REGIS CORP
Form 10-Q
January 29, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended December 31, 2014

OR

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

For the transition period from to

Commission file number 1-12725
Regis Corporation
(Exact name of registrant as specified in its charter)

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

(952) 947-7777
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer x	Accelerated filer ¨

Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 x

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of January 22, 2015:

Common Stock, $.05 par value	55,183,180
Class	Number of Shares

REGIS CORPORATION

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

REGIS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)
(Dollars in thousands, except share data)

	December 31, 2014	June 30, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$195,820	$378,627
Receivables, net	27,253	25,808
Inventories	138,073	137,151
Other current assets	66,345	71,680
Total current assets	427,491	613,266
Property and equipment, net	241,493	266,538
Goodwill	421,632	425,264
Other intangibles, net	18,271	19,812
Investment in affiliates	17,326	28,611
Other assets	64,223	62,458
Total assets	$1,190,436	$1,415,949
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Long-term debt, current portion	$9	$173,501
Accounts payable	63,284	68,491
Accrued expenses	147,258	142,720
Total current liabilities	210,551	384,712
Long-term debt and capital lease obligations	120,000	120,002
Other noncurrent liabilities	195,168	190,454
Total liabilities	525,719	695,168
Commitments and contingencies (Note 6)		
Shareholders' equity:		
Common stock, $0.05 par value; issued and outstanding 55,191,406 and 56,651,166 common shares at December 31, 2014 and June 30, 2014, respectively	2,760	2,833
Additional paid-in capital	318,850	337,837
Accumulated other comprehensive income	13,806	22,651
Retained earnings	329,301	357,460
Total shareholders' equity	664,717	720,781
Total liabilities and shareholders' equity	$1,190,436	$1,415,949

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 and Six Months Ended December 31, 2014 and 2013
(Dollars and shares in thousands, except per share data amounts)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2014	2013	2014	2013
Revenues:				
Service	$350,322	$360,959	$715,064	$732,686
Product	94,691	97,769	183,453	184,512
Royalties and fees	10,874	9,639	21,921	19,752
	455,887	468,367	920,438	936,950
Operating expenses:				
Cost of service	219,219	223,413	442,906	448,428
Cost of product	48,830	50,461	93,807	94,485
Site operating expenses	46,875	50,204	98,527	101,045
General and administrative	46,667	40,205	91,852	84,638
Rent	76,928	79,164	154,397	158,174
Depreciation and amortization	19,583	24,641	41,771	48,472
Goodwill impairment	—	34,939	—	34,939
Total operating expenses	458,102	503,027	923,260	970,181
Operating loss	(2,215)	(34,660)	(2,822)	(33,231)
Other (expense) income:				
Interest expense	(2,472)	(5,166)	(5,570)	(9,657)
Interest income and other, net	1,044	339	917	883
Loss before income taxes and equity in (loss) income of affiliated companies	(3,643)	(39,487)	(7,475)	(42,005)
Income taxes	(3,456)	(72,338)	(9,068)	(71,955)
Equity in (loss) income of affiliated companies, net of income taxes	(11,972)	2,740	(11,580)	4,739
Net loss	$(19,071)	$(109,085)	$(28,123)	$(109,221)
Net loss per share:				
Basic and diluted	$(0.35)	$(1.93)	$(0.51)	$(1.94)
Weighted average common and common equivalent shares outstanding:				
Basic and diluted	55,135	56,437	55,449	56,427
Cash dividends declared per common share	$—	$0.06	$—	$0.12

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

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REGIS CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS (Unaudited)
For The Three and Six Months Ended December 31, 2014 and 2013
(Dollars in thousands)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2014	2013	2014	2013
Net loss	$(19,071)	$(109,085)	$(28,123)	$(109,221)
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments during the period	(4,223)	(2,052)	(8,845)	983
Other comprehensive (loss) income	(4,223)	(2,052)	(8,845)	983
Comprehensive loss	$(23,294)	$(111,137)	$(36,968)	$(108,238)

