REGIS CORP
Form 10-Q
May 10, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

OR

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

For the transition period from to

Commission file number 1-12725

Regis Corporation

(Exact name of registrant as specified in its charter)

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

(952) 947-7777

(Registrant s telephone number, including area code)

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 x No o

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of April 25, 2012:

Common Stock, $0.05 par value	**57,561,067**
Class	Number of Shares

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

REGIS CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)

As Of March 31, 2012 and June 30, 2011

(In thousands, except share data)

	March 31, 2012	June 30, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 97,583	$ 96,263
Receivables, net	32,424	27,149
Inventories	161,123	150,804
Deferred income taxes	15,087	17,887
Income tax receivable	11,888	22,341
Other current assets	52,447	32,118
Total current assets	370,552	346,562
Property and equipment, net	326,345	347,811
Goodwill	605,171	680,512
Other intangibles, net	104,372	111,328
Investment in and loans to affiliates	199,630	261,140
Other assets	59,452	58,400
Total assets	$ 1,665,522	$ 1,805,753
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Long-term debt, current portion	$ 28,877	$ 32,252
Accounts payable	55,076	55,107
Accrued expenses	168,837	167,321
Total current liabilities	252,790	254,680
Long-term debt and capital lease obligations	263,430	281,159
Other noncurrent liabilities	185,580	237,295
Total liabilities	701,800	773,134
Commitments and contingencies (Note 8)		
Shareholders equity:		
Common stock, $0.05 par value; issued and outstanding 57,563,294 and 57,710,811 common shares at March 31, 2012 and June 30, 2011, respectively	2,878	2,886
Additional paid-in capital	346,933	341,190
Accumulated other comprehensive income	62,612	77,946

Retained earnings		551,299		610,597
Total shareholders equity		963,722		1,032,619
Total liabilities and shareholders equity	$	1,665,522	$	1,805,753

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, 2012 and 2011

(In thousands, except per share data)

	2012	2011
Revenues:		
Service	$ 430,202	$ 440,109
Product	133,017	131,350
Royalties and fees	10,365	9,808
	573,584	581,267
Operating expenses:		
Cost of service	250,379	255,374
Cost of product	63,830	63,068
Site operating expenses	48,835	50,522
General and administrative	74,263	86,390
Rent	84,368	84,391
Depreciation and amortization	26,709	26,926
Goodwill impairment		74,100
Total operating expenses	548,384	640,771
Operating income (loss)	25,200	(59,504)
Other income (expense):		
Interest expense	(6,790)	(8,337)
Interest income and other, net	123	(651)
Income (loss) from continuing operations before income taxes and equity in loss of affiliated companies	18,533	(68,492)
Income taxes	(6,000)	44,670
Equity in loss of affiliated companies, net of income taxes	(15,001)	(1,513)
Loss from continuing operations	(2,468)	(25,335)
Income from discontinued operations, net of taxes (Note 6)	1,099	
Net loss	$ (1,369)	$ (25,335)
Net (loss) income per share:		
Basic:		
Loss from continuing operations	(0.04)	(0.45)
Income from discontinued operations	0.02	
Net loss per share, basic	$ (0.02)	$ (0.45)
Diluted:		
Loss from continuing operations	(0.04)	(0.45)
Income from discontinued operations	0.02	
Net loss per share, diluted	$ (0.02)	$ (0.45)

Weighted average common and common equivalent shares outstanding:				
Basic		57,053		56,704
Diluted		57,053		56,704
Cash dividends declared per common share	$	0.06	$	0.06

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, 2012 and 2011

(In thousands, except per share data)

	2012	2011
Revenues:		
Service	$ 1,283,201	$ 1,310,577
Product	392,142	393,779
Royalties and fees	30,268	29,528
	1,705,611	1,733,884
Operating expenses:		
Cost of service	738,731	754,580
Cost of product	187,278	188,069
Site operating expenses	149,715	150,128
General and administrative	228,008	236,312
Rent	254,288	254,734
Depreciation and amortization	92,510	79,167
Goodwill impairment	78,426	74,100
Total operating expenses	1,728,956	1,737,090
Operating loss	(23,345)	(3,206)
Other income (expense):		
Interest expense	(21,353)	(25,998)
Interest income and other, net	4,098	2,730
Loss from continuing operations before income taxes and equity in (loss) income of affiliated companies	(40,600)	(26,474)
Income taxes	(5,270)	29,678
Equity in (loss) income of affiliated companies, net of income taxes	(5,688)	4,286
(Loss) income from continuing operations	(51,558)	7,490
Income from discontinued operations, net of taxes (Note 6)	1,099	
Net (loss) income	$ (50,459)	$ 7,490
Net (loss) income per share:		
Basic:		
(Loss) income from continuing operations	(0.90)	0.13
Income from discontinued operations	0.02	
Net (loss) income per share, basic	$ (0.88)	$ 0.13
Diluted:		
(Loss) income from continuing operations	(0.90)	0.13
Income from discontinued operations	0.02	
Net (loss) income per share, diluted	$ (0.88)	$ 0.13

Weighted average common and common equivalent shares outstanding:				
Basic		57,029		56,672
Diluted		57,029		56,959
Cash dividends declared per common share	$	0.18	$	0.14

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, 2012 and 2011

(In thousands)

	2012	2011
Cash flows from operating activities:		
Net (loss) income	$ (50,459)	$ 7,490
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	85,184	71,823
Amortization	7,326	7,344
Equity in loss (income) of affiliated companies	5,688	(4,286)
Dividends received from affiliated companies	927	6,051
Deferred income taxes	(4,981)	(15,283)
Goodwill impairment	78,426	74,100
Excess tax benefits from stock-based compensation plans		(67)
Stock-based compensation	6,065	7,156
Amortization of debt discount and financing costs	4,974	4,816
Other noncash items affecting earnings	(2)	1,943
Changes in operating assets and liabilities (1):		
Receivables	(5,221)	(2,429)
Inventories	(10,647)	(6,919)
Income tax receivable	10,438	(8,070)
Other current assets	197	5,081
Other assets	(2,622)	1,545
Accounts payable	(294)	5,727
Accrued expenses	(14,995)	(1,703)
Other noncurrent liabilities	(6,960)	6,975
Net cash provided by operating activities	103,044	161,294
Cash flows from investing activities:		
Capital expenditures	(65,619)	(48,617)
Proceeds from sale of assets	405	608
Asset acquisitions, net of cash acquired and certain obligations assumed	(2,225)	(16,296)
Proceeds from loans and investments	2,315	15,000
Disbursements for loans and investments		(72,301)
Net cash used in investing activities	(65,124)	(121,606)
Cash flows from financing activities:		
Borrowings on revolving credit facilities	427,800	
Payments on revolving credit facilities	(427,800)	
Repayments of long-term debt and capital lease obligations	(23,801)	(45,529)
Excess tax benefits from stock-based compensation plans		67
Proceeds from issuance of common stock		689
Dividends paid	(10,405)	(8,057)
Net cash used in financing activities	(34,206)	(52,830)
Effect of exchange rate changes on cash and cash equivalents	(2,394)	6,735
Increase (decrease) in cash and cash equivalents	1,320	(6,407)

Cash and cash equivalents:				
Beginning of period		96,263		151,871
End of period	$	97,583	$	145,464

(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 March 31, 2012 and for the three and nine months ended March 31, 2012 and 2011, reflect, in the opinion of management, all adjustments necessary to fairly state the consolidated financial position of the Company as of March 31, 2012 and the consolidated results of its operations and its cash flows for the interim periods. Adjustments consist only of normal recurring items, except for any discussed in the notes below. The results of operations and cash flows for any interim period are not necessarily indicative of results of operations and cash flows for the full year.

