



REGISCORPORATION

2017 Annual Report

REGIS CORPORATION

To Our Shareholders

On behalf of the entire Board of Regis Corporation, I would like to thank you for your continued support. As a leading provider of beauty salons and cosmetology education, Regis owns, franchises or holds ownership interests in more than 9,000 salon locations employing more than 45,000 employees.

During fiscal 2017 our Board took significant actions to catalyze a strategic transformation of our business. These actions are designed to specifically address systemic underperformance of company-owned salon operations and significantly expand our franchise operations. Early in the year, we announced a strategic shift toward converting company-owned and operated salons into franchised salons. In April 2017 the Board executed a CEO transition, appointing Hugh Sawyer as President and CEO. Hugh has significant experience in leading successful, transformational turnarounds in a variety of situations and industries. Hiring an experienced turnaround CEO, adept at implementing strategic transformations, enables the Company to fast track the changes necessary to drive increased operating performance. In addition to bringing on a new CEO, we have re-shaped our senior management team with a focus on execution of our turnaround strategy.

The Board believes that these changes establish a strong foundation to drive sustainable growth across the business. We are focused on implementing a clear strategy to improve performance over the next several years. While we recognize that there is still considerable work to be done, we are pleased with recent turnaround progress, including:

- Acceleration of the restructuring of our salon portfolio into franchised operations;
- Consideration of strategic alternatives for our underperforming mall segment; and
- An emphasis on a more guest-focused culture, with detailed, measurable operating goals to drive accountability.

Against the backdrop of the operational turnaround of our company-owned salons and a significant shift in our business toward greater franchise opportunities and the considerable uncertainty this created, the Board is focused on retaining and galvanizing our people around these turnaround goals. The Board views our short and long-term incentive structure as a critical lever in executing a successful turnaround. For 2017, our Compensation Committee made several changes to our executive compensation program to reflect shareholder feedback and to align incentive compensation with our strategic goals. Key changes include:

- Increased percentage of performance-based equity awards in our long-term incentive program;
- Alignment of CEO's compensation to shareholder value creation;
- Lengthened performance period for performance-based equity awards; and
- Modified performance metrics to focus management on sustainable earning generation.

As our business evolves, our Compensation Committee will continue to use our incentive compensation programs to support our transformation goals and focus management on performance achievements that will drive value creation for shareholders.

Our Board and management team are working closely to address the challenges in our business and create transformational change for Regis. We also recognize success is measured by a sustainable increase in shareholder value. We remain committed to achieving that goal through serving our four key stakeholders: our guests, our employees, our franchise partners and our shareholders.

We are excited about the future of Regis Corporation and we appreciate the trust you have placed in the Board during this time of turnaround and strategic evolution.

Thank you for your continued investment in Regis.



David P. Williams
Chairman of the Board

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended June 30, 2017

OR

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

For the transition period from to

Commission file number 1-12725

Regis Corporation

(Exact name of registrant as specified in its charter)

Minnesota

State or other jurisdiction of
incorporation or organization

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

41-0749934

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

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

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 ☒ No ☐

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 ☐ No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) 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. ☒

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

Large accelerated filer ☒

Accelerated filer ☐

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

Smaller reporting
company ☐

Emerging growth
company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

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, 2016, was approximately \$511,271,764. The registrant has no non-voting common equity.

