REGIS CORP
Form 10-Q
May 10, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2010

OR

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

For the transition period from to

Commission file number 1-12725

Regis Corporation

(Exact name of registrant as specified in its charter)

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

(952) 947-7777

(Registrant s telephone number, including area code)

N/A

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of May 5, 2010:

Common Stock, $.05 par value Class	**57,434,084** Number of Shares

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REGIS CORPORATION

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

REGIS CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)

As Of March 31, 2010 and June 30, 2009
(In thousands, except share data)

	March 31, 2010	June 30, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 168,905	$ 42,538
Receivables, net	25,548	44,935
Inventories	152,982	158,570
Deferred income taxes	22,453	22,086
Income tax receivable	46,623	47,164
Other current assets	33,085	37,693
Total current assets	449,596	352,986
Property and equipment, net	362,494	391,538
Goodwill	737,726	764,422
Other intangibles, net	120,954	126,961
Investment in and loans to affiliates	199,270	211,400
Other assets	81,894	45,179
Total assets	$ 1,951,934	$ 1,892,486
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Long-term debt, current portion	$ 76,959	$ 55,454
Accounts payable	59,824	62,394
Accrued expenses	160,592	156,638
Total current liabilities	297,375	274,486
Long-term debt and capital lease obligations	392,917	578,853
Other noncurrent liabilities	251,418	236,287
Total liabilities	941,710	1,089,626
Commitments and contingencies (Note 9)		
Shareholders equity:		
Common stock, $0.05 par value; issued and outstanding 57,147,390 and 43,881,364 common shares at March 31, 2010 and June 30, 2009, respectively	2,857	2,194
Additional paid-in capital	329,553	151,394
Accumulated other comprehensive income	62,850	51,855
Retained earnings	614,964	597,417

Total shareholders equity		1,010,224		802,860
Total liabilities and shareholders equity	$	1,951,934	$	1,892,486

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

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REGIS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)

For The Three Months Ended March 31, 2010 and 2009

(In thousands, except per share data)

	2010	2009
Revenues:		
Service	$ 447,879	$ 453,301
Product	129,949	141,169
Royalties and fees	9,743	9,616
	587,571	604,086
Operating expenses:		
Cost of service	255,568	259,465
Cost of product	62,061	74,217
Site operating expenses	48,280	49,864
General and administrative	72,741	69,592
Rent	85,908	85,654
Depreciation and amortization	26,552	27,384
Goodwill impairment	35,277	
Lease termination costs		838
Total operating expenses	586,387	567,014
Operating income	1,184	37,072
Other income (expense):		
Interest expense	(9,039)	(9,684)
Interest income and other, net	3,125	1,316
(Loss) income from continuing operations before income taxes and equity in income of affiliated companies	(4,730)	28,704
Income taxes	525	(9,667)
Equity in income of affiliated companies, net of income taxes	2,680	1,988
(Loss) income from continuing operations	(1,525)	21,025
Income (loss) from discontinued operations, net of income taxes (Note 2)		(12,171)
Net (loss) income	$ (1,525)	$ 8,854
Net (loss) income per share:		
Basic:		
(Loss) income from continuing operations	(0.03)	0.49
Income (loss) from discontinued operations		(0.28)
Net (loss) income per share, basic	$ (0.03)	$ 0.21
Diluted:		
(Loss) income from continuing operations	(0.03)	0.49
Income (loss) from discontinued operations		(0.28)
Net (loss) income per share, diluted	$ (0.03)	$ 0.21

Weighted average common and common equivalent shares outstanding:				
Basic		56,301		42,905
Diluted		56,301		42,917
Cash dividends declared per common share	$	0.04	$	0.04

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

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REGIS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)

For The Nine Months Ended March 31, 2010 and 2009

(In thousands, except per share data)

	2010	2009
Revenues:		
Service	$ 1,332,282	$ 1,367,414
Product	406,773	408,126
Royalties and fees	29,431	29,501
	1,768,486	1,805,041
Operating expenses:		
Cost of service	760,349	783,380
Cost of product	203,976	204,914
Site operating expenses	147,365	145,886
General and administrative	217,912	219,887
Rent	257,298	259,846
Depreciation and amortization	81,253	82,171
Goodwill impairment	35,277	41,661
Lease termination costs	3,552	2,836
Total operating expenses	1,706,982	1,740,581
Operating income	61,504	64,460
Other income (expense):		
Interest expense	(45,424)	(30,782)
Interest income and other, net	6,768	6,513
Income from continuing operations before income taxes and equity in income of affiliated companies	22,848	40,191
Income taxes	(10,002)	(29,008)
Equity in income of affiliated companies, net of income taxes	8,394	142
Income from continuing operations	21,240	11,325
Income (loss) from discontinued operations, net of income taxes (Note 2)	3,161	(131,237)
Net income (loss)	$ 24,401	$ (119,912)
Net income (loss) per share:		
Basic:		
Income from continuing operations	0.38	0.26
Income (loss) from discontinued operations	0.06	(3.06)
Net income (loss) per share, basic	$ 0.44	$ (2.80)
Diluted:		
Income from continuing operations	0.38	0.26
Income (loss) from discontinued operations	0.06	(3.05)
Net income (loss) per share, diluted	$ 0.44	$ (2.79)

Weighted average common and common equivalent shares outstanding:				
Basic		55,572		42,863
Diluted		55,688		42,966
Cash dividends declared per common share	$	0.12	$	0.12

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

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REGIS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

For The Nine Months Ended March 31, 2010 and 2009

(In thousands)

	2010	2009
Cash flows from operating activities:		
Net income (loss)	$ 24,401	$ (119,912)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	73,810	84,189
Amortization	7,443	7,544
Equity in income of affiliated companies	(8,394)	(142)
Deferred income taxes	574	(5,952)
Impairment on discontinued operations	(154)	183,090
Goodwill impairment	35,277	41,661
Excess tax benefits from stock-based compensation plans		(284)
Stock-based compensation	6,934	5,450
Amortization of debt discount and financing costs	4,978	
Other noncash items affecting earnings	(1,298)	(4,291)
Changes in operating assets and liabilities:		
Receivables	(51)	(3,808)
Inventories	5,628	(547)
Income tax receivable	541	(39,979)
Other current assets	4,872	(2,391)
Other assets	(13,130)	1,137
Accounts payable	(2,844)	(2,694)
Accrued expenses	8,738	(21,344)
Other noncurrent liabilities	3,761	(1,002)
Net cash provided by operating activities	151,086	120,725
Cash flows from investing activities:		
Capital expenditures	(36,768)	(64,039)
Proceeds from sale of assets	47	51
Asset acquisitions, net of cash acquired and certain obligations assumed	(2,702)	(40,051)
Proceeds from loans and investments	16,099	17,489
Disbursements for loans and investments		(5,971)
Freestanding derivative settlement	736	
Net cash used in investing activities	(22,588)	(92,521)
Cash flows from financing activities:		
Borrowings on revolving credit facilities	337,000	4,899,600
Payments on revolving credit facilities	(342,000)	(4,973,800)
Proceeds from issuance of long-term debt, net of $5.2 million underwriting discount	167,325	85,000
Repayments of long-term debt and capital lease obligations	(316,597)	(83,519)
Excess tax benefits from stock-based compensation plans		284
Proceeds from issuance of common stock, net of $7.2 million underwriting discount	156,843	2,307
Dividends paid	(6,854)	(5,181)
Other	(2,878)	(4,328)
Net cash used in financing activities	(7,161)	(79,637)

Effect of exchange rate changes on cash and cash equivalents		5,030		(19,131)
Increase (decrease) in cash and cash equivalents		126,367		(70,564)
Cash and cash equivalents:				
Beginning of period		42,538		127,627
End of period	$	168,905	$	57,063

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

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REGIS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

The unaudited interim Condensed Consolidated Financial Statements of Regis Corporation (the Company) as of March 31, 2010 and for the three and nine months ended March 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 March 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, 2009 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, 2009 and other documents filed or furnished with the Securities and Exchange Commission (SEC) during the current fiscal year.

The unaudited condensed consolidated financial statements of the Company as of March 31, 2010 and for the three and nine month periods ended March 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 May 10, 2010 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) and the 2000 Stock Option Plan (2000 Plan). Additionally, the Company has outstanding stock options under its 1991 Stock Option Plan (1991 Plan), although the Plan terminated in 2001. Under these plans, four types of stock-based compensation awards are granted: stock options, equity-based stock appreciation rights (SARs), restricted stock awards (RSAs) and restricted stock units (RSUs). The stock-based awards, other than the RSUs, expire within ten years from the grant date. The RSUs cliff vest after five years, and payment of the RSUs is deferred until January 31 of the year following vesting. Unvested awards are subject to forfeiture in the event of termination of employment. The Company utilizes an option-pricing model to estimate the fair value of options and SARs at their grant date. Stock options and SARs are granted at not less than fair market value on the date of grant. The Company s primary 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 $2.3 and $1.6 million for the three months ended March 31, 2010 and 2009 respectively, and $6.9 and $5.5 million for the nine months ended March 31, 2010 and 2009, respectively.

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

Options	Shares (in thousands)		Weighted Average Exercise Price
Outstanding at June 30, 2009	1,385	$	25.55
Granted			
Exercised			
Forfeited or expired	(70)		20.91
Outstanding at September 30, 2009	1,315	$	25.80
Granted			
Exercised			
Forfeited or expired	(8)		31.44
Outstanding at December 31, 2009	1,307	$	25.76
Granted			
Exercised	(27)		15.07
Forfeited or expired	(259)		16.48
Outstanding at March 31, 2010	1,021	$	28.40
Exercisable at March 31, 2010	792	$	26.97

Outstanding options of 1,021,071 at March 31, 2010 had an intrinsic value (the amount by which the stock price exceeded the exercise or grant date price) of $0.9 million and a weighted average remaining contractual term of 4.0 years. Exercisable options of 791,771 at March 31, 2010 had an intrinsic value of $0.9 million and a weighted average remaining contractual term of 3.1 years. Of the outstanding and unvested options, 222,040 are expected to vest with a $33.42 per share weighted average grant price, a weighted average remaining contractual life of 7.2 years and a total intrinsic value of zero.

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

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, 2009	1,032	$	26.33	1,114	$	26.30
Granted						
Vested/Exercised	2		23.54			
Forfeited or expired	(2)		20.02	(6)		38.63
Balance, September 30, 2009	1,032	$	26.34	1,108	$	26.24
Granted						
Vested/Exercised	2		22.56			
Forfeited or expired						
Balance, December 31, 2009	1,034	$	26.33	1,108	$	26.24

Granted						
Vested/Exercised	2		22.56			
Forfeited or expired						
Balance, March 31, 2010	1,036	$	26.33	1,108	$	26.24

Outstanding and unvested RSAs of 821,198 at March 31, 2010 had an intrinsic value of $15.3 million and a weighted average remaining contractual term of 1.9 years. Of the outstanding and unvested awards, 779,447 are expected to vest with a total intrinsic value of $14.6 million.

Outstanding and unvested RSUs of 215,000 at March 31, 2010 had an intrinsic value of $4.0 million and a weighted average remaining contractual term of 2.0 years. All unvested RSUs are expected to vest in fiscal year 2012.

Outstanding SARs of 1,108,400 at March 31, 2010 had a total intrinsic value of zero and a weighted average remaining contractual term of 7.9 years. Exercisable SARs of 258,760 at March 31, 2010 had a total intrinsic value of zero and a weighted average remaining contractual term of 5.6 years. Of the outstanding and unvested rights, 819,395 are expected to

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vest with a $23.00 per share weighted average grant price, a weighted average remaining contractual life of 8.6 years and a total intrinsic value of zero.

During both the three and nine months ended March 31, 2010 total cash received from the exercise of share-based instruments was $0.4 million. During the three and nine months ended March 31, 2009 total cash received from the exercise of share-based instruments was zero and $2.3 million, respectively.

As of March 31, 2010, the total unrecognized compensation cost related to all unvested stock-based compensation arrangements was $24.0 million. The related weighted average period over which such cost is expected to be recognized was approximately 3.3 years as of March 31, 2010.

The total intrinsic value of all stock-based compensation that was exercised during both the three and nine months ended March 31, 2010 was $0.1 million. The total intrinsic value of all stock-based compensation that was exercised during the three and nine months ended March 31, 2009 was zero and $1.6 million, respectively.

Goodwill:

Goodwill is tested for impairment annually or when events or circumstances occur that would more likely than not reduce the fair value of a reporting unit below its carrying value. 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 growth, 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 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.

For the three months ended December 31, 2009, the Regis salon concept reported same-store sales of negative 10.0 percent, which was unfavorable compared to the Company s budgeted same-store sales. As a result of the lower than expected same-store sales, the Company performed the first step of a goodwill impairment test by comparing the carrying value of the Regis salon concept, including goodwill to its estimated fair value as of December 31, 2009. The estimated fair value as of December 31, 2009 was approximately $26.0 million or 14.0 percent above the carrying value.

The Regis salon concept reported same-store sales results of negative 5.8 percent for the three months ended March 31, 2010, which was unfavorable compared to the Company s budgeted same-store sales. Such results indicated customer visitation patterns were not rebounding as quickly as the Company had originally projected. Accordingly, the Company reduced the budgeted financial projections for the remainder of fiscal 2010 and all of fiscal year 2011. The lowered projections assume the higher price point Regis salon concept remains a strong viable business that will require a longer, slower recovery. As a result of the lowered projections for the remainder of fiscal year 2010 and all of fiscal year 2011, the estimated fair value of the Regis salon concept decreased to a level below the Regis salon concept s carrying value.

