DIAMOND HILL INVESTMENT GROUP INC
Form 10-Q
May 09, 2008

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U.S. Securities and Exchange Commission
Washington, D.C. 20549
Form 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2008
Commission file number 000-24498
DIAMOND HILL INVESTMENT GROUP, INC.
(Exact name of registrant as specified in its charter)

Ohio	65-0190407
(State of incorporation)	(I.R.S. Employer Identification No.)

325 John H. McConnell Blvd, Suite 200, Columbus, Ohio 43215
(Address, including Zip Code, of principal executive offices)
(614) 255-3333
(Registrant s telephone number, including area code)

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, and (2) has been subject to such filing requirements for the past 90 days. Yes: þ No: o

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

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

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

The number of shares outstanding of the issuer s common stock, as of the latest practicable date, May 6, 2008, is 2,373,497 shares.

DIAMOND HILL INVESTMENT GROUP, INC.

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PART I FINANCIAL INFORMATION
ITEM 1: Financial Statements
Diamond Hill Investment Group, Inc.
Consolidated Balance Sheets

	3/31/2008 (Unaudited)	12/31/2007
ASSETS		
Cash and cash equivalents	$ 12,296,073	$ 11,783,278
Investment portfolio	33,535,286	34,036,163
Accounts receivable	6,382,927	5,694,274
Prepaid expenses	1,060,029	1,115,728
Fixed assets, net of depreciation	810,537	654,500
Total assets	$ 54,084,852	$ 53,283,943
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities		
Accounts payable and accrued expenses	1,338,266	$ 979,467
Accrued incentive compensation	3,270,000	12,450,000
Current and deferred taxes	685,231	546,944
Total liabilities	5,293,497	13,976,411
Commitments and contingencies		
Shareholders Equity		
Common stock, no par value		
7,000,000 shares authorized;		
2,370,810 issued and outstanding at March 31, 2008		
2,243,653 issued and outstanding at December 31, 2007	36,484,073	27,719,024
Preferred stock, undesignated, 1,000,000 shares authorized and unissued		
Deferred compensation	(5,322,930)	(4,056,015)
Retained earnings	17,630,212	15,644,523
Total shareholders equity	48,791,355	39,307,532
Total liabilities and shareholders equity	$ 54,084,852	$ 53,283,943

See notes to consolidated financial statements.

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Diamond Hill Investment Group, Inc.
Consolidated Statements of Income (unaudited)

	Three Months Ended March 31, 2008	2007
REVENUES:		
Investment advisory	$ 9,231,995	$ 7,881,405
Performance incentive	280,900	4,297
Mutual fund administration, net	1,390,329	1,469,041
Total revenue	10,903,224	9,354,743
OPERATING EXPENSES:		
Compensation and related costs	5,841,754	4,667,463
General and administrative	557,148	566,412
Sales and marketing	114,030	101,494
Third party distribution	396,105	379,334
Mutual fund administration	468,615	552,974
Total operating expenses	7,377,652	6,267,677
NET OPERATING INCOME	3,525,572	3,087,066
Investment return	(374,664)	(30,460)
INCOME BEFORE TAXES	3,150,908	3,056,606
Income tax provision	(1,165,219)	(1,062,193)
NET INCOME	$ 1,985,689	$ 1,994,413
Earnings per share		
Basic	$ 0.85	$ 0.98
Diluted	$ 0.82	$ 0.91
Weighted average shares outstanding		
Basic	2,337,706	2,029,958
Diluted	2,426,400	2,195,772

See notes to consolidated financial statements.

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Diamond Hill Investment Group, Inc.
Consolidated Statements of Cash Flow (unaudited)

	Three Months Ended March 31, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 1,985,689	$ 1,994,413
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation on furniture and equipment	38,465	27,140
Amortization of deferred compensation	559,538	228,026
(Increase) decrease in accounts receivable	(688,653)	1,676,080
Increase in deferred taxes	1,091,993	1,062,193
Stock option expense	1,340	3,015
Change in unrealized gains/losses	834,487	155,820
(Decrease) in accrued liabilities	(2,993,296)	(5,858,722)
Other changes in assets and liabilities	55,699	(270,480)
Net cash provided by (used in) operating activities	885,262	(982,515)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(194,502)	(117,742)
Investment portfolio activity	(333,610)	(38,100)
Net cash used in investing activities	(528,112)	(155,842)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment for repurchase of common shares	(116,896)	
Payment of taxes withheld on option/warrant exercises	(131,800)	(7,675,676)
Proceeds from common stock issuance	404,341	3,228,064
Purchase of treasury stock		(1,342,148)
Sale of treasury stock		1,321,862
Net cash provided by (used in) financing activities	155,645	(4,467,898)
CASH AND CASH EQUIVALENTS		
Net change during the period	512,795	(5,606,255)
At beginning of period	11,783,278	9,836,989
At end of period	$ 12,296,073	$ 4,230,734

Cash paid during the period for:
Interest
Income taxes

Noncash Transactions during the period for:

Common Stock Issued as Incentive Compensation	5,754,140	5,478,718

See notes to consolidated financial statements.

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Diamond Hill Investment Group, Inc.
Notes to Consolidated Financial Statements (unaudited)

Note 1 Organization

Diamond Hill Investment Group, Inc. (the Company) was incorporated as a Florida corporation in April 1990 and in May 2002 merged into an Ohio corporation formed for the purpose of reincorporating in Ohio, where the Company s principal place of business is located. The Company has four operating subsidiaries.

Diamond Hill Capital Management, Inc. (DHCM), an Ohio corporation, is a wholly owned subsidiary of the Company and a registered investment advisor. DHCM is the investment adviser to the Diamond Hill Funds (the Funds), a series of open-end mutual funds, private investment funds (Private Funds), and also offers advisory services to institutional and individual investors.

Diamond Hill GP (Cayman) Ltd. (DHGP) was incorporated in the Cayman Islands as an exempted company on May 18, 2006 for the purpose of acting as the general partner of a Cayman Islands exempted limited partnership. This partnership acts as a master fund for Diamond Hill Offshore Ltd., a Cayman Islands exempted company; and Diamond Hill Investment Partners II, L.P., an Ohio limited partnership. Diamond Hill GP (Cayman) Ltd. has no operating activity.

Beacon Hill Fund Services, Inc. (BHFS), an Ohio corporation, is a wholly owned subsidiary of the Company incorporated on January 29, 2008. BHFS will provide certain fund administration services to small to mid size mutual funds. BHIL Distributors, Inc. (BHIL), an Ohio corporation, is a wholly owned subsidiary of BHFS incorporated on February 19, 2008. BHIL will provide distribution services to small to mid size mutual funds. BHIL had no operating activity during the first quarter of 2008.

Note 2 Significant Accounting Policies

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses for the periods. Actual results could differ from those estimates. The following is a summary of the Company s significant accounting policies:

Principles of Consolidation

The accompanying consolidated financial statements include the operations of the Company and its subsidiaries. All material inter-company transactions and balances have been eliminated in consolidation.

Segment Information

SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, establishes disclosure requirements relating to operating segments in annual and interim financial statements. Management has determined that the Company operates principally in one business segment, namely as an investment adviser and administrator to mutual funds, separate accounts, and private investment funds.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and money market funds.

Note 2 Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable are recorded when they are due and are presented in the balance sheet, net of any allowance for doubtful accounts. Accounts receivable are written off when they are determined to be uncollectible. Any allowance for doubtful accounts is estimated based on the Company s historical losses, existing conditions in the industry, and the financial stability of those individuals or entities that owe the receivable. No allowance for doubtful accounts was deemed necessary at March 31, 2008 or December 31, 2007.

Valuation of Investment Portfolio

Under Statement of Financial Accounting Standards (SFAS) No. 157 Fair Value Measurements (SFAS 157), all investments held by the Company are valued based upon the definition of Level 1 inputs. In general, SFAS 157 defines Level 1 inputs, as fair values which use quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

Investments in mutual funds are valued at their quoted closing current net asset values, or NAVs, per share of each mutual fund. Investments in Private Funds and other equity securities are independently valued based on readily available market quotations. The changes in market values on the investments are recorded in the Consolidated Statement of Income as investment returns.

Limited Partnership Interests

DHCM is the managing member of Diamond Hill General Partner, LLC, the General Partner of Diamond Hill Investment Partners, LP (DHIP) and Diamond Hill Investment Partners II, LP (DHIP II), each a limited partnership whose underlying assets consist of marketable securities. DHCM in its role as the managing member of the General Partner exerts significant influence over the financial and operating policies of DHIP and DHIP II but does not exercise control. Therefore, DHCM s investment in DHIP and DHIP II is accounted for using the equity method, under which DHCM s share of the net earnings or losses from the partnership is reflected in income as earned, and distributions received are reflected as reductions from the investment. Several board members, officers and employees of the Company invest in DHIP and DHIP II through Diamond Hill General Partner, LLC. These individuals receive no remuneration as a result of their personal investment in DHIP or DHIP II. The capital of Diamond Hill General Partner, LLC is not subject to a management fee or an incentive fee.

Furniture and Equipment

Furniture and equipment, consisting of computer equipment, furniture, and fixtures, are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over estimated lives of three to seven years.

Revenue Recognition General

The Company earns substantially all of its revenue from investment advisory and fund administration services. Mutual fund investment advisory and administration fees, calculated as a percentage of assets under management, are recorded as revenue as services are performed. Managed account and private investment fund clients provide for monthly or quarterly management fees, in addition to quarterly or annual performance fees.

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Note 2 Significant Accounting Policies (Continued)

Revenue Recognition   Performance Incentive Revenue

The Company s private investment funds and certain managed accounts provide for performance incentive fees. EITF Abstract Topic No. D-96, Accounting for Management Fees Based on a Formula , identifies two methods by which incentive revenue may be recorded. Under Method 1 , incentive fees are recorded at the end of the contract period; under Method 2 , the incentive fees are recorded periodically and calculated as the amount that would be due under the formula at any point in time as if the contract was terminated at that date. Management has chosen Method 1, in which incentive fees are recorded at the end of the contract period for the specific client in which the incentive fee applies.

