

REGIS CORP  
Form 10-Q  
February 09, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended December 31, 2010

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-12725

# Regis Corporation

(Exact name of registrant as specified in its charter)

**Minnesota**

(State or other jurisdiction of  
incorporation or organization)

**41-0749934**

(I.R.S. Employer  
Identification No.)

**7201 Metro Boulevard, Edina, Minnesota**

(Address of principal executive offices)

**55439**

(Zip Code)

**(952) 947-7777**

(Registrant's telephone number, including area code)

**N/A**

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of February 3, 2011:

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**Common Stock, \$.05 par value**  
Class

**57,617,211**  
Number of Shares

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

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

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

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

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

Table of Contents**REGIS CORPORATION****CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)****For The Three Months Ended December 31, 2010 and 2009****(In thousands, except per share data)**

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

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



Table of Contents**REGIS CORPORATION****CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)****For The Six Months Ended December 31, 2010 and 2009****(In thousands, except per share data)**

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

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Weighted average common and common equivalent shares outstanding:

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

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

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

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

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

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

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

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**REGIS CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

The unaudited interim Condensed Consolidated Financial Statements of Regis Corporation (the Company) as of December 31, 2010 and for the three and six months ended December 31, 2010 and 2009, reflect, in the opinion of management, all adjustments necessary to fairly state the consolidated financial position of the Company as of December 31, 2010 and the consolidated results of its operations and its cash flows for the interim periods. Adjustments consist only of normal recurring items, except for any discussed in the notes below. The results of operations and cash flows for any interim period are not necessarily indicative of results of operations and cash flows for the full year.

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

The unaudited condensed consolidated financial statements of the Company as of December 31, 2010 and for the three and six month periods ended December 31, 2010 and 2009 included in this Form 10-Q have been reviewed by PricewaterhouseCoopers LLP, an independent registered public accounting firm. Their separate report dated February 9, 2011 appearing herein, states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their report on the unaudited financial information because that report is not a report or a part of the registration statement prepared or certified by PricewaterhouseCoopers LLP within the meaning of Sections 7 and 11 of the Act.

**Stock-Based Employee Compensation:**

Stock-based awards are granted under the terms of the 2004 Long Term Incentive Plan (2004 Plan). Additionally, the Company has outstanding stock options under its 1991 Stock Option Plan (1991 Plan) and 2000 Stock Option Plan (2000 Plan), although the Plans terminated in 2001 and 2010, respectively. On October 28, 2010 our stockholders approved an amendment to the 2004 Plan to increase the maximum number of shares of the Company's common stock authorized for issuance from 2,500,000 to 6,750,000. Under these plans, four types of stock-based compensation awards are granted: stock options, equity-based stock appreciation rights (SARs), restricted stock awards (RSAs) and restricted stock units (RSUs). The stock-based awards, other than the RSUs, expire within ten years from the grant date. The RSUs cliff vest after five years, and payment of the RSUs is deferred until January 31 of the year following vesting. Unvested awards are subject to forfeiture in the event of termination of employment. The Company utilizes an option-pricing model to estimate the fair value of options and SARs at their grant date. Stock options and SARs are granted at not less than fair market value on the date of grant. The Company's primary employee stock-based compensation grant occurs during the fourth fiscal quarter. The Company generally recognizes compensation expense for its stock-based compensation awards on a straight-line basis over a five-year vesting period. Awards granted do not contain acceleration of vesting terms for

retirement eligible recipients.

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

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

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

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

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

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

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

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

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

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

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

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

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

**Goodwill:**

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

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

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

As a result of the Company's annual impairment analysis of goodwill during the third quarter of fiscal year 2010, a \$35.3 million impairment charge was recorded within continuing operations for the excess of the carrying value of goodwill over the implied fair value of goodwill for the Regis salon concept. The estimated fair value of the Promenade salon concept exceeded its respective carrying value by approximately 10.0 percent. The respective fair values of the Company's remaining reporting units exceeded fair value by greater than 20.0 percent. While the Company has determined the estimated fair value of Promenade to be appropriate based on the historical level of revenue growth, operating income and cash flows, it is reasonably likely that Promenade may become impaired in future periods. The term "reasonably likely" refers to an occurrence that is more than remote but less than probable in the judgment of the Company. Because some of the factors that influence the inherent assumptions and estimates used in determining the fair value of the reportable segment are outside the control of management, changes in these underlying assumptions can adversely impact fair value. Potential impairment of a portion or all of the carrying value of the Promenade salon concept goodwill is dependent on many factors and cannot be predicted with certainty.

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As of December 31, 2010, the Company's estimated fair value, as determined by the sum of our reporting units' fair value, reconciled to within a reasonable range of our market capitalization which included an assumed control premium. The Company concluded there were no triggering events requiring the Company to perform an interim goodwill impairment test between the annual impairment testing and December 31, 2010.

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

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

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

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

*Disclosures about Fair Value of Financial Instruments*

In January 2010, the FASB issued guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires new disclosures on the transfers of assets and liabilities between Level 1 (quoted prices in active market for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a roll forward of activities on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements).

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

### *Multiple-Deliverable Revenue Arrangements*

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

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

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

**2. DISCONTINUED OPERATIONS:**

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

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

Beginning within the second quarter of fiscal year 2010, the Company has an agreement in which the Company provides warehouse services to the purchaser of Trade Secret. Under the warehouse services agreement, the Company recognized \$0.7 and \$1.1 million of other income related to warehouse services during the three months ended December 31, 2010 and 2009, respectively. During the six months ended December 31, 2010 and 2009, the Company recognized \$1.4 and \$1.1 million, respectively, of other income related to warehouse services.

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

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

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

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

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

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

The Company utilized the consolidation of variable interest entities guidance to determine whether or not Trade Secret was a VIE, and if so, whether the Company was the primary beneficiary of Trade Secret. The Company concluded that Trade Secret is a VIE based on the fact that the equity investment at risk in Trade Secret is insufficient. The Company determined that it is not the primary beneficiary of Trade Secret based on its exposure to the expected losses of Trade Secret and as it is not the variable interest holder that is most closely associated with the relationship and the significance of the activities of Trade Secret. The exposure to loss related to the Company's involvement with Trade Secret is the carrying value of the amount due from the purchaser of Trade Secret and the guarantee of less than 30 operating leases. The Company has determined the exposure to the risk of loss on the guarantee of the operating leases to be remote.

The income from discontinued operations is summarized below:

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

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

### 3. SHAREHOLDERS EQUITY:

#### Net Income Per Share:

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

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

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

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

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

(1) Shares were not vested

(2) Shares were anti-dilutive

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

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

**Additional Paid-In Capital:**

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

(Dollars in thousands)

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

Table of Contents**Comprehensive Income:**

Components of comprehensive income for the Company include net income, changes in fair market value of financial instruments designated as hedges of interest rate or foreign currency exposure and foreign currency translation charged or credited to the cumulative translation account within shareholders' equity. Comprehensive income for the three and six months ended December 31, 2010 and 2009 was as follows:

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

**4. FAIR VALUE MEASUREMENTS:**

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

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

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

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

- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by other observable market data.

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

Table of Contents*Assets and Liabilities that are Measured at Fair Value on a Recurring Basis*

The fair value hierarchy requires the use of observable market data when available. In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability. The following tables sets forth by level within the fair value hierarchy, the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis at December 31, 2010 and June 30, 2010, according to the valuation techniques the Company used to determine their fair values.

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

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

Table of Contents*Changes in Financial Instruments Measured at Level 3 Fair Value on a Recurring Basis*

The following tables present the changes during the three and six months ended December 31, 2010 and 2009 in our Level 3 financial instruments that are measured at fair value on a recurring basis.

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

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

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

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

*Equity put option.* The Company's merger of the European franchise salon operations with the operations of the Franck Provost Salon Group on January 31, 2008 contained an equity put and an equity call. In December 2010, a portion of the Equity Put was exercised. See further discussion within Note 6 to the Condensed Consolidated Financial Statements. The equity put option is valued using binomial lattice models that incorporate assumptions including the business enterprise value at that date and future estimates of volatility and earnings before interest, taxes,

and depreciation and amortization multiples.

*Preferred Shares.* The Company has preferred shares in Yamano Holding Corporation. See further discussion within Note 6 to the Condensed Consolidated Financial Statements. The preferred shares are classified as Level 3 as there are no quoted market prices and minimal market participant data for preferred shares of similar rating. The preferred shares are classified within investment in and loans to affiliates on the Condensed Consolidated Balance Sheet. The fair value of the preferred shares is based on the financial health of Yamano Holding Corporation and terms within the preferred share agreement which allow the Company to convert the subscription amount of the preferred shares into equity of MY Style, a wholly owned subsidiary of Yamano Holding Corporation. As of December 31, 2010, the subscription value of the preferred shares of 311,131,284 Yen (\$3.8 million) represents the fair value of the preferred shares.

*Financial Instruments.* In addition to the financial instruments listed above, the Company's financial instruments also include cash, cash equivalents, receivables, accounts payable and debt.

The fair value of cash and cash equivalents, receivables and accounts payable approximated the carrying values as of December 31, 2010. At December 31, 2010, the estimated fair values and carrying amounts of debt were \$425.2 and \$404.1 million, respectively. The estimated fair value of debt was determined based on internal valuation models, which utilize quoted market prices and interest rates for the same or similar instruments.

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

There were no assets measured at fair value on a nonrecurring basis during the three and six months ended December 31, 2010 and 2009.

