REGIS CORP
Form 10-Q
May 10, 2011
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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, 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. (Check one):

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 May 3, 2011:

Common Stock, $.05 par value	**57,768,805**
Class	Number of Shares

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REGIS CORPORATION

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

REGIS CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)

As Of March 31, 2011 and June 30, 2010
(In thousands, except share data)

	March 31, 2011	June 30, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 145,464	$ 151,871
Receivables, net	27,217	24,312
Inventories	162,507	153,380
Deferred income taxes	17,103	16,892
Income tax receivable	55,910	46,207
Other current assets	31,656	36,203
Total current assets	439,857	428,865
Property and equipment, net	347,980	359,250
Goodwill	678,934	736,989
Other intangibles, net	113,726	118,070
Investment in and loans to affiliates	258,796	195,786
Other assets	78,664	80,612
Total assets	$ 1,917,957	$ 1,919,572
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Long-term debt, current portion	$ 33,005	$ 51,629
Accounts payable	63,851	57,683
Accrued expenses	161,086	160,797
Total current liabilities	257,942	270,109
Long-term debt and capital lease obligations	371,286	388,400
Other noncurrent liabilities	239,308	247,770
Total liabilities	868,536	906,279
Commitments and contingencies (Note 9)		
Shareholders equity:		
Common stock, $0.05 par value; issued and outstanding 57,574,884 and 57,561,180 common shares at March 31, 2011 and June 30, 2010, respectively	2,879	2,878
Additional paid-in capital	340,667	332,372
Accumulated other comprehensive income	75,432	47,032
Retained earnings	630,443	631,011

Total shareholders equity		1,049,421		1,013,293
Total liabilities and shareholders equity	$	1,917,957	$	1,919,572

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, 2011 and 2010

(In thousands, except per share data)

	2011	2010
Revenues:		
Service	$ 440,109	$ 447,879
Product	131,350	129,949
Royalties and fees	9,808	9,743
	581,267	587,571
Operating expenses:		
Cost of service	255,374	255,568
Cost of product	63,068	62,061
Site operating expenses	50,522	48,280
General and administrative	86,390	72,741
Rent	84,391	85,908
Depreciation and amortization	26,926	26,552
Goodwill impairment	74,100	35,277
Total operating expenses	640,771	586,387
Operating (loss) income	(59,504)	1,184
Other income (expense):		
Interest expense	(8,337)	(9,039)
Interest income and other, net	(651)	3,125
Loss from continuing operations before income taxes and equity in (loss) income of affiliated companies	(68,492)	(4,730)
Income taxes	44,670	525
Equity in (loss) income of affiliated companies, net of income taxes	(1,513)	2,680
Net loss	$ (25,335)	$ (1,525)
Net loss per share:		
Basic	$ (0.45)	$ (0.03)
Diluted	$ (0.45)	$ (0.03)
Weighted average common and common equivalent shares outstanding:		
Basic	56,704	56,301
Diluted	56,704	56,301
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 Nine Months Ended March 31, 2011 and 2010

(In thousands, except per share data)

	2011	2010
Revenues:		
Service	$ 1,310,577	$ 1,332,282
Product	393,779	406,773
Royalties and fees	29,528	29,431
	1,733,884	1,768,486
Operating expenses:		
Cost of service	754,580	760,349
Cost of product	188,069	203,976
Site operating expenses	150,128	147,365
General and administrative	236,312	217,912
Rent	254,734	257,298
Depreciation and amortization	79,167	81,253
Goodwill impairment	74,100	35,277
Lease termination costs		3,552
Total operating expenses	1,737,090	1,706,982
Operating (loss) income	(3,206)	61,504
Other income (expense):		
Interest expense	(25,998)	(45,424)
Interest income and other, net	2,730	6,768
(Loss) income from continuing operations before income taxes and equity in income of affiliated companies	(26,474)	22,848
Income taxes	29,678	(10,002)
Equity in income of affiliated companies, net of income taxes	4,286	8,394
Income from continuing operations	7,490	21,240
Income from discontinued operations, net of income taxes (Note 2)		3,161
Net income	$ 7,490	$ 24,401
Net income per share:		
Basic:		
Income from continuing operations	0.13	0.38
Income from discontinued operations		0.06
Net income per share, basic	$ 0.13	$ 0.44
Diluted:		
Income from continuing operations	0.13	0.38
Income from discontinued operations		0.06
Net income per share, diluted	$ 0.13	$ 0.44

Weighted average common and common equivalent shares outstanding:				
Basic		56,672		55,572
Diluted		56,959		55,688
Cash dividends declared per common share	$	0.14	$	0.12

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

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REGIS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

For The Nine Months Ended March 31, 2011 and 2010

(In thousands)

	2011	2010
Cash flows from operating activities:		
Net income	$ 7,490	$ 24,401
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	71,823	73,810
Amortization	7,344	7,443
Equity in income of affiliated companies	(4,286)	(8,394)
Dividends received from affiliated companies	6,051	1,569
Deferred income taxes	(15,283)	574
Impairment on discontinued operations		(154)
Goodwill impairment	74,100	35,277
Excess tax benefits from stock-based compensation plans	(67)	
Stock-based compensation	7,156	6,934
Amortization of debt discount and financing costs	4,816	4,978
Other noncash items affecting earnings	1,943	(1,298)
Changes in operating assets and liabilities (1):		
Receivables	(2,429)	(51)
Inventories	(6,919)	5,628
Income tax receivable	(8,070)	541
Other current assets	5,081	4,872
Other assets	1,545	(14,699)
Accounts payable	5,727	(2,844)
Accrued expenses	(1,703)	8,738
Other noncurrent liabilities	6,975	3,761
Net cash provided by operating activities	161,294	151,086
Cash flows from investing activities:		
Capital expenditures	(48,617)	(36,768)
Proceeds from sale of assets	608	47
Asset acquisitions, net of cash acquired and certain obligations assumed	(16,296)	(2,702)
Proceeds from loans and investments	15,000	16,099
Disbursements for loans and investments	(72,301)	
Freestanding derivative settlement		736
Net cash used in investing activities	(121,606)	(22,588)
Cash flows from financing activities:		
Borrowings on revolving credit facilities		337,000
Payments on revolving credit facilities		(342,000)
Proceeds from issuance of long-term debt, net of $5.2 million underwriting discount		167,325
Repayments of long-term debt and capital lease obligations	(45,529)	(316,597)
Excess tax benefits from stock-based compensation plans	67	
Proceeds from issuance of common stock, net of $7.2 million underwriting discount	689	156,843
Dividends paid	(8,057)	(6,854)
Other		(2,878)
Net cash used in financing activities	(52,830)	(7,161)

Effect of exchange rate changes on cash and cash equivalents		6,735		5,030
(Decrease) increase in cash and cash equivalents		(6,407)		126,367
Cash and cash equivalents:				
Beginning of period		151,871		42,538
End of period	$	145,464	$	168,905

(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, 2011 and for the three and nine months ended March 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 March 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, 2010 was derived from audited Consolidated Financial Statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America (GAAP). The unaudited interim Condensed Consolidated Financial Statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended June 30, 2010 and other documents filed or furnished with the Securities and Exchange Commission (SEC) during the current fiscal year.

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

Stock-Based Employee Compensation:

Stock-based awards are granted under the terms of the 2004 Long Term Incentive Plan (2004 Plan). Additionally, the Company has outstanding stock options under its 2000 Stock Option Plan (2000 Plan), although the 2000 Plan terminated in 2010. On October 28, 2010 our stockholders approved an amendment to the 2004 Plan to increase the maximum number of shares of the Company s common stock authorized for issuance from 2,500,000 to 6,750,000. Under these plans, four types of stock-based compensation awards are granted: stock options, equity-based stock appreciation rights (SARs), restricted stock awards (RSAs) and restricted stock units (RSUs). The stock options and SARs expire ten years from the grant date. 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 s primary employee stock-based compensation grant occurs during the fourth fiscal quarter. The Company generally recognizes compensation expense for its stock-based compensation awards on a straight-line basis over a five-year

vesting period. Awards granted do not contain acceleration of vesting terms for retirement eligible recipients.

Total compensation cost for stock-based payment arrangements totaled $2.2 and $2.3 million for the three months ended March 31, 2011 and 2010, respectively, and $7.2 and $6.9 million for the nine months ended March 31, 2011 and 2010, respectively.

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

Options	**Shares (In thousands)**		**Weighted Average Exercise Price**
Outstanding at June 30, 2010	980	$	29.48
Granted			
Exercised	(4)		15.09
Forfeited or expired	(4)		22.90
Outstanding at September 30, 2010	972	$	29.56
Granted			
Exercised	(42)		15.04
Forfeited or expired	(32)		15.90
Outstanding at December 31, 2010	898	$	30.73
Granted			
Exercised			
Forfeited or expired	(9)		20.15
Outstanding at March 31, 2011	889	$	30.84
Exercisable at March 31, 2011	620	$	32.82

Outstanding options of 888,938 at March 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 4.8 years. Exercisable options of 620,238 at March 31, 2011 had an intrinsic value of zero and a weighted average remaining contractual term of 3.5 years. Of the outstanding and unvested options, 252,551 are expected to vest with a $26.59 per share weighted average grant price, a weighted average remaining contractual life of 7.6 years and a total intrinsic value of zero.

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

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

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

Granted						
Vested/Exercised	3		20.96			
Forfeited or expired	(43)		20.83	(37)		23.56
Balance, March 31, 2011	1,087	$	24.85	1,039	$	26.32

Outstanding and unvested RSAs of 872,429 at March 31, 2011 had an intrinsic value of $15.5 million and a weighted average vesting term of 1.6 years. Of the outstanding and unvested awards, 831,382 are expected to vest with a total intrinsic value of $14.8 million.

Outstanding and unvested RSUs of 215,000 at March 31, 2011 had an intrinsic value of $3.8 million and a weighted average vesting term of 0.9 years. All unvested RSUs are expected to vest in fiscal year 2012.

Outstanding SARs of 1,038,930 at March 31, 2011 had a total intrinsic value of zero and a weighted average remaining

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contractual term of 6.8 years. Exercisable SARs of 446,320 at March 31, 2011 had a total intrinsic value of zero and a weighted average remaining contractual term of 5.6 years. Of the outstanding and unvested rights, 576,381 are expected to vest with a $22.14 per share weighted average grant price, a weighted average remaining contractual life of 7.7 years and a total intrinsic value of zero.

During the three months ended March 31, 2011 the Company accelerated the vesting of 54,827 unvested RSAs held by the Company s Chief Executive Officer until his last day of employment, which is expected to be February 8, 2012. As the fair value of the modified awards were less than the fair values of the original awards, the Company did not recognize any incremental compensation expense resulting from the modification.

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. During both of the three and nine month periods ended March 31, 2010, total cash received from the exercise of share-based instruments was $0.4 million.

As of March 31, 2011, the total unrecognized compensation cost related to all unvested stock-based compensation arrangements was $19.7 million. The related weighted average period over which such cost is expected to be recognized was approximately 2.8 years as of March 31, 2011.

The total intrinsic value of all stock-based compensation that was exercised during the three and nine months ended March 31, 2011 was zero and $0.2 million, respectively. The total intrinsic value of all stock-based compensation that was exercised during both of the three and nine month periods ended March 31, 2010 was $0.1 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. The Company s policy is to perform its annual goodwill impairment test during its third quarter of each fiscal year ending June 30.

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

The Promenade salon concept reported same-store sales results of negative 3.3 percent for the three months ended March 31, 2011, which was unfavorable compared to the Company s budgeted same-store sales. As visitation patterns have not been rebounding as quickly as the Company had originally projected for fiscal year 2011, the Company reduced the budgeted financial projections for fiscal year 2012. The projections assume that the Promenade salon concept remains a strong viable business but will have a slow recovery. As a result of the lowered projections, the estimated fair value of the Promenade salon concept decreased to a level below the Promenade salon concept s carrying value.

As a result of the Company s annual impairment testing of goodwill during the third quarter of fiscal year 2011, a $74.1 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 Promenade salon concept. After the impairment charge the Promenade salon concept reporting unit had $240.6 million of goodwill as of March 31, 2011.

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As of March 31, 2011, the estimated fair values of the Hair Restoration Centers and Regis salon concept reporting units exceeded their respective carrying values by approximately 9.0 and 18.0 percent, respectively. The fair values of the Company s remaining reporting units exceeded their respective carrying values by greater than 20.0 percent. While the Company has determined the estimated fair values of the Promenade, Regis and Hair Restoration Centers reporting units to be appropriate based on the projected level of revenue growth, operating income and cash flows, it is reasonably likely that the Promenade, Regis and Hair Restoration Centers reporting units may become impaired in future periods. The term reasonably likely refers to an occurrence that is more than remote but less than probable in the judgment of the Company. Because some of the inherent assumptions and estimates used in determining the fair value of these reporting units 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 goodwill for the Promenade salon concept, Regis salon concept, and Hair Restoration Centers reporting units is dependent on many factors and cannot be predicted with certainty.

As part of the Company s annual impairment testing as of March 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.

As a result of the Company s annual impairment analysis of goodwill during the third quarter of fiscal year 2010, a $35.3 million impairment charge was recorded within continuing operations for the excess of the carrying value of goodwill over the implied fair value of goodwill for the Regis salon concept.

A summary of the Company s goodwill balance as of March 31, 2011 and June 30, 2010 by reporting unit is as follows:

Reporting Unit	**As of March 31, 2011**	**As of June 30, 2010**
	(Dollars in thousands)	
Regis	$ 103,741	$ 102,180
MasterCuts	4,652	4,652
SmartStyle	48,875	48,280
Supercuts	128,239	121,693
Promenade	240,626	309,804
Total North America Salons	526,133	586,609
Hair Restoration Centers	152,801	150,380
Consolidated Goodwill	$ 678,934	$ 736,989

Recent Accounting Standards Adopted by the Company:

Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses

In July 2010, the Financial Accounting Standards Board (FASB) issued guidance to amend the disclosure requirements related to the credit quality of financing receivables and the allowance for credit losses. The guidance requires disclosures on a disaggregated basis on two defined levels: (1) portfolio segment; and (2) class of financing receivable. The guidance amends existing disclosures to require an entity to provide the following disclosures on a disaggregated basis: rollforward schedule of the allowance for credit losses from the beginning to the end of the reporting period on a portfolio segment basis, the related recorded investment in financing receivables for each disaggregated ending balance, the nonaccrual status of financing receivables by class of financing receivables, and impaired financing receivables by class of financing

receivables. Additionally, the guidance requires, among other things, new disclosures on the credit quality indicators of financing receivables at the end of the reporting period by class of financing receivables and the aging of past due financing receivables at the end of the reporting period by class of financing receivables. The new and amended disclosures presented as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The new and amended disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The Company is in compliance with the new disclosure requirements.

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Disclosures about Fair Value of Financial Instruments

In January 2010, the FASB issued guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires new disclosures on the transfers of assets and liabilities between Level 1 (quoted prices in active market for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a rollforward of activities 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 on January 1, 2010 and the disclosure on the rollforward activities for Level 3 fair value measurements will be adopted by the Company on July 1, 2011.

Multiple-Deliverable Revenue Arrangements

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

Amendments to Accounting for Variable Interest Entities

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

2. DISCONTINUED OPERATIONS:

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

The Company concluded that Trade Secret qualified as held for sale as of December 31, 2008, under accounting for the impairment or disposal of long-lived asset guidance, and is presented as discontinued operations in the Condensed Consolidated Statements of Operations for all periods presented. The operations and cash flows of Trade Secret have been eliminated from ongoing operations of the Company and there will be no significant continuing involvement in the operations after disposal pursuant to guidance in determining whether to report discontinued operations. The agreement included a provision that the Company would supply product to the purchaser of Trade Secret and provide certain administrative services for a transition period. Under this agreement, the Company recognized $20.0 million of product revenues on the supply of product sold to the purchaser of Trade Secret during the nine months ended March 31, 2010, and $1.9 million of other income related to the administrative services during the nine months ended March 31, 2010. The agreement was substantially complete as of September 30, 2009.

Beginning within the second quarter of fiscal year 2010, the Company has an agreement in which the Company provides warehouse services to the purchaser of Trade Secret. Under the warehouse services agreement, the Company recognized $0.6 and $1.0 million of other income related to warehouse services during the three months ended March 31, 2011 and 2010, respectively. During the nine months ended March 31, 2011 and 2010, the Company recognized $2.0 and $2.1 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	March 31, 2011	June 30, 2010
		(Dollars in thousands)	
Carrying value:			
Warehouse services	Receivables, net	$ 225	$ 359
Note receivable, current	Other current assets	1,655	2,838
Note receivable, current valuation allowance	Other current assets	(1,655)	(611)
Note receivable, long-term	Other assets	31,526	29,000
Note receivable, long-term valuation allowance	Other assets	(9,299)	
Total note receivable, net		$ 22,452	$ 31,586

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

During the three months ended March 31, 2011, the Company did not receive a scheduled interest payment related to the outstanding note receivable, the fair value of the collateral decreased to a level below the carrying value of the outstanding note receivable, and the purchaser of Trade Secret provided the Company with a new five year business plan that was well below the purchaser of Trade Secret s original projections. Due to these factors that occurred during the three months ended March 31, 2011, the Company evaluated the note receivable for impairment based on a probability weighted expected future cash flow analysis. During the three months ended March 31, 2011, the Company recorded a $9.0 million valuation reserve for the excess of the carrying value of the note receivable over the present value of expected future cash flows. Should the expected future cash flows continue to decline, there is a risk the Company may need to record additional reserves in future quarters.