The table below shows assets under management (AUM) subject to performance incentive fees and the performance incentive fees as calculated under each of the above methods:

	As Of March 31,	
	2008	2007
AUM Contractual Period Ends Quarterly	$ 284,542,311	$ 270,989,720
AUM Contractual Period Ends Annually	376,395,460	249,440,743
Total AUM Subject to Performance Incentive	$ 660,937,771	$ 520,430,463

	For The Period Ending March 31,	
	2008	2007
Performance Incentive Fees Method 1	$280,900	$ 4,297
Performance Incentive Fees Method 2	$280,900	39,530

Amounts under Method 1 and Method 2 may differ throughout the year, but will generally be the same at fiscal year end because all client account contract periods end on December 31.

Revenue Recognition   Mutual Fund Administration

DHCM has an administrative, fund accounting and transfer agency services agreement with the Diamond Hill Funds (Funds), under which DHCM performs certain services for each fund. These services include mutual fund administration, accounting, transfer agency and other related functions. For performing these services, each fund compensates DHCM a fee at an annual rate of 0.32% for Class A and Class C shares and 0.18% for Class I shares times each series average daily net assets. Effective April 30, 2007, the fee for administrative services was reduced from 0.36% to 0.32% for Class A and Class C shares. The Funds have selected and contractually engaged certain vendors to fulfill various services to benefit the Funds shareholders or to satisfy regulatory requirements of the Funds. These services include, among others, required fund shareholder mailings, registration fees, legal and audit fees. DHCM, in fulfilling a portion of its role under the administration agreement with the Funds, acts as agent to pay these obligations of the Funds. Each vendor is independently responsible for fulfillment of the services it has been engaged to provide and negotiates fees and terms with the management and board of trustees of the Funds. The fee that the Funds pay to DHCM is reviewed annually by the Funds board of trustees and specifically takes into account the contractual expenses that DHCM pays on behalf of the Funds. As a result, DHCM is not involved in the delivery or pricing of these services and bears no risk related to these services. Consistent with EITF 99-19, revenue has been recorded net of these Fund expenses. In addition, DHCM finances the up-front commissions which are paid by the Fund s principal underwriter to brokers who sell C shares of the Funds. As financer, DHCM advances to the underwriter the commission amount to be paid to the selling broker at the time of sale. These advances are capitalized and amortized over 12 months to correspond with the re-payments DHCM receives from the principal underwriter to recoup this commission advancement. Mutual fund administration (admin) gross and net revenue are summarized below:

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Note 2 Significant Accounting Policies (Continued)
Revenue Recognition   Mutual Fund Administration (Continued)

	Three Months Ended March 31, 2008	2007
Mutual fund admin revenue, gross	$ 2,044,549	$ 2,036,346
Mutual fund admin, fund related expense	661,038	576,821
Mutual fund admin revenue, net of fund related expenses	1,383,511	1,459,525
C-Share broker commission advance repayments	398,947	412,200
C-Share broker commission amortization	392,129	402,684
C-Share financing activity, net	6,818	9,516
Mutual fund administration revenue, net	$ 1,390,329	$ 1,469,041

Third Party Distribution Expense
Third party distribution expenses are earned by various third party financial services firms based on sales and/or assets of the Company s investment products generated by the respective firm. Expenses recognized represent actual payments made to the third party firms and are recorded in the period earned based on the terms of the various contracts.

Income Taxes
The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109 Accounting for Income Taxes (SFAS 109). A net deferred tax asset or liability is determined based on the tax effects of the various temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

Effective January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48 Accounting for the Uncertainty in Income Taxes (FIN 48), an interpretation of SFAS 109. As a result of the implementation of FIN 48, the Company recognized no adjustment in the net liability.

Earnings Per Share
Basic earnings per share (EPS) excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution of EPS that could occur if options, warrants, and restricted stock units to issue common stock were exercised.

Reclassifications
Certain prior period amounts have been reclassified to conform to the current period financial presentation.

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Note 3 Investment Portfolio

As of March 31, 2008, the Company held investments worth $33.5 million and a cost basis of $31.7 million. The following table summarizes the market value of these investments as of March 31, 2008 and December 31, 2007:

	March 31, 2008	December 31, 2007
Diamond Hill Small Cap Fund	$ 1,021,094	$ 1,039,517
Diamond Hill Small-Mid Cap Fund	986,239	1,016,243
Diamond Hill Large Cap Fund	951,765	1,017,340
Diamond Hill Select Fund	939,066	1,015,803
Diamond Hill Long-Short Fund	1,023,162	1,027,615
Diamond Hill Financial Long-Short Fund	937,270	1,025,356
Diamond Hill Strategic Income Fund	3,760,053	3,765,566
Diamond Hill Investment Partners, L.P.	10,104,219	10,070,021
Diamond Hill Investment Partners II, L.P.	5,079,496	5,058,702
Other marketable equity securities	8,732,922	9,000,000
Total Investment Portfolio	$ 33,535,286	$ 34,036,163

DHCM is the managing member of the Diamond Hill General Partner LLC, which is the General Partner of DHIP and DHIP II. The underlying assets of DHIP and DHIP II are cash and marketable equity securities whose values are determined based on independent readily available market quotations. The Company, as the parent entity to DHCM, is not contingently liable for the partnership s liabilities but rather is only liable for its proportionate share, based on its membership interest. DHCM, as the managing member of the General Partner, is also not contingently liable for the partnership s liabilities. Summary financial information, including the Company s carrying value and income from these partnerships is as follows:

	March 31, 2008	December 31, 2007
Total partnership assets	$ 340,939,106	$ 360,372,685
Total partnership liabilities	58,903,561	80,007,267
Net partnership assets	282,035,545	280,365,418
Net partnership income (loss)	(278,237)	6,581,829
DHCM s portion of net assets	15,183,714	15,128,723
DHCM s portion of net income	54,992	562,469

While the partnerships experienced in total a net loss during the current quarter ended March 31, 2008, DHCM s portion of net income was positive due to DHCM s exclusion from paying a management fee. DHCM s income from these partnerships includes its pro-rata capital allocation and its share of an incentive allocation, if any, from the limited partners.

Note 4 Capital Stock

Common Shares

The Company has only one class of securities, Common Shares.

Authorization of Preferred Shares

The Company s Articles of Incorporation authorize the issuance of 1,000,000 shares of blank check preferred shares with such designations, rights and preferences, as may be determined from time to time by the Company s Board of Directors. The Board of Directors is empowered, without shareholder approval, to issue preferred stock with dividend, liquidation, conversion, voting, or other rights, which could adversely affect the voting or other rights of the holders of the Common Shares. There were no shares of preferred stock issued or outstanding at March 31, 2008 or December 31, 2007.

Note 5 Stock-Based Compensation

Equity Incentive Plans

2005 Employee and Director Equity Incentive Plan

At the Company s annual shareholder meeting on May 12, 2005, shareholders approved the 2005 Employee and Director Equity Incentive Plan (2005 Plan). The 2005 Plan is intended to facilitate the Company s ability to attract and retain staff, provide additional incentive to employees, directors and consultants, and to promote the success of the Company s business. The Plan authorizes the issuance of Common Shares of the Company in various forms of stock or option grants. As of March 31, 2008 shares available for issuance under the Plan are 498,506. The Plan provides that the Board of Directors, or a committee appointed by the Board, may grant awards and otherwise administer the Plan.

1993 Non-qualified and Incentive Stock Option Plan

The Company adopted a Non-Qualified and Incentive Stock Option Plan in 1993 that authorized the grant of options to purchase an aggregate of 500,000 shares of the Company s Common Stock. The Plan provides that the Board of Directors, or a committee appointed by the Board, may grant options and otherwise administer the Option Plan. This Plan expired by its terms in November 2003. Options outstanding under this Plan are not affected by the Plan s expiration.

Equity Compensation Grants

On May 13, 2004 the Company s shareholders approved terms and conditions of certain equity compensation grants to three key employees. Under the approved terms a total of 75,000 shares of restricted stock and restricted stock units were issued to the key employees on May 31, 2004. The restricted stock and restricted stock units are restricted from sale and do not vest until May 31, 2009.

These grants, along with other restricted stock grants which vest over time, are recorded as deferred compensation on grant date and then recognized as compensation expense over the vesting period of the respective grant.

401(k) Plan

The Company sponsors a 401(k) plan whereby all employees participate in the plan. Employees may contribute a portion of their compensation subject to certain limits based on federal tax laws. The Company makes matching contributions of Common Shares of the Company with a value equal to 200 percent of the first six percent of an employee s compensation contributed to the plan. Employees become fully vested in the matching contributions after six plan years of employment. For the three months ended March 31, 2008 and 2007, expenses attributable to the plan were $138,342 and $100,985, respectively.

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Note 5 Stock-Based Compensation (Continued)

Effective October 1, 2005, the Company adopted SFAS No. 123(R), Accounting for Stock-Based Compensation (SFAS 123R). SFAS 123R requires all share-based payments to employees and directors, including grants of stock options, to be recognized as expense in the income statement based on their fair values. The amount of compensation is measured at the fair value of the options when granted, and this cost is expensed over the required service period, which is normally the vesting period of the options. SFAS 123R applies to the Company for options granted or modified after October 1, 2005. SFAS 123R also requires compensation cost to be recorded for prior option grants that vest after the date of adoption.

Stock option and warrant transactions under the various plans are summarized below:

	Options		Warrants	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding December 31, 2006	283,102	$ 14.60	249,400	$ 12.57
Exercisable December 31, 2006	243,102	$ 16.26	249,400	$ 12.57
Granted				
Expired / Forfeited			2,000	10.63
Exercised	114,002	20.29	222,000	8.65
Outstanding March 31, 2007	169,100	$ 10.76	25,400	$ 47.00
Exercisable March 31, 2007	129,100	$ 12.70	25,400	$ 47.00
Outstanding December 31, 2007	92,500	$ 10.40	25,400	$ 47.00
Exercisable December 31, 2007	72,500	$ 12.03	25,400	$ 47.00
Granted				
Expired / Forfeited				
Exercised	17,500	11.81	1,000	22.50
Outstanding March 31, 2008	75,000	$ 10.08	24,400	$ 48.07
Exercisable March 31, 2008	55,000	$ 12.10	24,400	$ 48.07

The Company withheld from issuing 81,833 of the 336,002 and 352 of the 18,500 shares of warrants and options exercised during the quarters ended March 31, 2007 and March 31, 2008, respectively. These shares were withheld to fulfill tax withholding requirements related to employee compensation earned on the exercises.