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

REGIS CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)
For The Six Months Ended December 31, 2014 and 2013
(Dollars in thousands)

	Six Months Ended December 31,	
	2014	2013
Cash flows from operating activities:		
Net loss	$(28,123)	$(109,221)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	34,819	42,119
Equity in loss (income) of affiliated companies	11,580	(4,739)
Deferred income taxes	6,542	67,741
Salon asset impairment	6,952	6,353
Gain on sale of salon assets	(529)	—
Loss on write down of inventories	—	854
Goodwill impairment	—	34,939
Stock-based compensation	4,038	3,557
Amortization of debt discount and financing costs	1,001	3,933
Other non-cash items affecting earnings	716	136
Changes in operating assets and liabilities, excluding the effects of sales and acquisitions	633	3,557
Net cash provided by operating activities	37,629	49,229
Cash flows from investing activities:		
Capital expenditures	(22,493)	(23,913)
Proceeds from sale of assets (Asset acquisitions, net of cash acquired), net	1,429	(7)
Proceeds from loans and investments	—	5,056
Net cash used in investing activities	(21,064)	(18,864)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt, net of fees	—	118,058
Repayments of long-term debt and capital lease obligations	(173,745)	(3,452)
Repurchase of common stock	(22,890)	—
Dividends paid	—	(6,793)
Net cash (used in) provided by financing activities	(196,635)	107,813
Effect of exchange rate changes on cash and cash equivalents	(2,737)	752
(Decrease) increase in cash and cash equivalents	(182,807)	138,930
Cash and cash equivalents:		
Beginning of period	378,627	200,488
End of period	$195,820	$339,418

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

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REGIS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

The unaudited interim Condensed Consolidated Financial Statements of Regis Corporation (the Company) as of December 31, 2014 and for the three and six months ended December 31, 2014 and 2013, reflect, in the opinion of management, all adjustments necessary to fairly state the consolidated financial position of the Company as of December 31, 2014 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 Condensed Consolidated Balance Sheet data for June 30, 2014 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, 2014 and other documents filed or furnished with the Securities and Exchange Commission (SEC) during the current fiscal year.

Stock-Based Employee Compensation:

During the three and six months ended December 31, 2014, the Company granted various equity awards including restricted stock units (RSUs), equity-based stock appreciation rights (SARs) and performance share units (PSUs). During the six months ended December 31, 2014, the dividend yield assumption was updated to 0%. Otherwise there were no significant changes to the assumptions used in calculating the fair value of SARs. All grants relate to stock incentive plans that have been approved by the shareholders of the Company.

A summary of equity awards granted is as follows:

	For the Periods Ended December 31, 2014	
	Three Months	Six Months
Restricted stock units	48,225	301,508
Equity-based stock appreciation rights	13,869	450,334
Performance share units	6,097	199,337

Subsequent to December 31, 2014, the Company granted 176,263 RSUs and 363,970 SARs. These RSUs and SARs cliff vest on the fifth anniversary of the date of grant, with the SARs having an expiration date on the seventh anniversary of the date of grant. The expected volatility assumption was updated to 38%. Otherwise there were no significant changes to the assumptions used in calculating the fair value of the SARs.

Total compensation cost for stock-based payment arrangements totaled $2.3 and $1.7 million for the three months ended December 31, 2014 and 2013, respectively, and $4.0 and $3.6 million for the six months ended December 31, 2014 and 2013, respectively, recorded within general and administrative expense on the unaudited Condensed Consolidated Statement of Operations.

During fiscal year 2014, the Company granted 0.1 million PSUs with a performance metric based upon achieving a three-year cumulative adjusted earnings before interest, income taxes and depreciation and amortization balance. As of December 31, 2014, the Company does not expect any of these units to be earned and has not recorded any net expense associated with these awards. However, future compensation expense for the unvested awards could reach a maximum of $1.9 million if the maximum performance metric is earned.