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

The unaudited Condensed Consolidated Financial Statements of the Company as of March 31, 2012 and for the three and nine month periods ended March 31, 2012 and 2011 included in this Form 10-Q have been reviewed by PricewaterhouseCoopers LLP, an independent registered public accounting firm. Their separate report dated May 10, 2012 appearing herein, states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their report on the unaudited financial information because that report is not a report or a part of the registration statement prepared or certified by PricewaterhouseCoopers LLP within the meaning of Sections 7 and 11 of the Act.

Consolidation:

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

Stock-Based Employee Compensation:

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

Total compensation cost for stock-based payment arrangements totaled $1.4 and $2.2 million for the three months ended March 31, 2012 and 2011, respectively, and $6.1 and $7.2 million for the nine months ended March 31, 2012 and 2011, respectively.

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Stock options outstanding and weighted average exercise price as of March 31, 2012 were as follows:

Options	**Shares (in thousands)**		**Weighted Average Exercise Price**
Outstanding at June 30, 2011	838	$	31.48
Granted			
Exercised			
Forfeited or expired	(12)		26.86
Outstanding at September 30, 2011	826	$	31.54
Granted			
Exercised			
Forfeited or expired	(16)		32.42
Outstanding at December 31, 2011	810	$	31.53
Granted			
Exercised			
Forfeited or expired	(19)		22.42
Outstanding at March 31, 2012	791	$	31.75
Exercisable at March 31, 2012	645	$	33.33

Outstanding options of 791,428 at March 31, 2012 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 3.7 years. Exercisable options of 645,028 at March 31, 2012 had an intrinsic value of zero and a weighted average remaining contractual term of 3.0 years. Of the outstanding and unvested options and due to estimated forfeitures, 128,881 are expected to vest with a $25.52 per share weighted average grant price, a weighted average remaining contractual life of 6.2 years and a total intrinsic value of zero.

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

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

	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, 2011	1,077	$	23.48	1,087	$	25.54
Granted	20		13.59			
Vested/Exercised	2		22.32			
Forfeited or expired	(26)		19.39	(57)		27.45
Balance, September 30, 2011	1,073	$	23.39	1,030	$	25.43
Granted						
Vested/Exercised	3		19.07			
Forfeited or expired	(70)		18.88	(31)		25.41
Balance, December 31, 2011	1,006	$	23.69	999	$	25.44

Granted	35	17.61		
Vested/Exercised	(218)	35.18		
Forfeited or expired	(104)	19.46	(98)	24.14
Balance, March 31, 2012	719	$ 20.25	901	$ 25.57

Outstanding and unvested RSAs of 669,166 at March 31, 2012 had an intrinsic value of $12.3 million and a weighted average remaining vesting term of 1.4 years. Due to estimated forfeitures, 605,019 are expected to vest with a total intrinsic value of $11.2 million.

Outstanding RSUs of 215,000 at March 31, 2012 had an intrinsic value of $4.0 million and a weighted average remaining vesting term of less than 0.1 years. Vested RSUs of 165,000 at March 31, 2012 had an intrinsic value of $3.1 million. Unvested RSUs of 50,000 at March 31, 2012 had an intrinsic value of $0.9 million and a weighted average remaining vesting term of 0.1 years. The payment of the RSUs is deferred until January 31 of the year following vesting.

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Outstanding SARs of 901,230 at March 31, 2012 had a total intrinsic value of $0.1 million and a weighted average remaining contractual term of 5.7 years. Exercisable SARs of 514,250 at March 31, 2012 had a total intrinsic value of zero and a weighted average remaining contractual term of 4.6 years. Of the outstanding and unvested rights and due to estimated forfeitures, 311,471 are expected to vest with a $20.40 per share weighted average grant price, a weighted average remaining contractual life of 6.6 years and a total intrinsic value of $0.1 million.

During fiscal year 2011, the Company accelerated the vesting of 68,390 unvested RSAs held by the Company s former Chief Executive Officer and the Company s Executive Vice President, Fashion and Education. Under the terms of the modifications, any unvested RSAs granted to the former Chief Executive Officer and the Executive Vice President, Fashion and Education fully vest on their last days of employment, which was February 8, 2012 and is expected to be June 30, 2012, respectively. As a result of the modifications, the Company recognized an incremental compensation cost of $0.1 and $0.2 million during the three and nine months ended March 31, 2012, respectively. As a result of the modifications that occurred during the three months ended March 31, 2011, the Company did not recognize any incremental compensation expense as the fair value of the modified awards were less than the fair value of the original awards.

During the three and nine months ended March 31, 2012 total cash received from the exercise of share-based instruments was zero. During the three and nine months ended March 31, 2011 total cash received from the exercise of share-based instruments was zero and $0.7 million, respectively. As of March 31, 2012, the total unrecognized compensation cost related to all unvested stock-based compensation arrangements was $10.3 million. The related weighted average period over which such cost is expected to be recognized was approximately 2.8 years as of March 31, 2012.

The total intrinsic value of all stock-based compensation that was exercised or vested and distributed during each of the three and nine month periods ended March 31, 2012 was $1.2 million. The total intrinsic value of all stock-based compensation that was exercised or vested during the three and nine months ended March 31, 2011 was zero and $0.5 million, respectively.

Goodwill:

Goodwill is tested for impairment annually or at the time of a triggering event. In evaluating whether goodwill is impaired, the Company compares the carrying value of each reporting unit, including goodwill, to the estimated fair value of the reporting unit. The carrying value of each reporting unit is based on the assets and liabilities associated with the operations of the reporting unit, including allocation of shared or corporate balances among reporting units. Allocations are generally based on the number of salons in each reporting unit as a percent of total company-owned salons.

The Company calculates the estimated fair value of the reporting units based on discounted future cash flows that utilize estimates in annual revenue, gross margins, fixed expense rates, allocated corporate overhead, and long-term growth for determining terminal value. The Company s estimated future cash flows also take into consideration acquisition integration and maturation. Where available and as appropriate, comparative market multiples are used to corroborate the results of the discounted cash flow. The Company considers its various concepts to be reporting units when testing for goodwill impairment because that is where the Company believes the goodwill resides. The Company periodically engages third-party valuation consultants to assist in evaluation of the Company s estimated fair value calculations.

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

As previously disclosed, the Company concluded that it was reasonably likely that goodwill for the Hair Restoration Centers reporting unit might become impaired in future periods. During the three months ended December 31, 2011 the Company updated the projections used in the fiscal 2011 annual impairment test to reflect the impact of recent industry developments, including a slow down in revenue growth and increasing supply costs. The Company determined there was a triggering event as it was more likely than not that the fair value of the Hair Restoration Centers was below carrying value and performed an interim impairment test of goodwill during the three months ended December 31, 2011. There were no triggering events relative to the Company s other reporting units.

As a result of the Company s interim impairment test of goodwill related to the Hair Restoration Centers reporting unit during the second quarter of fiscal year 2012, a $78.4 million impairment charge was recorded within continuing operations for the excess of the carrying value of goodwill over the implied fair value of the goodwill for the Hair Restorations Centers

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reporting unit. After the impairment charge the Hair Restoration Centers reporting unit had $74.4 million of goodwill. The impairment was only partially deductible for tax purposes resulting in a tax benefit of $5.9 million. See further discussion on the effective tax rate for the three and nine months ended March 31, 2012 within Note 10 to the Condensed Consolidated Financial Statements.

