

REGIS CORP
Form 10-Q/A
May 20, 2005

Table of Contents

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

FORM 10-Q/A

(Amendment No. 1)

(Mark One)

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

For the quarterly period ended September 30, 2004

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 011230

Regis Corporation

(Exact name of registrant as specified in its charter)

Minnesota

41-0749934

(State or other jurisdiction of incorporation or organization)

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

7201 Metro Boulevard, Edina, Minnesota

55439

(Address of principal executive offices)

(Zip Code)

(952)947-7777

(Registrant's telephone number, including area code)

(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.

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Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of October 22, 2004:

Common Stock, \$.05 par value

44,355,557

Class

Number of Shares

Table of Contents

EXPLANATORY NOTE

The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 was filed with the SEC on October 29, 2004 (the Original Filing). The Company is filing this Amendment No. 1 to its Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (Form 10-Q/A) to reflect restatements of its Condensed Consolidated Balance Sheets at September 30, 2004 and June 30, 2004, and its Condensed Consolidated Statement of Operations and Condensed Consolidated Statement of Cash Flows for the quarters ended September 30, 2004 and 2003, and the related notes thereto, as discussed below. For a more detailed description of these restatements, see

Restatement of Financial Statements in Note 2 of the Notes to the Condensed Consolidated Financial Statements included in Item 1, Financial Statements, of this Form 10-Q/A. Information presented in the section entitled Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations has also been revised, as applicable, for the effects of the restatement of financial data.

During the third quarter of its fiscal year ending June 30, 2005 (fiscal year 2005), Regis Corporation (the Company) became aware that a number of retailers and restaurant operators had disclosed in their filings with the Securities and Exchange Commission (SEC) that they were reassessing their accounting related to leases and that some companies had restated their financial statements to reflect changes in their accounting for leases. In light of these disclosures and restatements, the Company conducted a review of its lease accounting policies and practices.

In its lease accounting review, the Company examined its leases to determine the appropriate lease term for each lease under generally accepted accounting principles (GAAP). Typically, the Company's operating leases do not require rental payments to begin until the salon is opened. The leased space is sometimes made available to the Company prior to the commencement of salon operations in order to allow time for installing normal leasehold improvements and equipment necessary to operate a salon. The Company historically began to recognize rental expense on a straight-line basis at the earlier of the commencement of operations or the commencement of rental payments. However, the Company did not include the rent holiday period in its straight-line rent calculation. A rent holiday is considered to be any period where the lessee has the right to control the use of the leased property but no rental payments are required under the lease during that period. FASB Technical Bulletin (FTB) 85-3, Accounting for Operating Leases with Scheduled Rent Increases, requires rent holiday periods in an operating lease to be recognized by the lessee on a straight-line basis over the lease term, which includes any rent holiday period.

Based on the review of the Company's accounting for operating leases, the Company determined that it would be appropriate to restate certain of its prior financial statements to appropriately account for rent holiday periods. On April 13, 2005, the Company determined that its previously filed financial statements included in its Annual Report on Form 10-K for fiscal year 2004 (ended June 30, 2004) and its previously filed financial statements included in its Quarterly Reports on Form 10-Q for the first two quarters of fiscal year 2005 should be restated. The restatement to appropriately account for rent holidays had no impact on the overall cash flows of the Company's business. The Company has completed its lease accounting review and has reflected all of the necessary adjustments in its restated Condensed Consolidated Financial Statements.

This Form 10-Q/A sets forth the content of the Original Filing in its entirety, with changes to Items 1, 2, and 4 of Part I and Item 6 of Part II of the Original Filing amended, in each case, solely as a result of, and to reflect, the restatement. No other information in the Original Filing has been amended in this Form 10-Q/A. Pursuant to the rules of the SEC, Item 6 of Part II of the Original Filing has been amended to contain the awareness letter of the Company's independent registered public accountants and currently-dated certifications from the Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The awareness letter of the Company's independent registered public accountant is attached to this Form 10-Q/A as Exhibit 15. The certifications of the Company's CEO and CFO are attached to this form 10-Q/A as Exhibits 31.1, 31.2, 32.1 and 32.2.

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Except for the foregoing amended information, this Form 10-Q/A continues to describe conditions as of the date of the Original Filing, and the Company has not updated the disclosures contained herein to reflect events that have occurred subsequent to that date. Other events occurring after the date of the Original Filing or other information necessary to reflect subsequent events have been disclosed in reports filed with the SEC subsequent to the Original Filing or in the Company's amended Quarterly Report on Form 10-Q/A for the quarterly period ended December 31, 2004, which is filed concurrently with the filing of this Form 10-Q/A, and any other reports filed with the SEC subsequent to the date of this filing.

The Company has not amended and does not intend to amend its previously-filed Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for the periods affected by the restatement that ended prior to June 30, 2004. For this reason, the Consolidated Financial Statements, reports of independent accountants and related financial information for the affected periods contained in such reports should no longer be relied upon.

REGIS CORPORATION

INDEX

| | Page Nos. |
|---|-----------|
| <u>Part I. Financial Information</u> | |
| <u>Item 1. Condensed Consolidated Financial Statements:</u> | |
| <u>Condensed Consolidated Balance Sheet as of September 30, 2004 and June 30, 2004 (Restated)</u> | 4 |
| <u>Condensed Consolidated Statement of Operations for the three months ended September 30, 2004 and 2003 (Restated)</u> | 5 |
| <u>Condensed Consolidated Statement of Cash Flows for the three months ended September 30, 2004 and 2003 (Restated)</u> | 6 |
| <u>Notes to Condensed Consolidated Financial Statements (Restated)</u> | 7-14 |
| <u>Review Report of Independent Registered Public Accounting Firm</u> | 15 |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 16-32 |
| <u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u> | 33-34 |
| <u>Item 4. Controls and Procedures</u> | 35 |
| <u>Part II. Other Information</u> | |
| <u>Item 1. Legal Proceedings</u> | 36 |
| <u>Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities</u> | 36 |
| <u>Item 6. Exhibits and Reports on Form 8-K</u> | 36 |

Signature

37

Letter Re: Unaudited Interim Financial Information

Certificatin Pursuant to Section 302

Certificatin Pursuant to Section 302

Certificatin Pursuant to Section 906

Certificatin Pursuant to Section 906

Table of Contents

PART I FINANCIAL INFORMATION
Item 1. Condensed Consolidated Financial Statements

REGIS CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)
as of September 30, 2004 and June 30, 2004
(Dollars in thousands, except per share amounts)

| | September 30, 2004 | June 30, 2004 |
|--|-------------------------------|------------------------------|
| | (as restated, see Note 2) | (as restated, see Note 2) |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 82,416 | \$ 73,567 |
| Receivables, net | 36,065 | 35,033 |
| Inventories | 177,237 | 161,304 |
| Deferred income taxes | 14,405 | 15,285 |
| Other current assets | 21,416 | 28,253 |
| Total current assets | 331,539 | 313,442 |
| Property and equipment, net | 389,937 | 381,903 |
| Goodwill | 469,034 | 457,140 |
| Other intangibles, net | 79,658 | 79,174 |
| Other assets | 42,976 | 40,200 |
| Total assets | \$ 1,313,144 | \$ 1,271,859 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Current liabilities: | | |
| Long-term debt, current portion | \$ 9,051 | \$ 19,128 |
| Accounts payable | 59,862 | 53,112 |
| Accrued expenses | 120,975 | 129,721 |
| Total current liabilities | 189,888 | 201,961 |
| Long-term debt | 300,100 | 282,015 |
| Other noncurrent liabilities | 111,135 | 105,863 |
| Total liabilities | 601,123 | 589,839 |
| Commitments and contingencies | | |
| Shareholders equity: | | |

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Preferred stock, authorized 250,000 shares at September 30, 2004 and June 30, 2004

Common stock, \$.05 par value; issued and outstanding 44,349,357 and 44,283,949 common shares at September 30, 2004 and June 30, 2004, respectively

Additional paid-in capital

Accumulated other comprehensive income

Retained earnings

| | |
|---------|---------|
| 2,217 | 2,214 |
| 222,109 | 220,204 |
| 45,289 | 40,615 |
| 442,406 | 418,987 |

Total shareholders equity

| | |
|---------|---------|
| 712,021 | 682,020 |
|---------|---------|

Total liabilities and shareholders equity

| | | | |
|----|-----------|----|-----------|
| \$ | 1,313,144 | \$ | 1,271,859 |
|----|-----------|----|-----------|

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 September 30, 2004 and 2003
(Dollars in thousands, except per share amounts)

| | 2004 | 2003 |
|---|------------------------------|------------------------------|
| | (as restated, see Note 2) | (as restated, see Note 2) |
| Revenues: | | |
| Company-owned salons: | | |
| Service | \$ 333,874 | \$ 300,037 |
| Product | 139,800 | 131,592 |
| | 473,674 | 431,629 |
| Franchise revenues: | | |
| Royalties and fees | 18,668 | 18,109 |
| Product sales | 7,824 | 7,937 |
| | 26,492 | 26,046 |
| School revenues | 6,056 | 3,046 |
| | 506,222 | 460,721 |
| Operating expenses: | | |
| Company-owned salons: | | |
| Cost of service | 190,595 | 169,395 |
| Cost of product | 71,393 | 68,247 |
| Direct salon | 42,306 | 38,148 |
| Rent | 71,996 | 63,286 |
| Depreciation | 16,119 | 14,543 |
| | 392,409 | 353,619 |
| Franchise direct costs, including product and equipment | 13,946 | 13,671 |
| General and administrative | 48,838 | 45,505 |
| School direct costs | 4,606 | 1,979 |
| Depreciation and amortization | 3,676 | 3,083 |
| Total operating expenses | 463,475 | 417,857 |
| Operating income | 42,747 | 42,864 |

| | | |
|---|-----------|-----------|
| Other income (expense): | | |
| Interest | (4,308) | (4,368) |
| Other, net | 677 | 340 |
| Income before income taxes | 39,116 | 38,836 |
| Income taxes | (13,924) | (14,187) |
| Net income | \$ 25,192 | \$ 24,649 |
| Net income per share: | | |
| Basic | \$ 0.57 | \$ 0.56 |
| Diluted | \$ 0.54 | \$ 0.54 |
| Weighted average common and common equivalent shares outstanding: | | |
| Basic | 44,322 | 43,637 |
| Diluted | 46,293 | 45,596 |
| Cash dividends declared per common share | \$ 0.04 | \$ 0.03 |