As of August 17, 2017, the registrant had 46,407,481 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 fiscal 2017 meeting of shareholders (the "2017 Proxy Statement") (to be filed pursuant to Regulation 14A within 120 days after the registrant's fiscal year-end of June 30, 2017) are incorporated by reference into Part III.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report, as well as information included in, or incorporated by reference from, future filings by the Company with the Securities and Exchange Commission and information contained in written material, press releases and oral statements issued by or on behalf of the Company contains or may contain "forward-looking statements" within the meaning of the federal securities laws, including statements concerning anticipated future events and expectations that are not historical facts. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The forward-looking statements in this document reflect management's best judgment at the time they are made, but all such statements are subject to numerous risks and uncertainties, which could cause actual results to differ materially from those expressed in or implied by the statements herein. Such forward-looking statements are often identified herein by use of words including, but not limited to, "may," "believe," "project," "forecast," "expect," "estimate," "anticipate," and "plan." In addition, the following factors could affect the Company's actual results and cause such results to differ materially from those expressed in forward-looking statements. These factors include the continued ability of the Company to implement its strategy, priorities and initiatives; our ability to attract, train and retain talented stylists; financial performance of our franchisees; acceleration of sale of certain salons to franchisees; the ability of the Company to maintain a satisfactory relationship with Walmart; marketing efforts to drive traffic; changes in regulatory and statutory laws including increases in minimum wages; our ability to manage cyber threats and protect the security of sensitive information about our guests, employees, vendors or Company information; reliance on information technology systems; reliance on external vendors; consumer shopping trends and changes in manufacturer distribution channels; competition within the personal hair care industry; changes in tax exposure; changes in healthcare; changes in interest rates and foreign currency exchange rates; failure to standardize operating processes across brands; financial performance of Empire Education Group; the continued ability of the Company to implement cost reduction initiatives; compliance with debt covenants; changes in economic conditions; changes in consumer tastes and fashion trends; exposure to uninsured or unidentified risks; reliance on our management team and other key personnel or other factors not listed above. Additional information concerning potential factors that could affect future financial results is set forth under Item 1A of this Form 10-K. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. However, your attention is directed to any further disclosures made in our subsequent annual and periodic reports filed or furnished with the SEC on Forms 10-Q and 8-K and Proxy Statements on Schedule 14A.

REGIS CORPORATION
FORM 10-K
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
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PART I

Item 1. Business

General:

Regis Corporation owns, franchises and operates beauty salons. The Company is listed on the NYSE under the ticker symbol "RGS." Unless the context otherwise provides, when we refer to the "Company," "we," "our," or "us," we are referring to Regis Corporation, the Registrant, together with its subsidiaries.

As of June 30, 2017, the Company-owned, franchised or held ownership interests in 9,008 locations worldwide. The Company's locations consist of 8,919 company-owned and franchised salons and 89 locations in which we maintain a non-controlling ownership interest of less than 100%. Each of the Company's salon concepts generally offer similar salon products and services and serve the mass marketplace.

The major services supplied by the Company's salons are haircutting and styling (including shampooing and conditioning), hair coloring and other services. Service revenues comprise approximately 80% of total company-owned revenues. The percentage of company-owned service revenues in fiscal year 2017 attributable to haircutting and styling, hair coloring and other services were 74%, 20% and 6%, respectively.

The Company reports its operations in four operating segments: North American Value, North American Franchise, North American Premium and International. See Note 13 to the Consolidated Financial Statements in Part II, Item 8, of this Form 10-K. The Company's North American Value salon operations are comprised of 5,439 company-owned salons operating in the United States (U.S.), Canada, and Puerto Rico. The Company's North American Franchise salon operations are comprised of 2,633 franchised salons operating in the United States, Canada, and Puerto Rico. The Company's North American Premium salon operations are comprised of 559 company-owned salons operating in the U.S., Canada, and Puerto Rico. The Company's International operations are comprised of 275 company-owned salons and 13 franchised salons in the United Kingdom. The Company's salons operate primarily under the trade names of SmartStyle, Supercuts, MasterCuts, Regis Salons, and Cost Cutters, and they generally serve two categories within the industry, value and premium. SmartStyle, Supercuts, MasterCuts, Cost Cutters, and other regional trade names are generally within the value category, offering high quality, convenience, and affordably priced hair care and beauty services and retail products. Regis Salons, among other trade names, are in the premium category, offering upscale hair care and beauty services and retail products. The Company's North American Value and North American Franchise businesses are located mainly in strip center locations and Walmart Supercenters and the North American Premium business is primarily in mall-based locations. During fiscal years 2017 and 2016, the number of guest visits at the Company's company-owned salons approximated 67 and 72 million, respectively.

Financial information about our segments and geographic areas for fiscal years 2017, 2016, and 2015 are included in Note 13 to the Consolidated Financial Statements in Part II, Item 8, of this Form 10-K.

