REGIS CORP
Form 10-K
August 29, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended June 30, 2007

OR

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

For the transition period from to

Commission file number 0-11230

Regis Corporation

(Exact name of Registrant as specified in its charter)

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $0.05 per share	New York Stock Exchange
Preferred Share Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes x No o

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

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o

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

The aggregate market value of the voting common equity held by non-affiliates computed by reference to the price at which common equity was last sold as of the last business day of the Registrant s most recently completed second fiscal quarter, December 31, 2006, was approximately $1,716,300,000. The Registrant has no non-voting common equity.

As of August 21, 2007, the Registrant had 44,157,259 shares of Common Stock, par value $0.05 per share, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s definitive Proxy Statement for the annual meeting of shareholders to be held on October 23, 2007 (the 2007 Proxy Statement) (to be filed pursuant to Regulation 14A within 120 days after the Registrant s fiscal year-end of June 30, 2007) are incorporated by reference into Part III.

PART I

Item 1. Business

Regis Corporation, the Registrant, together with its subsidiaries, is referred to herein as the Company.

(a) General Development of Business

In 1922, Paul and Florence Kunin opened Kunin Beauty Salon, which quickly expanded into a chain of value priced salons located in department stores. In 1958, the chain was purchased by their son and renamed Regis Corporation. In recent years, the Company purchased Hair Club for Men and Women. During fiscal year 2007, the Company entered into an agreement to contribute its 51 accredited cosmetology schools to Empire Education Group, Inc. The transaction closed on August 1, 2007 (fiscal year 2008). Additionally, the Company continues to acquire hair and retail product salons. Regis Corporation is listed on the NYSE under the ticker symbol RGS. Discussions of the general development of the business take place throughout this Annual Report on Form 10-K.

(b) Financial Information about Segments

Segment data for the years ended June 30, 2007, 2006 and 2005 are included in Note 11 to the Consolidated Financial Statements in Part II, Item 8, of this Form 10-K.

(c) Narrative Description of Business

The following topical areas are discussed below in order to aid in understanding the Company and its operations:

Background:

Based in Minneapolis, Minnesota, the Company s primary business is owning, operating and franchising hair and retail product salons. In addition to the primary hair and retail product salons, the Company owns Hair Club for Men and Women, a provider of hair restoration services and operates beauty school locations in North America and internationally. As of June 30, 2007, the Company owned, franchised or held ownership interests in over 12,400 worldwide locations. The Company s locations consisted of 11,881 company-owned and franchise salons, 90 hair restoration centers, 56 beauty schools and approximately 400 locations in which the Company maintains an ownership interest. Each of the Company s salon concepts offer similar salon products and services and serve the mass market consumer marketplace. The Company s beauty school locations offer similar educational services to students. Services are marketed to potential students pursuing post-secondary education alternatives. The Company s hair restoration centers offer three hair restoration solutions; hair systems, hair transplants and hair therapy, which are targeted at the mass market consumer.

The Company is organized to manage its operations based on significant lines of business salons, beauty schools and hair restoration centers. Salon operations are managed based on geographical location North America and international. The Company s North American salon operations are comprised of 7,658 company-owned salons and 2,168 franchise salons operating in the United States, Canada and Puerto Rico. The Company s international operations are comprised of 481 company-owned salons and 1,574 franchise salons operating throughout Europe, primarily in the United Kingdom, France, Italy and Spain. The Company s worldwide salon locations operate primarily under the trade names of Regis Salons, MasterCuts, Trade Secret, SmartStyle, Supercuts, Cost Cutters, Jean Louis David, and Vidal Sassoon. The Company s beauty school operations are managed in aggregate, regardless of geographical location, and include 52 locations in the United States and four locations in the United Kingdom. The Company s hair restoration centers are located in the United States and Canada. During fiscal year 2007, the number of customer visits at the Company s company-owned salons approximated 109 million. The Company had approximately 62,000 corporate employees worldwide during fiscal year 2007.

On August 1, 2007 (fiscal year 2008), the Company contributed 51 of its accredited cosmetology schools to Empire Education Group, Inc., creating the largest beauty school operator in North America. Upon completion of the transaction, the Company will own a 49.0 percent minority interest in Empire Education Group, Inc. The investment will be accounted for under the equity method. The Company recorded an impairment charge related to this transaction of $23.0 million ($19.6 million net of tax) during the three months ended March 31, 2007.

The Company realized that in order to maximize the potential of the beauty school division, it would be necessary to invest heavily in information technology platforms and management. The Company believes merging with Empire is the most efficient and accretive way to achieve its goals. This transaction leverages Empire Education Group, Inc. s management expertise, while enabling the Company to maintain a vested interest in the beauty school industry. The consolidated new Empire Education Group, Inc. will own 88 accredited cosmetology schools with revenues of approximately $130 million annually and will be overseen by the current Empire management team.

The Company expects the integration of the Regis schools into Empire Education Group, Inc. to take several months and that there will be significant integration costs. Once the integration is complete, the Company expects to share in significant synergies and operating improvements. Long-term, the Company expects this transaction to be very accretive and to add significantly more shareholder value than the $23.0 million ($19.6 million net of tax) impairment charge. Refer to Note 9 to the Consolidated Financial Statements for additional information.

Industry Overview:

Management estimates that annual revenues of the hair care industry are approximately $53 billion in the United States and approximately $150 billion worldwide. Management estimates that the Company holds approximately two percent of the worldwide market. The hair salon, beauty school and hair restoration markets are each highly fragmented, with the vast majority of locations independently owned and operated. However, the influence of salon chains on these markets, both franchise and company-owned, has increased substantially. Management believes that salon chains will continue to have a significant influence on these markets and will continue to increase their presence. As the Company is the principal consolidator of these chains in the hair care industry, it prevails as an established exit strategy for them, which affords the Company numerous opportunities for continued selective acquisitions. Management believes the demand for salon services, professional products and hair restoration services will continue to increase as the overall population continues to focus on personal health and beauty, as well as convenience.

Salon Business Strategy:

The Company s goal is to provide high quality, affordable hair care services and products to a wide range of mass market consumers, which enables the Company to expand in a controlled manner. The key elements of the Company s strategy to achieve these goals are taking advantage of (1) growth opportunities, (2) economies of scale and (3) centralized control over salon operations in order to ensure (i) consistent, quality services and (ii) a superior selection of high quality, professional products. Each of these elements is discussed below.

Salon Growth Opportunities. The Company s salon expansion strategy focuses on organic (new salon construction and same-store sales growth of existing salons) and salon acquisition growth.

Organic Growth. The Company executes its organic growth strategy through a combination of new construction of company-owned and franchise salons, as well as same-store sales increases. The square footage requirements related to opening new salons allow the Company great flexibility in securing real estate for new salons as the Company has small or flexible square footage requirements for its salons. The Company s long-term outlook for organic expansion remains strong. The Company has at least one salon in all major cities in the U.S. and has penetrated every viable U.S. market with at least one concept. However, because the Company has a variety of concepts, it can place several of its salons within any given market. The Company plans to continue expansion not only in North America, but also in the United Kingdom and throughout continental Europe. In April 2007, the Company entered the Asian market through an investment in a privately held Japanese company that operates salons in Asia. Refer to Note 3 to the Consolidated Financial Statements for additional information.

A key component to successful North American and international organic growth relates to site selection, as discussed in the following paragraphs.

Salon Site Selection. The Company s salons are located in high-traffic locations, such as: regional shopping malls, strip centers, lifestyle centers, Wal-Mart Supercenters, high-street locations and department stores. The Company is an attractive tenant to landlords due to its financial strength, successful salon operations and international recognition. In evaluating specific locations for both company-owned and franchise salons, the Company seeks conveniently located, visible sites which allow customers adequate parking and quick and easy location access. Various other factors are considered in evaluating sites, including area demographics, availability and cost of space, the strength of the major retailers within the area, location and strength of competitors, proximity of other company-owned and franchise salons, traffic volume, signage and other leasehold factors in a given center or area.

Because the Company s various salon concepts target slightly different mass market customer groups, more than one of the Company s salon concepts may be located in the same real estate development without impeding sales of either concept. As a result, there are numerous leasing opportunities for all of its salon concepts.

While same-store sales growth plays an important role in the Company s organic growth strategy, it is not critical to achieving the Company s long-term revenue growth objectives. New salon construction and salon acquisitions (described below) are expected to generate low-double-digit revenue growth. The trend for the past several years has been declining visitation patterns due to fashion trends and increasing average ticket price resulting in flat to low-single-digit same-store sales growth. The Company expects fiscal year 2008 same-store sales growth to be consistent with this trend.

Pricing is a factor in same-store sales growth. The Company actively monitors the prices charged by its competitors in each market and makes every effort to maintain prices which remain competitive with prices of other salons offering similar services. Historically, the Company has not depended on price increases to drive same-store sales growth. However, price increases are considered on a market-by-market basis and are established based on local market conditions.

Salon Acquisition Growth. In addition to organic growth, another key component of the Company s growth strategy is the acquisition of salons. With an estimated two percent world wide market share, management believes the opportunity to continue to make selective acquisitions persists.

Over the past thirteen years, the Company has acquired 7,601 locations, expanding in both North America and internationally. When contemplating an acquisition, the Company evaluates the existing salon or salon group with respect to the same characteristics as discussed above in conjunction with site selection for constructed salons (conveniently located, visible, strong retailers within the area, etc.). The Company generally acquires mature strip center locations, which are systematically integrated within the salon concept that it most clearly emulates.

In addition to adding new salon locations each year, the Company has an ongoing program of remodeling its existing salons, ranging from redecoration to substantial reconstruction. This program is implemented as management determines that a particular location will benefit from remodeling, or as required by lease renewals. A total of 155 and 170 salons were remodeled in fiscal years 2007 and 2006, respectively.

Recent Salon Additions. During fiscal year 2007, net of closures and relocations, the Company added approximately 550 salons through new construction and acquisitions. The Company constructed 673 new salons (420 company-owned and 253 franchise). Additionally, the Company acquired 354 company-owned salons, including 97 franchise salon buybacks. The Company s largest fiscal year 2007 salon acquisition consisted of 175 Fiesta Hair salons.

During fiscal year 2006, net of closures and relocations, the Company added over 450 salons through new construction and acquisitions. The Company constructed 788 new salons (531 company-owned and 257 franchise). Additionally, the Company acquired 290 salons, including 142 franchise salon buybacks. The Company s largest fiscal year 2006 salon acquisition included 105 Famous Hair salons.

During fiscal year 2005, net of closures and relocations, the Company added over 700 salons through new construction and acquisitions. The Company constructed 810 new salons (525 company-owned and 285 franchise). Additionally, the Company acquired 451 salons, including 139 franchise salon buybacks. The Company s most significant fiscal year 2005 acquisitions included 129 TGF salons and 67 HeadStart salons.

Salon Closures. The Company evaluates its salon performance on a regular basis. Upon evaluation, the Company may close a salon for operational performance or real estate issues. In either case, the closures generally occur at the end of a lease term and typically do not require significant lease buyouts. In addition, during the Company s acquisition evaluation process, the Company may identify acquired salons that do not meet operational or real estate requirements. Generally, at the time of acquisition limited value is allocated to these salons, which are usually closed within the first year.

During fiscal year 2007, 303 salons were closed, including 135 company-owned salons and 168 franchise salons (excluding 97 franchise buybacks).

