REGIS CORP
Form 10-Q
February 06, 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 December 31, 2011

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	**41-0749934**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
7201 Metro Boulevard, Edina, Minnesota	**55439**
(Address of principal executive offices)	(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 January 25, 2012:

Common Stock, $.05 par value	**57,628,069**
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 December 31, 2011 and June 30, 2011

(In thousands, except share data)

	December 31, 2011	June 30, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 83,099	$ 96,263
Receivables, net	31,944	27,149
Inventories	170,551	150,804
Deferred income taxes	15,082	17,887
Income tax receivable	17,322	22,341
Other current assets	29,681	32,118
Total current assets	347,679	346,562
Property and equipment, net	327,381	347,811
Goodwill	604,097	680,512
Other intangibles, net	106,411	111,328
Investment in and loans to affiliates	251,573	261,140
Other assets	59,820	58,400
Total assets	$ 1,696,961	$ 1,805,753
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Long-term debt, current portion	$ 28,999	$ 32,252
Accounts payable	52,541	55,107
Accrued expenses	175,105	167,321
Total current liabilities	256,645	254,680
Long-term debt and capital lease obligations	263,882	281,159
Other noncurrent liabilities	216,077	237,295
Total liabilities	736,604	773,134
Commitments and contingencies (Note 8)		
Shareholders equity:		
Common stock, $0.05 par value; issued and outstanding 57,650,228 and 57,710,811 common shares at December 31, 2011 and June 30, 2011, respectively	2,883	2,886
Additional paid-in capital	345,827	341,190
Accumulated other comprehensive income	55,661	77,946
Retained earnings	555,986	610,597

Total shareholders equity		960,357		1,032,619
Total liabilities and shareholders equity	$	1,696,961	$	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 December 31, 2011 and 2010

(In thousands, except per share data)

	2011	2010
Revenues:		
Service	$ 421,299	$ 430,939
Product	132,208	133,824
Royalties and fees	9,771	9,609
	563,278	574,372
Operating expenses:		
Cost of service	242,341	249,705
Cost of product	63,469	63,926
Site operating expenses	48,425	50,597
General and administrative	75,066	75,848
Rent	85,473	85,235
Depreciation and amortization	31,695	26,197
Goodwill impairment	78,426	
Total operating expenses	624,895	551,508
Operating (loss) income	(61,617)	22,864
Other income (expense):		
Interest expense	(7,203)	(8,738)
Interest income and other, net	2,659	2,604
(Loss) income before income taxes and equity in income of affiliated companies	(66,161)	16,730
Income taxes	3,453	(5,345)
Equity in income of affiliated companies, net of income taxes	5,281	3,120
Net (loss) income	$ (57,427)	$ 14,505
Net (loss) income per share:		
Basic	$ (1.01)	$ 0.26
Diluted	$ (1.01)	$ 0.24
Weighted average common and common equivalent shares outstanding:		
Basic	56,857	56,684
Diluted	56,857	68,136
Cash dividends declared per common share	$ 0.06	$ 0.04

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

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REGIS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)
For The Six Months Ended December 31, 2011 and 2010

(In thousands, except per share data)

	2011	2010
Revenues:		
Service	$ 852,999	$ 870,468
Product	259,125	262,429
Royalties and fees	19,903	19,720
	1,132,027	1,152,617
Operating expenses:		
Cost of service	488,352	499,206
Cost of product	123,448	125,001
Site operating expenses	100,880	99,606
General and administrative	153,745	149,922
Rent	169,920	170,343
Depreciation and amortization	65,801	52,241
Goodwill impairment	78,426	
Total operating expenses	1,180,572	1,096,319
Operating (loss) income	(48,545)	56,298
Other income (expense):		
Interest expense	(14,563)	(17,661)
Interest income and other, net	3,975	3,381
(Loss) income before income taxes and equity in income of affiliated companies	(59,133)	42,018
Income taxes	730	(14,992)
Equity in income of affiliated companies, net of income taxes	9,313	5,799
Net (loss) income	$ (49,090)	$ 32,825
Net (loss) income per share:		
Basic	$ (0.86)	$ 0.58
Diluted	$ (0.86)	$ 0.54
Weighted average common and common equivalent shares outstanding:		
Basic	56,853	56,657
Diluted	56,853	68,053
Cash dividends declared per common share	$ 0.12	$ 0.08