Long-Lived Asset Impairment Assessments, Excluding Goodwill:
The Company assesses impairment of long-lived assets at the individual salon level, as this is the lowest level for which identifiable cash flows are largely independent of other groups of assets and liabilities, when events or changes in circumstances indicate the carrying value of the assets or the asset grouping may not be recoverable. Factors considered in deciding when to perform an impairment review include significant under-performance of an individual salon in relation to expectations, significant economic or geographic trends, and significant changes or planned changes in our use of the assets. Impairment is evaluated based on the sum of undiscounted estimated future cash flows expected to result from use of the long-lived assets. If the undiscounted estimated cash flows are less than the carrying value of the assets, the Company calculates an impairment charge based on the assets' estimated fair value. The fair value of the long-lived assets is estimated using a discounted cash flow model based on the best information available, including market data and salon level revenues and expenses. Long-lived asset impairment charges are recorded within depreciation and amortization in the Consolidated Statement of Operations for the three and six months ended December 31, 2014 and 2013.

Prior Period Adjustments:

During the three months ended December 31, 2014, the Company identified an error related to the understatement of self-insurance accruals in prior periods. Because this item was not material to the Company’s consolidated financial statements for any prior periods or the current quarter, the Company recorded a correcting cumulative adjustment during the three months ended December 31, 2014. The impact of this item on the Company’s Consolidated Statement of Operations increased site operating expense and net loss by $1.5 million, respectively.

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

Revenue from Contracts with Customers

In May 2014, the FASB issued updated guidance for revenue recognition. The updated accounting guidance provides a comprehensive new revenue recognition model that requires a Company to recognize revenue to depict the exchange for goods or services to a customer at an amount that reflects the consideration it expects to receive for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. This guidance will be effective in the first quarter of fiscal year 2018. This update permits the use of either the retrospective or simplified transition method. The Company does not expect the adoption of this update to have a material impact on the Company's consolidated financial statements and is evaluating the impact this guidance will have on its related disclosures.

2. INVESTMENT IN AFFILIATES:

Empire Education Group, Inc. (EEG)

As of December 31, 2014, the Company's ownership interest in EEG was 54.6% and the carrying amount of the Company's investment in EEG was $16.8 million.

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. The Company accounts for EEG as an equity investment under the voting interest model, as the Company has granted the other shareholder of EEG an irrevocable proxy to vote a certain number of the Company’s shares such that the other shareholder of EEG has voting control of 51.0% of EEG’s common stock, as well as the right to appoint four of the five members of EEG’s Board of Directors.

During the three and six months ended December 31, 2014, the Company recorded its share of a non-cash deferred tax asset valuation allowance recorded by EEG of $6.9 million. In addition, during the three and six months ended December 31, 2014, the Company recorded an other than temporary non-cash impairment charge of $4.7 million on its investment in EEG due to recent declines in enrollment, revenue and profitability. The Company did not receive a tax benefit on this impairment charge. Due to economic, regulatory and other factors, the Company may be required to record additional non-cash impairment charges related to its investment in EEG and such impairments could be material. The exposure to loss related to the Company’s involvement with EEG is the carrying value of the investment.

During the three months ended December 31, 2014 and 2013, the Company recorded $(7.3) and $0.7 million, respectively, of equity (losses) earnings related to its investment in EEG. During the six months ended December 31, 2014 and 2013, the Company recorded $(6.9) and $1.7 million, respectively, of equity (losses) earnings related to its investment in EEG.

MY Style

During the three and six months ended December 31, 2013, the Company recovered $2.1 million and $3.1 million, respectively, on its previously impaired investments in MY Style's parent company, Yamano Holding Corporation ("Yamano"), which is reported in equity in (loss) income of affiliated companies on the unaudited Condensed Consolidated Statement of Operations. During fiscal year 2011, the Company had estimated the fair value of the Yamano Class A and Class B Preferred Stock to be negligible and recorded an other than temporary non-cash impairment. The Company reported gains associated with Yamano's redemption within equity in (loss) income of affiliated companies, net of income taxes, on the unaudited Condensed Consolidated Statement of Operations.