Options and warrants outstanding and exercisable at March 31, 2008 are as follows:

Options				Warrants			
Number Outstanding	Remaining Life In Years	Number Exercisable	Exercise Price	Number Outstanding	Remaining Life In Years	Number Exercisable	Exercise Price
10,000	2.36	10,000	$ 7.95	14,000	0.12	14,000	$ 73.75
5,500	2.72	5,500	8.44	400	0.75	400	22.20

14,500	2.72	14,500	28.10	2,000	1.12	2,000	22.50
5,000	3.01	5,000	8.45	6,000	1.92	6,000	11.25
40,000	5.18	20,000	4.50	2,000	2.11	2,000	8.75
75,000	4.01	55,000		24,400	0.81	24,400	

The aggregate intrinsic value of options/warrants outstanding and exercisable as of March 31, 2008 are:

Outstanding	$ 5,678,108
Exercisable	$ 4,237,908

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Note 6 Operating Leases
The Company leases approximately 14,187 square feet of office space at 325 John H. McConnell Blvd, Suite 200, Columbus, Ohio 43215 under an operating lease agreement which terminates on July 31, 2013. In addition, the Company leases approximately 2,239 square feet of office space at 4041 N. High Street, Suite 402, Columbus, Ohio 43214 under an operating lease agreement which terminates on February 13, 2011. Total lease and operating expenses for the three months ended March 31, 2008 and 2007 were $93,961 and $68,549, respectively. The approximate future minimum lease payments under the operating lease are as follows:

35,434

32,723

442,565

453,960

1,343,162

1,374,398

Operating expenses:

Cost of service

217,046

216,830

651,486

659,736

Cost of product

43,000

45,117

136,420

138,924

Site operating expenses

42,912

47,116

138,145

144,057

General and administrative

42,606

44,082

134,554

135,934

Rent

74,388

76,369

223,666

230,955

Depreciation and amortization

16,992

19,044

51,877

60,815

Total operating expenses

436,944

448,558

1,336,148

1,370,421

Operating income

5,621

5,402

7,014

3,977

Other (expense) income:

Interest expense

(2,405
)

(2,273
)

(7,141
)

(7,843
)
Interest income and other, net

1,017

390

2,958

1,307

Income (loss) before income taxes and equity in loss of affiliated companies

4,233

3,519

2,831

(2,559
)

Income taxes

(6,317
)

(7,997
)

(4,926
)

(16,845
)
Equity in loss of affiliated companies, net of income taxes

—

(285
)

(14,783
)

(11,865
)

Net loss

$
(2,084
)

$
(4,763
)

$
(16,878
)

$
(31,269
)

Net loss per share:

Basic and diluted

$
(0.04
)

$

(0.09
)

$
(0.34
)

$
(0.57
)

Weighted average common and common equivalent shares outstanding:

Basic and diluted

46,991

54,837

49,287

55,248

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

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REGIS CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS (Unaudited)
For The Three and Nine Months Ended March 31, 2016 and 2015
(Dollars in thousands)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2016	2015	2016	2015
Net loss	$(2,084)	$(4,763)	$(16,878)	$(31,269)
Other comprehensive income (loss):				
Foreign currency translation adjustments during the period	1,806	(6,851)	(4,801)	(15,696)
Other comprehensive income (loss)	1,806	(6,851)	(4,801)	(15,696)
Comprehensive loss	$(278)	$(11,614)	$(21,679)	$(46,965)

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

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REGIS CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)
For The Nine Months Ended March 31, 2016 and 2015
(Dollars in thousands)

	Nine Months Ended March 31, 2016	2015
Cash flows from operating activities:		
Net loss	$(16,878)	$(31,269)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	44,261	51,478
Equity in loss of affiliated companies	14,783	11,865
Deferred income taxes	3,607	13,393
Salon asset impairment	7,616	9,337
Gain on sale of salon assets	(827)	(723)
Stock-based compensation	7,492	6,342
Amortization of debt discount and financing costs	1,249	1,336
Other non-cash items affecting earnings	195	266
Changes in operating assets and liabilities, excluding the effects of asset sales	(22,606)	10,302
Net cash provided by operating activities	38,892	72,327
Cash flows from investing activities:		
Capital expenditures	(22,689)	(29,689)
Proceeds from sale of assets	1,472	1,961
Change in restricted cash	6,985	—
Proceeds from company-owned life insurance policies	2,948	—
Net cash used in investing activities	(11,284)	(27,728)
Cash flows from financing activities:		
Repayments of long-term debt and capital lease obligations	(2)	(173,749)
Repurchase of common stock	(97,033)	(32,890)
Purchase of noncontrolling interest	(684)	—
Net cash used in financing activities	(97,719)	(206,639)
Effect of exchange rate changes on cash and cash equivalents	(1,037)	(3,636)
Decrease in cash and cash equivalents	(71,148)	(165,676)
Cash and cash equivalents:		
Beginning of period	212,279	378,627
End of period	$141,131	$212,951

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

REGIS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

The unaudited interim Condensed Consolidated Financial Statements of Regis Corporation (the Company) as of March 31, 2016 and for the three and nine months ended March 31, 2016 and 2015 reflect, in the opinion of management, all adjustments necessary to fairly state the consolidated financial position of the Company as of March 31, 2016 and the consolidated results of its operations, comprehensive loss and its cash flows for the interim periods. Adjustments consist only of normal recurring items, except for any discussed in the notes below. The results of operations and cash flows for any interim period are not necessarily indicative of results of operations and cash flows for the full year.

The Condensed Consolidated Balance Sheet data for June 30, 2015 was derived from audited Consolidated Financial Statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America (GAAP). The unaudited interim Condensed Consolidated Financial Statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended June 30, 2015 and other documents filed or furnished with the Securities and Exchange Commission (SEC) during the current fiscal year.

Stock-Based Employee Compensation:

During the nine months ended March 31, 2016, the Company granted 308,055 restricted stock units (RSUs), 690,461 equity-based stock appreciation rights (SARs) and 410,153 performance share units (PSUs), which includes 118,967 incremental performance share units earned in connection with the achievement of fiscal year 2015 performance metrics. The Company did not grant any equity awards during the three months ended March 31, 2016. During the nine months ended March 31, 2016, the volatility assumption was updated from 38% to 30%. Otherwise there were no significant changes to the assumptions or methodology used in calculating the fair value of SARs. All grants relate to stock incentive plans that have been approved by the shareholders of the Company.

Total compensation cost for stock-based payment arrangements totaled $2.5 and $2.3 million for the three months ended March 31, 2016 and 2015, respectively, and $7.5 and $6.3 million for the nine months ended March 31, 2016 and 2015, respectively, recorded within general and administrative expense on the unaudited Condensed Consolidated Statement of Operations.

Long-Lived Asset Impairment Assessments, Excluding Goodwill:
The Company assesses impairment of long-lived assets at the individual salon level, as this is the lowest level for which identifiable cash flows are largely independent of other groups of assets and liabilities, when events or changes in circumstances indicate the carrying value of the assets or the asset grouping may not be recoverable. Factors considered in deciding when to perform an impairment review include significant under-performance of an individual salon in relation to expectations, significant economic or geographic trends, and significant changes or planned changes in our use of the assets. Impairment is evaluated based on the sum of undiscounted estimated future cash flows expected to result from use of the long-lived assets. If the undiscounted estimated cash flows are less than the carrying value of the assets, the Company calculates an impairment charge based on the estimated fair value of the assets. The fair value of the long-lived assets is estimated using a discounted cash flow model based on the best information available, including salon level revenues and expenses. Long-lived asset impairment charges of $7.6 and $9.3 million have been recorded within depreciation and amortization in the Consolidated Statement of Operations for the nine months ended March 31, 2016 and 2015, respectively.

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Revisions:

As disclosed in Note 1 of the Form 10-K for the fiscal year ended June 30, 2015, the Company revised certain prior year amounts. The following is a summary of the impact the revisions had on net loss:

	For the Periods Ended March 31, 2015	
	Three Months	Nine Months
	(Dollars in thousands)	
Net loss, as reported	$(3,710)	$(31,833)
Revisions:		
Deferred rent, pre-tax (1)	147	(42)
Previous out of period items, pre-tax (2)	—	1,586
Tax impact	(1,200)	(980)
Total revision impact	(1,053)	564
Net loss, as revised	$(4,763)	$(31,269)

(1) The Company recognizes rental expense on a straight-line basis at the time the leased space becomes available to the Company. During the fourth quarter of fiscal year 2015, the Company determined its deferred rent balance was understated. Accordingly, the unaudited Condensed Consolidated Financial Statements have been revised to correctly state its deferred rent balances and rent expense. This revision had no impact on cash provided by operations or cash and cash equivalents for the quarter.

(2) Also, in the fourth quarter of fiscal year 2015, the Company revised certain prior year amounts to correctly recognize understatements of self-insurance accruals. This revision had no impact on cash provided by operations or cash and cash equivalents for the quarter.