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 $2.0 million as of March 31, 2011 related to the accrued interest, and will use the cash basis method for recognizing future interest income. During the three and nine months ended March 31, 2011, the Company received a quarterly interest payment from the purchaser of Trade Secret totaling zero and $0.7 million, respectively.

The following table summarizes the activity in the valuation allowance related to the note receivable with the purchaser of Trade Secret:

Valuation Allowance	For the Nine Months Ended March 31, 2011 (Dollars in thousands)
Balance at July 1, 2010	$ (611)
Provision associated with nonaccrual status of interest income	(688)
Cash payments	
Balance at September 30, 2010	$ (1,299)
Provision associated with nonaccrual status of interest income	(670)
Cash payments	670
Balance at December 31, 2010	$ (1,299)

Provision associated with nonaccrual status of interest income		(655)
Valuation allowance		(9,000)
Cash payments		
Balance at March 31, 2011	$	(10,954)

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 carrying value of the amount due from the purchaser of Trade

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Secret and the guarantee of less than 30 operating leases. The Company has determined the exposure to the risk of loss on the guarantee of the operating leases to be reasonably possible.

The income from discontinued operations is summarized below:

	For the Nine Months Ended March 31,	
	2011	2010
	(Dollars in thousands)	
Income from discontinued operations, before income taxes	$	$ 154
Income tax benefit on discontinued operations		3,007
Income from discontinued operations, net of income taxes	$	$ 3,161

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

3. SHAREHOLDERS EQUITY:

Net Income Per Share:

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

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

Weighted average shares for basic earnings per share	56,704	56,301	56,672	55,572
Effect of dilutive securities:				

Dilutive effect of stock-based compensation (1)			287	116
Weighted average shares for diluted earnings per share	56,704	56,301	56,959	55,688

(1) For the three months ended March 31, 2011 and 2010, 355 and 220 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 March 31,			
	Three Months		Nine Months	
	2011	2010	2011	2010
	(Shares in thousands)		(Shares in thousands)	
Basic earnings per share:				
RSAs (1)	872	821	872	821
RSUs (1)	215	215	215	215
	1,087	1,036	1,087	1,036
Diluted earnings per share:				
Stock options (2)	889	770	889	770
SARs (2)	1,039	1,108	1,039	1,108
RSAs (2)		157	104	189
Shares issuable upon conversion of debt (2)	11,158	11,158	11,158	10,588
	13,086	13,193	13,190	12,655

(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, 2011 was due to the following:

	(Dollars in thousands)	
Balance, June 30, 2010	$	332,372
Stock-based compensation		7,156
Exercise of stock options		689
Franchise stock incentive plan		389
Tax benefit realized upon exercise of stock options		67
Other		(6)
Balance, March 31, 2011	$	340,667

Comprehensive (Loss) Income:

Components of comprehensive (loss) income for the Company include net income, changes in fair market value of financial instruments designated as hedges of interest rate or foreign currency exposure and foreign currency translation charged or credited to the cumulative translation account within shareholders equity. Comprehensive (loss) income for the three and nine months ended March 31, 2011 and 2010 was as follows:

	For the Periods Ended March 31,			
	Three Months		Nine Months	
	2011	2010	2011	2010
	(Dollars in thousands)		(Dollars in thousands)	
Net (loss) income	$ (25,335)	$ (1,525)	$ 7,490	$ 24,401
Other comprehensive (loss) income:				
Changes in fair market value of financial instruments designated as cash flow hedges of interest rate exposure, net of taxes	40	(28)	(55)	2,588
Cumulative foreign currency translation	10,903	(3,754)	28,455	8,407
Total comprehensive (loss) income	$ (14,392)	$ (5,307)	$ 35,890	$ 35,396

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4. FAIR VALUE MEASUREMENTS:

On July 1, 2008, the Company adopted fair value measurement guidance for financial assets and liabilities. On July 1, 2009, the Company adopted fair value measurement guidance for nonfinancial assets and liabilities. This guidance defines fair value, establishes a framework for measuring fair value and expands disclosure requirements about fair value measurements. This guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy prescribed by this guidance contains three levels as follows:

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

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

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by other observable market data.

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

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 set

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, 2011 and June 30, 2010, according to the valuation techniques the Company used to determine their fair values.

	Fair Value at March 31, 2011	Fair Value Measurements Using Inputs Considered as Level 1	Level 2	Level 3
			(Dollars in thousands)	
ASSETS				
Non-current assets				
Derivative instruments	$ 26	$	$ 26	$
LIABILITIES				
Current liabilities				
Derivative instruments	$ 596	$	$ 596	$
Non-current liabilities				
Derivative instruments	$ 306	$	$ 306	$
Equity put option	22,192			22,192

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ASSETS				
Non-current assets				
Derivative instruments	$ 274	$	$ 274	$
Preferred shares	3,502			3,502
LIABILITIES				
Current liabilities				
Derivative instruments	$ 401	$	$ 401	$
Non-current liabilities				
Derivative instruments	$ 1,039	$	$ 1,039	$
Equity put option	22,009			22,009

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, 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	
	Preferred Shares	Equity Put Option
	(Dollars in thousands)	
Balance at July 1, 2010	$ 3,502	$ 22,009
Total realized and unrealized gains (losses):		
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

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

Balance at December 31, 2009	$		$	24,639
Total realized and unrealized gains (losses):				
Included in other comprehensive income				(1,407)
Additions to Level 3		3,362		
Balance at March 31, 2010	$	3,362	$	23,232

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

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

Equity put option. The Company s merger of the European franchise salon operations with the operations of the Franck Provost Salon Group on January 31, 2008 contained an equity put and an equity call. In March 2011, a portion of the Equity Put was settled. See further discussion within Note 6 to the Condensed Consolidated Financial Statements. The equity put option is valued using binomial lattice models that incorporate assumptions including the business enterprise value at that date and future estimates of volatility and earnings before interest, taxes, and depreciation and amortization multiples.

Preferred shares. The Company has preferred shares in Yamano Holding Corporation. 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 three months ended March 31, 2011. See further discussion within Note 6 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, 2011. At March 31, 2011, the estimated fair values and carrying amounts of debt were $423.6 and $404.3 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 March 31, 2011 were as follows:

	Level 1	Level 2 (Dollars in thousands)	Level 3	Total Losses
Assets				
Goodwill - Promenade	$ 240,626	$	$	$ 240,626	$ (74,100)

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.

During the three months ended March 31, 2010, goodwill of the Regis salon concept with a carrying value of $136.6 million was written down to its implied fair value of $101.3 million, resulting in an impairment charge of $35.3 million.

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5. GOODWILL AND OTHER INTANGIBLES:

The table below contains details related to the Company s recorded goodwill as of March 31, 2011 and June 30, 2010:

	Salons North America	Salons International	Hair Restoration Centers	Consolidated
	(Dollars in thousands)			
Gross goodwill at June 30, 2010	$ 700,012	$ 41,661	$ 150,380	$ 892,053
Accumulated impairment losses	(113,403)	(41,661)		(155,064)
Net goodwill at June 30, 2010	586,609		150,380	736,989
Goodwill acquired (1)	8,804		2,419	11,223
Translation rate adjustments	4,820		2	4,822
Goodwill impairment (2)	(74,100)			(74,100)
Gross goodwill at March 31, 2011	713,636	41,661	152,801	908,098
Accumulated impairment losses	(187,503)	(41,661)		(229,164)
Net goodwill at March 31, 2011	$ 526,133	$	$ 152,801	$ 678,934

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

(2) As a result of the Company s annual impairment testing of goodwill during the three months ended March 31, 2011, a $74.1 million impairment charge was recorded within continuing operations for the excess of the carrying value of goodwill over the implied fair value of goodwill for the Promenade salon concept.

The table below presents other intangible assets as of March 31, 2011 and June 30, 2010:

	March 31, 2011			June 30, 2010		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
	(Dollars in thousands)					
Amortized intangible assets:						
Brand assets and trade names	$ 80,270	$ (13,794)	$ 66,476	$ 79,596	$ (12,139)	$ 67,457
Customer lists	53,252	(32,738)	20,514	52,045	(28,652)	23,393
Franchise agreements	22,177	(8,626)	13,551	21,245	(7,543)	13,702
Lease intangibles	14,942	(4,979)	9,963	14,674	(4,360)	10,314
Non-compete agreements	351	(213)	138	320	(146)	174
Other	4,391	(1,307)	3,084	6,755	(3,725)	3,030
	$ 175,383	$ (61,657)	$ 113,726	$ 174,635	$ (56,565)	$ 118,070

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 39 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, 2011	**June 30, 2010**
	(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	5	5
Other	25	18
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 months ended March 31, 2011 and 2010 and $7.3 and $7.4 million during the nine months March 31, 2011 and 2010, respectively. As of March 31, 2011, future estimated amortization expense related to amortizable intangible assets is estimated to be:

Fiscal Year		**(Dollars in thousands)**
2011 (Remainder: three-month period)	$	2,508
2012		9,702
2013		9,389
2014		9,173
2015		6,147

6. ACQUISITIONS, INVESTMENT IN AND LOANS TO AFFILIATES:

Acquisitions

During the nine months ended March 31, 2011 and 2010, the Company made salon and hair restoration center acquisitions and the purchase prices have been allocated to assets acquired and liabilities assumed based on their estimated fair values at the dates of acquisition. Operations of the acquired companies have been included in the operations of the Company since the date of the respective acquisition.

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

	For the Nine Months Ended March 31,			
Allocation of Purchase Prices		**2011**		**2010**
	(Dollars in thousands)			
Components of aggregate purchase prices:				
Cash	$	16,296	$	2,702
Liabilities assumed or payable		639		
	$	16,935	$	2,702
Allocation of the purchase prices:				
Current assets	$	611	$	156
Property and equipment		3,898		662
Goodwill		11,223		1,842
Identifiable intangible assets		1,934		124
Accounts payable and accrued expenses		(489)		(82)
Other noncurrent liabilities		(242)		
	$	16,935	$	2,702

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 nine months ended March 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

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compared to similar current market transactions, and no settlement provisions exist in the pre-existing contracts. Therefore, no settlement gain or loss was recognized with respect to the Company s franchise buybacks.

Investment in and loans to affiliates

The table below presents the carrying amount of investments in and loans to affiliates as of March 31, 2011 and June 30, 2010:

	March 31, 2011	June 30, 2010
	(Dollars in thousands)	
Empire Education Group, Inc.	$ 103,443	$ 102,882
Provalliance	147,321	75,481
MY Style	2,759	12,116
Hair Club for Men, Ltd.	5,273	5,307
	$ 258,796	$ 195,786

Empire Education Group, Inc.

On August 1, 2007, the Company contributed its 51 wholly-owned accredited cosmetology schools to Empire Education Group, Inc. (EEG) in exchange for a 49.0 percent equity interest in EEG. In January 2008, the Company s effective ownership interest increased to 55.1 percent related to the buyout of EEG s minority interest shareholder. This transaction leverages EEG s management expertise, while enabling the Company to maintain a vested interest in the beauty school industry. EEG operates 102 accredited cosmetology schools. 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.

At March 31, 2011, the Company had a $21.4 million outstanding loan receivable with EEG. The Company has also provided EEG with a $15.0 million revolving credit facility, against which there were no outstanding borrowings as of March 31, 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 $21.4 million outstanding loan with EEG as of March 31, 2011 is in good standing with no associated valuation allowance. During each of the three and nine month periods ended March 31, 2011 and 2010, the Company recorded $0.2 and $0.6 million, respectively, of interest income related to the loan and revolving credit facility. The Company has also guaranteed a credit facility of EEG. The exposure to loss related to the Company s involvement with EEG is the carrying value of the investment, the outstanding loan and the guarantee of the credit facility.

The Company utilized consolidation of variable interest entities guidance to determine whether or not its investment in EEG was a variable interest entity (VIE), and if so, whether the Company was the primary beneficiary of the VIE. The Company concluded that EEG was not a VIE based on the fact that EEG had sufficient equity at risk. As the substantive voting control relates to the voting rights of the Board of Directors, the Company granted the other shareholder a proxy to vote such number of the Company s shares such that the other shareholder would have voting control of 51.0 percent of the common stock of EEG. The Company accounts for EEG as an equity investment under the voting interest model. During the nine months ended March 31, 2011 and 2010, the Company recorded $4.7 and $4.2 million of equity earnings related to its investment in EEG, respectively. 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, 2011.

The merger agreement contains a right (Equity Put) to require the Company to purchase an additional ownership interest in Provalliance between specified dates in 2010 to 2018. The acquisition price is determined based on a multiple of the earnings before interest, taxes, depreciation and amortization of Provalliance for a trailing twelve month period adjusted for certain items as defined in the agreement which is intended to approximate fair value. The initial estimated fair value of the Equity Put as of January 31, 2008, approximately $24.8 million, was included as a component of the Company s investment in Provalliance. A corresponding liability for the same amount as the Equity Put was recorded in other noncurrent liabilities. Any changes in the estimated fair value of the Equity Put are recorded in the Company s consolidated statement of operations. See discussion below on the change in the fair value of the Equity Put during the nine months ended March 31,

2011. Any changes related to foreign currency translation are recorded in accumulated other comprehensive income. The Company recorded an increase of $3.4 million and decrease of $0.9 million in the Equity Put related to foreign currency translation during the nine months ended March 31, 2011 and 2010, respectively. See further discussion within Note 4 to the Condensed Consolidated Financial Statements. If the Equity Put is exercised, and the Company fails to complete the purchase, the parties exercising the Equity Put will be entitled to exercise various remedies against the Company, including the right to purchase the Company s interest in Provalliance for a purchase price determined based on a discounted multiple of the earnings before interest and taxes of Provalliance for a trailing twelve month period. The merger agreement also contains an option (Equity Call) whereby the Company can acquire additional ownership interest in Provalliance between specific dates in 2018 to 2020 at an acquisition price determined consistent with the Equity Put.

In December 2010, a portion of the Equity Put was exercised. In 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 approximately $57 million (approximately 40 million), bringing the Company s total equity interest to approximately 47 percent. Upon the acquisition of the additional ownership interest, the Company recognized a net gain of approximately $2.5 million representing the reversal of the Equity Put liability that was extinguished upon settlement, partially offset by an increase in the Equity Put liability for the remainder of the Provalliance equity interest. The Company s liability under the Equity Put to purchase the remainder of the equity interest in Provalliance continues to exist through 2018 and is valued at $22.2 million as of March 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 Equity Put is based on a formula that may or may not be at market when exercised, therefore, it could provide the Company with the characteristic of a controlling financial interest or could prevent the Franck Provost Salon Group from absorbing its share of expected losses by transferring such obligation to the Company. Under certain circumstances, including a decline in the fair value of Provalliance, the Equity Put could be exercised and the Franck Provost Group could be protected from absorbing the downside of the equity interest. As the Equity Put absorbs a large amount of variability this characteristic results in Provalliance being a VIE.

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

As of March 31, 2011, the Company reassessed the consolidation of variable interest entities guidance to determine whether the Company will now be considered the primary beneficiary of the VIE. Consistent with the previous assessment, the Company has determined the Frank Provost Group continues to meet the power criterion and is considered the primary beneficiary of Provalliance.

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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	$	147,321	$	75,481
Equity put option	Other noncurrent liabilities		22,192		22,009

Impact on Condensed Consolidated Statement of Operations

	Classification	For the Three Months Ended March 31, 2011		2010
		(Dollars in thousands)		
Equity in income, net of income taxes	Equity in (loss) income of affiliates companies, net of income taxes	$ 4,935	$	929

Impact on Condensed Consolidated Statement of Operations

	Classification	For the Nine Months Ended March 31, 2011		2010
		(Dollars in thousands)		
Equity in income, net of income taxes	Equity in income of affiliates companies, net of income taxes	$ 7,991	$	3,536

Impact on Condensed Consolidated Statement of Cash Flows

	Classification	For the Nine Months Ended March 31, 2011		2010
Equity in income, net of income taxes	Equity in income of affiliated companies	$ (7,991)	$	(3,536)
Cash dividends received	Dividends received from affiliated companies	1,224		1,141

MY Style

In April 2007, the Company purchased exchangeable notes issued by Yamano Holding Corporation (Exchangeable Note) and a loan obligation of a Yamano Holdings subsidiary, MY Style, formally known as Beauty Plaza Co. Ltd., (MY Style Note) for an aggregate amount of $11.3 million (1.3 billion Yen as of April 2007). The Exchangeable Note contains an option for the Company to exchange a portion of the Exchangeable Note for shares of common stock of MY Style. In connection with the issuance of the Exchangeable Note, the Company paid a premium of approximately $5.5 million (573,000,000 Yen as of April 2007).

Exchangeable Note. In September 2008, the Company advanced an additional $3.0 million (300,000,000 Yen as of September 2008) to Yamano Holding Corporation (Yamano). In connection with the 300,000,000 Yen advance, the exchangeable portion of the Exchangeable Note increased from approximately 14.8 percent to 27.1 percent of the 800 outstanding shares of MY Style for 21,700,000 Yen. This exchange feature is akin to a deep-in-the-money option permitting the Company to purchase shares of common stock of MY Style. The option is embedded in the Exchangeable Note and does not meet the criteria for separate accounting under accounting for derivative instruments and hedging activities.