During fiscal year 2006, 407 salons were closed, including 178 company-owned salons and 229 franchise salons (excluding 142 franchise buybacks). In the fourth quarter, the Company decided to close 64 company-owned salon locations and refocus efforts on improving the sales and operations of nearby salons. The salon closures resulted in an aggregate $4.1 million in lease termination fees (recorded within rent expense in the Consolidated Statement of Operations). However, it is not the Company s typical practice to incur such fees upon salon closure.

During fiscal year 2005, 315 salons were closed, including 147 company-owned salons and 168 franchise salons (excluding 139 franchise buybacks).

Economies of Scale. Management believes that due to its size and number of locations, the Company has certain advantages which are not available to single location salons or small chains. The Company has developed a comprehensive point of sale system to accumulate and monitor service and product sales trends, as well as assist in payroll and cash management. Economies of scale are realized through the centralized support system offered by the home office. Additionally, due to its size, the Company has numerous financing and capital expenditure alternatives, as well as the benefits of buying retail products, supplies and salon fixtures directly from manufacturers. Furthermore, the Company can offer employee benefit programs, training and career path opportunities that are often superior to its smaller competitors.

Centralized Control Over Salon Operations. The Company manages its expansive salon base through a combination of area and regional supervisors, corporate salon directors and chief operating officers. Each area supervisor is responsible for the management of approximately ten to 12 salons. Regional supervisors oversee the performance of five to seven area supervisors or approximately 60 to 80 salons. Salon directors manage approximately 200 to 300 salons while chief operating officers are responsible for the oversight of an entire salon concept. This operational hierarchy is key to the Company s ability to expand successfully. In addition, the Company has an extensive training program, including the production of training DVDs for use in the salons, to ensure its stylists are knowledgeable in the latest haircutting and fashion trends and provide consistent quality hair care services. Finally, the Company tracks salon activity for all of its company-owned salons through the utilization of daily sales detail delivered from the salons point of sale system. This information is used to reconcile cash on a daily basis and is also reported to the Company s Chief Executive Officer, who is also the Chief Operating Decision Maker.

Consistent, Quality Service. The Company is committed to meeting its customers hair care needs by providing competitively priced services and products with professional and knowledgeable stylists. The Company s operations and marketing emphasize high quality services to create customer loyalty, to encourage referrals and to distinguish the Company s salons from its competitors. To promote quality and consistency of services provided throughout the Company s salons, the Company employs full and part-time artistic directors whose duties are to train salon stylists in current styling trends. The major services supplied by the Company s salons are haircutting and styling, hair coloring and waving, shampooing and conditioning. During fiscal years 2007, 2006, and 2005, the percentage of company-owned service revenues attributable to each of these services was as follows:

	2007	2006	2005
Haircutting and styling (including shampooing & conditioning)	72 %	72 %	72 %
Hair coloring	18	18	18
Hair waving	4	5	5
Other	6	5	5
	100 %	100 %	100 %

High Quality, Professional Products. The Company s salons merchandise nationally recognized hair care and beauty products as well as a complete line of private label products sold under the Regis, MasterCuts and Cost Cutters labels. The retail products offered by the Company are intended to be sold only through professional salons. The top selling brands include Paul Mitchell, Biolage, Redken, Nioxin, Tigi Bedhead, OPI Nail and the Company s various private label brands.

The Company has launched a product diversion website for the entire industry to use as a measurement tool to track diversion. Diversion involves the selling of salon exclusive hair care products to unauthorized distribution channels such as discount retailers and pharmacies. Diversion is harmful to the consumer because diverted product can be old, tainted or damaged. It is also harmful to the salon owners and stylists because their credibility with the consumer is brought into question.

The Company has the most comprehensive assortment of retail products in the industry, with an estimated share of the North American retail beauty product market of up to 15 percent. Although the Company constantly strives to carry an optimal level of inventory in relation to consumer demand, it is more economical for the Company to have a higher amount of inventory on hand than to run the risk of being under stocked should demand prove higher than expected. The extended shelf life and lack of seasonality related to the beauty products allows the cost of carrying inventory to be relatively low and lessens the importance of inventory turnover ratios. The Company s primary goal is to maximize revenues rather than inventory turns.

The retail portion of the Company s business complements its salon services business. The Company s stylists and beauty consultants are compensated and regularly trained to sell hair care and beauty products to their customers. Additionally, customers are enticed to purchase products after a stylist demonstrates its effect by using it in the styling of the customer s hair.

Salon Concepts:

The Company s salon concepts focus on providing high quality hair care services and professional products, primarily to the middle consumer market. The Company s North American salon operations consist of 9,826 salons (including 2,168 franchise salons), operating under five concepts, each offering attractive and affordable hair care products and services in the United States, Canada and Puerto Rico. The Company s international salon operations consist of 2,055 hair care salons, including 1,574 franchise salons, located throughout Europe, primarily in the United Kingdom, France, Italy and Spain. Under the table below, the number of new salons expected to be opened within the upcoming fiscal year is discussed.

In addition to these openings, the Company typically acquires several hundred salons each year. The number of acquired salons, and the concept under which the acquisitions will fall, vary based on the acquisition opportunities which develop throughout the year.

Salon Development

The table on the following pages set forth the number of system wide salons (company-owned and franchise) opened at the beginning and end of each of the last five years, as well as the number of salons opened, closed, relocated, converted and acquired during each of these periods.

COMPANY-OWNED AND FRANCHISE LOCATION SUMMARY

NORTH AMERICAN SALONS:	2007	2006	2005	2004	2003
REGIS SALONS					
Open at beginning of period	1,079	1,093	1,085	1,095	1,016
Salons constructed	17	38	39	33	53
Acquired	49	14	13	4	72
Less relocations	(14)	(16)	(14)	(10)	(12)
Salon openings	52	36	38	27	113
Conversions	(1)		(1)	(2)	(2)
Salons closed	(31)	(50)	(29)	(35)	(32)
Total, Regis Salons	1,099	1,079	1,093	1,085	1,095
MASTERCUTS					
Open at beginning of period	642	636	604	590	551
Salons constructed	15	32	47	34	47
Acquired			2	3	
Less relocations	(12)	(8)	(13)	(9)	(6)
Salon openings	3	24	36	28	41
Conversions		(2)	1	1	2
Salons closed	(16)	(16)	(5)	(15)	(4)
Total, MasterCuts	629	642	636	604	590
TRADE SECRET					
Company-owned salons:					
Open at beginning of period	615	597	549	517	490
Salons constructed	20	33	56	26	34
Acquired	3	2	23	12	10
Franchise buybacks		5		2	
Less relocations	(11)	(6)	(17)	(5)	(4)
Salon openings	12	34	62	35	40
Conversions	1	1		1	
Salons closed	(15)	(17)	(14)	(4)	(13)
Total company-owned salons	613	615	597	549	517
Franchise salons:					
Open at beginning of period	19	24	24	25	26
Salons constructed				1	
Salon openings				1	
Franchise buybacks		(5)		(2)	
Salons closed					(1)
Total franchise salons	19	19	24	24	25
Total, Trade Secret	632	634	621	573	542

	2007	2006	2005	2004	2003
SMARTSTYLE/COST CUTTERS IN WAL-MART					
Company-owned salons:					
Open at beginning of period	1,739	1,497	1,263	1,033	861
Salons constructed	242	215	194	174	168
Acquired					2
Franchise buybacks	21	31	45	61	12
Less relocations	(2)	(2)	(1)		(5)
Salon openings	261	244	238	235	177
Conversions		1			
Salons closed		(3)	(4)	(5)	(5)
Total company-owned salons	2,000	1,739	1,497	1,263	1,033
Franchise salons:					
Open at beginning of period	164	184	201	230	210
Salons constructed	8	11	29	33	33
Salon openings	8	11	29	33	33
Franchise buybacks	(21)	(31)	(45)	(61)	(12)
Salons closed			(1)	(1)	(1)
Total franchise salons	151	164	184	201	230
Total, SmartStyle/Cost Cutters in Wal-Mart	2,151	1,903	1,681	1,464	1,263
STRIP CENTERS					
Company-owned salons:					
Open at beginning of period	3,031	2,728	2,310	1,928	1,476
Salons constructed	101	180	167	166	85
Acquired	193	122	248	162	361
Franchise buybacks	72	104	94	133	85
Less relocations	(17)	(21)	(21)	(8)	(3)
Salon openings	349	385	488	453	528
Conversions		(2)	(3)	(8)	(13)
Salons closed	(63)	(80)	(67)	(63)	(63)
Total company-owned salons	3,317	3,031	2,728	2,310	1,928
Franchise salons:					
Open at beginning of period	2,004	2,102	2,105	2,172	1,988
Salons constructed	135	135	154	146	147
Acquired(2)			7		198
Less relocations	(19)	(18)	(13)	(10)	(10)
Salon openings	116	117	148	136	335
Conversions		2	6	8	13
Franchise buybacks	(72)	(104)	(94)	(133)	(85)
Salons closed	(50)	(113)	(63)	(78)	(79)
Total franchise salons	1,998	2,004	2,102	2,105	2,172
Total, Strip Centers	5,315	5,035	4,830	4,415	4,100

INTERNATIONAL SALONS (1):	**2007**	**2006**	**2005**	**2004**	**2003**
Company-owned salons:					
Open at beginning of period	453	426	416	395	382
Salons constructed	25	33	22	19	10
Acquired	12	10	19	18	13
Franchise buybacks	4	2		10	
Less relocations	(3)	(4)			
Salon openings	38	41	41	47	23
Conversions		(2)	(3)		
Salons closed	(10)	(12)	(28)	(26)	(10)
Total company-owned salons	481	453	426	416	395
Franchise salons:					
Open at beginning of period	1,587	1,592	1,594	1,627	1,684
Salons constructed	110	111	102	88	95
Acquired(2)					
Less relocations	1				
Salon openings	109	111	102	88	95
Conversions		2			
Franchise buybacks	(4)	(2)		(10)	
Salons closed	(118)	(116)	(104)	(111)	(152)
Total franchise salons	1,574	1,587	1,592	1,594	1,627
Total, International Salons	2,055	2,040	2,018	2,010	2,022
TOTAL SYSTEM WIDE SALONS					
Company-owned salons:					
Open at beginning of period	7,559	6,977	6,227	5,558	4,776
Salons constructed	420	531	525	452	397
Acquired	257	148	305	199	458
Franchise buybacks	97	142	139	206	97
Less relocations	(59)	(57)	(66)	(32)	(30)
Salon openings	715	764	903	825	922
Conversions		(4)	(6)	(8)	(13)
Salons closed	(135)	(178)	(147)	(148)	(127)
Total company-owned salons	8,139	7,559	6,977	6,227	5,558
Franchise salons:					
Open at beginning of period	3,774	3,902	3,924	4,054	3,908
Salons constructed	253	257	285	268	275
Acquired(2)			7		198
Less relocations	(20)	(18)	(13)	(10)	(10)
Salon openings	233	239	279	258	463
Conversions		4	6	8	13
Franchise buybacks	(97)	(142)	(139)	(206)	(97)
Salons closed	(168)	(229)	(168)	(190)	(233)
Total franchise salons	3,742	3,774	3,902	3,924	4,054
Total Salons	11,881	11,333	10,879	10,151	9,612

(1) Canadian and Puerto Rican salons are included in the Regis Salons, Strip Center, MasterCuts and Trade Secret concepts and not included in the international salon totals.