The Company assessed the materiality of these misstatements on prior periods' financial statements in accordance with SEC Staff Accounting Bulletin ("SAB") No. 99, Materiality, codified in ASC 250 ("ASC 250"), Presentation of Financial Statements, and concluded these misstatements were not material to any prior annual or interim periods. Accordingly, in accordance with ASC 250 (SAB No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements), the unaudited Condensed Consolidated Financial Statements as of March 31, 2015, which are presented herein, have been revised. The following are selected line items from the Company's unaudited Condensed Consolidated Financial Statements illustrating the effect of these revisions:

	CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)					
	(Dollars in thousands, except per share data)					
	For the Periods Ended March 31, 2015					
	Three Months			Nine Months		
	As Previously Reported	Revision	As Revised	As Previously Reported	Revision	As Revised
Site operating expenses	$47,116	$—	$47,116	$145,643	$(1,586)	$144,057
Rent	76,516	(147)	76,369	230,913	42	230,955
Income (loss) before income taxes and equity in loss of affiliated companies	3,372	147	3,519	(4,103)	1,544	(2,559)
Income taxes	(6,797)	(1,200)	(7,997)	(15,865)	(980)	(16,845)
Net loss	$(3,710)	$(1,053)	$(4,763)	$(31,833)	$564	$(31,269)

Net loss per share:						
Basic and diluted earnings per share (1)	$(0.07)	$(0.02)	$(0.09)	$(0.58)	$0.01	$(0.57)

(1) Total is a recalculation; line items calculated individually may not sum to total due to rounding.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)
(Dollars in thousands)
For the Periods Ended March 31, 2015

	Three Months			Nine Months		
	As Previously Reported	Revision	As Revised	As Previously Reported	Revision	As Revised
Net loss	$(3,710)	$(1,053)	$(4,763)	$(31,833)	$ 564	$(31,269)
Comprehensive loss	$(10,561)	$(1,053)	$(11,614)	$(47,529)	$ 564	$(46,965)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)
(Dollars in thousands)
Nine Months Ended March 31, 2015

	As Previously Reported	Revision	As Revised
Cash flows from operating activities:			
Net loss	$(31,833)	$ 564	$(31,269)
Deferred income taxes	12,631	762	13,393
Changes in operating assets and liabilities, excluding the effects of acquisitions	11,628	(1,326)	10,302

Prior Period Adjustments:

During the three months ended March 31, 2016, the Company identified certain errors related to the overstatement of interest expense, insurance expense and telephone expense, and the understatement of depreciation expense in prior periods. Because these items were not material to the Company's consolidated financial statements for any prior periods or the current quarter, the Company recorded a correcting cumulative adjustment during the three months ended March 31, 2016. The impact of these items on the Company's Consolidated Statement of Operations decreased interest expense by $0.6 million, decreased site operating expenses by $0.5 million, increased depreciation expense by $0.3 million, and decreased net loss by $0.8 million.

Recent Accounting Standards Adopted by the Company:

Balance Sheet Classification of Deferred Taxes

In November 2015, the Financial Accounting Standards Board (FASB) issued updated guidance requiring all deferred tax assets and liabilities be presented as noncurrent. The Company early adopted this guidance in the second quarter of fiscal 2016, prospectively. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

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

Leases

In February 2016, the FASB issued updated guidance requiring organizations that lease assets to recognize the rights and obligations created by those leases on the consolidated balance sheet. The new standard is effective for the

Company in the first quarter of fiscal year 2020, with early adoption permitted. The Company is currently evaluating the effect the new standard will have on the Company's consolidated financial statements.

Stock Compensation

In March 2016, the FASB issued updated guidance simplifying the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the consolidated statement of cash flows. The new standard is effective for the Company in the first quarter of fiscal year 2018, with early adoption permitted. The Company is currently evaluating the effect the new standard will have on the Company's consolidated financial statements.

Revenue from Contracts with Customers

In May 2014, the FASB issued updated guidance for revenue recognition. The updated accounting guidance provides a comprehensive new revenue recognition model that requires a Company to recognize revenue to depict the exchange for goods or services to a customer at an amount that reflects the consideration it expects to receive for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. The guidance is effective for the Company in the first quarter of fiscal year 2019, with early adoption permitted at the beginning of fiscal year 2018. The standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements. The Company does not expect the adoption of this update to have a material impact on the Company's consolidated financial statements and is evaluating the effect this guidance will have on its related disclosures.

Simplifying the Presentation of Debt Issuance Costs

In April 2015, the FASB issued updated guidance requiring debt issuance costs related to a recognized debt liability to be presented in the consolidated balance sheet as a direct reduction from the carrying amount of the debt liability. The guidance is effective for the Company in the first quarter of fiscal year 2017. The Company does not expect the adoption of this guidance to have a material impact on the Company's consolidated financial statements.

2. INVESTMENT IN AFFILIATES:

Empire Education Group, Inc. (EEG)

As of March 31, 2016, the Company had a 54.6% ownership interest in EEG and no remaining investment value.

The table below summarizes losses recorded by the Company related to EEG:

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2016	2015	2016	2015
	(Dollars in thousands)			
Equity losses (1)	$—	$(282)	$(1,832)	$(7,207)
Other than temporary impairment	—	—	(12,954)	(4,654)
Total losses related to EEG	$—	$(282)	$(14,786)	$(11,861)

(1) For the nine months ended March 31, 2015, includes $6.9 million of expense related to a non-cash deferred tax valuation allowance recorded by EEG.

The fiscal year 2016 impairment charge resulted from EEG's significantly lower financial projections due to continued declines in enrollment, revenue and profitability. The full impairment of the investment follows previous non-cash impairment charges, EEG's impairment of goodwill and its establishment of a deferred tax valuation allowance in prior quarters. While the Company could be responsible for certain liabilities associated with this venture, the Company does not currently expect them to have a material impact on the Company's financial position.

The Company utilized consolidation of variable interest entities guidance to determine whether or not its investment in EEG was a variable interest entity (VIE), and if so, whether the Company was the primary beneficiary of the VIE. The Company concluded that EEG was not a VIE based on the fact that EEG had sufficient equity at risk. The Company accounts for EEG as an equity investment under the voting interest model, as the Company has granted the other shareholder of EEG an irrevocable proxy to vote a certain number of the Company’s shares such that the other shareholder of EEG has voting control of 51.0% of EEG’s common stock, as well as the right to appoint four of the five members of EEG’s Board of Directors.

The table below presents the summarized Statement of Operations information for EEG:

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2016	2015	2016	2015
(Unaudited)	(Dollars in thousands)			
Gross revenues	$31,573	$38,419	$101,237	$117,220
Gross profit	2,851	10,078	18,257	29,419
Operating (loss) income	(3,288)	301	(6,578)	(403)
Net loss	(2,784)	(358)	(6,142)	(13,365)

3. EARNINGS PER SHARE:

The Company's basic earnings per share is calculated as net income (loss) divided by weighted average common shares outstanding, excluding unvested outstanding restricted stock awards, RSUs and PSUs. The Company's diluted earnings per share is calculated as net income divided by weighted average common shares and common share equivalents outstanding, which includes shares issued under the Company's stock-based compensation plans. Stock-based awards with exercise prices greater than the average market price of the Company's common stock are excluded from the computation of diluted earnings per share. In fiscal year 2015, the Company's diluted earnings per share would have reflected the assumed conversion under the Company's convertible debt, if the impact was dilutive, along with the exclusion of interest expense, net of taxes.

For the three months ended March 31, 2016 and 2015, 587,992 and 210,023, respectively, and for the nine months ended March 31, 2016 and 2015, 497,715 and 187,959, respectively, of common stock equivalents of potentially dilutive common stock, were excluded from the diluted earnings per share calculation due to the net loss from continuing operations.

The computation of weighted average shares outstanding, assuming dilution, excluded 2,075,264 and 1,481,206 of stock-based awards during the three months ended March 31, 2016 and 2015, respectively, and 2,166,338 and 1,176,364 of stock-based awards during the nine months ended March 31, 2016 and 2015, respectively, as they were not dilutive under the treasury stock method. The computation of weighted average shares outstanding for the nine months ended March 31, 2015 also excluded 619,507 of shares from convertible debt as they were not dilutive.

4. SHAREHOLDERS' EQUITY:

Additional Paid-In Capital:

The $89.2 million decrease in additional paid-in capital during the nine months ended March 31, 2016 was primarily due to $97.0 million of common stock repurchases, partly offset by $7.5 million of stock-based compensation.

During the three and nine months ended March 31, 2016, the Company repurchased 1,392,058 shares for $20.0 million and 7,355,052 shares for $97.0 million, respectively, under a previously approved stock repurchase program. At March 31, 2016, $64.0 million remains outstanding under the approved stock repurchase program.

5. INCOME TAXES:

During the three and nine months ended March 31, 2016, the Company recognized tax expense of $6.3 and $4.9 million, respectively, with corresponding effective tax rates of 149.2% and 174.0%. During the three and nine months ended March 31, 2015, the Company recognized tax expense of $8.0 and $16.8 million, respectively, with corresponding effective tax rates of 227.3% and (658.3)%.

The recorded income tax expense and effective tax rates for the three and nine months ended March 31, 2016 and 2015 were different than what would normally be expected due to the impact of the deferred tax valuation allowance. The majority of the tax expense related to non-cash tax expense for tax benefits on certain indefinite-lived assets the Company cannot recognize for reporting purposes. This non-cash impact will continue as long as the Company has a valuation allowance against most of its deferred tax assets and is expected to approximate $8.0 million of expense for the year ending June 30, 2016.

The Company's U.S. federal income tax returns for the fiscal years 2010 through 2013 have been examined by the Internal Revenue Service (IRS) and are moving to the IRS Appeals Division for outstanding IRS proposed audit adjustments. The Company believes its income tax positions will be sustained and will continue to vigorously defend such positions. All earlie r tax years are closed to U.S. federal income tax examination. With limited exceptions, the Company is no longer subject to state and international income tax examinations by tax authorities for years before 2011.

6. COMMITMENTS AND CONTINGENCIES:

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

See Note 5 to the unaudited Condensed Consolidated Financial Statements for discussion regarding the status of certain issues that have resulted from the IRS' audits. In addition, the Company is currently under payroll tax examination by the IRS for calendar years 2012 through 2014.