## 5. GOODWILL AND OTHER INTANGIBLES:

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

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

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

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

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

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

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

	Weighted Average Amortization Period (In years)	
	December 31, 2010	June 30, 2010
Amortized intangible assets:		
Brand assets and trade names	39	39
Customer lists	10	10
Franchise agreements	22	22
Lease intangibles	20	20
Non-compete agreements	5	5
Other	22	18
Total	26	26

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

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

## 6. ACQUISITIONS, INVESTMENT IN AND LOANS TO AFFILIATES:

### *Acquisitions*

During the six months ended December 31, 2010 and 2009, the Company made salon and hair restoration center acquisitions and the purchase prices have been allocated to assets acquired and liabilities assumed based on their estimated fair values at the dates of acquisition. Operations of the acquired companies have been included in the operations of the Company since the date of the respective acquisition.

Based upon purchase price allocations, the components of the aggregate purchase prices of the acquisitions made during the six months ended December 31, 2010 and 2009 and the allocation of the purchase prices were as follows:

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

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

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personal relationships with individual stylists, service quality and price point competitiveness. These attributes represent the going concern value of the salon.

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

During the six months ended December 31, 2010 and 2009, certain of the Company's salon acquisitions were from its franchisees. The Company evaluated the effective settlement of the pre-existing franchise contracts and associated rights afforded by those contracts. The Company determined that the effective settlement of the pre-existing franchise contracts at the date of the acquisition did not result in a gain or loss, as the agreements were neither favorable nor unfavorable when compared to similar current market transactions, and no settlement provisions exist in the pre-existing contracts. Therefore, no settlement gain or loss was recognized with respect to the Company's franchise buybacks.

*Investment in and loans to affiliates*

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

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

*Empire Education Group, Inc.*

On August 1, 2007, the Company contributed its 51 wholly-owned accredited cosmetology schools to Empire Education Group, Inc. (EEG) in exchange for a 49.0 percent equity interest in EEG. In January 2008, the Company's effective ownership interest increased to 55.1 percent related to the buyout of EEG's minority interest shareholder. EEG operates 102 accredited cosmetology schools.

At December 31, 2010, the Company had a \$21.4 million outstanding loan receivable with EEG. The Company has also provided EEG with a \$15.0 million revolving credit facility, against which there were no outstanding borrowings as of December 31, 2010. The Company reviews the outstanding loan with EEG for changes in circumstances or the occurrence of events that suggest the Company's loan may not be recoverable. The \$21.4 million outstanding loan with EEG as of December 31, 2010 is in good standing with no associated valuation allowance. During each

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of the three months ended December 31, 2010 and 2009, the Company recorded \$0.2 million of interest income related to the loan and revolving credit facility. During the six months ended December 31, 2010 and 2009, the Company recorded \$0.4 and \$0.3 million, respectively, of interest income related to the loan and revolving credit facility. The Company has also guaranteed a credit facility of EEG. The exposure to loss related to the Company's involvement with EEG is the carrying value of the investment, the outstanding loan and the guarantee of the credit facility.

The Company utilized consolidation of variable interest entities guidance to determine whether or not its investment in EEG was a variable interest entity (VIE), and if so, whether the Company was the primary beneficiary of the VIE. The Company concluded that EEG was not a VIE based on the fact that EEG had sufficient equity at risk. As the substantive voting control relates to the voting rights of the Board of Directors, the Company granted the other shareholder a proxy to vote such number of the Company's shares such that the other shareholder would have voting control of 51.0 percent of the common stock of EEG. The Company accounts for EEG as an equity investment under the voting interest model. During the six months ended December 31, 2010 and 2009, the Company recorded \$2.9 and \$2.7 million of equity earnings related to its investment in EEG. EEG declared and distributed a dividend in December 2010 for which the Company received \$4.1 million in cash and recorded tax expense of \$0.3 million.

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*Provalliance*

On January 31, 2008, the Company merged its continental European franchise salon operations with the operations of the Franck Provost Salon Group in exchange for a 30.0 percent equity interest in the newly formed Provalliance entity (Provalliance). The merger with the operations of the Franck Provost Salon Group, which are also located in continental Europe, created Europe's largest salon operator with approximately 2,500 company-owned and franchise salons as of December 31, 2010.

The merger agreement contains a right (Equity Put) to require the Company to purchase an additional ownership interest in Provalliance between specified dates in 2010 to 2018. The acquisition price is determined based on a multiple of the earnings before interest, taxes, depreciation and amortization of Provalliance for a trailing twelve month period adjusted for certain items as defined in the agreement which is intended to approximate fair value. The initial estimated fair value of the Equity Put as of January 31, 2008, approximately \$24.8 million, has been included as a component of the Company's investment in Provalliance. A corresponding liability for the same amount as the Equity Put was recorded in other noncurrent liabilities. Any changes in the estimated fair value of the Equity Put are recorded in the Company's consolidated statement of operations. There was no change in the fair value of the Equity put during the six months ended December 31, 2010 and 2009. Any changes related to foreign currency translation are recorded in accumulated other comprehensive income. The Company recorded a \$2.1 million and \$0.4 million increase in the Equity Put related to foreign currency translation during the six months ended December 31, 2010 and 2009, respectively, see further discussion within Note 4 to the Condensed Consolidated Financial Statements. If the Equity Put is exercised, and the Company fails to complete the purchase, the parties exercising the Equity Put will be entitled to exercise various remedies against the Company, including the right to purchase the Company's interest in Provalliance for a purchase price determined based on a discounted multiple of the earnings before interest and taxes of Provalliance for a trailing twelve month period. The merger agreement also contains an option (Equity Call) whereby the Company can acquire additional ownership interest in Provalliance between specific dates in 2018 to 2020 at an acquisition price determined consistent with the Equity Put.

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

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

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

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

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

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

**Impact on Condensed Consolidated Balance Sheet**

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

**Impact on Condensed Consolidated Statement of Operations**

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

**Impact on Condensed Consolidated Statement of Operations**

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

**Impact on Condensed Consolidated Statement of Cash Flows**

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

*MY Style*

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

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

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from approximately 14.8 percent to 27.1 percent of the 800 outstanding shares of MY Style for 21,700,000 Yen. This exchange feature is akin to a deep-in-the-money option permitting the Company to purchase shares of common stock of MY Style. The option is embedded in the Exchangeable Note and does not meet the criteria for separate accounting under accounting for derivative instruments and hedging activities.

On March 28, 2010, the Company entered into an amendment agreement with Yamano in connection with the Exchangeable Note. The amendment revised the redemptions schedule for the 100,000,000 Yen and 211,131,284 Yen payments due September 30, 2013 and 2014, respectively, to March 28, 2010. The amendment was entered into in connection with a preferred share subscription agreement dated March 29, 2010 between the Company and Yamano. Under the preferred share subscription agreement, Yamano issued and the Company purchased one share of Yamano Class A Preferred Stock with a subscription amount of \$1.1 million (100,000,000 Yen) and one share of Yamano Class B Preferred Stock with a subscription amount of \$2.3 million (211,131,284 Yen), collectively the Preferred Shares. The portions of the Exchangeable Note that became due as of March 28, 2010 were contributed in-kind as payment for the Preferred Shares. The Preferred Shares have the same terms and rights, yield a 5.0 percent dividend that accrues if not paid and no voting rights.

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

As of December 31, 2010, the principal amount outstanding under the Exchangeable Note is \$2.5 million (200,000,000 Yen). Principal payments of 100,000,000 Yen are due annually on September 30 through September 30, 2012. The Company reviews the Exchangeable Note with Yamano for changes in circumstances or the occurrence of events that suggest the Company's note may not be recoverable. The \$2.5 million outstanding Exchangeable Note with Yamano as of December 31, 2010 is in good standing with no associated valuation allowance. The Exchangeable Note accrues interest at 1.845 percent and interest is payable on September 30, 2012 with the final principal payment. The Company recorded less than \$0.1 million in interest income related to the Exchangeable Note during the six months ended December 31, 2010 and 2009.

MY Style Note. As of December 31, 2010, the principal amount outstanding under the MY Style Note is \$1.9 million (156,492,000 Yen). Principal payments of 52,164,000 Yen along with accrued interest are due annually on May 31 through May 31, 2013. The Company reviews the outstanding note with MY Style for changes in circumstances or the occurrence of events that suggest the Company's note may not be recoverable. The \$1.9 million outstanding note with MY Style as of December 31, 2010 is in good standing with no associated valuation allowance. The MY Style Note accrues interest at 3.0 percent. The Company recorded less than \$0.1 million in interest income related to the MY Style Note during the six months ended December 31, 2010 and 2009.

As of December 31, 2010, \$1.9 and \$12.1 million are recorded in the Condensed Consolidated Balance Sheet as current assets and investment in affiliates and loans, respectively, representing the Company's total investment in MY Style. The exposure to loss related to the Company's involvement with MY Style is the carrying value of the premium paid and the outstanding notes.

All foreign currency transaction gains and losses on the Exchangeable Note and MY Style Note are recorded through other income within the Condensed Consolidated Statement of Operations. The foreign currency transaction (loss) gain recorded through other income was \$(0.1) and \$0.1 million during the six months ended December 31, 2010 and 2009, respectively.