(2) Represents primarily the acquisition of franchise networks.

In the preceding table, relocations represent a transfer of location by the same salon concept and conversions represent the transfer of one concept to another concept.

Regis Salons. Regis Salons are primarily mall based, full service salons providing complete hair care and beauty services aimed at moderate to upscale, fashion conscious consumers. In recent years, the Company has expanded its Regis Salons into strip centers. As of June 30, 2007, 159 Regis Salons were located in strip centers. The customer mix at Regis Salons is approximately 77 percent women and both appointments and walk-in customers are common. These salons offer a full range of custom styling, cutting, hair coloring and waving services as well as professional hair care products. Service revenues represent approximately 83 percent of the concept s total revenues. The average ticket is approximately $37. Regis Salons compete in their existing markets primarily by emphasizing the high quality of the services provided. Included within the Regis Salons concept are various other trade names, including Carlton Hair, Vidal Sassoon, Jean Louis David (North America), Mia & Maxx Hair Studios, Hair by Stewarts and Heidi s.

The average initial capital investment required for a new Regis Salon typically ranges from $190,000 to $220,000, excluding average opening inventory costs of approximately $17,000. Average annual salon revenues in a Regis Salon which has been open five years or more are approximately $426,000. During fiscal year 2008, the Company plans to open approximately 20 new Regis Salons.

MasterCuts. MasterCuts is a full service, mall based salon group which focuses on the walk-in consumer (no appointment necessary) that demands moderately priced hair care services. MasterCuts salons emphasize quality hair care services, affordable prices and time saving services for the entire family. These salons offer a full range of custom styling, cutting, hair coloring and waving services as well as professional hair care products. The customer mix at MasterCuts is split relatively evenly between men and women. Service revenues compose approximately 79 percent of the concept s total revenues. The average ticket is approximately $17.

The average initial capital investment required for a new MasterCuts salon typically ranges from $165,000 to $190,000, excluding average opening inventory costs of approximately $13,000. Average annual salon revenues in a MasterCuts salon which has been open five years or more are approximately $296,000. During fiscal year 2008, the Company plans to open approximately 20 new MasterCuts salons.

Trade Secret. Trade Secret salons are designed to emphasize the sale of hair care and beauty products in a retail setting while providing high quality hair care services. Trade Secret salons offer one of the most comprehensive assortments of hair and beauty products in the industry. Trade Secret s retail selection consists of highly recognized brands, and the products held for sale vary in tandem with changing trends. These salons offer a full range of custom styling, cutting, hair coloring and waving services as well as professional hair care products. Trade Secret s primary customer base includes the female head of the household shopping for her entire family, as well as singles shopping for their own beauty products and accessories. Trade Secret salons are primarily mall based, however, in recent years, the Company has expanded into strip centers. As of June 30, 2007, 90 company-owned Trade Secret salons were located in strip centers. Product revenues represent approximately 88 percent of the concept s total revenues. The average ticket is approximately $26.

The average initial capital investment required for a new Trade Secret salon typically ranges from $190,000 to $225,000, excluding average opening inventory costs of approximately $50,000. Average annual salon revenues in a Trade Secret salon which has been open five years or more are approximately $433,000. During fiscal year 2008, the Company plans to open approximately 20 new company-owned Trade Secret salons.

SmartStyle. The SmartStyle salons share many operating characteristics of the Company s other salon concepts; however, they are located exclusively in Wal-Mart Supercenters. SmartStyle has a walk-in customer base, pricing is promotional and services are focused on the family. These salons offer a full range of custom styling, cutting, hair coloring and waving services as well as professional hair care products. The customer mix at SmartStyle Salons is approximately 76 percent women. Professional retail product sales contribute considerably to overall revenues at approximately 35 percent. The Company has 151 franchise Cost Cutters salons located in Wal-Mart Supercenters. The average ticket is approximately $18.

The average initial capital investment required for a new SmartStyle salon typically ranges from $33,000 to $35,000, excluding average opening inventory costs of approximately $13,000. Average annual salon revenues in a SmartStyle salon which has been open five years or more are approximately $272,000. During fiscal year 2008, the Company plans to open approximately 220 new company-owned SmartStyle salons and approximately 13 franchise salons in Wal-Mart Supercenters.

Strip Center Salons. The Company s Strip Center Salons are comprised of company-owned and franchise salons operating in strip centers across North America under the following concepts:

Supercuts. The Supercuts concept provides consistent, high quality hair care services and professional products to its customers at convenient times and locations and at a reasonable price. This concept appeals to men, women and children, although male customers account for approximately 67 percent of the customer mix. Service revenues represent approximately 88 percent of total company-owned strip center revenues. The average ticket is approximately $14.

The average initial capital investment required for a new Supercuts salon typically ranges from $90,000 to $105,000, excluding average opening inventory costs of approximately $9,000. Average annual salon revenues in a company-owned Supercuts salon which has been open five years or more are approximately $262,000. During fiscal year 2008, the Company plans to open approximately 24 new company-owned Supercuts salons, and anticipates that franchisees will open approximately 88 new franchise Supercuts salons.

Cost Cutters (franchise salons). The Cost Cutters concept is a full service salon concept providing value priced hair care services for men, women and children. These full service salons also sell a complete line of professional hair care products. The customer mix at Cost Cutters is split relatively evenly between men and women. Franchise revenues from Cost Cutters salons are split relatively evenly between franchise revenues related to royalties and fees and those from product sales to franchisees. Average annual salon revenues in a franchised Cost Cutters salon which has been open five years or more are approximately $289,000. During fiscal year 2008, the Company anticipates that Cost Cutters franchisees will open approximately 43 new salons.

In addition to the franchise salons, the Company operates company-owned Cost Cutters salons, as discussed below under Promenade Salons.

Promenade Salons. Promenade Salons are made up of successful regional company-owned salon groups acquired over the past several years operating under the primary concepts of Hair Masters, Style America, First Choice Haircutters, Famous Hair, Cost Cutters, BoRics, Magicuts, Holiday Hair and TGF, as well as other concept names. Most concepts offer a full range of custom hairstyling, cutting, coloring and waving, as well as hair care products. Hair Masters offers moderately-priced services to a predominately female demographic, while the other concepts primarily cater to time-pressed, value-oriented families. The customer mix is split relatively evenly between men and women at most concepts. Service revenues represent approximately 89 percent of total company-owned strip center revenues. The average ticket is approximately $17.

The average initial capital investment required for a new Promenade Salon typically ranges from $75,000 to $90,000, excluding average opening inventory costs of approximately $7,000. Average annual salon revenues in a Promenade Salon which has been open five years or more are approximately $250,000. During fiscal year 2008, the Company plans to open approximately 24 new Promenade Salons.

Other Franchise Concepts. This group of franchise salons includes primarily First Choice Haircutters, Magicuts and Pro-Cuts. These concepts function primarily in the high volume, value priced hair care market segment, with key selling features of value, convenience, quality and friendliness, as well as a complete line of professional hair care products. In addition to these franchise salons, the Company operates company-owned First Choice Haircutters and Magicuts salons, as previously discussed above under Promenade Salons. During fiscal year 2008, the Company anticipates that franchisees will open approximately 32 new franchise strip center salons.

International Salons. The Company s international salons are comprised of company-owned and franchise salons operating in Europe primarily under the Jean Louis David, St. Algue, Supercuts, Regis, Trade Secret and Vidal Sassoon concepts. Nearly 80 percent of the 2,055 international salons are franchised under the Jean Louis David and St. Algue concepts. The international Regis, Trade Secret and Supercuts salons operated in the United Kingdom are company-owned. These salons offer similar levels of service as the North American salons previously mentioned. However, the initial capital investment required is typically between £105,000 and £115,000 for a Regis Hairstylists salon, between £50,000 and £55,000 for a Supercuts UK salon and between £125,000 and £135,000 for an international Trade Secret salon. Average annual salon revenues for a salon which has been open five years or more are approximately £257,000 in a Regis Hairstylists salon, £183,000 in a Supercuts UK salon and £416,000 in an international Trade Secret salon. During fiscal year 2008, the Company plans to open approximately 19 new company-owned international salons, as well as approximately 86 new international franchise salons. Certain international salon concepts are further described below.

Vidal Sassoon. The Company s international Vidal Sassoon salons are located in the United Kingdom and Germany. Vidal Sassoon is one of the world s most recognized names in hair fashion and appeals to women and men looking for a prestigious full service hair salon. Salons are usually located on prominent high-street locations and offer a full range of custom hairstyling, cutting, coloring and waving, as well as professional hair care products. The initial capital investment required typically ranges between £400,000 and £500,000. The Company is exploring suitable locations for potential new salons in fiscal year 2008.

Jean Louis David (JLD). These franchise salons offer full service hair care without an appointment. Salons are located in European cities, with populations of more than 20,000 in town centers, high-traffic areas and shopping centers. JLD salons are located in France, Italy, Spain, Poland, and Switzerland.

St. Algue. This concept represents fashion forward, full service franchise salons known for creativity and an emphasis on personal style, and focusing on the walk-in customer. Salons are located in European cities with populations of more than 20,000 in town centers, high-traffic areas and shopping centers. Salons are located mainly in France, with some locations in Switzerland, Portugal and Belgium.

Salon Franchising Program:

General. The Company has various franchising programs supporting its 3,742 franchise salons as of June 30, 2007, consisting mainly of Supercuts, Cost Cutters, First Choice Haircutters, Magicuts, Pro Cuts, St. Algue and JLD. These salons have been included in the discussions regarding salon counts and concepts on the preceding pages.

The Company provides its franchisees with a comprehensive system of business training, stylist education, site approval and lease negotiation, professional marketing, promotion and advertising programs, and other forms of support designed to help the franchisee build a successful business.

Standards of Operations. The Company does not control the day to day operations of its franchisees, including hiring and firing, establishing prices to charge for products and services, business hours, personnel management and capital expenditure decisions. However, the franchise agreements afford certain rights to the Company, such as the right to approve location, suppliers and the sale of a franchise. Additionally, franchisees are required to conform to company established operational policies and procedures relating to quality of service, training, design and decor of stores, and trademark usage. The Company s field personnel make periodic visits to franchise stores to ensure that the stores are operating in conformity with the standards for each franchising program. All of the rights afforded the Company with regard to the franchise operations allow the Company to protect its brands, but do not allow the Company to control the franchise operations or make decisions that have a significant impact on the success of the franchise salons.

To further ensure conformity, the Company may enter into the lease for the store site directly with the landlord, and subsequently sublease the site to the franchisee. The franchise agreement and sublease provide the Company with the right to terminate the sublease and gain possession of the store if the franchisee fails to comply with the Company s operational policies and procedures. See Note 6 of Notes to Consolidated Financial Statements for further information about the Company s commitments and contingencies, including leases.

Franchise Terms. Pursuant to their franchise agreement with the Company, each franchisee pays an initial fee for each store and ongoing royalties to the Company. In addition, for most franchise concepts, the Company collects advertising funds from franchisees and administers the funds on behalf of the concept. Franchisees are responsible for the costs of leasehold improvements, furniture, fixtures, equipment, supplies, inventory and certain other items, including initial working capital.