7. GOODWILL AND OTHER INTANGIBLES:

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

	March 31, 2016			June 30, 2015		
	Gross Carrying Value (3)	Accumulated Impairment (1)	Net	Gross Carrying Value	Accumulated Impairment (1)	Net
	(Dollars in thousands)					
Goodwill	$670,934	$ (253,661)	$417,273	$672,614	$ (253,661)	$418,953

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

Fiscal Year	Impairment Charge	Reporting Unit (2)
	(Dollars in thousands)	
2009	$ (41,661)	International
2010	(35,277)	North American Premium
2011	(74,100)	North American Value
2012	(67,684)	North American Premium
2014	(34,939)	North American Premium
Total	$ (253,661)	

(2) See Note 10 to the unaudited Condensed Consolidated Financial Statements.
(3) The change in the gross carrying value of goodwill relates to foreign currency.

The table below presents other intangible assets:

	March 31, 2016			June 30, 2015		
	Cost (1)	Accumulated Amortization (1)	Net	Cost (1)	Accumulated Amortization (1)	Net
	(Dollars in thousands)					
Amortized intangible assets:						
Brand assets and trade names	$8,190	$ (3,670)	$4,520	$8,415	$ (3,551)	$4,864

Franchise agreements	9,834	(7,020)	2,814	10,093	(6,934)	3,159
Lease intangibles	14,546	(8,472)	6,074	14,601	(7,960)	6,641
Other	5,853	(3,661)	2,192	6,115	(3,710)	2,405
	$38,423	$ (22,823)	$15,600	$39,224	$ (22,155)	$17,069

(1) The change in the gross carrying value and accumulated amortization of other intangible assets relates to foreign currency.

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8. FINANCING ARRANGEMENTS:

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

	Maturity Dates	Interest Rate	Amounts outstanding March 31, 2016	June 30, 2015
	(fiscal year)		(Dollars in thousands)	
Convertible senior notes	2015	5.00%	$—	$—
Senior term notes - 5.75%	2018	5.75	—	120,000
Senior term notes - 5.50%	2020	5.50	120,248	—
Revolving credit facility	2018	—	—	—
Equipment and leasehold notes payable	2015 - 2016	4.90 - 8.75	—	2
			120,248	120,002
Less current portion			—	(2)
Long-term portion			$120,248	$120,000

Convertible Senior Notes

In July 2014, the Company settled its $172.5 million 5.0% convertible senior notes in cash. The notes were unsecured, senior obligations of the Company and interest was payable semi-annually in arrears on January 15 and July 15 of each year. Interest expense related to the 5.0% contractual interest coupon and amortization of the debt discount was $0.4 and $0.3 million for the nine months ended March 31, 2015, respectively.

Senior Term Notes

In December 2015, the Company exchanged its $120.0 million 5.75% senior notes due December 2017 for $123.0 million 5.5% senior notes due December 2019 (Senior Term Notes). The Senior Term Notes were issued at a $3.0 million discount which will be amortized to interest expense over the term of the notes. The Company accounted for this non-cash exchange as a debt modification, as it was with the same lenders and the changes in terms were not considered substantial. Interest on the Senior Term Notes is payable semi-annually in arrears on June 1 and December 1 of each year. The Senior Term Notes are unsecured and not guaranteed by any of the Company’s subsidiaries or any third parties.

The following table contains details related to the Company's Senior Term Notes:

	March 31, 2016 (Dollars in thousands)
Principal amount on the Senior Term Notes	$123,000
Unamortized debt discount	(2,752)
Net carrying amount of Senior Term Notes	$120,248

Revolving Credit Facility

As of March 31, 2016 and June 30, 2015, the Company had no outstanding borrowings under this facility. Additionally, the Company had outstanding standby letters of credit under the facility of $1.6 and $2.1 million at March 31, 2016 and June 30, 2015, respectively, primarily related to the Company's self-insurance program. In

January 2016, the Company amended its revolving credit facility primarily reducing the borrowing capacity from $400.0 to $200.0 million. Unused available credit under the facility at March 31, 2016 and June 30, 2015 was $198.4 and $397.9 million, respectively.

The Company was in compliance with all covenants and requirements of its financing arrangements as of and during the three months ended March 31, 2016.

9. FAIR VALUE MEASUREMENTS:

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

As of March 31, 2016 and June 30, 2015, the Company’s cash, cash equivalents, restricted cash, receivables, accounts payable and debt approximated their carrying values. The estimated fair value of the Company's debt is based on Level 2 inputs.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

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

The following impairments were based on fair values using Level 3 inputs:

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2016	2015	2016	2015
	(Dollars in thousands)			
Long-lived assets (1)	$(2,575)	$(2,385)	$(7,616)	$(9,337)
Investment in EEG (2)	—	—	(12,954)	(4,654)

(1) See Note 1 to the unaudited Condensed Consolidated Financial Statements.
(2) See Note 2 to the unaudited Condensed Consolidated Financial Statements.

10. SEGMENT INFORMATION:

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

As of March 31, 2016, the Company’s reportable operating segments consisted of the following salons:

	Company-owned	Franchised	Total
North American Value	5,806	2,454	8,260
North American Premium	702	—	702
International	348	—	348
Total	6,856	2,454	9,310

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

The Company's operating segment results were as follows:

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2016	2015	2016	2015
	(Dollars in thousands)			
Revenues:				
North American Value	$347,976	$349,443	$1,046,198	$1,049,552
North American Premium	69,451	76,817	215,628	234,603
International	25,138	27,700	81,336	90,243
	$442,565	$453,960	$1,343,162	$1,374,398
Operating income (loss) (1):				
North American Value	$35,706	$33,229	$94,316	$90,060
North American Premium	(4,580)	(4,138)	(10,903)	(10,947)
International	(629)	398	(1,130)	1,424
Total segment operating income	30,497	29,489	82,283	80,537
Unallocated Corporate	(24,876)	(24,087)	(75,269)	(76,560)
Operating income	$5,621	$5,402	$7,014	$3,977

(1) Amounts for fiscal year 2015 have been revised. See Note 1 to the unaudited Condensed Consolidated Financial Statements.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is designed to provide a reader of our financial statements with a narrative from the perspective of our management on our financial condition, results of operations, liquidity and certain other factors that may affect our future results. This MD&A should be read in conjunction with the MD&A included in our June 30, 2015 Annual Report on Form 10-K and other documents filed or furnished with the Securities and Exchange Commission (SEC) during the current fiscal year.

MANAGEMENT'S OVERVIEW

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

As of March 31, 2016, we owned, franchised or held ownership interests in 9,508 worldwide locations. Our locations consisted of 9,310 system-wide North American and International salons, and 198 locations in which we maintain a non-controlling ownership interest less than 100 percent. Each of the Company's salon concepts generally offer similar salon products and services and serve the mass market. As of March 31, 2016, we had approximately 46,000 corporate employees worldwide.

CRITICAL ACCOUNTING POLICIES

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

Our significant accounting policies can be found in Note 1 to the Consolidated Financial Statements contained in Part II, Item 8 of the June 30, 2015 Annual Report on Form 10-K, as well as Note 1 to the unaudited Condensed Consolidated Financial Statements contained within this Quarterly Report on Form 10-Q. We believe the accounting policies related to investment in affiliates, the valuation of goodwill, the valuation and estimated useful lives of long-lived assets, estimates used in relation to tax liabilities and deferred taxes and legal contingencies are most critical to aid in fully understanding and evaluating our reported financial condition and results of operations. Discussion of each of these policies is contained under "Critical Accounting Policies" in Part II, Item 7 of our June 30, 2015 Annual Report on Form 10-K.

Recent Accounting Pronouncements

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

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RESULTS OF OPERATIONS

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

Prior year amounts for the three and nine months ended March 31, 2015 and 2014 have been revised. The following is a summary of the impact of revisions on net loss for the three and nine months ended March 31, 2015. See Note 1 to the unaudited Condensed Consolidated Financial Statements for further detail regarding these revisions:

	For the Periods Ended March 31, 2015	
	Three Months	Nine Months
	(Dollars in thousands)	
Net loss, as reported	$(3,710)	$(31,833)
Revisions:		
Deferred rent, pre-tax (1)	147	(42)
Previous out of period items, pre-tax (2)	—	1,586
Tax impact	(1,200)	(980)
Total revision impact	(1,053)	564
Net loss, as revised	$(4,763)	$(31,269)

(1) The Company recognizes rental expense on a straight-line basis at the time the leased space becomes available to the Company. During the fourth quarter of fiscal year 2015, the Company determined its deferred rent balance was understated. Accordingly, the unaudited Condensed Consolidated Financial Statements have been revised to correctly state its deferred rent balances and rent expense. This revision had no impact on cash provided by operations or cash and cash equivalents for the quarter.

(2) Also, in the fourth quarter of fiscal year 2015, the Company revised certain prior year amounts to correctly recognize understatements of self-insurance accruals. This revision had no impact on cash provided by operations or cash and cash equivalents for the quarter.

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Condensed Consolidated Results of Operations (Unaudited)

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

	For the Periods Ended March 31,											
	Three Months						Nine Months					
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	($ in millions)		% of Total Revenues		Basis Point (Decrease) Increase		($ in millions)		% of Total Revenues		Basis Point (Decrease) Increase	
Service revenues	$344.1	$352.0	77.7 %	77.5 %	20	(40)	$1,034.8	$1,067.1	77.1 %	77.6 %	(50)	(50)
Product revenues	86.7	91.1	19.6	20.1	(50)	10	273.0	274.6	20.3	20.0	30	20
Franchise royalties and fees	11.8	10.8	2.7	2.4	30	30	35.4	32.7	2.6	2.4	20	30
Cost of service (1)	217.0	216.8	63.1	61.6	150	—	651.5	659.7	63.0	61.8	120	50
Cost of product (2)	43.0	45.1	49.6	49.5	10	60	136.4	138.9	50.0	50.6	(60)	30
Site operating expenses	42.9	47.1	9.7	10.4	(70)	(20)	138.1	144.1	10.3	10.5	(20)	(30)
General and administrative	42.6	44.1	9.6	9.7	(10)	60	134.6	135.9	10.0	9.9	10	80
Rent	74.4	76.4	16.8	16.8	—	(30)	223.7	231.0	16.7	16.8	(10)	(20)
Depreciation and amortization	17.0	19.0	3.8	4.2	(40)	(180)	51.9	60.8	3.9	4.4	(50)	(110)
Interest expense	2.4	2.3	0.5	0.5	—	(80)	7.1	7.8	0.5	0.6	(10)	(50)
Interest income and other, net	1.0	0.4	0.2	0.1	10	—	3.0	1.3	0.2	0.1	10	—
Income taxes (3)	(6.3)	(8.0)	149.2	227.3	N/A	N/A	(4.9)	(16.8)	174.0	(658.3)	N/A	N/A
Equity in loss of affiliated companies, net of income taxes	—	0.3	—	0.1	(10)	10	14.8	11.9	1.1	0.9	20	120

(1) Computed as a percent of service revenues and excludes depreciation and amortization expense.
(2) Computed as a percent of product revenues and excludes depreciation and amortization expense.
(3)

Computed as a percent of loss before income taxes and equity in loss of affiliated companies. The income taxes basis point change is noted as not applicable (N/A) as the discussion within MD&A is related to the effective income tax rate.