The Company recorded a $74.1 million impairment charge for the Promenade salon concept as a result of the Company s impairment testing of goodwill during the third quarter of fiscal year 2011. As of June 30, 2011, the estimated fair value of the Regis salon concept reporting unit exceeded the carrying value by approximately 18.0 percent. The respective fair values of the Company s remaining reporting units exceeded fair value by greater than 20.0 percent at June 30, 2011. While the Company has determined the estimated fair values of Promenade, Hair Restoration Centers, and Regis to be appropriate based on the historical level of revenue growth, operating income and cash flows, it is reasonably likely that Regis, Hair Restoration Centers, and Promenade may experience additional impairment in future periods. The term reasonably likely refers to an occurrence that is more than remote but less than probable in the judgment of the Company. Because some of the inherent assumptions and estimates used in determining the fair value of the reportable segment are outside the control of management, changes in these underlying assumptions can adversely impact fair value. Potential impairment of a portion or all of the carrying value of the Regis and Promenade salon concepts and Hair Restoration Centers goodwill is dependent on many factors and cannot be predicted with certainty.

As of March 31, 2012, 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.

A summary of the Company s goodwill balance as of March 31, 2012 and June 30, 2011 by reporting unit is as follows:

Reporting Unit	**As of March 31, 2012**	**As of June 30, 2011**
	(Dollars in thousands)	
Regis	$ 103,650	$ 103,761
MasterCuts	4,652	4,652
SmartStyle	48,678	48,916
Supercuts	129,548	129,477
Promenade	244,271	240,910
Total North America Salons	530,799	527,716
Hair Restoration Centers	74,372	152,796
Total	$ 605,171	$ 680,512

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

Property and Equipment:

Historically, because of the Company s large size and scale requirements it has been necessary for the Company to internally develop and support its own proprietary point-of-sale (POS) information system. During the fourth quarter of fiscal year 2011, the Company identified a third party POS alternative that has a system that meets current and enhanced functionality requirements and will cost less to implement and support. At June 30, 2011, the Company reassessed and adjusted the remaining useful life of the Company s capitalized POS software to six months as locations using the Company s existing POS information system move to a third party POS alternative by December 31, 2011. Based on the

results of the implementation of the third party POS alternative during each of the three month periods ended March 31, 2012 and December 31, 2011, the Company reassessed and extended the useful life of the Company s capitalized POS software by three months. Depreciation expense related to the existing POS information system totaled $1.6 and $18.0 million during the three and nine months ended March 31, 2012, respectively, including $1.1 million ($0.7 million net of tax or $0.01 per diluted share) and $16.2 million ($10.2 million net of tax or $0.18 per diluted share), respectively, of accelerated depreciation related to the change in useful life. The Company expects to fully depreciate the net balance of the existing POS information system during the three months ended June 30, 2012.

Due to the Company s plan to replace the POS information system, the Company reviewed the capitalized software carrying value for impairment at March 31, 2012. As a result of the Company s long-lived asset impairment testing at March 31, 2012 for this applicable grouping of assets, no impairment charges were recorded.

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Employee Termination Expense:

During the three months ended March 31, 2012, the Company reduced the home office workforce by approximately 120 employees. In connection with the workforce reduction, the Company incurred severance charges of $2.5 million recorded within general and administrative expense on the Condensed Consolidated Statement of Operations. The remaining accrual associated with the workforce reduction as of March 31, 2012 was $0.2 million.

Recent Accounting Standards Adopted by the Company:

Disclosures about Fair Value of Financial Instruments

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

Fair Value Measurement

In May 2011, the FASB issued guidance to achieve common fair value measurement and disclosure requirements between GAAP and International Financial Reporting Standards. This new guidance amends current fair value measurement and disclosure guidance to include increased transparency around valuation inputs and investment categorization. This new guidance is effective for fiscal years and interim periods beginning after December 15, 2011. The Company adopted the guidance on January 1, 2012.

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

Testing Goodwill for Impairment

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

Comprehensive Income

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

2. SHAREHOLDERS EQUITY:

Net (Loss) Income Per Share:

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

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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		Nine Months	
	2012	2011	2012	2011
	(Shares in thousands)			
Weighted average shares for basic earnings per share	57,053	56,704	57,029	56,672
Effect of dilutive securities:				
Dilutive effect of stock-based compensation (1)				287
Weighted average shares for diluted earnings per share	57,053	56,704	57,029	56,959

(1) For the three months ended March 31, 2012 and 2011, 237 and 355 common stock equivalents of potentially dilutive common stock, respectively, were not included in the diluted earnings per share calculation because to do so would have been anti-dilutive. For the nine months ended March 31, 2012, 206 common stock equivalents of potentially dilutive common stock were not included in the diluted earnings per share calculation because to do so would have been anti-dilutive.

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	
	2012	2011	2012	2011
	(Shares in thousands)		(Shares in thousands)	
Basic earnings per share:				
RSAs (1)	669	872	669	872
RSUs (1)	50	215	50	215
	719	1,087	719	1,087
Diluted earnings per share:				
Stock options (2)	791	889	791	889
SARs (2)	900	1,039	901	1,039
RSAs (2)	6		29	104
Shares issuable upon conversion of debt (2)	11,217	11,158	11,201	11,158
	12,914	13,086	12,922	13,190

(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, 2012 was due to the following:

		(Dollars in thousands)
Balance, June 30, 2011	$	341,190
Stock-based compensation		6,065
Taxes, forfeitures and issuances of restricted stock, net		(309)
Vested stock option and stock appreciation rights expirations		(264)
Franchise stock incentive plan		251
Balance, March 31, 2012	$	346,933

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Comprehensive Income (Loss):

Components of comprehensive income (loss) for the Company include net (loss) 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 (loss) for the three and nine months ended March 31, 2012 and 2011 was as follows:

	For the Periods Ended March 31,			
	Three Months		Nine Months	
	2012	2011	2012	2011
	(Dollars in thousands)			
Net (loss) income	$ (1,369)	$ (25,335)	$ (50,459)	$ 7,490
Other comprehensive (loss) income:				
Changes in fair market value of financial instruments designated as cash flow hedges, net of taxes	(16)	40	341	(55)
Change in cumulative foreign currency translation	6,967	10,903	(15,675)	28,455
Total comprehensive income (loss)	$ 5,582	$ (14,392)	$ (65,793)	$ 35,890

3. FAIR VALUE MEASUREMENTS:

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

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

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

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

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

- 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.

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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 March 31, 2012 and June 30, 2011, according to the valuation techniques the Company used to determine their fair values.