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

Table of Contents**REGIS CORPORATION**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)
for the three months ended September 30, 2004 and 2003
(Dollars in thousands)

| | 2004 | 2003 |
|---|------------------------------|------------------------------|
| | (as restated, see Note 2) | (as restated, see Note 2) |
| Cash flows from operating activities: | | |
| Net income | \$ 25,192 | \$ 24,649 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 18,928 | 16,924 |
| Amortization | 867 | 891 |
| Deferred income taxes | 1,223 | 2,094 |
| Other | (168) | (273) |
| Changes in operating assets and liabilities: | | |
| Receivables | (407) | (1,411) |
| Inventories | (15,474) | (1,114) |
| Other current assets | 6,930 | 1,645 |
| Other assets | (1,843) | (1,988) |
| Accounts payable | 2,825 | 4,002 |
| Accrued expenses | (7,423) | 3,310 |
| Other noncurrent liabilities | 4,728 | 3,850 |
| Net cash provided by operating activities | 35,378 | 52,579 |
| Cash flows from investing activities: | | |
| Capital expenditures | (21,905) | (15,980) |
| Proceeds from sale of assets | 220 | 217 |
| Purchases of salon net assets, net of cash acquired | (11,801) | (25,360) |
| Net cash used in investing activities | (33,486) | (41,123) |
| Cash flows from financing activities: | | |
| Borrowings on revolving credit facilities | 443,150 | 223,515 |
| Payments on revolving credit facilities | (426,526) | (207,815) |
| Repayment of long-term debt | (11,888) | (15,171) |
| Other, primarily decrease in negative book cash balances | 2,136 | (4,813) |
| Dividends paid | (1,772) | (1,309) |
| Repurchase of common stock | | (2,990) |
| Proceeds from issuance of common stock | 1,311 | 2,978 |
| Net cash provided by (used in) financing activities | 6,411 | (5,605) |

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| | | |
|--|-----------|-----------|
| Effect of exchange rate changes on cash and cash equivalents | 546 | 723 |
| Increase in cash and cash equivalents | 8,849 | 6,574 |
| Cash and cash equivalents: | | |
| Beginning of period | 73,567 | 55,454 |
| End of period | \$ 82,416 | \$ 62,028 |

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

Table of Contents

REGIS CORPORATION

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

1. BASIS OF PRESENTATION OF UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS:

The unaudited interim Condensed Consolidated Financial Information of Regis Corporation (the Company) as of September 30, 2004 and for the three months ended September 30, 2004 and 2003, reflect, in the opinion of management, all adjustments (all of which are normal and recurring in nature) necessary to fairly state the consolidated financial position of the Company as of September 30, 2004 and the consolidated results of its operations and its cash flows for the interim periods. 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, 2004 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/A for the year ended June 30, 2004 and other documents filed with the Securities and Exchange Commission (SEC) during the current fiscal year.

With respect to the unaudited condensed financial information of the Company for the three month periods ended September 30, 2004 and 2003 included in this Form 10-Q/A, PricewaterhouseCoopers LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated October 27, 2004 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.

Cost of Product Used and Sold:

Product costs are determined by applying estimated gross profit margins to service and product revenues, which are based on historical factors including product pricing trends and estimated shrinkage. In addition, the estimated gross profit margin is adjusted based on the results of physical inventory counts performed at least semi-annually. Significant changes in product costs, volumes or shrinkage could have a material impact on the Company's gross margin.

Property and Equipment:

Property and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation and amortization of property and equipment are computed on the straight-line method over estimated useful asset lives (30 to 39 years for buildings and improvements and five to ten years for equipment, furniture, software and leasehold improvements). Leasehold improvements are amortized over the shorter of their estimated useful lives or the related lease term, generally ten years. For leases with renewal periods at the Company's option, management may determine at the inception of the lease that renewal is reasonably assured if failure to exercise a renewal option imposes an economic penalty to the Company. In such cases, the Company will include the

renewal option period along with the original stated lease period in the determination of appropriate estimated useful lives.

The Company capitalizes both internal and external costs of developing or obtaining computer software for internal use. Costs incurred to develop internal-use software during the application development stage are capitalized, while data conversion, training and maintenance costs associated with internal-use software are expensed as incurred. Amortization expense related to capitalized software is determined based on an estimated useful life of five or seven years.

Expenditures for maintenance and repairs and minor renewals and betterments which do not improve or extend the life of the respective assets are expensed. All other expenditures for renewals and betterments are capitalized. The assets and related depreciation and amortization accounts are adjusted for property retirements and disposals with the resulting gain or loss included in operations. Fully depreciated/amortized assets remain in the accounts until retired from service.

Table of Contents

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont.)
(Unaudited)**

Deferred Rent and Rent Expense:

The Company leases most salon, beauty school and hair restoration center locations under operating leases. Most lease agreements contain tenant improvement allowances funded by landlord incentives, rent holidays, rent escalation clauses and/or contingent rent provisions. Accounting principles generally accepted in the United States of America require rent expense to be recognized on a straight-line basis over the lease term. The difference between the rent due under the stated periods of the lease compared to that of the straight-line basis is recorded as deferred rent within other noncurrent liabilities in the Condensed Consolidated Balance Sheet.

For purposes of recognizing incentives and minimum rental expenses on a straight-line basis over the terms of the leases, the Company uses the date that it obtains the legal right to use and control the leased space to begin amortization, which is generally when the Company enters the space and begins to make improvements in preparation of intended use of the leased space.

For tenant improvement allowances funded by landlord incentives and rent holidays, the Company records a deferred rent liability in other noncurrent liabilities on the Condensed Consolidated Balance Sheet and amortizes the deferred rent as a reduction to rent expense on the Condensed Consolidated Statements of Operations over the term of the lease (including one renewal option period if renewal is reasonably assured based on the imposition of an economic penalty for failure to exercise the renewal option).

Certain lease agreements contain rent escalation clauses which provide for scheduled rent increases during the lease term or for rental payments commencing at a date other than the date of initial occupancy. Such stepped rent expense is recorded in the Condensed Consolidated Statements of Operations on a straight-line basis over the lease term (including one renewal option period if renewal is reasonably assured based on the imposition of an economic penalty for failure to exercise the renewal option).

Certain leases provide for contingent rents, which are determined as a percentage of revenues in excess of specified levels. The Company records a contingent rent liability in accrued expenses on the Condensed Consolidated Balance Sheet, along with the corresponding rent expense in the Condensed Consolidated Statement of Operations, when specified levels have been achieved or when management determines that achieving the specified levels during the fiscal year is probable.

Reclassifications:

Certain prior period amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on net income or shareholders' equity as previously presented.

Stock-Based Employee Compensation Plans:

At September 30, 2004, the Company had the 2004 Long Term Incentive Plan (2004 Plan), the 2000 Stock Option Plan and the 1991 Stock Option Plan. The 2004 Plan was approved by the Company's Board of Directors in May of 2004 and received shareholder approval on October 28, 2004. In June 2004 (prior to shareholder approval), 72,500 shares of restricted stock and 110,750 stock appreciation rights (SARs) were awarded under the 2004 Plan, pending shareholder approval. No stock options have been granted under the 2004 Plan. Since the 2004 Plan did not receive shareholder approval until after September 30, 2004, no compensation expense was recognized during the first quarter of fiscal year 2005. The Company had outstanding stock options under the 1991 Plan, although the Plan terminated in 2001.

Prior to July 1, 2003, the Company accounted for these plans using the intrinsic value method under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25) and related Interpretations and applies FAS No. 123, Accounting for Stock-Based Compensation (FAS No. 123), as amended by FAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure (FAS No. 148), for disclosure purposes only. The FAS No. 123 disclosures include pro forma net income and earnings per share as if the fair value-based method of accounting had been used. Under the provisions of APB No. 25, no stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying stock on the date of grant.

Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont.)
(Unaudited)**

Effective July 1, 2003, the Company adopted the fair value recognition provisions of FAS No. 123 using the prospective transition method. Under the prospective method of adoption, compensation cost is recognized related to options granted, modified or settled after the beginning of the fiscal year in which the fair value method is first adopted. Under this approach, fiscal year 2005 and 2004 compensation expense is less than it would have been had the fair value recognition provisions of FAS No. 123 been applied from its original effective date because the fair value of the options vesting during the year which were granted prior to fiscal year 2004 are not recognized in the Consolidated Statement of Operations. Options granted in fiscal years prior to the adoption of the fair value recognition provisions will continue to be accounted for under APB Opinion No. 25. The adoption of the fair value recognition provisions increased the Company's first quarter fiscal year 2005 compensation expense by approximately \$80,000, and is expected to increase total fiscal year 2005 compensation expense by approximately \$1.4 million.

The Company's pro forma net income and pro forma earnings per share for the quarters ended September 30, 2004 and 2003 was as follows:

| (Dollars in thousands) | For the Three Months Ended September 30, | |
|--|---|-------------|
| | 2004 | 2003 |
| Net income, as reported (as restated, see Note 2) | \$ 25,192 | \$ 24,649 |
| Add: Stock-based employee compensation expense included in reported net income, net of related tax effects | 50 | |
| Deduct: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects | (1,570) | (1,677) |
| Pro forma net income (as restated, see Note 2) | \$ 23,672 | \$ 22,972 |
| Earnings per share: | | |
| Basic as reported (as restated, see Note 2) | \$ 0.57 | \$ 0.56 |
| Basic pro forma (as restated, see Note 2) | \$ 0.53 | \$ 0.53 |
| Diluted as reported (as restated, see Note 2) | \$ 0.54 | \$ 0.54 |
| Diluted pro forma (as restated, see Note 2) | \$ 0.51 | \$ 0.51 |

The fair value of options was calculated utilizing the Black-Scholes option-pricing model and the following key weighted average assumptions:

| | 2004 | 2003 |
|-------------------------|-------------|-------------|
| Risk-free interest rate | 4.16% | 2.89% |
| Expected life in years | 5.5 | 7.25 |
| Expected volatility | 30.0% | 42.00% |
| Expected dividend yield | 0.37% | 0.45% |

2. RESTATEMENT OF FINANCIAL STATEMENTS:

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During the third quarter of its fiscal year ending June 30, 2005 (fiscal year 2005), the Company became aware that a number of retailers and restaurant operators had disclosed in their filings with the SEC that they were reassessing their accounting related to leases and that some companies had restated their financial statements to reflect changes in their accounting for leases. In light of these disclosures and restatements, the Company conducted a review of its lease accounting policies and practices.

Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont.)
(Unaudited)**

In its lease accounting review, the Company examined its real estate leases to determine the appropriate lease term for each lease under GAAP. Typically, the Company's operating leases do not require rental payments to begin until the salon is opened. The leased space is sometimes made available to the Company prior to the commencement of salon operations in order to allow time for installing normal leasehold improvements and equipment necessary to operate a salon. The Company historically began to recognize rental expense on a straight-line basis at the earlier of the commencement of operations or the commencement of rental payments. However, the Company did not previously include the rent holiday period in its straight-line rent calculation. A rent holiday is considered to be any period where the lessee has the right to control the use of the leased property but no rental payments are required under the lease during that period. FASB Technical Bulletin (FTB) 85-3,

Accounting for Operating Leases with Scheduled Rent Increases, requires rent holiday periods in an operating lease to be recognized by the lessee on a straight-line basis over the lease term, which includes any rent holiday period.

Based on the review of the Company's accounting for operating leases, the Company concluded that its previously reported rent expense amounts needed to be restated to reflect rent holidays on a straight-line basis over the appropriately defined lease term. This correction generally results in an increase of the total amount of rent expense recorded each fiscal year, with a corresponding adjustment to the deferred rent liability (within other noncurrent liabilities on the Condensed Consolidated Balance Sheet). The adjustment to lease expense is tax effected, which causes adjustments to income tax expense within the Condensed Consolidated Statement of Operations, as well as deferred income taxes (within other noncurrent liabilities) in the Condensed Consolidated Balance Sheet.

The Company restated its previously issued financial statements, including those in the Company's 2004 Annual Report on Form 10-K for the fiscal year ended June 30, 2004 and those in the Company's Quarterly Reports on Form 10-Q for the quarters ended September 30, 2004 and December 31, 2004. The restatement did not have any effect on the Company's previously reported consolidated revenues or cash flow from operations. Following is a summary of the effects of the lease accounting corrections on the Company's Condensed Consolidated Statements of Operations for the three months ended September 30, 2004 and 2003:

**Condensed Consolidated Statement of Operations
For the Three Months Ended September 30,
2004**

| | 2004 | | | 2003 | | |
|------------------------------|------------------------------|------------|----------------|------------------------------|------------|----------------|
| | As Previously Reported | Adjustment | As Restated | As Previously Reported | Adjustment | As Restated |
| (Dollars in thousands) | | | | | | |
| Rent | \$ 71,537 | \$ 459 | \$ 71,996 | \$ 62,819 | \$ 467 | \$ 63,286 |
| Operating income | 43,206 | (459) | 42,747 | 43,331 | (467) | 42,864 |
| Income before income taxes | 39,575 | (459) | 39,116 | 39,303 | (467) | 38,836 |
| Income taxes | (14,096) | 172 | (13,924) | (14,345) | 158 | (14,187) |
| Net income | 25,479 | (287) | 25,192 | 24,958 | (309) | 24,649 |
| Net income per share basic | \$ 0.57 | \$ | \$ 0.57 | \$ 0.57 | \$ (0.01) | \$ 0.56 |
| Net income per share diluted | \$ 0.55 | \$ (0.01) | \$ 0.54 | \$ 0.55 | \$ (0.01) | \$ 0.54 |

Following is a summary of the effects of the lease accounting corrections on the Company's Condensed Consolidated Balance Sheet as of September 30, 2004 and June 30, 2004:

Condensed Consolidated Balance Sheet

| | September 30, 2004 | | | June 30, 2004 | | |
|---|------------------------------|------------|----------------|------------------------------|------------|----------------|
| | As Previously Reported | Adjustment | As Restated | As Previously Reported | Adjustment | As Restated |
| (Dollars in thousands) | | | | | | |
| Other noncurrent liabilities | \$ 105,288 | \$ 5,847 | \$ 111,135 | \$ 100,322 | \$ 5,541 | \$ 105,863 |
| Total liabilities | 595,276 | 5,847 | 601,123 | 584,298 | 5,541 | 589,839 |
| Accumulated other comprehensive income | 45,335 | (46) | 45,289 | 40,642 | (27) | 40,615 |
| Retained earnings | 448,207 | (5,801) | 442,406 | 424,501 | (5,514) | 418,987 |
| Total shareholders' equity | 717,868 | (5,847) | 712,021 | 687,561 | (5,541) | 682,020 |

10

Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont.)
(Unaudited)****3. SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME:****Additional Paid-In Capital**

The increase in additional paid-in capital during the first quarter of fiscal year 2005 was due to the following:

| (Dollars in thousands) | Increase |
|---|-----------------|
| Exercise of stock options | \$ 1,308 |
| Tax benefit realized upon exercise of stock options | 517 |
| Stock option compensation | 80 |
| | \$ 1,905 |

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 exposures and changes in foreign currency translation, including the impact of the cross-currency swap, recorded in the cumulative translation account within shareholders equity. Comprehensive income for the three months ended September 30, 2004 and 2003 were as follows:

| | For the Three Months Ended | |
|--|-----------------------------------|-------------|
| | September 30, | |
| | (Dollars in thousands) | |
| | 2004 | 2003 |
| Net income (as restated, see Note 2) | \$ 25,192 | \$ 24,649 |
| Other comprehensive income (loss): | | |
| Changes in fair market value of financial instruments designated as cash flow hedges of interest rate exposure, net of taxes | (1) | 45 |
| Change in cumulative foreign currency translation (as restated, see Note 2) | 4,675 | 1,051 |
| Total comprehensive income (as restated, see Note 2) | \$ 29,866 | \$ 25,745 |

4. NET INCOME PER SHARE:

Stock options covering 109,805 and 345 shares were excluded from the shares used in the computation of diluted earnings per share for the three months ended September 30, 2004 and 2003, respectively, since they were anti-dilutive.

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

| | For the Three Months Ended September, | |
|---|--|-------------|
| | 2004 | 2003 |
| Weighted average shares for basic earnings per share | 44,321,992 | 43,636,503 |
| Effect of dilutive securities: | | |
| Dilutive effect of stock options | 1,902,960 | 1,889,281 |
| Contingent shares issuable under contingent stock agreements (see Note 6) | 68,431 | 70,033 |
| Weighted average shares for diluted earnings per share | 46,293,383 | 45,595,817 |

Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont.)
(Unaudited)****5. SEGMENT INFORMATION:**

The Company operates or franchises 8,236 North American salons (located in the United States, Canada and Puerto Rico), 2,015 international salons and 11 beauty career schools. The Company operates its North American salon operations through five primary concepts: Regis Salons, MasterCuts, Trade Secret, SmartStyle and Strip Center salons. Each of the concepts offer similar products and services, concentrates on the mass-market consumer marketplace and has consistent distribution channels. All of the salons within the North American salon concepts are located in high traffic, retail shopping locations that attract mass-market consumers, and the individual salons generally display similar economic characteristics. The salons share interdependencies and a common support base. The Company's international salon operations, which are primarily in Europe, are located in malls, leading department stores, mass merchants and high-street locations. The Company's beauty career schools are located in the United States and the United Kingdom.

Based on the way the Company manages its business, it has presented its North American salons, international salons and beauty career schools as three reportable operating segments. Prior to the current fiscal quarter, the Company had two reportable operating segments: North American and international operations. Salons and beauty career schools were included within each of these reportable operating segments due to the way in which the Company managed its business at that time. Management began reviewing the operations of the beauty career schools separately from the salon operations during fiscal year 2005 in anticipation of further expansion into the beauty career school business. Segment information for the first quarter of fiscal year 2004 has been reclassified to conform to the current year presentation.

Summarized financial information concerning the Company's reportable operating segments is shown in the following table:

| | For the Three Months Ended September 30, | |
|---|---|-------------|
| | (Dollars in thousands) | |
| | 2004 | 2003 |
| Total revenues: | | |
| North American salons | \$ 448,428 | \$ 414,533 |
| International salons | 51,738 | 43,142 |
| Beauty career schools | 6,056 | 3,046 |
| Total | \$ 506,222 | \$ 460,721 |
| Income before income taxes: | | |
| North American salons (as restated, see Note 2) | \$ 83,248 | \$ 82,587 |
| International salons | 9,853 | 7,093 |
| Beauty career schools | 1,264 | 1,012 |
| Corporate* | (55,249) | (51,856) |
| Total (as restated, see Note 2) | \$ 39,116 | \$ 38,836 |

* primarily general and administrative, corporate depreciation and amortization, and net interest expense
Total revenues associated with salon operations in the United States represent 95.3 and 95.8 percent of the amounts set forth above as North American salon revenues for the three months ended September 30, 2004 and 2003, respectively. Total income before income taxes associated with salon operations in the United States represent 95.2 and 96.3 percent of the amounts set forth above as North American salon income before income taxes for the three months ended September 30, 2004 and 2003, respectively.

6. ACQUISITIONS:

During the quarters ended September 30, 2004 and 2003, the Company made numerous 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. These acquisitions individually and in the aggregate are not material to the Company's operations. Operations of the acquired companies have been included in the operations of the Company since the date of the respective acquisition.

Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont.)
(Unaudited)**

Based upon purchase price allocations, which may have components representing preliminary allocations with respect to recent acquisitions, the components of the aggregate purchase prices of the acquisitions made during the three months ended September 30, 2004 and 2003, and the allocation of the purchase prices, were as follows:

| | Three Months Ended September 30, | |
|--|---|-------------|
| | (Dollars in thousands) | |
| | 2004 | 2003 |
| Components of aggregate purchase prices: | | |
| Cash | \$ 11,801 | \$ 25,360 |
| Allocation of the purchase price: | | |
| Net tangible assets acquired | \$ 2,425 | \$ 3,477 |
| Identifiable intangible assets | 90 | 174 |
| Goodwill | 9,286 | 21,709 |
| | \$ 11,801 | \$ 25,360 |

In a limited number of acquisitions, the Company has guaranteed that stock issued in conjunction with the acquisition will reach a certain market price. If the stock should not reach this price during an agreed-upon time frame (typically three years from the date of acquisition), the Company is obligated to issue additional shares to the sellers. Once the agreed-upon stock price is met or exceeded for a period of five consecutive days, the contingency is met and the Company is no longer liable. Based on the September 30, 2004 market price, the Company would be required to provide an additional 68,431 shares related to these acquisition contingencies if the agreed-upon time frames were all assumed to have expired September 30, 2004. These contingently issuable shares have been included in the calculation of diluted earnings per share for the three months ended September 30, 2004.

