nine months ended March 31, 2009 and 2008

(In thousands, except per share data)

	2009	2008
Revenues:		
Service	\$ 1,367,414	\$ 1,370,759
Product	408,126	413,583
Royalties and fees	29,501	56,511
	1,805,041	1,840,853
Operating expenses:		
Cost of service	783,380	783,760
Cost of product	204,914	198,708
Site operating expenses	145,886	140,916
General and administrative	219,887	244,141
Rent	259,846	266,102
Depreciation and amortization	82,171	83,495
Goodwill impairment	41,661	
Lease termination costs	2,836	
Total operating expenses	1,740,581	1,717,122
Operating income	64,460	123,731
Other income (expense):		
Interest expense	(30,782)	(33,495)
Interest income and other, net	6,513	6,074
Income from continuing operations before income taxes and equity in income of affiliated companies	40,191	96,310
Income taxes	(29,008)	(37,681)
Equity in income of affiliated companies, net of income taxes	142	690
Income from continuing operations	11,325	59,319
(Loss) income from discontinued operations, net of income taxes (Note 2)	(131,237)	2,804
Net (loss) income	\$ (119,912)	\$ 62,123
Net (loss) income per share:		
Basic:		
Income from continuing operations	0.26	1.37
(Loss) income from discontinued operations, net of income taxes	(3.06)	0.06
Net (loss) income per share, basic	\$ (2.80)	\$ 1.43
Diluted:		
Income from continuing operations	0.26	1.36
(Loss) income from discontinued operations, net of income taxes	(3.05)	0.06
Net (loss) income per share, diluted	\$ (2.79)	\$ 1.42

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Weighted average common and common equivalent shares outstanding:			
Basic		42,863	43,303
Diluted		42,966	43,831
Cash dividends declared per common share	\$	0.12	\$ 0.12

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

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REGIS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

for the nine months ended March 31, 2009 and 2008

(In thousands)

	2009	2008
Cash flows from operating activities:		
Net (loss) income	\$ (119,912)	\$ 62,123
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	84,189	84,800
Amortization	7,544	8,640
Equity in income of affiliated companies	(142)	(690)
Deferred income taxes	(5,952)	1,250
Impairment on discontinued operations	183,090	
Goodwill impairment	41,661	
Excess tax benefits from stock-based compensation plans	(284)	(1,335)
Stock-based compensation	5,450	4,998
Other noncash items affecting earnings	(4,291)	1,874
Changes in operating assets and liabilities:		
Receivables	(3,808)	(1,183)
Inventories	(547)	(3,740)
Income tax receivable	(39,979)	22,747
Other current assets	(2,391)	(18,259)
Other assets	1,137	13,949
Accounts payable	(2,694)	(6,032)
Accrued expenses	(21,344)	(1,453)
Other noncurrent liabilities	(1,002)	150
Net cash provided by operating activities	120,725	167,839
Cash flows from investing activities:		
Capital expenditures	(64,039)	(64,696)
Proceeds from sale of assets	51	21
Asset acquisitions, net of cash acquired and certain obligations assumed	(40,051)	(124,379)
Proceeds from loans and investments	17,489	10,000
Disbursements for loans and investments	(5,971)	(43,900)
Transfer of cash related to contribution of schools and European franchise salon operations		(14,570)
Net cash used in investing activities	(92,521)	(237,524)
Cash flows from financing activities:		
Borrowings on revolving credit facilities	4,899,600	6,883,917
Payments on revolving credit facilities	(4,973,800)	(6,863,630)
Proceeds from issuance of long-term debt	85,000	125,000
Repayments of long-term debt and capital lease obligations	(83,519)	(67,926)
Repurchase of common stock		(49,956)
Excess tax benefits from stock-based compensation plans	284	1,335
Proceeds from issuance of common stock	2,307	7,897
Dividends paid	(5,181)	(5,245)
Other	(4,328)	(7,343)
Net cash (used in) provided by financing activities	(79,637)	24,049

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Effect of exchange rate changes on cash and cash equivalents	(19,131)	(2,860)
Decrease in cash and cash equivalents	(70,564)	(48,496)
Cash and cash equivalents:		
Beginning of period	127,627	184,785
End of period	\$ 57,063	\$ 136,289

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 March 31, 2009 and for the three and nine months ended March 31, 2009 and 2008, reflect, in the opinion of management, all adjustments necessary to fairly state the consolidated financial position of the Company as of March 31, 2009 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, 2008 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, 2008 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 March 31, 2009 and for the three and nine month periods ended March 31, 2009 and 2008 included in this Form 10-Q, have been reviewed by PricewaterhouseCoopers LLP, an independent registered public accounting firm. Their separate report dated May 11, 2009 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.

Inventories:

Inventories consist principally of hair care products for retail product sales. A portion of inventories are also used for salon services consisting of hair color, hair care products (including shampoo and conditioner) and hair care treatments (including permanents, neutralizers and relaxers). Inventories are stated at the lower of cost or market, with cost determined on a weighted average cost basis.

Physical inventory counts are performed semi-annually. Product and service inventories are adjusted based on the results of the physical inventory counts. Between the physical inventory counts, cost of retail product sold to salon customers is determined based on the weighted average cost of product sold, adjusted for an estimated shrinkage factor and the cost of product used in salon services is determined by applying

estimated gross profit margins to service revenues. The estimated gross profit margins related to service inventories are updated semi-annually based on the results of the physical inventory counts and other factors that could impact the Company's margin rate estimates such as mix of service sales, discounting and special promotions. Actual results for the estimated gross margin percentage as compared to the semi-annual estimates have not historically resulted in material adjustments to our statement of operations.