As a result of the Company s annual impairment testing of goodwill during the three months ended March 31, 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 the goodwill for the Regis salon concept. After the impairment charge the Regis salon concept reporting unit has $101.3 million of goodwill.

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As of March 31, 2010, 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 values of Regis and Promenade to be appropriate based on the historical level of revenue growth, operating income and cash flows, it is reasonably likely that Regis and 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 inherent assumptions and estimates used in determining the fair value of this reportable segment are outside the control of management, changes in these underlying assumptions can adversely impact fair value. Potential impairment of a portion or all of the carrying value of the Regis salon concept and Promenade salon concept goodwill is dependent on many factors and cannot be predicted with certainty.

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

Recent Accounting Standards Adopted by the Company:

Accounting Standards Codification

In June 2009, the Financial Accounting Standards Board (FASB) issued guidance that establishes two levels of U.S. generally accepted accounting principles (GAAP), authoritative and nonauthoritative. The guidance establishes the FASB Accounting Standards Codification (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the SEC under federal securities laws are also sources of authoritative GAAP for SEC registrants. All guidance contained in the Codification carries an equal level of authority. The Codification was effective on a prospective basis for interim and annual reporting periods ending after September 15, 2009. The adoption of the Codification changed the Company s references to GAAP accounting standards, but did not impact the Company s financial position, results of operations and cash flows.

Fair Value Measurements

In February 2008, the FASB issued guidance for the accounting for non-financial assets and non-financial liabilities. The new guidance permitted a one-year deferral of the application of fair value accounting for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

The adoption of the new guidance on July 1, 2009, for non-financial assets and non-financial liabilities, did not have a material effect on the Company s financial position, results of operations and cash flows.

Business Combinations

In December 2007, the FASB issued guidance for accounting for business combinations. The guidance establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interests in the acquiree and the goodwill acquired. Some of the key changes are the accounting treatment for certain specific acquisition related items including: (1) accounting for acquired in process research and development as an indefinite-lived intangible asset until approved or discontinued rather than as an immediate expense; (2) expensing acquisition costs rather than adding them to the cost of an acquisition; (3) expensing restructuring costs in connection with an acquisition rather than adding them to the cost of an acquisition; (4) including the fair value of contingent consideration at the date of an acquisition in the cost of an acquisition; and (5) recording an asset or liability arising from a contingency at the date of an acquisition at fair value if fair value can be reasonably determined. If fair value can not be determined, the asset or liability would be recognized in accordance with accounting for contingencies guidance.

The adoption of the new guidance on July 1, 2009, for business combinations, did not have a material effect on the Company s financial position, results of operations and cash flows for the three and nine months ended March 31, 2010. The guidance may have a material impact on future fiscal periods in the event the Company s acquisition activity increases.

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Disclosures about Fair Value of Financial Instruments

In April 2009, the FASB issued guidance on disclosures about fair value of financial instruments to be presented in interim financial statements in addition to annual financial statements. The Company adopted the new disclosure guidance about fair value of financial instruments on July 1, 2009.

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).

The Company adopted the new disclosure guidance on January 1, 2010, except for the disclosure on the roll forward activities for Level 3 fair value measurements, which will be adopted by the Company on July 1, 2011. Other than the additional disclosures, adoption of this new guidance did not have a material impact on our financial statements.

Participating Securities Granted in Share-Based Payment Transactions

In June 2008, the FASB issued guidance that clarified all share-based payment awards that contain rights to non-forfeitable dividends participate in undistributed earnings with common shareholders. Therefore, awards of this nature are considered participating securities and the two-class method of computing basic and diluted earnings per share must be applied rather than the treasury stock method. In addition, once effective, all prior period earnings per share data presented must be adjusted retrospectively to conform to the provisions of the guidance.

The Company s outstanding unvested restricted stock awards do not contain rights to non-forfeitable dividends and as a result, the adoption of the new guidance on July 1, 2009, had no impact on the Company s diluted earnings per share.

Equity Method Investment Accounting Considerations

In November 2008, the FASB issued guidance that indicates, among other things, that transaction costs for an investment should be included in the cost of the equity-method investment (and not expensed) and shares subsequently issued by the equity-method investee that reduce the investor s ownership percentage should be accounted for as if the investor had sold a proportionate share of its investment, with gains or losses recorded through earnings.

The adoption of the new guidance on July 1, 2009, for equity method investment accounting considerations did not have a material effect on the Company s financial position, results of operations and cash flows.

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

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 provisions will be effective for revenue arrangements entered into or materially modified in the Company s fiscal year 2011 and must be applied prospectively. The Company is currently evaluating the impact the guidance will have on the Company s Consolidated Financial Statements.

Amendments to Accounting for Variable Interest Entities

In June 2009, the FASB issued guidance on the accounting for variable interest entities. The guidance amends previous variable interest entity guidance to require an enterprise to perform an analysis to determine whether the enterprise s variable interest or interests give it a controlling financial interest in a variable interest entity. Additionally, an enterprise is required to assess whether it has an implicit financial responsibility to ensure that a variable interest entity operates as designed when determining whether it has the power to direct the activities of the variable interest entity that most significantly impact the entity s economic performance. This guidance requires enhanced disclosures that will provide users of financial statements with more transparent information about an enterprise s involvement in a variable interest entity. It would also require ongoing assessments to determine whether an entity is a variable interest entity and whether an enterprise is the primary

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beneficiary of a variable interest entity. The guidance is effective for the Company s fiscal year 2011. The Company is evaluating the impact the guidance will have on the Company s Consolidated Financial Statements.

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 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 buyer of Trade Secret and provide certain administrative services for a transition period. Under this agreement, the Company recognized $20.0 and $12.6 million of product revenues on the supply of product sold to the purchaser of Trade Secret during the nine months ended March 31, 2010 and 2009, respectively, and $1.9 and $1.0 million of other income related to the administrative services during the nine months ended March 31, 2010 and 2009, respectively. The agreement was substantially complete as of September 30, 2009. The Company currently has an agreement in which the Company provides warehouse services to the purchaser of Trade Secret. Under the warehouse services agreement, the Company recognized $1.0 and $2.1 million of other income related to warehouse services during the three and nine months ended March 31, 2010.

As of March 31, 2010, $32.0 million was due to the Company from the purchaser of Trade Secret, $2.5 million was classified within current assets and $29.5 million was classified within other assets. During the three months ended March 31, 2010, the Company entered into a formal note receivable agreement with the purchaser of Trade Secret that requires quarterly interest payments of 8.0 percent and quarterly principal payments that escalate until the final payment in November of 2014. Collateral for the receivables under the agreement is assets of the purchaser of Trade Secret, including property and equipment, inventory, promissory notes and cash. The Company recognized $1.2 million of interest income related to the note receivable agreement for the nine months ended March 31, 2010.

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

	For the Periods Ended March 31,			
	Three Months		Nine Months	
	2010	2009	2010	2009
	(Dollars in thousands)		(Dollars in thousands)	
Revenues	$	$ 28,889	$	$ 163,436
Income (loss) from discontinued operations, before income taxes	$	$ (12,789)	$ 154	$ (190,234)
Income tax benefit on discontinued operations		618	3,007	58,997

Income (loss) from discontinued operations, net of income taxes	$	$ (12,171)	$ 3,161	$ (131,237)

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

3. SHAREHOLDERS EQUITY:

Net Income Per Share:

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

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from the computation of diluted earnings per share when interest expense per common share obtainable upon conversion is greater than basic earnings per share.

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

	For the Periods Ended March 31,			
	Three Months		Nine Months	
	2010	2009	2010	2009
	(Shares in thousands)		(Shares in thousands)	
Weighted average shares for basic earnings per share	56,301	42,905	55,572	42,863
Effect of dilutive securities:				
Dilutive effect of stock-based compensation (1)		12	116	103
Weighted average shares for diluted earnings per share	56,301	42,917	55,688	42,966

(1) For the three months ended March 31, 2010, 220 common stock equivalents of potentially dilutive common stock were not included in the diluted earnings per share calculation because to do so would have been anti-dilutive.

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

	For the Periods Ended March 31,			
	Three Months		Nine Months	
	2010	2009	2010	2009
	(Shares in thousands)		(Shares in thousands)	
Basic earnings per share:				
RSAs (1)	821	291	821	291
RSUs (1)	215	215	215	215
	1,036	506	1,036	506
Diluted earnings per share:				
Stock options (2)	770	1,533	770	905
SARs (2)	1,108	506	1,108	513
RSAs (2)	157	279	189	279
RSUs (2)		215		215
	2,035	2,533	2,067	1,912

(1) Shares were not vested

(2) Shares were anti-dilutive

Additional Paid-In Capital:

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

		(Dollars in thousands)
Balance, June 30, 2009	$	151,394
Additional paid-in capital from share offering		162,932
Equity component of convertible debt, net of taxes		15,386
Equity offering costs		(8,154)
Stock-based compensation		6,934
Exercise of stock options		406
Stock option tax benefit		313
Franchise stock incentive plan		290
Other		52
Balance, March 31, 2010	$	329,553

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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 (loss) for the three and nine months ended March 31, 2010 and 2009 was as follows:

	For the Periods Ended March 31,			
	Three Months		Nine months	
	2010	2009	2010	2009
	(Dollars in thousands)		(Dollars in thousands)	
Net (loss) income	$ (1,525)	$ 8,854	$ 24,401	$ (119,912)
Other comprehensive (loss) income:				
Changes in fair market value of financial instruments designated as cash flow hedges of interest rate exposure, net of taxes	(16)	235	2,134	(2,865)
Cumulative foreign currency translation	(3,766)	(14,432)	8,861	(73,548)
Total comprehensive (loss) income	$ (5,307)	$ (5,343)	$ 35,396	$ (196,325)

4. FAIR VALUE MEASUREMENTS:

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

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

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

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

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

- Inputs that are derived principally from or corroborated by other observable market data.

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

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

The fair value hierarchy requires the use of observable market data when available. In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company s assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability. The following tables sets forth by level within the fair value hierarchy, the Company s financial assets and liabilities that were accounted for at fair value on a recurring basis at March 31, 2010 and June 30, 2009, according to the valuation techniques the Company used to determine their fair values.

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	Fair Value at March 31, 2010	Level 1	Fair Value Measurements Using Inputs Considered as Level 2 (Dollars in thousands)	Level 3
ASSETS				
Non-current assets				
Derivative instruments	$ 110	$	$ 110	$
Preferred shares	3,362			3,362
LIABILITIES				
Current liabilities				
Derivative instruments	$ 79	$	$ 79	$
Long-term liabilities				
Derivative instruments	$ 1,283	$	$ 1,283	$
Equity put option	23,232			23,232

	Fair Value at June 30, 2009	Level 1	Fair Value Measurements Using Inputs Considered as Level 2 (Dollars in thousands)	Level 3
ASSETS				
Current assets				
Derivative instruments	$ 1,543	$	$ 1,543	$
LIABILITIES				
Current liabilities				
Derivative instruments	$ 16	$	$ 16	$
Long-term liabilities				
Derivative instruments	$ 5,786	$	$ 5,786	$
Equity put option	24,161			24,161

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

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

	Preferred Shares	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):			
Included in other comprehensive income		1,029	1,029
Balance at September 30, 2009	$	$ 25,190	$ 25,190
Total realized and unrealized gains (losses):			
Included in other comprehensive income		(551)	(551)
Balance at December 31, 2009	$	$ 24,639	$ 24,639
Total realized and unrealized gains (losses):			

Included in other comprehensive income		(1,407)	(1,407)
Additions to Level 3	3,362		3,362
Balance at March 31, 2010	$ 3,362	$ 23,232	$ 26,594

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	Changes in Financial Instruments Measured at Level 3 Fair Value Classified as			
	Equity Put Option		Total	
	(Dollars in thousands)			
Balance at July 1, 2008	$	24,803	$	24,803
Total realized and unrealized gains (losses):				
Included in other comprehensive income		(2,120)		(2,120)
Balance at September 30, 2008	$	22,683	$	22,683
Total realized and unrealized gains (losses):				
Included in other comprehensive income		(552)		(552)
Balance at December 31, 2008	$	22,131	$	22,131
Total realized and unrealized gains (losses):				
Included in other comprehensive income		(1,397)		(1,397)
Balance at March 31, 2009	$	20,734	$	20,734

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

Derivative instruments. The Company s derivative instrument 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. See further discussion within Note 6 of the Condensed Consolidated Financial Statements. The equity put option is valued using binomial lattice models that incorporate assumptions including the business enterprise value at that date and future estimates of volatility and earnings before interest, taxes, and depreciation and amortization multiples. At March 31, 2010, the fair value of the equity put option was $23.2 million and is classified within other noncurrent liabilities on the balance sheet.

Preferred Shares. The Company has preferred shares in Yamano Holding Corporation. See further discussion within Note 6 of 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 March 31, 2010 the subscription value of the preferred shares of 311,131,284 Yen ($3.4 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 March 31, 2010. At March 31, 2010, the estimated fair values and carrying amounts of debt were $482.6 and $469.9 million, respectively. The estimated fair value of debt was determined based on internal valuation models, which utilize quoted market prices and interest rates for the same or similar instruments.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

We measure certain assets, including the Company s equity method investments, 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.