In fiscal year 2017, we announced plans to expand the franchise side of our business, through organic growth and by selling certain company-owned salons to franchisees over time. In January 2017, we began franchising the SmartStyle brand throughout the U.S. for the first time, and entered into agreements to sell 233 of our company-owned salons across our brands to new and existing franchisees, of which not all have closed as of June 30, 2017.

Industry Overview:

The hair salon market is highly fragmented, with the vast majority of locations independently owned and operated. However, the influence of salon chains, both franchised and company-owned, continues to grow within this market. Management believes salon chains will continue to have significant influence on this market and will continue to increase their presence.

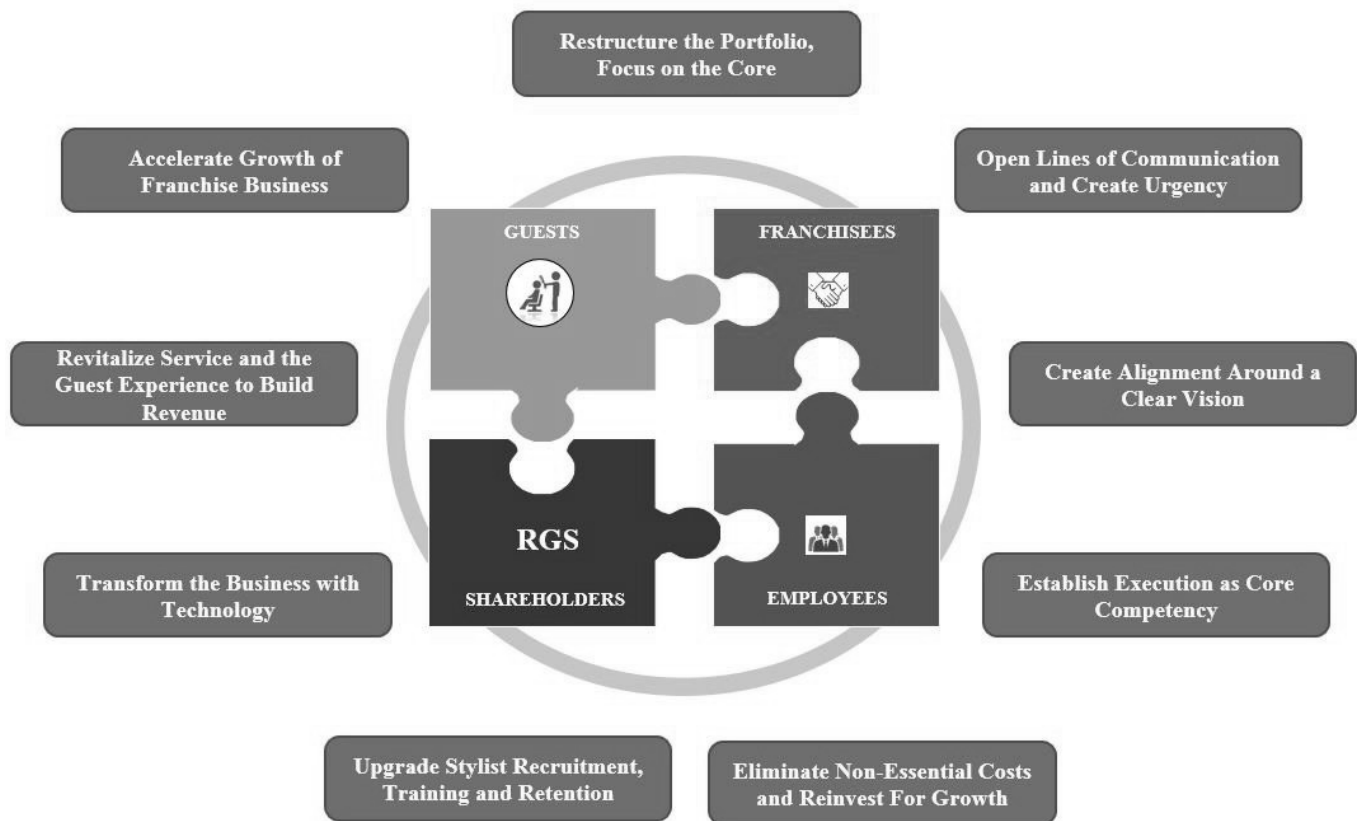
In every area in which the Company has a salon, there are competitors offering similar hair care services and products at similar prices. The Company faces competition from smaller chains of salons such as Great Clips, Fantastic Sams, Sport Clips and Ulta Beauty, independently owned salons, department store salons located within malls, in-home hair services, booth rentals and blow dry bars.