Additional information regarding each of the major franchisee brands is listed below:

Supercuts (North America)

The majority of existing Supercuts franchise agreements have a perpetual term, subject to termination of the underlying lease agreement or termination of the franchise agreement by either the Company or the franchisee. The agreements also provide the Company a right of first refusal if the store is to be sold. The franchisee must obtain the Company s approval in all instances where there is a sale of the franchise. The current franchise agreement is site specific and does not provide any territorial protection to a franchisee, although some older franchise agreements do include limited territorial protection. During fiscal year 2001, the Company began selling development agreements for new markets which include limited territory protection for the Supercuts concept. The Company has a comprehensive impact policy that resolves potential conflicts among franchisees and/or the Company regarding proposed salon sites.

Cost Cutters, First Choice Haircutters and Magicuts (North America)

The majority of existing Cost Cutters franchise agreements have a 15 year term with a 15 year option to renew (at the option of the franchisee), while the majority of First Choice Haircutters franchise agreements have a ten year term with a five year option to renew. The majority of Magicuts franchise agreements have a term equal to the greater of five years or the current initial term of the lease agreement with an option to renew for two additional five year periods. All of the agreements also provide the Company a right of first refusal if the store is to be sold. The franchisee must obtain the Company s approval in all instances where there is a sale of the franchise. The current franchise agreement is site specific. Franchisees may enter into development agreements with the Company which provide limited territorial protection.

Pro Cuts (North America)

The majority of existing Pro Cuts franchise agreements have a ten year term with a ten year option to renew. The agreements also provide the Company a right of first refusal if the store is to be sold or transferred. The current franchise agreement is site specific. Franchisees may enter into development agreements with the Company which provide limited territorial protection.

St. Algue and JLD (International)

St. Algue was purchased in connection with the acquisition of the French franchisor, Groupe Gerard Glemain (GGG). The majority of St. Algue s franchise contracts have a five year term with an implied option to renew for a term of three years. All new JLD contracts have five year terms. The franchise agreements for both St. Algue and JLD are site specific and only a small minority of the contracts provide for territorial exclusivity. The agreements provide for the right of first refusal during the period covered by the franchise contract if the salon is to be sold and the franchisee must obtain the Company s approval before selling of the salon. With regards to the store site, neither St. Algue nor JLD acts as lessor for their franchisees. Additionally, JLD franchise contracts prohibit the franchisee from selling the salon to another major national competitor for one year after the contract term ends.

Franchisee Training. The Company provides new franchisees with training, focusing on the various aspects of store management, including operations, personnel management, marketing fundamentals and financial controls. Existing franchisees receive training, counseling and information from the Company on a continuous basis. The Company provides store managers and stylists with extensive technical training for Supercuts franchises. For further description of the Company s education and training programs, see the Salon Education and Training Programs section of this document.

Salon Markets and Marketing:

The Company maintains various advertising, sales and promotion programs for its salons, budgeting a predetermined percent of revenues for such programs. The Company has developed promotional tactics and institutional sales messages for each of its concepts targeting certain customer types and positioning each concept in the marketplace. Print, radio, television and billboard advertising are developed and supervised at the Company s headquarters, but most advertising is done in the immediate market of the particular salon.

Most franchise concepts maintain separate Advertising Funds (the Funds), managed by the Company, that provide comprehensive advertising and sales promotion support for each system. All stores, company-owned and franchise, contribute to the Funds, the majority of which are allocated to the contributing market for media placement and local marketing activities. The remainder is allocated for the creation of national advertising campaigns and system wide activities. This intensive advertising program creates significant consumer awareness, a strong concept image and high loyalty.

Salon Education and Training Programs:

The Company has an extensive hands-on training program for its stylists which emphasizes both technical training in hairstyling and cutting, hair coloring, waving and hair treatment regimes as well as customer service and product sales. The objective of the training programs is to ensure that customers receive professional and quality services, which the Company believes will result in more repeat customers, referrals and product sales.

The Company has full- and part-time artistic directors who train the stylists in techniques for providing the salon services and instruct the stylists in current styling trends. Stylist training is achieved through seminars, workshops and DVD based programs. The Company was the first in its industry to develop a DVD based training system in its salons and currently has over 190 DVDs designed to enhance technical skills of stylists.

The Company has a customer service training program to improve the interaction between employees and customers. Staff members are trained in the proper techniques of customer greeting, telephone courtesy and professional behavior through a series of professionally designed video tapes and instructional seminars.

The Company also provides regulatory compliance training for all its field employees. This training is designed to help supervisors and stylists understand employee regulatory requirements and compliance with these standards.

Salon Staff Recruiting and Retention:

Recruiting quality managers and stylists is essential to the establishment and operation of successful salons. In search of salon managers, the Company s supervisory team recruits or develops and promotes from within those stylists that display initiative and commitment. The Company has been and believes it will continue to be successful in recruiting capable managers and stylists. The Company believes that its compensation structure for salon managers and stylists is competitive within the industry. Stylists benefit from the Company s high-traffic locations and receive a steady source of new business from walk-in customers. In addition, the Company offers a career path with the opportunity to move into managerial and training positions within the Company.

Salon Design:

The Company s salons are designed, built and operated in accordance with uniform standards and practices developed by the Company based on its experience. Salon fixtures and equipment are generally uniform, allowing the Company to place large orders for these items with cost savings due to the economies of scale.

The size of the Company s salons ranges from 500 to 5,000 square feet, with the typical salon having about 1,200 square feet. At present, the cost to the Company of normal tenant improvements and furnishing of a new salon, including inventories, ranges from approximately $25,000 to $225,000, depending on the size of the salon and the concept. Less than ten percent of all new salons fall within a higher bracket and will cost between $225,000 and $500,000 to furnish with International Vidal Sassoon salons costing potentially even more. Of the total leasehold costs, approximately 70 percent of the cost is for leasehold improvements and the balance is for salon fixtures, equipment and inventories.

The Company maintains its own design and real estate department, which designs and supervises the leasehold installations, furnishing and fixturing of all new company-owned salons and certain franchise locations. The Company has developed considerable expertise in designing salons. The design and real estate staff focus on visual appeal, efficient use of space, cost and rapid completion times.

Salon Management Information Systems:

At all of its company-owned salons, the Company utilizes a point-of-sale (POS) information system to collect daily sales information. Salon employees deposit cash receipts into a local bank account on a daily basis. The POS system sends the amount expected to be deposited to the corporate office, where the amount is reconciled daily with local deposits transferred into a centralized corporate bank account. The salon POS information is consolidated into several management systems maintained at the corporate office. The information is also used to generate payroll information, monitor salon performance, manage salon staffing and payroll costs, and generates customer data to identify and anticipate industry pricing and staffing trends. The corporate information systems deliver online information of product sales to improve its inventory control system, including recommendations for each salon of monthly product replenishments.

Management believes that its information systems provide the Company with operational efficiencies as well as advantages in planning and analysis which are generally not available to competitors. The Company continually reviews and improves its Information Systems to ensure systems and processes are kept up to date and that they will meet the growing needs of the Company. A new, international version of the POS system is currently under development with an expected release date in 2008. The goal of Information Systems is to maximize the overall value to the business while improving the output per dollar spent by implementing cost-effective solutions and services.

Salon Competition:

The hair care industry is highly fragmented and competitive. In every area in which the Company has a salon, there are competitors offering similar hair care services and products at similar prices. The Company faces competition within malls from companies which operate salons within department stores and from smaller chains of salons, independently owned salons and, to a lesser extent, salons which, although independently owned, are operating under franchises from a franchising company that may assist such salons in areas of training, marketing and advertising.

Significant entry barriers exist for chains to expand nationally due to the need to establish systems and infrastructure, recruitment of experienced hair care management and adequate store staff, and leasing of quality sites. The principal factors of competition in the affordable hair care category are quality, consistency and convenience. The Company continually strives to improve its performance in each of these areas and to create additional points of differentiation versus the competition. In order to obtain locations in shopping malls, the Company must be competitive as to rentals and other customary tenant obligations.

Beauty School Business Strategy:

Involvment in the beauty school business is complementary to the salon business as it allows the Company to maintain a vested interest in attracting, training and retaining valuable employees. The principal activity of the beauty schools is the teaching of beauticians to prepare for their licensing. The activities also include clinic and school sales of products to students and customers and other miscellaneous sales. Subjects available for enrollment include cosmetology, nail art and esthetic programs. Most schools are certified by the U.S. Department of Education for participation in Federal Title IV Student Financial Assistance Programs. As of June 30, 2007, the Company operated 51 such facilities.

On August 1, 2007 (fiscal year 2008), the Company contributed its 51 accredited cosmetology schools to Empire Education Group, Inc., creating the largest beauty school operator in North America. This transaction leverages Empire Education Group, Inc. s management expertise, while enabling the Company to maintain a vested interest in the beauty school industry. Upon completion of the transaction, the Company will own a 49.0 percent minority interest in Empire Education Group, Inc. The investment will be accounted for under the equity method. The Company expects the integration of the Regis schools into Empire Education Group, Inc. to take several months and that there will be significant integration costs. Once the integration is complete, the Company expects to share in significant synergies and operating improvements.

Following is a summary of the Company s beauty school locations:

	2007	2006	2005
Beauty schools:			
Open at beginning of period	54	24	11
Constructed	2	2	
Acquired	1	30	13
Less relocations	(1)	(2)	
School openings	2	30	13
Total beauty schools	56	54	24

Hair Restoration Business Strategy:

In December 2004, the Company acquired Hair Club for Men and Women (Hair Club), the largest U.S. provider of hair loss solutions and the only company offering a comprehensive menu of proven hair loss products and services. The Company leverages its strong brand, best-in-class service model and comprehensive menu of hair restoration alternatives to build an increasing base of repeat customers that generate recurring cash flow for the Company. From its traditional non-surgical hair replacement systems, to hair transplants, hair therapies and hair care products and services, Hair Club offers a solution for anyone experiencing or anticipating hair loss. The Company s operations consist of 90 locations (41 franchise) in the United States and Canada. The domestic hair restoration market is estimated to generate over $4 billion annually. The competitive landscape is highly fragmented and comprised of approximately 4,000 locations. Hair Club and its franchisees have the largest market share, with approximately five percent based on customer count.

In an effort to provide privacy to its customers, Hair Club offices are located primarily in office and professional buildings within larger metropolitan areas. Following is a summary of the company-owned and franchise hair restoration centers in operation at June 30, 2007 and 2006:

	2007	2006
Company-owned hair restoration centers:		
Open at beginning of period	48	41
Constructed		1
Acquired	1	1
Franchise buybacks	1	7
Less relocations		(1)
Site openings	2	8
Sites closed	(1)	(1)
Total company-owned hair restoration centers	49	48
Franchise hair restoration centers:		
Open at beginning of period	42	49
Acquired	3	
Franchise buybacks	(1)	
Less Relocations	(2)	
Site openings		
Sites closed	(1)	(7)
Total franchise hair restoration centers	41	42
Total hair restoration centers	90	90

Hair Restoration Growth Opportunities. The Company s hair restoration center expansion strategy focuses on organic growth (successfully converting new leads into customers at existing centers, broadening the menu of services and products at each location and to a lesser extent, new center construction) and acquisition growth.