On March 28, 2010, the Company entered into an amendment agreement with Yamano in connection with the Exchangeable Note. The amendment revised the redemptions schedule for the 100,000,000 Yen and 211,131,284 Yen payments due September 30, 2013 and 2014, respectively, to March 28, 2010. The amendment was entered into in connection with a preferred share subscription agreement dated March 29, 2010 between the Company and Yamano. Under the preferred share subscription agreement, Yamano issued and the Company purchased one share of Yamano Class A Preferred Stock with a

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subscription amount of $1.1 million (100,000,000 Yen) and one share of Yamano Class B Preferred Stock with a subscription amount of $2.3 million (211,131,284 Yen), collectively the Preferred Shares . The portions of the Exchangeable Note that became due as of March 28, 2010 were contributed in-kind as payment for the Preferred Shares. The Preferred Shares have the same terms and rights, yield a 5.0 percent dividend that accrues if not paid and no voting rights.

The Company determined that the March 2010 modifications were minor and the loan modification should not be treated as an extinguishment. The preferred shares will be accounted for as an available for sale debt security.

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 as of March 31, 2011. The Company recorded an other than temporary impairment during the three months ended March 31, 2011 for the carrying value of the preferred shares and premium of $3.7 million (326,700,000 Yen) and $5.0 million (435,000,000 Yen), respectively.

As of March 31, 2011, the principal amount outstanding under the Exchangeable Note is $2.4 million (200,000,000 Yen). Principal payments of 100,000,000 Yen are due annually on September 30 through September 30, 2012. The Company reviews the Exchangeable Note with Yamano for changes in circumstances or the occurrence of events that suggest the Company s note may not be recoverable. The $2.4 million outstanding Exchangeable Note with Yamano as of March 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 nine months ended March 31, 2011 and 2010.

MY Style Note. As of March 31, 2011, the principal amount outstanding under the MY Style Note is $1.9 million (156,492,000 Yen). Principal payments of 52,164,000 Yen along with accrued interest are due annually on May 31 through May 31, 2013. The Company reviews the outstanding note with MY Style for changes in circumstances or the occurrence of events that suggest the Company s note may not be recoverable. The $1.9 million outstanding note with MY Style as of March 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 nine months ended March 31, 2011 and 2010.

As of March 31, 2011, $1.9 and $2.8 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 Consolidated Statement of Operations. The foreign currency transaction (loss) gain recorded through other income was $(1.1) and $1.0 million during the nine months ended March 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 nine months ended March 31, 2011 and 2010 the Company recorded income of $0.4 and $0.7 million, respectively, and received cash dividends of $0.7 and $0.4 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.

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7. DERIVATIVE FINANCIAL INSTRUMENTS:

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

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

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

Cash Flow Hedges

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

The Company uses interest rate swaps to maintain its variable to fixed rate debt ratio in accordance with its established policy. As of March 31, 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 pay fixed rates of interest and receive variable rates of interest. The contracts and related debt have maturity dates between fiscal year 2012 and 2013.

The Company repaid variable and fixed rate debt during the nine months ended March 31, 2010. Prior to the repayments, the Company had two outstanding interest rate swaps totaling $50.0 million on $100.0 million aggregate variable rate debt with maturity dates between fiscal years 2013 and 2015. The interest rate swaps were terminated prior to the maturity dates in conjunction with the repayments and were settled for an aggregate loss of $5.2 million. The $5.2 million loss recorded during the first quarter of fiscal year 2010 on the termination of the interest rate

swaps was recorded within interest expense in the Condensed Consolidated Statement of Operations. The Company also had two outstanding treasury lock agreements with maturity dates between fiscal years 2013 and 2015. The treasury lock agreements were terminated prior to the maturity dates in conjunction with the repayments and were settled for a loss of less than $0.1 million during the nine months ended March 31, 2010 and recorded within interest expense in the Condensed Consolidated Statement of Operations.

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

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

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Freestanding Derivative Forward Contracts

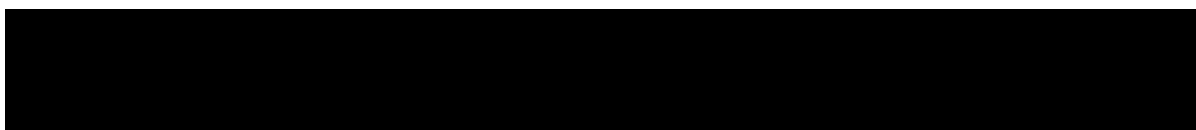
The Company uses freestanding derivative forward contracts to offset the Company s exposure to the change in fair value of certain foreign currency denominated investments and intercompany assets and liabilities. These derivatives are not designated as hedges and therefore, changes in the fair value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

In November 2009, the Company terminated its freestanding derivative contract on its remaining payments on the MY Style Note and recorded a gain of $0.7 million. The contract was settled in cash, discounted to present value. Gains and losses over the life of the contract were recognized currently in earnings in conjunction with marking the contract to fair value. A loss of $0.2 million was recognized during the nine months ended March 31, 2010.

The Company had the following derivative instruments in its Condensed Consolidated Balance Sheet as of March 31, 2011 and June 30, 2010:

	Asset			Liability		
		Fair Value			Fair Value	
Type	Classification	March 31, 2011	June 30, 2010	Classification	March 31, 2011	June 30, 2010
		(In thousands)			(In thousands)	
Designated as hedging instruments Cash Flow Hedges:						
Interest rate swaps		$	$	Other noncurrent liabilities	$ (306)	$ (1,039)
Forward foreign currency contracts	Other current assets	$	$ 274	Other current liabilities	$ (596)	$
Freestanding derivative contracts not designated as hedging instruments:						
Forward foreign currency contracts	Other current assets	$ 26	$	Other current liabilities	$	$ (401)
Total		**$ 26**	**$ 274**		**$ (902)**	**$ (1,440)**

The tables below sets forth the (gain) or loss on the Company s derivative instruments recorded within accumulated other comprehensive income (AOCI) in the Condensed Consolidated Balance Sheet for the three and nine months ended March 31, 2011 and 2010. The tables also sets forth the (gain) or loss on the Company s derivative instruments that has been reclassified from AOCI into current earnings during the nine months ended March 31, 2011 and 2010 within the following line items in the Condensed Consolidated Statement of Operations.



Designated as hedging instruments Cash Flow Hedges:									
Interest rate swaps	$	(448)	$	(2,805)		$		$	
Forward foreign currency contracts		455		733	Cost of sales		48		(274)
Treasury lock contracts				(242)	Interest income				
Total	$	7	$	(2,314)		$	48	$	(274)

As of March 31, 2011 the Company estimates that it will reclassify into earnings during the next twelve months a gain of approximately $0.7 million from the pretax amount recorded in AOCI as the anticipated cash flows occur.

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The table below sets forth the (gain) or loss on the Company s derivative instruments for the nine months ended March 31, 2011 and 2010 recorded within interest income and other, net in the Condensed Consolidated Statement of Operations.

Type	Classification	Derivative Impact on Income at March 31, 2011		2010	
		(In thousands)			
Freestanding derivative contracts not designated as hedging instruments:					
Forward foreign currency contracts	Interest income and other, net	$	(426)	$	301

8. LEASE TERMINATION COSTS:

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

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

Accrual for Lease Terminations	For the Nine Months Ended March 31, 2011		2010	
	(Dollars in thousands)			
Balance at July 1,	$	1,386	$	2,760
Provision for lease termination costs:				
Provisions associated with store closings				3,552
Cash payments		(824)		(1,026)
Balance at September 30,	$	562	$	5,286
Provision for lease termination costs:				
Provisions associated with store closings				
Cash payments		(114)		(1,377)
Balance at December 31,	$	448	$	3,909
Provision for lease termination costs:				
Provisions associated with store closings				
Cash payments		(91)		(453)
Balance at March 31,	$	357	$	3,456

9. LITIGATION:

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

During fiscal year 2010, the Company settled two legal claims regarding certain customer and employee matters for an aggregate charge of $5.2 million plus a commitment to provide discount coupons. During the three months ended March 31, 2011, the final payments aggregating $4.3 million were made.

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10. FINANCING ARRANGEMENTS:

The table below contains details related to the Company s debt for the nine months ending March 31, 2011 and 2010:

Total Debt	For the Nine Months Ended March 31, 2011	2010
	(Dollars in Thousands)	
Balance at June 30,	$ 440,029	$ 634,307
Net payments on revolving credit facilities		(5,000)
Issuance of convertible debt		172,500
Repayment of long-term debt and capital lease obligations	(3,334)	(301,004)
Debt discount		(24,696)
Amortization of debt discount	1,086	868
Other (debt primarily associated with capital lease obligations)	1,888	1,736
Balance at September 30,	$ 439,669	$ 478,711
Net payments on revolving credit facilities		
Repayment of long-term debt and capital lease obligations	(39,258)	(12,285)
Amortization of debt discount	1,110	984
Other (debt primarily associated with capital lease obligations)	2,624	2,931
Balance at December 31,	$ 404,145	$ 470,341
Net payments on revolving credit facilities		
Repayment of long-term debt and capital lease obligations	(2,937)	(3,308)
Amortization of debt discount	1,134	1,041
Other (debt primarily associated with capital lease obligations)	1,949	1,802
Balance at March 31,	$ 404,291	$ 469,876

In July 2009, the Company amended the Fourth Amended and Restated Credit Agreement, the Term Loan Agreement and the Amended and Restated Private Shelf Agreement. The amendments included increasing the Company s minimum net worth covenant from $675.0 million to $800.0 million, lowering the fixed charge coverage ratio requirement from 1.5x to 1.3x, amending certain definitions, including EBITDA and Fixed Charges, and limiting the Company s Restricted Payments (as defined in the agreement) to $20.0 million if the Company s Leverage Ratio is greater than 2.0x. In addition, the amendments to the Fourth Amended and Restated Credit Agreement reduced the borrowing capacity of the revolving credit facility from $350.0 million to $300.0 million and the amendments to the Restated Private Shelf Agreement included the addition of one year after the amendment effective date, a risk based capital fee calculated on the daily average outstanding principal amount equal to an annual rate of 1.0 percent.

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

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

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

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

Convertible Senior Notes Due 2014	For the Nine Months Ended March 31, 2011		For the Nine Months Ended March 31, 2010	
	(Dollars in Thousands)			
Principal amount on the convertible senior notes	$	172,500	$	172,500
Unamortized debt discount		(17,410)		(21,803)
Net carrying amount of convertible debt	$	155,090	$	150,697

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, 2011		For the Nine Months Ended March 31, 2010	
		(Dollars in thousands)			
Interest cost related to contractual interest coupon	5.0%	$	6,469	$	6,109
Interest cost related to amortization of the discount			3,329		2,893
Total interest cost		$	9,798	$	9,002

In connection with the convertible senior note offering, the Company issued 13,225,000 shares of common stock resulting in net proceeds of $163.5 million. The proceeds from the convertible senior notes and the common stock issuance were utilized to repay $267.0 million of private placement senior term notes of varying maturities and $30.0 million of additional senior term notes under a Private Shelf Agreement. As a result of the repayment of debt during the nine months ended March 31, 2010, the Company incurred $12.8 million in make-whole payments and other fees along with $5.2 million in interest rate swap settlements, as discussed in Note 7 of the Condensed Consolidated Financial Statements, totaling $18.0 million that was recorded as interest expense within the Condensed Consolidated Statement of Operations.

11. INCOME TAXES:

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

During the three and nine months ended March 31, 2011, the Company s continuing operations recognized a tax benefit of $44.7 and $29.7 million, respectively, with corresponding effective tax rates of 65.2 and 112.1 percent. The tax benefit (expense) for the three and nine months ended March 31, 2010 was $0.5 and $(10.0) million, respectively, with corresponding effective tax rates of 11.1 and 43.8 percent. 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 deductible portion of the goodwill impairment resulted in the Company recording a $49.2 million income tax benefit during the three and nine months ended March 31, 2011. Due to accounting for income taxes guidance, the tax impact of the goodwill impairment is recorded through the effective tax rate and therefore, impacts both the third

and fourth quarter of fiscal year 2011. The Company anticipates the annual income tax benefit of the goodwill impairment to be $27.8 million. Accordingly the Company expects to reverse $21.4 million of the benefit recorded in the third quarter during the fourth quarter of fiscal year 2011.

The effective tax rate during the three and nine months ended March 31, 2010 was negatively impacted by the $35.3 million impairment of goodwill in the North American segment which is only partially deductible for tax purposes. Offsetting the goodwill impairment was the release of approximately $2.9 million in reserves for uncertain tax positions related to the expiration of the statute of limitations on tax years previously open for audit. During the quarter ended March 31, 2010, the Company recorded a $0.9 million adjustment to correct its prior year income tax balances. The Company s income tax provision for the nine months ended March 31, 2010 was also impacted by a $0.4 million adjustment recorded in the three months ended September 30, 2009 to correct prior year deferred income tax balances.   The Company does not believe the adjustments are material to the three and nine months ended March 31, 2010 results of operations or its financial position or results of operations of any prior periods.

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The Company accrues for the effects of open uncertain tax positions and the related potential penalties and interest. There were no material adjustments to our recorded liability for unrecognized tax benefits during the three and nine months ended March 31, 2011. It is reasonably possible that the amount of the unrecognized tax benefit with respect to certain of our unrecognized tax positions will increase or decrease during the next 12 months; however, we do not expect the change to have a significant effect on our consolidated results of operations or financial position.

The Company files tax returns and pays tax primarily in the United States, Canada, the United Kingdom, and the Netherlands as well as states, cities, and provinces within these jurisdictions. In the United States, fiscal years 2007 and after remain open for federal tax audit. The Company s United States federal income tax returns for the years 2007 through 2009 are currently under audit. For state tax audits, the statute of limitations generally spans three to four years, resulting in a number of states remaining open for tax audits dating back to fiscal year 2006. However, the Company is under audit in a number of states in which the statute of limitations has been extended to fiscal years 2000 and forward. Internationally (including Canada), the statute of limitations for tax audits varies by jurisdiction, but generally ranges from three to five years.

12. SEGMENT INFORMATION:

As of March 31, 2011, the Company owned, franchised, or held ownership interests in approximately 12,700 worldwide locations. The Company s locations consisted of 9,430 North American salons (located in the United States, Canada and Puerto Rico), 402 international salons, 96 hair restoration centers and approximately 2,760 locations in which the Company maintains an ownership interest.

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

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

The Company s company-owned and franchise hair restoration centers are located in the United States and Canada. The Company s hair restoration centers offer three hair restoration solutions: hair systems, hair transplants and hair therapy, which are targeted at the mass market consumer. Hair restoration centers are located primarily in office and professional buildings within larger metropolitan areas.