	Fair Value at March 31, 2012	Fair Value Measurements Using Inputs Considered as Level 1	Level 2	Level 3
		(Dollars in thousands)		
ASSETS				
Non-current assets				
Derivative instruments	$ 24	$	$ 24	$
Equity call option - Roosters	117			117
LIABILITIES				
Current liabilities				
Derivative instruments	$ 47	$	$ 47	$
Non-current liabilities				
Equity put option - Provalliance	$ 667	$	$	$ 667
Equity put option - Roosters	161			161

	Fair Value at June 30, 2011	Fair Value Measurements Using Inputs Considered as Level 1	Level 2	Level 3
		(Dollars in thousands)		
ASSETS				
Non-current assets				
Derivative instruments	$ 212	$	$ 212	$
LIABILITIES				
Current liabilities				
Derivative instruments	$ 599	$	$ 599	$
Non-current liabilities				
Equity put option - Provalliance	$ 22,700	$	$	$ 22,700

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Changes in Financial Instruments Measured at Level 3 Fair Value on a Recurring Basis

The following tables present the changes during the three and nine months ended March 31, 2012 and 2011 in our Level 3 financial instruments that are measured at fair value on a recurring basis:

Balance at July 1, 2011	$	$	$ 22,700
Included in other comprehensive income (loss)			(1,576)
Purchases	117		
Total realized and unrealized losses:			
Balance at December 31, 2011	$ 117	$ 161	$ 20,443
Included in other comprehensive income (loss)			446
Balance at March 31, 2012	$ 117	$ 161	$ 667

	Changes in Financial Instruments Measured at Level 3 Fair Value Classified as	
	Preferred Shares	Provalliance Equity Put Option
	(Dollars in thousands)	
Balance at July 1, 2010	$ 3,502	$ 22,009
Total realized and unrealized gains:		
Included in other comprehensive income	230	2,514
Balance at September 30, 2010	$ 3,732	$ 24,523
Total realized and unrealized gains (losses):		
Included in other comprehensive income	99	(441)
Balance at December 31, 2010	$ 3,831	$ 24,082
Total realized and unrealized gains (losses):		
Included in other comprehensive income	(83)	1,333
Included in equity in loss of affiliated companies		(2,509)
Transfer out of Level 3		(714)
Other than temporary impairment	(3,748)	
Balance at March 31, 2011	$	$ 22,192

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 forward foreign currency contracts. The instruments are classified as Level 2 as the fair value is obtained using observable inputs available for similar liabilities

in active markets at the measurement date that are reviewed by the Company. See breakout by type of contract and reconciliation to the balance sheet line item that the contracts are classified within Note 7 of the Condensed Consolidated Financial Statements.

Equity put option - Provalliance. The Company s merger of the European franchise salon operations with the operations of the Franck Provost Salon Group on January 31, 2008 contained an equity put (Provalliance Equity Put) and an equity call. The Provalliance Equity Put is valued using binomial lattice models that incorporate assumptions including the business enterprise value at that date and future estimates of volatility and earnings before interest, taxes, and depreciation and amortization multiples. During fiscal year 2011, a portion of the Provalliance Equity Put was settled. During the three months ended March 31, 2012, the fair value of the Provalliance Equity Put decreased by $20.2 million to $0.7 million and is classified within other noncurrent liabilities on the Condensed Consolidated Balance Sheet. The remaining Provalliance Equity Put liability as of March 31, 2012 is associated with the probability of the share purchase agreement in which the Company will sell the 46.7 percent equity interest in Provalliance not closing and the Provalliance Equity Put remaining effective. The sensitivity of the underlying assumptions to the Provalliance Equity Put is not material to the Consolidated

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Financial Statements. See Note 5 to the Condensed Consolidated Financial Statements for discussion of the share purchase agreement.

Equity put and call options - Roosters. The purchase agreement for the Company s acquisition of a 60.0 percent ownership interest in Roosters MGC International LLC (Roosters) on July 1, 2011 contained an equity put (Roosters Equity Put) and an equity call (Roosters Equity Call). See further discussion within Note 5 to the Condensed Consolidated Financial Statements. The Roosters Equity Put and Roosters Equity Call are valued using binomial lattice models that incorporate assumptions including the business enterprise value at that date and future estimates of volatility and earnings before interest, taxes, and depreciation and amortization multiples. At March 31, 2012, the fair value of the Roosters Equity Put and Roosters Equity Call were $0.2 and $0.1 million, respectively, and are classified within noncurrent liabilities and other assets, respectively, on the Condensed Consolidated Balance Sheet.

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

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 March 31, 2012. At March 31, 2012, the estimated fair values and carrying amounts of debt were $312.3 and $292.3 million, respectively. The estimated Level 2 fair value of debt was determined based on internal valuation models, which utilize quoted market prices and interest rates for the same or similar instruments.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis. We measure certain assets, including the Company s equity method investments, tangible fixed assets and goodwill, at fair value on a nonrecurring basis when they are deemed to be other than temporarily impaired. The fair values of our investments are determined based on valuation techniques using the best information available, and may include quoted market prices, market comparables, and discounted cash flow projections. The estimated fair values during the three months ended March 31, 2012 and 2011 were as follows:

	Fair Value at March 31, 2012	Level 1	Level 2	Level 3	Total Losses
			(Dollars in thousands)		
Assets					
Investment in affiliates					
Provalliance	$ 106,720	$	$	$ 106,720	$ (37,045)

Assets

During the three months ended March 31, 2012, the Company s investment in Provalliance with a carrying value of $143.8 million was written down to its implied fair value of $106.7 million, resulting in an impairment charge of $37.0 million. See Note 5 to the Condensed Consolidated Financial Statements for further information.

During the nine months ended March 31, 2012, goodwill of the Hair Restoration Centers reporting unit with a carrying value of $152.8 million was written down to its implied fair value of $74.4 million, resulting in an impairment charge of $78.4 million. See Note 1 to the Condensed Consolidated Financial Statements for further information.

During the three months ended March 31, 2011, goodwill of the Promenade salon concept with a carrying value of $315.0 million was written down to its implied fair value of $240.9 million, resulting in an impairment charge of $74.1 million. See Note 1 to the Condensed Consolidated Financial Statements for further information.

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4. GOODWILL AND OTHER INTANGIBLES:

The table below contains details related to the Company s recorded goodwill as of March 31, 2012 and June 30, 2011:

	Salons North America	Salons International	Hair Restoration Centers	Consolidated
	(Dollars in thousands)			
Gross goodwill at June 30, 2011	$ 715,219	$ 41,661	$ 152,796	$ 909,676
Accumulated impairment losses	(187,503)	(41,661)		(229,164)
Net goodwill at June 30, 2011	527,716		152,796	680,512
Goodwill acquired (1)	4,899			4,899
Translation rate adjustments	(1,816)		2	(1,814)
Goodwill impairment (2)			(78,426)	(78,426)
Gross goodwill at March 31, 2012	718,302	41,661	152,798	912,761
Accumulated impairment losses	(187,503)	(41,661)	(78,426)	(307,590)
Net goodwill at March 31, 2012	$ 530,799	$	$ 74,372	$ 605,171

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

(2) As a result of the Company s interim impairment test of goodwill during the three months ended December 31, 2011, a $78.4 million impairment charge was recorded for the excess of the carrying value of goodwill over the implied fair value of goodwill for the Hair Restoration Centers reporting unit.