Stock-Based Employee Compensation:

Stock-based awards are granted under the terms of the 2004 Long Term Incentive Plan (2004 Plan) and the 2000 Stock Option Plan (2000 Plan). Additionally, the Company has outstanding stock options under its 1991 Stock Option Plan (1991 Plan), although the Plan terminated in 2001. 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

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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 \$5.5 and \$5.0 million for the nine months ended March 31, 2009 and 2008, respectively.

Stock options outstanding, weighted average exercise price and weighted average fair values as of March 31, 2009 were as follows:

Options	Shares (in thousands)	Weighted Average Exercise Price
Outstanding at June 30, 2008	1,713	\$ 24.55
Granted	2	26.79
Exercised	(133)	17.17
Forfeited or expired	(6)	36.24
Outstanding at September 30, 2008	1,576	\$ 25.14
Granted		
Exercised	(1)	19.28
Forfeited or expired	(19)	33.10
Outstanding at December 31, 2008	1,556	\$ 25.05
Granted		
Exercised		
Forfeited or expired	(38)	32.58
Outstanding at March 31, 2009	1,518	\$ 24.86
Exercisable at March 31, 2009	1,187	\$ 22.32

Outstanding options of 1,517,796 at March 31, 2009 had an intrinsic value of less than \$0.1 million and a weighted average remaining contractual term of 3.7 years. Exercisable options of 1,187,096 at March 31, 2009 had an intrinsic value of less than \$0.1 million and a weighted average remaining contractual term of 2.5 years. An additional 317,086 options are expected to vest with a \$34.05 per share weighted average grant price and 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.

Grants of RSAs, RSUs and SARs outstanding under the 2004 Plan, as well as other relevant terms of the awards, were as follows:

Restricted Stock Outstanding Shares/Units	Nonvested	Weighted Average Grant Date Fair Value	SARs Outstanding Shares	Weighted Average Exercise Price
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	(in thousands)		(in thousands)		
Balance, June 30, 2008	523	\$	36.76	527	\$ 35.70
Granted					
Vested/Exercised					
Forfeited or expired	(8)		34.31	(14)	38.27
Balance, September 30, 2008	515	\$	36.80	513	\$ 35.69
Granted					
Vested/Exercised	1		34.01		
Forfeited or expired					
Balance, December 31, 2008	516	\$	36.80	513	\$ 35.69
Granted					
Vested/Exercised	1		34.00		
Forfeited or expired	(11)		35.15	(11)	35.23
Balance, March 31, 2009	506	\$	36.83	502	\$ 35.70

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Outstanding and unvested RSAs of 290,843 at March 31, 2009 had an intrinsic value of \$4.2 million and a weighted average remaining contractual term of 1.6 years. An additional 278,960 awards are expected to vest with a total intrinsic value of \$4.0 million.

Outstanding and unvested RSUs of 215,000 at March 31, 2009 had an intrinsic value of \$3.1 million and a weighted average remaining contractual term of 3.0 years. All unvested RSUs are expected to vest in fiscal year 2012.

Outstanding SARs of 502,050 at March 31, 2009 had a total intrinsic value of zero and a weighted average remaining contractual term of 7.3 years. Exercisable SARs of 176,980 at March 31, 2009 had a total intrinsic value of zero and a weighted average remaining contractual term of 5.9 years. An additional 317,143 rights are expected to vest with a \$34.02 per share weighted average grant price, a weighted average remaining contractual life of 8.0 years and a total intrinsic value of zero.

Total cash from the exercise of share-based instruments for the three and nine months ended March 31, 2009 was zero and \$2.3 million, respectively. Total cash received from the exercise of share-based instruments for the three and nine months ended March 31, 2008 was \$0.5 million and \$7.9 million, respectively.

As of March 31, 2009, the total unrecognized compensation cost related to all unvested stock-based compensation arrangements was \$17.2 million. The related weighted average period over which such cost is expected to be recognized was approximately 3.1 years as of March 31, 2009.

The total intrinsic value of all stock-based compensation (the amount by which the respective March 31 stock price exceeded the exercise or grant date price) that was exercised during the three and nine months ended March 31, 2009 was zero and \$1.6 million, respectively. The total intrinsic value of all stock-based compensation (the amount by which the respective March 31 stock price exceeded the exercise or grant date price) that was exercised during the three and nine months ended March 31, 2008 was \$0.3 and \$6.6 million, respectively.

The total fair value of awards vested during the nine months ended March 31, 2009 and 2008 was less than \$0.1 million, respectively.

Recent Accounting Pronouncements:

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 establishes a single definition of fair value and a framework for measuring fair value, sets out a fair value hierarchy to be used to classify the source of information used in fair value measurements, and requires new disclosures of assets and liabilities measured at fair value based on their level in the hierarchy. This statement applies under other accounting pronouncements that require or permit fair value measurements, but does not change existing guidance as to whether or not an instrument is carried at fair value. In February 2008, the FASB issued FASB Staff Position (FSP) No. 157-1 and No. 157-2, which, respectively, removed leasing transactions from the scope of SFAS No. 157 and deferred for one year the effective date for SFAS No. 157 as it applies to certain nonfinancial assets and liabilities. On July 1, 2008, the Company adopted, on a prospective basis, SFAS No. 157 and became subject to the new disclosure requirements (excluding FSP 157-2) with respect to the Company's fair value measurements of (a) nonfinancial assets and liabilities that are recognized or

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disclosed at fair value in our financial statements on a recurring basis (at least annually) and (b) all financial assets and liabilities. The Company's adoption did not impact its consolidated financial position or results of operations as all fair value measurements were in accordance with SFAS No. 157 upon adoption. The additional disclosures required by SFAS No. 157 are included in Note 4 to the Condensed Consolidated Financial Statements. The Company is evaluating the impact FSP No. 157-2 will have on its nonfinancial assets and liabilities that are measured at fair value, but are recognized or disclosed at fair value on a nonrecurring basis.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS No. 141(R)). SFAS No. 141(R) replaces SFAS No. 141, *Business Combinations*. SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interests in the acquiree and the goodwill acquired. Some of the key changes under SFAS No. 141(R) will change the accounting treatment for certain specific acquisition related items including: (1) accounting for acquired in process research and development as an indefinite-lived intangible asset until approved or discontinued rather than as an immediate expense; (2) expensing acquisition costs rather than adding them to the cost of an acquisition; (3) expensing restructuring costs in connection with an acquisition rather