At the individual salon level, barriers to entry are low; however, barriers exist for chains to expand nationally due to the need to establish systems and infrastructure, to recruit experienced field and salon management and stylists, and to lease quality sites. The principal factors of competition in the hair care category are quality and consistency of the guest experience, convenience, location and price. The Company continually strives to improve its performance in each of these areas and to create additional points of brand differentiation versus the competition.

Strategy:

The Company is focused on maximizing shareholder value. In order to successfully maximize shareholder value we place a balanced approach to our guests, employees and stylists, franchisees and shareholders. Our strategy and priorities are focused on loving our guests and stylists and initiatives to enhance shareholder value. Achieving our strategy requires a disciplined and thoughtful approach to investing and disinvesting in programming. We are focused on accelerating the growth of our franchise business while materially improving the performance of our company-owned salons.

Key Elements of Our Strategy



Since the appointment of Hugh Sawyer as Chief Executive Officer in April 2017, the Company has executed a 120-day plan and other initiatives to help stabilize performance and establish a platform for longer term revenue and earnings growth in company-owned salons in order to maximize shareholder value. The core components of the 120-day plan are focused on improving upon our performance by better aligning company resources to demand while continuing to provide an exceptional guest experience, simplification of our business to grow revenues and disinvestment of certain programs that do not create value. As part of the 120-day plan, the Company has appointed several new key executives and personnel, including President of Franchise, Chief Financial Officer, Chief Marketing Officer, Chief Human Resources Officer, Vice President of Walmart Relations and Vice President Creative. To date, the initial returns on the Company's 120-day plan and other initiatives have been favorable and it is anticipated that these favorable year-over-year returns will continue to build in fiscal year 2018.

In order to continue providing an exceptional guest experience, we are investing in salon technology by launching SmartStyle online same-day check-in, which allows our guests in Walmart locations to find a location near them, view wait times, check-in via our website or mobile app and upgrading our point-of-sale (POS) hardware to facilitate an efficient guest experience within the salons and deploying tablets in corporate-owned salons to open a channel of direct communication with our stylists, including technical education.

To maximize shareholder value, we are focused on simplification, variable labor management, quality revenue growth, and the allocation of our capital to value-maximizing initiatives. Our business historically has been structured geographically. To simplify and better focus our business on our guests, effective August 1, 2017, we re-aligned the existing field leadership team into four distinct field organizations based on our core brands: SmartStyle, Supercuts, Signature Style and Premium | Mall Brands. This will enable our field leaders to focus on specific brands. Additionally, during the fourth quarter of fiscal 2017, we

focused on managing variable stylist staffing in our corporate salons to improve financial results and executed a price increase across our company-owned salons to grow revenues.

We continue to evaluate our investments and disinvest in non-value generating programs while investing in other value generating initiatives. As an example, we repurposed certain corporate programs and have invested in our creative digital capabilities to re-position Regis as the leading operator of value brands and technical education. Furthermore, we have launched a national SmartStyle digital advertising campaign to drive traffic to our SmartStyle locations in Walmart Supercenters and leverage our relationship with Walmart. We will continue this evaluation as we make decisions in the business.

As part of this evaluation of investments, the Company announced its review of strategic alternatives for the company-owned mall locations and divested its ownership interest in MyStyle.

At the same time, we are making thoughtful decisions to accelerate the growth of our franchise business, including the promotion of Eric Bakken to President of our Franchise business. This strategic initiative is intended to facilitate an ongoing multi-year transformation of our operating platform that balances our commitment to high-performing company-owned salons while enabling strategic optionality and the ongoing growth of our franchise business.

Guests

Among other factors, consistent delivery of an exceptional guest experience, haircut quality, convenience, competitive pricing, salon location, inviting salon appearance and atmosphere, differentiating benefits and guest experience elements and comprehensive retail assortments, all drive guest traffic and improve guest retention.