The table below presents other intangible assets as of March 31, 2012 and June 30, 2011:

	March 31, 2012 Cost	March 31, 2012 Accumulated Amortization	March 31, 2012 Net	June 30, 2011 Cost	June 30, 2011 Accumulated Amortization	June 30, 2011 Net
	(Dollars in thousands)					
Amortized intangible assets:						
Brand assets and trade names	$ 80,110	$ (15,836)	$ 64,274	$ 80,310	$ (14,329)	$ 65,981
Customer lists	53,188	(38,281)	14,907	53,188	(34,096)	19,092
Franchise agreements	22,469	(9,594)	12,875	22,221	(8,909)	13,312
Lease intangibles	14,913	(5,709)	9,204	14,948	(5,168)	9,780
Non-compete agreements	210	(110)	100	353	(232)	121
Other	4,578	(1,566)	3,012	4,429	(1,387)	3,042

$	175,468	$	(71,096)	$	104,372	$	175,449	$	(64,121)	$	111,328

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

	Weighted Average Amortization Period	
	March 31, 2012	**June 30, 2011**
	(In years)	
Amortized intangible assets:		
Brand assets and trade names	39	39
Customer lists	10	10
Franchise agreements	22	22
Lease intangibles	20	20
Non-compete agreements	6	5
Other	21	25
Total	26	26

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Total amortization expense related to the amortizable intangible assets was approximately $2.5 million during each of the three month periods ended March 31, 2012 and 2011 and $7.3 million during each of the nine month periods ended March 31, 2012 and 2011. As of March 31, 2012, future estimated amortization expense related to amortizable intangible assets is estimated to be:

Fiscal Year		**(Dollars in thousands)**
2012 (Remainder: three-month period)	$	2,405
2013		9,426
2014		9,210
2015		6,168
2016		4,010

5. ACQUISITIONS, INVESTMENT IN AND LOANS TO AFFILIATES:

Acquisitions

During the nine months ended March 31, 2012 and 2011, the Company made salon acquisitions and the purchase prices have been allocated to assets acquired and liabilities assumed based on their estimated fair values at the dates of acquisition. These acquisitions individually and in the aggregate are not material to the Company s operations. Operations of the acquired companies have been included in the operations of the Company since the date of the respective acquisition.

Based upon purchase price allocations, the components of the aggregate purchase prices of the acquisitions made during the nine months ended March 31, 2012 and 2011 and the allocation of the purchase prices were as follows:

Allocation of Purchase Prices	**For the Nine Months Ended March 31,**			
	2012		**2011**	
	(Dollars in thousands)			
Components of aggregate purchase prices:				
Cash (net of cash acquired)	$	2,225	$	16,296
Liabilities assumed or payable				639
	$	2,225	$	16,935
Allocation of the purchase price:				
Current assets	$	314	$	611
Property and equipment		241		3,898
Goodwill		4,899		11,223
Identifiable intangible assets		579		1,934
Accounts payable and accrued expenses		(1,062)		(489)
Other noncurrent liabilities		(1,246)		(242)
Noncontrolling interest		(1,500)		
	$	2,225	$	16,935

The majority of the purchase price in salon acquisitions is accounted for as residual goodwill rather than identifiable intangible assets. This stems from the value associated with the walk-in customer base of the acquired salons, which is not recorded as an identifiable intangible asset under current accounting guidance, as well as the limited value and customer preference associated with the acquired hair salon brand. Key factors considered by consumers of hair salon services include personal relationships with individual stylists, service quality and price point competitiveness. These attributes represent the going concern value of the salon.

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

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During the nine months ended March 31, 2012 and 2011, certain of the Company s salon acquisitions were from its franchisees. The Company evaluated the effective settlement of the pre-existing franchise contracts and associated rights afforded by those contracts. The Company determined that the effective settlement of the pre-existing franchise contracts at the date of the acquisition did not result in a gain or loss, as the agreements were neither favorable nor unfavorable when compared to similar current market transactions, and no settlement provisions exist in the pre-existing contracts. Therefore, no settlement gain or loss was recognized with respect to the Company s franchise buybacks.

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

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

Regis determined that the Company has met the power criterion due to the Company having the authority to direct the activities that most significantly impact Roosters economic performance. The Company concluded based on the considerations above that it is the primary beneficiary of Roosters and therefore the financial positions, results of operations, and cash flows of Roosters are consolidated in the Company s financial statements from the acquisition date. Total assets, total liabilities and total shareholders equity of Roosters as of March 31, 2012 were $6.0, $2.1 and $3.9 million, respectively. Net income attributable to the noncontrolling interest in Roosters was $0.1 million for the three and nine months ended March 31, 2012, and was recorded within interest income and other, net in the Condensed Consolidated Statement of Operations. Shareholders equity attributable to the noncontrolling interest in Roosters was $1.6 million as of March 31, 2012 and was recorded within retained earnings on the Condensed Consolidated Balance Sheet.

Investment in and loans to affiliates

The table below presents the carrying amount of investments in and loans to affiliates as of March 31, 2012 and June 30, 2011:

	March 31, 2012	June 30, 2011
	(Dollars in thousands)	
Empire Education Group, Inc.	$ 87,100	$ 104,540
Provalliance	106,720	149,245
MY Style	626	2,210
Hair Club for Men, Ltd.	5,184	5,145

	$ 199,630	$ 261,140

Empire Education Group, Inc.

On August 1, 2007, the Company contributed its 51 wholly-owned accredited cosmetology schools to Empire Education Group, Inc. (EEG) in exchange for a 49.0 percent equity interest in EEG. In January 2008, the Company s effective ownership interest increased to 55.1 percent related to the buyout of EEG s minority interest shareholder. EEG operates 105 accredited cosmetology schools. EEG s financial results for the nine months ended March 31, 2012 were gross revenues of approximately $139 million, gross profit of approximately $51 million, operating income of approximately $13 million and net income of approximately $7 million. EEG s financial results for the nine months ended March 31, 2011 were gross revenues of approximately $145 million, gross profit of approximately $54 million, operating income of approximately $15 million and net income of approximately $9 million.

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At March 31, 2012, the Company had a $20.4 million outstanding loan receivable with EEG that was reclassified in the Condensed Consolidated Balance Sheet as other current assets during the three months ended March 31, 2012 as the loan is due in January 2013. The Company has also provided EEG with a $15.0 million revolving credit facility, against which there were no outstanding borrowings as of March 31, 2012 and 2011. 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 $20.4 million outstanding loan with EEG as of March 31, 2012 is in good standing with no associated valuation allowance. During the three months ended March 31, 2012 and 2011, the Company recorded $0.1 and $0.2 million, respectively, of interest income related to the loan and revolving credit facility. During the nine months ended March 31, 2012 and 2011, the Company recorded $0.4 and $0.6 million, respectively, of interest income related to the loan and revolving credit facility. In addition, the Company received $0.4 and $1.0 million in principal payments on the loan during the three and nine months ended March 31, 2012, respectively. 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. Due to economic and other factors, the Company may be required to record impairment charges related to our investment in EEG and such impairments could be material to our consolidated balance sheet and results of operations. In addition, EEG may be required to record impairment charges related to long-lived assets and goodwill, and our share of such impairment charges could be material to our consolidated balance sheet and results of operations.

The Company utilized consolidation of variable interest entities guidance to determine whether or not its investment in EEG was a variable interest entity (VIE), and if so, whether the Company was the primary beneficiary of the VIE. The Company concluded that EEG was not a VIE based on the fact that EEG had sufficient equity at risk. As the substantive voting control relates to the voting rights of the Board of Directors, the Company granted the other shareholder a proxy to vote such number of the Company s shares such that the other shareholder would have voting control of 51.0 percent of the common stock of EEG. The Company accounts for EEG as an equity investment under the voting interest model. During the three months ended March 31, 2012 and 2011, the Company recorded $1.5 and $1.8 million, respectively, of equity earnings related to its investment in EEG. During the nine months ended March 31, 2012 and 2011, the Company recorded $4.0 and $4.7 million, respectively, of equity earnings related to its investment in EEG. EEG declared and distributed a dividend during the nine months ended March 31, 2011 for which the Company received $4.1 million in cash and recorded dividend tax expense of $0.3 million.