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

REGIS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)
For The Six Months Ended December 31, 2011 and 2010

(In thousands)

	2011	2010
Cash flows from operating activities:		
Net (loss) income	$ (49,090)	$ 32,825
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	60,894	47,354
Amortization	4,907	4,887
Equity in income of affiliated companies	(9,313)	(5,799)
Dividends received from affiliated companies	606	5,853
Deferred income taxes	(7,245)	628
Goodwill impairment	78,426	
Excess tax benefits from stock-based compensation plans		(67)
Stock-based compensation	4,649	5,004
Amortization of debt discount and financing costs	3,279	3,188
Other noncash items affecting earnings	(306)	693
Changes in operating assets and liabilities (1):		
Receivables	(4,861)	(4,592)
Inventories	(20,382)	(5,627)
Income tax receivable	4,996	21,575
Other current assets	2,662	6,672
Other assets	(2,708)	(7,899)
Accounts payable	(2,900)	(4,123)
Accrued expenses	8,076	(6,439)
Other noncurrent liabilities	(9,743)	8,700
Net cash provided by operating activities	61,947	102,833
Cash flows from investing activities:		
Capital expenditures	(42,979)	(30,663)
Proceeds from sale of assets	371	19
Asset acquisitions, net of cash acquired and certain obligations assumed	(2,225)	(8,106)
Proceeds from loans and investments	1,956	15,000
Disbursements for loans and investments		(15,000)
Net cash used in investing activities	(42,877)	(38,750)
Cash flows from financing activities:		
Borrowings on revolving credit facilities	222,000	
Payments on revolving credit facilities	(222,000)	
Repayments of long-term debt and capital lease obligations	(21,990)	(42,592)
Excess tax benefits from stock-based compensation plans		67
Proceeds from issuance of common stock		691
Dividends paid	(6,952)	(4,599)
Net cash used in financing activities	(28,942)	(46,433)
Effect of exchange rate changes on cash and cash equivalents	(3,292)	4,769
(Decrease) increase in cash and cash equivalents	(13,164)	22,419

Cash and cash equivalents:				
Beginning of period		96,263		151,871
End of period	$	83,099	$	174,290

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

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

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REGIS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

The unaudited interim Condensed Consolidated Financial Statements of Regis Corporation (the Company) as of December 31, 2011 and for the three and six months ended December 31, 2011 and 2010, reflect, in the opinion of management, all adjustments necessary to fairly state the consolidated financial position of the Company as of December 31, 2011 and the consolidated results of its operations and its cash flows for the interim periods. Adjustments consist only of normal recurring items, except for any discussed in the notes below. The results of operations and cash flows for any interim period are not necessarily indicative of results of operations and cash flows for the full year.

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

The unaudited condensed consolidated financial statements of the Company as of December 31, 2011 and for the three and six month periods ended December 31, 2011 and 2010 included in this Form 10-Q have been reviewed by PricewaterhouseCoopers LLP, an independent registered public accounting firm. Their separate report dated February 6, 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 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 $2.2 and $2.6 million for the three months ended December 31, 2011 and 2010, respectively, and $4.6 and $5.0 million for the six months ended December 31, 2011 and 2010, respectively.