Guest Experience. Our portfolio of salon concepts enable our guests to select different service scheduling options based upon their preference. We believe that in the value category, the ability to serve walk-in appointments and minimize guest wait times is an essential element in delivering an efficient guest experience. Our mobile app and online check-in for Supercuts and SmartStyle allows us to capitalize on our guests' desire for convenience. We continue to focus on stylist staffing and retention, optimizing schedules and leveraging our POS systems to help us balance variable labor hours with guest traffic and manage guest wait times. In the Premium category, our salons generally schedule appointments in advance of service. Our salons are located in high-traffic strip centers, Walmart Supercenters and shopping malls, with guest parking and easy access, and are generally open seven days per week, offering guests a variety of convenient ways to fulfill their beauty needs.

Affordability. The Company strives to offer an exceptional value for its services. In the value category, our guests expect outstanding service at competitive prices. These expectations are met with average service transactions ranging from \$18 to \$22. In the premium category, our guests expect upscale, full service beauty services at reasonable prices. Average service transactions approximate \$49 in this category. Pricing decisions are considered on a salon level basis and established based on local conditions.

Salon Appearance and Atmosphere. The Company's salons range from 500 to 5,000 square feet, with the typical salon approximating 1,200 square feet. Our salon repairs and maintenance program is designed to ensure we invest in salon cleanliness and safety, as well as in maintaining the normal operation of our salons. Our annual capital expenditures include funds to refresh the appeal and comfort of our salons.

Retail Assortments. The Company's salons sell nationally recognized hair care and beauty products, as well as a complete assortment of owned brand products. The Company's stylists are compensated and regularly trained to sell hair care and beauty products to their guests. Additionally, guests are encouraged to purchase products after stylists demonstrate their efficacy by using them in the styling of our guests' hair. The top selling brands within the Company's retail assortment include Regis designLINE, Paul Mitchell, Biolage, Redken, Sexy Hair Concepts, Nioxin, Kenra, It's a 10, Total Results, and Tigi.

Technology. Our point of sale (POS) systems have the ability to collect guest and transactional data and enable the Company to invest in guest relationship management, gaining insights into guest behavior, communicating with guests and incenting return visits. Leveraging this technology allows us to monitor guest retention and to survey our guests for feedback on improving the guest experience. Our mobile apps, including the recently launched SmartStyle mobile app, allow guests to view wait times and interact in other ways with salons. We are currently making further investments to improve the speed of our POS technology, improving the overall guest experience.

Marketing. We are investing in advertising to drive traffic. This includes leveraging advertising and media, guest relationship management programs, digital programs, one-on-one communications and local tactical efforts (e.g., couponing), among other programs. Traffic driving efforts are targeted vs. a one-size-fits-all approach. Annual advertising and promotional

plans are based on seasonality, consumer mindset, competitive positioning and return on investment. We continually reallocate marketing investments into opportunities we believe represent the highest return to our shareholders.

Stylists

Our organization depends on its stylists to help deliver great guest experiences.

Field Leadership. As of August 1, 2017, we reorganized our field leadership by brand. This change will simplify and better focus our business by re-aligning the existing field leaders into four distinct field organizations: SmartStyle, Supercuts, Signature Style, and Premium | Mall Brands. Previously, these field leaders were responsible for a variety of brands, with different business models, services, pay plans and guest expectations. Post-reorganization, each field leader is dedicated to a specific brand. We believe the new structure will further enable our field leadership to focus on quality guest experiences, enable improved salon execution, drive same-store sales traffic growth and simplify our operations.

Development of our field leaders is a high priority because stylists depend on their salons and field leaders for coaching, mentoring and motivation. Our training curriculum serves as the foundation for ongoing leadership development. Role clarity and talent assessments help us identify ways to develop and upgrade field leadership. Execution disciplines are used to drive accountability, execution and business performance. Incentives are designed to align field interests with those of the Company's shareholders by rewarding behaviors focused on revenue and EBITDA growth. This organization structure also provides a clear career path for our people who desire to ascend within the Company.