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

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

Total Assets by Segment	**March 31, 2011**	**June 30, 2010**
	(Dollars in thousands)	
North American salons	$ 954,790	$ 992,410
International salons	89,476	74,633
Hair restoration centers	299,943	284,615
Unallocated corporate	573,748	567,914
Consolidated	$ 1,917,957	$ 1,919,572

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	For the Three Months Ended March 31, 2011				
	Salons		Hair Restoration	Unallocated	
	North America	International	Centers	Corporate	Consolidated
	(Dollars in thousands)				
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)
Other income (expense):					
Interest expense				(8,337)	(8,337)
Interest income and other, net				(651)	(651)
(Loss) income from continuing operations before income taxes and equity in (loss) income of affiliated companies	$ (17,501)	$ 2,263	$ 2,757	$ (56,011)	$ (68,492)

	For the Three Months Ended March 31, 2010				
	Salons		Hair Restoration	Unallocated	
	North America	International	Centers	Corporate	Consolidated
	(Dollars in thousands)				
Revenues:					
Service	$ 406,244	$ 24,794	$ 16,841	$	$ 447,879
Product	101,619	10,664	17,666		129,949
Royalties and fees	9,115		628		9,743
	516,978	35,458	35,135		587,571
Operating expenses:					
Cost of service	233,460	12,683	9,425		255,568
Cost of product	51,477	5,526	5,058		62,061
Site operating expenses	45,085	1,945	1,250		48,280
General and administrative	27,818	2,994	10,305	31,624	72,741
Rent	74,233	8,873	2,227	575	85,908
Depreciation and amortization	17,398	1,349	3,039	4,766	26,552
Goodwill impairment	35,277				35,277
Total operating expenses	484,748	33,370	31,304	36,965	586,387
Operating income (loss)	32,230	2,088	3,831	(36,965)	1,184
Other income (expense):					
Interest expense				(9,039)	(9,039)
Interest income and other, net				3,125	3,125
	$ 32,230	$ 2,088	$ 3,831	$ (42,879)	$ (4,730)

Income (loss) from continuing operations before income taxes and equity in (loss) income of affiliated companies

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	For the Nine Months Ended March 31, 2011				
	Salons North America	International	Hair Restoration Centers	Unallocated Corporate	Consolidated
			(Dollars in thousands)		
Revenues:					
Service	$ 1,184,708	$ 75,547	$ 50,322	$	$ 1,310,577
Product	305,802	32,123	55,854		393,779
Royalties and fees	27,711		1,817		29,528
	1,518,221	107,670	107,993		1,733,884
Operating expenses:					
Cost of service	687,440	38,195	28,945		754,580
Cost of product	152,564	17,396	18,109		188,069
Site operating expenses	140,000	7,027	3,101		150,128
General and administrative	93,134	9,126	27,362	106,690	236,312
Rent	219,649	26,579	6,875	1,631	254,734
Depreciation and amortization	53,002	3,317	9,507	13,341	79,167
Goodwill impairment	74,100				74,100
Total operating expenses	1,419,889	101,640	93,899	121,662	1,737,090
Operating income (loss)	98,332	6,030	14,094	(121,662)	(3,206)
Other income (expense):					
Interest expense				(25,998)	(25,998)
Interest income and other, net				2,730	2,730
Income (loss) from continuing operations before income taxes and equity in income of affiliated companies	$ 98,332	$ 6,030	$ 14,094	$ (144,930)	$ (26,474)

	For the Nine Months Ended March 31, 2010				
	Salons North America	International	Hair Restoration Centers	Unallocated Corporate	Consolidated
			(Dollars in thousands)		
Revenues:					
Service	$ 1,201,703	$ 81,353	$ 49,226	$	$ 1,332,282
Product	319,383	33,250	54,140		406,773
Royalties and fees	27,571		1,860		29,431
	1,548,657	114,603	105,226		1,768,486
Operating expenses:					
Cost of service	690,864	42,094	27,391		760,349
Cost of product	170,937	17,044	15,995		203,976
Site operating expenses	136,133	7,360	3,872		147,365
General and administrative	85,381	9,289	27,520	95,722	217,912
Rent	220,960	28,007	6,744	1,587	257,298
Depreciation and amortization	53,449	4,387	9,114	14,303	81,253
Goodwill impairment	35,277				35,277
Lease termination costs		3,552			3,552
Total operating expenses	1,393,001	111,733	90,636	111,612	1,706,982
Operating income (loss)	155,656	2,870	14,590	(111,612)	61,504
Other income (expense):					
Interest expense				(45,424)	(45,424)
Interest income and other, net				6,768	6,768
	$ 155,656	$ 2,870	$ 14,590	$ (150,268)	$ 22,848

Income (loss) from continuing
operations before income taxes and
equity in income of affiliated companies

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REVIEW REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Directors of Regis Corporation:

We have reviewed the accompanying condensed consolidated balance sheet of Regis Corporation as of March 31, 2011 and the related condensed consolidated statements of operations for the three and nine month periods ended March 31, 2011 and 2010 and of cash flows for the nine month periods ended March 31, 2011 and 2010. These interim financial statements are the responsibility of the Company s management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of June 30, 2010, and the related consolidated statements of operations, of changes in shareholders equity and comprehensive income and of cash flows for the year then ended (not presented herein), and in our report dated August 27, 2010, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the accompanying consolidated balance sheet information as of June 30, 2010, is fairly stated, in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP

Minneapolis, Minnesota
May 10, 2011

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is designed to provide a reader of our financial statements with a narrative from the perspective of our management on our financial condition, results of operations, liquidity and certain other factors that may affect our future results. Our MD&A is presented in five sections:

- Management s Overview
- Critical Accounting Policies
- Overview of Results
- Results of Operations
- Liquidity and Capital Resources

MANAGEMENT S OVERVIEW

Regis Corporation (RGS, we, our, or us) owns, franchises or holds ownership interests in beauty salons, hair restoration centers and educational institutions. As of March 31, 2011, we owned, franchised or held ownership interests in approximately 12,700 worldwide locations. Our locations consisted of 9,832 system wide North American and international salons, 96 hair restoration centers and approximately 2,760 locations in which we maintain an ownership interest. Our salon concepts offer generally similar products and services and serve mass market consumers. Our salon operations are organized to be managed based on geographical location. Our North American salon operations include 9,430 salons, including 1,937 franchise salons, operating in the United States, Canada and Puerto Rico primarily under the trade names of Regis Salons, MasterCuts, SmartStyle, Supercuts and Cost Cutters. Our international salon operations include 402 company-owned salons, located in the United Kingdom. Our hair restoration centers, operating under the trade name Hair Club for Men and Women, include 96 North American locations, including 29 franchise locations. As of March 31, 2011, we had approximately 55,000 corporate employees worldwide.

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

On January 31, 2008, we merged our continental European franchise salon operations with the Franck Provost Salon Group in exchange for a 30.0 percent equity interest in the newly formed entity, Provalliance. In March 2011 the Company acquired approximately 17 percent additional equity interest in Provalliance for approximately $57 million (approximately 40 million). As of March 31, 2011, we own approximately 47 percent of the equity interest in Provalliance. Our investment in Provalliance is accounted for under the equity method. The merger with the operations of the Franck Provost Salon Group, which are also located in continental Europe, created Europe s largest salon operator with approximately 2,500 company-owned and franchise salons as of March 31, 2011.

On August 1, 2007, we contributed our 51 accredited cosmetology schools to Empire Education Group, Inc., creating the largest beauty school operator in North America. As of March 31, 2011, we own a 55.1 percent equity interest in Empire Education Group, Inc. (EEG). Our investment in EEG is accounted for under the equity method. The combined Empire Education Group, Inc. includes 102 accredited cosmetology schools with annual revenues of approximately $190.0 million.

Our growth strategy consists of two primary, but flexible, components. Through a combination of organic and acquisition growth, we seek to achieve our long-term objective of six to ten percent annual revenue growth. We anticipate that going forward, the mix of organic and acquisition growth will be roughly equal. However, depending on several factors, including the ability of our salon development program to keep pace with the availability of real estate for new construction, hair restoration lead generation, the availability of attractive acquisition candidates and same-store sales trends, this mix will vary from year to year. Due to the decline in customer visitations we have reduced the pace of our new salon development and salon acquisitions. We expect to continue with our historical trend of building and/or acquiring 700 to 1,000 salons each year once customer visitations stabilize.

Maintaining financial flexibility is a key element in continuing our successful growth. With strong operating cash flow and balance sheet, we are confident that we will be able to financially support our long-term growth objectives.

We are in compliance with all covenants and other requirements of our financing arrangements as of March 31, 2011.

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Salon Business

The strength of our salon business is in the fundamental similarity and broad appeal of our salon concepts that allow flexibility and multiple salon concept placements in shopping centers and neighborhoods. Each concept generally targets the middle market customer, however, each attracts a different demographic. We believe there are growth opportunities in all of our salon concepts. When commercial opportunities arise, we anticipate testing and developing new salon concepts to complement our existing concepts.

We execute our salon growth strategy by focusing on real estate. Our salon real estate strategy is to add new units in convenient locations with good visibility and customer traffic, as well as appropriate trade demographics. Our various salon and product concepts operate in a wide range of retailing environments, including regional shopping malls, strip centers and Walmart Supercenters. We believe that the availability of real estate will augment our ability to achieve the aforementioned long-term growth objectives. In fiscal 2012, our outlook for constructed salons is approximately 285 units. In fiscal year 2012, capital expenditures and acquisitions are expected to be approximately $120.0 and $25.0 million, respectively.

Organic salon revenue is achieved through the combination of new salon construction and salon same-store sales results. Once customer visitations stabilize, we expect we will continue with our historical trend of building several hundred company-owned salons. We anticipate our franchisees will open approximately 60 to 70 salons in fiscal year 2012. Older, unprofitable salons will be closed or relocated. Our long-term outlook for our salon business is for annual consolidated low single digit same-store sales increases. We project our annual fiscal year 2012 consolidated same-store sales to be in a range of negative 1.0 percent to positive 1.0 percent.

Historically, our salon acquisitions have varied in size from as small as one salon to over one thousand salons. The median acquisition size is approximately ten salons. From fiscal year 1994 to March 31, 2011, we acquired 8,049 salons, net of franchise buybacks. Once customer visitations stabilize, we anticipate adding several hundred company-owned salons each year from acquisitions. Some of these acquisitions may include buying salons from our franchisees.

Hair Restoration Business

In December 2004, we acquired Hair Club for Men and Women. Hair Club for Men and Women is a provider of hair loss solutions with an estimated five percent share of the $4 billion domestic market. This industry is comprised of numerous locations domestically and is highly fragmented. As a result, we believe there is an opportunity to consolidate this industry through acquisition. Expanding the hair loss business organically and through acquisition would allow us to add incremental revenue which is neither dependent upon, nor dilutive to, our existing salon businesses.

Our organic growth plans for hair restoration include the construction of a modest number of new locations in untapped markets domestically and internationally. However, the success of our hair restoration business is not dependent on the same real estate criteria used for salon expansion. In an effort to provide confidentiality for our customers, hair restoration centers operate primarily in professional or medical office buildings. Further, the hair restoration business is more marketing intensive. As a result, organic growth at our hair restoration centers will be dependent on successfully generating new leads and converting them into hair restoration customers. Our growth expectations for our hair restoration business are not dependent on referral business from, or cross marketing with, our hair salon business, but these concepts continue to

be evaluated closely for additional growth opportunities.

CRITICAL ACCOUNTING POLICIES

The Condensed Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the Condensed Consolidated Financial Statements, we are required to make various judgments, estimates and assumptions that could have a significant impact on the results reported in the Condensed Consolidated Financial Statements. We base these estimates on historical experience and other assumptions believed to be reasonable under the circumstances. Estimates are considered to be critical if they meet both of the following criteria: (1) the estimate requires assumptions about material matters that are uncertain at the time the accounting estimates are made, and (2) other materially different estimates could have been reasonably made or material changes in the estimates are reasonably likely to occur from period to period. Changes in these estimates could have a material effect on our Condensed Consolidated Financial Statements.

Our significant accounting policies can be found in Note 1 to the Consolidated Financial Statements contained in Part II, Item 8 of the June 30, 2010 Annual Report on Form 10-K, as well as Note 1 to the Condensed Consolidated Financial Statements contained within this Quarterly Report on Form 10-Q. We believe the accounting policies related to the valuation of goodwill, the valuation and estimated useful lives of long-lived assets, investment in and loans to affiliates, purchase price allocations, revenue recognition, self-insurance accruals, stock-based compensation expense, legal contingencies and estimates used in relation to tax liabilities and deferred

taxes are most critical to aid in fully understanding and evaluating our reported financial condition and results of operations. Discussion of each of these policies is contained under Critical Accounting Policies in Part II, Item 7 of our June 30, 2010 Annual Report on Form 10-K. There were no significant changes in or application of our critical accounting policies during the three and nine months ended March 31, 2011.

Goodwill:

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

The Company calculates the estimated fair value of the reporting units based on discounted future cash flows that utilize estimates in annual revenue, gross margins, fixed expense rates, allocated corporate overhead, and long-term growth for determining terminal value. The Company s estimated future cash flows also take into consideration acquisition integration and maturation. Where available and as appropriate, comparative market multiples are used to corroborate the results of the discounted cash flow. The Company considers its various concepts to be reporting units when testing for goodwill impairment because that is where the Company believes the goodwill resides. The Company periodically engages third-party valuation consultants to assist in evaluation of the Company s estimated fair value calculations. The Company s policy is to perform its annual goodwill impairment test during its third quarter of each fiscal year ending June 30.

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

The Promenade salon concept reported same-store sales results of negative 3.3 percent for the three months ended March 31, 2011, which was unfavorable compared to the Company s budgeted same-store sales. As visitation patterns were not rebounding as quickly as the Company had originally projected for fiscal year 2011, the Company reduced the budgeted financial projections for fiscal year 2012. The projections assume that the Promenade salon concept remains a strong viable business but will have a slow recovery. As a result of the lowered projections, the estimated fair value of the Promenade salon concept decreased to a level below the Promenade salon concept s carrying value.

As a result of the Company s annual impairment testing of goodwill during the third quarter of fiscal year 2011, a $74.1 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 Promenade salon concept. After the impairment charge the Promenade salon concept reporting unit had $240.6 million of goodwill as of March 31, 2011.

As of March 31, 2011, the estimated fair values of the Hair Restoration Centers and Regis salon concept reporting units exceeded their respective carrying values by approximately 9.0 and 18.0 percent, respectively. The fair values of the Company s remaining reporting units exceeded their respective carrying values by greater than 20.0 percent. While the Company has determined the estimated fair values of the Promenade, Regis and Hair Restoration Centers reporting units to be appropriate based on the historical level of revenue growth, operating income and cash flows, it is reasonably likely that the Promenade, Regis and the Hair Restoration Centers reporting units may become impaired in future periods. The term reasonably likely refers to an occurrence that is more than remote but less than probable in the judgment of the Company. Because some of the inherent assumptions and estimates used in determining the fair value of these reporting units 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 goodwill for the Promenade salon concept, Regis salon concept, and Hair Restoration Centers reporting units is dependent on many factors and cannot be predicted with certainty.

As part of the Company s annual impairment testing as of March 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.

As it is reasonably likely that there could be additional impairment of the Promenade salon concept s goodwill in future periods along with the sensitivity of the Company s critical assumptions in estimating fair value of this reporting unit, the Company has provided additional information related to this reporting unit.

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A summary of the critical assumptions utilized during the annual impairment test of the Promenade salon concept as of March 31, 2011 are outlined below:

Annual revenue growth. Annual revenue growth is primarily driven by assumed same-store sales rates of approximately negative 2.0 to positive 3.0 percent. Other considerations include anticipated economic conditions and moderate acquisition growth.

Gross margin. Adjusted for anticipated salon closures, new salon construction and acquisitions estimated future gross margins were held constant.

Fixed expense rates. Fixed expense rate increases of approximately 1.0 to 2.0 percent based on anticipated inflation. Fixed expenses consisted of rent, site operating, and allocated general and administrative corporate overhead.

Allocated corporate overhead. Corporate overhead incurred by the home office based on the number of Promenade company-owned salons as a percent of total company-owned salons.

Long-term growth. A long-term growth rate of 2.5 percent was applied to terminal cash flow based on anticipated economic conditions.

Discount rate. A discount rate of 12.0 percent based on the weighted average cost of capital that equals the rate of return on debt capital and equity capital weighted in proportion to the capital structure common to the industry.

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

Critical Assumptions	**Increase (Decrease)**	**Approximate Impact on Fair Value (In thousands)**
Discount Rate	1.0%	$ 26,000
Same-Store Sales	(1.0)%	14,000

As of March 31, 2011, the estimated fair value of the Hair Restoration Centers reporting unit exceeded its respective carrying value by approximately 9.0 percent. As it is reasonably likely that there could be impairment of the Hair Restoration Centers reporting unit s goodwill in future periods along with the sensitivity of the Company s critical assumptions in estimating fair value of this reporting unit, the Company has provided additional information related to this reporting unit.

A summary of the critical assumptions utilized during the annual impairment test of the Hair Restoration Centers reporting unit as of March 31, 2011 are outlined below:

Annual revenue growth. Annual revenue growth is primarily driven by assumed same-store sales rates of approximately positive 2.0 to positive 3.0 percent. Other considerations include anticipated economic conditions and moderate acquisition growth.

Gross margin. Adjusted for anticipated center closures, new center construction and acquisitions estimated future gross margins were held constant.

Fixed expense rates. Fixed expense rate increases of approximately 1.0 to 2.0 percent based on anticipated inflation. Fixed expenses consisted of rent, site operating, and allocated general and administrative corporate overhead.

Allocated corporate overhead. Corporate overhead incurred by the home office is not allocated as the Hair Restoration Centers reporting unit incurs its own overhead.

Long-term growth. A long-term growth rate of 2.5 percent was applied to terminal cash flow based on anticipated economic conditions.

Discount rate. A discount rate of 12.0 percent based on the weighted average cost of capital that equals the rate of return on debt capital and equity capital weighted in proportion to the capital structure common to the industry.

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

Critical Assumptions	**Increase (Decrease)**	**Approximate Impact on Fair Value (In thousands)**
Discount Rate	1.0%	$ 21,000
Same-Store Sales	(1.0)%	5,000

As of March 31, 2011, the estimated fair value of the Regis salon concept exceeded its respective carrying value by approximately 18.0 percent. As it is reasonably likely that there could be impairment of the Regis salon concept s goodwill in future periods along with the sensitivity of the Company s critical assumptions in estimating fair value of this reporting unit, the Company has provided additional information related to this reporting unit.

A summary of the critical assumptions utilized during the annual impairment test of the Regis salon concept as of March 31, 2011 are outlined below:

Annual revenue growth. Annual revenue growth is primarily driven by assumed same-store sales rates of approximately negative 1.0 to positive 3.0 percent. Other considerations include anticipated economic conditions and moderate acquisition growth.

Gross margin. Adjusted for anticipated salon closures, new salon construction and acquisitions estimated future gross margins were held constant.

Fixed expense rates. Fixed expense rate increases of approximately 1.0 to 2.0 percent based on anticipated inflation. Fixed expenses consisted of rent, site operating, and allocated general and administrative corporate overhead.

Allocated corporate overhead. Corporate overhead incurred by the home office based on the number of Regis salons as a percent of total company-owned salons.

Long-term growth. A long-term growth rate of 2.5 percent was applied to terminal cash flow based on anticipated economic conditions.

Discount rate. A discount rate of 12.0 percent based on the weighted average cost of capital that equals the rate of return on debt capital and equity capital weighted in proportion to the capital structure common to the industry.