3. EARNINGS PER SHARE:

The Company's basic earnings per share is calculated as net loss divided by weighted average common shares outstanding, excluding unvested outstanding restricted stock awards, RSUs and PSUs. The Company's diluted earnings per share is calculated as net loss divided by weighted average common shares and common share equivalents outstanding, which includes shares issued under the Company's stock-based compensation plans. 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 diluted earnings per share would also reflect the assumed conversion under the Company's convertible debt, if the impact was dilutive, along with the exclusion of interest expense, net of taxes. The impact of the convertible debt is excluded from the computation of diluted earnings per share when interest expense per common share obtainable upon conversion is greater than basic earnings per share.

Net loss available to common shareholders and net loss for diluted earnings per share under the if-converted method were the same for all periods presented.

For the three months ended December 31, 2014 and 2013, 169,023 and 110,759, respectively, and for the six months ended December 31, 2014 and 2013, 124,625 and 117,546, respectively, of common stock equivalents of potentially dilutive common stock, were excluded from the diluted earnings per share calculation due to the net loss.

The computation of weighted average shares outstanding, assuming dilution, excluded 1,915,248 and 1,732,575 of stock-based awards during the three months ended December 31, 2014 and 2013, respectively, and 1,838,695 and 1,452,639 of stock-based awards during the six months ended December 31, 2014 and 2013, respectively, as they were not dilutive under the treasury stock method. The computation of weighted average shares outstanding, assuming dilution, also excluded 922,527 and 11,299,204 of shares from convertible debt as they were not dilutive for the six months ended December 31, 2014 and 2013, respectively, and 11,308,502 as they were not dilutive for the three months ended December 31, 2013.

4. SHAREHOLDERS' EQUITY:

Additional Paid-In Capital:

The $19.0 million decrease in additional paid-in capital during the six months ended December 31, 2014 was primarily due to $22.9 million of common stock repurchases, partly offset by $4.0 million of stock-based compensation.

During the three and six months ended December 31, 2014, the Company repurchased 81,811 shares for $1.4 million and 1,537,398 shares for $22.9 million, respectively, under a previously approved stock repurchase program. At December 31, 2014, $35.8 million remains outstanding under the approved stock repurchase program.

5. INCOME TAXES:

During the three and six months ended December 31, 2014, the Company recognized tax expense of $3.5 and $9.1 million, respectively, with corresponding effective tax rates of (94.9)% and (121.3)%. During the three and six months ended December 31, 2013, the Company recognized tax expense of $72.3 and $72.0 million, respectively, with corresponding effective tax rates of (183.2)% and (171.3)%.

The recorded tax expense and effective tax rate for the three and six months ended December 31, 2014 were different than what would normally be expected primarily due to non-cash tax expense relating to tax benefits on certain indefinite-lived assets that the Company cannot recognize for reporting purposes and the valuation allowance associated with the U.S. and U.K. deferred tax assets.

The recorded tax expense and effective tax rate for the three and six months ended December 31, 2013 were higher than would be expected due primarily to the non-cash valuation allowance against the Company’s U.S. deferred tax assets and the recording of a non-cash goodwill impairment charge which was only partly deductible for tax purposes.

The Company’s U.S. federal income tax returns for the fiscal years 2010 and 2011 are currently under audit by the Internal Revenue Service (IRS). All earlier tax years are closed to examination. The Company has audit issues outstanding with the IRS for which the IRS has proposed additional adjustments. The Company believes its income tax positions and deductions will be sustained and intends to vigorously defend its position on these issues and accordingly has appealed to the IRS Appeals Division. Final resolution of these issues is not expected to have a material impact on the Company’s financial position. For state tax audits, the statute of limitations generally runs three to four years resulting in a number of returns being open for tax audits dating back to fiscal year 2010. The Company is currently under audit in a number of states in which the statute of limitations has been extended back for fiscal years 2007 and forward.