Consolidated Revenues

Consolidated revenues primarily include revenues of company-owned salons, product and equipment sales to franchisees, and franchise royalties and fees. The following tables summarize revenues and same-store sales by concept as well as the reasons for the percentage change:

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2016	2015	2016	2015
	(Dollars in thousands)			
North American Value salons:				
SmartStyle	$132,671	$128,315	$392,195	$374,464
Supercuts	85,562	84,464	257,304	255,233
MasterCuts	26,441	29,301	81,453	89,030
Other Value	103,302	107,363	315,246	330,825
Total North American Value salons	347,976	349,443	1,046,198	1,049,552
North American Premium salons	69,451	76,817	215,628	234,603
International salons	25,138	27,700	81,336	90,243
Consolidated revenues	$442,565	$453,960	$1,343,162	$1,374,398
Percent change from prior year	(2.5)%	(3.7)%	(2.3)%	(2.4)%
Salon same-store sales (decrease) increase (1)	(0.4)%	(0.7)%	0.8 %	(0.1)%

(1) Same-store sales are calculated on a daily basis as the total change in sales for company-owned locations that were open on a specific day of the week during the current period and the corresponding prior period. Quarterly and year-to-date same-store sales are the sum of the same-store sales computed on a daily basis. Locations relocated within a one-mile radius are included in same-store sales as they are considered to have been open in the prior period. International same-store sales are calculated in local currencies to remove foreign currency fluctuations from the calculation.

Decreases in consolidated revenues were driven by the following:

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
Factor	2016	2015	2016	2015
Same-store sales	(0.4)%	(0.7)%	0.8 %	(0.1)%
Closed salons	(2.7)	(2.9)	(2.8)	(2.6)
New stores and conversions	0.5	0.6	0.6	0.7
Foreign currency	(0.7)	(1.3)	(1.3)	(0.6)
Other	0.8	0.6	0.4	0.2
	(2.5)%	(3.7)%	(2.3)%	(2.4)%

Same-store sales by concept are detailed in the table below:

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2016	2015	2016	2015
SmartStyle	1.7 %	0.3 %	4.0 %	2.0 %
Supercuts	2.9	1.4	2.7	1.3
MasterCuts	(5.6)	(5.1)	(3.8)	(3.8)
Other Value	0.5	(0.8)	0.4	(0.5)
North American Value same-store sales	1.0	(0.3)	1.9	0.5
North American Premium same-store sales	(6.2)	(2.8)	(3.4)	(2.8)
International same-store sales	(2.2)	0.2	(1.6)	0.3
Consolidated same-store sales	(0.4)%	(0.7)%	0.8 %	(0.1)%

The same-store sales (decrease) increase of (0.4)% and 0.8% during the three and nine months ended March 31, 2016, respectively, were due to decreases of 3.0% and 2.1%, respectively, in guest visits and increases of 2.6% and 2.9%, respectively, in average ticket. The shift of Easter from April 2015 to March 2016 positively impacted same-store sales by approximately 40 basis points during the three months ended March 31, 2016. The Company constructed (net of relocations) and closed 74 and 220 company-owned salons, respectively, during the twelve months ended March 31, 2016 and sold (net of buybacks) 77 company-owned salons to franchisees during the same period (2016 Net Salon Count Changes).

The same-store sales decreases of 0.7% and 0.1% during the three and nine months ended March 31, 2015, respectively, were due to decreases of 2.4% and 1.7% in guest visits, respectively, and increases of 1.7% and 1.6%, respectively, in average ticket. The Company constructed (net of relocations) and closed 94 and 269 company-owned salons, respectively, during the twelve months ended March 31, 2015 and sold (net of buybacks) 63 company-owned salons to franchisees during the same period (2015 Net Salon Count Changes).

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

Service Revenues

Decreases of $8.0 and $32.3 million in service revenues during the three and nine months ended March 31, 2016, respectively, were primarily due to the 2016 Net Salon Count Changes and foreign currency fluctuations, partly offset by same-store service sales increases of 0.3% and 0.5%, respectively. Increases in same-store service sales were primarily the result of 2.9% and 2.4% increases in average ticket, respectively, due to mix of service and pricing, partly offset by 2.6% and 1.9% decreases in same-store guest visits, respectively, during the three and nine months ended March 31, 2016.

Decreases of $15.2 and $32.8 million in service revenues during the three and nine months ended March 31, 2015, respectively, were primarily due to the 2015 Net Salon Count Changes. Also contributing to the decreases were same-store service sales decreases of 0.7% and 0.3%, respectively, during the three and nine months ended March 31, 2015. Decreases in same-store service sales were primarily the result of 1.5% and 1.0% decreases in same-store guest visits, respectively, partly offset by 0.8% and 0.7% increases in average ticket, respectively, during the three and nine months ended March 31, 2015. In addition, foreign currency negatively impacted service revenues by 1.3% and 0.6%, respectively, during the three and nine months ended March 31, 2015.

Product Revenues

Decreases of $4.4 and $1.6 million in product revenues during the three and nine months ended March 31, 2016, respectively, were due to same-store product sales (decreases) increases of (3.5)% and 2.0%, respectively, 2016 Net Salon Count Changes and foreign currency fluctuations. The same-store product sales results were primarily due to average ticket decreases of 4.5% and 1.0% and guest traffic increases of 1.0% and 3.0%, respectively, during the three and nine months ended March 31, 2016, respectively.

Decreases of $3.2 and $4.2 million in product revenues during the three and nine months ended March 31, 2015, respectively, were primarily due to the 2015 Net Salon Count Changes. Also impacting these decreases were same-store product sales

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(decreases) increases of (0.9)% and 0.6%, respectively during the three and nine months ended March 31, 2015. The same-store product sales results were primarily due to 0.3% and 2.1% increases in same-store guest visits, respectively, and 1.2% and 1.5% decreases in average ticket, respectively, during the three and nine months ended March 31, 2015. In addition, foreign currency negatively impacted product revenues by 1.2% and 0.5%, respectively, during the three and nine months ended March 31, 2015.

Royalties and Fees

Total franchised locations open at March 31, 2016 were 2,454 as compared to 2,273 at March 31, 2015. Increases of $1.0 and $2.7 million in royalties and fees for the three and nine months ended March 31, 2016, respectively compared to the prior year period were primarily due to the increased number of franchised locations and same-store sales increases at franchised locations.

Total franchised locations open at March 31, 2015 were 2,273 as compared to 2,143 at March 31, 2014. Increases of $0.8 and $2.9 million in royalties and fees for the three and nine months ended March 31, 2015, respectively compared to the prior year period were primarily due to the increased number of franchised locations and same-store sales increases at franchised locations.

Cost of Service

The 150 and 120 basis point increases in cost of service as a percent of service revenues during the three and nine months ended March 31, 2016, respectively, were primarily the result of higher health insurance costs, state minimum wage increases, stylist productivity, incentives expense and Easter Sunday pay.

During the three months ended March 31, 2015, cost of service as a percent of service revenues was flat primarily the result of improved stylist productivity and lower healthcare costs, offset by state minimum wage increases, higher field incentives as the Company anniversaried an incentive-lite year and lapping of certain one-time benefits. The 50 basis point increase in cost of service as a percent of service revenues during the nine months ended March 31, 2015 was primarily the result of higher field incentives as the Company anniversaried an incentive-lite year, state minimum wage increases and lapping of certain one-time benefits related to rebates, partly offset by improved stylist productivity and a decrease in health care costs.

Cost of Product

The 10 basis point increase in cost of product as a percent of product revenues during the three months ended March 31, 2016 was primarily due to higher promotional activity, partly offset by improved salon-level inventory management. The 60 basis point decrease in cost of product as a percent of product revenues during the nine months ended March 31, 2016 was primarily due to improved salon-level inventory management and mix impacts associated with the closure of unprofitable salons and lapping prior year commissions.

The 60 and 30 basis point increases in cost of product as a percent of product revenues during the three and nine months ended March 31, 2015 were primarily due to the lapping of rebates in the prior year. The increase in the nine months ended March 31, 2015 was also a result of the rate impact of higher sales commissions, partly offset by lapping a $0.9 million inventory write-down associated with standardizing plan-o-grams in the comparable prior period and cost savings associated with the closure of unprofitable salons.

Site Operating Expenses

Site operating expenses decreased by $4.2 and $5.9 million, or 70 and 20 basis points in site operating expenses as a percentage of consolidated revenues during the three and nine months ended March 31, 2016, respectively, primarily due to a net reduction in salon counts, lower self-insurance costs, cost savings associated with telephone and utilities, lapping certain costs in the prior year and foreign currency. The decrease during the nine months ended March 31, 2016 was also a result of timing of marketing expenses.

The decreases of $3.0 and $8.3 million, or 20 and 30 basis points in site operating expenses as a percentage of consolidated revenues during the three and nine months ended March 31, 2015, respectively, were primarily a result of timing of marketing expenses. The decrease during the nine months ended March 31, 2016 was also a result of cost savings associated with lower repairs, freight and utilities.