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Stock options outstanding, weighted average exercise price and weighted average fair values as of December 31, 2011 were as follows:

Options	Shares		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
Exercisable at December 31, 2011	649	$	33.29

Outstanding options of 810,388 at December 31, 2011 had an intrinsic value (the amount by which the stock price exceeded the exercise or grant date price) of zero and a weighted average remaining contractual term of 4.2 years. Exercisable options of 648,628 at December 31, 2011 had an intrinsic value of zero and a weighted average remaining contractual term of 3.4 years. Of the outstanding and unvested options and due to estimated forfeitures, 140,007 are expected to vest with a $25.23 per share weighted average grant price, a weighted average remaining contractual life of 7.0 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

Outstanding and unvested RSAs of 791,248 at December 31, 2011 had an intrinsic value of $13.1 million and a weighted average remaining vesting term of 1.6 years. Due to estimated forfeitures, 745,796 are expected to vest with a total intrinsic value of $12.3 million.

Outstanding and unvested RSUs of 215,000 at December 31, 2011 had an intrinsic value of $3.6 million and a weighted average remaining vesting term of 0.2 years. All unvested RSUs are expected to vest in fiscal year 2012.

Outstanding SARs of 998,700 at December 31, 2011 had a total intrinsic value of zero and a weighted average remaining contractual term of 6.3 years. Exercisable SARs of 546,850 at December 31, 2011 had a total intrinsic value of zero and a weighted average remaining contractual term of 5.2 years. Of the outstanding and unvested rights and due to estimated forfeitures, 389,228 are expected to vest with a $20.32 per share weighted average grant price, a weighted average remaining contractual life of 7.1 years and a total intrinsic value of zero.

During fiscal year 2011, the Company accelerated the vesting of 68,390 unvested RSAs held by the Company s Chief Executive Officer and the Company s Executive Vice President, Fashion and Education. Under the terms of the

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modifications, any unvested RSAs granted to the Chief Executive Officer and the Executive Vice President, Fashion and Education fully vest on their last days of employment, which is expected to be February 8, 2012 and June 30, 2012, respectively. As a result of the modifications, the Company recognized an incremental compensation cost of $0.1 million during the three and six months ended December 31, 2011.

During the three and six months ended December 31, 2011 total cash received from the exercise of share-based instruments was zero. During the three and six months ended December 31, 2010 total cash received from the exercise of share-based instruments was $0.6 and $0.7 million, respectively. As of December 31, 2011, the total unrecognized compensation cost related to all unvested stock-based compensation arrangements was $14.1 million. The related weighted average period over which such cost is expected to be recognized was approximately 2.9 years as of December 31, 2011.

The total intrinsic value of all stock-based compensation that was exercised or vested during the three and six months ended December 31, 2011 was zero and less than $0.1 million, respectively. The total intrinsic value of all stock-based compensation that was exercised or vested during each of the three and six month periods ended December 31, 2010 was $0.5 million.

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 reporting unit. After the impairment charge the Hair Restoration Centers reporting unit had $74.4 million of goodwill as of December 31, 2011. 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 six months ended December 31, 2011 within Note 10 to the Condensed Consolidated Financial Statements.

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. Excluding Regis, Hair Restoration Centers for which the Company performed an interim impairment test of goodwill during the three months ended December 31, 2011 and Promenade for which the Company recorded a $74.1 million impairment charge as a result of the Company s impairment testing of goodwill during the third

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quarter of fiscal year 2011, 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 Promenade, Hair Restoration Centers, and Regis 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 Promenade and Regis salon concepts and Hair Restoration Centers goodwill is dependent on many factors and cannot be predicted with certainty.

As of December 31, 2011, the Company s estimated fair value, as determined by the sum of our reporting units fair value, reconciled to within a reasonable range of our market capitalization which included an assumed control premium.

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

Reporting Unit	**As of December 31, 2011**	**As of June 30, 2011**
	(Dollars in thousands)	
Regis	$ 103,581	$ 103,761
MasterCuts	4,652	4,652
SmartStyle	48,529	48,916
Supercuts	129,540	129,477
Promenade	243,428	240,910
Total North America Salons	529,730	527,716
Hair Restoration Centers	74,367	152,796
Total	$ 604,097	$ 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 the three months ended 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 $7.0 and $16.3 million during the three and six months ended December 31, 2011, respectively, including $6.3 million ($4.0 million net of tax or $0.07 per diluted share) and $15.0 million ($9.5 million net of tax or $0.17 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, approximately $2.0 million at December 31, 2011, during the three months ended March 31, 2012.