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than adding them to the cost of an acquisition; (4) including the fair value of contingent consideration at the date of an acquisition in the cost of an acquisition; and (5) recording an asset or liability arising from a contingency at the date of an acquisition at fair value if fair value can be reasonably determined. If fair value can not be determined, the asset or liability would be recognized in accordance with SFAS No. 5, *Accounting for Contingencies*. SFAS No. 141(R) also includes a substantial number of new disclosure requirements. SFAS No. 141(R) will be effective for the Company's fiscal year 2010 and must be applied prospectively to all new acquisitions closing on or after July 1, 2009. Early adoption is prohibited. SFAS No. 141(R) is expected to have a material impact on how the Company will identify, negotiate and value future acquisitions and may materially impact the Company's Consolidated Financial Statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS No. 161). SFAS No. 161 requires enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedge items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The Company adopted SFAS No. 161 and provided the enhanced disclosure requirements with respect to the Company's derivative instruments and hedging activities effective with the filing of Form 10-Q for the quarter ended March 31, 2009. The additional disclosures required by SFAS No. 161 are included in Note 9 to the Condensed Consolidated Financial Statements.

In June 2008, the FASB issued FASB Staff Position Emerging Issues Task Force No. 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP EITF 03-6-1). FSP EITF 03-6-1 clarified that all share-based payment awards that contain rights to non-forfeitable dividends participate in undistributed earnings with common shareholders. Therefore, awards of this nature are considered participating securities and the two-class method of computing basic and diluted earnings per share must be applied rather than the treasury stock method. FSP EITF 03-6-1 is effective for the Company's fiscal year 2010. In addition, once effective, all prior period earnings per share data presented must be adjusted retrospectively to conform to the provisions of FSP EITF 03-6-1. The Company's outstanding unvested restricted stock awards do not contain rights to non-forfeitable dividends and as a result, FSP EITF 03-6-1 will have no impact on the Company's diluted earnings per share.

2. DISCONTINUED OPERATIONS:

On January 26, 2009, the Company entered into an agreement to sell 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 659 company-owned salons and 62 franchise salons, all of which had historically been reported within the Company's North America reportable segment. The sale of Trade Secret closed on February 16, 2009.

The Company concluded that Trade Secret qualified as held for sale under Statement of Financial Accounting Standard No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS No. 144), as of December 31, 2008 and is presented as discontinued operations in the Condensed Consolidated Statements of Operations for all periods presented. The conclusion was based on management having the authority to commit the Company to sell Trade Secret within parameters approved by the Board of Directors, the salons being available for sale in present condition, negotiations being held with a potential buyer and the sale was probable as of December 31, 2008. 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 Emerging Issues Task Force (EITF) Issue No. 03-13, *Applying the Conditions in Paragraph 42 of FASB Statement No. 144 in Determining Whether to Report Discontinued Operations*. The agreement includes a provision that the Company will supply product to the buyer of Trade Secret and provide certain administrative services for a transition period of six months following the date of sale with possible extension to not more than eleven months. The Company recognized \$12.6 million of product revenues on the supply of product and \$1.0 million of other income related to the administrative services during the three months ended March 31, 2009. The Company has a \$9.8 million outstanding receivable with the buyer of Trade Secret as of March 31, 2009.

As the proceeds the Company received from the sale of Trade Secret were negligible, the Company recognized impairment charges within discontinued operations during the three and nine months ended March 31, 2009 set forth

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in the following table.

	For the Periods Ended March 31, 2009			
	Three Months		Nine Months	
	(Dollars in thousands)			
Inventories	\$	10,601	\$	44,200
Property and equipment, net		765		57,256
Goodwill				78,126
Other intangibles, net				7,187
Other assets		1,310		4,206
Other liabilities		(1,408)		(7,885)
Impairment loss/loss on sale before income taxes	\$	11,268	\$	183,090

The (loss) income from discontinued operations are summarized below:

	For the Periods Ended March 31,							
	Three Months		Nine Months					
	2009	2008	2009	2008				
	(Dollars in thousands)		(Dollars in thousands)					
Revenues	\$	28,889	\$	61,198	\$	163,436	\$	188,968
(Loss) income from discontinued operations, before income taxes		(12,789)		(1,036)		(190,234)		4,132
Income tax benefit (provision) on discontinued operations		618		858		58,997		(1,328)
(Loss) income from discontinued operations, net of income taxes	\$	(12,171)	\$	(178)	\$	(131,237)	\$	2,804

Income taxes have been allocated to continuing and discontinued operations based on the methodology required by Financial Accounting Interpretation No. 18, *Accounting for Income Taxes in Interim Periods an Interpretation of APB Opinion No. 28 (FIN 18)*.

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.