General and Administrative (G&A)

G&A decreased $1.5 and $1.4 million during the three and nine months ended March 31, 2016, respectively. The 10 basis point decrease in G&A as a percent of consolidated revenues during the three months ended March 31, 2016 was primarily driven by lapping certain costs in the prior year quarter, a gain on life insurance proceeds, cost savings and foreign currency, partly offset by planned strategic investments in Technical Education and higher legal fees. The 10 basis point increase in G&A as a percent of consolidated revenues during the nine months ended March 31, 2016 was primarily driven by higher legal fees, planned strategic investments in Technical Education, timing of incentive expenses and senior term modification fees, partly offset by lapping certain costs in the prior year, cost savings, a gain on life insurance proceeds and foreign currency.

The increase of $1.0 million, or 60 basis points in G&A as a percent of consolidated revenues during the three months ended March 31, 2015, was primarily driven by the higher incentive compensation levels as the Company anniversaried against an incentive-lite year and planned strategic investments in Asset Protection and Human Resources initiatives, partly offset by cost savings and lapping of certain professional fees incurred in the prior year. The $8.2 million or 80 basis point increase in G&A as a percent of consolidated revenues during the nine months ended March 31, 2015 was primarily driven by the higher incentive compensation levels as the Company anniversaried against an incentive-lite year, planned strategic investments in Asset Protection and Human Resource initiatives and the lapping of a favorable deferred compensation adjustment within our Unallocated corporate segment. These items were partly offset by a net legal settlement, cost savings, lapping of certain professional fees incurred in the prior year and a decrease in health care costs.

Rent

Rent expense decreased $2.0 and $7.3 million, or 0 and 10 basis points as a percent of consolidated revenues during the three and nine months ended March 31, 2016, respectively, due to a net reduction in salon counts and foreign currency fluctuations, partly offset by rent inflation and lease termination costs.

Rent expense decreased $4.3 and $7.9 million during the three and nine months ended March 31, 2015, respectively, due to salon closures and foreign currency fluctuations, partly offset by rent inflation. The 30 and 20 basis point decreases in rent expense as a percent of consolidated revenues during the three and nine months ended March 31, 2015 were due to salon closures, partly offset by negative leverage caused by same-store sales declines.

Depreciation and Amortization (D&A)

The decreases of $2.1 and $8.9 million, or 40 and 50 basis points, in D&A as a percent of consolidated revenues during the three and nine months ended March 31, 2016, respectively, were primarily due to a net reduction in salon counts. The decrease in D&A during the nine months ended March 31, 2016 was also due to reduced salon asset impairments in the North American Value and Premium segments.

The decreases of $9.3 and $16.0 million, or 180 and 110 basis points in D&A as a percent of consolidated revenues during the three and nine months ended March 31, 2015, respectively, were primarily due to lapping higher fixed asset impairment charges, lower fixed asset balances and store closures during the three and nine months ended March 31, 2015. In addition, prior comparable periods included accelerated depreciation expense associated with a leased building in conjunction with the Company's headquarters consolidation, recorded in our Unallocated Corporate segment, and higher depreciation expense related to the Company's POS and salon workstations that were installed in the fourth quarter of fiscal year 2013.

Interest Expense

Interest expense increased (decreased) $0.1 and $(0.7) million, or 0 and (10) basis points as a percent of consolidated revenues for the three and nine months ended March 31, 2016. The decrease during the nine months ended March 31, 2016 was due to the settlement of the $172.5 million convertible senior notes in July 2014.

The decreases of $4.0 and $8.1 million, or 80 and 50 basis points in interest expense as a percent of consolidated revenues for the three and nine months ended March 31, 2015, respectively, were primarily due to the settlement of the $172.5 million convertible senior notes in July 2014, partly offset by interest on the $120.0 million Senior Term Notes issued in November 2013.

Interest Income and Other, net

The $0.6 and $1.7 million, or 10 basis point increases in interest income and other, net as a percent of consolidated revenues during the three and nine months ended March 31, 2016 were both primarily due to lapping a prior year foreign currency loss and gain on salon assets sold.

Interest income and other, net as a percent of consolidated revenues during the three and nine months ended March 31, 2015 was flat to both comparable prior periods.

Income Taxes

During the three and nine months ended March 31, 2016, the Company recognized tax expense of $6.3 and $4.9 million, respectively, with corresponding effective tax rates of 149.2% and 174.0%. During the three and nine months ended March 31, 2015, the Company recognized tax expense of $8.0 and $16.8 million, respectively, with corresponding effective tax rates of 227.3% and (658.3)%.

The recorded income tax provision and effective tax rates for the three and nine months ended March 31, 2016 and 2015 were different than what would normally be expected due to the impact of the deferred tax valuation allowance. The majority of the tax expense related to non-cash tax expense for tax benefits on certain indefinite-lived assets the Company cannot recognize for reporting purposes. Income tax expense for the three and nine months ended March 31, 2016 includes non-cash expense of $5.3 and $3.4 million, respectively, related to this matter. This non-cash impact will continue as long as the Company has a valuation allowance against most of its deferred tax assets and is expected to approximate $8.0 million of expense for fiscal year 2016.

Additionally, the Company is currently paying taxes in Canada and certain states in which it has profitable entities.

See Note 5 to the unaudited Condensed Consolidated Financial Statements.

Equity in Loss of Affiliated Companies, Net of Income Taxes

The equity in loss of affiliated companies was $0.0 and $14.8 million during the three and nine months ended March 31, 2016, respectively. During the three months ended March 31, 2016, the Company did not record any losses related to EEG as it has recorded losses equal to the Company's investment in EEG. The equity in loss of affiliated companies of $14.8 million for the nine months ended March 31, 2016 was primarily the result of the Company's share of EEG's net losses and the Company's other than temporary non-cash impairment charge. See Note 2 to the unaudited Condensed Consolidated Financial Statements.

During the three months ended March 31, 2015, the Company recognized $0.3 million of equity in loss of affiliated companies for the Company's share of EEG's net loss. The equity in loss of affiliated companies of $11.9 million during the nine months ended March 31, 2015 was primarily due to the Company's portion of the non-cash deferred tax asset valuation allowance that was recorded by EEG and the Company's other than temporary non-cash impairment charge. See Note 2 to the unaudited Condensed Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity

Funds generated by operating activities, available cash and cash equivalents, and our borrowing agreements are our most significant sources of liquidity. We believe these sources of liquidity will be sufficient to sustain operations and to finance strategic initiatives for the next twelve months. However, in the event our liquidity is insufficient, we may be required to limit or delay our strategic initiatives. There can be no assurance we will continue to generate cash flows at or above current levels.

As of March 31, 2016, cash and cash equivalents were $141.1 million, with $127.8, $4.8 and $8.5 million within the United States, Canada, and Europe, respectively. During the three months ended March 31, 2016, $1.8 million of cash was returned to the United States from Canada through the repayment of intercompany notes.

In December 2015, the Company exchanged its $120.0 million 5.75% senior notes due December 2017 for $123.0 million 5.5% senior notes due December 2019 (Senior Term Notes), providing reasonably priced liquidity for an additional two years. See Note 8 to the unaudited Condensed Consolidated Financial Statements.

The Company has a $200.0 million five-year senior unsecured revolving credit facility with a syndicate of banks that expires in June 2018. In January 2016, the Company amended its revolving credit facility, primarily reducing the borrowing capacity from $400.0 to $200.0 million. This amendment was driven by the Company's desire to right-size the credit facility once the senior term notes had been extended to December 2019 and to reduce unused commitment fees. As of March 31, 2016, the Company had no outstanding borrowings under the facility, outstanding standby letters of credit of $1.6 million and unused available credit of $198.4 million.

Our ability to access our revolving credit facility is subject to our compliance with the terms and conditions of such facility including a maximum leverage ratio, a minimum fixed charge ratio and other covenants and requirements. At March 31, 2016, we were in compliance with all covenants and other requirements of our credit agreement and senior notes.

Uses of Cash

The Company has a capital allocation policy that focuses on three key principles. These principles focus on preserving a strong balance sheet to enhance operating flexibility, preventing unnecessary dilution so the benefits of future value accrue to shareholders and deploying capital to the highest and best use by optimizing the tradeoff between risk and after-tax returns.

During the nine months ended March 31, 2016, the Company repurchased approximately 7.4 million shares of common stock for $97.0 million at an average share price, excluding transaction costs, of $13.17.

Cash Flows

Cash Flows from Operating Activities

During the nine months ended March 31, 2016, cash provided by operating activities of $38.9 million decreased by $33.4 million compared to the prior comparable period, due to higher inventory purchases, enhanced incentive payouts in the current year, and timing of accounts payable.

During the nine months ended March 31, 2015, cash provided by operating activities of $72.3 million decreased by $11.4 million compared to the prior comparable period, primarily as a result of changes in revenues and operating income during the nine months ended March 31, 2015 and a change in cash from working capital.

Cash Flows from Investing Activities

During the nine months ended March 31, 2016, cash used in investing activities of $11.3 million was primarily for capital expenditures of $22.7 million, partly offset by a change in restricted cash of $7.0 million, cash proceeds from company-owned life insurance policies of $2.9 million and cash proceeds from the sale of salon assets of $1.5 million.

During the nine months ended March 31, 2015, cash used in investing activities of $27.7 million was primarily for capital expenditures of $29.7 million, partly offset by cash proceeds from sale of salon assets of $2.0 million.

Cash Flows from Financing Activities

During the nine months ended March 31, 2016, cash used in financing activities of $97.7 million was for $97.0 million of common stock repurchases and the purchase of an additional 24% ownership interest in Roosters MGC International LLC for $0.7 million. During the nine months ended March 31, 2015, cash used in financing activities of $206.6 million was primarily for repayments of long-term debt of $173.7 million and repurchases of common stock of

$32.9 million.

Financing Arrangements

See Note 8 of the Notes to the unaudited Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 and Note 7 of the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2015, for additional information regarding our financing arrangements.

Debt to Capitalization Ratio

Our debt to capitalization ratio, calculated as total debt as a percentage of total debt and shareholders’ equity at fiscal quarter end, were as follows:

As of	Debt to Capitalization		Basis Point Increase (Decrease) (1)	
March 31, 2016	18.9	%	280	
June 30, 2015	16.1	%	(1,300	)

(1) Represents the basis point change in debt to capitalization as compared to prior fiscal year end (June 30).