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	March 31, 2010	Level 1	Level 2 (Dollars in thousands)	Level 3	Total Losses
Assets					
Goodwill - Regis	$ 101,337	$	$	$ 101,337	$ (35,277)
Total	$ 101,337	$	$	$ 101,337	$ (35,277)

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

The assets measured at fair value on a nonrecurring basis during the nine months ended March 31, 2009 were goodwill of the salon concepts in the United Kingdom and the Company s investment in and loans to Intelligent Nutrients, LLC. During the nine months ended March 31, 2009 the Company recorded $41.7 million and $7.8 million of impairment charges for the entire carrying value of the United Kingdom salon concept goodwill and investment in and loans to Intelligent Nutrients, LLC, respectively.

5. GOODWILL AND OTHER INTANGIBLES:

The table below contains details related to the Company s recorded goodwill as of March 31, 2010 and June 30, 2009:

	Salons North America	International	Hair Restoration Centers	Consolidated
		(Dollars in thousands)		
Gross goodwill at June 30, 2009	$ 615,055	$ 41,661	$ 149,367	$ 806,083
Accumulated impairment losses (1)		(41,661)		(41,661)
Net goodwill at June 30, 2009	615,055		149,367	764,422
Goodwill acquired	1,842			1,842
Translation rate adjustments	6,731		8	6,739
Goodwill impairment (2)	(35,277)			(35,277)
Gross goodwill at March 31, 2010	623,628	41,661	149,375	814,664
Accumulated impairment losses (1)(2)	(35,277)	(41,661)		(76,938)
Net goodwill at March 31, 2010	$ 588,351	$	$ 149,375	$ 737,726

(1) During the three months ended December 31, 2008, the fair value of the Company s stock declined such that it began trading below book value per share. As a result of the Company s interim impairment test of goodwill during the three months ended December 31, 2008, there was a $41.7 million impairment charge for the full carrying amount of goodwill within the salon concepts in the United Kingdom.

(2) As a result of the Company s annual impairment testing of goodwill during the three months ended March 31, 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 table below presents other intangible assets as of March 31, 2010 and June 30, 2009:

	March 31, 2010			June 30, 2009		
	Cost	Accumulated Amortization (1)	Net	Cost	Accumulated Amortization (1)	Net
	(Dollars in thousands)					
Amortized intangible assets:						
Brand assets and trade names	$ 79,870	$ (11,688)	$ 68,182	$ 79,064	$ (9,964)	$ 69,100
Customer lists	52,045	(27,304)	24,741	52,045	(23,252)	28,793
Franchise agreements	21,569	(7,404)	14,165	20,691	(6,299)	14,392
Lease intangibles	14,720	(4,298)	10,422	14,615	(3,737)	10,878
Non-compete agreements	335	(136)	199	121	(60)	61
Other	6,875	(3,630)	3,245	6,887	(3,150)	3,737
	$ 175,414	$ (54,460)	$ 120,954	$ 173,423	$ (46,462)	$ 126,961

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

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

	Weighted Average Amortization Period (In years)	
	March 31, 2010	June 30, 2009
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	4
Other	18	18
Total	26	26

Total amortization expense related to the amortizable intangible assets was approximately $2.5 million during the three months ended March 31, 2010 and 2009 and $7.4 and $7.5 million during the nine months March 31, 2010 and 2009, respectively. As of March 31, 2010, future estimated amortization expense related to amortizable intangible assets is estimated to be:

Fiscal Year		(Dollars in thousands)
2010 (Remainder: three-month period)	$	2,358
2011		9,688
2012		9,436
2013		9,127
2014		8,930

6. ACQUISITIONS, INVESTMENT IN AND LOANS TO AFFILIATES:

Acquisitions

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

The components of the aggregate purchase prices of the acquisitions made during the nine months ended March 31, 2010 and 2009 and the allocation of the purchase prices were as follows:

Allocation of Purchase Prices	For the Nine Months Ended March 31, 2010		2009
	(Dollars in thousands)		
Components of aggregate purchase prices:			
Cash	$ 2,702		$ 40,051
Deferred purchase price			75
	$ 2,702		$ 40,126
Allocation of the purchase price:			
Current assets	$ 156		$ 1,321
Property and equipment	662		6,150
Deferred income taxes			1,787
Goodwill	1,842		30,608
Identifiable intangible assets	124		1,317
Accounts payable and accrued expenses	(82)		(754)
Other noncurrent liabilities			(303)
	$ 2,702		$ 40,126

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

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

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

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

Investment in and loans to affiliates

The table below presents the carrying amount of investments in and loans to affiliates as of March 31, 2010 and June 30, 2009:

	March 31, 2010	June 30, 2009
	(Dollars in thousands)	
Empire Education Group, Inc.	$ 100,604	$ 111,451
Provalliance	81,146	82,135
MY Style	12,146	12,718
Hair Club for Men, Ltd.	5,374	5,096
	$ 199,270	$ 211,400

Empire Education Group, Inc.

On August 1, 2007, the Company contributed its 51 wholly-owned accredited cosmetology schools to Empire Education Group, Inc. (EEG) in exchange for a 49.0 percent equity interest in EEG. In January 2008, the Company s effective ownership interest increased to 55.1 percent related to the buyout of EEG s minority interest shareholder. This transaction leverages EEG s management expertise, while enabling the Company to maintain a vested interest in the beauty school industry. EEG operates 95 accredited cosmetology schools.

The carrying value of the contributed schools approximated the estimated fair value of the Company s interest in EEG, resulting in no gain or loss on the date of contribution. The $40.5 million difference between the carrying amount and the Company s underlying equity in net assets of

EEG is related to the indefinite lived license and accreditation intangible assets and goodwill. The Company s investment in EEG is accounted for under the equity method of accounting. At March 31, 2010, the Company had a $21.4 million outstanding loan receivable from EEG. The Company has also provided EEG with a $15.0 million revolving credit facility, against which there was no outstanding borrowings as of March 31, 2010. During the three and nine months ended March 31, 2010 and 2009, the Company recorded $0.2 and $0.1 million, respectively, and $0.6 and $0.4 million, respectively, of interest income related to the loan and revolving credit facility. The exposure to loss related to the Company s involvement with EEG is the carrying value of the investment and the outstanding loan.

The Company utilized consolidation of variable interest entities guidance to determine whether or not its investment in EEG was a variable interest entity (VIE), and if so, whether the Company was the primary beneficiary of the VIE. The Company concluded that EEG was not a VIE based on the fact that EEG had sufficient equity at risk. As the substantive voting control relates to the voting rights of the Board of Directors, the Company granted the other shareholder a proxy to vote such number of the Company s shares such that the other shareholder would have voting control of 51.0 percent of the common stock of EEG. The Company accounts for EEG as an equity investment under the voting interest model. During the nine months ended March 31, 2010 and 2009, the Company recorded $4.2 and $0.3 million of equity earnings related to its investment in EEG.

Provalliance

On January 31, 2008, the Company merged its continental European franchise salon operations with the operations of the

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Franck Provost Salon Group in exchange for a 30.0 percent equity interest in the newly formed Provalliance entity (Provalliance). The merger with the operations of the Franck Provost Salon Group which are also located in continental Europe, created Europe s largest salon operator with approximately 2,500 company-owned and franchise salons as of March 31, 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 has been 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 nine months ended March 31, 2010 and 2009. The Company recorded a $2.1 million increase in the fair value of the Equity Put during fiscal year 2009. Any changes related to foreign currency translation are recorded in accumulated other comprehensive income. The Company recorded a $0.9 million decrease the Equity Put related to foreign currency translation during the nine months ended March 31, 2010, see further discussion within Note 4 to the Condensed Consolidated Financial Statements. The merger agreement also contains an option (Equity Call) whereby the Company can acquire additional ownership interest in Provalliance between specific dates in 2018 to 2020 at an acquisition price determined consistent with the Equity Put.

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

Regis determined that the relationship and the significance of the activities of Provalliance is more closely associated with the Franck Provost Group. Furthermore, the Company determined, based on a quantitative analysis that the Franck Provost Group has greater exposure to the expected losses of Provalliance. The variability that the Company could be required to absorb via its equity interest in Provalliance and its expanded interest via exercise of the Equity Put was determined to be well less than 50.0 percent. 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.

During the nine months ended March 31, 2010 and 2009, the Company recorded $3.5 and $4.9 million, respectively, of equity in income related to its investment in Provalliance. Primarily the result of the weakened economy across continental Europe, Provalliance had recorded income at levels much less than expected by Regis management during the Company s fiscal year ended June 30, 2009. In addition, Provalliance significantly increased its debt levels but had significantly reduced future income expectations as a result of current economic conditions. The Company calculated the estimated fair value of Provalliance based on discounted future cash flows that utilize estimates in annual revenue growth, gross margins, capital expenditures, income taxes and long-term growth for determining terminal value. The discounted cash flow model utilizes projected financial results based on Provalliance s business plans and historical trends. The increased debt and reduced earnings expectations reduced the fair value of Provalliance as of June 30, 2009. Accordingly, the Company could no longer justify the carrying amount of its investment in Provalliance and recorded a $25.7 million other-than-temporary impairment charge in its fourth quarter ended June 30, 2009. 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.

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

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

The Company determined that the September 2008 modifications to the Exchangeable Note were more than minor and the loan modification should be treated as an extinguishment. The Company recorded a $2.1 million (224,000,000 Yen as of September 2008) gain related to the modification of the Exchangeable Note. However, based upon the overall fair value of the Exchangeable Note on the date of modification, the Company recorded an other than temporary impairment loss of $3.4 million (370,000,000 Yen as of September 2008). The $1.3 million net amount of the gain and other than temporary impairment was recorded within equity in loss of affiliates within the Consolidated Statement of Operations during the fourth quarter of fiscal year 2009.

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.

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 March 31, 2010, the principal amount outstanding under the Exchangeable Note is $3.2 million (300,000,000 Yen). Principal payments of 100,000,000 Yen are due annually on September 30 through September 30, 2012. The Exchangeable Note accrues interest at 1.845 percent and interest is payable on September 30, 2012 with the final principal payment. The Company recorded less than $0.1 million in interest income related to the Exchangeable Note during the nine months ended March 31, 2010 and 2009.

MY Style Note. As of March 31, 2010, the principal amount outstanding under the MY Style Note is $2.3 million (208,656,000 Yen). Principal payments of 52,164,000 Yen along with accrued interest are due annually on May 31 through May 31, 2013. The MY Style Note accrues interest at 3.0 percent. The Company recorded less than $0.1 million in interest income related to the MY Style Note during the nine months ended March 31, 2010 and 2009.

As of March 31, 2010, $1.7 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 Consolidated Statement of Operations. The foreign currency transaction gain recorded through other income was $1.0 and $1.9 million during the nine months ended March 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 nine months ended March 31, 2010 and 2009 the Company recorded income of $0.7 and $0.4 million, respectively, and received cash dividends of $0.4 and $0.7 million, respectively. The exposure to loss related to the Company s involvement with Hair Club for Men, Ltd. is the carrying value of the investment.

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Intelligent Nutrients LLC

Effective December 31, 2009, the Company transferred its ownership interest in Intelligent Nutrients, LLC to the other shareholder. In consideration for the transfer of the Company s ownership interest, Intelligent Nutrients, the other shareholder, and the individual owner of the other shareholder will indemnify and hold harmless the Company from all current and future obligations of Intelligent Nutrients. Until December 31, 2009, the Company held a 49.0 percent interest in Intelligent Nutrients, LLC. The Company s investment was previously accounted for under the equity method of accounting. During fiscal year 2009, the Company determined that its investment in and loans to Intelligent Nutrients, LLC were impaired and the fair value was zero due to Intelligent Nutrients, LLC s inability to develop a professional organic brand of shampoo and conditioner with a price point that would develop broad consumer appeal. The Company also determined that the loss in value was other-than-temporary and recognized a pretax, non-cash impairment charge of $7.8 million for the full carrying value of the investment and loans as of December 31, 2008. The Company has no further exposure to loss related to the Company s involvement with Intelligent Nutrients, LLC.

7. DERIVATIVE FINANCIAL INSTRUMENTS:

The Company s primary market risk exposures in the normal course of business are changes in interest rates and foreign currency exchange rates. The Company has established policies and procedures that govern the management of these exposures through the use of a variety of strategies, including the use of derivative financial instrument contracts. By policy, the Company does not enter into such contracts for the purpose of speculation or trading. Hedging transactions are limited to an underlying exposure. The Company has established an interest rate management policy that manages the interest rate mix of its total debt portfolio and related overall cost of borrowing. The Company s 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.

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

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

Cash Flow Hedges

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

The Company uses interest rate swaps to maintain its variable to fixed rate debt ratio in accordance with its established policy. As of March 31, 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 and related debt have maturity dates between fiscal year 2011 and 2012.

The Company repaid variable and fixed rate debt during the nine months ended March 31, 2010. Prior to the repayments, the Company had two outstanding interest rate swaps totaling $50.0 million on $100.0 million aggregate variable rate debt with maturity dates between fiscal years 2013 and 2015. The interest rate swaps were terminated prior to the maturity dates in conjunction with the repayments and were settled for an aggregate loss of $5.2 million. The $5.2 million loss recorded during the first quarter of fiscal year 2010 on the termination of the interest rate swaps was recorded within interest expense in the Condensed Consolidated Statement of Operations. The Company also had two outstanding treasury lock agreements with maturity dates between fiscal years 2013 and 2015. The treasury lock agreements were terminated prior to the maturity dates in conjunction with the repayments and were settled for a loss of less than $0.1 million during the nine months ended

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March 31, 2010 and recorded within interest expense in the Condensed Consolidated Statement of Operations.