6. COMMITMENTS AND CONTINGENCIES:

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

In addition, the Company is a nominal defendant, and nine current and former directors and officers of the Company were named defendants, in a shareholder derivative action in Minnesota state court. The derivative shareholder action alleged that the individual defendants breached their fiduciary duties to the Company in connection with their approval of certain executive compensation arrangements and certain related party transactions. The Board of Directors appointed a Special Litigation Committee to investigate the claims and allegations made in the derivative action, and to decide on behalf of the Company whether the claims and allegations should be pursued. In April 2014, the Special Litigation Committee issued a report and concluded the claims and allegations should not be pursued, and in September 2014 the case was dismissed by court order. In a collateral proceeding, the plaintiff filed a motion for an award of fees in November 2014. The Company has opposed the motion and the motion is pending before the court.

The exposure to loss related to the Company’s discontinued Trade Secret salon concept is the guarantee of certain operating leases that have future minimum rents. The Company has determined the exposure to the risk of loss on the guarantee of the operating leases to be immaterial to the financial statements.

See Note 5 to the unaudited Condensed Consolidated Financial Statements for discussion regarding certain issues that have resulted from the IRS' audit of fiscal 2010 and 2011.

7. GOODWILL AND OTHER INTANGIBLES:

The table below contains details related to the Company's recorded goodwill:

	December 31, 2014			June 30, 2014		
	Gross Carrying Value	Accumulated Impairment (1)	Net (2)	Gross Carrying Value	Accumulated Impairment (1)	Net (2)
	(Dollars in thousands)					
Goodwill	$675,293	$(253,661)	$421,632	$678,925	$(253,661)	$425,264

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(1) The table below contains additional information regarding accumulated impairment losses:

Fiscal Year	Impairment Charge	Reporting Unit (3)
	(Dollars in thousands)	
2009	$ (41,661)	International
2010	(35,277)	North American Premium
2011	(74,100)	North American Value
2012	(67,684)	North American Premium
2014	(34,939)	North American Premium
Total	$ (253,661)	

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(2) Remaining net goodwill relates to the Company's North American Value reporting unit.

(3) See Note 10 to the unaudited Condensed Consolidated Financial Statements.

The table below presents other intangible assets:

	December 31, 2014			June 30, 2014		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
	(Dollars in thousands)					
Amortized intangible assets:						
Brand assets and trade names	$8,717	$(3,488)	$5,229	$9,203	$(3,510)	$5,693
Franchise agreements	10,505	(7,014)	3,491	11,063	(7,163)	3,900
Lease intangibles	14,662	(7,631)	7,031	14,775	(7,326)	7,449
Other	4,831	(2,311)	2,520	5,074	(2,304)	2,770
	$38,715	$(20,444)	$18,271	$40,115	$(20,303)	$19,812

8. FINANCING ARRANGEMENTS:

The Company’s long-term debt consisted of the following:

	Maturity Dates	Interest Rate	Amounts outstanding December 31, 2014	June 30, 2014
	(fiscal year)		(Dollars in thousands)	
Convertible senior notes	2015	5.00%	$—	$172,246
Senior term notes	2018	5.75	120,000	120,000
Revolving credit facility	2018	—	—	—
Equipment and leasehold notes payable	2015 - 2016	4.90 - 8.75	9	1,257
			120,009	293,503
Less current portion			(9)	(173,501)
Long-term portion			$120,000	$120,002

Convertible Senior Notes

In July 2009, the Company issued $172.5 million aggregate principal amount of 5.0% convertible senior notes due July 2014. In July 2014, the Company settled the convertible senior notes with $172.5 million in cash. The notes were unsecured, senior obligations of the Company and interest was payable semi-annually in arrears on January 15 and July 15 of each year at a rate of 5.0% per year. For the six months ended December 31, 2014 and 2013, interest expense related to the 5.0% contractual interest coupon was $0.4 and $4.3 million, respectively, and interest expense related to the amortization of the debt discount was $0.3 and $2.8 million, respectively. For the three months ended December 31, 2013, interest expense related to the 5.0% contractual interest coupon and amortization of debt discount was $2.1 and $1.4 million, respectively.