*Hair Club for Men, Ltd.*

The Company acquired a 50.0 percent interest in Hair Club for Men, Ltd. through its acquisition of Hair Club in fiscal year 2005. The Company accounts for its investment in Hair Club for Men, Ltd. under the equity method of accounting. Hair Club for Men, Ltd. operates Hair Club centers in Illinois and Wisconsin. During the six months ended December 31, 2010 and 2009 the Company recorded income of \$0.2 and \$0.4 million, respectively, and received cash dividends of \$0.5 and \$0.3 million, respectively. The exposure to loss related to the Company's involvement with Hair Club for Men, Ltd. is the carrying value of the investment.

**7. DERIVATIVE FINANCIAL INSTRUMENTS:**

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The Company's primary market risk exposures in the normal course of business are changes in interest rates and foreign currency exchange rates. The Company has established policies and procedures that govern the management of these exposures through the use of a variety of strategies, including the use of derivative financial instrument contracts. By policy, the Company does not enter into such contracts for the purpose of speculation or trading. Hedging transactions are limited to an underlying exposure. The Company has established an interest rate management policy that manages the interest rate mix of its total debt portfolio and related overall cost of borrowing. The Company's variable rate debt typically represents 35.0 to 45.0 percent of the total debt portfolio. The Company's foreign currency exchange rate risk management policy includes frequently monitoring market data and external factors that may influence exchange rate fluctuations in order to minimize fluctuation in earnings due to changes in exchange rates. The Company enters into arrangements with counterparties that the Company believes are creditworthy. Generally, derivative contract arrangements settle on a net basis. The Company assesses the effectiveness of its hedges on a quarterly basis using the critical terms method in accordance with guidance for accounting for derivative instruments and hedging activities.

The Company has primarily utilized derivatives which are designated as either cash flow or fair value hedges and qualify for hedge accounting treatment. For cash flow hedges and fair value hedges, changes in fair value are deferred in accumulated other comprehensive income (loss) within shareholders' equity until the underlying hedged item is recognized in earnings. Any hedge ineffectiveness is recognized immediately in current earnings. To the extent the changes offset, the hedge is effective. Any hedge ineffectiveness the Company has historically experienced has not been material. By policy, the

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Company designs its derivative instruments to be effective as hedges and aims to minimize fluctuations in earnings due to market risk exposures. If a derivative instrument is terminated prior to its contract date, the Company continues to defer the related gain or loss and recognizes it in current earnings over the remaining life of the related hedged item.

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

*Cash Flow Hedges*

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

The Company uses interest rate swaps to maintain its variable to fixed rate debt ratio in accordance with its established policy. As of December 31, 2010, the Company had \$85.0 million of total variable rate debt outstanding, of which \$40.0 million was swapped to fixed rate debt, resulting in \$45.0 million of variable rate debt. The interest rate swap contracts pay fixed rates of interest and receive variable rates of interest. The contracts have maturity dates in July 2011 and the related debt have maturity dates in July 2012.

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

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

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

*Freestanding Derivative Forward Contracts*

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

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

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

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

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

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

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

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

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

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

**9. LITIGATION:**

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

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

Table of Contents**10. FINANCING ARRANGEMENTS:**

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

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

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

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

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

The Company has the choice of net-cash settlement, settlement in its own shares or a combination thereof and concluded the conversion option is indexed to its own stock. As a result, the Company allocated \$24.7 million of the \$172.5 million principal amount of the convertible senior

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notes to equity, which resulted in a \$24.7 million debt discount. The allocation was based on measuring the fair value of the convertible senior notes using a discounted cash flow analysis. The discount rate was based on an estimated credit rating for the Company. The estimated fair value of the convertible senior notes was \$147.8 million, the resulting \$24.7 million debt discount will be amortized over the period the convertible senior notes are expected to be outstanding, which is five years, as additional non-cash interest expense. The combined debt discount amortization and the contractual interest coupon resulted in an effective interest rate on the convertible debt of 8.9 percent.

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

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

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

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

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

**11. INCOME TAXES:**

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

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

The Company accrues for the effects of open uncertain tax positions and the related potential penalties and interest. There were no material adjustments to our recorded liability for unrecognized tax benefits during the three and six months ended December 31, 2010. It is reasonably possible that the amount of the unrecognized tax benefit with respect to certain of our unrecognized tax positions will increase or decrease during the next twelve months; however, we do not expect the change to have a significant effect on our consolidated results of operations or financial position.

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

Table of Contents**12. SEGMENT INFORMATION:**

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

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

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

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

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

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

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

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For the Three Months Ended December 31, 2010

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

For the Three Months Ended December 31, 2009

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



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## For the Six Months Ended December 31, 2010

	Salons		Hair Restoration Centers		Unallocated Corporate	Consolidated
	North America	International	(Dollars in thousands)			
<b>Revenues:</b>						
Service	\$ 785,977	\$ 50,997	\$ 33,494	\$	\$	\$ 870,468
Product	203,895	21,138	37,396			262,429
Royalties and fees	18,510		1,210			19,720
	1,008,382	72,135	72,100			1,152,617
<b>Operating expenses:</b>						
Cost of service	454,036	26,042	19,128			499,206
Cost of product	101,355	11,511	12,135			125,001
Site operating expenses	93,068	4,783	1,755			99,606
General and administrative	62,363	6,211	16,855	64,493		149,922
Rent	147,072	17,573	4,578	1,120		170,343
Depreciation and amortization	34,655	2,248	6,312	9,026		52,241
Lease termination costs						
Total operating expenses	892,549	68,368	60,763	74,639		1,096,319
Operating income (loss)	115,833	3,767	11,337	(74,639)		56,298
<b>Other income (expense):</b>						
Interest expense					(17,661)	(17,661)
Interest income and other, net					3,381	3,381
Income (loss) from continuing operations before income taxes and equity in income of affiliated companies	\$ 115,833	\$ 3,767	\$ 11,337	\$ (88,919)	\$	\$ 42,018

## For the Six Months Ended December 31, 2009

	Salons		Hair Restoration Centers		Unallocated Corporate	Consolidated
	North America	International	(Dollars in thousands)			
<b>Revenues:</b>						
Service	\$ 795,459	\$ 56,559	\$ 32,385	\$	\$	\$ 884,403
Product	217,764	22,586	36,474			276,824
Royalties and fees	18,456		1,232			19,688
	1,031,679	79,145	70,091			1,180,915
<b>Operating expenses:</b>						
Cost of service	457,404	29,411	17,966			504,781
Cost of product	119,460	11,518	10,937			141,915
Site operating expenses	91,048	5,415	2,622			99,085
General and administrative	57,563	6,295	17,215	64,098		145,171
Rent	146,727	19,134	4,517	1,012		171,390
Depreciation and amortization	36,051	3,038	6,075	9,537		54,701
Lease termination costs		3,552				3,552
Total operating expenses	908,253	78,363	59,332	74,647		1,120,595
Operating income (loss)	123,426	782	10,759	(74,647)		60,320
<b>Other income (expense):</b>						
Interest expense					(36,385)	(36,385)
Interest income and other, net					3,643	3,643
Income (loss) from continuing operations before income taxes and equity in	\$ 123,426	\$ 782	\$ 10,759	\$ (107,389)	\$	\$ 27,578

income of affiliated companies

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**13. SUBSEQUENT EVENTS:**

*Increase in equity interest of Provalliance.*

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

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

*Changes in Senior Management.*

On February 3, 2011, the Company announced that Randy L. Pearce, Senior Executive Vice President, Chief Financial and Administrative Officer, will replace Paul D. Finkelstein as President, effective immediately. Mr. Finkelstein will remain Chairman of the Board and Chief Executive Officer through February 8, 2012. The Company also announced that Brent A. Moen, Vice President of Finance and Corporate Controller will be appointed to Senior Vice President and Chief Financial Officer, replacing Mr. Pearce, effective immediately.

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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 December 31, 2010 and the related condensed consolidated statements of operations for the three and six month periods ended December 31, 2010 and 2009 and of cash flows for the six month periods ended December 31, 2010 and 2009. 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  
February 9, 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 December 31, 2010, we owned, franchised or held ownership interests in approximately 12,750 worldwide locations. Our locations consisted of 9,898 system wide North American and international salons, 96 hair restoration centers and approximately 2,750 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 9,496 salons, including 1,974 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 32 franchise locations. As of December 31, 2010, we had approximately 56,000 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. The merger with the operations of the Franck Provost Salon Group, which are also located in continental Europe, created Europe's largest salon operator with approximately 2,500 company-owned and franchise salons as of December 31, 2010.

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 December 31, 2010, 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 \$175.0 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 December 31, 2010.

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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 year 2011, our outlook for constructed salons is approximately 160 units. In fiscal year 2011, capital expenditures and acquisitions are expected to be approximately \$95.0 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 70 to 100 salons in fiscal year 2011. 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. Based on current fashion and economic cycles (i.e., longer hairstyles and lengthening of customer visitation patterns), we project our annual fiscal year 2011 consolidated same-store sales to be at the low end of the range of negative 1.0 percent to positive 2.0 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 December 31, 2010, 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 Condensed 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

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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 six months ended December 31, 2010.

**Goodwill:**

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

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

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

As a result of the Company's annual impairment analysis of goodwill during the third quarter of fiscal year 2010, a \$35.3 million impairment charge was recorded within continuing operations for the excess of the carrying value of goodwill over the implied fair value of goodwill for the Regis salon concept. The estimated fair value of the Promenade salon concept exceeded its respective carrying value by approximately 10.0 percent. The respective fair values of the Company's remaining reporting units exceeded fair value by greater than 20.0 percent. While the Company has determined the estimated fair value of Promenade to be appropriate based on the historical level of revenue growth, operating income and cash flows, it is reasonably likely that Promenade may become impaired in future periods. The term "reasonably likely" refers to an occurrence that is more than remote but less than probable in the judgment of the Company. Because some of the factors that influence the inherent assumptions and estimates used in determining the fair value of the reportable segment are outside the control of management, changes in these underlying assumptions can adversely impact fair value. Potential impairment of a portion or all of the carrying value of the Promenade salon concept goodwill is dependent on many factors and cannot be predicted with certainty.