Organic Growth. The hair restoration centers business model is driven by productive lead generation that ultimately produces recurring customers. The primary marketing vehicle is direct response television in the form of infomercials that create leads into the hair restoration centers telemarketing center. Call center employees receive calls and schedule a consultation at a local hair restoration company-owned or franchise center. At the consultation, sales consultants assess the needs of each individual client and educate them on the hair restoration centers suite of hair loss solutions.

The Company s long term outlook for organic expansion remains strong due to several factors, including favorable industry dynamics, addressing new market opportunities, menu expansion, developing new locations and new cross marketing initiatives. The aging baby boomer population is expanding the number of individuals within the hair restoration centers target market. This group of individuals is entering their peak years of disposable income and has demonstrated a willingness to improve their physical appearance.

In 2003, Hair Club began marketing to women and changed its name to Hair Club for Men and Women. This represents a large and relatively untapped market. Women now represent approximately 35 percent of new customers.

Currently, all locations offer hair systems, hair therapy and hair care products. Among the hair restoration centers product offerings are hair transplants. The hair restoration centers employ a hub and spoke strategy for hair transplants. As of June 30, 2007, 13 locations were equipped and staffed to perform the procedure. Currently, a total of 31 hair restoration centers offer this service to their customers. The Company plans to add the capability to conduct hair transplants to more centers in future periods.

Company-owned and franchise hair restoration centers are located in markets representing 72 percent of all U.S. television (TV) households. The Company s hair restoration centers advertise on cable TV to over 93 million households, or 85 percent of the total U.S. TV households. There is an opportunity to add a limited number of new centers in under penetrated markets. Additionally, the Company is currently investigating international expansion opportunities.

Hair Restoration Acquisition Growth. The Company plans to supplement organic growth with opportunistic acquisition activity. The hair restoration industry is comprised of a highly-fragmented group of 4,000 locations. This landscape provides an opportunity for consolidation. Given the existing coverage of Hair Club locations, it is anticipated that transactions may involve the acquisition of customer lists, rather than physical locations.

Corporate Trademarks:

The Company holds numerous trademarks, both in the United States and in many foreign countries. The most recognized trademarks are Regis Salons, Supercuts, MasterCuts, Trade Secret, SmartStyle, Cost Cutters, Hair Masters, Jean Louis David, Saint Algue, First Choic Magicuts and Hair Club for Men and Women.

Vidal Sassoon is a registered trademark of Procter & Gamble. The Company has a license agreement to use the Vidal Sassoon name for existing salons and academies, and new salon development.

Although the Company believes the use of these trademarks is an element in establishing and maintaining its reputation as a national operator of high quality hairstyling salons, and is committed to protecting these trademarks by vigorously challenging any unauthorized use, the Company s success and continuing growth are the result of the quality of its salon location selections and real estate strategies.

Corporate Employees:

During fiscal year 2007, the Company had approximately 62,000 full- and part-time employees worldwide, of which an approximately 55,000 employees were located in the United States. None of the Company s employees are subject to a collective bargaining agreement and the Company believes that its employee relations are amicable.

Executive Officers:

Information relating to Executive Officers of the Company follows:

Name	Age	Position
Myron Kunin	79	Vice Chairman of the Board of Directors
Paul D. Finkelstein	65	Chairman of the Board of Directors, President and Chief Executive Officer
Randy L. Pearce	52	Senior Executive Vice President, Chief Financial and Administrative Officer
Kris Bergly	46	Executive Vice President and Corporate Chief Operating Officer, Regis Salons, Promenade Salon Concepts, MasterCuts and Supercuts
Bruce Johnson	53	Executive Vice President, Design and Construction
Mark Kartarik	51	Executive Vice President, Regis Corporation and President, Franchise Division
Norma Knudsen	49	Executive Vice President and Chief Operating Officer, Trade Secret
Gordon Nelson	56	Executive Vice President, Fashion, Education and Marketing
Eric A. Bakken	40	Senior Vice President, Law, General Counsel and Secretary
C. John Briggs	63	Senior Vice President and President, SmartStyle Family Hair Care
Lynn Hempe	48	Senior Vice President, Chief Merchandising Officer
Andrew Cohen	44	President, International Division
Raymond Duke	56	Senior Vice President, International Managing Director, U.K.
Darryll Porter	44	President and Chief Executive Officer, Hair Club for Men and Women
David Bortnem	40	Chief Operating Officer, MasterCuts
Diane Calta	38	Chief Operating Officer, Supercuts
Amy Edwards	38	Chief Operating Officer, Promenade Salon Concepts
John Exline	44	Chief Operating Officer, SmartStyle Family Hair Care

Myron Kunin has served as Vice Chairman of the Board of Directors since 2004. He served as Chairman of the Board of Directors of the Company from 1983 to 2004, as Chief Executive Officer of the Company from 1965 until July 1, 1996, as President of the Company from 1965 to 1987 and as a director of the Company since its formation in 1954. He is also Chairman of the Board and holder of the majority voting power of Curtis Squire, Inc., a 2.0 percent shareholder. Further, he is a director of Nortech Systems Incorporated.

Paul D. Finkelstein has served as Chairman of the Board of Directors and CEO since 2004. He served as President and Chief Executive Officer from 1996 to 2004, as President and Chief Operating Officer from 1988 to 1996 and as Executive Vice President from 1987 to 1988.

Randy L. Pearce has served as Senior Executive Vice President since 2006. He served as Executive Vice President from 1999 to 2006, as Chief Administrative Officer since 1999 and as Chief Financial Officer since 1998. Additionally, he was Senior Vice President, Finance from 1998 to 1999, Vice President of Finance from 1995 to 1997 and Vice President of Financial Reporting from 1991 to 1994. During fiscal year 2006, he was also elected Director and Audit Committee Chair of Dress Barn, Inc., which operates a chain of women s apparel specialty stores.

Kris Bergly has served as Executive Vice President of Regis Salons, Promenade Salon Concepts, Supercuts, Inc. and MasterCuts and Corporate Chief Operating Officer. He served as Chief Operating Officer of Promenade Salon Concepts from 1998 to 2006 and of MasterCuts from 2005 to 2006, as Vice President of Salon Operations from 1993 to 1998 and in other roles with the Company from 1987 to 1993.

Bruce Johnson has served as Executive Vice President of Real Estate and Construction since 2007. He served as Senior Vice President from 1997 to 2007 and in other roles with the Company from 1977 to 1997.

Mark Kartarik has served as Executive Vice President of Regis Corporation since 2007. He served as Senior Vice President from 2001 to 2007, as President of Supercuts, Inc. from 1998 to 2001, as Chief Operating Officer of Supercuts, Inc. from 1997 to 1998 and in other roles with the Company from 1984 to 1997.

Norma Knudsen has served as Executive Vice President, Merchandising since July 2006. She served as Chief Operating Officer, Trade Secret from February 1999 through 2006 and as Vice President, Trade Secret Operations from 1995 to 1999.

Gordon Nelson has served as Executive Vice President, Fashion, Education and Marketing of the Company since 2006. He served as Senior Vice President from 1994 to 2006 and in other roles with the Company from 1977 to 1994.

Eric A. Bakken has served as Senior Vice President, Law in 2006. He served as General Counsel from 2004 to 2006, as Vice President, Law from 1998 to 2004 and as a laywer to the Company from 1994 to 1998.

C. John Briggs has served as Senior Vice President and President, SmartStyle Family Hair Salons since April 2007. He served as Chief Operating Officer, SmartStyle, from 1999 to 2007. He has served as Vice President, Regis Operations from 1988 to 1999.

Lynn Hempe has served as Senior Vice President, Chief Merchandising Officer since May 2007. She served as Senior Vice President and General Merchandise Manager, Softlines, for ShopKo from 2005 to 2007. She as worked worked in merchandising for over 20 years.

Andrew Cohen has served as President, International Division since April 2002. He served as Vice President, Salon Operations from 1998 to 2002 and in other roles with the Company from 1991 to 1998.

Raymond Duke has served as Senior Vice President, International Managing Director, U.K. since February 1999. He served as Vice President from 1992 to 1999 and in other roles with the Company from 1972 to 1992.

Darryll Porter has served as President and Chief Executive Officer, Hair Club for Men and Women since 2007. He served as Chief Operating and Financial Officer from 2002 to 2007 and as Chief Financial Officer from 2000 to 2002.

David Bortnem has served as Chief Operating Officer, MasterCuts, since 2006. He has served as a Vice President, MasterCuts from 2003 to 2006, as Vice President, Regis Salons from 2000 to 2003 and as Salon Director from 1998 to 2000.

Diane Calta has seved as Chief Operating Officer, Supercuts, since January 2007. She served as Vice President, Supercuts from 1999 to 2007.

Amy Edwards has served as Chief Operating Officer, Promenade Salon Concepts since 2006. She served as Vice President, Promenade Salon Concepts from 1998 to 2006.

John Exline has served as Chief Operating Officer, SmartStyle Family Hair Salons since 2007. He served as Vice President, SmartStyle Family Hair Salons from 1999 to 2007 and in other roles with the Company since 1990.

Corporate Community Involvement:

Many of the Company s stylists volunteer their time to support charitable events for breast cancer research. Proceeds collected from such events are distributed through the Regis Foundation for Breast Cancer Research. The Company s community involvement also includes a major sponsorship role for the Susan G. Komen Twin Cities Race for the Cure. This 5K run and one mile walk is held in Minneapolis, Minnesota on Mother s Day to help fund breast cancer research, education, screening and treatment. Through its community involvement efforts, the Company has helped raise millions of dollars in fundraising for breast cancer research.

Governmental Regulations:

The Company is subject to various federal, state, local and provincial laws affecting its business as well as a variety of regulatory provisions relating to the conduct of its beauty related business, including health and safety.

In the United States, the Company s franchise operations are subject to the Federal Trade Commission s Trade Regulation Rule on Franchising (the FTC Rule) and by state laws and administrative regulations that regulate various aspects of franchise operations and sales. The Company s franchises are offered to franchisees by means of an offering circular/disclosure document containing specified disclosures in accordance with the FTC Rule and the laws and regulations of certain states. The Company has registered its offering of franchises with the regulatory authorities of those states in which it offers franchises and in which such registration is required. State laws that regulate the franchisor-franchisee relationship presently exist in a substantial number of states and, in certain cases, apply substantive standards to this relationship. Such laws may, for example, require that the franchisor deal with the franchisee in good faith, may prohibit interference with the right of free association among franchisees, and may limit termination of franchisees without payment of reasonable compensation. The Company believes that the current trend is for government regulation of franchising to increase over time. However, such laws have not had, and the Company does not expect such laws to have, a significant effect on the Company s operations.

In Canada, the Company s franchise operations are subject to both the Alberta Franchise Act and the Ontario Franchise Act. The offering of franchises in Canada occurs by way of a disclosure document, which contains certain disclosures required by the Ontario and Alberta Franchise Acts. Both the Ontario and Alberta Franchise Acts primarily focus on disclosure requirements, although each requires certain relationship requirements such as a duty of fair dealing and the right of franchisees to associate and organize with other franchisees.

Governmental regulations surrounding franchise operations in Europe are similar to those in the United States. The Company believes it is operating in substantial compliance with applicable laws and regulations governing all of its operations.

Beauty schools derive a significant portion of their revenue from student financial assistance originating from the U.S. Department of Education s Title IV Higher Education Act of 1965. For the students to receive financial assistance at the school, the beauty schools must maintain eligibility requirements established by the U.S. ED. The Company thoroughly researches each potential acquisition to ensure they remain in good standing with the U.S. Department of Education. The Company believes all of its existing schools are compliant.