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, 2012.

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. In December 2010, a portion of the Equity Put was exercised. In March of 2011, the Company elected to honor and settle a portion of the Equity Put and acquired approximately 17 percent additional equity interest in Provalliance for $57.3 million (approximately 40.4 million), bringing the Company s total equity interest to 46.7 percent.

On April 9, 2012, the Company entered into a Share Purchase Agreement (Agreement) to sell the Company s 46.7 percent equity interest in Provalliance to the Provost Family for a purchase price of 80 million. The transaction is expected to close no later than September 30, 2012 and is subject to the Provost Family securing financing for the purchase price. The purchase price was negotiated independently of the Equity Put

and the Equity Put and Equity Call will automatically terminate upon closing. If the closing does not occur by September 30, 2012, the Provost Family will not be entitled to exercise their Equity Put rights until September 30, 2014.

The Company evaluated whether the carrying value of its investment in Provalliance was recoverable based on its intent to sell the investment. Based on the status of the sale negotiation at March 31, 2012, the Company determined an other than temporary decline in the value of its investment in Provalliance had occurred. The Company recorded a $37.0 million other than temporary impairment charge for the three months ended March 31, 2012 related to the difference between the 80 million (approximately $106.7 million) purchase price and 107.8 million (approximately $143.8 million) carrying value of its investment in Provalliance. In addition, the fair value of the Equity Put decreased by $20.2 million to $0.7 million as of March 31, 2012. The remaining Equity Put liability as of March 31, 2012 is associated with the probability of the Agreement not closing and the Equity Put remaining effective. The $37.0 million other than temporary impairment charge, partially offset by the $20.2 million reduction in the fair value of the Equity Put, resulted in a net impairment charge of $16.8 million that is recorded within the

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equity in (loss) income of affiliated companies during the three and nine months ended March 31, 2012. Regis will not receive a tax benefit on the net impairment charge.

In connection with the Agreement, the Company is considering alternatives which may require reclassification of certain material cumulative foreign currency translation balances from the consolidated balance sheet to results of operations. As of March 31, 2012, the balance of cumulative foreign currency translation within accumulated other comprehensive income on the Condensed Consolidated Balance Sheet was $62.6 million.

There is no change as of March 31, 2012 to the Company s conclusion of Provalliance being a VIE for which the Franck Provost Group is the primary beneficiary.

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

Impact on Condensed Consolidated Balance Sheet

	Classification	Carrying Value at March 31, 2012	June 30, 2011
		(Dollars in thousands)	
Investment in Provalliance	Investment in and loans to affiliates	$ 106,720	$ 149,245
Equity put option - Provalliance	Other noncurrent liabilities	667	22,700

Impact on Condensed Consolidated Statement of Operations

	Classification	For the Three Months Ended March 31, 2012	2011
		(Dollars in thousands)	
Equity in (loss) income, net of income taxes	Equity in loss of affiliated companies, net of income taxes	$ (16,685)	$ 4,935

Impact on Condensed Consolidated Statement of Operations

	Classification	For the Nine Months Ended March 31, 2012	2011
		(Dollars in thousands)	

Equity in (loss) income, net of income taxes	Equity in (loss) income of affiliated companies, net of income taxes	$	(10,244)	$	7,991

Impact on Condensed Consolidated Statement of Cash Flows

Equity in loss (income), net of income taxes	Equity in loss (income) of affiliated companies, net of income taxes	$	10,244	$	(7,991)

After the Company filed its 10-Q for the period ended December 31, 2011, certain audit and other year-end adjustments were made by Provalliance for their year ended December 31, 2011. The Company recorded these adjustments in its quarter ended March 31, 2012. The adjustments totaled $1.4 million and increased the Company s loss from continuing operations.

MY Style

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

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

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

Exchangeable Note. As of March 31, 2012, the principal amount outstanding under the Exchangeable Note is $1.2 million (100,000,000 Yen) and is due in September 2012. The Company reviews the Exchangeable Note with Yamano for changes in circumstances or the occurrence of events that suggest the Company s note may not be recoverable. The $1.2 million outstanding Exchangeable Note with Yamano as of March 31, 2012 is in good standing with no associated valuation allowance. The Company has determined the future cash flows of Yamano support the ability to make payments on the Exchangeable Note. The Exchangeable Note accrues interest at 1.845 percent and interest is payable on September 30, 2012 with the final principal payment. The Company recorded less than $0.1 million in interest income related to the Exchangeable Note during each of the nine month periods ended March 31, 2012 and 2011.

MY Style Note. As of March 31, 2012, the principal amount outstanding under the MY Style Note is $1.3 million (104,328,000 Yen). Principal payments of 52,164,000 Yen along with accrued interest are due annually on May 31 through May 31, 2013. The Company reviews the outstanding note with MY Style for changes in circumstances or the occurrence of events that suggest the Company s note may not be recoverable. The $1.3 million outstanding note with MY Style as of March 31, 2012 is in good standing with no associated valuation allowance. The Company has determined the future cash flows of MY Style support the ability to make payments on the outstanding note. The MY Style Note accrues interest at 3.0 percent. The Company recorded less than $0.1 million in interest income related to the MY Style Note during each of the nine month periods ended March 31, 2012 and 2011.

As of March 31, 2012, $2.2 and $0.6 million are recorded in the Condensed Consolidated Balance Sheet as current assets and investment in and loans to affiliates, respectively, representing the Company s Exchangeable Note and outstanding note with MY Style. The exposure to loss related to the Company s involvement with MY Style is the carrying value of the outstanding notes.

All foreign currency transaction gains and losses on the Exchangeable Note and MY Style Note are recorded through other income within the Condensed Consolidated Statement of Operations. The foreign currency transaction gain (loss) recorded through other income was $0.2 and $(1.1) million during the nine months ended March 31, 2012 and 2011, respectively.

Hair Club for Men, Ltd.

The Company acquired a 50.0 percent interest in Hair Club for Men, Ltd. through its acquisition of Hair Club in fiscal year 2005. The Company accounts for its investment in Hair Club for Men, Ltd. under the equity method of accounting. Hair Club for Men, Ltd. operates Hair Club centers in Illinois and Wisconsin. During the three months ended March 31, 2012 and 2011 the Company recorded income of $0.3 and $0.2 million, respectively, and received cash dividends of $0.3 and $0.2 million, respectively. During the nine months ended March 31, 2012 and 2011 the Company recorded income of $1.0 and $0.4 million, respectively, and received cash dividends of $0.9 and $0.7 million, respectively. The exposure to loss related to the Company s involvement with Hair Club for Men, Ltd. is the carrying value of the investment.

6. DISCONTINUED OPERATIONS:

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

The Company has a formal note receivable agreement with the purchaser of Trade Secret. The Company recorded valuation reserves of $9.0 and $22.2 million during the three months ended March 31, 2011 and June 30, 2011, respectively. The carrying value of the note receivable was fully reserved as of June 30, 2011. The Company has determined the collectibility of accrued interest on the note receivable to be less than probable. The Company suspended recognition of interest income

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effective April 2010 and will use the cash basis method for recognizing future interest income. The Company did not receive interest payments from the purchaser of Trade Secret during the nine months ended March 31, 2012.