Due to the Company s plan to replace the POS information system, the Company reviewed the capitalized software carrying value for impairment at December 31, 2011. As a result of the Company s long-lived asset impairment testing at December 31, 2011 for this applicable grouping of assets, no impairment charges were recorded.

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.

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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.

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 will adopt the guidance on January 1, 2012 but does not expect it to have a material impact on the Company s consolidated financial position, results of operations, cash flows or disclosures.

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 December 31,			
	Three Months		Six Months	
	2011	2010	2011	2010
	(Shares in thousands)			
Weighted average shares for basic earnings per share	56,857	56,684	56,853	56,657
Effect of dilutive securities:				
Dilutive effect of stock-based compensation (1)		294		238
Dilutive effect of convertible debt		11,158		11,158
Weighted average shares for diluted earnings per share	56,857	68,136	56,853	68,053

(1) For the three and six months ended December 31, 2011, 357 and 306 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.

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

	For the Periods Ended December 31,			
	Three Months		Six Months	
	2011	2010	2011	2010
	(Shares in thousands)		(Shares in thousands)	
Basic earnings per share:				
RSAs (1)	791	912	791	912
RSUs (1)	215	215	215	215
	1,006	1,127	1,006	1,127
Diluted earnings per share:				
Stock options (2)	810	898	810	898
SARs (2)	999	1,076	999	1,076
RSAs (2)	6	109	203	109
Shares issuable upon conversion of debt (2)	11,203		11,195	
	13,018	2,083	13,207	2,083

(1) Shares were not vested

(2) Shares were anti-dilutive

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

	For the Periods Ended December 31,			
	Three Months		Six Months	
	2011	2010	2011	2010
	(Dollars in thousands)			
Net (loss) income available to common shareholders	$ (57,427)	$ 14,505	$ (49,090)	$ 32,825
Effect of dilutive securities:				
Interest on convertible debt, net of taxes		2,013		4,027
Net (loss) income for diluted earnings per share	$ (57,427)	$ 16,518	$ (49,090)	$ 36,852

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Additional Paid-In Capital:

The change in additional paid-in capital during the six months ended December 31, 2011 was due to the following:

		(Dollars in thousands)
Balance, June 30, 2011	$	341,190
Stock-based compensation		4,649
Vested stock option and stock appreciation rights expirations		(264)
Franchise stock incentive plan		251
Other		1
Balance, December 31, 2011	$	345,827

Comprehensive (Loss) Income:

Components of comprehensive (loss) income 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 (loss) income for the three and six months ended December 31, 2011 and 2010 was as follows:

	For the Periods Ended December 31,							
	Three Months				Six Months			
	2011		2010		2011		2010	
	(Dollars in thousands)				(Dollars in thousands)			
Net (loss) income	$	(57,427)	$	14,505	$	(49,090)	$	32,825
Other comprehensive (loss) income:								
Changes in fair market value of financial instruments designated as cash flow hedges of interest rate exposure, net of taxes		(89)		(31)		357		(95)
Change in cumulative foreign currency translation		(2,089)		2,756		(22,642)		17,552
Total comprehensive (loss) income	$	(59,605)	$	17,230	$	(71,375)	$	50,282

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

	Fair Value at December 31, 2011	Fair Value Measurements Using Inputs Considered as Level 1	Level 2	Level 3
ASSETS				
Non-current assets				
Derivative instruments	$ 28	$	$ 28	$
Equity call option - Roosters	117			117
LIABILITIES				
Current liabilities				
Derivative instruments	$ 21	$	$ 21	$
Non-current liabilities				
Equity put option - Provalliance	$ 20,443	$	$	$ 20,443
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
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 six months ended December 31, 2011 and 2010 in our Level 3 financial instruments that are measured at fair value on a recurring basis:

	Changes in Financial Instruments Measured at Level 3 Fair Value Classified as		
	Roosters Equity Call Option	Roosters Equity Put Option	Provalliance Equity Put Option
	(Dollars in thousands)		
Balance at July 1, 2011	$	$	$ 22,700
Total realized and unrealized losses:			
Included in other comprehensive loss			(1,576)
Issuances		161	
Purchases	117		
Balance at September 30, 2011	$ 117	$ 161	$ 21,124
Total realized and unrealized losses:			
Included in other comprehensive loss			(681)
Balance at December 31, 2011	$ 117	$ 161	$ 20,443

	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 loss	230	2,514
Balance at September 30, 2010	$ 3,732	$ 24,523
Total realized and unrealized gains (losses) including translation:		
Included in other comprehensive income	99	(441)
Balance at December 31, 2010	$ 3,831	$ 24,082

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. During fiscal year 2011, a portion of the Provalliance Equity Put was settled. See further discussion within Note 5 to the Condensed Consolidated Financial Statements. The Provalliance Equity Put is valued using binomial lattice models that incorporate assumptions including the business enterprise value at that date and future estimates of volatility and earnings before interest, taxes, and depreciation and amortization multiples. At December 31, 2011, the fair value of the Provalliance Equity Put was $20.4 million and is classified within other noncurrent liabilities on the Condensed Consolidated Balance Sheet.

Equity put and call options - Roosters. The purchase agreement for the Company s acquisition of a 60.0 percent ownership interest in Roosters MGC International LLC (Roosters) on July 1, 2011 contained an equity put (Roosters Equity Put) and an equity call (Roosters Equity Call). See 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 December 31, 2011, the fair value of the Roosters Equity Put and Roosters Equity Call were $0.2 and $0.1 million, respectively, and are classified within noncurrent liabilities and other assets, respectively, on the Condensed Consolidated Balance Sheet.

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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 December 31, 2011. At December 31, 2011, the estimated fair values and carrying amounts of debt were $315.6 and $292.9 million, respectively. The estimated fair value of debt was determined based on internal valuation models, which utilize quoted market prices and interest rates for the same or similar instruments.

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

	Fair Value	Level 1	Level 2	Level 3	Total Losses
			(Dollars in thousands)		
Assets					
Goodwill Hair Restoration Centers	$ 74,367	$	$	$ 74,367	$ (78,426)

During the three months ended December 31, 2011, 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.

4. GOODWILL AND OTHER INTANGIBLES:

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

Salons North America	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)		4,966						4,966
Translation rate adjustments		(2,952)				(3)		(2,955)
Goodwill impairment (2)						(78,426)		(78,426)
Gross goodwill at December 31, 2011		717,233		41,661		152,793		911,687
Accumulated impairment losses		(187,503)		(41,661)		(78,426)		(307,590)
Net goodwill at December 31, 2011	$	529,730	$		$	74,367	$	604,097

(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.

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

	December 31, 2011			June 30, 2011		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
			(Dollars in thousands)			
Amortized intangible assets:						
Brand assets and trade names	$ 79,966	$ (15,272)	$ 64,694	$ 80,310	$ (14,329)	$ 65,981
Customer lists	53,188	(36,888)	16,300	53,188	(34,096)	19,092
Franchise agreements	22,302	(9,261)	13,041	22,221	(8,909)	13,312
Lease intangibles	14,882	(5,510)	9,372	14,948	(5,168)	9,780
Non-compete agreements	206	(99)	107	353	(232)	121
Other	4,385	(1,488)	2,897	4,429	(1,387)	3,042
	$ 174,929	$ (68,518)	$ 106,411	$ 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	
	December 31, 2011	June 30, 2011
	(In years)	
Amortized intangible assets:		
Brand assets and trade names	39	39
Customer lists	10	10
Franchise agreements	22	22
Lease intangibles	20	20
Non-compete agreements	6	5
Other	22	25
Total	26	26