(d) Financial Information about Foreign and North American Operations

Financial information about foreign and North American markets is incorporated herein by reference to Management s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 and segment information in Note 11 to the Consolidated Financial Statements in Part II, Item 8 of this Form 10-K.

(e) Available Information

The Company is subject to the informational requirements of the Securities and Exchange Act of 1934 (Exchange Act). The Company therefore files periodic reports, proxy statements and other information with the Securities and Exchange Commission (SEC). Such reports may be obtained by visiting the Public Reference Room of the SEC at 100 F Street N.E., Washington, D.C. 20549, or by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet site (*http://www.sec.gov*) that contains reports, proxy and information statements and other information regarding issuers that file electronically.

Financial and other information can be accessed in the Investor Information section of the Company s website at *www.regiscorp.com*. The Company makes available, free of charge, copies of its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC.

Item 1A. Risk Factors

If we are not able to increase our number of salons, we may not be able to grow our revenue and earnings.

The key driver of our revenue and earnings growth is the number of salons we and our franchisees acquire or construct. Acquiring and constructing new salons is subject to the ability of our company and our franchisees to identify suitable sites and obtain financing for development. While we believe that substantial future acquisition and organic growth opportunities exist, any inability to identify and successfully complete future acquisitions or increase our same-store sales would have a material adverse effect on our revenue and earnings growth.

Changes in the general economic environment may impact our business and results of operations.

Changes to the United States, Canadian, United Kingdom and other European economies have an impact on our business. As a result of our recent entrance into the Asian market, changes in the Asian economies may also impact our business. General economic factors that are beyond our control, such as interest rates, recession, inflation, deflation, tax rates and policy, energy costs, unemployment trends, and other matters that influence consumer confidence and spending, may impact our business. In particular, visitation patterns to our salons and hair restoration centers can be adversely impacted by changes in unemployment rates and discretionary income levels.

Changes in our key relationships may adversely affect our operating results.

We maintain key relationships with certain companies, including Wal-Mart. Termination or modification of any of these relationships could significantly reduce our revenues and have an adverse impact on our ability to grow or future operating results.

Changes in fashion trends may impact our revenue.

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

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

With approximately 12,400 locations and 62,000 employees worldwide, our financial results can be adversely impacted by regulatory or statutory changes in laws. Due to the number of people we employ, laws that increase minimum wage rates or increase costs to provide employee benefits may result in additional costs to our company. Compliance with new, complex and changing laws may cause our expenses to increase. In addition, any non-compliance with these laws could result in fines, product recalls and enforcement actions or otherwise restrict our ability to market certain products, which could adversely affect our business, financial condition and results of operations. We are also subject to laws that affect the franchisor-franchisee relationship.

If we are not able to successfully compete in our business segments, our financial results may be affected.

Competition on a market by market basis remains strong. Therefore, our ability to raise prices in certain markets can be adversely impacted by this competition. If we are not able to raise prices, our ability to grow same-store sales and increase our revenue and earnings may be impaired.

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

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

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

Changes in interest rates will have an impact on our expected results from operations. Currently, we manage the risk related to fluctuations in interest rates through the use of variable rate debt instruments and other financial instruments. See discussion in Part II, Item 7A, Quantitative and Qualitative Disclosures about Market Risk, for additional information.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company s corporate offices are headquartered in a 270,000 square foot, four building complex in Edina, Minnesota owned or leased by the Company. The Company also operates small offices in Toronto, Canada; Coventry and London, England; Paris, France; Barcelona, Spain; Luxembourg,

Luxembourg; Warsaw, Poland and Boca Raton, Florida. These offices are occupied under long-term leases.

The Company owns distribution centers located in Chattanooga, Tennessee and Salt Lake City, Utah. The Chattanooga facility currently utilizes 250,000 square feet while the Salt Lake City facility utilizes 210,000 square feet. The Salt Lake City facility may be expanded to 290,000 square feet to accommodate future growth.

The Company operates all of its salon locations and hair replacement centers under leases or license agreements. Substantially all of its North American locations in regional malls are operating under leases with an original term of at least ten years. Salons operating within strip centers and Wal-Mart Supercenters have leases with original terms of at least five years, generally with the ability to renew, at the Company s option, for one or more additional five year periods. Salons operating within department stores in Canada and Europe operate under license agreements, while freestanding or shopping center locations in those countries have real property leases comparable to the Company s domestic locations.

The Company also leases the premises in which certain franchisees operate and has entered into corresponding sublease arrangements with the franchisees. These leases have a five year initial term and one or more five year renewal options. All lease costs are passed through to the franchisees. Remaining franchisees, who do not enter into sublease arrangements with the Company, negotiate and enter into leases on their own behalf.

None of the Company s salon leases is individually material to the operations of the Company, and the Company expects that it will be able to renew its leases on satisfactory terms as they expire. See Note 6 to the Consolidated Financial Statements in Part II, Item 8 of this Form 10-K.

Item 3. Legal Proceedings

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

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issue Repurchase of Equity Securities

(a) Market Price of and Dividends on the Registrant s Common Equity and Related Stockholder Matters; Performance Graph

Regis common stock is listed and traded on the New York Stock Exchange under the symbol RGS.

The accompanying table sets forth the high and low closing bid quotations for each quarter during fiscal years 2007 and 2006 as reported by the New York Stock Exchange (under the symbol RGS). The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not necessarily represent actual transactions.

As of August 21, 2007, Regis shares were owned by approximately 19,935 shareholders based on the number of record holders and an estimate of individual participants in security position listings. The common stock price was $33.28 per share on August 23, 2007.

	2007		**2006**	
Fiscal Quarter	**High**	**Low**	**High**	**Low**
1st Quarter	$ 37.32	$ 32.78	$ 42.30	$ 37.30
2nd Quarter	40.30	35.90	40.67	35.64
3rd Quarter	43.29	38.90	42.59	33.49
4th Quarter	41.59	37.79	36.26	33.38

The Company paid quarterly dividends of $0.04 per share in fiscal years 2007 and 2006. The Company expects to continue paying regular quarterly dividends for the foreseeable future.

Notwithstanding anything to the contrary set forth in any of our previous filings under the Securities Act of 1933 or the Securities Exchange Act of 1934 that might incorporate future filings or this Annual Report, the following performance graph and accompanying data shall not be deemed to be incorporated by reference into any such filings. In addition, they shall not be deemed to be soliciting material or filed with the SEC.

The following graph compares the cumulative total shareholder return on the Company s stock for the last five years with the cumulative total return of the Standard and Poor s 500 Stock Index and the cumulative total return of a peer group index (the Peer Group) constructed by the Company. In addition, the Company has included the Standard and Poor s 400 Midcap Index and the Dow Jones Consumer Services Index in this analysis because the Company believes these two indices provide a comparative correlation to the cumulative total return of an investment in shares of Regis Corporation.

The comparison assumes the initial investment of $100 in the Company s Common Stock, the S&P 500 Index, the Peer Group, the S&P 400 Midcap Index and the Dow Jones Consumer Services Index on June 30, 2002 and those dividends, if any, were reinvested.

	2002	2003	2004	2005	2006	2007
Regis	100.00	108.03	166.38	146.41	133.97	144.51
S & P 500	100.00	100.24	119.39	126.92	137.86	166.24
S & P 400 Midcap	100.00	99.29	127.09	144.91	163.73	194.02
Dow Jones Consumer Service Index	100.00	125.75	162.55	132.63	118.67	142.56
Peer Group	100.00	102.81	135.37	144.72	149.94	169.79

(c) Share Repurchase Program

In May 2000, the Company s Board of Directors (BOD) approved a stock repurchase program. Originally, the program authorized up to $50.0 million to be expended for the repurchase of the Company s stock. The BOD elected to increase this maximum to $100.0 million in August 2003, to $200.0 million on May 3, 2005, and to $300.0 million on April 26, 2007. The timing and amounts of any repurchases will depend on many factors, including the market price of the common stock and overall market conditions. Historically, the repurchases to date have been made primarily to eliminate the dilutive effect of shares issued in conjunction with acquisitions, restricted stock grants and stock option exercises. All repurchased shares become authorized but unissued shares of the Company. This repurchase program has no stated expiration date. As of June 30, 2007, 2006, and 2005, a total accumulated 5.1, 3.0, and 2.4 million shares have been repurchased for $176.5, $96.8, and $76.5 million, respectively. As of June 30, 2007, $123.5 million remains to be spent on share repurchases under this program.

Repurchases of the Company s common stock during the quarter ended June 30, 2007 were part of this repurchase program. These shares are included within the total number of shares purchased and the average price paid per share in the table below, which shows the monthly, fourth quarter fiscal year 2007 stock repurchase activity:

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)**
4/1/07 - 4/30/07	582,000	$ 38.88	582,000	$ 139,269
5/1/07 - 5/31/07	403,050	39.17	403,050	123,482
6/1/07 - 6/30/07				123,482
Total	985,050	$ 39.00	985,050	$ 123,482

CEO and CFO Certifications

The certifications by our chief executive officer and chief financial officer required under Section 302 of the Sarbanes-Oxley Act of 2002, have been filed as exhibits to this Annual Report on Form 10-K. Our CEO s annual certification pursuant to NYSE Corporate Governance Standards Section 303A.12(a) that our CEO was not aware of any violation by the company of the NYSE s Corporate Governance listing standards was submitted to the NYSE on November 16, 2006.

Item 6. Selected Financial Data

The following table sets forth, in thousands (except per share data), for the periods indicated, selected financial data derived from the Company s Consolidated Financial Statements in Part II, Item 8.

	2007	**2006**	**2005**	**2004**	**2003**
Revenues(a)	$ 2,626,588	$ 2,430,864	$ 2,194,294	$ 1,923,143	$ 1,684,530
Operating income(b)(c)	164,613	204,491	137,890	178,748	157,113
Net income(b)(c)(d)	83,170	109,578	64,631	104,218	85,555
Net income per diluted share	1.82	2.36	1.39	2.26	1.89
Total assets	2,132,114	1,985,324	1,725,976	1,271,859	1,112,955
Long-term debt, including current portion	709,231	622,269	568,776	301,143	301,757
Dividends declared	$ 0.16	$ 0.16	$ 0.16	$ 0.14	$ 0.12

a) Revenues from salons, schools or hair restorations centers acquired each year were $108.0, $165.7, $181.2, $122.3, and $152.9 million during fiscal years 2007, 2006, 2005, 2004, and 2003, respectively.

b) The following significant items affected both operating and net income:

- An impairment charge of $23.0 million ($19.6 million net of tax) associated with the Company s accredited cosmetology schools was recorded in fiscal year 2007. An impairment charge of $4.3 million ($2.8 million net of tax) related to a cost method investment was recorded in fiscal year 2006. An impairment charge of $38.3 million ($38.3 million net of tax) related to goodwill associated with the Company s European business was recorded in fiscal year 2005.

- A net settlement gain of $33.7 million ($21.7 million net of tax) was recognized during fiscal year 2006 stemming from a termination fee collected from Alberto-Culver Company due to the terminated merger Agreement for Sally Beauty Company. The termination fee gain is net of direct transaction-related expenses associated with the terminated merger Agreement.