As of December 31, 2010, the Company's estimated fair value, as determined by the sum of our reporting units' fair value, reconciled to within a reasonable range of our market capitalization which included an assumed control premium. The Company concluded there were no triggering events requiring the Company to perform an interim goodwill impairment test between the annual impairment testing and December 31, 2010.



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- Revenues decreased 0.2 percent to \$574.4 million and consolidated same-store sales decreased 1.3 percent. The Company experienced a continued decline in customer visitations as well as adverse weather conditions in December 2010, partially offset by an increase in average ticket price.
- We acquired 32 corporate salon locations and one corporate hair restoration center, all of which were franchise location buybacks. We built 42 corporate locations and closed, converted or relocated 60 locations. Our franchisees constructed 14 locations and closed, sold back to us, converted or relocated 58 locations. As of December 31, 2010, we had 7,924 company-owned salon locations, 1,974 franchise salon locations and 96 hair restoration centers (64 company-owned and 32 franchise locations).
- In December 2010, the Company announced that its Board of Directors had concluded its review of strategic alternatives. After a thorough and robust process, the Board determined that the most appropriate course of action for maximizing shareholder value is for Regis to continue to execute upon its existing business plan as an independent public company. Regis previously announced in August 2010 that its Board had authorized the exploration of strategic alternatives.

**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.

Results of Operations as a Percent of Revenues	For the Periods Ended December 31,			
	2010	Three Months 2009	2010	Six Months 2009
Service revenues	75.0%	75.6%	75.5%	74.9%
Product revenues	23.3	22.7	22.8	23.4
Franchise royalties and fees	1.7	1.7	1.7	1.7
Operating expenses:				
Cost of service (1)	57.9	57.2	57.3	57.1
Cost of product (2)	47.8	47.8	47.6	51.3
Site operating expenses	8.8	8.1	8.6	8.4
General and administrative	13.2	12.6	13.0	12.3
Rent	14.8	14.9	14.8	14.5
Depreciation and amortization	4.6	4.8	4.5	4.6
Lease termination costs				0.3

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Operating income	4.0	5.6	4.9	5.1
Income from continuing operations before income taxes and equity in income of affiliated companies	2.9	4.2	3.6	2.3
Income from continuing operations	2.5	3.2	2.8	1.9
Income from discontinued operations				0.3
Net income	2.5	3.2	2.8	2.2

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(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 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 period, consolidated revenues decreased 0.2 percent to \$574.4 million during the three months ended December 31, 2010 and decreased 2.4 percent to \$1,152.6 million during the six months ended December 31, 2010. 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 detailed in the table below:

	For the Periods Ended December 31,			
	Three Months	2009	2010	Six Months
	2010	2009	2010	2009
(Dollars in thousands)				
North American salons:				
Regis	\$ 108,928	\$ 108,470	\$ 216,433	\$ 219,071
MasterCuts	41,295	41,181	83,335	82,273
SmartStyle	129,671	128,504	262,224	259,778
Supercuts	78,310	76,978	157,633	156,048
Promenade (2)	143,245	144,768	288,757	314,509
Total North American salons	501,449	499,901	1,008,382	1,031,679
International salons	37,077	40,346	72,135	79,145
Hair restoration centers	35,846	35,118	72,100	70,091
Consolidated revenues	\$ 574,372	\$ 575,365	\$ 1,152,617	\$ 1,180,915
Percent change from prior year	(0.2)%	(2.1)%	(2.4)%	(1.7)%
Salon same-store sales decrease (1)	(1.3)%	(3.7)%	(1.4)%	(4.1)%

The percent changes in consolidated revenues during the three and six months ended December 31, 2010 and 2009, respectively, were driven by the following:

Percentage Increase (Decrease) in Revenues	For the Periods Ended December 31,			
	Three Months	2009	2010	Six Months
	2010	2009	2010	2009
Acquisitions (previous twelve months)	1.1%	0.7%	0.8%	1.1%
Organic (2)	0.0	(2.5)	(1.6)	(1.5)
Foreign currency	0.1	0.7	0.0	(0.4)
Franchise revenues	0.0	0.0	0.0	0.0
Closed salons	(1.4)	(1.0)	(1.6)	(0.9)
	(0.2)%	(2.1)%	(2.4)%	(1.7)%

(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 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 six months ended December 31, 2009, we generated revenue of \$20.0 million in product revenues, which represented 1.7 percent of consolidated revenues. The agreement was substantially complete as of September 30, 2009.

During the twelve months ended December 31, 2010, we acquired 76 salons (including 49 franchise salon buybacks), constructed 125 company-owned salons, and closed 284 salons (including 75 franchise salons). There was no change in organic during the three months ended December 31, 2010 as the consolidated same-store sales decrease of 1.3 percent was offset by the construction of 125 company-owned salons during the twelve months ended December 31, 2010. The decrease in organic during the six months ended December 31, 2010 was primarily due to the same-store sales decrease of 1.4 percent and the completion of an agreement to supply the purchaser of Trade Secret product at cost, partially offset by the construction of 125 company-owned salons during the twelve months ended December 31, 2010. The Company generated revenues of \$20.0 million for product sold to the purchaser of Trade Secret during the six months ended December 31, 2009.

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During the three months ended December 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 and Euro, as compared to the exchange rates for the comparable prior periods. During the six months ended December 31, 2010, there was no foreign currency impact as the weakening of the United States dollar against the Canadian dollar was 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 period. 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 77 salons (including seven franchise salon buybacks) during the twelve months ended December 31, 2009. The organic decrease was primarily due to the salon same-store sales decrease of 3.7 percent, partially offset by the construction of 178 company-owned salons during the twelve months ended December 31, 2009. We closed 289 salons (including 58 franchise salons) during the twelve months ended December 31, 2009.

During the three months ended December 31, 2009, the foreign currency impact was driven by the weakening of the United States dollar against the Canadian dollar, British pound, and Euro, as compared to the exchange rates for the comparable prior periods. During the six months ended December 31, 2009, the foreign currency impact was driven by the weakening of the United States dollar against the Canadian dollar and Euro, 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 six months ended December 31, 2010 and 2009 were as follows:

Periods Ended December 31,	Revenues	Decrease Over Prior Fiscal Year	
		Dollar (Dollars in thousands)	Percentage
<b>Three Months</b>			
2010	\$ 430,939	\$ (4,186)	(1.0)%
2009	435,125	(9,953)	(2.2)
<b>Six Months</b>			
2010	\$ 870,468	\$ (13,935)	(1.6)%
2009	884,403	(29,710)	(3.3)

The decrease in service revenues during the three and six months ended December 31, 2010 was due to same-store service sales decreasing 2.1 and 2.3 percent, respectively, as a result of a decline in same-store customer visits. Partially offsetting the decrease in service revenues was growth due to acquisitions during the previous twelve months, and price increases and sales mix as the Company continues to increase hair color and waxing services. In addition, for the three months ended December 31, 2010, the weakening of the United States dollar against the Canadian dollar partially offset the decrease in service revenues.

The decrease in service revenues during the three months ended December 31, 2009 was due to same-store service sales decreasing 3.9 percent, as customer visits declined. Partially offsetting the decrease was growth due to acquisitions during the previous twelve months, increase in average ticket, and the weakening of the United States dollar against the Canadian dollar during the three months ended December 31, 2009.

The decrease in service revenues during the six months ended December 31, 2009 was due to same-store service sales decreasing 4.0 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 six months ended December 31, 2009. Partially offsetting the decrease was growth due to acquisitions during the previous twelve months and increase in average ticket.

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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 six months ended December 31, 2010 and 2009 were as follows:

Periods Ended December 31,	Revenues	Increase (Decrease) Over Prior Fiscal Year	
		Dollar (Dollars in thousands)	Percentage
<b>Three Months</b>			
2010	\$ 133,824	\$ 3,153	2.4%
2009	130,671	(2,103)	(1.6)
<b>Six Months</b>			
2010	\$ 262,429	\$ (14,395)	(5.2)%
2009	276,824	9,867	3.7

The increase in product revenues during the three months ended December 31, 2010 was due to same-store product sales increasing 1.5 percent. Holiday product promotional deals and new product assortments had a positive impact on same-store product sales.

The decrease in product revenues during the six months ended December 31, 2010 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 1.6 percent.

The decrease in product revenues during the three months ended December 31, 2009 was due to same-store product sales decreasing 2.9 percent.

The growth in product revenues during the six months ended December 31, 2009 was due to product sales of \$20.0 million to the purchaser of Trade Secret, partially offset by same-store sales decrease of 4.3 percent.

**Royalties and Fees.** Total franchise revenues, which include royalties and fees, for the three and six months ended December 31, 2010 and 2009 were as follows:

Periods Ended December 31,	Revenues	Increase (Decrease) Over Prior Fiscal Year	
		Dollar (Dollars in thousands)	Percentage
<b>Three Months</b>			
2010	\$ 9,609	\$ 40	0.4%
2009	9,569	(5)	(0.1)
<b>Six Months</b>			
2010	\$ 19,720	\$ 32	0.2%
2009	19,688	(197)	(1.0)

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Total franchise locations open at December 31, 2010 were 2,006, including 32 franchise hair restoration centers, as compared to 2,078, including 33 franchise hair restoration centers, at December 31, 2009. We purchased 49 of our franchise salons and one franchise hair restoration center during the twelve months ended December 31, 2010. The decrease in franchise locations was offset by the impact of the weakening of the United States dollar against the Canadian dollar.