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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 March 31,			
	Three Months	2008	2009	Nine Months
	2009	2008	2009	2008
	(Shares in thousands)			
Weighted average shares for basic earnings per share	42,905	42,638	42,863	43,303
Effect of dilutive securities:				
Dilutive effect of stock-based compensation	12	280	103	421
Contingent shares issuable under contingent stock agreements		107		107
Weighted average shares for diluted earnings per share	42,917	43,025	42,966	43,831

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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 March 31,			
	Three Months		Nine Months	
	2009	2008	2009	2008
	(Shares in thousands)		(Shares in thousands)	
<i>Basic earnings per share:</i>				
RSA's (1)	291	247	291	247
RSUs (1)	215	215	215	215
	506	462	506	462
<i>Diluted earnings per share:</i>				
Stock options (2)	1,533	720	905	494
SARs (2)	506	389	513	391
RSA's (2)	279	117	279	117
RSUs (2)	215	215	215	215
	2,533	1,441	1,912	1,217

(1) Shares were not vested

(2) Shares were anti-dilutive

Additional Paid-In Capital:

The change in additional paid-in capital during the nine months ended March 31, 2009 was due to the following:

	(Dollars in thousands)
Balance, June 30, 2008	\$ 143,265
Exercise of stock options	2,300
Tax benefit realized upon exercise of stock options	592
Stock-based compensation	5,450
Franchise stock incentive plan	378
Other	43
Balance, March 31, 2009	\$ 152,028

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 (loss) income for the three and nine months ended March 31, 2009 and 2008 was as follows:

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	For the Periods Ended March 31,			
	Three Months		Nine Months	
	2009	2008	2009	2008
	(Dollars in thousands)		(Dollars in thousands)	
Net income (loss)	\$ 8,854	\$ 18,968	\$ (119,912)	\$ 62,123
Other comprehensive income (loss):				
Changes in fair market value of financial instruments designated as cash flow hedges of interest rate exposure and foreign currency exposure, net of taxes	235	(1,023)	(2,865)	(3,865)
Change in cumulative foreign currency translation	(14,432)	2,396	(73,548)	24,134
Total comprehensive (loss) income	\$ (5,343)	\$ 20,341	\$ (196,325)	\$ 82,392

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4. FAIR VALUE MEASUREMENTS:

As discussed in Note 1 to the Condensed Consolidated Financial Statements, the Company adopted SFAS No. 157, subject to the deferral provisions of FSP No. 157-2, on July 1, 2008. This standard defines fair value, establishes a framework for measuring fair value and expands disclosure requirements about fair value measurements. SFAS No. 157 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 SFAS No. 157 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.

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

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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. Our 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 table sets forth by level within the fair value hierarchy, our financial assets and liabilities that were accounted for at fair value on a recurring basis at March 31, 2009, according to the valuation techniques the Company used to determine their fair values.

	Fair Value at March 31, 2009	Level 1	Fair Value Measurements Using Inputs Considered as Level 2 (Dollars in thousands)	Level 3
ASSETS				
Noncurrent assets				
Derivative instruments	\$ 3,800	\$	\$ 3,800	\$
LIABILITIES				
Long-term liabilities				
Derivative instruments	\$ 7,675	\$	\$ 7,675	\$
Equity put option	20,734			20,734

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 assets and liabilities in active markets at the measurement date, as provided by sources independent from the Company.

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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 option and an equity call option. See further discussion within Note 6 of 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 based on available market data. At June 30, 2008, the fair value of the equity put option was \$24.8 million. The value of the equity put option as of March 31, 2009 was determined to be consistent with the value recorded at June 30, 2008. The \$4.1 million decrease in the fair value of the equity put option since June 30, 2008 relates to foreign currency translation and has been recorded in accumulated other comprehensive income in the March 31, 2009 Condensed Consolidated Balance Sheet. The Company determined the equity call option to have no value at March 31, 2009.

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

As indicated in Note 1 to the Condensed Consolidated Financial Statements, the aspects of SFAS No. 157 for which the effective date was deferred for one year (i.e., the Company's first quarter of fiscal year 2010) under FSP No. 157-2 relate to nonfinancial assets and liabilities that are measured at fair value, but are recognized or disclosed at fair value on a nonrecurring basis. This deferral applies to such items as nonfinancial assets and liabilities initially measured at fair value in a business combination (but not measured at fair value in subsequent periods) or nonfinancial long-lived asset groups measured at fair value for an impairment assessment.

5. GOODWILL AND OTHER INTANGIBLES:

The table below contains details related to the Company's recorded goodwill as of March 31, 2009 and June 30, 2008:

	Salons		Hair Restoration Centers		Consolidated
	North America	International	(Dollars in thousands)		
Balance at June 30, 2008	\$ 668,799	\$ 48,461	\$ 153,733		\$ 870,993
Goodwill acquired (1)	31,323	(1,255)	540		30,608
Translation rate adjustments	(10,802)	(5,545)	(43)		(16,390)
Resolution of pre-acquisition contingency			(4,859)		(4,859)
Goodwill impairment (2)(3)	(78,126)	(41,661)			(119,787)
Balance at March 31, 2009	\$ 611,194	\$	\$ 149,371		\$ 760,565

(1) Goodwill acquired includes adjustments to prior year acquisitions, primarily representing the finalization of purchase price allocations. For the nine months ended March 31, 2009 the \$1.3 million reduction to international goodwill related to the settlement of the escrow account on an acquisition that closed in September 2007.

(2) See Note 2 of the Condensed Consolidated Financial Statements for discussion of the \$78.1 million goodwill impairment of Trade Secret recorded within discontinued operations.

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- (3) During the three months ended December 31, 2008 the fair value of the Company's stock declined such that it began trading below book value per share. Due to the adverse changes in operating results and the continuation of the Company's stock trading below book value per share, the Company performed an interim impairment test of goodwill during the three months ended December 31, 2008. As a result of the Company's interim impairment test of goodwill a \$41.7 million impairment charge for the full carrying amount of goodwill within the salon concepts in the United Kingdom was recorded within continuing operations during the three months ended December 31, 2008. The recent performance challenges of the United Kingdom salon operations indicated that the estimated fair value was less than the current carrying value of this reporting unit's net assets, including goodwill.