Total amortization expense related to the amortizable intangible assets was approximately $2.5 million during each of the three month periods ended December 31, 2011 and 2010, and $4.9 million during each of the six month periods ended December 31, 2011 and 2010. As of December 31, 2011, future estimated amortization expense related to amortizable intangible assets is estimated to be:

Fiscal Year	(Dollars in thousands)
2012 (Remainder: six-month period)	$ 4,804
2013	9,408
2014	9,195
2015	6,153
2016	3,995

5. ACQUISITIONS, INVESTMENT IN AND LOANS TO AFFILIATES:

Acquisitions

During the six months ended December 31, 2011 and 2010, the Company made salon acquisitions and the purchase prices have been allocated to assets acquired and liabilities assumed based on their estimated fair values at the dates of acquisition. These acquisitions individually and in the aggregate are not material to the Company s operations. Operations of the acquired companies have been included in the operations of the Company since the date of the respective acquisition.

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Based upon purchase price allocations, the components of the aggregate purchase prices of the acquisitions made during the six months ended December 31, 2011 and 2010 and the allocation of the purchase prices were as follows:

Allocation of Purchase Prices	For the Six Months Ended December 31, 2011	2010
	(Dollars in thousands)	
Components of aggregate purchase prices:		
Cash (net of cash acquired)	$ 2,225	$ 8,106
Liabilities assumed or payable		154
	$ 2,225	$ 8,260
Allocation of the purchase price:		
Current assets	$ 314	$ 470
Property and equipment	241	2,424
Goodwill	4,966	5,146
Identifiable intangible assets	579	649
Accounts payable and accrued expenses	(1,062)	(356)
Other noncurrent liabilities	(1,313)	(73)
Noncontrolling interest	(1,500)	
	$ 2,225	$ 8,260

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

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

During the six months ended December 31, 2011 and 2010, 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

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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 December 31, 2011 were $5.7, $2.1 and $3.6 million, respectively. Net loss attributable to the noncontrolling interest in Roosters was less than $0.1 million for the three and six months ended December 31, 2011, 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 $1.4 million as of December 31, 2011 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 December 31, 2011 and June 30, 2011:

	December 31, 2011	June 30, 2011
	(Dollars in thousands)	
Empire Education Group, Inc.	$ 106,361	$ 104,540
Provalliance	139,374	149,245
MY Style	676	2,210
Hair Club for Men, Ltd.	5,162	5,145
	$ 251,573	$ 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.

At December 31, 2011, the Company had a $20.7 million outstanding loan receivable with EEG. The Company has also provided EEG with a $15.0 million revolving credit facility, against which there were no outstanding borrowings as of December 31, 2011 and 2010. The Company reviews the outstanding loan with EEG for changes in circumstances or the occurrence of events that suggest the Company s loan may not be recoverable. The $20.7 million outstanding loan with EEG as of December 31, 2011 is in good standing with no associated valuation allowance. During the three months ended December 31, 2011 and 2010, the Company recorded $0.1 and $0.2 million, respectively, of interest income related to the loan and revolving credit facility. During the six months ended December 31, 2011 and 2010, the Company recorded $0.3 and $0.4 million, respectively, of interest income related to the loan and revolving credit facility. In addition, the Company received $0.7 million in principal payments on the loan during the three and six months ended, December 31, 2011. The Company has also guaranteed a credit facility of EEG. The exposure to loss related to the Company s involvement with EEG is the carrying value of the investment, the outstanding loan and the guarantee of the credit facility.

The Company utilized consolidation of variable interest entities guidance to determine whether or not its investment in EEG was a variable interest entity (VIE), and if so, whether the Company was the primary beneficiary of the VIE. The Company concluded that EEG was not a VIE based on the fact that EEG had sufficient equity at risk. As the substantive voting control relates to the voting rights of the Board of Directors, the Company granted the other shareholder a proxy to vote such number of the Company s shares such that the other shareholder would have voting control of 51.0 percent of the common stock of EEG. The Company accounts for EEG as an equity investment under the voting interest model. During the three months ended December 31, 2011 and 2010, the Company recorded $1.5 and $1.7 million, respectively, of equity earnings related to its investment in EEG. During the six months ended December 31, 2011 and 2010, the Company recorded $2.5 and $2.9 million, respectively, of equity earnings related to its investment in EEG. EEG declared and distributed a dividend in December 2010 for which the Company received $4.1 million in cash and recorded tax expense of $0.3 million.