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

Critical Assumptions	Increase (Decrease)	Approximate Impact on Fair Value (In thousands)
Discount Rate	1.0%	$ 13,000
Same-Store Sales	(1.0)%	10,000

A summary of the Company s goodwill balance as of March 31, 2011 and June 30, 2010 by reporting unit is as follows:

Reporting Unit	As of March 31, 2011	As of June 30, 2010
	(Dollars in thousands)	
Regis	$ 103,741	$ 102,180
MasterCuts	4,652	4,652
SmartStyle	48,875	48,280
Supercuts	128,239	121,693
Promenade	240,626	309,804
Total North America Salons	526,133	586,609
Hair Restoration Centers	152,801	150,380
Consolidated Goodwill	$ 678,934	$ 736,989

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OVERVIEW OF RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2011

- Revenues decreased 1.1 percent to $581.3 million and consolidated same-store sales decreased 2.3 percent. The Company experienced a continued decline in customer visitations, partially offset by an increase in average ticket price.

- We acquired 36 corporate salon locations and three hair restoration centers, all of which were franchise location buybacks. We built 29 corporate locations and closed, converted or relocated 94 locations. Our franchisees constructed eight locations and closed, converted or relocated nine locations. As of March 31, 2011, we had 7,895 company-owned locations, 1,937 franchise locations and 96 hair restoration centers (67 company-owned and 29 franchise locations).

- The Company recorded a $74.1 million non-cash goodwill impairment charge associated with the Company s Promenade salon concept.

- The Company recorded a $9.0 million valuation reserve on the note receivable with the purchaser of Trade Secret.

- The Company recorded an $8.7 million other than temporary impairment on its investment in preferred shares of Yamano and premium paid at the time of it initial investment in MY Style.

- 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 deductible portion of the goodwill impairment resulted in the Company recording a $49.2 million income tax benefit during the three and nine months ended March 31, 2011.

RESULTS OF OPERATIONS

Consolidated Results of Continuing Operations

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

	For the Periods Ended March 31,			
	Three Months		Nine Months	
Results of Operations as a Percent of Revenues	**2011**	**2010**	**2011**	**2010**
Service revenues	75.7%	76.2%	75.6%	75.3%
Product revenues	22.6	22.1	22.7	23.0
Franchise royalties and fees	1.7	1.7	1.7	1.7
Operating expenses:				
Cost of service (1)	58.0	57.1	57.6	57.1
Cost of product (2)	48.0	47.8	47.8	50.1
Site operating expenses	8.7	8.2	8.7	8.3
General and administrative	14.9	12.4	13.6	12.3
Rent	14.5	14.6	14.7	14.5
Depreciation and amortization	4.6	4.5	4.6	4.6
Goodwill impairment	12.7	6.0	4.3	2.0
Lease termination costs				0.2
Operating (loss) income	(10.2)	0.2	(0.2)	3.5
(Loss) income from continuing operations before income taxes and equity in (loss) income of affiliated companies	(11.8)	(0.8)	(1.5)	1.3
(Loss) income from continuing operations	(4.4)	(0.3)	0.4	1.2
Income from discontinued operations				0.2
Net (loss) income	(4.4)	(0.3)	0.4	1.4

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

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

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Consolidated Revenues

Consolidated revenues primarily include revenues of company-owned salons, product and equipment sales to franchisees, hair restoration center revenues, and franchise royalties and fees. As compared to the respective prior fiscal year, consolidated revenues decreased 1.1 percent to $581.3 million during the three months ended March 31, 2011 and decreased 2.0 percent to $1,733.9 million during the nine months ended March 31, 2011. The following table details our consolidated revenues by concept. All service revenues, product revenues (which include product and equipment sales to franchisees), and franchise royalties and fees are included within their respective concept within the table.

	For the Periods Ended March 31,			
	Three Months		Nine Months	
	2011	2010	2011	2010
	(Dollars in thousands)			
North American salons:				
Regis	$ 109,588	$ 110,893	$ 326,021	$ 329,966
MasterCuts	41,786	43,287	125,121	125,561
SmartStyle	137,046	139,042	399,270	398,820
Supercuts	80,083	77,859	237,716	233,907
Promenade (2)	141,336	145,897	430,093	460,403
Total North American salons	509,839	516,978	1,518,221	1,548,657
International salons	35,535	35,458	107,670	114,603
Hair Restoration Centers	35,893	35,135	107,993	105,226
Consolidated revenues	$ 581,267	$ 587,571	$ 1,733,884	$ 1,768,486
Percent change from prior year	(1.1)%	(2.7)%	(2.0)%	(2.0)%
Salon same-store sales decrease (1)	(2.3)%	(1.8)%	(1.7)%	(3.3)%

The percent changes in consolidated revenues during the three and nine months ended March 31, 2011 and 2010, respectively, were driven by the following:

	For the Periods Ended March 31,			
	Three Months		Nine Months	
Percentage Increase (Decrease) in Revenues	**2011**	**2010**	**2011**	**2010**
Acquisitions (previous twelve months)	1.3%	0.5%	0.9%	0.9%
Organic (2)	(1.6)	(3.5)	(1.6)	(2.1)
Foreign currency	0.5	1.2	0.2	0.1
Franchise revenues	0.0	(0.0)	0.0	0.0
Closed salons	(1.3)	(0.9)	(1.5)	(0.9)
	(1.1)%	(2.7)%	(2.0)%	(2.0)%

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(1) Salon same-store sales increases or decreases are calculated on a daily basis as the total change in sales for company-owned salons which were open on a specific day of the week during the current period and the corresponding prior period. Quarterly and year-to-date salon same-store sales are the sum of the same-store sales computed on a daily basis. Salons relocated within a one mile radius are included in same-store sales as they are considered to have been open in the prior period. International same-store sales are calculated in local currencies so that foreign currency fluctuations do not impact the calculation. Management believes that same-store sales, a component of organic growth, are useful in determining the increase in salon revenues attributable to its organic growth (new salon construction and same-store sales growth) versus growth from acquisitions.

(2) Trade Secret, Inc. was sold by Regis Corporation on February 16, 2009. The agreement included a provision that the Company would supply product to the purchaser of Trade Secret and provide certain administrative services for a transition period. For the nine months ended March 31, 2010, we generated revenue of $20.0 million in product revenues, which represented 1.1 percent of consolidated revenues. The agreement was substantially complete as of September 30, 2009.

During the twelve months ended March 31, 2011, we acquired 98 salons (including 72 franchise salon buybacks), constructed 130 company-owned salons, and closed 309 salons (including 61 franchise salons). The decrease in organic during the three months ended March 31, 2011 was primarily due to the consolidated same-store sales decrease of 2.3 percent, partially offset by the construction of 130 company-owned salons during the twelve months ended March 31, 2011. The decrease in organic during the nine months ended March 31, 2011 was primarily due to the consolidated same-store sales decrease of 1.7 percent and the completion of an agreement to supply the purchaser of Trade Secret product at cost, partially offset by the construction of 130 company-owned salons during the twelve months ended March 31, 2011. The Company generated revenues of $20.0 million for product sold to the purchaser of Trade Secret during the nine months ended March 31, 2010.

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During the three months ended March 31, 2011, the foreign currency impact was driven by the weakening of the United States dollar against the Canadian dollar and British pound, as compared to the exchange rates for the comparable prior periods. During the nine months ended March 31, 2011, the foreign currency impact was driven by the weakening of the United States dollar against the Canadian dollar, partially offset by the strengthening of the United States dollar against the British pound and Euro, as compared to the exchange rates for the comparable prior periods. The impact of foreign currency was calculated by multiplying current year revenues in local currencies by the change in the foreign currency exchange rate between the current and prior fiscal year.

We acquired 22 salons (including 19 franchise salon buybacks) during the twelve months ended March 31, 2010. The organic decrease was primarily due to the salon same-store sales decrease of 3.3 percent and the completion of an agreement to supply the purchaser of Trade Secret product at cost. During the three and nine months ended March 31, 2009 the company generated revenue of $12.6 million for product sold to the purchaser of Trade Secret. Partially offsetting the organic decrease was the construction of 156 company-owned salons during the twelve months ended March 31, 2010. We closed 259 salons (including 59 franchise salons) during the twelve months ended March 31, 2010.

During the three months ended March 31, 2010, the foreign currency impact was driven by the weakening of the United States dollar against the Canadian dollar and British pound as compared to the exchange rates for the comparable prior periods. During the nine months ended March 31, 2010, the foreign currency impact was driven by the weakening of the United States dollar against the Canadian dollar, partially offset by the strengthening of the United States dollar against the British pound, as compared to the exchange rates for the comparable prior periods. The impact of foreign currency was calculated by multiplying current year revenues in local currencies by the change in the foreign currency exchange rate between the current and prior fiscal year.

Consolidated revenues are primarily comprised of service and product revenues, as well as franchise royalties and fees. Fluctuations in these three major revenue categories were as follows:

Service Revenues. Service revenues include revenues generated from company-owned salons and service revenues generated by hair restoration centers. Total service revenues for the three and nine months ended March 31, 2011 and 2010 were as follows:

Periods Ended March 31,	Revenues	Decrease Over Prior Fiscal Year Dollar	Percentage
	(Dollars in thousands)		
Three Months			
2011	$ 440,109	$ (7,770)	(1.7)%
2010	447,879	(5,422)	(1.2)
Nine Months			
2011	$ 1,310,577	$ (21,705)	(1.6)%
2010	1,332,282	(35,132)	(2.6)

The decrease in service revenues during the three and nine months ended March 31, 2011 was due to same-store service sales decreasing 2.8 and 2.4 percent, respectively, as a result of a decline in same-store customer visits. Service revenues were also negatively impacted by the shift in the Easter holiday. Partially offsetting the decrease in service revenues was growth due to new and acquired salons during the previous twelve months, price increases and sales mix as the Company continues to increase hair color and waxing services. In addition, for the three months ended March 31, 2011, the weakening of the United States dollar against the Canadian dollar and British pound partially offset the decrease in service revenues. The net impact of the weakening of the United States dollar against the Canadian dollar and the strengthening of the United

States dollar against the British pound and Euro partially offset the decrease in service revenues during the nine months ended March 31, 2011.

The decrease in service revenues during the three months ended March 31, 2010 was due to same-store service sales decreasing 2.2 percent, as many consumers have continued to lengthen their visitation pattern due to the economy. Partially offsetting the decrease was growth due to acquisitions during the previous twelve months and the weakening of the United States dollar against the Canadian dollar and British pound during the three months ended March 31, 2010.

The decrease in service revenues during the nine months ended March 31, 2010 was due to same-store service sales decreasing 3.4 percent, as many consumers have continued to lengthen their visitation pattern due to the economy and the strengthening of the United States dollar against the British pound during the nine months ended March 31, 2010. Partially offsetting the decrease was growth due to acquisitions during the previous twelve months and the weakening of the United States dollar against the Canadian dollar during the nine months ended March 31, 2010.

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Product Revenues. Product revenues are primarily sales at company-owned salons, hair restoration centers and sales of product and equipment to franchisees. Total product revenues for the three and nine months ended March 31, 2011 and 2010 were as follows:

Periods Ended March 31,	Revenues	Increase (Decrease) Over Prior Fiscal Year Dollar	Percentage
		(Dollars in thousands)	
Three Months			
2011	$ 131,350	$ 1,401	1.1%
2010	129,949	(11,220)	(7.9)
Nine Months			
2011	$ 393,779	$ (12,994)	(3.2)%
2010	406,773	(1,353)	(0.3)

The increase in product revenues during the three months ended March 31, 2011 was due to product sales from new and acquired salons and the weakening of the United States dollar against the Canadian dollar and British pound. Partially offsetting the increase in product revenues during the three months ended March 31, 2011 was a same-store sales decrease of 0.7 percent.

The decrease in product revenues during the nine months ended March 31, 2011 was due to product sales of $20.0 million to the purchaser of Trade Secret during the prior year comparable period, partially offset by a same-store sales increase of 0.8 percent.

The decrease in product revenues during the three months ended March 31, 2010 was due to the completion of the agreement as of September 30, 2009 in which we supplied product to the purchaser of Trade Secret. The three months ended March 31, 2009 included $12.6 million of product sales while the three months ended March 31, 2010 had no sales to the purchaser of Trade Secret.

The decrease in product revenues during the nine months ended March 31, 2010 was due to same-store product sales decreasing 2.9 percent, partially offset by an increase of $7.4 million in product sales to the purchaser of Trade Secret over the comparable prior period.

Royalties and Fees. Total franchise revenues, which include royalties and fees, for the three and nine months ended March 31, 2011 and 2010 were as follows:

Periods Ended March 31,	Revenues	Increase (Decrease) Over Prior Fiscal Year Dollar	Percentage
		(Dollars in thousands)	
Three Months			
2011	$ 9,808	$ 65	0.7%
2010	9,743	127	1.3
Nine Months			
2011	$ 29,528	$ 97	0.3%
2010	29,431	(70)	(0.2)

Total franchise locations open at March 31, 2011 were 1,966, including 29 franchise hair restoration centers, as compared to 2,056 franchise locations, including 33 franchise hair restoration centers, at March 31, 2010. We purchased 72 of our franchise salons and four franchise hair restoration centers during the twelve months ended March 31, 2011. The decrease in franchise locations was more than offset by the impact of the weakening of the United States dollar against the Canadian dollar as compared to the comparable prior period.

Total franchise locations open at March 31, 2010 were 2,056, including 33 franchise hair restoration centers, as compared to 2,071 franchise locations, including 33 franchise hair restoration centers, at March 31, 2009. We purchased 19 of our franchise salons and zero franchise hair restoration centers during the twelve months ended March 31, 2010. The increase in royalties and fees revenue during the three months ended March 31, 2010 was primarily due to the weakening of the United States dollar against the Canadian dollar as compared to the comparable prior period.

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Gross Margin (Excluding Depreciation)

Our cost of revenues primarily includes labor costs related to salon and hair restoration center employees, the cost of product used in providing services and the cost of products sold to customers and franchisees. The resulting gross margin for the three and nine months ended March 31, 2011 and 2010 was as follows:

Periods Ended March 31,	Gross Margin	Margin as % of Service and Product Revenues	(Decrease) Increase Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
			(Dollars in thousands)		
Three Months					
2011	$ 253,017	44.3%	$ (7,182)	(2.8)%	(70)
2010	260,199	45.0	(589)	(0.2)	110
Nine Months					
2011	$ 761,707	44.7%	$ (13,023)	(1.7)%	20
2010	774,730	44.5	(12,516)	(1.6)	20

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

Service Margin (Excluding Depreciation). Service margin for the three and nine months ended March 31, 2011 and 2010 was as follows:

Periods Ended March 31,	Service Margin	Margin as % of Service Revenues	(Decrease) Increase Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
			(Dollars in thousands)		
Three Months					
2011	$ 184,735	42.0%	$ (7,576)	(3.9)%	(90)
2010	192,311	42.9	(1,525)	(0.8)	10
Nine Months					
2011	$ 555,997	42.4%	$ (15,936)	(2.8)%	(50)
2010	571,933	42.9	(12,101)	(2.1)	20

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

The basis point decrease in service margin as a percent of service revenues during the three and nine months ended March 31, 2011 was primarily due to an unexpected increase in salon health insurance costs due to several unusually large claims and an increase in payroll taxes as a result of states increasing unemployment tax rates. In addition, the basis point decrease was due to an unexpected increase in salon payroll expense. The increase in salon payroll expense for the three months ended March 31, 2011 was due to unusually bad weather during which our salons were open and staffed and customer traffic was down significantly. The increase in salon payroll expense during the nine months ended

March 31, 2011 was due to the staffing increase in preparation for the holiday season and same-store sales declined during the period.

The basis point improvement in service margin as a percent of service revenues during the three and nine months ended March 31, 2010 was primarily due to the benefit of the new leveraged salon pay plans implemented in the 2009 calendar year, partially offset by salon payroll taxes. Increases in salon health insurance costs also offset the basis point improvement for the nine months ended March 31, 2010.

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Product Margin (Excluding Depreciation). Product margin for the three and nine months ended March 31, 2011 and 2010 was as follows:

Periods Ended March 31,	Product Margin	Margin as % of Product Revenues	Increase (Decrease) Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
			(Dollars in thousands)		
Three Months					
2011	$ 68,282	52.0%	$ 394	0.6%	(20)
2010	67,888	52.2	936	1.4	480
Nine Months					
2011	$ 205,710	52.2%	$ 2,913	1.4%	230
2010	202,797	49.9	(415)	(0.2)	10

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

Trade Secret, Inc. was sold by Regis Corporation on February 16, 2009. The agreement included a provision that Regis Corporation would supply product to the purchaser at cost for a transition period. The agreement was substantially completed as of September 30, 2009.

The following tables breakout product revenue, cost of product and product margin as a percent of product revenues between product and product sold to the purchaser of Trade Secret.