The majority of the purchase price in salon acquisitions is accounted for as residual goodwill rather than identifiable intangible assets. This stems from the value associated with the walk-in customer base of the acquired salons, which is not recorded as an identifiable intangible asset under current accounting guidance, as well as the limited value and customer preference associated with the acquired hair salon brand. Key factors considered by consumers of hair salon services include personal relationships with individual stylists (driven by word-of-mouth referrals), service quality and price point competitiveness. These attributes represent the going concern value of the salon. While the value of the acquired customer base is the primary driver of any potential acquisition's cash flows (which determines the purchase price), it is neither known nor identifiable at the time of the acquisition. The cash flow history of a salon primarily results from repeat walk-in customers driven by the existing personal relationship between the customer and the stylist(s). Under FAS No. 141, Business Combinations, a customer base does not meet the criteria for recognition apart from goodwill. As such, this portion of the purchase price is captured within goodwill and should not be attributed to any other contractual arrangement. Because we are acquiring the going concern value of the salon, driven primarily by the manner in which the salon has been operated and the existing walk-in customer base's relationship with the stylist(s), the value being acquired is subsumed into goodwill in accordance with FAS No. 141.

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 beauty schools, 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 generally not deductible for tax purposes due to the acquisition structure of the transaction.

Table of Contents

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont.)
(Unaudited)**

7. SUBSEQUENT EVENT:

On October 4, 2004, President Bush signed an Act into law that included a provision reinstating the Work Opportunity and Welfare-to-Work Credits. The reinstatement is retroactive to December 31, 2003 and the credits will be available through December 31, 2005.

For interim reporting purposes, the Company determines the best estimate of its annual effective tax rate and applies this rate in calculating income taxes on a year-to-date basis. Any immediate impact resulting from a change in tax law is recognized in the interim period in which the law change is enacted. Since the credits were reinstated after September 30, 2004, they were not factored into the Company's calculation of the estimated annual effective tax rate in the first quarter ended September 30. The Company will remeasure its annual estimated tax rate in the second quarter, with consideration given to the reinstated tax credit for the full fiscal year. The resulting catch-up adjustment will also be recognized in the second quarter. The Company expects this change in tax law to result in a catch-up adjustment of approximately \$0.3 million in the quarter ended December 31, 2004; the expected annual impact is approximately \$0.9 million for fiscal year 2005.

Additionally, President Bush signed into law the American Jobs Creation Act of 2004. The Company is in the process of evaluating this legislation and believes that certain provisions of the Act may have a favorable impact on the Company in the future. The Act has no immediate impact on the Company's tax position.

Table of Contents

REVIEW REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Directors of Regis Corporation:

We have reviewed the accompanying restated condensed consolidated balance sheet of Regis Corporation as of September 30, 2004 and the related restated condensed consolidated statements of operations and of cash flows for the three month periods ended September 30, 2004 and 2003. 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 to financial data 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 reviews, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of June 30, 2004, and the related consolidated statements of operations, of changes in shareholders' equity and of cash flows for the year then ended (not presented herein), and in our report dated August 24, 2004, except for Note 2, as to which the date is May 9, 2005, which contained explanatory paragraphs indicating (i) the Company changed its method of accounting for equity-based compensation arrangements to begin expensing new awards as of July 1, 2003 and (ii) the Company restated its financial statements as of June 30, 2004 and 2003 and for the three years ended June 30, 2004 to account for rent holidays on a straight-line basis, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the accompanying consolidated balance sheet information as of June 30, 2004, is fairly stated, in all material respects in relation to the consolidated balance sheet from which it has been derived.

As discussed in Note 2 to the accompanying condensed consolidated interim financial statements, the company restated its prior year financial statements for the three month periods ended September 30, 2004 and 2003.

/s/ PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP

Minneapolis, Minnesota

October 27, 2004, except for Note 2, as to
which the date is May 17, 2005

Table of Contents

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESTATEMENT OF FINANCIAL STATEMENTS

During our quarter ending March 31, 2005 (third quarter of fiscal year 2005), we became aware that a number of retailers and restaurant operators had disclosed in their filings with the SEC that they were reassessing their accounting related to leases and that some companies had restated their financial statements to reflect changes in their accounting for leases. In light of these disclosures and restatements, we conducted a review of our lease accounting policies and practices.

In our lease accounting review, we examined our leases to determine the appropriate lease term for each lease under GAAP. Typically, our operating leases do not require rental payments to begin until the salon is opened. The leased space is sometimes made available to us prior to the commencement of salon operations in order to allow time for installing normal leasehold improvements and equipment necessary to operate a salon. We historically began to recognize rental expense on a straight-line basis at the earlier of the commencement of operations or the commencement of rental payments. However, we did not include the rent holiday period in our straight-line rent calculation. A rent holiday is considered to be any period where the lessee has the right to control the use of the leased property but no rental payments are required under the lease during that period. FASB Technical Bulletin (FTB) 85-3, Accounting for Operating Leases with Scheduled Rent Increases, requires rent holiday periods in an operating lease to be recognized by the lessee on a straight-line basis over the lease term, which includes any rent holiday period. Therefore, we restated our financial statements for fiscal years 2004, 2003 and 2002 to appropriately account for rent holiday periods. The restatement to appropriately account for rent holidays had no impact on our consolidated revenues or cash flows from operations.

Based on the review of our accounting for operating leases, we have restated our previously issued financial statements in our Annual Report on Form 10-K for the fiscal year ended June 30, 2004, as well as those in our Quarterly Reports on Form 10-Q for the quarters ended September 30, 2004 and December 31, 2004. We filed a Form 10-K/A with restated Consolidated Financial Statements, and are filing a Form 10-Q/A for each of these interim reporting periods with restated Condensed Consolidated Financial Information.

See Note 2 to the Condensed Consolidated Financial Statements for a summary of the effect of this change on our Condensed Consolidated Balance Sheet as of September 30, 2004 and June 30, 2004 and the Condensed Consolidated Statement of Operations for the three month periods ended September 30, 2004 and 2003.

MANAGEMENT'S OVERVIEW

Regis Corporation, based in Minneapolis, Minnesota, is an owner, operator and franchisor of hair and retail product salons and beauty career schools. Our worldwide operations include 10,251 system-wide North American and international salons and 11 beauty career schools at September 30, 2004. Each of our salon concepts has generally similar products and services and serves mass-market consumers. Our salon operations are organized to be managed based on geographical location. Our North American salon operation includes 8,236 salons, including 2,303 franchise salons, operating in the United States, Canada and Puerto Rico primarily under the trade names of Regis Salons, MasterCuts, Trade Secret, SmartStyle, Supercuts and Cost Cutters. Our international salon operations include 2,015 salons, including 1,599 franchise salons, located throughout Europe, primarily in the United Kingdom, France, Italy and Spain. Our beauty career schools are managed in aggregate, regardless of geographical location, and include seven locations in the United States and four locations in the United Kingdom. During the first quarter of fiscal year 2005, we had an average of approximately 54,000 corporate employees worldwide.

Our growth strategy consists of two primary, but flexible, building blocks. Through a combination of organic and acquisition growth, we seek to achieve our long-term objective of 10-to-14 percent annual revenue growth. We anticipate that going forward, the mix of organic and acquisition growth to be roughly equal. However, depending on several factors, including the availability of appropriate real estate, availability of salons for sale and same-store sales trends, this mix will vary from year-to-year. We believe achieving revenue growth of 10-to-14 percent will allow us to increase annual earnings at a low-to-mid teen percent growth rate.

Table of Contents

Organic revenue growth is achieved through the combination of new salon construction and same-store sales increases. Each fiscal year, we anticipate building several hundred corporate salons. We anticipate our franchisees will open several hundred salons as well. Although not a significant factor, older, unprofitable salons will be closed or relocated. Our long-term outlook is for annual consolidated low single-digit same-store sales increases. Based on current fashion and economic cycles, we project our annual fiscal year 2005 consolidated same-store sales increase to be at the low end of our long-term outlook range.

Historically, acquisitions have varied in size from as small as one salon to over one-thousand salons. The median acquisition size is approximately 10 salons. From fiscal year 1994 to fiscal year 2004, we completed nearly 300 acquisitions, adding over 7,400 salons. We anticipate adding several hundred corporate salons each year from acquisitions. Some of these acquisitions may include buying salons from our franchisees.

We execute our growth strategy by focusing on real estate. Our real estate strategy is dependent on adding salons in convenient locations with good visibility, strong customer traffic and appropriate trade demographics. Our various salon and product concepts are now operating in a wide range of retailing environments. We believe that the availability of real estate will augment our ability to achieve the aforementioned long-term growth objectives. We anticipate that we will add approximately 1,000 salons each year through a combination of organic, acquisition and franchise growth.

The conceptual strength of our business is in the fundamental similarity of our salon concepts that allow flexibility and multiple salon concept placement in shopping centers and neighborhoods, and broad customer mix. Each concept is targeted at the middle market customer, however each attracts a slightly different demographic. We anticipate expanding all of our salon concepts. In addition, we anticipate testing and developing new salon concepts to complement our existing concepts.

We have begun acquiring and are exploring the possibility of building beauty career schools. The beauty career school business is highly profitable, and often participates in governmental programs designed to encourage education. We believe there is an opportunity to place graduates in our various salon concepts which may provide us with another competitive advantage. Similar to the salon industry, the beauty career school business is highly fragmented. As a result, we believe there is an opportunity to consolidate this industry. Expanding this business would allow us to add incremental revenue without cannibalizing our existing salon business. Primarily through acquisition, we believe beauty career schools could contribute over \$100 million in annual revenue in five years.

Additionally, we desire to enter the Asian market within the next five years.

For a discussion of our near-term expectations, please refer to the Investor Information section of our website at www.regiscorp.com.

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

Table of Contents**Results of Operations**

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

| | For the Three Months Ended September 30, | |
|---|---|-------------|
| | 2004 | 2003 |
| Company-owned service revenues (1) | 70.5% | 69.5% |
| Company-owned product revenues (1) | 29.5 | 30.5 |
| Franchise revenues | 5.2 | 5.7 |
| School revenues | 1.2 | 0.7 |
| Company-owned operations: | | |
| Profit margins on service (2) | 42.9 | 43.5 |
| Profit margins on product (3) | 48.9 | 48.1 |
| Direct salon expenses (1) | 8.9 | 8.8 |
| Rent (1) (as restated, see Note 2) | 15.2 | 14.7 |
| Depreciation (1) | 3.4 | 3.4 |
| Franchise direct costs, including product and equipment (4) | 52.6 | 52.5 |
| General and administrative | 9.6 | 9.9 |
| School direct costs (5) | 76.1 | 65.0 |
| Depreciation and amortization | 0.8 | 0.7 |
| Operating income (as restated, see Note 2) | 8.4 | 9.3 |
| Income before income taxes (as restated, see Note 2) | 7.7 | 8.4 |
| Net income (as restated, see Note 2) | 5.0 | 5.4 |

- (1) Computed as a percent of company-owned salon revenues.
- (2) Computed as a percent of company-owned salon service revenues.
- (3) Computed as a percent of company-owned salon product revenues.
- (4) Computed as a percent of franchise revenues.
- (5) Computed as a percent of school revenues.