The Company uses forward foreign currency contracts to manage foreign currency rate fluctuations associated with certain forecasted intercompany transactions and international business travel. The Company s primary forward foreign currency contracts hedge approximately 0.6 million of payments in Canadian dollars for intercompany transactions. The Company s forward foreign currency contracts hedge transactions through fiscal year 2011.

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

Fair Value Hedges

In the past, the Company had two interest rate swaps designated as fair value hedges. The Company paid variable rates of interest and received fixed rates of interest under these contracts. The contracts and related debt matured during the nine months ended March 31, 2009.

Freestanding Derivative Forward Contracts

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

In November 2009, the Company terminated its freestanding derivative contract on its remaining payments on the MY Style Note and recorded a gain of $0.7 million. The contract was settled in cash, discounted to present value. Gains and losses over the life of the contract were recognized currently in earnings in conjunction with marking the contract to fair value. A net loss of $0.2 million was recognized during the nine months ended March 31, 2010. A net gain of $0.9 million was recognized during fiscal year ended June 30, 2009.

The Company had the following derivative instruments in its Condensed Consolidated Balance Sheet as of March 31, 2010 and June 30, 2009:

	Asset			Liability		
		Fair Value			Fair Value	
Type	Classification	March 31, 2010	June 30, 2009	Classification	March 31, 2010	June 30, 2009
		(In thousands)			(In thousands)	

Designated as hedging instruments Cash Flow Hedges:										
Interest rate swaps		$		$		Other noncurrent liabilities	$	(1,283)	$	(5,786)
Forward foreign currency contracts	Other current assets	$	110	$	380	Other current liabilities	$	(79)	$	
Freestanding derivative contracts not designated as hedging instruments:										
Forward foreign currency contracts	Other current assets	$		$	1,163	Other current liabilities	$		$	(16)
Total		$	**110**	$	**1,543**		**$**	**(1,362)**	**$**	**(5,802)**

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

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Type	Other Comprehensive Income (Gain)/Loss at March 31, 2010	2009	Classification	(Gain) / Loss Reclassified from Accumulated OCI into Income at March 31, 2010	2009
	(In thousands)			(In thousands)	
Designated as hedging instruments Cash Flow Hedges:					
Interest rate swaps	$ 799	$ 4,781		$	$
Forward foreign currency contracts	67	(803)	Cost of sales	(274)	62
Treasury lock contracts		(255)	Interest income	(388)	(3)
Total	$ 866	$ 3,723		$ (662)	$ 59
Designated as hedging instruments Fair Value Hedges:					
Fair value swap	$ 7,932	$ 7,932		$	$
Total	$ 8,798	$ 11,655		$ (662)	$ 59

As of March 31, 2010 the Company estimates that it will reclassify into earnings during the next twelve months a loss of less than $0.1 million from the pretax amount recorded in AOCI as the anticipated cash flows occur.

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

Type	Classification	Deferred (Gain) Amortized to Income or Freestanding Derivative Impact in Income at March 31, 2010	2009
		(In thousands)	
Designated as hedging instruments Fair Value Hedges:			
Fair value swap	Interest income	$	$ (335)
Freestanding derivative contracts not designated as hedging instruments:			
Forward foreign currency contracts	Foreign exchange (gain) loss	$ 301	$ (2,908)
		$ 301	$ (3,243)

8. LEASE TERMINATION COSTS:

In June 2009, the Company approved a plan to close up to 80 underperforming United Kingdom company-owned salons in fiscal year 2010. The Company believes the closure of these salons will add to future profitability.

As of March 31, 2010, 22 stores under the June 2009 plan ceased using the rights to use the leased property or negotiated a lease termination agreement with the lessor in which the Company ceased using the right to the leased property subsequent to March 31, 2010. Lease termination costs from continuing operations are presented as a separate line item in the Condensed Consolidated Statement of Operations.

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

As of March 31, 2010 and 2009, 86 and 47 stores, respectively, under the July 2008 plan ceased using the right to use the leased property or negotiated a lease termination agreement with the lessor in which the Company ceased using the right to the leased property subsequent to March 31, 2010 and 2009, respectively. Of the 86 stores closed as of March 31, 2010, 80 were within the North America reportable segment, one store within the international segment, and 5 stores within discontinued operations. Of the 47 stores closed as of March 31, 2009, 39 were within the North America reportable segment, five stores within discontinued operations and three stores within the international segment.

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

Accrual for Lease Terminations		**For the Nine Months Ended March 31, 2010**		**2009**
		(Dollars in thousands)		
Balance at July 1,	$	2,760	$	
Provision for lease termination costs:				
Provisions associated with store closings		3,577		1,173
Change in assumptions about lease terminations and sublease income				
Cash payments		(1,051)		(695)
Balance at September 30,	$	5,286	$	478
Provision for lease termination costs:				
Provisions associated with store closings		42		1,298
Change in assumptions about lease terminations and sublease income				
Cash payments		(1,419)		(1,105)
Balance at December 31,	$	3,909	$	671
Provision for lease termination costs:				
Provisions associated with store closings				854
Change in assumptions about lease terminations and sublease income		(67)		
Cash payments		(386)		(704)
Balance at March 31,	$	3,456	$	821

The $3.3 million of lease termination expense for the nine months ended March 31, 2009 includes $0.5 million of lease termination expense associated with five salons within the Trade Secret concept, accounted for within the loss on discontinued operations as of March 31, 2009.

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 the Company s first fiscal quarter of 2010, the Company settled two legal claims regarding certain customer and employee matters for an aggregate charge of $3.6 million plus a commitment to provide discount coupons. As of March 31, 2010 there was a $3.5 million accrual remaining within accrued expenses related to the settlements.

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10. FINANCING ARRANGEMENTS:

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

		Total Debt
Balance at June 30, 2009	$	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		(301,004)
Debt discount		(24,696)
Amortized debt discount		868
Debt associated with capital lease obligations		1,736
Balance at September 30, 2009	$	478,711
Net payments on revolving credit facilities		
Repayment of long-term debt and capital lease obligations		(12,285)
Amortized debt discount		984
Debt associated with capital lease obligations		2,931
Balance at December 31, 2009	$	470,341
Net payments on revolving credit facilities		
Repayment of long-term debt and capital lease obligations		(3,308)
Amortized debt discount		1,041
Debt associated with capital lease obligations		1,802
Balance at March 31, 2010	$	469,876

In July 2009, the Company amended the Fourth Amended and Restated Credit Agreement, the Term Loan Agreement and the Amended and Restated Private Shelf Agreement. The amendments included increasing the Company s minimum net worth covenant from $675 million to $800 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).

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

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

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

(Dollars in thousands)		Convertible Senior Notes Due 2014 March 31, 2010
Principal amount on the convertible senior notes	$	172,500
Unamortized debt discount		(21,803)
Net carrying amount of convertible debt	$	150,697

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

(Dollars in thousands)			Convertible Senior Notes Due 2014 Nine Months Ended March 31, 2010
Interest cost related to contractual interest coupon	5.0%	$	6,109
Interest cost related to amortization of the discount			2,893
Total interest cost		$	9,002

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

11. INCOME TAXES:

Income taxes have been allocated to continuing and discontinued operations based on the guidance for accounting for income taxes in interim periods. Discontinued operations are excluded in determining the estimated effective income tax rate from continuing operations and the corresponding income tax expense (benefit). The determination of the annual effective income tax rate is based upon a number of significant estimates and judgments, including the estimated annual pretax income of the Company in each tax jurisdiction in which it operates and the development of tax planning strategies during the year. In addition, as a global enterprise, the Company s interim tax expense (benefit) can be impacted by changes in tax rates or laws, the finalization of tax audits or reviews, as well as other factors that cannot be predicted with certainty. As such, there can be significant volatility in interim tax provisions.

During the three and nine months ended March 31, 2010, the Company s continuing operations recognized tax (benefit) expense of $(0.5) million and $10.0 million, respectively, with corresponding effective tax rates of 11.1 percent and 43.8 percent. Tax expense for the three and nine months ended March 31, 2009 was $9.7 million and $29.0 million with corresponding effective tax rates of 33.7 percent and 72.2 percent in the comparable periods of the prior year. The effective income tax rate for the three and nine months ended March 31, 2010 was negatively impacted by the $35.3 million impairment of goodwill in the North American segment which is only partially deductible for tax purposes. Offsetting the goodwill impairment was the release of approximately $2.9 million in reserves for uncertain tax positions related to the expiration of the statute of limitations on tax years previously open for audit. During the quarter ended March 31, 2010, the Company recorded a $0.9 million adjustment to correct its prior year income tax balances. The Company s income tax provision for the nine months ended March 31, 2010 was also impacted by a $0.4 million adjustment recorded in the three months ended September 30, 2009 to correct prior year deferred income tax balances. The Company does not believe the adjustments are material to the three and nine months ended March 31, 2010 results of operations or its financial position or results of operations of any prior periods.

The effective tax rate during the three months ended March 31, 2009 was impacted by the release of approximately $2.5 million in reserves for uncertain tax positions related to the expiration of the statute of limitations on tax years previously open for audit. The effective tax rate during the nine months ended March 31, 2009 was impacted by the majority of the $41.7 million goodwill impairment of the salon concepts in the United Kingdom recorded in the second quarter of fiscal year 2009 not being deductible for tax purposes, which increased the tax provision by approximately $11.4 million for the nine months ended March 31, 2009.

The Company accrues for the effects of open uncertain tax positions and the related potential penalties and interest. There were no material adjustments to our recorded liability for unrecognized tax benefits during the three and nine months ended March 31, 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 12 months; however, we do not expect the change to have a significant effect on our consolidated results of operations or financial position.

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

12. SEGMENT INFORMATION:

As of March 31, 2010, the Company owned, franchised, or held ownership interests in approximately 12,700 worldwide locations. The Company s locations consisted of 9,555 North American salons (located in the United States, Canada and Puerto Rico), 416 international salons, 95 hair restoration centers and approximately 2,700 locations in which the Company maintains an ownership interest.

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

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

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

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

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

Total Assets by Segment	**March 31, 2010**	**June 30, 2009**
	(Dollars in thousands)	
North American salons	$ 915,241	$ 966,596
International salons	74,020	49,779
Hair restoration centers	300,554	293,017
Unallocated corporate	662,119	583,094
Consolidated	$ 1,951,934	$ 1,892,486

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

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	For the Three Months Ended March 31, 2009				
	Salons		Hair		
	North America	International	Restoration Centers	Unallocated Corporate	Consolidated
			(Dollars in thousands)		
Revenues:					
Service	$ 412,226	$ 24,858	$ 16,217	$	$ 453,301
Product	112,339	11,020	17,810		141,169
Royalties and fees	8,990		626		9,616
	533,555	35,878	34,653		604,086
Operating expenses:					
Cost of service	238,093	12,482	8,890		259,465
Cost of product	62,642	6,252	5,323		74,217
Site operating expenses	46,211	2,364	1,289		49,864
General and administrative	28,289	2,942	9,225	29,136	69,592
Rent	73,426	9,438	2,268	522	85,654
Depreciation and amortization	18,678	1,512	2,893	4,301	27,384
Goodwill impairment					
Lease termination costs	838				838
Total operating expenses	468,177	34,990	29,888	33,959	567,014
Operating income (loss)	65,378	888	4,765	(33,959)	37,072
Other income (expense):					
Interest expense				(9,684)	(9,684)
Interest income and other, net				1,316	1,316
Income (loss) from continuing operations before income taxes and equity in income (loss) of affiliated companies	$ 65,378	$ 888	$ 4,765	$ (42,327)	$ 28,704

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

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	For the Nine Months Ended March 31, 2009(1)				
	Salons		Hair		
	North America	International	Restoration Centers	Unallocated Corporate	Consolidated
			(Dollars in thousands)		
Revenues:					
Service	$ 1,229,736	$ 89,080	$ 48,598	$	$ 1,367,414
Product	317,543	36,514	54,069		408,126
Royalties and fees	27,623		1,878		29,501
	1,574,902	125,594	104,545		1,805,041
Operating expenses:					
Cost of service	709,874	46,902	26,604		783,380
Cost of product	168,319	20,329	16,266		204,914
Site operating expenses	133,351	8,544	3,991		145,886
General and administrative	89,945	11,496	25,679	92,767	219,887
Rent	219,788	31,873	6,592	1,593	259,846
Depreciation and amortization	55,407	4,794	8,377	13,593	82,171
Goodwill impairment		41,661			41,661
Lease termination costs	2,836				2,836
Total operating expenses	1,379,520	165,599	87,509	107,953	1,740,581
Operating income (loss)	195,382	(40,005)	17,036	(107,953)	64,460
Other income (expense):					
Interest expense				(30,782)	(30,782)
Interest income and other, net				6,513	6,513
Income (loss) from continuing operations before income taxes and equity in income (loss) of affiliated companies	$ 195,382	$ (40,005)	$ 17,036	$ (132,222)	$ 40,191

(1) Beginning with the period ended December 31, 2008 the operations of the Trade Secret concept within the North American reportable segment were accounted for as a discontinued operation. All periods presented reflect Trade Secret as a discontinued operation.

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REVIEW REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Directors of Regis Corporation:

We have reviewed the accompanying condensed consolidated balance sheet of Regis Corporation as of March 31, 2010 and the related condensed consolidated statements of operations for the three and nine month periods ended March 31, 2010 and 2009 and of cash flows for the nine month periods ended March 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.

As discussed in Note 4 to the Condensed Consolidated Financial Statements, Regis Corporation changed the manner it which it measures fair value for certain financial assets and liabilities effective July 1, 2008 and certain nonfinancial assets and liabilities effective July 1, 2009.