Provalliance

On January 31, 2008, the Company merged its continental European franchise salon operations with the operations of the Franck Provost Salon Group in exchange for a 30.0 percent equity interest in the newly formed Provalliance entity (Provalliance). The merger with the operations of the Franck Provost Salon Group, which are also located in continental Europe, created Europe s largest salon operator with approximately 2,600 company-owned and franchise salons as of December 31, 2011.

The merger agreement contains a right, Provalliance Equity Put, to require the Company to purchase an additional ownership interest in Provalliance between specified dates in 2010 to 2018. The acquisition price is determined based on a multiple of the earnings before interest, taxes, depreciation and amortization of Provalliance for a trailing twelve month period adjusted for certain items as defined in the agreement which is intended to approximate fair value. The initial estimated fair value of the Provalliance Equity Put as of January 31, 2008, approximately $24.8 million, has been included as a component of the Company s investment in Provalliance. A corresponding liability for the same amount as the Provalliance Equity Put was recorded in other noncurrent liabilities. Any changes in the estimated fair value of the Provalliance Equity Put are recorded in the Company s consolidated statement of operations. There was no change in the fair value of the Provalliance Equity put during the six months ended December 31, 2011 and 2010. Any changes related to foreign currency translation are recorded in accumulated other comprehensive income. The Company recorded a $2.3 million decrease and $2.1 million increase in the Provalliance Equity Put related to foreign currency translation during the six months ended December 31, 2011 and 2010, respectively. See further discussion within Note 3 to the Condensed Consolidated Financial Statements. If the Provalliance Equity Put is exercised, and the Company fails to complete the purchase, the parties exercising the Provalliance Equity Put will be entitled to exercise various remedies against the Company, including the right to purchase the Company s interest in Provalliance for a purchase price determined based on a discounted multiple of the earnings before interest and taxes of Provalliance for a trailing twelve month period. The merger agreement also contains an option, Provalliance Equity Call, whereby the Company can acquire additional ownership interest in Provalliance between specific dates in 2018 to 2020 at an acquisition price determined consistent with the Provalliance Equity Put.

In December 2010, a portion of the Provalliance Equity Put was exercised. In March of 2011, the Company elected to honor and settle a portion of the Provalliance Equity Put and acquired approximately 17 percent additional equity interest in Provalliance for $57.3 million (approximately 40.4 million), bringing the Company s total equity interest to 46.7 percent. The Company s liability under the Provalliance Equity Put to purchase the remainder of the equity interest in Provalliance continues to exist through 2018 and is valued at $20.4 million as of December 31, 2011.

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

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

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

Impact on Condensed Consolidated Balance Sheet

Investment in Provalliance	Investment in and loans to affiliates	$	139,374	$	149,245
Equity put option - Provalliance	Other noncurrent liabilities		20,443		22,700

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Impact on Condensed Consolidated Statement of Operations

	Classification	For the Three Months Ended December 31, 2011	2010
		(Dollars in thousands)	
Equity in income, net of income taxes	Equity in income of affiliated companies, net of income taxes	$ 3,579	$ 1,676

Impact on Condensed Consolidated Statement of Operations

	Classification	For the Six Months Ended December 31, 2011	2010
		(Dollars in thousands)	
Equity in income, net of income taxes	Equity in income of affiliated companies, net of income taxes	$ 6,441	$ 3,055

Impact on Condensed Consolidated Statement of Cash Flows

	Classification	For the Six Months Ended December 31, 2011	2010
		(Dollars in thousands)	
Equity in income, net of income taxes	Equity in income of affiliated companies, net of income taxes	$ (6,441)	$ (3,055)
Cash dividends received	Dividends received from affiliated companies		1,224