Table of Contents**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. 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, 2004 Annual Report on Form 10-K/A. We believe the accounting policies related to the valuation of goodwill, the valuation and estimated useful lives of long-lived assets, purchase price allocations, revenue recognition, the cost of product used and sold, self-insurance accruals, 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 our June 30, 2004 Annual Report on Form 10-K/A. No changes have been made to these policies since June 30, 2004.

RESULTS OF OPERATIONS**Revenues**

Consolidated revenues include revenues of company-owned salons, beauty career school revenues, franchise royalties, franchise fees and product and equipment sales to franchisees. During the first quarter of fiscal year 2005, consolidated revenues increased 9.9 percent to \$506.2 million as compared to the corresponding period of the prior fiscal year. The following chart details our consolidated revenues by concept:

| (Dollars in thousands) | For the Three Months Ended | |
|--------------------------------|-----------------------------------|---------------------------|
| | 2004 | September 30, 2003 |
| Revenues: | | |
| North American salons: | | |
| Regis Salons | \$ 116,457 | \$ 117,955 |
| MasterCuts | 42,519 | 43,546 |
| Trade Secret* | 61,461 | 58,941 |
| SmartStyle | 82,283 | 68,447 |
| Strip Center Salons* | 145,708 | 125,644 |
| Total North American Salons | 448,428 | 414,533 |
| International salons* | 51,738 | 43,142 |
| Beauty career schools | 6,056 | 3,046 |
| Consolidated revenues | \$ 506,222 | \$ 460,721 |
| Percent change from prior year | 9.9% | 15.4% |
| Same-store sales increase | 0.9% | 2.6% |

* Includes aggregate franchise royalties, franchise fees and product and equipment sales to franchisees of \$26.5 and \$26.0 million for the three months ended September 30, 2004 and 2003, respectively. North American franchise revenues represented 61.2 and 65.6 percent of total franchise revenues in the first quarter of fiscal year 2005 and 2004, respectively.

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 same-store sales increases are the sum of the same-store sales increases 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 order to help determine the increase in revenue attributable to its organic growth (new salon construction and same-store sales growth) versus growth from acquisitions.

Table of Contents

The 9.9 percent increase in consolidated revenues during the first quarter of fiscal year 2005 was driven by the following:

| | Percentage Increase (Decrease) in Revenues For the Three Months Ended September 30, 2004 |
|---------------------------------------|---|
| Acquisitions (previous twelve months) | 5.4% |
| Organic growth (salons) | 4.0 |
| Foreign currency | 1.3 |
| Franchise revenues | (0.1) |
| Closed salons | (0.7) |
| | 9.9% |

We acquired 379 company-owned salons during the twelve months ended September 30, 2004, including 169 franchise buybacks. The organic growth stemmed from the construction of 479 company-owned salons during the twelve months ended September 30, 2004, as well as consolidated same-store sales increases. During the first quarter of fiscal year 2005, the foreign currency impact was driven by the weakening of the United States dollar against the British pound, Euro and Canadian dollar as compared to the prior period's exchange rates. 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 fiscal year and the prior fiscal year.

North American Salon Revenues. Total North American salon revenues were as follows:

| (Dollars in thousands) | Increase Over Prior Fiscal Year | | | Same-Store Sales Increase |
|------------------------------------|------------------------------------|-----------|------------|---------------------------------|
| | Revenues | Dollar | Percentage | |
| Quarter Ended September 30, | | | | |
| 2004 | \$ 448,428 | \$ 33,895 | 8.2% | 0.5% |
| 2003 | 414,533 | 51,086 | 14.1 | 2.4 |

The percentage increase during the first quarter of fiscal year 2005 was due to the following factors:

| | Percentage Increase (Decrease) in Revenues For the Three Months Ended September 30, 2004 |
|---------------------------------------|---|
| Acquisitions (previous twelve months) | 5.3% |
| Organic growth | 3.3 |
| Foreign currency | 0.2 |
| Franchise revenues | (0.2) |
| Closed salons | (0.4) |
| | 8.2% |

We acquired 351 company-owned North American salons during the twelve months ended September 30, 2004, including 169 franchise buybacks. The organic growth stemmed from the construction of 451 company-owned salons in North America during the twelve months ended September 30, 2004, as well as North American same-store sales increases. Revenues were negatively impacted during the first quarter of fiscal year 2005 by the hurricanes in the southeast United States, which caused nearly 650 of our company-owned salons to be closed for at least one day, as well as reduced customer visits to salons. The foreign currency impact during the first quarter of fiscal years 2005 was driven by the weakening of the United States dollar against the Canadian dollar as compared to the prior period's exchange rate.

International Salon Revenues. Total international salon revenues were as follows:

| (Dollars in thousands) | Revenues | Increase Over Prior Fiscal Year | | Same-Store Sales Increase |
|------------------------------------|-----------|---------------------------------|------------|---------------------------|
| | | Dollar | Percentage | |
| Quarter Ended September 30, | | | | |
| 2004 | \$ 51,738 | \$ 8,596 | 19.9% | 5.6% |
| 2003 | 43,142 | 7,366 | 20.6 | 5.3 |

Table of Contents

The percentage increase during the first quarter of fiscal year 2005 was due to the following factors:

| | Percentage Increase (Decrease) in Revenues For the Three Months Ended September 30, 2004 |
|---------------------------------------|---|
| Acquisitions (previous twelve months) | 1.0% |
| Organic growth | 10.3 |
| Foreign currency | 11.2 |
| Franchise revenues | 1.4 |
| Closed salons | (4.0) |
| | 19.9% |

We acquired 28 company-owned international salons, primarily located in France and the United Kingdom, during the twelve months ended September 30, 2004. The organic growth stemmed from the construction of 28 company-owned salons in the United Kingdom during the twelve months ended September 30, 2004, as well as international same-store sales increases. International same-store product sales increased 14.7 and 32.3 percent during the first quarter of fiscal year 2005 and 2004, respectively, benefiting from our continuing improvement in assessing the merchandising demands of our international customers. The foreign currency impact during the first quarter of fiscal year 2005 was driven by the weakening of the United States dollar against the British pound and the Euro as compared to the prior period's exchange rates.

School Revenues. Total revenues earned by beauty career schools were as follows:

| (Dollars in thousands) Quarter Ended September 30, | Increase Over Prior Fiscal Year | | |
|---|--|------------------|-------------------|
| | Revenues | Dollar | Percentage |
| 2004 | \$ 6,056 | \$ 3,010 | 98.8% |
| 2003 | 3,046 | N/A ^a | N/A ^a |

a. We did not own or operate any beauty career schools until December of 2002.

The percentage increase during the first quarter of fiscal year 2005 was due to the following factors:

| | Percentage Increase (Decrease) in Revenues For the Three Months Ended September 30, 2004 |
|---------------------------------------|---|
| Acquisitions (previous twelve months) | 87.8% |
| Organic growth | 5.3 |
| Foreign currency | 5.7 |
| | 98.8% |

We acquired six Blaine Beauty Career Schools during the fourth quarter of fiscal year 2004. The organic growth stemmed from increased tuition earned by the existing beauty career schools during the three months ended September 30, 2004 due to increased attendance. The foreign currency impact during the first quarter of fiscal year 2005 was driven by the weakening of the United States dollar against the British pound as compared to the prior period's exchange rate.

Table of Contents

Consolidated Revenues. North American salon and international salon revenues are primarily comprised of company-owned service and product revenues, as well as franchise revenues from franchise fees and royalties, and product and equipment sales to franchisees. School revenues are primarily comprised of tuition; fluctuations in school revenues are discussed above. Fluctuations in the three salon revenue categories were as follows:

Service Revenues. Service revenues were as follows:

| (Dollars in thousands) | Revenues | Increase Over Prior Fiscal Year | | Same-Store Sales Increase |
|------------------------------------|------------|---------------------------------|------------|---------------------------|
| | | Dollar | Percentage | |
| Quarter Ended September 30, | | | | |
| 2004 | \$ 333,874 | \$ 33,837 | 11.3% | 1.0% |
| 2003 | 300,037 | 36,961 | 14.0 | 0.4 |

The growth in service revenues in the first quarter of fiscal year 2005 was driven by acquisitions and organic growth (new salon construction and same-store sales growth). Service revenues were negatively impacted during the first quarter of fiscal year 2005 by the hurricanes in the southeast United States, as discussed above in conjunction with North American salon revenues.

Product Revenues. Product revenues were as follows:

| (Dollars in thousands) | Revenues | Increase Over Prior Fiscal Year | | Same-Store Sales Increase |
|------------------------------------|------------|---------------------------------|------------|---------------------------|
| | | Dollar | Percentage | |
| Quarter Ended September 30, | | | | |
| 2004 | \$ 139,800 | \$ 8,208 | 6.2% | 0.6% |
| 2003 | 131,592 | 21,299 | 19.3 | 7.9 |

Product revenues were also negatively impacted by the hurricanes during the first quarter of fiscal year 2004, as discussed above.

Franchise Revenues. Total franchise revenues, which include royalties, franchise fees and our product and equipment sales to franchisees, were as follows:

| (Dollars in thousands) | Revenues | Increase (Decrease) Over Prior Fiscal Year | | Percentage |
|------------------------------------|-----------|--|------------|------------|
| | | Dollar | Percentage | |
| Quarter Ended September 30, | | | | |
| 2004: Royalties | \$ 17,719 | \$ 571 | 3.3% | |
| Franchise fees | 949 | (13) | (1.4) | |
| Franchise product sales | 7,824 | (112) | (1.4) | |
| Total franchise revenues | \$ 26,492 | \$ 446 | 1.7% | |
| 2003: Royalties | \$ 17,148 | \$ 1,454 | 9.3% | |
| Franchise fees | 962 | (463) | (32.5) | |

| | | | |
|--------------------------|-----------|--------|-------|
| Franchise product sales | 7,936 | (799) | (9.2) |
| Total franchise revenues | \$ 26,046 | \$ 192 | 0.7% |

Total franchise salons open at September 30, 2004 and 2003 were 3,902 and 3,999, respectively. We purchased 169 of our franchise salons during the twelve months ended September 30, 2004, which was one of the drivers of the overall decrease in the number of franchise salons between periods. Of total consolidated franchise revenues, North American franchise revenues represented 61.2 and 65.6 percent in the first quarters of fiscal year 2005 and 2004, respectively.