Total franchise locations open at December 31, 2009 were 2,078, including 33 franchise hair restoration centers, as compared to 2,073, including 33 franchise hair restoration centers, at December 31, 2008. We purchased seven of our franchise salons and zero franchise hair restoration centers during the twelve months ended December 31, 2009.

Table of Contents**Gross Margin (Excluding Depreciation and Amortization)**

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 six months ended December 31, 2010 and 2009 was as follows:

Periods Ended December 31,	Gross Margin	Margin as % of Service and Product Revenues	(Decrease) Increase Over Prior Fiscal Year		
			Dollar (Dollars in thousands)	Percentage	Basis Point(1)
<b>Three Months</b>					
2010	\$ 251,132	44.5%	\$ (3,432)	(1.3)%	(50)
2009	254,564	45.0	(1,372)	(0.5)	70
<b>Six Months</b>					
2010	\$ 508,690	44.9%	\$ (5,841)	(1.1)%	60
2009	514,531	44.3	(11,927)	(2.3)	(30)

(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 and Amortization).** Service margin for the three and six months ended December 31, 2010 and 2009 was as follows:

Periods Ended December 31,	Service Margin	Margin as % of Service Revenues	(Decrease) Increase Over Prior Fiscal Year		
			Dollar (Dollars in thousands)	Percentage	Basis Point(1)
<b>Three Months</b>					
2010	\$ 181,234	42.1%	\$ (5,079)	(2.7)%	(70)
2009	186,313	42.8	(1,927)	(1.0)	50
<b>Six Months</b>					
2010	\$ 371,262	42.7%	\$ (8,360)	(2.2)%	(20)
2009	379,622	42.9	(10,576)	(2.7)	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 six months ended December 31, 2010 was primarily due to an unexpected increase in salon payroll expense as staffing was increased in preparation for the holiday season and same-store sales declined during the period. In addition, the basis point decrease was due to a planned increase in payroll taxes as a result of states increasing unemployment tax rates.

The basis point increase in service margin as a percent of service revenues during the three and six months ended December 31, 2009 was primarily due to the benefit of the new leveraged salon pay plans implemented in the 2009 calendar year, partially offset by planned increases in salon health insurance costs.

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**Product Margin (Excluding Depreciation and Amortization).** Product margin for the three and six months ended December 31, 2010 and 2009 was as follows:

Periods Ended December 31,	Product Margin	Margin as % of Product Revenues	Increase (Decrease) Over Prior Fiscal Year		
			Dollar	Percentage	Basis Point(1)
(Dollars in thousands)					
<b>Three Months</b>					
2010	\$ 69,898	52.2%	\$ 1,647	2.4%	
2009	68,251	52.2	555	0.8	120
<b>Six Months</b>					
2010	\$ 137,428	52.4%	\$ 2,519	1.9%	370
2009	134,909	48.7	(1,351)	(1.0)	(230)

(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	For the Periods Ended December 31,					
	Three Months			Six Months		
	2010	2009	2010	2009	2010	2009
Product	\$ 133,824	\$ 130,671	\$ 262,429	\$ 256,862		
Product sold to purchaser of Trade Secret				19,962		
Total product revenues	\$ 133,824	\$ 130,671	\$ 262,429	\$ 276,824		

Breakout of Cost of Product	For the Periods Ended December 31,					
	Three Months			Six Months		
	2010	2009	2010	2009	2010	2009
Cost of product	\$ 63,926	\$ 62,420	\$ 125,001	\$ 121,953		
Cost of product sold to purchaser of Trade Secret				19,962		
Total cost of product	\$ 63,926	\$ 62,420	\$ 125,001	\$ 141,915		

Product Margin as % of Product Revenues	For the Periods Ended December 31,					
	Three Months			Six Months		
	2010	2009	2010	2009	2010	2009
Margin on product other than sold to purchaser of Trade Secret	52.2%	52.2%	52.4%	52.5%		
Margin on product sold to purchaser of Trade Secret						
Total product margin	52.2%	52.2%	52.4%	48.7%		

Product margin on product other than sold to purchaser of Trade Secret as a percent of product revenues during the three and six months ended December 31, 2010 was consistent and down ten basis points, respectively, with the comparable prior period. An improvement related to a reduction in commissions paid to new employees on retail product sales and increased product sales in our North American segment of higher-margin items such as the Company's private label was offset by an increase in sales of slightly lower profit margin appliances in our international segment.

The basis point improvement in product margin other than sold to purchaser of Trade Secret as a percent of product revenues during the three and six months ended December 31, 2009 was due to higher gross margins on promotional items, as well as a planned reduction in commissions paid to new employees on retail product sales.

Table of Contents**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 six months ended December 31, 2010 and 2009 were as follows:

Periods Ended December 31,	Site Operating	Expense as % of Consolidated Revenues	Increase (Decrease) Over Prior Fiscal Year		
			Dollar (Dollars in thousands)	Percentage	Basis Point(1)
<b>Three Months</b>					
2010	\$ 50,597	8.8%	\$ 4,188	9.0%	70
2009	46,409	8.1	(1,211)	(2.5)	
<b>Six Months</b>					
2010	\$ 99,606	8.6%	\$ 521	0.5%	20
2009	99,085	8.4	3,063	3.2	40

(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 and six months ended December 31, 2010 was primarily due to a planned increase in advertising expense within a portion of the Company's Promenade salons, higher self insurance accruals and an increase in salon level telecommunications expenses related to the Company's internet in the salon initiative. The Company recorded an increase in self insurance accruals of \$0.5 million in the three months ended December 31, 2010, compared to a \$1.9 million reduction in the three months ended December 31, 2009. The basis point increase for the six months ended December 31, 2010 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 December 31, 2009 was consistent with prior year site operating expense as a percent of consolidated revenues. Cost savings initiatives in freight and salon repairs areas mitigated negative leverage due to negative same-store sales. Self insurance expense increased during the six months ended December 31, 2009. The Company recorded a reduction in self insurance accruals of \$1.9 million in the six months ended December 31, 2009 compared to a \$6.7 million reduction in the six months ended December 31, 2008. The increase in self insurance expense was offset by the rubbish removal and utilities that we pay our landlords including six months expense during the three months ended December 31, 2008 due to the reclassification from rent expense.

The basis point increase in site operating expenses as a percent of consolidated revenues during the six months ended December 31, 2009 was primarily due to higher self insurance expense. The Company recorded a reduction in self insurance accruals of \$1.9 million in the six months ended December 31, 2009 compared to a \$6.7 million reduction in the six months ended December 31, 2008. In addition, the Company settled two legal claims related to customer and employee matters totaling \$3.6 million during the six months ended December 31, 2009. Partially offsetting the increase was cost savings initiatives realized in freight and salon repairs areas.



Table of Contents**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 six months ended December 31, 2010 and 2009 were as follows:

Periods Ended December 31,	G&A	Expense as % of Consolidated Revenues	Increase (Decrease) Over Prior Fiscal Year		
			Dollar (Dollars in thousands)	Percentage	Basis Point(1)
<b>Three Months</b>					
2010	\$ 75,848	13.2%	\$ 3,237	4.5%	60
2009	72,611	12.6	80	0.1	30
<b>Six Months</b>					
2010	\$ 149,922	13.0%	\$ 4,751	3.3%	70
2009	145,171	12.3	(5,124)	(3.4)	(20)

(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 and six months ended December 31, 2010 was primarily due to expenditures associated with the Regis salon concept re-imaging project and professional fees incurred related to the exploration of strategic alternatives.

The basis point increase in G&A costs as a percent of consolidated revenues during the three months ended December 31, 2009 was primarily due to negative leverage from the decrease in same-store sales, an increase in Hair Club advertising, partially offset by the continuation of cost savings initiatives implemented by the Company.

The basis point improvement in G&A costs as a percent of consolidated revenues during the six months ended December 31, 2009 was due to the continuation of cost savings initiatives implemented by the Company and a reduction in marketing expense, partially offset by negative leverage due to negative same-store sales.

**Rent**

Rent expense, which includes base and percentage rent, common area maintenance, and real estate taxes, for the three and six months ended December 31, 2010 and 2009, was as follows:

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Periods Ended December 31,	Rent	Expense as % of Consolidated Revenues	(Decrease) Increase Over Prior Fiscal Year	
			Dollar (Dollars in thousands)	Percentage Basis Point(1)
<b>Three Months</b>				
2010	\$ 85,235	14.8%	\$ (305)	(0.4)% (10)
2009	85,540	14.9	3,559	4.3 90
<b>Six Months</b>				
2010	\$ 170,343	14.8%	\$ (1,047)	(0.6)% 30
2009	171,390	14.5	(2,802)	(1.6)

(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 improvement in rent expense as a percent of consolidated revenues during the three months ended December 31, 2010 was primarily due to savings achieved from our store closure initiatives, partially offset by negative leverage in this fixed cost category due to negative same-stores sales.

The basis point increase in rent expense as a percent of consolidated revenues during the six months ended December 31, 2010 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 months ended December 31, 2009 was primarily due to the expense for the three months ended December 31, 2008 benefiting from a reclassification of six months of rubbish

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removal and utilities expense to site operating expense. The negative leverage in this fixed cost category was offset by a reduction in our percentage rent payments, both due to negative same-store sales.