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, 2009, 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 28, 2009, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the accompanying consolidated balance sheet information as of June 30, 2009, is fairly stated, in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP

Minneapolis, Minnesota
May 10, 2010

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

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

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

MANAGEMENT S OVERVIEW

Regis Corporation (RGS, we, our, or us) owns, franchises or holds ownership interests in beauty salons, hair restoration centers and educational institutions. As of March 31, 2010, we owned, franchised or held ownership interests in approximately 12,700 worldwide locations. Our locations consisted of 9,971 system wide North American and international salons, 95 hair restoration centers and approximately 2,700 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 9,555 salons, including 2,023 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 416 company-owned salons, located in the United Kingdom. Our hair restoration centers, operating under the trade name Hair Club for Men and Women, include 95 North American locations, including 33 franchise locations. As of March 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 March 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 March 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 95 accredited cosmetology schools with annual revenues of approximately $130 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 current economic conditions we have recently 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 the economy normalizes.

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

We are in compliance with all covenants and other requirements of our financing arrangements as of March 31, 2010.

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Salon Business

The strength of our salon business is 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 Wal-Mart Supercenters. We believe that the availability of real estate will augment our ability to achieve the aforementioned long-term growth objectives. In fiscal 2011, our outlook for constructed salons is approximately 160 units. Capital expenditures and acquisitions are expected to be approximately $120.0 million in fiscal year 2011.

Organic salon revenue growth is achieved through the combination of new salon construction and salon same-store sales increases. Once the economy normalizes, we expect we will continue with our historical trend of building several hundred company-owned salons. We anticipate our franchisees will open approximately 80 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 economic cycles (i.e., lengthening of customer visitation patterns), we project our annual fiscal year 2011 consolidated same-store sales to be in the range of negative 1.0 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 March 31, 2010, we acquired 8,023 salons, net of franchise buybacks. Once the economy normalizes, 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 business.

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 are continually evaluated closely for additional growth opportunities.

CRITICAL ACCOUNTING POLICIES

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

Our significant accounting policies can be found in Note 1 to the Consolidated Financial Statements contained in Part II, Item 8 of the June 30, 2009 Annual Report on Form 10-K, as well as Note 1 to the Condensed Consolidated Financial Statements contained within this Quarterly Report on Form 10-Q. We believe the accounting policies related to the valuation of goodwill, the valuation and estimated useful lives of long-lived assets, investment in and loans to affiliates, purchase price allocations, revenue recognition, self-insurance accruals, stock-based compensation expense, legal contingencies and estimates used in relation to tax liabilities and deferred taxes are most critical to aid in fully understanding and evaluating our reported financial condition and results of operations. Discussion of each of these policies is contained under Critical Accounting Policies in Part II, Item 7 of our June 30, 2009 Annual Report on Form 10-K. There were no significant changes in or application of our critical accounting policies during the three and nine months ended March 31, 2010.

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Goodwill:

As disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2009, we perform our impairment analysis of goodwill during the third quarter of each fiscal year. Fair values are estimated based on our best estimate of the expected present value of future cash flows and compared with the corresponding carrying value of the reporting unit, including goodwill. Where available and as appropriate comparative market multiples are used to corroborate the results of the present value method. We consider our various concepts to be reporting units when we test for goodwill impairment because that is where we believe goodwill resides.

For the three months ended December 31, 2009, the Regis salon concept reported same-store sales of negative 10.0 percent, which was unfavorable compared to the Company s budgeted same-store sales. As a result of the lower than expected same-store sales, the Company performed the first step of a goodwill impairment test by comparing the carrying value of the Regis salon concept, including goodwill to its estimated fair value as of December 31, 2009. The estimated fair value as of December 31, 2009 was approximately $26.0 million or 14.0 percent above the carrying value.

The Regis salon concept reported same-store sales results of negative 5.8 percent for the three months ended March 31, 2010, which was unfavorable compared to the Company s budgeted same-store sales. Such results indicated customer visitation patterns were not rebounding as quickly as the Company had originally projected. Accordingly, the Company reduced the budgeted financial projections for the remainder of fiscal 2010 and all of fiscal year 2011. The lowered projections assume the higher price point Regis salon concept remains a strong viable that will require a longer, slower recovery. As a result of the lowered projections for the remainder of fiscal year 2010 and all of fiscal year 2011, the estimated fair value of the Regis salon concept decreased to a level below the Regis salon concept s carrying value.

As a result of the Company s annual impairment analysis of goodwill during the three months ended March 31, 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.

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

A summary of the critical assumptions utilized during the annual impairment test of the Regis salon concept as of March 31, 2010 are outlined below:

Annual revenue growth. Annual revenue growth is primarily driven by assumed same-store sales rates of negative 3.2 percent to positive 3.0 percent. Other considerations include anticipated economic conditions and moderate acquisition growth.

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

Fixed expense rates. Fixed expense rate increases of approximately 1.5 percent to 2.0 percent based on anticipated inflation. Fixed expenses consisted of rent, site operating, and allocated general and administrative corporate overhead.

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

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

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

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

Critical Assumptions	**Increase (Decrease)**	**Approximate Impact on Fair Value (in thousands)**
Discount Rate	1.0%	$ 13,000
Same-Store Sales	(1.0)%	12,000

As of March 31, 2010, the estimated fair value of the Promenade salon concept exceeded its respective carrying value by approximately 10 percent. As it is reasonably likely that there could be impairment of the Promenade salon concept s goodwill in future periods along with the sensitivity of the Company s critical assumptions in estimating fair value of this reporting unit, the Company has provided additional information related to this reporting unit.

A summary of the critical assumptions utilized during the annual impairment test of the Promenade salon concept as of March 31, 2010 are outlined below:

Annual revenue growth. Annual revenue growth is primarily driven by assumed same-store sales rates of negative 1.1 percent to positive 3.0 percent. Other considerations include anticipated economic conditions and moderate acquisition growth.

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

Fixed expense rates. Fixed expense rate increases of approximately 1.5 percent to 2.0 percent based on anticipated inflation. Fixed expenses consisted of rent, site operating, and allocated general and administrative corporate overhead.

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

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

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

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

Critical Assumptions	**Increase (Decrease)**	**Approximate Impact on Fair Value (in thousands)**
Discount Rate	1.0%	$ 29,000
Same-Store Sales	(1.0)%	15,000

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

Reporting Unit	**(Dollars in thousands)**
Regis	$ 101,337
MasterCuts	4,652
SmartStyle	49,488
Supercuts	121,106
Promenade	311,768
Total North America Salons	588,351
Hair Restoration Centers	149,375
Total	$ 737,726

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OVERVIEW OF RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2010

- Revenues decreased 2.7 percent to $587.6 million and consolidated same-store sales decreased 1.8 percent. The Company continued to experience a decline in customer visitation as a result of the current global economic environment and reduced mall traffic, partially offset by an increase in average ticket price.

- We acquired 14 corporate salon locations, 13 of which were franchise location buybacks. We built 25 corporate locations and closed, converted or relocated 56 locations. Our franchisees constructed 16 locations and closed, sold back to us, converted or relocated 25 locations. As of March 31, 2010, we had 7,948 company-owned locations, 2,023 franchise locations and 95 hair restoration centers (62 company-owned and 33 franchise locations).

- The Company recorded a $35.3 million non-cash goodwill impairment charge associated with the Company s Regis salon concept.

- The effective income tax rate for the three months ended March 31, 2010 was negatively impacted by the $35.3 million impairment of goodwill associated with the Regis salon concept which is only partially deductible for tax purposes. Offsetting the impact of the goodwill impairment charge was the release of approximately $2.9 million in reserves for uncertain tax positions related to the expiration of the statute of limitations on tax years previously open for audit.

RESULTS OF OPERATIONS

Beginning with the period ended December 31, 2008 the operations of the Trade Secret concept within the North American reportable segment were accounted for as a discontinued operation. All periods presented will reflect Trade Secret as a discontinued operation. The following discussion of results of operations will reflect results from continuing operations. Discontinued operations will be discussed at the end of this section.

Consolidated Results of Continuing Operations

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

	For the Periods Ended March 31,			
	Three Months		Nine Months	
Results of Operations as a Percent of Revenues	**2010**	**2009**	**2010**	**2009**
Service revenues	76.2%	75.0%	75.3%	75.8%

Product revenues	22.1	23.4	23.0	22.6
Franchise royalties and fees	1.7	1.6	1.7	1.6
Operating expenses:				
Cost of service (1)	57.1	57.2	57.1	57.3
Cost of product (2)	47.8	52.6	50.1	50.2
Site operating expenses	8.2	8.3	8.3	8.1
General and administrative	12.4	11.5	12.3	12.2
Rent	14.6	14.2	14.5	14.4
Depreciation and amortization	4.5	4.5	4.6	4.6
Goodwill impairment	6.0		2.0	2.3
Lease termination costs		0.1	0.2	0.2
Operating income	0.2	6.1	3.5	3.6
(Loss) income from continuing operations before income taxes and equity in income of affiliated companies	(0.8)	4.8	1.3	2.2
(Loss) income from continuing operations	(0.3)	3.5	1.2	0.6
Income (loss) from discontinued operations		(2.0)	0.2	(7.3)
Net (loss) income	(0.3)	1.5	1.4	(6.6)

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

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

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Consolidated Revenues

Consolidated revenues primarily include revenues of company-owned salons, product and equipment sales to franchisees, hair restoration center revenues, and franchise royalties and fees. As compared to the respective prior fiscal year, consolidated revenues decreased 2.7 percent to $587.6 million during the three months ended March 31, 2010 and decreased 2.0 percent to $1,768.5 million during the nine months ended March 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 within the table.

	For the Periods Ended March 31,			
	Three Months		Nine Months	
	2010	2009	2010	2009
	(Dollars in thousands)			
North American salons:				
Regis	$ 110,893	$ 117,424	$ 329,966	$ 360,767
MasterCuts	43,287	43,237	125,561	128,750
SmartStyle	139,042	136,012	398,820	395,053
Supercuts	77,859	77,151	233,907	230,377
Promenade (3)	145,897	159,731	460,403	459,955
Total North American salons (2)	516,978	533,555	1,548,657	1,574,902
International salons	35,458	35,878	114,603	125,594
Hair restoration centers	35,135	34,653	105,226	104,545
Consolidated revenues	$ 587,571	$ 604,086	$ 1,768,486	$ 1,805,041
Percent change from prior year	(2.7)%	(2.4)%	(2.0)%	(1.9)%
Salon same-store sales decrease (1)	(1.8)%	(4.5)%	(3.3)%	(2.8)%

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

	For the Periods Ended March 31,			
	Three Months		Nine Months	
Percentage Increase (Decrease) in Revenues	2010	2009	2010	2009
Acquisitions (previous twelve months)	0.5	3.2%	0.9%	4.0%
Organic	(3.5)	(1.0)	(2.1)	(1.4)
Foreign currency	1.2	(3.0)	0.1	(2.0)
Franchise revenues (2)	(0.0)	(0.7)	0.0	(1.4)
Closed salons (2)	(0.9)	(0.9)	(0.9)	(1.1)
	(2.7)%	(2.4)%	(2.0)%	(1.9)%

(1) Salon same-store sales increases or decreases are calculated on a daily basis as the total change in sales for company-owned salons which were open on a specific day of the week during the current period and the corresponding prior period. Quarterly and year-to-date salon same-store sales are the sum of the same-store sales computed on a daily basis. Relocated salons 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)

Beginning with the period ended December 31, 2008, the operations of Trade Secret concept within the North American reportable segment were accounted for as a discontinued operation. All periods presented reflect Trade Secret as a discontinued operation. Accordingly, Trade Secret revenues are excluded from this presentation.

(3) Trade Secret, Inc. was sold by Regis Corporation on February 16, 2009. The agreement included a provision that we would supply product to the purchaser of Trade Secret at cost for a transition period. For the three and nine months ended March 31, 2010, we generated revenue of \$0.0 and \$20.0 million in product revenues recorded in the Promenade salon concept, which represented 0.0 and 1.1 percent of consolidated revenues. The agreement was substantially complete as of September 30, 2009.

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

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

We acquired 231 salons (including 135 franchise salon buybacks and two hair restoration centers) during the twelve months ended March 31, 2009. The organic decrease was due to the salon same-store sales decrease of 2.8 percent, partially offset by the construction of 199 company-owned salons and nine hair restoration centers during the twelve months ended March 31, 2009. We closed 280 salons (including 60 franchise salons) during the twelve months ended March 31, 2009.

During the three and nine months ended March 31, 2009, the foreign currency impact was driven by the strengthening of the United States dollar against the Canadian dollar, British pound, and Euro, as compared to the exchange rates for the comparable prior periods. The impact of foreign currency was calculated by multiplying current year revenues in local currencies by the change in the foreign currency exchange rate between the current and prior fiscal year.