The increase in total consolidated franchise revenues during the first quarter of fiscal year 2005 was due to favorable foreign currency fluctuations, which caused franchise revenues to increase 2.9 percent. Exclusive of the effect of this favorable currency fluctuation, consolidated franchise revenues decreased 1.2 percent, primarily due to our purchase of 169 franchise salons during the past twelve months.

Royalties increased 3.5 percent during the first quarter of fiscal year 2005 due to favorable foreign currency fluctuations. Exclusive of the effect of this favorable currency fluctuation, royalties decreased 0.2 percent.

Table of Contents

Franchise fees decreased during the first quarter of fiscal year 2005 primarily due to the timing of franchise development, particularly with regard to the international franchise salons. The 1.4 percent decrease in franchise fees was net of a favorable impact of approximately 1.3 percent related to foreign currency exchange rate fluctuations.

Sales of product and equipment to franchise salons decreased during the first quarter of fiscal year 2005 primarily due to our purchase of 169 franchise salons during the past twelve months. The franchise product revenues contributed by these salons were replaced by company-owned salon product revenues. Further, lower international franchise salon counts as compared to the prior fiscal year (1,599 and 1,632 international franchise salons were open at September 30, 2004 and 2003, respectively) contributed to the decrease in franchise product revenues. The 1.4 percent decrease is net of a 1.8 percent favorable impact related to foreign currency exchange rate fluctuations.

Cost of Revenue

Total company-owned salon gross margin. Our cost of salon revenues includes salon based labor costs, the cost of product to provide services for company-owned salons and the cost of products sold to salon customers. The resulting gross margin for the first quarter of fiscal years 2005 and 2004 was as follows:

| (Dollars in thousands) | Margin as % of | | Increase (Decrease) Over Prior Fiscal | | |
|------------------------|-------------------|------------------------------------|---------------------------------------|------------|-----------------|
| | Total Margin | Company-owned Salon Revenues | Dollar | Percentage | Basis Point* |
| Quarter Ended | | | | | |
| September 30, 2004 | \$ 211,686 | 44.7 | \$ 17,699 | 9.1% | (20) |
| 2003 | 193,987 | 44.9 | \$ 24,918 | 14.7 | (40) |

* Represents the basis point change in total margin as a percent of company-owned salon revenues as compared to the corresponding period of the prior fiscal year.

Company-owned salon service margin. Service margin for the first quarter of fiscal year 2005 and 2004 was as follows:

| (Dollars in thousands) | Margin as % of Company- | | Increase (Decrease) Over Prior | | |
|------------------------|----------------------------|------------------------------------|--------------------------------|------------|-----------------|
| | Service Margin | Owned Salon Service Revenues | Dollar | Percentage | Basis Point* |
| Quarter Ended | | | | | |
| September 30, 2004 | \$ 143,279 | 42.9 | \$ 12,637 | 9.7% | (60) |
| 2003 | 130,642 | 43.5 | 15,194 | 13.2 | (40) |

* Represents the basis point change in service margin as a percent of company-owned salon service revenues as compared to the corresponding period of the prior fiscal year.

The basis point decrease in salon service margins during the first quarter of fiscal year 2005 was primarily related to our decision to compensate employees while salons were closed in the southeast United States due to the hurricanes.

Company-owned salon product margin. Product margin for the first quarter of fiscal year 2005 and 2004 was as follows:

| (Dollars in thousands) | Margin as % of Company- | | Increase (Decrease) Over Prior Fiscal Year | | |
|------------------------|-------------------------|------------------------------|--|------------|--------------|
| | Product | Owned Salon Product Revenues | Dollar | Percentage | Basis Point* |
| Quarter Ended | Margin | | | | |
| September 30, 2004 | \$ 68,407 | 48.9 | \$ 5,062 | 8.0% | 80 |
| 2003 | 63,345 | 48.1 | 9,724 | 18.1 | (50) |

* Represents the basis point change in product margin as a percent of company-owned salon product revenues as compared to the corresponding period of the prior fiscal year.

The first quarter fiscal year 2005 basis point improvement in product margins was primarily related to a lower cost of goods stemming from our ability to negotiate favorable terms with our suppliers due to our size and volume of purchases.

Table of Contents**Rent**

Rent expense, which includes base and percentage rent, common area maintenance and real estate taxes related to salons was as follows:

| (Dollars in thousands) | Expense as % of | | Increase (Decrease) Over Prior Fiscal Year | | Basis Point* |
|------------------------|--------------------|-----------------|---|-------------------|-----------------|
| | Company-owned | | Dollar | Percentage | |
| Quarter Ended | Rent | Revenues | | | |
| September 30, | | | Dollar | Percentage | |
| 2004 (as restated) | \$ 71,996 | 15.2 | \$ 8,710 | 13.8% | 50 |
| 2003 (as restated) | 63,286 | 14.7 | 8,809 | 16.2 | 10 |

* Represents the basis point change in rent expense as a percent of total company-owned salon revenues as compared to the corresponding period of the prior fiscal year.

The increase in this fixed-cost expense as a percent of company-owned salon revenues during the first quarter of fiscal year 2005 was primarily due to lower same-store sales growth in the first quarter of fiscal year 2005 as compared to the corresponding period of the prior fiscal year.

General and Administrative

General and administrative (G&A) includes expenses related to salon operations (field supervision, salon training and promotions and product distribution) and home office administration costs (such as salaries and professional fees), including indirect franchise and schools costs. During the first quarter of fiscal year 2005 and 2004, G&A costs were as follows:

| (Dollars in thousands) | Expense as % | | Increase (Decrease) Over Prior Fiscal Year | | Basis Point* |
|------------------------|-----------------|-----------------|---|-------------------|-----------------|
| | of Total | | Dollar | Percentage | |
| Quarter Ended | G&A | Revenues | | | |
| September 30, | | | Dollar | Percentage | |
| 2004 | \$ 48,838 | 9.6 | \$ 3,333 | 7.3% | (30) |
| 2003 | 45,505 | 9.9 | 5,589 | 14.0 | (10) |

* Represents the basis point change in G&A as a percent of total revenues as compared to the corresponding period of the prior fiscal year.

The basis point improvement in G&A costs as a percent of total revenues during the first quarter of fiscal year 2005 was primarily due to a \$1.3 million expense during the first quarter of the prior fiscal year related to the write-off of loans associated with split dollar life insurance arrangements and \$0.6 million of expense related to the write-off of the cash surrender value of the related policies. The loans were written off due to final regulations issued by the IRS on the taxation of such split dollar arrangements.

School Direct Costs

School direct costs include all direct costs related to the beauty career schools, such as the cost of product and

equipment used in the beauty career schools and direct costs incurred to support school activities (e.g., salaries). During the first quarter of fiscal year 2005 and 2004, school direct costs were as follows:

| (Dollars in thousands) | Expense as | | Increase (Decrease) Over Prior Fiscal | | |
|-------------------------------|-------------------|------------------|--|-------------------|------------------|
| | School | % | Year | | |
| Quarter Ended | Direct | of School | Dollar | Percentage | Basis |
| September 30, | Revenues | Revenues | Percentage | Point* | |
| 2004 | \$ 4,606 | 76.1 | \$ 2,627 | 132.7% | 1,110 |
| 2003 | 1,979 | 65.0 | N/A ^a | N/A ^a | N/A ^a |

a. We did not own or operate any beauty career schools until December of 2002.

* Represents the basis point change in school direct costs as a percent of school revenues as compared to the corresponding period of the prior fiscal year.

The basis point increase in school direct costs during the first quarter of fiscal year 2005 was primarily due to increased school direct costs related to the integration of the Blaine beauty career schools, which were acquired during the fourth quarter of fiscal year 2004.

Table of Contents**Income Taxes**

Our reported effective tax rate was as follows:

| First Quarter Fiscal Year | Effective Rate | Basis Point Decrease |
|--------------------------------------|---------------------------|-------------------------------------|
| 2005 (as restated) | 35.6% | (90) |
| 2004 (as restated) | 36.5 | (90) |

Changes in our overall effective tax rate are largely the result of a larger percentage of our income being generated in lower rate international tax jurisdictions. The associated effective tax rate on our international businesses, which are in lower tax jurisdictions, resulted in the improvement in the effective tax rate for the first quarter of fiscal year 2005.

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 operations.

Table of Contents**Constant Currency Presentation**

The presentation below demonstrates the effect of foreign currency exchange rate fluctuations from year to year. In the first quarter of fiscal year 2005, foreign currency translation had a positive impact on consolidated revenues and net income before income taxes due to the strengthening of the Canadian dollar, British pound and Euro. 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. Using this method, foreign currency exchange rate fluctuations had a positive impact on consolidated net income of \$0.5 million during the first quarter of fiscal year 2005.

| First Quarter, Fiscal Year 2005 | Reported | Currency Translation Benefit (Loss) | Constant Currency Amount | Reported % Increase (Decrease)* | Constant Currency % Increase (Decrease)* |
|--|-----------------|--|---------------------------------|--|---|
| (Dollars in thousands) | Amount | (Loss) | Amount | (Decrease)* | (Decrease)* |
| Company-owned salon revenues: | | | | | |
| North American salons | \$ 432,215 | \$ 841 | \$ 431,374 | 8.7% | 8.5% |
| International salons | 41,459 | 4,141 | 37,318 | 21.3 | 9.2 |
| Total | \$ 473,674 | \$ 4,982 | \$ 468,692 | 9.7% | 8.6% |
| Franchise revenues: | | | | | |
| North American salons | \$ 16,213 | \$ 55 | \$ 16,158 | (5.1)% | (5.4)% |
| International salons | 10,279 | 707 | 9,572 | 14.7 | 6.8 |
| Total | \$ 26,492 | \$ 762 | \$ 25,730 | 1.7% | (1.2)% |
| Total revenues: | | | | | |
| North American salons | \$ 448,428 | \$ 896 | \$ 447,532 | 8.2% | 8.0% |
| International salons | 51,738 | 4,848 | 46,890 | 19.9 | 8.7 |
| Schools | 6,056 | 174 | 5,882 | 98.8 | 93.1 |
| Total | \$ 506,222 | \$ 5,918 | \$ 500,304 | 9.9% | 8.6% |
| Income before income taxes (as restated, see Note 2)): | | | | | |
| North American salons | \$ 83,248 | \$ 170 | \$ 83,078 | 0.8% | 0.6% |
| International salons | 9,853 | 931 | 8,922 | 38.9 | 25.8 |
| Schools | 1,264 | 21 | 1,243 | 24.9 | 22.8 |
| Corporate** | (55,249) | (417) | (54,832) | 6.5 | 5.7 |

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| | | | | | |
|-------|-----------|--------|-----------|--------|--------|
| Total | \$ 39,116 | \$ 705 | \$ 38,411 | (0.7)% | (1.1)% |
|-------|-----------|--------|-----------|--------|--------|

* represents the percentage increase over reported amounts in the corresponding period of the prior fiscal year

** primarily general and administrative, corporate depreciation and amortization, and net interest expense

26

Table of Contents**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:

| Date | Debt to Capitalization | Basis Point Improvement* |
|----------------------------------|-----------------------------------|-------------------------------------|
| September 30, 2004 (as restated) | 30.3% | 30 |
| June 30, 2004 (as restated) | 30.6 | 450 |

* Improvement as compared to prior fiscal year end (June 30).