The purchaser of Trade Secret emerged from bankruptcy in March 2012 and in conjunction, the Company entered into a credit and security agreement in which the principal balance of the note receivable was reduced to $18.0 million. Payments of $0.5 million are due quarterly beginning on May 31, 2012. Upon receipt of the quarterly payments through February 2019 the remaining principal and unpaid interest will be forgiven.

Effective in 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 $0.3 and $0.6 million of other income related to warehouse services during the three months ended March 31, 2012 and 2011, respectively. During the nine months ended March 31, 2012 and 2011, the Company recognized $1.2 and $2.0 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	March 31, 2012	June 30, 2011
		(Dollars in thousands)	
Carrying value:			
Warehouse services	Receivables, net	$ 135	$ 320
Note receivable, current	Other current assets	2,912	2,607
Note receivable, current valuation allowance	Other current assets	(2,912)	(2,607)
Note receivable, long-term	Other assets	15,088	31,086
Note receivable, long-term valuation allowance	Other assets	(15,088)	(31,086)
Total note receivable, net		$ 135	$ 320

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

During the three and nine months ended March 31, 2012, the Company recorded a $1.1 million tax benefit in discontinued operations related to the release of tax reserves associated with the disposition of the Trade Secret salon concept.

7. DERIVATIVE FINANCIAL INSTRUMENTS:

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

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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. For purposes of the Condensed Consolidated Statement of Cash Flows, cash flows associated with all derivatives (designated as hedges or freestanding economic hedges) are classified in the same category as the related cash flows subject to the hedging relationship.

Cash Flow Hedges

As of March 31, 2012, the Company s cash flow hedges consisted of forward foreign currency contracts.

In the past, the Company used interest rate swaps to maintain its variable to fixed rate debt ratio in accordance with its established policy. As of March 31, 2011, the Company had $85.0 million of total variable rate debt outstanding, of which $40.0 million was swapped to fixed rate debt, resulting in $45.0 million of variable rate debt. The interest rate swap contracts paid fixed rates of interest and received variable rates of interest. The contracts and related debt had maturity dates during fiscal year 2012. The interest rate swaps were terminated prior to the maturity dates in conjunction with the repayments of debt and were settled for an aggregate loss of $0.1 million. The $0.1 million loss was recorded during the fourth quarter of fiscal year 2011 on the termination of the interest rate swaps and was recorded within interest expense in the Consolidated Statement of Operations.

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

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

Freestanding Derivative Forward Contracts

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

The Company had the following derivative instruments in its Condensed Consolidated Balance Sheet as of March 31, 2012 and June 30, 2011:

Type	Asset Classification	Asset Fair Value March 31, 2012	Asset Fair Value June 30, 2011	Liability Classification	Liability Fair Value March 31, 2012	Liability Fair Value June 30, 2011
		(In thousands)			(In thousands)	
Designated as hedging instruments Cash Flow Hedges:						
Forward foreign currency contracts	Other current assets	$	$	Other current liabilities	$ (47)	$ (599)
Freestanding derivative contracts not designated as hedging instruments:						
Forward foreign currency contracts	Other current assets	$ 24	$ 212	Other current liabilities	$	$
Total		$ 24	$ 212		$ (47)	$ (599)

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The table below sets forth the gain (loss) on the Company s derivative instruments recorded within accumulated other comprehensive income (AOCI) in the Consolidated Balance Sheet for the nine months ended March 31, 2012 and 2011. The table also sets forth the loss on the Company s derivative instruments that has been reclassified from AOCI into current earnings during the nine months ended March 31, 2012 and 2011 within the following line items in the Condensed Consolidated Statement of Operations.

Type	Gain (Loss) Recognized in Other Comprehensive Income (Loss) Nine Months Ended March 31, 2012	2011	Classification	Loss Reclassified from Accumulated OCI into (Loss) Income Nine Months Ended March 31, 2012	2011
	(In thousands)			(In thousands)	
Designated as hedging instruments Cash Flow Hedges:					
Interest rate swaps	$	$ 448		$	$
Forward foreign currency contracts	341	(455)	Cost of sales		(48)
Total	$ 341	$ (7)		$	$ (48)

As of March 31, 2012 the Company estimates that it will reclassify into earnings during the next twelve months a gain of less than $0.1 million from the pretax amount recorded in AOCI as the anticipated cash flows occur.

The table below sets forth the (loss) gain on the Company s derivative instruments for nine months ended March 31, 2012 and 2011 recorded within interest income and other, net in the Condensed Consolidated Statement of Operations.

Type	Classification	Derivative Impact on (Loss) Income for the Nine Months Ended March 31, 2012	2011
		(In thousands)	
Freestanding derivative contracts not designated as hedging instruments:			
Forward foreign currency contracts	Interest income and other, net	$ (189)	$ 426

8. LITIGATION:

The Company is a defendant in various lawsuits and claims arising out of the normal course of business. Like certain other large retail employers, the Company has been faced with allegations of purported class-wide consumer and wage and hour violations. In addition, the Company is a nominal defendant, and nine current and former directors and officers of the Company are named defendants, in a shareholder derivative action in Minnesota state court. The derivative shareholder alleges that the individual defendants breached their fiduciary duties to the Company in connection with their approval of certain executive compensation arrangements and certain related party transactions. Litigation is inherently unpredictable and the outcome of these matters cannot presently be determined. Although the actions are being vigorously defended, the Company 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. FINANCING ARRANGEMENTS:

The Company s long-term debt as of March 31, 2012 and June 30, 2011 consisted of the following:

	Maturity Dates (fiscal year)	Interest rate percentage March 31, 2012	Interest rate percentage June 30, 2011	Amounts outstanding March 31, 2012	Amounts outstanding June 30, 2011
				(Dollars in thousands)	
Senior term notes	2013 2018	6.69 8.50%	6.69 8.50%	$ 115,714	$ 133,571
Convertible senior notes	2015	5.00	5.00	159,873	156,248
Revolving credit facility	2016				
Equipment and leasehold notes payable	2015 2016	4.90 8.78	8.80 9.14	16,312	22,273
Other notes payable	2012 2013	5.75 8.00	5.75 8.00	408	1,319
				292,307	313,411
Less current portion				(28,877)	(32,252)
Long-term portion				$ 263,430	$ 281,159

The debt agreements contain covenants, including limitations on incurrence of debt, granting of liens, investments, merger or consolidation, and transactions with affiliates. In addition, the Company must adhere to specified fixed charge coverage and leverage ratios, as well as minimum net worth levels. The Company was in compliance with all covenants and other requirements of our financing arrangements as of March 31, 2012.

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The table below contains details related to the Company s financing arrangements during the nine months ended March 31, 2012 and 2011:

Total Debt	For the Nine Months Ended March 31, 2012	2011
	(Dollars in Thousands)	
Balance at June 30,	$ 313,411	$ 440,029
Repayment of long-term debt and capital lease obligations	(9,669)	(3,334)
Amortized debt discount	1,183	1,086
Other	(910)	1,888
Balance at September 30,	$ 304,015	$ 439,669
Repayment of long-term debt and capital lease obligations	(12,321)	(39,258)
Amortized debt discount	1,208	1,110
Other	(21)	2,624
Balance at December 31,	$ 292,881	$ 404,145
Repayment of long-term debt and capital lease obligations	(1,811)	(2,937)
Amortized debt discount	1,234	1,134
Other	3	1,949
Balance at March 31,	$ 292,307	$ 404,291

Private Shelf Agreement

At March 31, 2012 and June 30, 2011, the Company had $115.7 and $133.6 million, respectively, in unsecured, fixed rate, senior term notes outstanding under a Private Shelf Agreement, of which $22.1 million were classified as part of the current portion of the Company s long-term debt at March 31, 2012 and June 30, 2011. The notes require quarterly payments, and final maturity dates range from June 2013 through December 2017.