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A summary of the Company's goodwill balance as of March 31, 2009 by reporting unit is as follows:

Reporting Unit	As of March 31, 2009 (Dollars in thousands)	
Regis	\$	136,174
MasterCuts		4,652
SmartStyle		47,345
Supercuts		120,342
Promenade		302,681
Total North America Salons		611,194
Hair Restoration Centers		149,371
Consolidated Goodwill	\$	760,565

As disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2008, we perform our impairment analysis of goodwill during the third quarter of each fiscal year in accordance with Statement of Financial Accounting Standard No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142). In evaluating whether goodwill was impaired, the Company compared 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.

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

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

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

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

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

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

As of March 31, 2009, our estimated fair value as determined by the sum of the fair values of our reporting units based upon discounted cash flow calculations reconciled to within a reasonable range of our market capitalization which included an assumed control premium. Subsequent to March 31, 2009, the fair value of our stock continues to fluctuate and regularly trades below our book value per share. Adverse changes in expected operating results, an extended period of our stock trading significantly below book value per share, and unfavorable changes in other economic factors may result in further impairment of goodwill.

The table below presents other intangible assets as of March 31, 2009 and June 30, 2008:

	March 31, 2009				June 30, 2008			
	Cost	Accumulated Amortization (1)	Trade Secret Impairment (2)	Net	Cost	Accumulated Amortization (1)	Net	
(Dollars in thousands)								
Amortized intangible assets:								
Brand assets and trade names	\$ 80,431	\$ (9,399)	\$ (1,733)	\$ 69,299	\$ 81,407	\$ (8,072)	\$ 73,335	
Customer lists	52,045	(21,895)		30,150	51,316	(17,444)	33,872	
Franchise agreements	25,299	(6,175)	(4,897)	14,227	27,115	(6,363)	20,752	
Lease intangibles	15,040	(3,549)	(475)	11,016	14,771	(2,887)	11,884	
Non-compete agreements	367	(269)	(35)	63	785	(631)	154	
Other	6,688	(3,191)	(47)	3,450	7,974	(3,680)	4,294	
	\$ 179,870	\$ (44,478)	\$ (7,187)	\$ 128,205	\$ 183,368	\$ (39,077)	\$ 144,291	

(1) Balance sheet accounts are converted at the applicable exchange rates effective as of the reported balance sheet dates, while income statement accounts are converted at the average exchange rates for the year-to-date periods presented.

(2) The net book value of the Trade Secret intangible assets was written off as of December 31, 2008 as part of the sale of Trade Secret (see Note 2).

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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)	
	March 31, 2009	June 30, 2008
Amortized intangible assets:		
Brand assets and trade names	39	39
Customer lists	10	10
Franchise agreements	22	21
Lease intangibles	20	20
Non-compete agreements	4	5
Other	18	17
Total	26	26

Total amortization expense related to the amortizable intangible assets was approximately \$2.5 and \$2.8 million during the three months ended March 31, 2009 and 2008, respectively, and \$7.5 and \$8.5 million during the nine months ended March 31, 2009 and 2008, respectively. As of March 31, 2009, future estimated amortization expense related to amortizable intangible assets is estimated to be:

Fiscal Year	(Dollars in thousands)
2009 (Remainder: three-month period)	\$ 2,474
2010	9,666
2011	9,469
2012	9,272
2013	9,000

6. ACQUISITIONS, INVESTMENT IN AND LOANS TO AFFILIATES:

Acquisitions

During the nine months ended March 31, 2009 and 2008, 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.

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The components of the aggregate purchase prices of the acquisitions made during the nine months ended March 31, 2009 and 2008 and the allocation of the purchase prices were as follows:

Allocation of Purchase Prices	For the Nine Months Ended March 31,	
	2009	2008
	(Dollars in thousands)	
Components of aggregate purchase prices:		
Cash	\$ 40,051	\$ 124,379
Note receivable applied to purchase price		10,000
Deferred purchase price	75	2,602
	\$ 40,126	\$ 136,981
Allocation of the purchase price:		
Current assets	\$ 1,321	\$ 15,184
Property and equipment	6,150	20,414
Deferred income taxes	1,787	
Goodwill	30,608	97,927
Identifiable intangible assets	1,317	15,976
Other long-term assets		1,210
Accounts payable and accrued expenses	(754)	(12,330)
Other noncurrent liabilities	(303)	(1,400)
	\$ 40,126	\$ 136,981

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, as well as the limited value and customer preference associated with the acquired hair salon brand. Key factors considered by consumers of hair salon services include personal relationships with individual stylists, service quality and price point competitiveness. These attributes represent the going concern value of the salon.

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

During the nine months ended March 31, 2009 and 2008, certain of the Company's salon acquisitions were from its franchisees. The Company evaluated the effective settlement of the preexisting franchise contracts and associated rights afforded by those contracts in accordance with Emerging Issues Task Force (EITF) No. 04-1, *Accounting for Preexisting Relationships Between the Parties to a Business Combination*. The Company determined that the effective settlement of the preexisting 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 preexisting contracts. Therefore, no settlement gain or loss was recognized with respect to the Company's franchise buybacks.

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The table below presents the carrying amount of investments in and loans to affiliates as of March 31, 2009 and June 30, 2008:

	March 31, 2009		June 30, 2008
	(Dollars in thousands)		
Provalliance	\$ 104,374	\$	119,353
Empire Education Group, Inc.	94,692		109,307
Intelligent Nutrients, LLC			5,657
MY Style	14,235		7,756
Hair Club for Men, Ltd.	5,029		5,029
	\$ 218,330	\$	247,102

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 March 31, 2009.

The merger agreement contains a right (Equity Put) to require the Company to purchase additional ownership interest in Provalliance between specified dates in 2010 to 2018. The acquisition price is determined based on the earnings before interest, taxes, depreciation and amortization of Provalliance for a trailing twelve month period which is intended to approximate fair value. The estimated fair value of the Equity Put has been included as a component of the Company's investment in Provalliance. A corresponding liability for the same amount as the Equity Put has been recorded in other noncurrent liabilities. Any changes in the fair value of the Equity Put are recorded in the Company's consolidated statement of operations. 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.