Our principal on-going cash requirements are to finance construction of new stores, remodel certain existing stores, acquire salons and beauty career schools, and purchase inventory. Customers pay for salon services and merchandise in cash at the time of sale, which reduces our working capital requirements.

Total assets at September 30, 2004 and June 30, 2004 were as follows:

(Dollars in thousands)

| Date | Total Assets | \$ Increase Over Prior Period* | % Increase Over Prior Period* |
|--------------------|-------------------------|---|--|
| September 30, 2004 | \$ 1,313,144 | \$ 41,285 | 3.2% |
| June 30, 2004 | 1,271,859 | 158,904 | 14.3 |

* Improvement as compared to prior fiscal year end (June 30).

Total shareholders' equity at September 30, 2004 and June 30, 2004 was as follows:

(Dollars in thousands)

| Date | Shareholders Equity | \$ Increase Over Prior Period* | % Increase Over Prior Period* |
|----------------------------------|--------------------------------|---|--|
| September 30, 2004 (as restated) | \$ 712,021 | \$ 30,001 | 4.4% |
| June 30, 2004 (as restated) | 682,020 | 123,494 | 22.1 |

* Improvement as compared to prior fiscal year end (June 30).

During the first quarter of fiscal year 2005, equity increased as a result of net income, increased accumulated other comprehensive income due to foreign currency translation adjustments as the result of the strengthening of foreign currencies that underlie our investments in those markets, and additional paid-in capital primarily recorded in connection with the exercise of stock options.

Table of Contents**Cash Flows***Operating Activities*

Net cash provided by operating activities in the first quarter of fiscal year 2005 and 2004 was \$35.4 and \$52.6 million, respectively. The cash flows from operating activities were a result of the following:

| (Dollars in thousands) | Operating Cash Flows For the Three Months Ended September 30, | |
|---------------------------------------|--|-------------|
| | 2004 | 2003 |
| Net income (as restated) | \$ 25,192 | \$ 24,649 |
| Depreciation and amortization | 19,795 | 17,815 |
| Deferred income taxes (as restated) | 1,223 | 2,094 |
| Accounts payable and accrued expenses | (4,598) | 7,312 |
| Inventories | (15,474) | (1,114) |
| Other (as restated) | 9,240 | 1,823 |
| | \$ 35,378 | \$ 52,579 |

During the first quarter of fiscal year 2005, inventories increased during the first quarter of fiscal year 2005 primarily due to the receipt of holiday promotions, beginning in August. Additionally, accounts payable and accrued expenses decreased primarily due to the timing of payments made related to the inventory.

Investing Activities

Net cash used in investing activities of \$33.5 and \$41.1 million in the first quarter of fiscal year 2005 and 2004, respectively, was the result of the following:

| (Dollars in thousands) | Investing Cash Flows For the Three Months Ended September 30, | |
|---|--|-------------|
| | 2004 | 2003 |
| Capital expenditures for remodels or other additions | \$ (9,316) | \$ (8,104) |
| Capital expenditures for new salon construction | (9,093) | (5,900) |
| Capital expenditures for the corporate office (including all technology-related expenditures) | (3,496) | (1,976) |
| Business and salon acquisitions | (11,801) | (25,360) |
| Proceeds from the sale of assets | 220 | 217 |
| | \$ (33,486) | \$ (41,123) |

We constructed 121 company-owned salons and acquired 65 company-owned salons (58 of which were franchise buybacks) during the first quarter of fiscal year 2005. Acquisitions were primarily funded by a combination of operating cash flows and debt. The company-owned constructed and acquired salons consisted of the following

number of salons in each concept:

| | Three Months Ended September 30, 2004 | |
|---------------|--|-----------------|
| | Constructed | Acquired |
| Regis Salons | 10 | |
| MasterCuts | 17 | |
| Trade Secret | 15 | |
| SmartStyle | 45 | 7 |
| Strip Center | 29 | 58 |
| International | 5 | |
| | 121 | 65 |

Additionally, we completed 41 major remodeling projects during the first quarter of fiscal year 2005.

Table of Contents*Financing Activities*

Net cash provided by financing activities was \$6.4 million during the first quarter of fiscal year 2005 and net cash used in financing activities was \$5.6 million during the first quarter of fiscal year 2004, resulting from the following:

| (Dollars in thousands) | Financing Cash Flows For the Three Months Ended September 30, | |
|---|--|-------------|
| | 2004 | 2003 |
| Repayments of long-term debt | \$ (11,888) | \$ (15,171) |
| Dividend payments | (1,772) | (1,309) |
| Repurchase of common stock | | (2,990) |
| Net borrowings on revolving credit facilities | 16,624 | 15,700 |
| Proceeds from the issuance of common stock | 1,311 | 2,978 |
| Other | 2,136 | (4,813) |
| | \$ 6,411 | \$ (5,605) |

The proceeds from the issuance of common stock were related to the exercise of stock options. In the third quarter of fiscal year 2004, the quarterly dividend was increased from its historical rate of \$0.03 per share to \$0.04 per share.

Acquisitions

The acquisitions during the first quarter of fiscal year 2005 consisted of 58 franchise buybacks and seven other acquired salons. These acquisitions individually and in the aggregate are not material to our operations. Therefore, pro forma information is not included in the Notes to the Consolidated Financial Statements. The acquisitions were funded primarily from operating cash flow and debt. Since 1994, we have acquired over 7,400 salons.

Contractual Obligations and Commercial Commitments

There have been no significant changes in our commercial commitments such as commitments under lines of credit or standby letters of credit since June 30, 2004. We are in compliance with all covenants and other requirements of its credit agreements and indentures. Additionally, the credit agreements do not include rating triggers or subjective clauses that would accelerate maturity dates.

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.

Prior to December 31, 2002, we became guarantor on a limited number of equipment lease agreements between our franchisees and leasing companies. If the franchisee should fail to make payments in accordance with the lease, we will be held liable under such agreements and retain the right to possess the related salon operations. We believe the fair value of the salon operations exceeds the maximum potential amount of future lease payments for which we could be held liable. The existing guaranteed lease obligations, which have an aggregate undiscounted value of \$2.6 million at September 30, 2004, terminate at various dates between June 2006 and April 2009. We have not experienced, and do not expect, any material loss to result from these arrangements.

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 first quarter of fiscal year 2005.

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

Dividends

We paid dividends of \$0.04 per share during the first quarter of fiscal year 2005. On October 28, 2004, our Board of Directors declared a \$0.04 per share quarterly dividend payable November 26, 2004 to shareholders of record on November 12, 2004.

Table of Contents

Share Repurchase Program

Our Board of Directors has approved a stock repurchase program under which up to \$100.0 million could be expended for the repurchase of Regis Corporation common stock. The timing and amounts of any repurchases will depend on many factors, including the market price of the common stock and overall market conditions. The repurchases to date have been made primarily to eliminate the dilutive effect of shares issued in conjunction with acquisitions and stock option exercises. As of September 30, 2004, a total of 1.8 million shares have been repurchased for \$53.4 million. No shares were repurchased during the first quarter of fiscal year 2005. All repurchased shares are immediately retired. This repurchase program has no stated expiration date.

Risk Factors

Impact of Acquisition and Real Estate Availability

The key driver of our revenue and earnings growth is the number of salons we acquire or construct. While we believe that substantial future acquisition and organic growth opportunities exist, any material decrease in the number of such opportunities would have an impact on our revenue and earnings growth.

Impact of the Economic Environment

Changes to the United States, Canadian, United Kingdom and other European economies have an impact on our business. Visitation patterns to our salons can be adversely impacted by changes in unemployment rates and discretionary income levels.

Impact of Key Relationships

We maintain key relationships with certain companies. Termination of these relationships could have an adverse impact on our ability to grow or future operating results.

Impact of Fashion

Changes in consumer tastes and fashion trends can have an impact on our financial performance.

Impact of Changes in Regulatory and Statutory Laws

With more than 10,000 locations and 54,000 employees world-wide, our financial results can be adversely impacted by regulatory or statutory changes in laws.

Impact of Competition

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.

Impact of Changes in Manufacturers Choice of Distribution Channels

The retail products that we sell are licensed to be carried exclusively by professional salons. 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.

Impact of Changes to Interest Rates and Foreign Currency Exchange Rates

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 floating rate debt instruments and other financial instruments. See discussion in Item 3., Quantitative and Qualitative Disclosures about Market Risk, for additional information.

Table of Contents

Changes in foreign currency exchange rates will have an impact on our reported results from operations. The majority of the revenue and costs associated with the performance of our foreign operations are denominated in local currencies such as the Canadian dollar, Euro and British pound. Therefore, we do not have significant foreign currency transaction risk; however, the translation at different exchange rates from period to period may impact the amount of reported income from our international operations. For the quarter ended September 30, 2004, operations denominated in currencies other than the United States dollar represented approximately 23 percent of consolidated net income before income taxes, and changes in foreign currency exchange rates benefited net income before income taxes by approximately \$0.7 million. This impact was calculated by multiplying current year net income before income taxes in local currencies by the change in the average foreign currency exchange rate between the first quarter of the current fiscal year and the corresponding period of the prior fiscal year. Refer the constant currency discussion in Management's Discussion and Analysis for further detail.