Convertible Senior Notes

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 is payable semi-annually in arrears on January 15 and July 15 of each year at a rate of 5.0 percent per year. Upon the July 2009 issuance the notes were convertible subject to certain conditions further described below at an initial conversion rate of 64.6726 shares of the Company s common stock per $1,000 principal amount of notes (representing an initial conversion price of approximately $15.46 per share of the Company s common stock). As of March 31, 2012, the conversion rate was 65.0715 shares of the Company s common stock per $1,000 principal amount of notes (representing a conversion price of approximately $15.37 per share of the Company s common stock).

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

The Company has the choice of net-cash settlement, settlement in its own shares or a combination thereof and concluded the conversion option is indexed to its own stock. As a result, the Company allocated $24.7 million of the $172.5 million principal amount of the convertible senior notes to equity, which resulted in a $24.7 million debt discount. The allocation was based on measuring the fair value of the convertible senior notes using a discounted cash flow analysis. The discount rate was based on an estimated credit rating for the Company. The estimated fair value of the convertible senior notes was $147.8 million, and 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	**March 31, 2012**	**June 30, 2011**
	(Dollars in thousands)	
Principal amount on the convertible senior notes	$ 172,500	$ 172,500
Unamortized debt discount	(12,627)	(16,252)
Net carrying amount of convertible debt	$ 159,873	$ 156,248

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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 Nine Months Ended March 31, 2012		2011
		(Dollars in thousands)		
Interest cost related to contractual interest coupon	5.0%	$ 6,469		$ 6,469
Interest cost related to amortization of the discount		3,625		3,329
Total interest cost		$ 10,094		$ 9,798

Revolving Credit Facility

As of March 31, 2012 and June 30, 2011, the Company had no outstanding borrowings under its revolving credit facility. Additionally, the Company had outstanding standby letters of credit under the facility of $26.1 and $26.0 million at March 31, 2012 and June 30, 2011, respectively, primarily related to its self-insurance program. Unused available credit under the facility at March 31, 2012 and June 30, 2011 was $373.9 and $374.0 million, respectively. The facility expires in June 2016.

Equipment and Leasehold Notes Payable

The equipment and leasehold notes payable are primarily comprised of capital lease obligations. In September 2011, the Company entered into an agreement to refinance existing capital leases to a three year term with a contract rate of 4.9 percent. Capital leases of $20.5 million are amortized at the historical rate of 9.2 percent. There was no gain or loss recorded on the refinance. The Company entered into the refinancing to reduce cash interest payments.

Other Notes Payable

The Company had $0.4 and $1.3 million in unsecured outstanding notes at March 31, 2012 and June 30, 2011, respectively, related to debt assumed in acquisitions.

10. INCOME TAXES:

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

During the three and nine months ended March 31, 2012, the Company s continuing operations recognized tax expense of $6.0 and $5.3 million, respectively, with corresponding effective tax rates of 32.4 and 13.0 percent utilizing the year-to-date method. This is compared to a tax benefit of $44.7 and $29.7 million with corresponding effective tax rates of 65.2 and 112.1 percent in the comparable periods of the prior year utilizing the estimated annual effective tax rate method. The Company utilized the year-to-date method in calculating its tax rate for the three and six months ended December 31, 2011 rather than utilizing its historical method of calculating an estimated annual effective tax rate. As a result, the Company calculated its tax rate utilizing the year-to-date method for the three and nine months ending March 31, 2012. The effective income tax rate for the three and nine months ended March 31, 2012 was impacted by $0.9 million in release of tax reserves and $0.6 million of qualifying employment tax credits.

The effective income tax rate for the three and nine months ended March 31, 2011 was negatively impacted by the $74.1 million impairment of goodwill in the North American segment which is only partially deductible for tax purposes.

The Company accrues for the effects of open uncertain tax positions and the related potential penalties and interest. Other than the tax reserve release described above, there were no material adjustments to our recorded liability for unrecognized tax benefits during the three and nine months ended March 31, 2012. It is reasonably possible that the amount of the unrecognized tax benefit with respect to certain of our unrecognized tax positions will increase or decrease during the next 12 months. However, we do not expect the change to have a significant effect on our consolidated results of operations or financial position.

The Company files tax returns and pays tax primarily in the United States, Canada, the United Kingdom, Luxembourg and the Netherlands as well as states, cities, and provinces within these jurisdictions. In the United States, fiscal years 2009 and

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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 2007. However, the Company is under audit in a number of states in which the statute of limitations has been extended to fiscal years 2000 and forward. Internationally (including Canada), the statute of limitations for tax audits varies by jurisdiction, but generally ranges from three to five years.

11. SEGMENT INFORMATION:

As of March 31, 2012, the Company owned, franchised, or held ownership interests in approximately 12,700 worldwide locations. The Company s locations consisted of 9,380 North American salons (located in the United States, Canada and Puerto Rico), 402 international salons, 98 hair restoration centers and approximately 2,780 locations in which the Company maintains an ownership interest.

The Company operates its North American salon operations through five primary concepts: Regis, 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.

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

	For the Three Months Ended March 31, 2012 (Dollars in thousands)				
	Salons North America	Salons International	Hair Restoration Centers	Unallocated Corporate	Consolidated
Revenues:					
Service	$ 390,202	$ 22,771	$ 17,229	$	$ 430,202
Product	103,335	9,818	19,864		133,017
Royalties and fees	9,775		590		10,365
	503,312	32,589	37,683		573,584
Operating expenses:					
Cost of service	227,702	11,822	10,855		250,379
Cost of product	51,520	5,344	6,966		63,830
Site operating expenses	45,314	1,834	1,687		48,835
General and administrative	27,188	2,980	9,992	34,103	74,263
Rent	73,087	8,604	2,198	479	84,368
Depreciation and amortization	16,748	1,403	3,244	5,314	26,709
Total operating expenses	441,559	31,987	34,942	39,896	548,384
Operating income (loss)	61,753	602	2,741	(39,896)	25,200
Other income (expense):					
Interest expense				(6,790)	(6,790)
Interest income and other, net				123	123
Income (loss) from continuing operations before income taxes and equity in loss of affiliated companies	$ 61,753	$ 602	$ 2,741	$ (46,563)	$ 18,533

	For the Three Months Ended March 31, 2011 (Dollars in thousands)				
	Salons North America	Salons International	Hair Restoration Centers	Unallocated Corporate	Consolidated
Revenues:					
Service	$ 398,731	$ 24,550	$ 16,828	$	$ 440,109
Product	101,907	10,985	18,458		131,350
Royalties and fees	9,201		607		9,808
	509,839	35,535	35,893		581,267
Operating expenses:					
Cost of service	233,404	12,153	9,817		255,374
Cost of product	51,209	5,885	5,974		63,068
Site operating expenses	46,932	2,244	1,346		50,522
General and administrative	30,771	2,915	10,507	42,197	86,390
Rent	72,577	9,006	2,297	511	84,391
Depreciation and amortization	18,347	1,069	3,195	4,315	26,926
Goodwill impairment	74,100				74,100
Total operating expenses	527,340	33,272	33,136	47,023	640,771
Operating (loss) income	(17,501)	2,263	2,757	(47,023)	(59,504)