The Company's investment in Provalliance is accounted for under the equity method of accounting. The Company concluded that Provalliance is a variable interest entity for which the Company is not the primary beneficiary. This assessment was based on the Company's 30.0 percent equity ownership interest, and the impact and expected timing of the Equity Put. During the nine month period ended March 31, 2009, the Company recorded \$4.9 million of equity in income related to its investment in Provalliance. The decline in investment balance above is due to translation. 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.

Empire Education Group, Inc.

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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. This transaction leverages EEG's management expertise, while enabling the Company to maintain a vested interest in the beauty school industry. EEG operates 87 accredited cosmetology schools.

At March 31, 2009 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 borrowings as of March 31, 2009. During the three and nine months ended March 31, 2009 and 2008 the Company recorded \$0.1 and \$0.8 million, respectively, and \$0.4 and \$0.6 million of interest income, respectively, related to the loan and revolving credit facility.

The Company accounts for the investment in EEG under the equity method of accounting as Empire Beauty School retains majority voting interest and has full responsibility for managing EEG. During the nine months ended March 31, 2009 and 2008, the Company recorded \$0.3 and \$0.7 million, respectively, of equity earnings related to its investment in EEG. The exposure to loss related to the Company's involvement with EEG is the carrying value of the investment and the outstanding loans receivable.

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Intelligent Nutrients LLC

The Company holds a 49.0 percent interest in Intelligent Nutrients, LLC. The Company's ownership percentage decreased from 50.0 percent to 49.0 percent during the Company's 2008 fiscal year due to the issuance of additional shares by Intelligent Nutrients, LLC to the other investor.

Intelligent Nutrients, LLC currently carries a wide variety of organic, harmonically grown products, including dietary supplements, coffees, teas and aromatics. In addition, professional hair care and personal care products are currently available. These products are offered at the Company's corporate and franchise salons, and eventually in other independently owned salons. The Company's investment in Intelligent Nutrients, LLC is accounted for under the equity method of accounting. The Company completed \$3.0 million of loans to Intelligent Nutrients, LLC in August 2008.

During the three months ended December 31, 2008, the Company determined that its investment in and loans to Intelligent Nutrients, LLC was impaired and the fair value was zero due to Intelligent Nutrients, LLC's inability to develop a professional organic brand of shampoo and conditioner with a price point that would develop broad consumer appeal. The Company also determined that the loss in value was other-than-temporary and recognized a pretax, non-cash impairment charge of \$7.8 million for the full carrying value of the investment and loans as of December 31, 2008. The loss is included within the equity in loss of affiliated companies on the Statement of Operations. The Company has no further exposure to loss related to the Company's involvement with Intelligent Nutrients, LLC.

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 1.3 billion JPY (\$11.3 million). As of March 31, 2009, \$1.6 million and \$8.2 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 investment and the outstanding notes.

Exchangeable Note. As of March 31, 2009 the amount outstanding under the Exchangeable Note is \$7.1 million (JPY 711,131,284). The Exchangeable Note is to be redeemed by Yamano Holding Corporation in accordance with the following schedule: JPY 100,000,000 on September 30, 2009, JPY 100,000,000 on September 30, 2010 and JPY 511,131,284 on September 30, 2011. The Exchangeable Note accrues interest at 1.845% and interest is payable on September 30, 2011 with the final principal payment. The Company recorded less than \$0.1 million in interest income related to the Exchangeable Note during the three and nine months ended March 31, 2009 and 2008. Prior to September 30, 2011 Regis has the option to exchange a portion of the Exchangeable Note (21,700,000 JPY) for 217 ordinary shares of stock of MY Style Co, Ltd, which was equivalent to 27.1% of the 800 ordinary shares of stock of MY Style Co, Ltd. outstanding as of the issuance date. The exchangeable portion of the Exchangeable Note is recorded as an equity method investment as it is probable that the Company will exercise its right to exchange a portion of the note into equity of MY Style.

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In September 2008, the Company advanced an additional 300,000,000 JPY (\$2.9 million as of September 2008) to Yamano Holding Corporation and extended the maturity date of the existing Exchangeable Note to September 2011. In connection with the 300,000,000 JPY advance the exchangeable portion of the Exchangeable Note increased from approximately 14.8 percent to 27.1 percent of the outstanding shares of MY Style. Prior to September 2008 the exchangeable portion of the Exchangeable Note was accounted for by Regis as a cost method investment.

MY Style Note. As of March 31, 2009 the amount outstanding under the MY Style Note is \$2.7 million (JPY 267,336,927 million). Principal payments of 52,164,000 Japanese Yen along with accrued interest are due annually on May 31 through May 31, 2013. The MY Style Note accrues interest at 3%. The Company recorded less than \$0.1 million in interest income related to the MY Style Note during the three and nine months ended March 31, 2009 and 2008.

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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 nine months ended March 31, 2009 and 2008 the Company recorded income of \$0.4 and \$1.1 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.

Cool Cuts 4 Kids, Inc.

On February 10, 2009, the Company exercised the right to purchase all of the Cool Cuts 4 Kids, Inc. (Cool Cuts 4 Kids) assets. The results of operations for Cool Cuts 4 Kids are included in the Consolidated Statement of Operations since the date of acquisition. Prior to acquisition, the Company held an interest of less than 20 percent in the preferred stock of Cool Cuts 4 Kids which was accounted for under the cost method of accounting.

7. LEASE TERMINATION COSTS:

In July 2008, the Company approved a plan to close up to 160 underperforming company-owned salons in fiscal year 2009. Approximately 100 locations are regional mall based concepts, another 40 locations are strip center concepts and 20 locations are in the United Kingdom. The timing of the closures is dependent on successfully completing lease termination agreements and is therefore subject to change. The Company expects to offer employment to associates affected by such closings at nearby Regis-owned salons. The decision is a result of a comprehensive evaluation of the Company's salon portfolio, further continuing the Company's initiatives to enhance profitability.