Impact of Seasonality

Our business is not subject to substantial seasonal variations in demand. However, the timing of Easter may cause a quarterly variation in the third and fourth quarters. Historically, our revenue and net earnings have generally been realized evenly throughout the fiscal year. The service and retail product revenues associated with our corporate salons, as well as our franchise revenues, are of a replenishment nature. We estimate that customer visitation patterns are generally consistent throughout the year.

Impact of Changes in Securities Laws and Regulations

The Sarbanes-Oxley Act of 2002 that became law in July 2002 requires changes in some of our corporate governance and securities disclosure or compliance practices. We are presently preparing for our required compliance with the Sarbanes-Oxley Act of 2002, and management's assertions concerning financial reporting controls. While we believe that we can ultimately comply with the new legislated requirements associated with being a registrant with the Securities and Exchange Commission, this process is costly and presents both challenge and risk.

The Sarbanes-Oxley Act of 2002 also requires the SEC to promulgate new rules on a variety of subjects, in addition to rule proposals already made, and the New York Stock Exchange has approved revisions to its requirements for listed companies. We expect these developments to increase our compliance costs. These developments could possibly make it more difficult and more expensive to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These developments could make it more difficult for us to attract and retain qualified members of our board of directors, or qualified executive officers. We are presently evaluating and monitoring regulatory developments and cannot estimate the timing or magnitude of additional costs which may be incurred as a result.

Table of Contents

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

This quarterly report on Form 10-Q/A, 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. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. 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. In addition, the following 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, and price sensitivity; changes in economic condition; changes in consumer tastes and fashion trends; 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; governmental initiatives such as minimum wage rates, taxes and possible franchise legislation; the ability of the Company to successfully identify and acquire salons that support its growth objectives; 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/A for the year ended June 30, 2004 and incorporated by reference into Form S-3 Registration Statement filed with the Securities and Exchange Commission on June 4, 2004. 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-Q, 10-Q/A and 8-K, and Proxy Statements on Schedule 14A.

Table of Contents**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

The primary market risk exposure of the Company relates to changes in interest rates in connection with its debt, some of which bears interest at floating 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. The Company has established policies and procedures that govern the management of these exposures. By policy, the Company does not enter into such contracts for the purpose of speculation. The following details the Company's policies and use of financial instruments.

Interest Rate Risk:

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 floating and fixed rate debt. As of September 30, 2004 and June 30, 2004, the Company had the following outstanding debt balances, considering the effect of interest rate swaps and including \$4.1 and \$3.5 million related to the fair value swaps at September 30 and June 30, 2004, respectively:

| (Dollars in thousands) | September 30, 2004 | June 30, 2004 |
|-------------------------------|-----------------------------------|--------------------------|
| Fixed rate debt | \$ 203,926 | \$ 202,543 |
| Floating rate debt | 105,225 | 98,600 |
| | \$ 309,151 | \$ 301,143 |

In addition, the Company has entered into the following financial instruments:

Interest Rate Swap Contracts:

The Company manages its interest rate risk by balancing the amount of fixed and floating 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. Generally, the terms of the interest rate swap agreements contain quarterly settlement dates based on the notional amounts of the swap contracts.

(Pay fixed rates, receive variable rates)

The Company had interest rate swap contracts that pay fixed rates of interest and receive variable rates of interest (based on the three-month LIBOR rate) on notional amounts of indebtedness of \$11.8 million at September 30, 2004, June 30, 2004 and September 30, 2003. These swaps are being accounted for as cash flow swaps.

The cumulative tax-effected net loss recorded in other comprehensive income, set forth under the caption shareholders equity in the Condensed Consolidated Balance Sheet, related to the cash flow swap was \$0.4 and \$0.5 million at September 30, 2004 and 2003, respectively. The following table depicts the hedging activity recorded in the accumulated other comprehensive income account related to the cash flow swap for the three months ended September 30, 2004 and 2003.

**For the Three Months Ended
September 30,**

{(Dollars in thousands)}

2004

2003

Tax-effected (loss) gain on cash flow hedge recorded in other
comprehensive income:

| | | | | |
|---|----|------|----|------|
| Realized net loss transferred from other comprehensive income to earnings | \$ | 88 | \$ | 98 |
| Unrealized net loss from changes in fair value of cash flow swap | | (89) | | (53) |
| | \$ | (1) | \$ | 45 |

Table of Contents

(Pay variable rates, receive fixed rates)

The Company has interest rate swap contracts that pay variable rates of interest (based on the three-month and six-month LIBOR rates plus a credit spread) and receive fixed rates of interest on an aggregate \$71.0 and \$81.0 million notional amount at September 30, 2004 and June 30, 2004, respectively, with maturation dates between July 2005 and March 2009. These swaps were designated as hedges of a portion of the Company's senior term notes and are being accounted for as fair value swaps.

The Company's fair value swaps are recorded at fair value within other assets in the Condensed Consolidated Balance Sheet, with a corresponding cumulative adjustment to the underlying senior term note within long-term debt of \$3.1 and \$2.4 million at September 30, 2004 and June 30, 2004, respectively. Additionally, \$1.0 and \$1.1 million of deferred gain remained in long-term debt at September 30, 2004 and June 30, 2004, respectively, related to the early termination of a fair value swap contracts. No hedge ineffectiveness occurred during the first quarter of fiscal year 2005 or 2004. As a result, the fair value swaps did not have a net impact on earnings.

Foreign Currency Exchange Risk:

The majority of the Company's revenue, expense and capital purchasing activities are transacted in United States dollars. However, because a portion of the Company's operations consists of activities outside of the United States, the Company has transactions in other currencies, primarily the Canadian dollar, British pound and Euro. In preparing the Condensed Consolidated Financial Statements, the Company is required to translate the financial statements of its foreign subsidiaries from the currency in which they keep their accounting records, generally the local currency, into United States dollars. Different exchange rates from period to period impact the amounts of reported income and the amount of foreign currency translation recorded in accumulated other comprehensive income. As part of its risk management strategy, the Company frequently evaluates its foreign currency exchange risk by monitoring market data and external factors that may influence exchange rate fluctuations. As a result, the Company may engage in transactions involving various derivative instruments to hedge assets, liabilities and purchases denominated in foreign currencies. As of September 30, 2004, the Company has entered into the following financial instrument:

Hedge of the Net Investment in Foreign Subsidiaries:

The Company has a cross-currency swap with a notional amount of \$21.3 million to hedge a portion of its net investments in its foreign operations. The purpose of this hedge is to protect against adverse movements in exchange rates. The cross-currency swap hedged approximately seven percent of the Company's net investments in foreign operations at September 30, 2004 and June 30, 2004.

The Company's cross-currency swap is recorded at fair value within other noncurrent liabilities in the Condensed Consolidated Balance Sheet. At September 30, 2004 and June 30, 2004, the Company's net investment in this derivative financial instrument was in a \$9.3 and \$8.7 million loss position, respectively, based on its estimated fair value. The corresponding tax-effected offset is charged to the cumulative translation adjustment account, which is a component of accumulated other comprehensive income set forth under the caption shareholders' equity in the Condensed Consolidated Balance Sheet. For the quarters ended September 30, 2004 and 2003, \$0.5 and \$0.7 million of tax-effected loss related to this derivative was charged to the cumulative translation adjustment account, respectively.

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, 2004 Annual Report on Form 10-K/A. Other than the information included above, there have been no material changes to this information during the three months ended September 30, 2004.

Table of Contents

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. Management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can provide only reasonable assurance regarding management's control objectives.

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 at the conclusion of the period ended September 30, 2004. Based upon this evaluation, the chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level.

Management's Consideration of the Restatement

In coming to the conclusion that our internal control over financial reporting was effective as of September 30, 2004, our management considered, among other things, the control deficiency related to the determination of lease terms, which resulted in the need to restate our previously issued financial statements as disclosed in Note 2 of Notes to Condensed Consolidated Financial Statements included in this Form 10-Q/A. After reviewing and analyzing the Securities and Exchange Commission's Staff Accounting Bulletin (SAB) No. 99, Materiality, Accounting Principles Board Opinion No. 28, Interim Financial Reporting, paragraph 29 and SAB Topic 5-F, Accounting Changes Not Retroactively Applied Due to Immateriality, and taking into consideration (i) that the restatement adjustments did not have a material impact on the financial statements of prior interim or annual periods taken as a whole; (ii) that the cumulative impact of the restatement adjustments on stockholders' equity was not material to the financial statements of prior interim or annual periods; and (iii) that we decided to restate our previously issued financial statements solely because the cumulative impact of the error, if recorded in the current period, would have been material to the current year's reported net income, our management concluded that the control deficiency that resulted in the restatement of the prior period financial statements was not in itself a material weakness.

Changes in Internal Controls

There were no changes in the Company's internal controls or, to the knowledge of management of the Company, in other factors that could significantly affect internal controls subsequent to the date of the Company's most recent evaluation, for the quarter ended September 30, 2004, of its disclosure controls and procedures utilized to compile information included in this filing.

Table of Contents

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. The Company is currently a defendant in a collective action lawsuit in which the plaintiffs allege violations under the Fair Labor Standards Act (FLSA). The Company denies these allegations and will actively defend its position. However, 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 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

(e) Share Repurchase Program

The Company's Board of Directors approved a stock repurchase program under which up to \$100.0 million can be expended for the repurchase of the Company's common stock. The timing and amounts of any repurchases will depend on many factors, including the market price of the common stock and overall market conditions. All repurchased shares are immediately retired. This repurchase program has no stated expiration date.

There were no repurchases of the Company's common stock during the quarter ended September 30, 2004. The approximate dollar value of shares that may yet be purchased under the Company's stock repurchase program is approximately \$46,590,000.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

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 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 Executive Vice President, Chief Financial and Administrative Officer of Regis Corporation: Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K:

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The following reports on Form 8-K were filed during the three months ended September 30, 2004:

Form 8-K dated July 8, 2004 related to the announcement of the Company's consolidated revenues and consolidated same-store sales for the month, quarter and fiscal year ended June 30, 2004.

Form 8-K dated August 24, 2004 related to the announcement of the Company's financial results for its fiscal fourth quarter and fiscal year ended June 30, 2004.

Form 8-K dated September 22, 2004 related to the announcement that the Company had lowered its first quarter earnings per share expectations as compared to previously reported expectations.

Table of Contents

SIGNATURE

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 20, 2005

By: /s/ Randy L. Pearce

Randy L. Pearce
Executive Vice President
Chief Financial and Administrative
Officer

Signing on behalf of the
registrant and as principal
accounting officer