Rent expense as a percent of consolidated revenues during the six months ended December 31, 2009 was consistent with prior year rent expense as a percent of consolidated revenues as negative leverage in this fixed cost category was 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 six months ended December 31, 2010 and 2009 was as follows:

Periods Ended December 31,	D&A	Expense as % of Consolidated Revenues	(Decrease) Increase Over Prior Fiscal Year		
			Dollar (Dollars in thousands)	Percentage	Basis Point(1)
<b>Three Months</b>					
2010	\$ 26,197	4.6%	\$ (1,313)	(4.8)%	(20)
2009	27,510	4.8	(9)	(0.0)	10
<b>Six Months</b>					
2010	\$ 52,241	4.5%	\$ (2,460)	(4.5)%	(10)
2009	54,701	4.6	(86)	(0.2)	

(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.

The basis point improvement in D&A as a percent of consolidated revenues during the three and six months ended December 31, 2010 was primarily due to a decrease in depreciation expense as a result of a reduction in salon construction, partially offset by negative leverage from the decrease in same-store sales.

The basis point increase in D&A as a percent of consolidated revenues during the three months ended December 31, 2009 was primarily due to negative leverage from the decrease in same-store sales, partially offset by a decrease in depreciation due to the reduced level of capital and acquisition expenditures during the twelve months ended December 31, 2009.

Depreciation and amortization as a percent of consolidated revenues during the six months ended December 31, 2009 was consistent with prior year depreciation and amortization expense as a percent of consolidated revenues.

**Lease Termination Costs**

Lease termination costs for the three and six months ended December 31, 2010 and 2009 were as follows:

Periods Ended December 31,	Lease termination costs	Expense as % of Consolidated Revenues	(Decrease) Increase Over Prior Fiscal Year		
			Dollar (Dollars in thousands)	Percentage	Basis Point(1)
<b>Three Months</b>					
2010	\$	%	\$	%	
2009			(847)	(100.0)	(10)
<b>Six Months</b>					
2010	\$	%	\$	(100.0)%	(30)
2009	3,552	0.3	1,554	77.8	10

(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 six months ended December 31, 2010.

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 six months ended December 31, 2009 we closed 17 and 32 salons, respectively. See further discussion within Note 8 of the Condensed Consolidated Financial Statements.

Table of Contents**Interest**

Interest expense for the three and six months ended December 31, 2010 and 2009 was as follows:

Periods Ended December 31,	Interest	Expense as % of Consolidated Revenues	(Decrease) Increase Over Prior Fiscal Year		
			Dollar (Dollars in thousands)	Percentage	Basis Point(1)
<b>Three Months</b>					
2010	\$ 8,738	1.5%	\$ (331)	(3.6)%	(10)
2009	9,069	1.6	(1,809)	(16.6)	(30)
<b>Six Months</b>					
2010	\$ 17,661	1.5%	\$ (18,724)	(51.5)%	(160)
2009	36,385	3.1	15,287	72.5	130

(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 December 31, 2010 was primarily due to decreased debt levels as compared to the three months ended December 31, 2009.

The basis point improvement in interest expense as a percent of consolidated revenues during the six months ended December 31, 2010 was due to 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 December 31, 2009 was primarily due to decreased debt levels as compared to the three months ended December 31, 2008.

The basis point increase in interest expense as a percent of consolidated revenues during the six months ended December 31, 2009 was due to \$18.0 million of make-whole payments and other fees associated with the repayment of private placement debt.

**Interest Income and Other, net**

Interest income and other, net for the three and six months ended December 31, 2010 and 2009 was as follows:

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Periods Ended December 31,	Interest	Income as % of Consolidated Revenues	Increase (Decrease) Over Prior Fiscal Year		Basis Point(1)
			Dollar (Dollars in thousands)	Percentage	
<b>Three Months</b>					
2010	\$ 2,604	0.5%	\$ 1,193	84.5%	30
2009	1,411	0.2	(2,051)	(59.2)	(40)
<b>Six Months</b>					
2010	\$ 3,381	0.3%	\$ (262)	(7.2)%	
2009	3,643	0.3	(1,554)	(29.9)	(10)

(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 income and other, net as a percent of consolidated revenues during the three months ended December 31, 2010 was primarily due to the quarterly interest payment of \$0.7 million on the note receivable with the purchaser of Trade Secret.

Interest income and other, net as a percent of consolidated revenues during the six months ended December 31, 2010 was consistent with prior year interest income and other, net as a percent of consolidated revenues.

The basis point decrease in interest income and other, net as a percent of consolidated revenues during the three and six months ended December 31, 2009 was primarily due to less of a foreign currency transaction gain on the notes due from certain affiliated companies compared to the comparable prior fiscal periods, partially offset by \$1.1 and \$3.0 million, respectively, received for warehouse and administrative services from the purchaser of Trade Secret.

Table of Contents**Income Taxes**

Our reported effective income tax rate for the three and six months ended December 31, 2010 and 2009 was as follows:

Periods Ended December 31,	Effective Rate	Basis Point(1) Decrease
<b>Three Months</b>		
2010	31.9%	(460)
2009	36.5	(3,020)
<b>Six Months</b>		
2010	35.7%	(250)
2009	38.2	(13,020)

(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 decrease in our overall effective income tax rate for the three and six months ended December 31, 2010 was due primarily to certain discrete items and a shift in the mix of worldwide income to lower taxing jurisdictions. The shift in the mix of worldwide income decreased the Company's income tax provision for the three and six months ended December 31, 2010 by \$0.7 million and decreased the effective income tax rate by 4.4 percent and 1.8 percent, respectively.

The basis point decrease in our overall effective income tax rate for the three and six months ended December 31, 2009 was due primarily to the additional \$11.4 million of tax expense recorded in the three months ended December 31, 2008 resulting from the \$41.7 million goodwill impairment of the salon concept located in the United Kingdom.

**Equity in Income of Affiliated Companies, Net of Income Taxes**

Equity in income (loss) of affiliates, represents the income or loss generated by our equity investment in Empire Education Group, Inc., Provalliance, and other equity method investments, for the three and six months ended December 31, 2010 and 2009, was as follows:

Periods Ended December 31,	Equity in income		Increase Over Prior Fiscal Year	
	Dollar	Percentage	Dollar	Percentage
<b>Three Months</b>				
2010	\$ 3,120	17.4%	\$ 463	
2009	2,657		4,995	213.6
<b>Six Months</b>				
2010	\$ 5,799	1.5%	\$ 85	

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2009	5,714	7,560	409.5
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The increase in equity in income during the three and six months ended December 31, 2010 was a result of an increase in EEG's and Provalliance's net income over the comparable prior period.

Prior to June 30, 2011, we expect to acquire an additional 17 percent equity interest in Provalliance for approximately \$56 million (approximately \$40 million) in cash. In connection with the acquisition of the additional 17 percent equity interest, the Company expects to reverse a portion of the Equity Put liability which we expect will result in a gain of approximately \$1.0 to \$3.0 million. The gain will be recorded in the Equity in income of affiliated companies line item in our Condensed Consolidated Statement of Operations.

The increase in equity in income during the three and six months ended December 31, 2009 was a result of the Company's share of EEG's increased net income over the comparable prior period. In addition, during the three and six months ended December 31, 2008, the Company recorded equity in loss from Intelligent Nutrients, LLC. The investment in Intelligent Nutrients, LLC was impaired for the full carrying value during the second quarter of fiscal year 2009 and as a result, the Company no longer recorded any additional equity in loss related to Intelligent Nutrients, LLC. Effective December 31, 2009, the Company transferred its ownership interest in Intelligent Nutrients, LLC to the other shareholder.

Table of Contents**Income from Discontinued Operations**

Income from discontinued operations for the three and six months ended December 31, 2010 and 2009 was as follows:

<i>Three Months</i>				
2010	\$	\$		%
2009			117,466	100.0
<i>Six Months</i>				
2010	\$	\$	(3,161)	(100.0)%
2009		3,161	122,227	102.7

During the six months ended December 31, 2009, the Company corrected the tax basis of its Trade Secret legal entity which resulted in an incremental \$3.0 million tax benefit which was recorded in discontinued operations.

See Note 2 to the Condensed Consolidated Financial Statements for further discussion.

**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.

Table of Contents**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 December 31, 2010, 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 period. For the six months ended December 31, 2010, foreign currency translation had an unfavorable impact as the strengthening of the United States dollar against the British pound and Euro had a slightly greater impact than the weakening of the United States dollar against the Canadian dollar. During the three and six months ended December 31, 2009, 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 December 31, 2009 which favorably impacted revenues and weakened for the six months ended December 31, 2009, which had an unfavorable impact on revenues.