The Company anticipated the pre-tax charge for the store closings would total approximately \$20 to \$25 million. This included approximately \$4.5 million of incremental non-cash asset write-downs which were recognized in the fourth quarter of fiscal year 2008. The incremental non-cash asset write-downs in the fourth quarter of fiscal year 2008 were \$3.4 million for the North America reportable segment and \$1.1 million for the International reportable segment. The balance of approximately \$15 to \$20 million was related to the original estimate of lease termination costs that were expected to be recognized primarily in fiscal year 2009.

As of March 31, 2009, 47 stores ceased using the right to use the leased property or negotiated a lease termination agreement with the lessor in which the Company will cease using the right to the leased property subsequent to March 31, 2009. Of the 47 stores, 39 stores were within the North America reportable segment, three stores within the International segment, and five stores within discontinued operations. Lease termination costs from continuing operations are presented as a separate line item in the Condensed Consolidated Statement of Operations. Lease termination costs related to the Trade Secret salon concept are reported within discontinued operations. As lease settlements are negotiated the Company has found that some lessors are willing to negotiate rent reductions which has allowed the Company to keep operating certain stores. As a result, the Company expects that the number of stores to be closed will be less than the 160 stores originally communicated, reducing the estimated lease termination costs of \$15 to \$20 million to approximately \$6.0 million. Therefore, we now expect the expense related to future lease terminations to be approximately \$2.7 million.

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Lease termination expense represents either the lease settlement or the net present value of remaining contractual lease payments related to closed stores, after reduction by estimated sublease rentals. The activity reflected in the accrual for lease termination costs is as follows:

	Accrual for lease terminations (Dollars in thousands)	
Balance at July 1, 2008	\$	
Provision for lease termination expense:		
Provisions associated with lease terminations		1,173
Change in assumptions about lease terminations and sublease income		
Cash payments		(695)
Balance at September 30, 2008	\$	478
Provision for lease termination expense:		
Increase in provisions associated with lease terminations		1,298
Change in assumptions about lease terminations and sublease income		
Cash payments		(1,105)
Balance at December 31, 2008	\$	671
Provision for lease termination expense:		
Increase in provisions associated with lease terminations		854
Change in assumptions about lease terminations and sublease income		
Cash payments		(704)
Balance at March 31, 2009	\$	821

In the nine months ended March 31, 2009, the Company incurred \$3.3 million of lease termination expense of which \$0.5 million of relates to five salons within the Trade Secret concept and is accounted for within the loss on discontinued operations as of March 31, 2009. Cash payments of \$0.3 million have been made on four of the five salons within the Trade Secret concept.

8. LITIGATION:

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

9. DERIVATIVE FINANCIAL INSTRUMENTS:

In January 2009, the Company adopted Statement of Financial Accounting Standard No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS No.), which amends and expands the disclosure requirements of Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133), to provide a reader of the financial statements an enhanced understanding of the Company's use of derivative instruments, how the Company accounts for its derivative instruments under SFAS No. 133 and the instruments' effects on financial position, financial performance and cash flows.

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 to 45 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 individual 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 SFAS No. 133.

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

The Company also utilizes freestanding derivative contracts which do not qualify for hedge accounting treatment. The Company marks to market such derivatives with the resulting gains and losses recorded within current earnings in the Condensed Consolidated Statement of Operations. Cash flows associated with all derivatives (hedges or freestanding) are classified as operating activities in the Condensed Consolidated Statement of Cash Flows.

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 March 31, 2009, the Company had \$249.9 million of total variable rate debt outstanding, of which \$90.0 million was swapped to fixed rate debt, resulting in \$159.9 million of variable rate debt. The interest rate swap contracts pay fixed rates of interest and receive variable rates of interest. The contracts and related debt have maturity dates between fiscal year 2012 and 2015.

As of March 31, 2009, the Company had two treasury lock agreements outstanding that effectively fix the interest payments on certain pieces of debt. The agreements are on an aggregate \$100.0 million of debt and mature in fiscal years 2013 and 2015.

The Company uses forward foreign currency contracts to manage foreign currency rate fluctuations associated with certain forecasted intercompany transactions and international business travel. The Company's primary forward foreign currency contracts hedge 50 percent of payments in Canadian dollars for intercompany retail inventory transactions. The Company's forward foreign currency contracts hedge transactions through fiscal year 2010.

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

Fair Value Hedges

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In the past, the Company had two interest rate swaps designated as fair value hedges. The Company paid variable rates of interest and received fixed rates of interest under these contracts. The contracts and related debt matured during the three months ended September 30, 2008.

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 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.

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The Company had the following derivative instruments in its Condensed Consolidated Balance Sheet as of March 31, 2009 and June 30, 2008:

Type	Classification	Asset Fair Value		Classification	Liability Fair Value	
		March 31, 2009	June 30, 2008		March 31, 2009	June 30, 2008
(In thousands)						
Designated as hedging instruments Cash Flow Hedges:						
Interest rate swaps		\$	\$	Other noncurrent liabilities	\$ (7,675)	\$ (1,366)
Forward foreign currency contracts	Other current assets	\$ 930	\$ 27	Other current liabilities	\$	\$ (460)
Designated as hedging instruments Fair Value Hedges:						
Fair value interest rate swap		\$	\$	Other noncurrent liabilities	\$	\$ (335)
Freestanding derivative contracts not designated as hedging instruments:						
Forward foreign currency contracts	Other current assets	\$ 2,870	\$		\$	\$
Total		\$ 3,800	\$ 27		\$ (7,675)	\$ (2,161)

The table below sets forth the tax-effected (gain) or loss on the Company's derivative instruments as of March 31, 2009 and 2008 recorded within accumulated other comprehensive income (AOCI) in the Condensed Consolidated Balance Sheet. The table also sets forth the (gain) or loss on the Company's derivative instruments that has been reclassified from AOCI into current earnings during the nine months ended March 31, 2009 and 2008 within the following line items in the Condensed Consolidated Statement of Operations.

