

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)

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Minnesota
(State or other jurisdiction of
incorporation or organization)

41-0749934
(I.R.S. Employer
Identification No.)

7201 Metro Boulevard, Edina, Minnesota
(Address of principal executive offices)

55439
(Zip Code)

(952) 947-7777

(Registrant's telephone number, including area code)

N/A

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

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of 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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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

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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.

Table of Contents**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

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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.

Table of Contents**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)

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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.

Table of Contents**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)

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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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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		