Senior Term Notes

In November 2013, the Company issued $120.0 million aggregate principal amount of 5.75% senior notes due December 2017 (Senior Term Notes). Net proceeds from the issuance of the Senior Term Notes were $118.1 million. Interest on the Senior Term Notes is payable semi-annually in arrears on June 1 and December 1 of each year at a rate of 5.75% per year. The Senior Term Notes are unsecured and not guaranteed by any of the Company’s subsidiaries or any third parties.

Revolving Credit Facility

As of December 31, 2014 and June 30, 2014, the Company had no outstanding borrowings under this facility. Additionally, the Company had outstanding standby letters of credit under the facility of $2.1 and $2.2 million at December 31, 2014 and June 30, 2014, respectively, primarily related to the Company's self-insurance program. Unused available credit under the facility at December 31, 2014 and June 30, 2014 was $397.9 and $397.8 million, respectively.

The Company was in compliance with all covenants and requirements of its financing arrangements as of and during the three months ended December 31, 2014.

9. FAIR VALUE MEASUREMENTS:

Fair value measurements are categorized into one of three levels based on the lowest level of significant input used: Level 1 (unadjusted quoted prices in active markets); Level 2 (observable market inputs available at the measurement date, other than quoted prices included in Level 1); and Level 3 (unobservable inputs that cannot be corroborated by observable market data).

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

As of December 31, 2014, the Company’s financial instruments included cash, cash equivalents, receivables, accounts payable and debt. The fair value of cash, cash equivalents, receivables and accounts payable approximated their carrying values as of December 31, 2014 and June 30, 2014. As of December 31, 2014 and June 30, 2014, the estimated fair value of the Company's debt was $118.6 million and $292.5 million, respectively, and the carrying value was $120.0 million and $293.5 million, respectively.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

We measure certain assets, including the Company’s equity method investments, tangible fixed and other assets and goodwill, at fair value on a nonrecurring basis when they are deemed to be other than temporarily impaired. The fair values of the Company’s 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. During the three and six months ended December 31, 2014, the Company recorded $2.9 and $7.0 million of long-lived asset impairment charges. See Note 1 to the unaudited Condensed Consolidated Financial Statements. During the three and six months ended December 31, 2014, the Company's investment in EEG with a carrying value of $21.5 million was written down to its implied fair value of $16.8 million, resulting in a non-cash impairment charge of $4.7 million. See Note 2 to the unaudited Condensed Consolidated Financial Statements. There were no other assets measured at fair value on a nonrecurring basis during the three months ended December 31, 2014.

10. SEGMENT INFORMATION:

Segment information is prepared on the same basis the chief operating decision maker reviews financial information for operational decision-making purposes.

As of December 31, 2014, the Company’s reportable operating segments consisted of the following salons:

	Company-owned	Franchised	Total
North American Value	6,001	2,246	8,247
North American Premium	777	—	777
International	364	—	364
Total	7,142	2,246	9,388

The North American Value operating segment is comprised primarily of SmartStyle, Supercuts, MasterCuts, Cost Cutters, and other regional trade names. The North American Premium operating segment is comprised primarily of the Regis salon concept and the International operating segment includes Supercuts, Regis and Sassoon salon concepts.

The Company's operating segment results were as follows:

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2014	2013	2014	2013
	(Dollars in thousands)			
Revenues:				
North American Value	$345,733	$351,987	$700,109	$707,328
North American Premium	78,751	84,794	157,786	168,984
International	31,403	31,586	62,543	60,638
Revenues	$455,887	$468,367	$920,438	$936,950
Operating income (loss):				
North American Value	$26,396	$26,790	$55,683	$56,841
North American Premium (1)	(2,514)	(38,909)	(7,058)	(40,152)
International	396	495	1,026	238
Total segment operating income (loss)	24,278	(11,624)	49,651	16,927
Unallocated Corporate	(26,493)	(23,036)	(52,473)	(50,158)
Operating loss	$(2,215)	$(34,660)	$(2,822)	$(33,231)

(1) The three and six months ended December 31, 2013, includes a non-cash goodwill impairment charge of $34.9 million.