Type	Other Comprehensive Income (Gain)/Loss at March 31,		Classification	(Gain) / Loss Reclassified from Accumulated OCI into Income at March 31,	
	2009	2008		2009	2008
(In thousands)					
Designated as hedging instruments Cash Flow Hedges:					
Interest rate swaps	\$ 4,781	\$ 873		\$	\$
Forward foreign currency contracts	(803)	245	Cost of sales	62	(193)
Treasury lock contracts	(255)	(259)	Interest (income) expense	(3)	3
Total	\$ 3,723	\$ 859		\$ 59	\$ (190)
Designated as hedging instruments Fair Value Hedges:					
Cross-currency swap	\$ 7,932	\$ 7,932		\$	\$
Total	\$ 11,655	\$ 8,791		\$ 59	\$ (190)

The table below sets forth the (gain) on the Company's derivative instruments for the nine months ended March 31, 2009 and 2008 recorded within interest income and other, net in the Condensed Consolidated Statement of Operations.

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Type	Classification	Derivatives Impact in Income at March 31,	
		2009	2008
(In thousands)			
Designated as hedging instruments - Fair Value Hedges:			
Fair value interest rate swap	Interest income and other, net	\$ (335)	\$ (396)
Freestanding derivative contracts - not designated as hedging instruments:			
Forward foreign currency contracts	Interest income and other, net	\$ (2,908)	\$ (396)
		\$ (3,243)	\$ (396)

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10. FINANCING ARRANGEMENTS:

On October 3, 2008, the Company completed an \$85 million term loan that matures in July 2012. The monthly interest payments are based on a one-month LIBOR rate plus a 1.75% spread. The term loan includes customary financial covenants including a leverage ratio, fixed charge ratio and minimum net equity test. The Company used the proceeds from the term loan to pay down the Company's revolving line of credit facility.

11. INCOME TAXES:

Income taxes have been allocated to continuing and discontinued operations based on the methodology required by Financial Accounting Interpretation No. 18, *Accounting for Income Taxes in Interim Periods an Interpretation of APB Opinion No. 28* (FIN 18). Discontinued operations are excluded in determining the estimated effective income tax rate from continuing operations and the corresponding income tax expense (benefit). 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 (benefit) 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 nine months ended March 31, 2009, the Company's continuing operations recognized tax expense of \$9.7 million and \$29.0 million, respectively, with corresponding effective tax rates of 33.7 percent and 72.2 percent. Tax expense for the three and nine months end March 31, 2008 was \$15.2 million and \$37.7 million with corresponding effective tax rates of 45.1 percent and 39.1 percent. The decrease in the effective tax rate during the three months ended March 31, 2009 is primarily due to the release of approximately \$2.5 million in reserves for uncertain tax positions related to the expiration of the statute of limitations on tax years previously open for audit. The increase in the effective tax rate during the nine months ended March 31, 2009 is primarily due to the \$41.7 million goodwill impairment of the salon concepts in the United Kingdom not being deductible for tax purposes, which increased the tax provision by approximately \$11.4 million for the nine months ended March 31, 2009.

The Company adopted the provisions of *FIN No. 48, Accounting for Uncertainty in Income taxes*, effective July 1, 2007. As mentioned above, the Company accrues for the effects of open uncertain tax positions and the related potential penalties and interest. There was an \$8.0 million release of our recorded liability for unrecognized tax benefits related to the expiration of the statute of limitations on tax years previously open for audit during the three and nine months ended March 31, 2009. The release of reserves consisted of \$2.5 million affecting the tax rate discussed above and \$5.5 million impacting the balance sheet primarily related to pre-acquisition tax exposures affecting goodwill. It is reasonably possible that the amount of the unrecognized tax benefit with respect to certain of our unrecognized tax positions will increase or decrease during the next 12 months; however, we do not expect the change to have a significant effect on our consolidated results of operations or financial position.

The Company files tax returns and pays tax primarily in the United States, Canada, the United Kingdom, and the Netherlands as well as states, cities, and provinces within these jurisdictions. In the United States, fiscal years 2006 and after remain open for federal tax audit. For state tax audits, the statute of limitations generally spans three to four years, resulting in a number of states remaining open for tax audits dating back to fiscal year 2004. 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.

12. SEGMENT INFORMATION:

As of March 31, 2009, the company owned, franchised, or held ownership interests in over 12,800 worldwide locations. The Company's locations consisted of 9,590 North American salons (located in the United States, Canada and Puerto Rico), 456 international salons, 95 hair restoration centers and approximately 2,700 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 economic characteristics. The salons share interdependencies and a common support base.

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See Note 2 of the Condensed Consolidated Financial Statements on the classification of the Trade Secret concept as a discontinued operation.

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	March 31, 2009	June 30, 2008
	(Dollars in thousands)	
North American salons	\$ 1,066,577	\$ 1,249,827
International salons	55,427	120,443
Hair restoration centers	289,382	284,898
Unallocated corporate	516,446	580,703
Consolidated	\$ 1,927,832	\$ 2,235,871

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	For the Three Months Ended March 31, 2009(1)(2)					
	Salons		Hair Restoration Centers		Unallocated Corporate	Consolidated
	North America	International				
	(Dollars in thousands)					
Revenues:						
Service	\$ 412,226	\$ 24,858	\$ 16,217	\$	\$	\$ 453,301
Product	112,339	11,020	17,810			141,169
Royalties and fees	8,990		626			9,616
	533,555	35,878	34,653			