Technical Education. We place a tremendous amount of importance in ongoing development of our stylists' craft. We intend to be the industry leader in technical training, including the utilization of digital training. Our stylists deliver a superior experience for our guests when they are well trained technically and experientially. We employ technical trainers who provide new hire training for stylists joining the Company from beauty schools and training for all stylists in current beauty care and styling trends. We supplement internal training with targeted vendor training and external trainers who bring specialized expertise to our stylists. We utilize training materials to help all levels of field employees navigate the running of a salon and essential elements of guest service training within the context of brand positions.

Recruiting. Ensuring that we attract, train and retain our stylists is critical to our success. We compete with all service industries for our stylists; to that end, we continue to enhance our recruiting efforts across all levels within our organization and are focused on showing our stylists a path forward. We cultivate a pipeline of field leaders through succession planning and recruitment venues from within and outside the salon industry. We also leverage beauty school relationships and participate in job fairs and industry events.

Technology. Our POS systems and salon workstations throughout North America enable communication with salons and stylists, delivery of online and digital training to stylists, salon level analytics on guest retention, wait times, stylist productivity, and salon performance. We are currently making further investments in our POS hardware and salon technology to improve the speed of our systems allowing for stylists to be more productive and improve overall guest and stylist satisfaction. We are also deploying tablets to salons to enhance the channel of communication with our stylists and enable digital training.

Salon Support

Our corporate headquarters is referred to as Salon Support. This acknowledges that loving our guests and stylists mandates a service-oriented, guest and stylist-focused mentality in supporting our field organization.

Organization. Salon Support and our associated priorities are aligned to our field organization to enhance the effectiveness and efficiency of the service we provide and optimize the guest experience.

Simplification. Our ongoing simplification efforts focus on improving the way we plan and execute across our portfolio of brands. Every program, communication, and report that reduces time in front of our guests is being assessed for simplification or elimination. Simplifying processes and procedures around scheduling, inventory management, day-to-day salon execution, communication and reporting improve salon service. Our organization also remains focused on identifying and driving cost savings and profit enhancing initiatives that do not harm the guest experience.

Salon Concepts:

The Company's salon concepts focus on providing high quality hair care services and professional products, primarily to the mass market. A description of the Company's salon concepts are listed below:

SmartStyle. SmartStyle salons offer a full range of custom styling, cutting, and hair coloring, as well as professional hair care products and are located exclusively in Walmart Supercenters. SmartStyle has primarily a walk-in guest base with value pricing. Service revenues represent approximately 69% of total company-owned SmartStyle revenues. Additionally, the Company has 62 franchised SmartStyle and 114 franchised Cost Cutters salons located in Walmart Supercenters.

Supercuts. Supercuts salons provide consistent, high quality hair care services and professional products to its guests at convenient times and locations at value prices. This concept appeals to men, women, and children. Service revenues represent approximately 91% of total company-owned Supercuts revenues. Additionally, the Company has 1,687 franchised Supercuts locations throughout North America.

MasterCuts. MasterCuts salons are a full service, mall-based salon group which focuses on the walk-in consumer who 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 and hair coloring services, as well as professional hair care products. Service revenues comprise approximately 83% of the concept's total revenues.

Signature Style. Signature Style salons are made up of acquired regional company-owned salon groups operating under the primary concepts of Hair Masters, Cool Cuts for Kids, Style America, First Choice Haircutters, Famous Hair, Cost Cutters, BoRics, Magicuts, Holiday Hair, Head Start, Fiesta Salons, and TGF, as well as other concept names. Most concepts offer a full range of custom hairstyling, cutting and coloring services, as well as hair care products. Service revenues represent approximately 89% of total company-owned Signature Style salons revenues. Additionally, the Company has 770 franchised locations of Signature Style salons.

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. At Regis Salons both appointments and walk-in guests are common. These salons offer a full range of custom styling, cutting and hair coloring services, as well as professional hair care products. Service revenues represent approximately 83% of the concept's total revenues. Regis Salons compete in their existing markets primarily by providing high quality services. Included within the Regis Salon concept are various other trade names, including Carlton Hair, Sassoon salons and academies, Hair by Stewarts, Hair Excitement, and Renee Beauty.