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. This MD&A should be read in conjunction with the MD&A included in our June 30, 2014 Annual Report on Form 10-K and other documents filed or furnished with the Securities and Exchange Commission (SEC) during the current fiscal year.

MANAGEMENT'S OVERVIEW

Regis Corporation (RGS) owns, franchises and operates beauty salons. Our long-term mission is to create guests for life. To successfully achieve our mission and build a winning organization, we must help our stylists have successful and satisfying careers, which will drive great guest experiences and in turn, guests for life. We are investing in a number of areas focused on providing an outstanding guest experience and helping our stylists have successful careers, including investments in people, training and technology.

Since fiscal year 2012, the Company has been evaluating its portfolio of assets, investments and businesses, with the strategic objective of simplifying our business model, focusing on our core business of operating beauty salons and improving our long-term profitability and maximizing shareholder value. The disposal or sale of any non-core assets may impact our operations by decreasing total revenues, operating expenses and income or loss from equity method investments.

As of December 31, 2014, we owned, franchised or held ownership interests in 9,603 worldwide locations. Our locations consisted of 9,388 system-wide North American and International salons, and 215 locations in which we maintain a non-controlling ownership interest less than 100 percent. Each of the Company's salon concepts generally offer similar salon products and services and serve the mass market. As of December 31, 2014, we had approximately 47,000 corporate employees worldwide.

CRITICAL ACCOUNTING POLICIES

The interim unaudited Condensed Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the interim unaudited 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 interim unaudited 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 interim unaudited 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, 2014 Annual Report on Form 10-K, as well as Note 1 to the unaudited Condensed Consolidated Financial Statements contained within this Quarterly Report on Form 10-Q. We believe the accounting policies related to investment in affiliates, the valuation of goodwill, the valuation and estimated useful lives of long-lived assets, estimates used in relation to tax liabilities and deferred taxes and legal contingencies 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, 2014 Annual Report on Form 10-K.

See Note 2 to the unaudited Condensed Consolidated Financial Statements for a discussion of potential impairment of a portion or all of the carrying value of our investment in EEG.

Recent Accounting Pronouncements

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

RESULTS OF OPERATIONS

Explanations are primarily for North American Value, unless otherwise noted.

Condensed Consolidated Results of Operations (Unaudited)

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

	For the Periods Ended December 31,											
	Three Months						Six Months					
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	($ in millions)		% of Total Revenues		Basis Point (Decrease) Increase		($ in millions)		% of Total Revenues		Basis Point (Decrease) Increase	
Service revenues	$350.3	$361.0	76.8 %	77.1 %	(30)	40	$715.1	$732.7	77.7 %	78.2 %	(50)	90
Product revenues	94.7	97.8	20.8	20.9	(10)	(50)	183.5	184.5	19.9	19.7	20	(110)
Franchise royalties and fees	10.9	9.6	2.4	2.0	40	10	21.9	19.8	2.4	2.1	30	20
Cost of service (1)	219.2	223.4	62.6	61.9	70	160	442.9	448.4	61.9	61.2	70	150
Cost of product (2)	48.8	50.5	51.6	51.6	—	70	93.8	94.5	51.1	51.2	(10)	(20)
Site operating expenses	46.9	50.2	10.3	10.7	(40)	80	98.5	101.0	10.7	10.8	(10)	70
General and administrative	46.7	40.2	10.2	8.6	160	(240)	91.9	84.6	10.0	9.0	100	(200)
Rent	76.9	79.2	16.9	16.9	—	100	154.4	158.2	16.8	16.9	(10)	90
Depreciation and amortization	19.6	24.6	4.3	5.3	(100)	100	41.8	48.5	4.5	5.2	(70)	100
Goodwill impairment	—	34.9	—	7.5	(750)	750	—	34.9	—	3.7	(370)	370
Interest expense	2.5	5.2	0.5	1.1	(60)	(20)	5.6	9.7	0.6	1.0	(40)	(30)
Interest income and other, net	1.0	0.3	0.2	0.1	10	—	0.9	0.9	0.1	0.1	—	(340)