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

Service Revenues. Service revenues include revenues generated from company-owned salons and service revenues generated by hair restoration centers. Total service revenues for the three and nine months ended March 31, 2010 and 2009 were as follows:

		Decrease Over Prior Fiscal Year	
Periods Ended March 31,	**Revenues**	**Dollar**	**Percentage**
		(Dollars in thousands)	
Three Months			
2010	$ 447,879	$ (5,422)	(1.2)%
2009	453,301	(13,844)	(3.0)
Nine Months			
2010	$ 1,332,282	$ (35,132)	(2.6)%
2009	1,367,414	(3,345)	(0.2)

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

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

The decrease in service revenues during the three months ended March 31, 2009 was due to same-store service sales decreasing 3.9 percent as compared to increasing 3.4 percent during the comparable prior period. Same-store service sales decreased 3.9 percent due to a significant decline in customer visits, primarily in the month of March. Service revenues were also negatively impacted due to the shift in the Easter holiday season. Also, service revenues decreased due to the strengthening of the United States dollar against the Canadian dollar, Euro and British Pound and deconsolidation of the European franchise salon operations on January 31, 2008. Partially offsetting the decrease was growth due to acquisitions during the previous twelve months and an increase in average ticket.

The decrease in service revenues during the nine months ended March 31, 2009 was due to same-store service sales decreasing 2.1 percent compared to increasing 2.0 percent during the nine months ended March 31, 2008. Service revenues were also negatively impacted due to the shift in the Easter holiday season. Consistent with the three months ended March 31, 2009, service revenues decreased due to the strengthening of the United States dollar against the Canadian dollar, Euro and British Pound and the deconsolidation of the European franchise salon operations. In addition, service revenues decreased due to the deconsolidation of our 51 accredited cosmetology schools to Empire Education Group, Inc. on August 1, 2007. Offsetting the factors that negatively impacted services revenues was growth due to acquisitions during the previous twelve months and an 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 nine months ended March 31, 2010 and 2009 were as follows:

Periods Ended March 31,	Revenues	Increase (Decrease) Over Prior Fiscal Year Dollar	Percentage
	(Dollars in thousands)		
Three Months			
2010	$ 129,949	$ (11,220)	(7.9)%
2009	141,169	3,502	2.5
Nine Months			
2010	$ 406,773	$ (1,353)	(0.3)%
2009	408,126	(5,457)	(1.3)

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

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

The increase in product revenues during the three months ended March 31, 2009 was due to product sales of $12.6 million to the purchaser of Trade Secret, offset by same-store product sales decreasing 6.5 percent. Same-store product sales decreased during the current periods due to a decline in customer visits and a mix play, as a larger percentage of product sales came from promotional items.

The decrease in product revenues during the nine months ended March 31, 2009 was due to same-store product sales decreasing 5.1 percent. Same-store product sales decreased during the current periods due to a decline in customer visits and a mix play, as a larger percentage of product sales came from promotional items. Partially offsetting the decrease was the product sales of $12.6 million during the nine months ended March 31, 2009 to the purchaser of Trade Secret.

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

Periods Ended March 31,	Revenues	Increase (Decrease) Over Prior Fiscal Year Dollar	Percentage
	(Dollars in thousands)		
Three Months			
2010	$ 9,743	$ 127	1.3%
2009	9,616	(4,429)	(31.5)
Nine Months			

2010	$	29,431	$	(70)	(0.2)%
2009		29,501		(27,010)	(47.8)

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

Total franchise locations open at March 31, 2009 were 2,071, including 33 franchise hair restoration centers, as compared to 2,177, including 35 franchise hair restoration centers, at March 31, 2008. We purchased 135 of our franchise salons and two franchise hair restoration centers during the twelve months ended March 31, 2009. The decrease in consolidated franchise revenues during the three and nine month periods ended March 31, 2009 was primarily due to the merger of the 1,587 European franchise salon operations with Franck Provost Salon Group on January 31, 2008.

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Gross Margin (Excluding Depreciation)

Our cost of revenues primarily includes labor costs related to salon and hair restoration center employees, the cost of product used in providing services and the cost of products sold to customers and franchisees. The resulting gross margin for the three and nine months ended March 31, 2010 and 2009 was as follows:

Periods Ended March 31,	Gross Margin	Margin as % of Service and Product Revenues	(Decrease) Increase Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
			(Dollars in thousands)		
Three Months					
2010	$ 260,199	45.0%	$ (589)	(0.2)%	110
2009	260,788	43.9	(10,259)	(3.8)	(90)
Nine Months					
2010	$ 774,730	44.5%	$ (12,516)	(1.6)%	20
2009	787,246	44.3	(14,628)	(1.8)	(60)

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

Service Margin (Excluding Depreciation). Service margin for the three and nine months ended March 31, 2010 and 2009 was as follows:

Periods Ended March 31,	Service Margin	Margin as % of Service Revenues	(Decrease) Increase Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
			(Dollars in thousands)		
Three Months					
2010	$ 192,311	42.9%	$ (1,525)	(0.8)%	10
2009	193,836	42.8	(5,604)	(2.8)	10
Nine Months					
2010	$ 571,933	42.9%	$ (12,101)	(2.1)%	20
2009	584,034	42.7	(2,965)	(0.5)	(10)

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

The basis point improvement in service margin as a percent of service revenues during the three months ended March 31, 2009 was primarily due to an improvement in labor expenses, offset slightly by higher costs of goods used in service as a result of price increases implemented by suppliers.

The basis point decrease in service margin as a percent of service revenues during the nine months ended March 31, 2009 was primarily due to slightly higher cost of goods used in service as a result of price increases implemented by suppliers along with higher bank charges due to increased credit card usage by customers.

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Product Margin (Excluding Depreciation). Product margin for the three and nine months ended March 31, 2010 and 2009 was as follows:

Periods Ended March 31,	Product Margin	Margin as % of Product Revenues	Increase (Decrease) Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
			(Dollars in thousands)		
Three Months					
2010	$ 67,888	52.2%	$ 936	1.4%	480
2009	66,952	47.4	(4,655)	(6.5)	(460)
Nine Months					
2010	$ 202,797	49.9%	$ (415)	(0.2)	10
2009	203,212	49.8	(11,663)	(5.4)	(220)

(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.

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

Breakout of Product Revenue	For the Periods Ended March 31, Three Months 2010	2009	Nine Months 2010	2009
	(Dollars in thousands)		(Dollars in thousands)	
Product	$ 129,949	$ 128,573	$ 386,811	$ 395,530
Product sold to purchaser of Trade Secret		12,596	19,962	12,596
Total product revenues	$ 129,949	$ 141,169	$ 406,773	$ 408,126

Breakout of Cost of Product	For the Periods Ended March 31, Three Months 2010	2009	Nine Months 2010	2009
	(Dollars in thousands)		(Dollars in thousands)	
Cost of product	$ 62,061	$ 61,621	$ 184,014	$ 192,318
Cost of product sold to purchaser of Trade Secret		12,596	19,962	12,596
Total cost of product	$ 62,061	$ 74,217	$ 203,976	$ 204,914

Product Margin as % of Product Revenues	For the Periods Ended March 31, Three Months 2010	2009	Nine Months 2010	2009
Margin on product other than sold to purchaser of Trade Secret	52.2%	52.1%	52.4%	51.4%
Margin on product sold to purchaser of Trade Secret				
Total product margin	52.2%	47.4%	49.9%	49.8%

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

The basis point improvement in product margin other than sold to purchaser of Trade Secret as a percent of product revenues during the three months ended March 31, 2009, is due to lower cost inventories as acquisitions in the prior year had higher cost inventories. Partially offsetting the decrease was mix play, as a larger than expected percentage of our product sales came from lower-margin promotional items. We are not promoting or discounting at a higher rate, but we are continuing to see consumers to be more value-focused through buying promotional items at a higher rate than prior periods.

The basis point decrease in product margin as a percent of product revenues during the nine months ended March 31, 2009 was primarily due to mix play. Partially offsetting the decrease was lower cost inventories as acquisitions in the prior year had higher cost inventories.

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Site Operating Expenses

This expense category includes direct costs incurred by our salons and hair restoration centers such as on-site advertising, workers compensation, insurance, utilities and janitorial costs. Site operating expenses for the three and nine months ended March 31, 2010 and 2009 were as follows:

Periods Ended March 31,	Site Operating	Expense as % of Consolidated Revenues	(Decrease) Increase Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
	(Dollars in thousands)				
Three Months					
2010	$ 48,280	8.2%	$ (1,584)	(3.2)%	(10)
2009	49,864	8.3	2,358	5.0	60
Nine Months					
2010	$ 147,365	8.3%	$ 1,479	1.0%	20
2009	145,886	8.1	4,970	3.5	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.

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

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

The basis point increase in site operating expenses as a percent of consolidated revenues during the three and nine months ended March 31, 2009 was primarily due to the reclassification from rent for rubbish removal and utilities that we pay our landlords as part of our operating lease agreements. For the nine months ended March 31, 2009 the basis point increase was partially offset by a $6.7 million reduction in self insurance accruals primarily related to prior years workers compensation reserves as a result of successful safety and return-to-work programs implemented over the past few years.

General and Administrative

General and administrative (G&A) includes costs associated with our field supervision, salon training and promotions, product distribution centers and corporate offices (such as salaries and professional fees), including costs incurred to support franchise and hair restoration center operations. G&A expenses for the three and nine months ended March 31, 2010 and 2009 were as follows:

Periods Ended March 31,	G&A	Expense as % of Consolidated Revenues	Increase (Decrease) Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
		(Dollars in thousands)			
Three Months					
2010	$ 72,741	12.4%	$ 3,149	4.5%	90
2009	69,592	11.5	(8,233)	(10.6)	(110)
Nine Months					
2010	$ 217,912	12.3%	$ (1,975)	(0.9)%	10
2009	219,887	12.2	(24,254)	(9.9)	(110)

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

The basis point increase in G&A costs as a percent of consolidated revenues during the three months ended March 31, 2010 was primarily due to the completion of an agreement to supply the purchaser of Trade Secret product at cost. Under the agreement the Company generated $12.6 million of revenue during the three months ended March 31, 2009. Also contributing to the basis point

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increase was a decrease in same-store sales and a Hair Club vendor dispute settlement. Partially offsetting the increase was the continuation of cost savings initiatives implemented by the Company.

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

The basis point improvement in G&A costs as a percent of consolidated revenues during the three and nine months ended March 31, 2009 was primarily due to cost savings initiatives implemented by the Company, the deconsolidation of the European franchise salon operations and the absence of professional fees that were incurred in the comparable periods related to investment transactions.

Rent

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

Periods Ended March 31,	Rent	Expense as % of Consolidated Revenues	Increase (Decrease) Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
			(Dollars in thousands)		
Three Months					
2010	$ 85,908	14.6%	$ 254	0.3%	40
2009	85,654	14.2	(4,008)	(4.5)	(30)
Nine Months					
2010	$ 257,298	14.5%	$ (2,548)	(1.0)%	10
2009	259,846	14.4	(6,256)	(2.4)	(10)

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

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

The basis point improvements in rent expense as a percent of consolidated revenues during the three and nine months ended March 31, 2009 was primarily due to the reclassification to site operating expense for rubbish removal and utilities that we pay our landlords as part of our operating lease agreements. Partially offsetting the basis point improvement was negative leverage in this fixed cost category due to negative same-store sales.

Depreciation and Amortization

Depreciation and amortization expense (D&A) for the three and nine months ended March 31, 2010 and 2009 was as follows:

Periods Ended March 31,	D&A	Expense as % of Consolidated Revenues	(Decrease) Increase Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
		(Dollars in thousands)			
Three Months					
2010	$ 26,552	4.5%	$ (832)	(3.0)%	
2009	27,384	4.5	426	1.6	10
Nine Months					
2010	$ 81,253	4.6%	$ (918)	(1.1)%	
2009	82,171	4.6	(1,324)	(1.6)	10

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

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

The basis point increase in D&A as a percent of consolidated revenues during the three and nine months ended March 31, 2009 was primarily due to the decrease in same-store-sales.

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Goodwill impairment

Goodwill impairment charges for the three and nine months ended March 31, 2010 and 2009 were as follows:

Periods Ended March 31,	Goodwill Impairment	Expense as % of Consolidated Revenues	Increase (Decrease) Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
			(Dollars in thousands)		
Three Months					
2010	$ 35,277	6.0%	$ 35,277	100.0%	600
2009					
Nine Months					
2010	$ 35,277	2.0%	$ (6,384)	(15.3)%	(30)
2009	41,661	2.3	41,661	100.0	230

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

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

The Company recorded a $41.7 million goodwill impairment charge related to the salon concepts in the United Kingdom during the nine months ended March 31, 2009. The recent performance challenges of the international salon operations indicated that the estimated fair value of the international salon operations was less than the current carrying value of this reporting unit s net assets, including goodwill. There is no remaining goodwill recorded within the salon concepts in the United Kingdom.

Subsequent to our earnings release on April 28, 2010, we recorded an additional $2.3 million of goodwill impairment expense. As a result of this additional expense, diluted net (loss) income per share was $(0.03) rather than $0.00 (as reported in our earnings release) for the quarter ended March 31, 2010 and $0.44 rather than $0.46 for the nine months ended March 31, 2010. Net loss was $1.5 million rather than $0.1 million for the three months ended March 31, 2010 and net income was $24.4 million rather than $25.9 million for the nine months ended March 31, 2010.

Lease Termination Costs

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

Periods Ended March 31,	Lease Termination Costs	Expense as % of Consolidated Revenues	(Decrease) Increase Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
		(Dollars in thousands)			
Three Months					
2010	$	%	$ (838)	(100.0)%	(10)
2009	838	0.1	838	100.0	10
Nine Months					
2010	$ 3,552	0.2%	$ 716	25.2%	
2009	2,836	0.2	2,836	100.0%	20

(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.