Favorable (Unfavorable) Impact of Foreign Currency Exchange Rate Fluctuations	Impact on Revenues		Impact on Income Before Income Taxes	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
	(Dollars in thousands)			
<b>Three Months</b>				
Canadian dollar	\$ 1,940	\$ 3,846	\$ 273	\$ 601
British pound	(1,235)	499	(34)	(194)
Euro	(203)	156	(59)	40
Total	\$ 502	\$ 4,501	\$ 180	\$ 447
<b>Six Months</b>				
Canadian dollar	\$ 3,808	\$ 1,406	\$ 540	\$ 227
British pound	(3,309)	(5,636)	(154)	61
Euro	(438)	30	24	
Total	\$ 61	\$ (4,200)	\$ 410	\$ 288

**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**

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*North American Salon Revenues.* Total North American salon revenues for the three and six months ended December 31, 2010 and 2009 were as follows:

Periods Ended December 31,	Revenues	Increase (Decrease) Over Prior Fiscal Year		Same-Store Sales Decrease
		Dollar (Dollars in thousands)	Percentage	
<i>Three Months</i>				
2010	\$ 501,449	\$ 1,548	0.3%	(1.4)%
2009	499,901	(11,512)	(2.3)	(4.0)
<i>Six Months</i>				
2010	\$ 1,008,382	\$ (23,297)	(2.3)%	(1.6)%
2009	1,031,679	(9,669)	(0.9)	(4.4)

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The percentage increase (decreases) during the three and six months ended December 31, 2010 and 2009 were due to the following factors:

Percentage Increase (Decrease) in Revenues	For the Periods Ended December 31,				
	2010	Three Months		Six Months	
	2010	2009	2010	2009	2009
Acquisitions (previous twelve months)		1.2%	0.8%	0.9%	1.2%
Organic		0.1	(3.4)	(2.0)	(1.8)
Foreign currency		0.4	0.8	0.4	0.2
Franchise revenues					
Closed salons		(1.4)	(0.5)	(1.6)	(0.5)
		0.3%	(2.3)%	(2.3)%	(0.9)%

We acquired 76 North American salons during the twelve months ended December 31, 2010, including 49 franchise buybacks. The organic increase for the three months ended December 31, 2010 was primarily the result of the construction (net relocations) of 84 company-owned salons during the twelve months ended December 31, 2010, partially offset by same-store sales decrease of 1.4 percent. The organic decrease for the six months ended December 31, 2010 was primarily due to the completion of an agreement to supply the purchaser of Trade Secret product at cost and same-store sales decrease of 1.6 percent, partially offset by the construction (net relocation) of 84 company-owned salons during the twelve months ended December 31, 2010. The Company generated revenues of \$20.0 million for product sold to the purchaser of Trade Secret during the six months ended December 31, 2009. The foreign currency impact during the three and six months ended December 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. We closed 182 company-owned salons during the twelve months ended December 31, 2010.

We acquired 77 North American salons during the twelve months ended December 31, 2009, including seven franchise buybacks. The decline in organic was the result of same-store sales decrease of 4.0 and 4.4 percent for the three and six months ended December 31, 2009, respectively. The foreign currency impact during the three and six months ended December 31, 2009 was driven by the weakening of the United States dollar against the Canadian dollar as compared to the prior period's exchange rate.

**North American Salon Operating Income.** Operating income for the North American salons for the three and six months ended December 31, 2010 and 2009 was as follows:

Periods Ended December 31,	Operating Income	Operating Income as % of Total Revenues	Decrease Over Prior Fiscal Year		
			Dollar (Dollars in thousands)	Percentage	Basis Point(1)
<b>Three Months</b>					
2010	\$ 52,987	10.6%	\$ (7,820)	(12.9)%	(160)
2009	60,807	12.2	(4,389)	(6.7)	(50)
<b>Six Months</b>					
2010	\$ 115,833	11.5%	\$ (7,593)	(6.2)%	(50)
2009	123,426	12.0	(6,576)	(5.1)	(50)

(1) Represents the basis point change in North American salon operating 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 income as a percent of North American salon revenues for the three and six months ended December 31, 2010 was primarily due to an unexpected increase in salon payroll expense as staffing was increased in preparation for the holiday season and same-store sales declined during the period, a planned increase in advertising expenditures for the Promenade and Regis salon concepts, and an increase in salon level telecommunications expense related to the Company's internet in the salon initiative. 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 margin as a result of a reduction in commissions paid to new employees on retail product sales and an increase in sales of higher margin categories. In addition, for the six months ended December 31, 2010, the basis point decrease was partially offset by the completion of the agreement to supply the purchaser of Trade Secret product at cost.

The basis point decrease in North American salon operating income as a percent of North American salon revenues for the three months ended December 31, 2009 was primarily due to negative leverage in fixed cost categories due to negative same-store sales and higher self insurance expense. The Company recorded a reduction in self insurance accruals of \$1.9 million in the three months ended December 31, 2009 compared to a \$6.7 million reduction in the three months ended December 31, 2008. The negative leverage for the three months ended December 31, 2009 was partially offset by the Company's costs savings initiatives and gross margin improvement.

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The basis point decrease in North American salon operating income as a percent of North American salon revenues for the six months ended December 31, 2009 was primarily due to negative leverage in fixed cost categories due to negative same-store sales and 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 six months ended December 31, 2009 compared to a \$6.7 million reduction in the six months ended December 31, 2008), partially offset by the Company's costs savings initiatives.

International Salons

**International Salon Revenues.** Total international salon revenues for the three and six months ended December 31, 2010 and 2009 were as follows:

Periods Ended December 31,	Revenues	Decrease Over Prior Fiscal Year		Same- Store Sales Decrease
		Dollar (Dollars in thousands)	Percentage	
<b>Three Months</b>				
2010	\$ 37,077	\$ (3,269)	(8.1)%	(3.1)%
2009	40,346	(922)	(2.2)	(1.6)
<b>Six Months</b>				
2010	\$ 72,135	\$ (7,010)	(8.9)%	(2.4)%
2009	79,145	(10,570)	(11.8)	(3.2)

The percentage decreases during the three and six months ended December 31, 2010 and 2009 were due to the following factors:

Percentage Increase (Decrease) in Revenues	For the Periods Ended December 31,			
	Three Months		Six Months	
	2010	2009	2010	2009
Acquisitions (previous twelve months)	%	%	%	%
Organic	(1.5)	4.6	1.0	1.1
Foreign currency	(3.6)	1.6	(4.7)	(6.3)
Franchise revenues				
Closed salons	(3.0)	(8.4)	(5.2)	(6.6)
	(8.1)%	(2.2)%	(8.9)%	(11.8)%

We did not acquire any international salons during the twelve months ended December 31, 2010. The organic decrease for the three months ended December 31, 2010 was primarily the result of the same-store sales decrease of 3.1 percent. The increase in organic for the six months ended December 31, 2010 was primarily the result of the rebranding of certain salons that had previously been operating under a different salon concept, partially offset by the same-store sales decrease of 2.4 percent. The foreign currency impact during the three and six months ended December 31, 2010 was driven by the strengthening of the United States dollar against the British pound and the Euro as compared to the comparable prior period. We closed 27 company-owned salons during the twelve months ended December 31, 2010.

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We did not acquire any international salons during the twelve months ended December 31, 2009. The increase in organic was primarily due to the rebranding of certain salons that had previously been operating under a different salon concept, partially offset by same-store sales decreases of 1.6 and 3.2 percent during the three and six months ended December 31, 2009. The foreign currency impact during the three months ended December 31, 2009 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 six months ended December 31, 2009 was primarily driven by the strengthening of the United States dollar against the British pound as compared to the comparable prior period. We closed 48 company-owned salons during the twelve months ended December 31, 2009.

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**International Salon Operating Income.** Operating income for the international salons for the three and six months ended December 31, 2010 and 2009 was as follows:

Periods Ended December 31,	Operating Income	Operating Income as % of Total Revenues	(Decrease) Increase Over Prior Fiscal Year		
			Dollar (Dollars in thousands)	Percentage	Basis Point(1)
<b>Three Months</b>					
2010	\$ 1,581	4.3%	\$ (330)	(17.3)%	(40)
2009	1,911	4.7	44,502	104.5	10,790
<b>Six Months</b>					
2010	\$ 3,767	5.2%	\$ 2,985	381.7%	420
2009	782	1.0	41,676	101.9	4,660

(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 decrease in international salon operating income as a percent of international salon revenues during the three months ended December 31, 2010 was primarily due to a decline in product margins from mix play, as a larger than expected percentage of our product sales came from lower-margin products. Partially offsetting the basis point decrease was leverage improvement in the fixed cost categories as a result of the Company's fiscal year 2010 implementation to close underperforming salons.

The basis point improvement in international salon operating income as a percent of international salon revenues during the six months ended December 31, 2010 was primarily due to \$3.6 million of lease termination costs recognized during the six months ended December 31, 2009 associated with the Company's planned closure of underperforming salons.

The basis point improvement in international salon operating income as a percent of international salon revenues during the three and six months ended December 31, 2009 was primarily due to the goodwill impairment of the United Kingdom division recorded in the comparable prior periods. In addition, international salon operating income as a percent of international salon revenues improved as the result of the continuation of the Company's expense control, payroll management and the Company's planned closure of underperforming United Kingdom salons during the three and six months ended December 31, 2009.

Hair Restoration Centers

**Hair Restoration Revenues.** Total hair restoration revenues for the three and six months ended December 31, 2010 and 2009 were as follows:

Increase Over Prior Fiscal Year

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Periods Ended December 31,	Revenues	Dollar (Dollars in thousands)	Percentage	Same-Store Sales Increase (Decrease)
<b>Three Months</b>				
2010	\$ 35,846	\$ 728	2.1%	0.8%
2009	35,118	373	1.1	0.1
<b>Six Months</b>				
2010	\$ 72,100	\$ 2,009	2.9%	1.2%
2009	70,091	199	0.3	(0.9)

The percentage increases (decreases) during the three and six months ended December 31, 2010 and 2009, were due to the following factors:

Percentage Increase (Decrease) in Revenues	For the Periods Ended December 31,			
	Three Months		Six Months	
	2010	2009	2010	2009
Acquisitions (previous twelve months)	0.8%	%	0.4%	0.4%
Organic	0.5	1.4	1.6	0.3
Franchise revenues	0.8	(0.3)	0.9	(0.4)
	2.1%	1.1%	2.9%	0.3%

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We acquired one hair restoration center through franchise buyback during the twelve months ended December 31, 2010. The increase in organic was primarily due to same-store sales increases of 0.8 and 1.2 percent during the three and six months ended December 31, 2010 and one new corporate location that was constructed during the twelve months ended December 31, 2010.