MY Style

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

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

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

Exchangeable Note. As of December 31, 2011, the principal amount outstanding under the Exchangeable Note is $1.3 million (100,000,000 Yen) and is due in September 2012. The Company reviews the Exchangeable Note with Yamano for changes in circumstances or the occurrence of events that suggest the Company s note may not be recoverable. The $1.3 million outstanding Exchangeable Note with Yamano as of December 31, 2011 is in good standing with no associated valuation allowance. The Company has determined the future cash flows of Yamano support the ability to make payments on the Exchangeable Note. The Exchangeable Note accrues interest at 1.845 percent and interest is payable on September 30, 2012 with the final principal payment. The Company recorded less than $0.1 million in interest income related to the Exchangeable Note during the six months ended December 31, 2011 and 2010.

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

As of December 31, 2011, $2.3 and $0.7 million are recorded in the Condensed Consolidated Balance Sheet as current assets and investment in and loans to affiliates, respectively, representing the Company s Exchangeable Note and outstanding note with MY Style. The exposure to loss related to the Company s involvement with MY Style is the carrying value of the outstanding notes.

All foreign currency transaction gains and losses on the Exchangeable Note and MY Style Note are recorded through other income within the Condensed Consolidated Statement of Operations. The foreign currency transaction gain (loss) recorded through other income was $0.6 and $(0.1) million during the six months ended December 31, 2011 and 2010, respectively.

Hair Club for Men, Ltd.

The Company acquired a 50.0 percent interest in Hair Club for Men, Ltd. through its acquisition of Hair Club in fiscal year 2005. The Company accounts for its investment in Hair Club for Men, Ltd. under the equity method of accounting. Hair Club for Men, Ltd. operates Hair Club centers in Illinois and Wisconsin. During the three months ended December 31, 2011 and 2010 the Company recorded income of $0.4 and $0.1 million, respectively, and received cash dividends of $0.3 and $0.3 million, respectively. During the six months ended December 31, 2011 and 2010 the Company recorded income of $0.6 and $0.2 million, respectively, and received cash dividends of $0.6 and $0.5 million, respectively. The exposure to loss related to the Company s involvement with Hair Club for Men, Ltd. is the carrying value of the investment.

6. DISCONTINUED OPERATIONS:

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

The Company has a formal note receivable agreement with the purchaser of Trade Secret. The Company recorded valuation reserves of $9.0 and $22.2 million during the three months ended March 31, 2011 and June 30, 2011, respectively. The carrying value of the note receivable was fully reserved as of June 30, 2011. As of December 31, 2011, there were no significant changes in the amount or timing of the expected future cash flows of the note receivable with the purchaser of Trade Secret. The Company has determined the collectibility of accrued interest on the note receivable to be less than probable. The Company suspended recognition of interest income effective April 2010, has recorded a valuation allowance of $3.8 million as of December 31, 2011 related to the accrued interest, and will use the cash basis method for recognizing future interest income. The Company did not receive interest payments from the purchaser of Trade Secret during the six months ended December 31, 2011.

Beginning within the second quarter of fiscal year 2010, the Company has an agreement in which the Company provides warehouse services to the purchaser of Trade Secret. Under the warehouse services agreement, the Company recognized $0.4 and $0.7 million of other income related to warehouse services during the three months ended December 31, 2011 and 2010, respectively. During the six months ended December 31, 2011 and 2010, the Company recognized $0.9 and $1.4 million, respectively, of other income related to warehouse services.

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

	Classification	December 31, 2011	June 30, 2011
		(Dollars in thousands)	
Carrying value:			
Warehouse services	Receivables, net	$ 203	$ 320
Note receivable, current	Other current assets	5,006	2,607
Note receivable, current valuation allowance	Other current assets	(5,006)	(2,607)
Note receivable, long-term	Other assets	30,026	31,086
Note receivable, long-term valuation allowance	Other assets	(30,026)	(31,086)
Total note receivable, net		$	