The fiscal year 2010 lease termination costs are associated with the Company s June 2009 plan to close underperforming United Kingdom company-owned salons in fiscal year 2010. During the three and nine months ended March 31, 2010 we closed zero and 22 salons, respectively. The fiscal year 2009 lease termination costs are associated with the Company s July 2008 plan to close underperforming company-owned salons in fiscal year 2009. The planned closures in fiscal year 2009 included salons in North America and the United Kingdom. During the three and nine months ended March 31, 2009 we closed 12 and 47 salons, respectively. See further discussion within Note 8 of the Condensed Consolidated Financial Statements.

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Interest

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

Periods Ended March 31,	Interest	Expense as % of Consolidated Revenues	(Decrease) Increase Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
	(Dollars in thousands)				
Three Months					
2010	$ 9,039	1.5%	$ (645)	(6.7)%	(10)
2009	9,684	1.6	(1,582)	(14.0)	(20)
Nine Months					
2010	$ 45,424	2.6	$ 14,642	47.6%	90
2009	30,782	1.7%	(2,713)	(8.1)	(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 expense as a percent of consolidated revenues during the three months ended March 31, 2010 was primarily due to decreased debt levels as compared to the three months ended March 31, 2009.

The basis point increase in interest expense as a percent of consolidated revenues during the nine months ended March 31, 2010 was due to $18.0 million of make-whole payments and other fees associated with the repayment of private placement debt.

The basis point improvement in interest expense as a percent of consolidated revenues during the three and nine months ended March 31, 2009 was due to lower average interest rates on variable rate debt and decreased debt levels as a result of the Company s commitment to reduce debt levels.

Interest Income and Other, net

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

Periods Ended March 31,	Interest	Income as % of Consolidated Revenues	(Decrease) Increase Over Prior Fiscal Year Dollar	Percentage

							Basis Point(1)
				(Dollars in thousands)			
Three Months							
2010	$	3,125	0.5%	$	1,809	137.5%	30
2009		1,316	0.2		(513)	(28.0)	(10)
Nine Months							
2010	$	6,768	0.4%	$	255	3.9%	
2009		6,513	0.4		439	7.2	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 increase in interest income and other, net as a percent of consolidated revenues during the three months ended March 31, 2010 was primarily due to $1.2 million in interest income recorded on the outstanding note receivable due from the purchaser of Trade Secret.

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

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Income Taxes

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

Periods Ended March 31,	Effective Rate	Basis Point(1) (Decrease) Increase
Three Months		
2010	11.1%	(2,260)
2009	33.7	(1,140)
Nine Months		
2010	43.8%	(2,840)
2009	72.2	3,310

(1) Represents the basis point change in income tax expense as a percent of (loss) income from continuing operations as compared to the corresponding periods of the prior fiscal year.

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

The basis point improvement in our overall effective income tax rate for the three months ended March 31, 2009 was due to the release of reserves related to the expiration of the statute of limitations on tax years previously open for audit. The basis point increase in our overall effective income tax rate for the nine months ended March 31, 2009 was due primarily to substantially all of the $41.7 million goodwill impairment of the salon concepts in the United Kingdom not being deductible for tax purposes, which increased the tax provision by approximately $11.4 million for nine months ended March 31, 2009.

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

Equity in income (loss) of affiliates, represents the income or loss generated by our equity investment in EEG, Provalliance, and other equity method investments, for the three and nine months ended March 31, 2010 and 2009, was as follows:

Periods Ended March 31,	Equity in Income (Loss)	Increase (Decrease) Over Prior Fiscal Year Dollar	Percentage
		(Dollars in thousands)	
Three Months			

2010	$ 2,680	$ 692	34.8%
2009	1,988	1,350	211.6
Nine Months			
2010	$ 8,394	$ 8,252	5,811.3%
2009	142	(548)	(79.4)

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

The increase in equity in income of affiliated companies, net of income taxes, for the three months ended March 31, 2009 primarily due to the equity in income recorded for our investment in Provalliance. The Company held the investment in Provalliance for the entire three months ended March 31, 2009, as compared to two months during the three months ended March 31, 2008. See Note 6 to the Condensed Financial Statements for further discussion on each respective affiliated company.

The decrease in equity in income of affiliated companies, net of income taxes for the nine months ended March 31, 2009 was due to the impairment loss of $4.8 million, net of tax, on our investment in and loans to Intelligent Nutrients, LLC. The impairment charge was based on Intelligent Nutrients, LLC s inability to develop a professional organic brand of shampoo and conditioner with broad consumer appeal. The Company determined the loss in value was other-than-temporary. Partially offsetting the impairment loss was equity in income recorded for our investment in Provalliance, as the Company held the investment for the entire nine months

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ended March 31, 2009, as compared to two months during the nine months ended March 31, 2008. In addition, equity in income for our investment in Empire Education Group, Inc. and Hair Club for Men, Ltd. offset the impairment of Intelligent Nutrients, LLC.

Income (Loss) from Discontinued Operations

Income (loss) from discontinued operations for the three and nine months ended March 31, 2010 and 2009 was as follows:

Periods Ended March 31,	Income (loss) from discontinued operations	Increase (Decrease) Over Prior Fiscal Year Dollar	Percentage
		(Dollars in thousands)	
Three Months			
2010	$	$ 12,171	(100.0)%
2009	(12,171)	(11,993)	(6,737.6)
Nine Months			
2010	$ 3,161	$ 134,398	102.4%
2009	(131,237)	(134,041)	(4,780.3)

During the quarter ended December 31, 2008, we concluded that Trade Secret was held for sale and presented as a discontinued operation for all comparable prior periods.

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 loss for the three and nine months ended March 31, 2009 is the result of the operating losses, net of tax, and the impairment loss on the sale of Trade Secret, net of tax. 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.

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 and nine months ended March 31, 2010, foreign currency translation had a favorable impact on consolidated revenues due to the strengthening of the Canadian dollar and Euro as compared to the comparable prior periods. The British pound strengthened for the three months ended March 31, 2010 which favorably impacted revenues and weakened for the nine months ended March 31, 2010, which had an unfavorable impact on revenues. During the three and nine months ended March 31, 2009, foreign currency translation had an unfavorable impact on consolidated revenues due to the weakening of the Canadian dollar, British pound, and Euro as compared to the comparable prior periods.

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Favorable (Unfavorable) Impact of Foreign Currency Exchange Rate Fluctuations	Impact on Revenues March 31, 2010	Impact on Revenues March 31, 2009	Impact on Income Before Income Taxes March 31, 2010	Impact on Income Before Income Taxes March 31, 2009
	(Dollars in thousands)			
Three Months				
Canadian dollar	$ 5,301	$ (6,958)	$ 843	$ (865)
British pound	1,935	(11,523)	(126)	(409)
Euro	92	(299)	(16)	(171)
Total	$ 7,328	$ (18,780)	$ 701	$ (1,445)
Nine Months				
Canadian dollar	$ 6,707	$ (13,261)	$ 1,071	$ (1,885)
British pound	(3,700)	(24,334)	(66)	5,989
Euro	122	(221)	(16)	(98)
Total	$ 3,129	$ (37,816)	$ 989	$ 4,006

Results of Operations by Segment

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

North American Salons

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

Periods Ended March 31,	Revenues	(Decrease) Increase Over Prior Fiscal Year Dollar	(Decrease) Increase Over Prior Fiscal Year Percentage	Same-Store Sales (Decrease)
	(Dollars in thousands)			
Three Months				
2010	$ 516,978	$ (16,577)	(3.1)%	(1.8)%
2009	533,555	5,287	1.0	(4.3)
Nine Months				
2010	$ 1,548,657	$ (26,245)	(1.7)%	(3.5)%
2009	1,574,902	26,203	1.7	(2.5)

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

Percentage Increase (Decrease) in Revenues	For the Periods Ended March 31, Three Months 2010	Three Months 2009	Nine months 2010	Nine months 2009

Acquisitions (previous twelve months)	0.6%	3.7%	1.0%	4.1%
Organic	(4.2)	(0.6)	(2.6)	(0.9)
Foreign currency	1.0	(1.3)	0.4	(0.9)
Franchise revenues	(0.1)	(0.1)	(0.0)	
Closed salons	(0.4)	(0.7)	(0.5)	(0.6)
	(3.1)%	1.0%	(1.7)	1.7%

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

We acquired 229 North American salons during the twelve months ended March 31, 2009, including 135 franchise buybacks. The organic decrease was the result of a same-store sales decrease of 4.3 and 2.5 percent for the three and nine months ended March 31, 2009, respectively, and the deconsolidation of EEG on August 1, 2007, partially offset by the sales of product to the purchaser of Trade Secret. The foreign currency impact during the three and nine months ended March 31, 2009 was driven by the strengthening of the United States dollar against the Canadian dollar as compared to the prior period s exchange rate.

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

Periods Ended March 31,	Operating Income	Operating Income as % of Total Revenues	Increase (Decrease) Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
			(Dollars in thousands)		
Three Months					
2010	$ 32,230	6.2%	$ (33,148)	(50.7)%	(610)
2009	65,378	12.3	(6,719)	(9.3)	(130)
Nine Months					
2010	$ 155,656	10.1%	$ (39,726)	(20.3)%	(230)
2009	195,382	12.4	(11,121)	(5.4)	(90)

(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 months ended March 31, 2010 was primarily due to the $35.3 million goodwill impairment of the Company s Regis salon concept and negative leverage in fixed cost categories due to negative same-store sales. The negative leverage for the three months ended March 31, 2010 was partially offset by the Company s costs savings initiatives and gross margin improvement.

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

The basis point decrease in North American salon operating income as a percent of North American salon revenues for the three and nine months ended March 31, 2009 was primarily lower due to a decline in product margins from mix play, as a larger than expected percentage of our product sales came from lower-margin promotional items, negative leverage in fixed cost categories due to negative same-store sales and lease termination costs associated with the Company s plan to close underperforming company-owned salons.

International Salons

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

Periods Ended March 31,	Revenues	Decrease Over Prior Fiscal Year Dollar	Decrease Over Prior Fiscal Year Percentage	Same-Store Sales Decrease
		(Dollars in thousands)		
Three Months				
2010	$ 35,458	$ (420)	(1.2)%	(4.8)%
2009	35,878	(20,095)	(35.9)	(8.1)
Nine Months				
2010	$ 114,603	$ (10,991)	(8.8)%	(3.7)%
2009	125,594	(66,716)	(34.7)	(7.5)

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

	For the Periods Ended March 31,			
	Three Months		Nine months	
Percentage Increase (Decrease) in Revenues	**2010**	**2009**	**2010**	**2009**
Acquisitions (previous twelve months)	%	%	%	1.6%
Organic	1.8	(5.2)	1.3	(6.1)
Foreign currency	5.6	(21.1)	(2.9)	(12.8)
Franchise revenues		(6.0)		(12.3)
Closed salons	(8.6)	(3.6)	(7.2)	(5.1)
	(1.2)%	(35.9)%	(8.8)%	(34.7)%

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We did not acquire any international salons during the twelve months ended March 31, 2010. 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 4.8 and 3.7 percent during the three and nine months ended March 31, 2010. The foreign currency impact during the three months ended March 31, 2010 was driven by the weakening of the United States dollar against the British pound and the Euro as compared to the comparable prior period. The foreign currency impact during the nine months ended March 31, 2010 was primarily driven by the strengthening of the United States dollar against the British pound as compared to the comparable prior period. We closed 28 company-owned salons during the twelve months ended March 31, 2010.

We did not acquire any international salons during the twelve months ended March 31, 2009. The organic decrease was primarily due to same-store sales decreases of 8.1 and 7.5 percent during the three and nine months ended March 31, 2009. The foreign currency impact during the three and nine months ended March 31, 2009 was driven by the strengthening of the United States dollar against the British pound and the Euro as compared to the comparable prior period. The decrease in franchise revenues and closed salons was due to the merger of our continental European franchise salon operations with the Franck Provost Salon Group on January 31, 2008.

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

Periods Ended March 31,	Operating Income	Operating Income as % of Total Revenues	Increase (Decrease) Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
			(Dollars in thousands)		
Three Months					
2010	$ 2,088	5.9%	$ 1,200	135.1%	340
2009	888	2.5	360	68.2	160
Nine Months					
2010	$ 2,870	2.5%	$ 42,875	107.2%	3,440
2009	(40,005)	(31.9)	(51,154)	(458.8)	(3,770)

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

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

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

The basis point increase in international salon operating income as a percent of international salon revenues during the three months ended March 31, 2009 was primarily due to a planned vacation accrual adjustment.

The basis point decrease in international salon operating income as a percent of international salon revenues during the nine months ended March 31, 2009 was primarily due to the $41.7 million goodwill impairment of the United Kingdom reporting unit recorded in the second quarter of fiscal year 2009.

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Hair Restoration Centers

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

Periods Ended March 31,	Revenues	Increase Over Prior Fiscal Year Dollar	Increase Over Prior Fiscal Year Percentage	Same-Store Sales Increase (Decrease)
		(Dollars in thousands)		
Three Months				
2010	$ 35,135	$ 482	1.4%	1.4%
2009	34,653	37	0.1	(2.9)
Nine Months				
2010	$ 105,226	$ 681	0.7%	(0.1)%
2009	104,545	4,701	4.7	(1.1)

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

	For the Periods Ended March 31,			
	Three Months		Nine months	
Percentage Increase (Decrease) in Revenues	2010	2009	2010	2009
Acquisitions (previous twelve months)	%	2.3%	0.2%	7.1%
Organic	2.3	(1.8)	1.0	(1.1)
Franchise revenues	(0.9)	(0.4)	(0.5)	(1.3)
	1.4%	0.1%	0.7%	4.7%

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

Hair restoration revenues increased during the three and nine month periods ended March 31, 2009 due to acquisition of two hair restoration centers through franchise buybacks and five new corporate locations during the twelve months ended March 31, 2009. The organic decrease was due to negative same-store sales. Franchise revenues decreased due to the reduction in franchise centers.