Breakout of Product Revenue	Three Months 2011	Three Months 2010	Nine Months 2011	Nine Months 2010
	(Dollars in thousands)		(Dollars in thousands)	
Product	$ 131,350	$ 129,949	$ 393,779	$ 386,811
Product sold to purchaser of Trade Secret				19,962
Total product revenues	$ 131,350	$ 129,949	$ 393,779	$ 406,773

Breakout of Cost of Product	Three Months 2011	Three Months 2010	Nine Months 2011	Nine Months 2010
	(Dollars in thousands)		(Dollars in thousands)	
Cost of product	$ 63,068	$ 62,061	$ 188,069	$ 184,014
Cost of product sold to purchaser of Trade Secret				19,962
Total cost of product	$ 63,068	$ 62,061	$ 188,069	$ 203,976

Product Margin as % of Product Revenues	Three Months 2011	Three Months 2010	Nine Months 2011	Nine Months 2010
Margin on product other than sold to purchaser of Trade Secret	52.0%	52.2%	52.2%	52.4%
Margin on product sold to purchaser of Trade Secret				

Total product margin	52.0%	52.2%	52.2%	49.9%

The basis point decrease in product margin other than sold to the purchaser of Trade Secret as a percentage of product revenues during the three and nine months ended March 31, 2011 was primarily due to an increase in sales of slightly lower-profit margin appliances in our international segment and an increase in the cost of hair systems in our Hair Restoration Centers segment, partially offset by reduced commissions paid to new employees on retail product sales in our North American segment.

The basis point improvement in product margin other than sold to the purchaser of Trade Secret as a percentage of product revenues during the three months ended March 31, 2010 was primarily due to a planned reduction in commissions paid to new employees on retail product sales. The basis point improvement for the three months ended March 31, 2010 was partially offset by increased donations of slow-moving inventory, clearance sales of discontinued and holiday products, and increased product sales of lower-margin promotional items. The basis point improvement in product margin other than sold to the purchaser of Trade Secret as a percent of product revenues during the nine months ended March 31, 2010 was primarily due to a planned reduction in retail commissions paid to new employees on retail product sales.

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Site Operating Expenses

This expense category includes direct costs incurred by our salons and hair restoration centers such as on-site advertising, workers compensation, insurance, utilities and janitorial costs. Site operating expenses for the three and nine months ended March 31, 2011 and 2010 were as follows:

Periods Ended March 31,	Site Operating	Expense as % of Consolidated Revenues	Increase (Decrease) Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
		(Dollars in thousands)			
Three Months					
2011	$ 50,522	8.7%	$ 2,242	4.6%	50
2010	48,280	8.2	(1,584)	(3.2)	(10)
Nine Months					
2011	$ 150,128	8.7%	$ 2,763	1.9%	40
2010	147,365	8.3	1,479	1.0	20

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

The basis point increase in site operating expenses as a percent of consolidated revenues during the three months ended March 31, 2011 was primarily due to a planned increase in advertising expense and a price promotion test within a portion of the Company s Promenade salons, along with negative leverage from the decrease in same-store sales.

The basis point increase in site operating expenses as a percent of consolidated revenues during the nine months ended March 31, 2011 was primarily due to a planned increase in advertising expense within a portion of the Company s Promenade salons, and higher self-insurance accruals. The Company recorded an increase in self-insurance accruals of $0.5 million in the nine months ended March 31, 2011, compared to a $1.9 million reduction in the nine months ended March 31, 2010. The basis point increase for the nine months ended March 31, 2011 was partially offset by the prior year comparable period included $3.6 million expense related to two legal claims on customer and employee matters.

Site operating expense as a percent of consolidated revenues during the three months ended March 31, 2010 improved slightly compared to prior year site operating expense as a percent of consolidated revenues. The basis point improvement in site operating expenses as a percent of consolidated revenues was primarily due to a decrease in worker s compensation costs, which mitigated negative leverage due to negative same-store sales.

The basis point increase in site operating expenses as a percent of consolidated revenues during the nine months ended March 31, 2010 was primarily due to higher self-insurance expense. The Company recorded a reduction in self-insurance accruals of $1.9 million in the nine months ended March 31, 2010 compared to a $6.7 million reduction in the nine months ended March 31, 2009. In addition, the Company settled two legal claims related to customer and employee matters resulting in a $3.6 million charge during the nine months ended March 31, 2010. Partially offsetting the decrease was cost savings initiatives realized in freight and salon repairs areas.

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General and Administrative

General and administrative (G&A) includes costs associated with our field supervision, salon training and promotions, product distribution centers and corporate offices (such as salaries and professional fees), including costs incurred to support franchise and hair restoration center operations. G&A expenses for the three and nine months ended March 31, 2011 and 2010 were as follows:

Periods Ended March 31,	G&A	Expense as % of Consolidated Revenues	Increase (Decrease) Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
			(Dollars in thousands)		
Three Months					
2011	$ 86,390	14.9%	$ 13,649	18.8%	250
2010	72,741	12.4	3,149	4.5	90
Nine Months					
2011	$ 236,312	13.6%	$ 18,400	8.4%	130
2010	217,912	12.3	(1,975)	(0.9)	10

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

The basis point increase in G&A costs as a percent of consolidated revenues during the three months ended March 31, 2011 was primarily due to the $9.0 million valuation reserve related to the note receivable with the purchaser of Trade Secret, incremental costs associated with the Company s senior management restructure, a planned increase in marketing expense for brand awareness within the Company s Promenade salons, and negative leverage on fixed costs within this category due to negative same-store sales.

The basis point increase in G&A costs as a percent of consolidated revenues during the nine months ended March 31, 2011 was primarily due to the $9.0 million valuation reserve related to the note receivable with the purchaser of Trade Secret, incremental costs associated with the Company s senior management restructure, expenditures associated with the Regis salon concept re-imaging project, professional fees incurred related to the exploration of strategic alternatives, and negative leverage on fixed costs within this category due to negative same-store sales.

The basis point increase in G&A costs as a percent of consolidated revenues during the three months ended March 31, 2010 was primarily due to the completion of an agreement to supply the purchaser of Trade Secret product at cost. Under the agreement the Company generated $12.6 million of revenue during the three months ended March 31, 2009. Also contributing to the basis point increase was a decrease in same-store sales and a Hair Club vendor dispute settlement. Partially offsetting the increase was the continuation of cost savings initiatives implemented by the Company.

The basis point increase in G&A costs as a percent of consolidated revenues during the nine months ended March 31, 2010 was primarily due to negative leverage from the decrease in same-store sales, partially offset by the continuation of cost savings initiatives implemented by the Company.

Rent

Rent expense, which includes base and percentage rent, common area maintenance, and real estate taxes, for the three and nine months ended March 31, 2011and 2010, was as follows:

Periods Ended March 31,	Rent	Expense as % of Consolidated Revenues	(Decrease) Increase Over Prior Fiscal Year		
			Dollar	Percentage	Basis Point(1)
		(Dollars in thousands)			
Three Months					
2011	$ 84,391	14.5%	$ (1,517)	(1.8)%	(10)
2010	85,908	14.6	254	0.3	40
Nine Months					
2011	$ 254,734	14.7%	$ (2,564)	(1.0)%	20
2010	257,298	14.5	(2,548)	(1.0)	10

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

The basis point decrease in rent expense as a percent of consolidated revenues during the three months ended March 31, 2011 was primarily due to a favorable reduction to our common area expenses, partially offset by negative leverage in this fixed cost category

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due to negative same-stores sales. The basis point increase in rent expense as a percent of consolidated revenues during the nine months ended March 31, 2011 was primarily due to negative leverage in this fixed cost category due to negative same-store sales, partially offset by savings achieved from our salon closure initiatives.

The basis point increase in rent expense as a percent of consolidated revenues during the three and nine months ended March 31, 2010 was primarily due to negative leverage in this fixed cost category, partially offset by a reduction in our percentage rent payments, both due to negative same-store sales.

Depreciation and Amortization

Depreciation and amortization expense (D&A) for the three and nine months ended March 31, 2011 and 2010 was as follows:

Periods Ended March 31,	D&A	Expense as % of Consolidated Revenues	Increase (Decrease) Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
			(Dollars in thousands)		
Three Months					
2011	$ 26,926	4.6%	$ 374	1.4%	10
2010	26,552	4.5	(832)	(3.0)	
Nine Months					
2011	$ 79,167	4.6%	$ (2,086)	(2.6)%	
2010	81,253	4.6	(918)	(1.1)	

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

D&A as a percent of consolidated revenues during the three months ended March 31, 2011 increased slightly due to fixed asset write-offs associated with salon closures. D&A as a percent of consolidated revenues during the nine months ended March 31, 2011 was consistent with prior year depreciation and amortization expense as a percent of consolidated revenues.

D&A as a percent of consolidated revenues during the three and nine months ended March 31, 2010 was consistent with prior year depreciation and amortization expense as a percent of consolidated revenues.

Goodwill Impairment

Goodwill impairment charges for the three and nine months ended March 31, 2011 and 2010 were as follows:

Periods Ended March 31,	Goodwill Impairment	Expense as % of Consolidated Revenues	Increase (Decrease) Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
		(Dollars in thousands)			
Three Months					
2011	$ 74,100	12.7%	$ 38,823	110.1%	670
2010	35,277	6.0	35,277	100.0	600
Nine Months					
2011	$ 74,100	4.3%	$ 38,823	110.1%	230
2010	35,277	2.0	(6,384)	(15.3)	(30)

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

During the three and nine months ended March 31, 2011, the Company recorded $74.1 million of goodwill impairment expense related to the Promenade salon concept. Due to lower than expected earnings and same-store sales, the estimated fair value of the Promenade salon operations was less than the carrying value of this concept s net assets, including goodwill. The $74.1 million impairment charge was the excess of the carrying value of goodwill over the implied fair value of goodwill for the Promenade salon operations.

During the three and nine months ended March 31, 2010, the Company recorded $35.3 million of goodwill impairment expense related to the Regis salon concept. Due to the current economic conditions, the estimated fair value of the Regis salon operations was less than the carrying value of this concept s net assets, including goodwill. The $35.3 million impairment charge was the excess of the carrying value of goodwill over the implied fair value of goodwill for the Regis salon operations.

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Lease Termination Costs

Lease termination costs for the three and nine months ended March 31, 2011 and 2010 were as follows:

Periods Ended March 31,	Lease Termination Costs	Expense as % of Consolidated Revenues	(Decrease) Increase Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
			(Dollars in thousands)		
Three Months					
2011	$	%	$	%	
2010			(838)	(100.0)	(10)
Nine Months					
2011	$	%	$ (3,552)	(100.0)%	(20)
2010	3,552	0.2	716	25.2	

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

As the Company s July 2008 and June 2009 plans to close underperforming company-owned salons were substantially complete as of June 30, 2010, the Company did not incur lease termination costs during the three and nine months ended March 31, 2011.

The fiscal year 2010 lease termination costs are associated with the Company s plan to close underperforming United Kingdom company-owned salons in fiscal year 2010 and underperforming company-owned salons in fiscal year 2009. During the three and nine months ended March 31, 2010 we closed zero and 22 salons, respectively. See further discussion within Note 8 of the Condensed Consolidated Financial Statements.

Interest

Interest expense for the three and nine months ended March 31, 2011 and 2010 was as follows:

Periods Ended March 31,	Interest	Expense as % of Consolidated Revenues	(Decrease) Increase Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
			(Dollars in thousands)		
Three Months					
2011	$ 8,337	1.4%	$ (702)	(7.8)%	(10)
2010	9,039	1.5	(645)	(6.7)	(10)
Nine Months					
2011	$ 25,998	1.5%	$ (19,426)	(42.8)%	(110)

2010	45,424	2.6	14,642	47.6	90

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

The basis point improvement in interest expense as a percent of consolidated revenues during the three months ended March 31, 2011 was primarily due to decreased debt levels as compared to the three months ended March 31, 2010.

The basis point improvement in interest expense as a percent of consolidated revenues during the nine months ended March 31, 2011 was primarily due to decreased debt levels and the prior year comparable period including $12.8 million of make-whole payments and $5.2 million of interest rate settlement and other fees associated with the prepayment of private placement debt.

The basis point improvement in interest expense as a percent of consolidated revenues during the three months ended March 31, 2010 was primarily due to decreased debt levels as compared to the three months ended March 31, 2009.

The basis point increase in interest expense as a percent of consolidated revenues during the nine months ended March 31, 2010 was due to $12.8 million of make-whole payments and $5.2 million of interest rate settlement and other fees associated with the repayment of private placement debt.

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Interest Income and Other, net

Interest income and other, net for the three and nine months ended March 31, 2011 and 2010 was as follows:

Periods Ended March 31,	Interest Income and Other, net	(Expense) Income as % of Consolidated Revenues	(Decrease) Increase Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
		(Dollars in thousands)			
Three Months					
2011	$ (651)	(0.1)%	$ (3,776)	(120.8)%	(60)
2010	3,125	0.5	1,809	137.5	30
Nine Months					
2011	$ 2,730	0.2%	$ (4,038)	(59.7)%	(20)
2010	6,768	0.4	255	3.9	

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

The basis point decrease in interest income and other, net as a percent of consolidated revenues during the three months ended March 31, 2011 was primarily due to the foreign currency impact in the current year related to the Company s investment in MY Style and $1.2 million in interest income recorded in the comparable prior period on the outstanding note receivable due from the purchaser of Trade Secret. In addition, the basis point decrease was due to decreased income related to warehouse services provided to the purchaser of Trade Secret. During the three months ended March 31, 2011 and 2010, the Company received $0.6 and $1.0 million, respectively, for warehouse services provided to the purchaser of Trade Secret.

The basis point decrease in interest income and other, net as a percent of consolidated revenues during the nine months ended March 31, 2011 was primarily due to the foreign currency impact in the current year related to the Company s investment in MY Style and $1.8 million received from the purchaser of Trade Secret in the comparable prior period for administrative services, and $1.2 million in interest income recorded in the comparable prior period on the outstanding note receivable due from the purchaser of Trade Secret.

The basis point increase in interest income and other, net as a percent of consolidated revenues during the three months ended March 31, 2010 was primarily due to $1.2 million in interest income recorded on the outstanding note receivable due from the purchaser of Trade Secret.

Interest income and other, net as a percent of consolidated revenues during the nine months ended March 31, 2010 was consistent with the prior year interest income and other, net as a percent of consolidated revenues. A decline in interest income due to a decline in interest rates was offset by $4.0 million received for warehouse and administrative services from the purchaser of Trade Secret.

Income Taxes

Our reported effective income tax rate for the three and nine months ended March 31, 2011 and 2010 was as follows:

Periods Ended March 31,	Effective Rate	Basis Point(1) Increase (Decrease)
Three Months		
2011	65.2%	5,410
2010	11.1	(2,260)
Nine Months		
2011	112.1%	6,830
2010	43.8	(2,840)

(1) Represents the basis point change in income tax expense as a percent of income from continuing operations before income taxes and equity in income of affiliated companies as compared to the corresponding periods of the prior fiscal year.

The basis point increase in our overall effective income tax rate for the three and nine months ended March 31, 2011 was primarily due to the $74.1 million goodwill impairment in the North American segment which is only partially deductible for tax purposes. The deductible portion of the goodwill impairment resulted in the Company recording a $49.2 million income tax benefit during the three and nine months ended March 31, 2011. Due to accounting for income taxes guidance, the tax impact of the goodwill impairment is recorded through the effective tax rate and therefore, impacts both the third and fourth quarter of fiscal year 2011. The Company anticipates the annual income tax benefit of the goodwill impairment to be $27.8 million. Accordingly, the Company expects to reverse the $21.4 million of the tax benefit recorded in the third quarter during the fourth quarter of fiscal year 2011.

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The basis point improvement in our overall effective income tax rate for the three months ended March 31, 2010 was due primarily to the $35.3 million goodwill impairment in the North American segment which is only partially deductible for tax purposes. The basis point decrease in our overall effective income tax rate for the nine months ended March 31, 2010 was due primarily to the goodwill impairment recorded during the nine months ended March 31, 2009 having a greater adverse impact on the effective income tax rate due to the size and deductibility of the charge compared to the goodwill impairment recorded during the nine months ended March 31, 2010. The $35.3 million goodwill impairment had an adverse impact of approximately $4.0 million on income tax expense during the three months ended June 30, 2010 due to the nondeductible portion of the charge.

Equity in (Loss) Income of Affiliated Companies, Net of Income Taxes

Equity in (loss) income of affiliates, represents the income or loss generated by our equity investment in EEG, Provalliance, and other equity method investments, for the three and nine months ended March 31, 2011 and 2010, was as follows:

			(Decrease) Increase Over Prior Fiscal Year	
Periods Ended March 31,		**Equity in (Loss) Income**	**Dollar**	**Percentage**
			(Dollars in thousands)	
Three Months				
2011	$	(1,513)	$ (4,193)	(156.5)%
2010		2,680	692	34.8
Nine Months				
2011	$	4,286	$ (4,108)	(48.9)%
2010		8,394	8,252	5,811.3

The loss in equity of affiliated companies during the three months ended March 31, 2011 was the result of an $8.7 million impairment loss related to the Company s investment in MY Style. The impairment charge was based on the decline in the equity value of MY Style as a result of changes in projected revenue growth after the Japanese natural disasters that occurred in March 2011. Partially offsetting the impairment loss was a $2.5 million net gain related to the settlement of a portion of the Company s equity put liability and additional ownership of the Franck Provost Group in Provalliance, and an increase in EEG s and Provalliance s net income over the comparable prior period.

The decrease in equity in income during the nine months ended March 31, 2011 was a result of an $8.7 million, impairment loss related to the Company s investment in MY Style, partially offset by the Company s share of EEG s and Provalliance s increased net income over the comparable prior period.

The increase in equity in income during the three and nine months ended March 31, 2010 was a result of the Company s share of EEG s and Hair Club for Men, Ltd. s increased net income over the comparable prior period, partially offset by a decline in the Company s share of Provalliance s net income over the comparable prior period. In addition, during the nine months ended March 31, 2009 there was an impairment loss of $4.8 million, net of tax, on our investment in and loans to Intelligent Nutrients, LLC.