International Salons. International salons are comprised of company-owned salons and academies operating in the United Kingdom and Germany primarily under the Supercuts, Regis, and Sassoon concepts. These salons offer similar levels of service as our North American salons. 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 in prominent high-traffic locations and offer a full range of custom hairstyling, cutting and coloring services, as well as professional hair care products. Service revenues comprise approximately 77% of total company-owned international locations. Additionally, the Company has 13 franchised locations of International salons.

The tables on the following pages set forth the number of system-wide locations (company-owned and franchised) and activity within the various salon concepts.

System-wide location counts

	June 30,		
	2017	2016	2015
Company-owned salons:			
SmartStyle in Walmart stores	2,652	2,683	2,639
Supercuts	980	1,053	1,092
MasterCuts	339	430	466
Signature Style	1,468	1,604	1,711
Regis	559	694	761
Total North American salons(1)	5,998	6,464	6,669
Total International salons(2)	275	328	356
Total, Company-owned salons	6,273	6,792	7,025
Franchised salons:			
SmartStyle in Walmart stores(3)	62	11	11
Cost Cutters in Walmart stores	114	114	116
Supercuts	1,687	1,579	1,393
Signature Style	770	792	804
Total North American salons	2,633	2,496	2,324
Total International salons(2)	13	—	—
Total, Franchised salons	2,646	2,496	2,324
Ownership interest locations:			
Equity ownership interest locations	89	195	207
Grand Total, System-wide	9,008	9,483	9,556

Constructed Locations (net relocations)

	Fiscal Years		
	2017	2016	2015
Company-owned salons:			
SmartStyle in Walmart stores	37	51	68
Supercuts	2	5	7
MasterCuts	—	—	—
Signature Style	—	1	1
Regis	—	—	—
Total North American salons(1)	39	57	76
Total International salons(2)	2	9	15
Total, Company-owned salons	41	66	91
Franchised salons:			
SmartStyle in Walmart stores(3)	—	—	1
Cost Cutters in Walmart stores	—	—	—
Supercuts	111	146	126
Signature Style	27	24	13
Total North American salons(1)	138	170	140
Total International salons(2)	8	—	—
Total, Franchised salons	146	170	140

Closed Locations

	Fiscal Years		
	2017	2016	2015
Company-owned salons:			
SmartStyle in Walmart stores	(11)	(7)	(3)
Supercuts	(51)	(17)	(36)
MasterCuts	(91)	(36)	(39)
Signature Style	(123)	(77)	(114)
Regis	(135)	(67)	(55)
Total North American salons(1)	(411)	(204)	(247)
Total International salons(2)	(50)	(37)	(19)
Total, Company-owned salons	(461)	(241)	(266)
Franchised salons:			
SmartStyle in Walmart stores(3)	(1)	—	—
Cost Cutters in Walmart stores	(5)	(2)	—
Supercuts	(44)	(22)	(22)
Signature Style	(43)	(32)	(50)
Total North American salons(1)	(93)	(56)	(72)
Total International salons(2)	—	—	—
Total, Franchised salons	(93)	(56)	(72)

Conversions (including net franchisee transactions)(4)

	Fiscal Years		
	2017	2016	2015
Company-owned salons:			
SmartStyle in Walmart stores	(57)	—	—
Supercuts	(24)	(27)	(55)
MasterCuts	—	—	—
Signature Style	(13)	(31)	(22)
Regis	—	—	—
Total North American salons(1)	(94)	(58)	(77)
Total International salons(2)	(5)	—	—
Total, Company-owned salons(5)	(99)	(58)	(77)
Franchised salons:			
SmartStyle in Walmart stores(3)	52	—	—
Cost Cutters in Walmart stores	5	—	—
Supercuts	41	62	76
Signature Style	(6)	(4)	1
Total North American salons(1)	92	58	77
Total International salons(2)	5	—	—
Total, Franchised salons(5)	97	58	77

- (1) The North American Value operating segment is comprised primarily of the SmartStyle, Supercuts, MasterCuts and Signature Style salon brands. The North American Premium operating segment is comprised primarily of the Regis salon brands.

- (2) Canadian and Puerto Rican salons are included in the North American salon totals.
- (3) Franchised SmartStyle salons in Walmart stores includes salons originally opened as Magicuts locations in Canadian Walmart stores that were rebranded to SmartStyle.
- (4) During fiscal years 2017, 2016, and 2015, the Company acquired one, one, and zero salon locations, respectively, from franchisees. During fiscal years 2017, 2016, and 2015, the Company sold 100, 59, and 77 salon locations, respectively, to franchisees.
- (5) As of June 30, 2017, two of the conversions were not yet completed.