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

	Operating	Operating Income as % of Total	Decrease Over Prior Fiscal Year

Periods Ended March 31,	Income	Revenues	Dollar (Dollars in thousands)	Percentage	Basis Point(1)
Three Months					
2010	$ 3,831	10.9%	$ (934)	(19.6)%	(290)
2009	4,765	13.8	(2,248)	(32.1)	(650)
Nine Months					
2010	$ 14,590	13.9%	$ (2,446)	(14.4)	(240)
2009	17,036	16.3	(3,949)	(18.8)	(470)

(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 March 31, 2010 is primarily due to the settlement of a vendor dispute totaling $0.6 million during the three months ended March 31, 2010.

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

The basis point decrease in hair restoration operating income as a percent of hair restoration revenues during the three months ended March 31, 2009 is primarily due to the lower operating margins on newly constructed and acquired centers and a planned increase in

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advertising spend.

The basis point decrease in hair restoration operating income as a percent of hair restoration revenues during the nine months ended March 31, 2009 is primarily due to the lower operating margins on newly constructed and acquired centers, a planned increase in advertising spend and higher legal costs and financial due diligence associated with a terminated potential acquisition.

LIQUIDITY AND CAPITAL RESOURCES

Overview

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

Periods Ended	Debt to Capitalization	Basis Point (Decrease) Increase (1)
March 31, 2010	31.7%	(1,240)
June 30, 2009	44.1	20

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

The improvement in the debt to capitalization ratio as of March 31, 2010 compared to June 30, 2009 was primarily due to the July 2009 common stock offering and decreased debt levels stemming from the repayment of private placement debt during the nine months ended March 31, 2010.

The basis point increase in the debt to capitalization ratio during the twelve months ended June 30, 2009 was primarily due to a decrease in shareholders equity from the non-cash goodwill impairment within the United Kingdom salon division, the loss from discontinued operations related to the sale of Trade Secret, the non-cash impairment of our investment in Provalliance and foreign currency due to the strengthening of the United States dollar against the Canadian dollar, Euro, and British pound. The impact of the decrease in shareholders equity on the debt to capitalization ratio was partially offset by a decrease in debt from June 30, 2008 to June 30, 2009.

Total assets at March 31, 2010 and June 30, 2009 were as follows:

	March 31, 2010	June 30, 2009	$ Increase Over Prior Period(1)	% Increase Over Prior Period(1)
		(Dollars in thousands)		
Total Assets	$ 1,951,934	$ 1,892,486	$ 59,448	3.1%

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

During the nine months ended March 31, 2010, total assets increased as a result of cash flows from operations, partially offset by the $35.3 million goodwill impairment charge related to the Regis salon concept.

Total shareholders equity at March 31, 2010 and June 30, 2009 was as follows:

	March 31, 2010	June 30, 2009	$ Increase Over Prior Period(1)	% Increase Over Prior Period(1)
		(Dollars in thousands)		
Shareholders Equity	$ 1,010,224	$ 802,860	$ 207,364	25.8%

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

During the nine months ended March 31, 2010, equity increased primarily as a result of the issuance of $163.6 million in common stock, the $24.7 million ($15.4 million net of tax) equity component of the convertible debt, and the $24.4 million of earnings during the nine months ended March 31, 2010.

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Cash Flows

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

Operating Activities

Net cash provided by operating activities was $151.1 and $120.7 million during the nine months ended March 31, 2010 and 2009, respectively, and was the result of the following:

Operating Cash Flows	For the Nine months Ended March 31, 2010	2009
	(Dollars in thousands)	
Net income (loss)	$ 24,401	$ (119,912)
Depreciation and amortization	81,253	91,733
Equity in (income) loss of affiliated companies	(8,394)	(142)
Deferred income taxes	574	(5,952)
Impairment on discontinued operations	(154)	183,090
Goodwill impairment	35,277	41,661
Receivables	(51)	(3,808)
Inventories	5,628	(547)
Income tax receivable	541	(39,979)
Other current assets	4,872	(2,391)
Other assets	(13,130)	1,137
Accounts payable and accrued expenses	5,894	(24,038)
Other non-current liabilities	3,761	(1,002)
Other	10,614	875
	$ 151,086	$ 120,725

During the nine months ended March 31, 2010, cash provided by operating activities was higher than the corresponding period of the prior fiscal year due to an improvement in working capital.

Investing Activities

Net cash used in investing activities was $22.6 and $92.5 million during the nine months ended March 31, 2010 and 2009, respectively, and was the result of the following:

Investing Cash Flows	For the Nine months Ended March 31, 2010	2009
	(Dollars in thousands)	
Capital expenditures for remodels or other additions	$ (23,724)	$ (32,248)
Capital expenditures for the corporate office (including all technology-related expenditures)	(7,378)	(13,340)
Capital expenditures for new salon construction	(5,666)	(18,451)
Proceeds from sale of assets	47	51
Business and salon acquisitions	(2,702)	(40,051)
Proceeds from loans and investments	16,099	17,489
Disbursements for loans and investments		(5,971)
Freestanding derivative settlement	736	
	$ (22,588)	$ (92,521)

During the nine months ended March 31, 2010, cash used in investing activities was less than the corresponding period of the prior fiscal year due to the Company s planned reduction in capital expenditures and salon acquisitions and the receipt of $15.0 million on the revolving credit facility with EEG. Salon acquisitions decreased to $2.7 million during the nine months ended March 31, 2010 as compared to $40.1 million in the comparable prior period as the Company began reducing capital expenditures and acquisition spend due to the economic downturn during the second quarter of the prior fiscal year.

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

	For the Nine months Ended March 31, 2010		For the Nine months Ended March 31, 2009	
	Constructed	**Acquired**	**Constructed**	**Acquired**
Regis Salons	9	3	16	23
MasterCuts	13		14	
Trade Secret (1)			10	
SmartStyle	73		53	
Supercuts	9		20	
Promenade	15		28	71
International			4	
	119	3	145	94

(1) As of December 31, 2008, the Trade Secret concept within the North American reportable segment was accounted for as a discontinued operation. All periods presented reflect Trade Secret as a discontinued operation.

Financing Activities

Net cash used in financing activities was $7.2 and $79.6 million during the nine months ended March 31, 2010 and 2009, respectively, was the result of the following:

Financing Cash Flows	For the Nine months Ended March 31, 2010	For the Nine months Ended March 31, 2009
	(Dollars in thousands)	
Net payments on revolving credit facilities	$ (5,000)	$ (74,200)
Repayments of long-term debt and capital lease obligations	(316,597)	(83,519)
Proceeds from the issuance of long-term debt, net of underwriting discount	167,325	85,000
Proceeds from the issuance of common stock, net of underwriting discount	156,843	2,307
Excess tax benefits from stock-based compensation plans		284
Dividend paid	(6,854)	(5,181)
Other	(2,878)	(4,328)
	$ (7,161)	$ (79,637)

During the nine months ended March 31, 2010, cash used in financing activities was less than the corresponding period of the prior fiscal year due to the $167.3 and $156.8 million of net proceeds from the issuance of convertible debt and common stock, respectively, offset by the repayments on the revolving credit facilities and long-term debt.

Acquisitions

The acquisitions during the nine months ended March 31, 2010 consisted of 19 franchise buybacks and 3 acquired corporate salons. The acquisitions during the nine months ended March 31, 2009 consisted of 85 franchise buybacks and 94 acquired corporate salons. The acquisitions were funded primarily from operating cash flow and debt.

Contractual Obligations and Commercial Commitments

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

Financing

Financing activities are discussed above and derivative activities are discussed in Item 3, Quantitative and Qualitative Disclosures about Market Risk. There were no other significant financing activities during the three and nine months ended March 31, 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 March 31, 2010.

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Dividends

We paid dividends of $0.12 per share during the nine months ended March 31, 2010 and 2009. On April 29, 2010, our Board of Directors declared a $0.04 per share quarterly dividend payable May 27, 2010 to shareholders of record on May 13, 2010.

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 and in particular, continued weakness in the U.S. and global economies; 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; the ability of the Company to consummate the planned closure of salons and the related realization of the anticipated costs, benefits and time frame; or other factors not listed above. The ability of the Company to meet its expected revenue growth 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, 2009. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

The Company has established an interest rate management policy that attempts to minimize its overall cost of debt, while taking into consideration the earnings implications associated with the volatility of short-term interest rates. As part of this policy, the Company has elected to maintain a combination of variable and fixed rate debt. Considering the effect of interest rate swaps at March 31, 2010 and June 30, 2009, respectively, the Company had the following outstanding debt balances:

	March 31, 2010	June 30, 2009
	(Dollars in thousands)	
Fixed rate debt	$ 424,876	$ 534,307
Floating rate debt	45,000	100,000
	$ 469,876	$ 634,307

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 March 31, 2010, the variable rate debt represented less than 10.0 percent of the total debt portfolio. The Company is currently assessing the amount of fixed and variable rate debt.

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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, 2009 Annual Report on Form 10-K. Other than the information included above, there have been no material changes to the Company s market risk and hedging activities during the three and nine months ended March 31, 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 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 March 31, 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.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

The Company is a defendant in various lawsuits and claims arising out of the normal course of business. Like certain other large retail employers, the Company has been faced with allegations of purported class-wide wage and hour violations. Litigation is inherently unpredictable and the outcome of these matters cannot presently be determined. Although 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.

Item 1A. Risk Factors

Our business and our industry are affected by cyclical and global economic factors, including the risk of a prolonged recession.

Our financial results are substantially dependent upon overall economic conditions in the United States and in Europe. A prolonged or a deepening recession in the United States, or globally, could substantially further decrease the demand for our products and services below current levels and adversely affect our business. Our industry has historically been vulnerable to significant declines in consumption and product and service pricing during prolonged periods of economic downturn such as at present.

Recessions and other periods of economic dislocation typically result in a lower level of discretionary income for consumers. To the extent discretionary income declines, consumers may be more likely to reduce discretionary spending. This could result in our salon customers foregoing salon treatments or using home treatments as a substitute. It could also result in our hair restoration patients decreasing the amount spent on hair restoration treatments.

The current economic conditions have affected our financial results for the three and nine months ended March 31, 2010. Our comparable same-store sales results for the three and nine months ended March 31, 2010 declined 1.8 and 3.3 percent, respectively, compared to the three and nine months ended March 31, 2009. During the three and nine months ended March 31, 2010 we impaired $35.3 million of goodwill associated with our Regis salon concept. Also, we 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 the economic downturn continues to result in negative same-store sales and we are unable to offset the impact with operational savings, our financial results may be further affected. We may be required to take additional impairment charges and to impair certain long-lived assets, goodwill and investments, and such impairments could be material to our consolidated balance sheet and results of operations. The concepts that have the highest likelihood of impairment are Regis and Promenade.

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.

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. A variety of factors affect comparable same-store sales, including fashion trends, competition, current economic conditions, changes in our product assortment, the success of marketing programs and weather conditions. These factors may cause our comparable same-store sales results to differ materially from prior periods and from our expectations. Our comparable same-store sales results for the three and nine months ended March 31, 2010 declined 1.8 and 3.3 percent, respectively, compared to the three and nine months March 31, 2009.

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 Wal-Mart. Termination or modification of any of these relationships, including Wal-Mart, could significantly reduce our revenues and have a material and adverse impact on our business, our operating results and our ability to grow.

Changes in fashion trends may impact our revenue.

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

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

With approximately 12,700 locations and approximately 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 retail hair salon and beauty school businesses in order to maintain and expand our operations in the United States, Asia and continental Europe. If our joint venture partners are unwilling or unable to devote their financial resources or marketing and operational capabilities to our joint venture businesses, or if any of our joint ventures are terminated, we may not be able to realize anticipated revenues and profits in the countries where our joint ventures operate and our business could be materially adversely affected. If our joint venture arrangements are not successful, we may have a limited ability to terminate or modify these arrangements. If any of our joint ventures are terminated, there can be no assurance that we will be able to attract new joint venture partners to continue the activities of the terminated joint venture or to operate independently in the countries in which the terminated joint venture conducted business.

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

We have outstanding accounts and notes receivable subject to collectibility. If the counterparties are unable to repay the amounts due or if payment becomes unlikely our results of operations would be adversely affected.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company did not repurchase any of its common stock through its share repurchase program during the three months ended March 31, 2010.

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Item 6. Exhibits

Exhibit 10(a)*	Amendment dated January 28, 2010 to the Employment Agreement, as Amended and Restated effective December 31, 2008, between the Company and Paul D. Finkelstein (Employment Agreement incorporated by reference to Exhibit(b)(*) to the Company s Form 10-Q Report filed on February 9, 2009.
Exhibit 15	Letter Re: Unaudited Interim Financial Information.
Exhibit 31.1	Chairman of the Board of Directors, President and Chief Executive Officer of Regis Corporation: Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Senior Executive Vice President, Chief Financial and Administrative 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 and Chief Executive Officer of Regis Corporation: Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.2	Senior Executive Vice President, Chief Financial and Administrative Officer of Regis Corporation: Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

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SIGNATURES

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

	REGIS CORPORATION	
Date: May 10, 2010	By:	/s/ Randy L. Pearce
		Randy L. Pearce Senior Executive Vice President, Chief Financial and Administrative Officer Signing on behalf of the registrant and as principal accounting officer