Income from Discontinued Operations

Income from discontinued operations for the three and nine months ended March 31, 2011 and 2010 was as follows:

Periods Ended March 31,	**Income from Discontinued Operations**	**Increase (Decrease) Over Prior Fiscal Year**	
		Dollar	**Percentage**
		(Dollars in thousands)	
Three Months			
2011	$	$	%
2010		12,171	(100.0)
Nine Months			
2011	$	$ (3,161)	(100.0)%
2010	3,161	134,398	102.4

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During the first quarter of fiscal year 2010, the Company recorded a $3.0 million tax benefit in discontinued operations to correct the prior year calculation of the income tax benefit related to the disposition of the Trade Secret salon concept.

Recent Accounting Pronouncements

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

Effects of Inflation

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

Constant Currency Presentation

The presentation below demonstrates the effect of foreign currency exchange rate fluctuations from year to year. To present this information, current period results for entities reporting in currencies other than United States dollars are converted into United States dollars at the average exchange rates in effect during the corresponding period of the prior fiscal year, rather than the actual average exchange rates in effect during the current fiscal year. Therefore, the foreign currency impact is equal to current year results in local currencies multiplied by the change in the average foreign currency exchange rate between the current fiscal period and the corresponding period of the prior fiscal year.

During the three months ended March 31, 2011, foreign currency translation had a favorable impact on consolidated revenues due to the weakening of the United States dollar against the Canadian dollar, British pound, and Euro as compared to the comparable prior periods. During the nine months ended March 31, 2011, foreign currency translation had a favorable impact on consolidated revenues due to the weakening of the United States dollar against the Canadian dollar, partially offset by the strengthening of the United States dollar against the British pound and Euro as compared to the comparable prior periods.

During the three and nine months ended March 31, 2010, foreign currency translation had a favorable impact on consolidated revenues due to the strengthening of the Canadian dollar and Euro as compared to the comparable prior periods. The British pound strengthened for the three months ended March 31, 2010 which favorably impacted revenues and weakened for the nine months ended March 31, 2010, which had an unfavorable impact on revenues.

Favorable (Unfavorable) Impact of Foreign Currency Exchange Rate Fluctuations	Impact on Revenues March 31, 2011	Impact on Revenues March 31, 2010	Impact on (Loss) Income Before Income Taxes March 31, 2011	Impact on (Loss) Income Before Income Taxes March 31, 2010
	(Dollars in thousands)			
Three Months				
Canadian dollar	$ 2,440	$ 5,301	$ (74)	$ 843
British pound	687	1,935	36	(126)
Euro	23	92	150	(16)
Total	$ 3,150	$ 7,328	$ 112	$ 701
Nine Months				
Canadian dollar	$ 6,248	$ 6,707	$ 466	$ 1,071
British pound	(2,622)	(3,700)	(118)	(66)
Euro	(415)	122	174	(16)
Total	$ 3,211	$ 3,129	$ 522	$ 989

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Results of Operations by Segment

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

North American Salons

North American Salon Revenues. Total North American salon revenues for the three and nine months ended March 31, 2011 and 2010 were as follows:

Periods Ended March 31,	Revenues	Decrease Over Prior Fiscal Year Dollar	Decrease Over Prior Fiscal Year Percentage	Same-Store Sales Decrease
		(Dollars in thousands)		
Three Months				
2011	$ 509,839	$ (7,139)	(1.4)%	(2.6)%
2010	516,978	(16,577)	(3.1)	(1.8)
Nine Months				
2011	$ 1,518,221	$ (30,436)	(2.0)%	(1.9)%
2010	1,548,657	(26,245)	(1.7)	(3.5)

The percentage decreases during the three and nine months ended March 31, 2011 and 2010 were due to the following factors:

	For the Periods Ended March 31,			
	Three Months		Nine Months	
Percentage Increase (Decrease) in Revenues	**2011**	**2010**	**2011**	**2010**
Acquisitions (previous twelve months)	1.3%	0.6%	1.0%	1.0%
Organic	(1.9)	(4.2)	(2.0)	(2.6)
Foreign currency	0.5	1.0	0.4	0.4
Franchise revenues	0.0	(0.1)	(0.0)	(0.0)
Closed salons	(1.3)	(0.4)	(1.4)	(0.5)
	(1.4)%	(3.1)%	(2.0)%	(1.7)%

We acquired 98 North American salons during the twelve months ended March 31, 2011, including 72 franchise buybacks. The decline in organic was the result of same-store sales decreases of 2.6 and 1.9 percent for the three and nine months ended March 31, 2011, respectively. Contributing to the organic decline during the nine months ended March 31, 2011 was the completion of an agreement to supply the purchaser of Trade Secret product at cost. The Company generated revenues of $20.0 million for product sold to the purchaser of Trade Secret during the nine months ended March 31, 2010. The foreign currency impact during the three and nine months ended March 31, 2011 was driven by the weakening of the United States dollar against the Canadian dollar. We closed 226 company-owned salons during the twelve months ended March 31, 2011.

We acquired 22 North American salons during the twelve months ended March 31, 2010, including 19 franchise buybacks. The decline in organic was the result of same-store sales decrease of 1.8 and 3.5 percent for the three and nine months ended March 31, 2010, respectively. Contributing to the organic decline during the three months ended March 31, 2010 was the completion of an agreement to supply the purchaser of Trade Secret product at cost. During the three months ended March 31, 2009 the Company generated revenue of $12.6 million for product sold to the purchaser of Trade Secret. The foreign currency impact during the three and nine months ended March 31, 2010 was driven by the weakening of the United States dollar against the Canadian dollar as compared to the prior period s exchange rate.

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North American Salon Operating (Loss) Income. Operating (loss) income for the North American salons for the three and nine months ended March 31, 2011 and 2010 was as follows:

Periods Ended March 31,	Operating (Loss) Income	Operating (Loss) Income as % of Total Revenues	Decrease Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
			(Dollars in thousands)		
Three Months					
2011	$ (17,501)	(3.4)%	$ (49,731)	(154.3)%	(960)
2010	32,230	6.2	(33,148)	(50.7)	(610)
Nine Months					
2011	$ 98,332	6.5%	$ (57,324)	(36.8)%	(360)
2010	155,656	10.1	(39,726)	(20.3)	(230)

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

The basis point decrease in North American salon operating (loss) income as a percent of North American salon revenues for the three months ended March 31, 2011 was primarily due to the $74.1 million goodwill impairment of the Company s Promenade salon concept, an increase in payroll taxes as a result of states increasing unemployment tax rates, an unexpected increase in health insurance costs, and an increase in marketing expense within a portion of the Company s Promenade salons.

The basis point decrease in North American salon operating (loss) income as a percent of North American salon revenues for the nine months ended March 31, 2011 was primarily due to the $74.1 million goodwill impairment of the Company s Promenade salon concept, and a planned increase in advertising expenditures for the Promenade and Regis salon concepts. Also contributing to the decrease was an unfavorable adjustment in self-insurance accruals compared to a favorable adjustment in the comparable prior period. Partially offsetting the basis point decrease was improvement in retail product margins as a result of a reduction in commissions paid to new employees on retail product sales.

The basis point decrease in North American salon operating income as a percent of North American salon revenues for the three months ended March 31, 2010 was primarily due to the $35.3 million goodwill impairment of the Company s Regis salon concept and negative leverage in fixed cost categories due to negative same-store sales. The negative leverage for the three months ended March 31, 2010 was partially offset by the Company s costs savings initiatives and gross margin improvement.

The basis point decrease in North American salon operating income as a percent of North American salon revenues for the nine months ended March 31, 2010 was primarily due to the $35.3 million goodwill impairment of the Company s Regis salon concept and negative leverage in fixed cost categories due to negative same-store sales. In addition, the basis point decrease was due to the settlement of two legal claims regarding customer and employee matters totaling $3.6 million, higher self-insurance expense (the Company recorded a reduction in self-insurance accruals of $1.9 million in the nine months ended March 31, 2010 compared to a $6.7 million reduction in the nine months ended March 31, 2009), partially offset by the Company s costs savings initiatives and gross margin improvement.

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International Salons

International Salon Revenues. Total international salon revenues for the three and nine months ended March 31, 2011 and 2010 were as follows:

Periods Ended March 31,	Revenues	Increase (Decrease) Over Prior Fiscal Year Dollar	Increase (Decrease) Over Prior Fiscal Year Percentage	Same-Store Sales Decrease
		(Dollars in thousands)		
Three Months				
2011	$ 35,535	$ 77	0.2%	(2.0)%
2010	35,458	(420)	(1.2)	(4.8)
Nine Months				
2011	$ 107,670	$ (6,933)	(6.0)%	(2.2)%
2010	114,603	(10,991)	(8.8)	(3.7)

The percentage increase (decreases) during the three and nine months ended March 31, 2011 and 2010 were due to the following factors:

Percentage Increase (Decrease) in Revenues	For the Periods Ended March 31, Three Months 2011	Three Months 2010	Nine Months 2011	Nine Months 2010
Acquisitions (previous twelve months)	%	%	%	%
Organic	1.0	1.8	1.1	1.3
Foreign currency	2.0	5.6	(2.6)	(2.9)
Closed salons	(2.8)	(8.6)	(4.5)	(7.2)
	0.2%	(1.2)%	(6.0)%	(8.8)%

We did not acquire any international salons during the twelve months ended March 31, 2011. The increase in organic during the three and nine months ended March 31, 2011 was primarily due to increased revenue resulting from rebranding of certain salons that had previously been operating under a different salon concept, partially offset by same-store sales decreases of 2.0 and 2.2 percent for the three and nine months ended March 31, 2011, respectively. The foreign currency impact during the three months ended March 31, 2011 was driven by the weakening of the United States dollar against the British pound as compared to the comparable prior period. The foreign currency impact during the nine months ended March 31, 2011 was primarily driven by the strengthening of the United States dollar against the British pound and Euro as compared to the comparable prior period. We closed 22 company-owned international salons during the twelve months ended March 31, 2011.

We did not acquire any international salons during the twelve months ended March 31, 2010. The increase in organic was primarily due to increased revenue resulting from rebranding of certain salons that had previously been operating under a different salon concept, partially offset by same-store sales decreases of 4.8 and 3.7 percent during the three and nine months ended March 31, 2010. The foreign currency impact during the three months ended March 31, 2010 was driven by the weakening of the United States dollar against the British pound and the Euro as compared to the comparable prior period. The foreign currency impact during the nine months ended March 31, 2010 was primarily driven by the strengthening of the United States dollar against the British pound as compared to the comparable prior period. We closed 28 company-owned salons during the twelve months ended March 31, 2010.

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International Salon Operating Income. Operating income for the international salons for the three and nine months ended March 31, 2011 and 2010 was as follows:

Periods Ended March 31,	Operating Income	Operating Income as % of Total Revenues	Increase Over Prior Fiscal Year		
			Dollar	Percentage	Basis Point(1)
			(Dollars in thousands)		
Three Months					
2011	$ 2,263	6.4%	$ 175	8.4%	50
2010	2,088	5.9	1,200	135.1	340
Nine Months					
2011	$ 6,030	5.6%	$ 3,160	110.1%	310
2010	2,870	2.5	42,875	107.2	3,440

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

The basis point improvement in international salon operating income as a percent of international salon revenues during the three months ended March 31, 2011 was primarily due to an improvement in service margins from strong payroll management and the closure of underperforming salons. Partially offsetting the basis point improvement was a decline in product margins from sales mix, as a larger than expected percentage of our product sales came from lower-margin products.

The basis point improvement in international salon operating income as a percent of international salons revenues during the nine months ended March 31, 2011 was primarily due to $3.6 million of lease termination costs recognized during the nine months ended March 31, 2010 associated with the Company s planned closure of underperforming salons. Partially offsetting the basis point improvement was a decline in product margins from mix play, as a larger than expected percentage of our product sales came from lower-margin products.

The basis point improvement in international salon operating income as a percent of international salon revenues during the three and nine months ended March 31, 2010 was primarily due to the Company s planned closure of underperforming United Kingdom salons and the continuation of the Company s expense control and payroll management.

The basis point improvement in international salon operating income as a percent of international salon revenues during the nine months ended March 31, 2010 was primarily due to the goodwill impairment of the United Kingdom division recorded in the comparable prior period.

Hair Restoration Centers

Hair Restoration Revenues. Total hair restoration revenues for the three and nine months ended March 31, 2011 and 2010 were as follows:

Periods Ended March 31,	Revenues	Increase Over Prior Fiscal Year Dollar	Increase Over Prior Fiscal Year Percentage	Same-Store Sales Increase (Decrease)
	(Dollars in thousands)			
Three Months				
2011	$ 35,893	$ 758	2.2%	1.3%
2010	35,135	482	1.4	1.4
Nine Months				
2011	$ 107,993	$ 2,767	2.6%	1.2%
2010	105,226	681	0.7	(0.1)

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The percentage increases during the three and nine months ended March 31, 2011 and 2010, were due to the following factors:

	For the Periods Ended March 31,			
	Three Months		Nine Months	
Percentage Increase (Decrease) in Revenues	**2011**	**2010**	**2011**	**2010**
Acquisitions (previous twelve months)	1.3%	%	0.7%	0.2%
Organic	0.1	2.3	1.1	1.0
Franchise revenues	0.8	(0.9)	0.8	(0.5)
	2.2%	1.4%	2.6%	0.7%

Hair restoration revenues increased during the three and nine month periods ended March 31, 2011 due to the acquisition of four hair restoration centers through franchise buybacks and one new corporate location constructed during the twelve months ended March 31, 2011. The organic increase was due to same-store sales increases of 1.3 and 1.2 percent for the three and nine months ended March 31, 2011, respectively.

We did not acquire any hair restoration centers through franchise buybacks during the twelve months ended March 31, 2010. Organic increased due to same-store sales increases of 1.4 percent during the three months ended March 31, 2010. Organic increased during the nine months ended March 31, 2010 due to one new corporate location partially offset by a same-store sales decrease of 0.1 percent.

Hair Restoration Operating Income. Operating income for our hair restoration centers for the three and nine months ended March 31, 2011 and 2010 was as follows:

Periods Ended March 31,	Operating Income	Operating Income as % of Total Revenues	Decrease Over Prior Fiscal Year Dollar	Decrease Over Prior Fiscal Year Percentage	Decrease Over Prior Fiscal Year Basis Point(1)
			(Dollars in thousands)		
Three Months					
2011	$ 2,757	7.7%	$ (1,074)	(28.0)%	(320)
2010	3,831	10.9	(934)	(19.6)	(290)
Nine Months					
2011	$ 14,094	13.1%	$ (496)	(3.4)%	(80)
2010	14,590	13.9	(2,446)	(14.4)	(240)

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

The basis point decrease in hair restoration operating income as a percent of hair restoration revenues during the three and nine months ended March 31, 2011 is primarily due to an increase in the cost of hair systems and health insurance expense. Partially offsetting the basis point decrease during the nine months ended March 31, 2011 was a benefit related to a favorable ruling on a state sales tax issue.

The basis point decrease in hair restoration operating income as a percent of hair restoration revenues during the three months ended March 31, 2010 is primarily due to the settlement of a vendor dispute totaling $0.6 million during the three months ended March 31, 2010.

The basis point decrease in hair restoration operating income as a percent of hair restoration revenues during the nine months ended March 31, 2010 is primarily due to an increase in advertising spend and the settlement of a vendor dispute totaling $0.6 million.

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LIQUIDITY AND CAPITAL RESOURCES

Overview

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

Periods Ended	Debt to Capitalization	Basis Point Decrease (1)
March 31, 2011	27.8%	(250)
June 30, 2010	30.3	(1,380)

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

The improvement in the debt to capitalization ratio as of March 31, 2011 compared to June 30, 2010 was primarily due to decreased debt levels stemming from the repayment of private placement debt and the impact of foreign currency translation during the nine months ended March 31, 2011.

The basis point decrease in the debt to capitalization ratio during the twelve months ended June 30, 2010 was primarily due to the July 2009 common stock offering and decreased debt levels stemming from the repayment of private placement debt during fiscal year 2010. Our principal on-going cash requirements are to finance construction of new stores, remodel certain existing stores, acquire salons and purchase inventory. Customers pay for salon services and merchandise in cash at the time of sale, which reduces our working capital requirements.

Total assets at March 31, 2011 and June 30, 2010 were as follows:

	March 31, 2011	June 30, 2010	$ Decrease Over Prior Period (1)	% Decrease Over Prior Period (1)
		(Dollars in thousands)		
Total Assets	$ 1,917,957	$ 1,919,572	$ (1,615)	(0.1)%

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

During the nine months ended March 31, 2011, total assets decreased as a result of the $74.1 million goodwill impairment charge related to the Promenade salon concept, a $9.0 million valuation reserve on the note receivable with the purchaser of Trade Secret, and an $8.7 million other than temporary impairment on our investment in MY Style, partially offset by cash flows from operations.

Total shareholders equity at March 31, 2011 and June 30, 2010 was as follows:

	March 31, 2011	June 30, 2010	$ Increase Over Prior Period (1)	% Increase Over Prior Period (1)
		(Dollars in thousands)		
Shareholders Equity	$ 1,049,421	$ 1,013,293	$ 36,128	3.6%

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

During the nine months ended March 31, 2011, equity increased primarily as a result of foreign currency translation.