The 280 basis point increase in the debt to capitalization ratio as of March 31, 2016 compared to June 30, 2015, is primarily due to the repurchase of approximately 7.4 million shares of common stock for $97.0 million during the nine months ended March 31, 2016.

The basis point improvement in the debt to capitalization ratio as of June 30, 2015 compared to June 30, 2014 was primarily due to the $173.7 million repayment of long-term debt, which included $172.5 million for the repayment of the convertible notes. This was partly offset by the repurchase of 3.1 million shares of common stock for $47.9 million.

Share Repurchase Program

In May 2000, the Company’s Board of Directors approved a stock repurchase program. In fiscal year 2016, the Company's Board of Directors authorized an additional $100.0 million for share repurchases resulting in a total of $450.0 million authorized at March 31, 2016. All repurchased shares become authorized but unissued shares of the Company. This repurchase program has no stated expiration date. During the three and nine months ended March 31, 2016, the Company repurchased 1,392,058 shares for $20.0 million and 7,355,052 shares for $97.0 million, respectively. At March 31, 2016, $64.0 million remained outstanding under the approved stock repurchase program.

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

This Quarterly Report on Form 10-Q, as well as information included in, or incorporated by reference from, future filings by the Company with the Securities and Exchange Commission and information contained in written material, press releases and oral statements issued by or on behalf of the Company contains or may contain “forward-looking statements” within the meaning of the federal securities laws, including statements concerning anticipated future events and expectations that are not historical facts. 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 fac could affect the Company’s actual results and cause such results to differ materially from those expressed in forward-looking statements. These factors include the continued ability of the Company to execute on our strategy and build on the foundational initiatives that we have implemented; the success of our stylists and our ability to attract, train and retain talented stylists; changes in regulatory and statutory laws; changes in tax rates; the effect of changes to healthcare laws; our ability to manage cyber threats and protect the security of sensitive information about our guests, employees, vendors or Company information; reliance on management information systems; reliance on external vendors; changes in distribution channels of manufacturers; financial performance of our franchisees; internal control over the accounting for leases; competition within the personal hair care industry; changes in interest rates and foreign currency exchange rates; failure to standardize operating processes across brands; the ability of the Company to maintain satisfactory relationships with certain companies and suppliers; the continued ability of the Company to implement cost reduction initiatives; compliance with debt covenants; changes in economic conditions; financial performance of Empire Education Group; changes in consumer tastes and fashion trends; or other factors not listed above. Additional information concerning potential factors that could affect future financial results is set forth in the Company’s Annual Report on Form 10-K for the year ended June 30, 2015. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. However, your attention is directed to any further disclosures made in our subsequent annual and periodic reports filed or furnished with the SEC on Forms 10-K, 10-Q and 8-K and Proxy Statements on Schedule 14A.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There has been no material change to the factors discussed within Part II, Item 7A in the Company’s June 30, 2015 Annual Report on Form 10-K.

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 Securities Exchange Act of 1934, as amended (the "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 (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosure.

Management, with the participation of the CEO and CFO, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-5(e) and 15d-15(e) promulgated under the Exchange Act) as of the end of the period. Based on their evaluation, our CEO and CFO concluded that our disclosure controls and procedures continue to be ineffective as of March 31, 2016 due to the material weakness previously reported in Item 9A of our Form 10-K for the fiscal year ended June 30, 2015, which has not yet been fully remediated.

As disclosed in our Form 10-K for the fiscal year ended June 30, 2015, the Company did not design and maintain effective controls over the accounting for leases. Specifically, controls were not designed at a level of precision or rigor sufficient to identify potential errors resulting from misinterpretation of key lease terms and dates, rent holidays and rent escalation clauses and related accounting rules. This material weakness resulted in errors in our accounting for leases and contributed to the revision of previously issued financial statements as more fully described in the Form 10-K for the fiscal year ended June 30, 2015. Until the material weakness is fully remediated, the Company could have material misstatements to the non-cash deferred rent account, and related accounts and disclosures which would not be prevented or detected.

Due to the material weakness reported as of June 30, 2015, management performed additional analyses and procedures to ensure our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q were presented fairly in conformity with generally accepted accounting principles and fairly present in all material respects our financial position, results of operations and cash flows for the periods presented.

Changes in Internal Controls over Financial Reporting

There were no changes in our internal control over financial reporting during the most recent fiscal quarter except for those related to the remediation of controls over the accounting for leases, as described below, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Plan for Remediation

The Company is continuing to implement changes to our internal control over financial reporting to remediate the identified control deficiencies. We have implemented certain changes during the three months ended March 31, 2016 on the following remediation steps disclosed in Item 9A of our Form 10-K for the fiscal year ended June 30, 2015 to strengthen our overall internal control over accounting for leases:

- Enhanced rigor around identification and review of key lease terms and dates,
- Implemented additional monitoring controls to ensure compliance with accounting guidance,
- Developed and implemented accounting software to enhance the use of systematic processes.

We are continuing to take action on the following remediation step disclosed in Item 9A of our Form 10-K for the fiscal year ended June 30, 2015 to strengthen our overall internal control over accounting for leases:

- Review and enhance, as appropriate, organizational structure including training and supervision of individuals responsible for lease accounting.

The Company is committed to maintaining a strong internal control environment and believes these remediation efforts will represent significant improvements in our controls over the accounting for leases. Until the remediation steps set forth above have been fully implemented, tested and deemed to be designed and operating effectively, the material weakness described above will continue to exist and the Company could record material misstatements to the non-cash deferred rent account, related accounts and disclosures.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Except as updated in the Company’s Quarterly Report on Form 10-Q for the quarter ended December 31, 2015 and as set forth below, there have been no material changes to the risk factors affecting our business since those presented in our Annual Report on Form 10-K, Part I, Item 1A, for the fiscal year ended June 30, 2015. The following is not an exclusive list of all risk factors the Company faces. You should consider the other risks and uncertainties discussed under Part I, Item 1A, Risk Factors within the Company’s 2015 Annual Report on Form 10-K and in any of the Company’s subsequent Securities and Exchange Commission filings.

Our business is based on the success of our stylists. It is important for us to attract, train and retain talented stylists and salon leaders.

Guest loyalty is highly dependent upon the stylists who serve our guests. In order to profitably grow our business, it is important for us to attract, train and retain talented stylists and salon leaders and to adequately staff our salons. Because the salon industry is highly-fragmented and comprised of many independent operators, the market for stylists is highly competitive. In addition, in some markets we have experienced a shortage of qualified stylists. Offering competitive wages, benefits, education and training programs are important elements to attracting and retaining great stylists. In addition, due to challenges the for-profit education industry is facing, cosmetology schools, including our joint venture EEG, have experienced declines in enrollment, revenues and profitability in recent years. If the cosmetology school industry sustains further declines in enrollment or some schools close entirely, we expect that we would have increased difficulty staffing our salons in some markets. If we are not successful in attracting, training and retaining stylists or in staffing our salons, our same-store sales could decline and our results of operations could be adversely affected.

If Empire Education Group is unsuccessful in executing its business plan or enrollment, revenue and profitability declines continue for the for-profit secondary educational market, our financial results may be affected.

We have a joint venture arrangement with Empire Education Group (EEG), an operator of accredited cosmetology schools. Due to significantly lower financial projections resulting from continued declines in EEG’s enrollment, revenue and profitability we recorded a $13.0 million non-cash impairment charge in the quarter ended December 31, 2015, resulting in a full-impairment of our investment. If EEG is unsuccessful in executing its business plan, or if economic, regulatory and other factors, including declines in enrollment, revenue and profitability continue for the for-profit secondary education market, our financial results may be affected by certain potential liabilities related to this joint venture.

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

In May 2000, the Company’s Board of Directors approved a stock repurchase program. In fiscal year 2016, the Company's Board of Directors authorized an additional $100.0 million for share repurchases resulting in a total of $450.0 million authorized at March 31, 2016. All repurchased shares become authorized but unissued shares of the Company. This repurchase program has no stated expiration date. The timing and amounts of any repurchases depend on many factors, including the market price of our common stock and overall market conditions. During the three and nine months ended March 31, 2016, the Company repurchased 1,392,058 shares for $20.0 million and 7,355,052 shares for $97.0 million, respectively. As of March 31, 2016, a total accumulated 18.1 million shares have been repurchased for $386.0 million. At March 31, 2016, $64.0 million remained outstanding under the approved stock repurchase program.

The following table shows the stock repurchase activity by the Company or any “affiliated purchaser” of the Company, as defined in Rule 10b-18(a)(3) under the Exchange Act, by month for the three months ended March 31, 2016:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs (in thousands)
1/1/16 - 1/31/16	544,513	14.67	17,255,858	76,021
2/1/16 - 2/29/16	580,386	13.76	17,836,244	68,032
3/1/16 - 3/31/16	267,159	14.95	18,103,403	64,037
Total	1,392,058	$ 14.35	18,103,403	$ 64,037

Item 6. Exhibits

Exhibit 31.1	President and Executive Officer of Regis Corporation: Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Executive Vice President and Chief Financial Officer of Regis Corporation: Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32	Chief Executive Officer and Chief Financial Officer of Regis Corporation: Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 101	The following financial information from Regis Corporation's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2016, formatted in Extensible Business Reporting Language (XBRL) and filed electronically herewith: (i) the Condensed Consolidated Balance Sheets; (ii) the Condensed Consolidated Statements of Earnings; (iii) the Condensed Consolidated Statements of Comprehensive Income; (iv) the Condensed Consolidated Statements of Cash Flows; and (v) the Notes to the Consolidated Financial Statements.

SIGNATURES

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

	REGIS CORPORATION
Date: April 28, 2016	By: /s/ Steven M. Spiegel Steven M. Spiegel Executive Vice President and Chief Financial Officer (Signing on behalf of the registrant and as Principal Financial Officer)
Date: April 28, 2016	By: /s/ Kersten D. Zupfer Kersten D. Zupfer Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer)

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