- Adjustments of $10.8 million ($6.8 million net of tax), $1.0 million ($0.6 million net of tax) and $2.3 million ($1.5 million net of tax) were recorded in fiscal years 2007, 2006 and 2005 related to the Company s self-insurance accruals, primarily prior years workers compensation claims reserves, due to the continued improvement of our safety and return-to-work programs over the recent years as well as changes in state laws.

- Charges of $6.8 million ($4.3 million net of tax), $8.4 million ($5.4 million net of tax), $3.6 million ($2.4 million net of tax), $3.2 million ($2.0 million net of tax), and $3.1 million ($2.0 million net of tax) million related to the impairment of property and equipment at underperforming locations were recorded during fiscal years 2007, 2006, 2005, 2004, and 2003, respectively.

- A $6.5 million ($4.2 million net of tax) charge associated with disposal charges and lease termination fees related to the closure of salons other than in the normal course of business was recorded in fiscal year 2006.

- Fiscal year 2006 includes a $2.8 million ($1.8 million net of tax) charge related to the settlement of a wage and hour lawsuit under the Fair Labor Standards Act (FLSA). Fiscal year 2003 includes a $3.2 million ($2.0 million net of tax) charge related to the settlement of an Equal Employment Opportunity Commission (EEOC).

c) Effective July 1, 2003, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standard No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123), as amended, using the prospective transition method. Effective July 1, 2005, the Company adopted SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123R), using the modified prospective method of application. Total compensation cost for stock-based payment arrangements totaled $4.9, $4.9 and $1.2 and $0.2 million ($3.2, $4.1, $0.8 and $0.1 million after tax) during fiscal years 2007, 2006, 2005 and 2004, respectively. Prior to the adoption of these Statements, no compensation cost for stock-based payment arrangements was recognized in earnings. Refer to Note 1 to the Consolidated Financial Statements for further discussion.

d) An income tax benefit increased reported net income by approximately $4.1 million during fiscal year 2007 due to the reinstatement of the Work Opportunity and Welfare-to-Work Tax Credits during fiscal year 2007. Approximately $1.3 million of this benefit related to credits earned during fiscal year 2006, as the change in tax law during fiscal year 2007 was retroactive to January 1, 2006. Work Opportunity and Welfare-to-Work Tax Credits increased reported net income by $0.8 and $1.8 million during fiscal years 2006 and 2005, respectively. Approximately $0.1 million of the fiscal year 2005 benefit related to credits earned during fiscal year 2004, as the change in tax law during fiscal year 2005 was retroactive to January 1, 2004. Credits recorded in fiscal year 2006 were impacted by the expiration of the Work Opportunity and Welfare-to-Work Tax Credits on December 31, 2005.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

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

- Management s Overview
- Critical Accounting Policies
- Overview of Fiscal Year 2007 Results
- Results of Operations
- Liquidity and Capital Resources

MANAGEMENT S OVERVIEW

Regis Corporation (RGS) owns or franchises beauty salons, hair restoration centers and educational establishments. As of June 30, 2007, we owned, franchised or held ownership interests in over 12,400 worldwide locations. Our locations consisted of 11,881 system wide North American and international salons, 90 hair restoration centers, 56 beauty schools and approximately 400 locations in which we maintain an ownership interest. Our salon concepts offer generally similar products and services and serve mass market consumers. Our salon operations are organized to be managed based on geographical location. Our North American salon operations include 9,826 salons, including 2,168 franchise salons, operating in the United States, Canada and Puerto Rico primarily under the trade names of Regis Salons, MasterCuts, Trade Secret, SmartStyle, Supercuts and Cost Cutters. Our international salon operations include 2,055 salons, including 1,574 franchise salons, located throughout Europe, primarily in the United Kingdom, France, Italy and Spain. Hair Club for Men and Women includes 90 North American locations, including 41 franchise locations. Our beauty schools are managed in aggregate, regardless of geographical location, and include 52 locations in the United States and four locations in the United Kingdom. During fiscal year 2007, we had approximately 62,000 corporate employees worldwide.

Our growth strategy consists of two primary, but flexible, components. Through a combination of organic and acquisition growth, we seek to achieve our long-term objective of eight to ten percent annual revenue growth. We anticipate that going forward, the mix of organic and acquisition growth will be roughly equal. However, depending on several factors, including the ability of our salon development program to keep pace with the availability of real estate for new construction, hair restoration lead generation, the availability of attractive acquisition candidates and same-store sales trends, this mix will vary from year to year. We believe achieving revenue growth of eight to ten percent, including same-store sales increases in excess of two percent, will allow us to increase annual earnings at a low-double-digit growth rate. We anticipate expanding our presence in both North America and Europe. In April 2007, the Company entered the Asian market through an investment in a privately held Japanese company.

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

Salon Business

The strength of our salon business is in the fundamental similarity and broad appeal of our salon concepts that allow flexibility and multiple salon concept placements in shopping centers and neighborhoods. Each concept generally targets the middle market customer, however, each attracts a different demographic. We anticipate expanding all of our salon concepts. When commercial opportunities arise, we anticipate testing and developing new salon concepts to complement our existing concepts.

We execute our salon growth strategy by focusing on real estate. Our salon real estate strategy is to add new units in convenient locations with good visibility and customer traffic, as well as appropriate trade demographics. Our various salon and product concepts operate in a wide range of retailing environments, including regional shopping malls, strip centers and Wal-Mart Supercenters. We believe that the availability of real estate will augment our ability to achieve the aforementioned long-term growth objectives. In fiscal year 2008, although we have tempered our outlook for constructed salons to approximately 350 units, we still expect to add between 500 and 700 net locations through a combination of organic, acquisition and franchise growth. Our long-term outlook anticipates that we will add between 800 to 1,000 net locations each year through a combination of organic, acquisition and franchise growth. Capital expenditures in fiscal year 2008, excluding acquisition expenditures budgeted at $75.0 million, are projected to be approximately $100 million, which includes approximately $50 million for salon maintenance.

Organic salon revenue growth is achieved through the combination of new salon construction and salon same-store sales increases. Each fiscal year, we anticipate building several hundred company-owned salons. We anticipate our franchisees will open several hundred salons as well. Older, unprofitable salons will be closed or relocated. Our long-term outlook for our salon business is for annual consolidated low single digit same-store sales increases. Based on current fashion and economic cycles (i.e., longer hairstyles and lengthening of customer visitation patterns), we project our annual fiscal year 2008 consolidated same-store sales increase to be flat to low-single-digit.

Historically, our salon acquisitions have varied in size from as small as one salon to over one thousand salons. The median acquisition size is approximately ten salons. From fiscal year 1994 to fiscal year 2007, we acquired 7,601 salons, net of franchise buybacks. We anticipate adding several hundred company-owned salons each year from acquisitions. Some of these acquisitions may include buying salons from our franchisees.

Hair Restoration Business

In December 2004, we acquired Hair Club for Men and Women. Hair Club for Men and Women is a provider of hair loss solutions with an estimated five percent share of the $4 billion domestic market. This industry is comprised of numerous locations domestically and is highly fragmented. As a result, we believe there is an opportunity to consolidate this industry through acquisition. Expanding the hair loss business organically and through acquisition would allow us to add incremental revenue which is neither dependent upon, nor dilutive to, our existing salon and school businesses.

Our organic growth plans for hair restoration include the construction of a modest number of new locations in untapped markets domestically and internationally. However, the success of our hair restoration business is not dependent on the same real estate criteria used for salon expansion. In an effort to provide confidentiality for our customers, hair restoration centers operate primarily in professional or medical office buildings. Further, the hair restoration business is more marketing intensive. As a result, organic growth at our hair restoration centers will be dependent on successfully generating new leads and converting them into hair restoration customers. Our growth expectations for our hair restoration business are not dependent on referral business from, or cross marketing with, our hair salon business, but these concepts will be evaluated closely for additional growth opportunities.

Beauty School Business

On April 18, 2007, we entered into a Contribution Agreement with Empire Beauty School Inc. Regis and Empire Beauty School Inc. will each contribute their respective cosmetology school businesses to a newly formed company, Empire Education Group, Inc. The cosmetology schools we contributed comprised substantially all of the beauty schools segment (Refer to Note 11 to the Consolidated Financial Statements). This transaction closed on August 1, 2007 (fiscal year 2008) and we now own a 49.0 percent minority interest in Empire Education Group, Inc. Empire s management team will operate and manage the combined business. Our investment in Empire Education Group, Inc. is accounted for under the equity method.

We realized that in order to maximize the potential of the beauty school division, it would be necessary to invest heavily in information technology platforms and management. We believe merging with Empire is the most efficient and accretive way for us to achieve our goals. This transaction leverages Empire Education Group, Inc. s management expertise, while enabling the Company to maintain a vested interest in the beauty school industry. The consolidated new Empire Education Group, Inc. will own 88 accredited cosmetology schools with revenues of approximately $130 million annually and will be overseen by the current Empire management team.

We will be able to add significant value to the venture with our strong education and marketing programs coupled with the ancillary benefits that the Vidal Sassoon Academies (which are not part of this transaction) and Horst Rechelbacher (the founder of Aveda and a beauty industry icon) will provide. In addition, we will have double the number of qualified graduates who will have placement opportunities at our Regis operated salons.

We recorded a $23.0 million pre-tax ($19.6 million after tax), non-cash goodwill impairment charge as a result of the transaction. We expect the integration of the Regis schools into Empire Education Group, Inc. to take several months and that there will be significant integration costs. Once the integration is complete, we expect to share in significant synergies and operating improvements. Long-term, we expect this transaction to be very accretive and to add significantly more shareholder value than the $23.0 million ($19.6 million net of tax) impairment charge.

CRITICAL ACCOUNTING POLICIES

The Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the 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 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 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 this Form 10-K. We believe the following accounting policies are most critical to aid in fully understanding and evaluating our reported financial condition and results of operations.

Cost of Product Used and Sold

Cost of product used in salon services is determined by applying estimated gross profit margins to service revenues, which are based on historical factors including product pricing trends and estimated shrinkage. In addition, the estimated gross profit margin is adjusted based on the results of physical inventory counts performed at least semi-annually and the monthly monitoring of factors that could impact our usage rates estimates. These factors include mix of service sales, discounting and special promotions.

Cost of product sold to salon customers is determined based on the weighted average cost of product to the Company, adjusted for an estimated shrinkage factor. Product and service inventories are adjusted based on the results of physical inventory counts performed at least semi-annually. During fiscal year 2007, we performed physical inventory counts between September and November and May and June, and adjusted our estimated gross profit margin to reflect the results of the observations. Significant changes in product costs, volumes or shrinkage could have a material impact on our gross margin.

Goodwill

Goodwill is tested for impairment annually or at the time of a triggering event in accordance with the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*. Fair values are estimated based on our best estimate of the expected present value of future cash flows and compared with the corresponding carrying value of the reporting unit, including goodwill. Where available and as appropriate comparative market multiples are used to corroborate the results of the present value method. We consider our various concepts to be reporting units when we test for goodwill impairment because that is where we believe goodwill resides. Our policy is to perform our annual goodwill impairment test during our third quarter of each fiscal year ending June 30.

During the three months ended March 31 of fiscal years 2007, 2006 and 2005, we performed our annual goodwill impairment analysis on our reporting units. Based on our testing, a $23.0 million ($19.6 million net of tax) impairment charge was recorded during fiscal year 2007 related to our beauty school business and a $38.3 million impairment charge was recorded in fiscal year 2005 related to our European business. No impairment charges were recorded during fiscal year 2006.