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Cash Flows

The cash flow presentation below for the nine months ended March 31, 2011 and 2010 includes continuing and discontinued operations.

Operating Activities

Net cash provided by operating activities was $161.3 and $151.1 million during the nine months ended March 31, 2011 and 2010, respectively, and was the result of the following:

Operating Cash Flows	For the Nine Months Ended March 31, 2011	2010
	(Dollars in thousands)	
Net income	$ 7,490	$ 24,401
Depreciation and amortization	79,167	81,253
Equity in income of affiliated companies	(4,286)	(8,394)
Dividends received from affiliated companies	6,051	1,569
Deferred income taxes	(15,283)	574
Impairment on discontinued operations		(154)
Goodwill impairment	74,100	35,277
Receivables	(2,429)	(51)
Inventories	(6,919)	5,628
Income tax receivable	(8,070)	541
Other current assets	5,081	4,872
Other assets	1,545	(14,699)
Accounts payable and accrued expenses	4,024	5,894
Other non-current liabilities	6,975	3,761
Other	13,848	10,614
	$ 161,294	$ 151,086

During the nine months ended March 31, 2011, cash provided by operating activities was higher than the corresponding period of the prior fiscal year due to the receipt of a $4.1 million dividend from EEG, the prior year including $12.8 million in make-whole payments and $5.2 million in interest rate swap settlements and other fees associated with the prepayment of private placement debt, partially offset by a decline in cash flows as a result of negative same-store sales of 2.4 percent and inventory build in the current period.

Investing Activities

Net cash used in investing activities was $121.6 and $22.6 million during the nine months ended March 31, 2011 and 2010, respectively, and was the result of the following:

Investing Cash Flows	**For the Nine Months Ended March 31,**	
	2011	**2010**
	(Dollars in thousands)	
Capital expenditures for remodels or other additions	$ (29,575)	$ (23,724)
Capital expenditures for the corporate office (including all technology-related expenditures)	(11,477)	(7,378)
Capital expenditures for new salon construction	(7,565)	(5,666)
Proceeds from sale of assets	608	47
Business and salon acquisitions	(16,296)	(2,702)
Proceeds from loans and investments	15,000	16,099
Disbursements for loans and investments	(72,301)	
Freestanding derivative settlement		736
	$ (121,606)	$ (22,588)

During the nine months ended March 31, 2011, cash used in investing activities was greater than the corresponding period of the prior fiscal year due to the acquisition of approximately 17 percent additional equity interest in Provalliance for approximately $57 million (approximately 40 million), an increase in salon acquisition and capital expenditures, and a disbursement of $15.0 million on the revolving credit facility with EEG.

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

	For the Nine Months Ended March 31, 2011		For the Nine Months Ended March 31, 2010	
	Constructed	Acquired	Constructed	Acquired
Regis Salons	8	9	9	3
MasterCuts	5		13	
SmartStyle	55		73	
Supercuts	12		9	
Promenade	19	17	15	
International	11			
	110	26	119	3

Financing Activities

Net cash used in financing activities was $52.8 and $7.2 million during the nine months ended March 31, 2011 and 2010, respectively, was the result of the following:

Financing Cash Flows	For the Nine Months Ended March 31, 2011	2010
	(Dollars in thousands)	
Net payments on revolving credit facilities	$	$ (5,000)
Repayments of long-term debt and capital lease obligations	(45,529)	(316,597)
Proceeds from the issuance of long-term debt, net of underwriting discount		167,325
Proceeds from the issuance of common stock, net of underwriting discount	689	156,843
Excess tax benefits from stock-based compensation plans	67	
Dividend paid	(8,057)	(6,854)
Other		(2,878)
	$ (52,830)	$ (7,161)

During the nine months ended March 31, 2011, cash was used in financing activities for the repayments on long-term debt and an increase in dividends paid. During the nine months ended March 31, 2010, cash was used in financing activities due to the $167.3 and $156.8 million of net proceeds from the issuance of convertible debt and common stock, respectively, which were less than the repayments on the revolving credit facilities and long-term debt.

Acquisitions

The acquisitions during the nine months ended March 31, 2011 consisted of 72 franchise buybacks and 26 acquired corporate salons. The acquisitions during the nine months ended March 31, 2010 consisted of 19 franchise buybacks and three acquired corporate salons. The acquisitions were funded primarily from operating cash flow and debt.

During the three months ended March 31, 2011, we acquired approximately 17 percent additional equity interest in Provalliance for approximately $57 million (approximately 40 million).

Contractual Obligations and Commercial Commitments

As a part of our salon development program, we continue to negotiate and enter into leases and commitments for the acquisition of equipment and leasehold improvements related to future salon locations, and continue to enter into transactions to acquire established hair care salons and businesses.

Financing

Financing activities are discussed above and derivative activities are discussed in Item 3, Quantitative and Qualitative Disclosures about Market Risk. There were no other significant financing activities during the three and nine months ended March 31, 2011.

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

We are in compliance with all covenants and other requirements of our financing arrangements as of March 31, 2011.

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Dividends

We paid dividends of $0.14 and $0.12 per share during the nine months ended March 31, 2011 and 2010, respectively. On April 27, 2011, our Board of Directors declared a $0.06 per share quarterly dividend payable May 11, 2011 to shareholders of record on May 25, 2011.

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

This Quarterly Report on Form 10-Q, as well as information included in, or incorporated by reference from, future filings by the Company with the Securities and Exchange Commission and information contained in written material, press releases and oral statements issued by or on behalf of the Company contains or may contain forward-looking statements within the meaning of the federal securities laws, including statements concerning anticipated future events and expectations that are not historical facts. The forward-looking statements in this document reflect management s best judgment at the time they are made, but all such statements are subject to numerous risks and uncertainties, which could cause actual results to differ materially from those expressed in or implied by the statements herein. Such forward-looking statements are often identified herein by use of words including, but not limited to, may, believe, project, forecast, expect, estimate, anticipate, and plan. the following factors could affect the Company s actual results and cause such results to differ materially from those expressed in forward-looking statements. These factors include, competition within the personal hair care industry, which remains strong, both domestically and internationally, price sensitivity; changes in economic conditions; changes in consumer tastes and fashion trends; the ability of the Company to implement its planned spending and cost reduction plan and to continue to maintain compliance with financial covenants in its credit agreements; labor and benefit costs; legal claims; risk inherent to international development (including currency fluctuations); the continued ability of the Company and its franchisees to obtain suitable locations and financing for new salon development and to maintain satisfactory relationships with landlords and other licensors with respect to existing locations; governmental initiatives such as minimum wage rates, taxes and possible franchise legislation; the ability of the Company to successfully identify, acquire and integrate salons that support its growth objectives; the ability of the Company to maintain satisfactory relationships with suppliers; or other factors not listed above. The ability of the Company to meet its expected revenue target is dependent on salon acquisitions, new salon construction and same-store sales increases, all of which are affected by many of the aforementioned risks. Additional information concerning potential factors that could affect future financial results is set forth in the Company s Annual Report on Form 10-K for the year ended June 30, 2010. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

The Company has established an interest rate management policy that attempts to minimize its overall cost of debt, while taking into consideration the earnings implications associated with the volatility of short-term interest rates. As part of this policy, the Company has elected to maintain a combination of variable and fixed rate debt. Considering the effect of interest rate swaps at March 31, 2011 and June 30, 2010, respectively, the Company had the following outstanding debt balances:

	March 31, 2011	June 30, 2010
	(Dollars in thousands)	
Fixed rate debt	$ 359,291	$ 395,029
Floating rate debt	45,000	45,000
	$ 404,291	$ 440,029

The Company manages its interest rate risk by continually assessing the amount of fixed and variable rate debt. On occasion, the Company uses interest rate swaps to further mitigate the risk associated with changing interest rates and to maintain its desired

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balances of fixed and floating rate debt. As of March 31, 2011, the variable rate debt represented approximately 11.0 percent of the total debt portfolio. The Company is currently assessing the amount of fixed and variable rate debt.

For additional information, including a tabular presentation of the Company s debt obligations and derivative financial instruments, refer to Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in the Company s June 30, 2010 Annual Report on Form 10-K. Other than the information included above, there have been no material changes to the Company s market risk and hedging activities during the three and nine months ended March 31, 2011.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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

With the participation of management, the Company s president and chief financial officer evaluated the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rules 13a-5(e) and 15d-15(e) promulgated under the Exchange Act) at the conclusion of the period ended March 31, 2011. Based upon this evaluation, the president and chief financial officer concluded that the Company s disclosure controls and procedures were effective.

Changes in Internal Controls

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

PART II OTHER INFORMATION

Item 1. Legal Proceedings

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

During fiscal year 2010, the Company settled two legal claims regarding certain customer and employee matters for an aggregate charge of $5.2 million plus a commitment to provide discount coupons. During the three months ended March 31, 2011, final payments aggregating $4.3 million were made.

Item 1A. Risk Factors

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

Changes to the United States, Canadian, United Kingdom, Asian and other European economies have an impact on our business. General economic factors that are beyond our control, such as interest rates, recession, inflation, deflation, tax rates and policy, energy costs, unemployment trends, and other matters that influence consumer confidence and spending, may impact our business. In particular, visitation patterns to our salons and hair restoration centers can be adversely impacted by increases in unemployment rates and decreases in discretionary income levels.

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If we continue to have negative same-store sales our business and results of operations may be affected.

Our success depends, in part, upon our ability to improve sales, as well as both gross margins and operating margins. Comparable same-store sales are affected by average ticket and same-store customer visits. A variety of factors affect same-store customer visits, including fashion trends, competition, current economic conditions, changes in our product assortment, the success of marketing programs and weather conditions. These factors may cause our comparable same-store sales results to differ materially from prior periods and from our expectations. Our comparable same-store sales results for the three and nine months ended March 31, 2011 declined 2.3 and 1.7 percent, respectively, compared to the three and nine months ended March 31, 2010. We impaired $74.1 million of goodwill associated with our Promenade salon concept during fiscal year 2011. We impaired $35.3 million of goodwill associated with our Regis salon concept during fiscal year 2010. We also impaired $41.7 million of goodwill associated with our salon concepts in the United Kingdom and $25.7 million of our investment in Provalliance during fiscal year 2009. If negative same-store sales continue and we are unable to offset the impact with operational savings, our financial results may be further affected. We may be required to take additional impairment charges and to impair certain long-lived assets, goodwill and investments, and such impairments could be material to our consolidated balance sheet and results of operations. The concepts that have the highest likelihood of impairment are Promenade, Hair Restoration Centers and Regis.

If we are unable to improve our comparable same-store sales on a long-term basis or offset the impact with operational savings, our financial results may be affected. Furthermore, continued declines in same-store sales performance may cause us to be in default of certain covenants in our financing arrangements.

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

We maintain key relationships with certain companies, including Walmart. Termination or modification of any of these relationships, including Walmart, could significantly reduce our revenues and have a material and adverse impact on our business, our operating results and our ability to grow.

Changes in fashion trends may impact our revenue.

Changes in consumer tastes and fashion trends can have an impact on our financial performance. For example, trends in wearing longer hair may reduce the number of visits to, and therefore, sales at our salons.

Changes in regulatory and statutory laws may result in increased costs to our business.

With approximately 12,700 locations and 55,000 employees worldwide, our financial results can be adversely impacted by regulatory or statutory changes in laws. Due to the number of people we employ, laws that increase minimum wage rates or increase costs to provide employee benefits may result in additional costs to our company. Compliance with new, complex and changing laws may cause our expenses to increase. In addition, any non-compliance with these laws could result in fines, product recalls and enforcement actions or otherwise restrict our ability to market certain products, which could adversely affect our business, financial condition and results of operations. We are also subject to

laws that affect the franchisor-franchisee relationship.

If we are not able to successfully compete in our business segments, our financial results may be affected.

Competition on a market by market basis remains strong. Therefore, our ability to raise prices in certain markets can be adversely impacted by this competition. If we are not able to raise prices, our ability to grow same-store sales and increase our revenue and earnings may be impaired.

If our joint ventures are unsuccessful our financial results may be affected.

We have entered into joint venture arrangements with other companies in the hair salon and beauty school businesses in order to maintain and expand our operations in the United States, Asia and continental Europe. If our joint venture partners are unwilling or unable to devote their financial resources or marketing and operational capabilities to our joint venture businesses, or if any of our joint ventures are terminated, we may not be able to realize anticipated revenues and profits in the countries where our joint ventures operate and our business could be materially adversely affected. If our joint venture arrangements are not successful, we may have a limited ability to terminate or modify these arrangements. If any of our joint ventures are terminated, there can be no assurance that we will be able to attract new joint venture partners to continue the activities of the terminated joint venture or to operate independently in the countries in which the terminated joint venture conducted business.

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

We have outstanding accounts and notes receivable subject to collectability. If the counterparties are unable to repay the amounts due or if payment becomes unlikely our results of operations would be adversely affected. For example, as of March 31, 2011, $22.5 million, net, was due to the Company from the purchaser of Trade Secret. On July 6, 2010, the purchaser of Trade Secret filed for Chapter 11 bankruptcy and subsequently emerged from bankruptcy in October 2010. During the three months ended March 31, 2011 the Company recorded a $9.0 million valuation reserve for the excess of the carrying value of the note receivable over the present value of expected future cash flows. There is a risk the Company may need to record additional reserves in future quarters.

Changes in manufacturers choice of distribution channels may negatively affect our revenues.

The retail products that we sell are licensed to be carried exclusively by professional salons. The products we purchase for sale in our salons are purchased pursuant to purchase orders, as opposed to long-term contracts and generally can be terminated by the producer without much advance notice. Should the various product manufacturers decide to utilize other distribution channels, such as large discount retailers, it could negatively impact the revenue earned from product sales.

Changes to interest rates and foreign currency exchange rates may impact our results from operations.

Changes in interest rates will have an impact on our expected results from operations. Currently, we manage the risk related to fluctuations in interest rates through the use of variable rate debt instruments and other financial instruments.

If we fail to protect the security of personal information about our customers, we could be subject to costly government enforcement actions or private litigation and our reputation could suffer.

The nature of our business involves processing, transmission and storage of personal information about our customers. If we experience a data security breach, we could be exposed to government enforcement actions and private litigation. In addition, our customers could lose confidence in our ability to protect their personal information, which could cause them to stop visiting our salons altogether. Such events could lead to lost future sales and adversely affect our results of operations.

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

In July 2009, we issued $172.5 million aggregate principal amount of our 5.0 percent convertible senior notes due 2014 in a public offering. Certain terms of the notes we issued may adversely affect our financial condition and operating results or impose other risks, such as the

following:

- Holders of notes may convert their notes into shares of our common stock, which may dilute the ownership interest of our shareholders,

- If we elect to settle all or a portion of the conversion obligation exercised by holders of the notes through the payment of cash, it could adversely affect our liquidity,

- Holders of notes may require us to purchase their notes upon certain fundamental changes, and any failure by us to purchase the notes in such event would result in an event of default with respect to the notes,

- The fundamental change provisions contained in the notes may delay or prevent a takeover attempt of the Company that might otherwise be beneficial to our investors,

- Recent changes in the accounting method for convertible debt securities that may be settled in cash require us to include both the current period s amortization of the debt discount and the instrument s coupon interest as interest expense, which will decrease our financial results,

- Our ability to pay principal and interest on the notes depends on our future operating performance and any failure by us to make scheduled payments could allow the note holders to declare all outstanding principal and interest to be due and payable, result in termination of other debt commitments and foreclosure proceedings by other lenders, or force us into bankruptcy or liquidation, and

- The debt obligations represented by the notes may limit our ability to obtain additional financing, require us to dedicate a substantial portion of our cash flow from operations to pay our debt, limit our ability to adjust rapidly to changing market conditions and increase our vulnerability to downtowns in general economic conditions in our business.

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

The Company did not repurchase any of its common stock through its share repurchase program during the three months ended March 31, 2011.

Item 4. Reserved

Item 6. Exhibits

Exhibit 10(a)(*)	Employment Agreement, as Amended and Restated effective March 1, 2011, between the Company and Paul D. Finkelstein.
Exhibit 15	Letter Re: Unaudited Interim Financial Information.
Exhibit 31.1	Chairman of the Board of Directors, President of Regis Corporation: Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Senior Vice President and Chief Financial Officer of Regis Corporation: Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1	Chairman of the Board of Directors, President of Regis Corporation: Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.2	Senior Vice President and Chief Financial Officer of Regis Corporation: Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 101.INS (**)	XBRL Instance Document
Exhibit 101.SCH (**)	XBRL Taxonomy Extension Schema
Exhibit 101.CAL (**)	XBRL Taxonomy Extension Calculation Linkbase
Exhibit 101.LAB (**)	XBRL Taxonomy Extension Label Linkbase
Exhibit 101.PRE (**)	XBRL Taxonomy Extension Presentation Linkbase
Exhibit 101.DEF (**)	XBRL Taxonomy Extension Definition Linkbase

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(*) Management contract, compensatory plan or arrangement required to be filed as an exhibit to the Company s Report on Form 10-Q.

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

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SIGNATURES

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

REGIS CORPORATION

Date: May 10, 2011	By:	/s/ Brent A. Moen Brent A. Moen Senior Vice President and Chief Financial Officer Signing on behalf of the registrant and as principal accounting officer