We did not acquire any hair restoration centers through franchise buybacks during the twelve months ended December 31, 2009. Hair restoration revenues increased during the three and six month periods ended December 31, 2009 due to the construction of one new corporate location during the twelve months ended December 31, 2009. Organic increased due to the one new corporate location and same-store sales increases of 0.1 percent during the three months ended December 31, 2009.

**Hair Restoration Operating Income.** Operating income for our hair restoration centers for the three and six months ended December 31, 2010 and 2009 was as follows:

Periods Ended December 31,	Operating Income	Operating Income as % of Total Revenues	(Decrease) Increase Over Prior Fiscal Year		
			Dollar (Dollars in thousands)	Percentage	Basis Point(1)
<b>Three Months</b>					
2010	\$ 5,132	14.3%	\$ (40)	(0.8)%	(40)
2009	5,172	14.7	(1,181)	(18.6)	(360)
<b>Six Months</b>					
2010	\$ 11,337	15.7%	\$ 578	5.4%	30
2009	10,759	15.4	(1,513)	(12.3)	(220)

(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 months ended December 31, 2010 is primarily due to an increase in health insurance expense and in the cost of hair systems. The basis point increase in hair restoration operating income as a percent of hair restoration revenues during the six months ended December 31, 2010 is primarily due to a benefit related to a favorable ruling on a state sales tax issue, partially offset by the increase in health insurance expense and in the cost of hair systems.

The basis point decrease in hair restoration operating income as a percent of hair restoration revenues during the three and six months ended December 31, 2009 is primarily due to an increase in advertising spend.

**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:

<b>Periods Ended</b>	<b>Debt to Capitalization</b>	<b>Basis Point Decrease (1)</b>
December 31, 2010	27.5%	(280)
June 30, 2010	30.3	(1,380)

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(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 December 31, 2010 compared to June 30, 2010 was primarily due to decreased debt levels stemming from the repayment of private placement debt and the impact of net income and foreign currency translation during the six months ended December 31, 2010.

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.

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

	December 31, 2010		June 30, 2010	\$ Increase Over Prior Period(1)	% Increase Over Prior Period(1)
	(Dollars in thousands)				
Total Assets	\$ 1,938,532	\$	1,919,572	\$ 18,960	1.0%

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

During the six months ended December 31, 2010, total assets increased as a result of cash flows from operations.

Total shareholders' equity at December 31, 2010 and June 30, 2010 was as follows:

	December 31, 2010		June 30, 2010	\$ Increase Over Prior Period(1)	% Increase Over Prior Period(1)
	(Dollars in thousands)				
Shareholders' Equity	\$ 1,065,120	\$	1,013,293	\$ 51,827	5.1%

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

During the six months ended December 31, 2010, equity increased primarily as a result of net income and foreign currency translation.

**Cash Flows**

The cash flow presentation below for the six months ended December 31, 2010 and 2009 includes continuing and discontinued operations.

*Operating Activities*

Net cash provided by operating activities was \$102.8 and \$77.3 million during the six months ended December 31, 2010 and 2009, respectively, and was the result of the following:

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Operating Cash Flows	For the Six Months Ended December 31,	
	2010	2009
	(Dollars in thousands)	
Net income	\$ 32,825	\$ 25,926
Depreciation and amortization	52,241	54,701
Equity in income of affiliated companies	(5,799)	(5,714)
Deferred income taxes	628	(3,240)
Impairment on discontinued operations		(154)
Receivables	(4,592)	19,925
Inventories	(5,627)	(1,689)
Income tax receivable	21,575	11,854
Other current assets	6,672	4,935
Other assets	(2,046)	(32,063)
Accounts payable and accrued expenses	(10,562)	(9,092)
Other non-current liabilities	8,700	4,330
Other	8,818	7,602
	\$ 102,833	\$ 77,321

During the six months ended December 31, 2010, cash provided by operating activities was higher than the corresponding period of the prior fiscal year primarily due to income tax payments received and the \$4.1 million dividend from EEG.

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Net cash used in investing activities was \$38.8 and \$8.9 million during the six months ended December 31, 2010 and 2009, respectively, and was the result of the following:

Investing Cash Flows	For the Six Months Ended December 31,	
	2010	2009
	(Dollars in thousands)	
Capital expenditures for remodels or other additions	\$ (16,438)	\$ (19,098)
Capital expenditures for the corporate office (including all technology-related expenditures)	(9,917)	(2,202)
Capital expenditures for new salon construction	(4,308)	(3,046)
Proceeds from sale of assets	19	32
Business and salon acquisitions	(8,106)	(684)
Proceeds from loans and investments	15,000	16,099
Disbursements for loans and investments	(15,000)	
	\$ (38,750)	\$ (8,899)

During the six months ended December 31, 2010, cash used in investing activities was greater than the corresponding period of the prior fiscal year due to an increase in capital expenditures and acquisitions and a disbursement of \$15.0 million on the revolving credit facility with EEG.

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

	For the Six Months Ended December 31, 2010		For the Six Months Ended December 31, 2009	
	Constructed	Acquired	Constructed	Acquired
Regis Salons	7	9	6	2
MasterCuts	3		6	
SmartStyle	45		64	
Supercuts	7		7	
Promenade	12	17	12	
International	7			
	81	26	95	2

*Financing Activities*

Net cash used in financing activities was \$46.4 and \$2.0 million during the six months ended December 31, 2010 and 2009, respectively, was the result of the following:

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Financing Cash Flows	For the Six Months Ended December 31,	
	2010	2009
	(Dollars in thousands)	
Net payments on revolving credit facilities	\$	\$ (5,000)
Net payments of long-term debt	(42,592)	(313,289)
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	691	156,436
Excess tax benefits from stock-based compensation plans	67	
Dividend paid	(4,599)	(4,569)
Other		(2,878)
	\$ (46,433)	\$ (1,975)

During the six months ended December 31, 2010, cash was used in financing activities due to the repayments on long-term debt and dividends paid. During the six months ended December 31, 2009, cash flows from financing activities were essentially flat due to the \$167.3 and \$156.4 million of proceeds from the issuances of convertible debt and common stock, respectively, offset by the repayments on the revolving credit facilities and long-term debt.

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**Acquisitions**

The acquisitions during the six months ended December 31, 2010 consisted of 33 franchise buybacks and 26 acquired corporate salons. The acquisitions during the six months ended December 31, 2009 consisted of six franchise buybacks and two acquired corporate salons. The acquisitions were funded primarily from operating cash flow.

Prior to June 30, 2011, we expect to acquire an additional 17 percent equity interest in Provalliance for approximately \$56 million (approximately 40 million) in cash. We do not expect this planned purchase to impact the sufficiency of our liquidity or cash resources.

**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 six months ended December 31, 2010.

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 December 31, 2010.

**Dividends**

We paid dividends of \$0.08 per share during the six months ended December 31, 2010 and 2009. On January 31, 2011, our Board of Directors declared a \$0.06 per share quarterly dividend payable February 24, 2011 to shareholders of record on February 10, 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.

Table of Contents**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 December 31, 2010 and June 30, 2010, respectively, the Company had the following outstanding debt balances:

	December 31, 2010	June 30, 2010
	(Dollars in thousands)	
Fixed rate debt	\$ 359,145	\$ 395,029
Floating rate debt	45,000	45,000
	\$ 404,145	\$ 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 balances of fixed and floating rate debt. The Company's variable rate debt typically represents 35.0 to 45.0 percent of the total debt portfolio. As of December 31, 2010, 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 six months ended December 31, 2010.

**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

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rules and forms, and that such information is accumulated and communicated to management, including the chief executive officer 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 chief executive officer 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 September 30, 2010. Based upon this evaluation, the chief executive officer 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.

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**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 consumer and wage and hour violations. Litigation is inherently unpredictable and the outcome of these matters cannot presently be determined. Although company counsel believes that the Company has valid defenses in these matters, it could in the future incur judgments or enter into settlements of claims that could have a material adverse effect on its results of operations in any particular period.

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

**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 six months ended December 31, 2010 declined 1.3 and 1.4 percent, respectively, compared to the three and six months ended December 31, 2009. 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 concept that has the highest likelihood of impairment is Promenade.

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 12,750 locations and 56,000 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.

*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 December 31, 2010, \$31.5 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. The Company has a security interest in the assets of the purchaser of Trade Secret, that the Company believes fully collateralizes the \$31.5 million. Should the collateral decline there is a risk the Company may need to record reserves in future quarters.

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*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,

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- 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 downturns in general economic conditions in our business.

### **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 December 31, 2010.

### **Item 4. Reserved**

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**Item 6. Exhibits**

Exhibit 10.1	Regis Corporation Amended and Restated 2004 Long Term Incentive Plan, incorporated by reference to Appendix A to the Proxy Statement on DEF 14A filed on September 14, 2010 in connection with the Company's 2010 Annual Meeting.
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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(\*\*) 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: February 9, 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