The recent performance challenges and necessary investments in information technology platforms and management that are required to effectively operate our beauty schools led us to exploring strategic alternatives pertaining to our beauty school operating segment. On August 1, 2007 (fiscal year 2008), we merged our 51 accredited cosmetology schools into Empire Education Group, Inc., creating the largest beauty school operator in North America. This transaction leverages Empire Education Group, Inc. s management expertise, while enabling us to maintain a vested interest in the beauty school industry. During the three months ended March 31, 2007, the terms of the transaction indicated that the estimated fair value of the accredited cosmetology schools was less than the current carrying value of this reporting unit s net assets, including goodwill. Thus, a $23.0 million pre-tax ($19.6 million after tax), non-cash impairment loss was recorded during the three months ended March 31, 2007.

Our fiscal year 2006 analysis indicated that the net book value of our European business and Beauty School business approximated their fair values. The fair value of our North American salons and hair restoration centers exceeded their carrying amounts.

During the three months ended March 31, 2005, we reduced our expectations for our European business based on recent growth trends, and wrote down the carrying value of our European business to reflect its revised estimated fair value.

Long-Lived Assets, Excluding Goodwill

We assess the impairment of long-lived assets annually or when events or changes in circumstances indicate that the carrying value of the assets or the asset grouping may not be recoverable. Our impairment analysis is performed on a salon by salon basis. 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. Recoverability of assets that will continue to be used in our operations is measured by comparing the carrying amount of the asset to the related total estimated future net cash flows. If an asset s carrying value is not recoverable through those cash flows, the asset grouping is considered to be impaired. The impairment is measured by the difference between the assets carrying amount and their fair value, based on the best information available, including market prices or discounted cash flow analysis. During fiscal years 2007, 2006 and 2005, $6.8, $8.4, and $3.6 million of impairment was recorded within depreciation and amortization in the Consolidated Statement of Operations.

Judgments made by management related to the expected useful lives of long-lived assets and the ability to realize undiscounted cash flows in excess of the carrying amounts of such assets are affected by factors such as the ongoing maintenance and improvement of the assets, changes in economic conditions and changes in operating performance. As the ongoing expected cash flows and carrying amounts of long-lived assets are assessed, these factors could cause us to realize material impairment charges.

Purchase Price Allocation

We make numerous acquisitions. The purchase prices are allocated to assets acquired, including identifiable intangible assets, and liabilities assumed based on their estimated fair values at the dates of acquisition. Fair value is estimated based on the amount for which the asset or liability could be bought or sold in a current transaction between willing parties. For our acquisitions, the majority of the purchase price that is not allocated to identifiable assets, or liabilities assumed, is accounted for as residual goodwill rather than identifiable intangible assets. This stems from the value associated with the walk-in customer base of the acquired salons, the value of which is not recorded as an identifiable intangible asset under current accounting guidance and the limited value of the acquired leased site and customer preference associated with the acquired hair salon brand. Residual goodwill further represents our opportunity to strategically combine the acquired business with our existing structure to serve a greater number of customers through our expansion strategies. Identifiable intangible assets purchased in fiscal year 2007, 2006 and 2005 acquisitions totaled $4.5, $17.3, and $9.3 million, respectively. The residual goodwill generated by fiscal year 2007, 2006, and 2005 acquisitions totaled $50.8, $127.3, and $92.3 million, respectively.

Self-insurance Accruals

We use a combination of third party insurance and self-insurance for a number of risks including workers compensation, health insurance, employment practice liability and general liability claims. The liability reflected on our Consolidated Balance Sheet represents an estimate of the undiscounted ultimate cost of uninsured claims incurred as of the balance sheet date. In estimating this liability, we utilize loss development factors prepared by independent third party actuaries. These development factors utilize historical data to project the future development of incurred losses. Loss estimates are adjusted based upon actual claims settlements and reported claims. Although we do not expect the amounts ultimately paid to differ significantly from the estimates, self-insurance accruals could be affected if future claims experience differs significantly from the historical trends and actuarial assumptions. We recorded a positive adjustment to our self-insurance accruals of $10.8 million ($6.8 million net of tax) during fiscal year 2007. The reserve reduction relates primarily to an actuarial reduction in prior years workers compensation claims reserves as a result of continued improvement of our new safety and return-to-work programs over the recent years as well as changes in state laws. In fiscal 2006 and 2005 we increased self-insurance accruals related to prior years claims by $1.0 and $2.3 million, respectively. During fiscal years 2007, 2006, and 2005, our insurance costs were $29.7, $40.5 and $38.2 million, respectively.

Income Taxes

In determining income for financial statement purposes, management must make certain estimates and judgments. These estimates and judgments occur in the calculation of certain tax liabilities and in the determination of the recoverability of certain deferred tax assets, which arise from temporary differences between the tax and financial statement recognition of revenue and expense.

Management must assess the likelihood that deferred tax assets will be recovered. If recovery is not likely, we must increase our provision for taxes by recording a reserve, in the form of a valuation allowance, for the deferred tax assets that will not be ultimately recoverable. Should there be a change in our ability to recover our deferred tax assets, our tax provision would increase in the period in which it is determined that the recovery is more likely than not.

In addition, the calculation of tax liabilities involves dealing with uncertainties in the application of complex tax regulations. Management recognizes potential liabilities for anticipated tax audit issues in the United States and other tax jurisdictions based on our estimate of whether and the extent to which additional taxes will be due. If payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary. If our estimate of tax liabilities proves to be less than the ultimate assessment, a further charge to expense would result. In the United States, fiscal years 2003 and after remain open for federal tax audit. For state tax audits, the statute of limitations generally spans three to four years, resulting in a number of states remaining open for tax audits dating back to fiscal year 2003. Internationally (including Canada), the statute of limitations for tax audits varies by jurisdiction, but generally ranges from three to five years.

Stock-based Compensation Expense

Compensation expense for stock-based compensation is estimated on the grant date using an option-pricing model. During fiscal years 2007, 2006, and 2005, stock-based compensation expense totaled $4.9, $4.9, and $1.2 million, respectively. Our specific weighted average assumptions for the risk free interest rate, expected term, expected volatility and expected dividend yield are documented in Note 1 to the Consolidated Financial Statements. Additionally, under SFAS No. 123R, we are required to estimate pre-vesting forfeitures for purposes of determining compensation expense to be recognized. Future expense amounts for any particular quarterly or annual period could be affected by changes in our assumptions or changes in market conditions.

Contingencies

We are involved in various lawsuits and claims that arise from time to time in the ordinary course of our business. Accruals are recorded for such contingencies based on our assessment that the occurrence is probable, and where determinable, an estimate of the liability amount. Management considers many factors in making these assessments including past history and the specifics of each case. However, litigation is inherently unpredictable and excessive verdicts do occur, which could have a material impact on our Consolidated Financial Statements.

OVERVIEW OF FISCAL YEAR 2007 RESULTS

The following summarizes key aspects of our fiscal year 2007 results:

- Revenues increased 8.1 percent to $2.6 billion and consolidated same-store sales increased 0.2 percent during fiscal year 2007. An increase in average ticket price offset by the continued decline in visitation patterns due to fashion trends resulted in consolidated same-store sales of 0.2 percent. The Company expects fiscal year 2008 same-store sales growth to be consistent with this trend toward flat to low-single-digit same-store sales growth.

- The decrease in operating income as a percentage of consolidated revenues during fiscal year 2007 was in part due to the pre-tax, non-cash goodwill impairment charge of $23.0 million ($19.6 million net of tax) associated with our accredited cosmetology schools. On August 1, 2007 (fiscal year 2008), our schools were contributed to a newly formed company, Empire Education Group, Inc.

Our 49.0 percent investment in Empire Education Group, Inc. will be accounted for under the equity method.

- Total debt at the end of the fiscal year was $709.2 million and our debt-to-capitalization ratio, calculated as total debt as a percentage of total debt and shareholders equity at fiscal year end, increased 200 basis points to 43.7 percent as compared to June 30, 2006.

- The effective income tax rate was adversely impacted by the goodwill impairment charge, which caused a 4.2 percent increase in the rate, as the majority of the associated goodwill written off was not deductible for tax purposes. This was partially offset by Work Opportunity and Welfare-to-Work Tax Credits earned during the fiscal year, which caused a 3.2 percent decrease in the rate.

- Site operating expenses were positively impacted by a $10.8 million ($6.8 million net of tax) reduction in our self-insurance accruals, primarily workers compensation, due to the continued improvement of our safety and return-to-work programs over the recent years as well as changes in state laws.

- Earnings per share decreased to $1.82 per diluted share, down from $2.36 per diluted share in fiscal year 2006, primarily related to the gain on the terminated acquisition settlement in fiscal year 2006 and the schools goodwill impairment charge in fiscal year 2007.

RESULTS OF OPERATIONS

Consolidated Results of Operations

The following table sets forth, for the periods indicated, certain information derived from our Consolidated Statement of Operations in Item 8, expressed as a percent of revenues. The percentages are computed as a percent of total revenues, except as noted.

Results of Operations as a Percent of Revenues

	For the Years Ended June 30,		
	2007	**2006**	**2005**
Service revenues	68.3 %	67.2 %	66.8 %
Product revenues	28.6	29.6	29.6
Royalties and fees	3.1	3.2	3.6
Operating expenses:			
Cost of service(1)	56.6	56.8	57.0
Cost of product(2)	50.6	51.6	51.8
Site operating expenses	7.9	8.2	8.3
General and administrative	12.5	12.1	11.9
Rent	14.6	14.4	14.2
Depreciation and amortization	4.7	4.8	4.2
Goodwill impairment	0.9	0.0	1.7
Terminated acquisition income, net	0.0	(1.4)	0.0
Operating income	6.3	8.4	6.3
Income before income taxes	4.9	7.0	5.3
Net income	3.2	4.5	2.9

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

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

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Consolidated Revenues

Consolidated revenues primarily include revenues of company-owned salons, product and equipment sales to franchisees, beauty schools revenues, hair restoration center revenues, and franchise royalties and fees. As compared to the prior fiscal year, consolidated revenues increased 8.1 percent to $2.6 billion during fiscal year 2007 and 10.8 percent to $2.4 billion during fiscal year 2006. The following table details our consolidated revenues by concept. All service revenues, product revenues (which include product and equipment sales to franchisees), and franchise royalties and fees are included within their respective concept within the table.

	For the Periods Ended June 30,		
	2007	2006	2005
	(Dollars in thousands)		
North American salons:			
Regis	$ 498,577	$ 481,760	$ 475,736
MasterCuts	174,287	174,674	172,792
Trade Secret(1)	253,250	262,862	252,934
SmartStyle	462,321	413,907	351,741
Strip Center(1)	776,995	703,345	621,008
Total North American Salons	2,165,430	2,036,548	1,874,211
International salons(1)	253,430	220,662	226,784
Beauty schools	85,627	63,952	33,911
Hair restoration centers(1)(3)	122,101	109,702	59,388
Consolidated revenues	$ 2,626,588	$ 2,430,864	$ 2,194,294
Percent change from prior year	8.1 %	10.8 %	14.1 %
Salon same-store sales increase(2)	0.2 %		