Salon Franchising Program:

General. We have various franchising programs supporting our 2,646 franchised salons as of June 30, 2017, consisting mainly of Supercuts, SmartStyle, Cost Cutters, First Choice Haircutters, Roosters and Magicuts. These salons have been included in the discussions regarding salon counts and concepts.

We provide our franchisees with a comprehensive system of business training, stylist education, site approval and lease negotiation, construction management services, professional marketing, promotion, and advertising programs, and other forms of on-going support designed to help franchisees build successful businesses.

Standards of Operations. The Company does not control the day-to-day operations of its franchisees, including employment, benefits and wage determination, 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 locations, suppliers and the sale of a franchise. Additionally, franchisees are required to conform to the Company's established operational policies and procedures relating to quality of service, training, salon design and decor, and trademark usage. The Company's field personnel make periodic visits to franchised salons to ensure they are operating in conformity with the standards for each franchising program. All of the rights afforded to the Company with regard to franchised 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 franchised salons. The Company's franchise agreements do not give the Company any right, ability or potential to determine or otherwise influence any terms and/or conditions of employment of franchisees' employees (except for those, if any, that are specifically related to quality of service, training, salon design, decor, and trademark usage), including, but not limited to, franchisees' employees' wages and benefits, hours of work, scheduling, leave programs, seniority rights, promotional or transfer opportunities, layoff/recall arrangements, grievance and dispute resolution procedures, dress code, and/or discipline and discharge.

Franchise Terms. Pursuant to a 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 concepts. Franchisees are responsible for the costs of leasehold improvements, furniture, fixtures, equipment, supplies, inventory, payroll costs and certain other items, including initial working capital. The majority of franchise agreements provide the Company a right of first refusal if the store is to be sold and the franchisee must obtain the Company's approval in all instances where there is a sale of a franchise location.

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

Supercuts

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. All new franchisees enter into development agreements, which give them the right to enter into a defined number of franchise agreements. These franchise agreements are site specific. The development agreement provides limited territorial protection for the stores developed under those franchise agreements. Older franchisees have grandfathered expansion rights which allow them to develop stores outside of development agreements and provide them with greater territorial protections in their markets. The Company has a comprehensive impact policy that resolves potential conflicts among Supercuts franchisees and/or the Company's Supercuts locations regarding proposed store sites.

SmartStyle

The majority of existing SmartStyle franchise agreements have a five year term with a five year option to renew. The franchise agreements are site specific to salons located in Walmart Supercenters. As announced in January 2017, this business is growing both organically and through transfers from corporate to franchise-owned salons.

Cost Cutters, First Choice Haircutters and Magicuts

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. The current franchise agreement is site specific. Franchisees may enter into development agreements with the Company which provide limited territorial protection.

Roosters Men's Grooming Center

Roosters franchise agreements have a ten-year term with a ten-year option to renew (at the option of the franchisee). New franchisees enter into a franchise agreement concurrent with the opening of their first store, along with a development agreement under which they have the right to open two additional locations.

Franchisee Training. The Company provides new franchisees with training, focusing on the various aspects of salon management, including operations, personnel management training, marketing fundamentals, and financial controls. Existing franchisees receive training, counseling and information from the Company on a regular basis. The Company provides salon managers and stylists with technical training for Supercuts and SmartStyle franchisees.

Salon Markets and Marketing:

Company-Owned Salons

The Company utilizes various marketing vehicles for its salons, including traditional advertising, guest relationship management, digital marketing programs and promotional/pricing based programs. A predetermined allocation of revenue is used for such programs. Most marketing vehicles including radio, print, online, digital and television advertising are developed and supervised at the Company's Salon Support headquarters. The Company reviews its brand strategy with the intent to create more clear communication platforms, identities and differentiation points for our brands to drive consumer preference.

Franchised Salons

Most franchise concepts maintain separate advertising funds that provide comprehensive marketing and sales support for each system. The Supercuts advertising fund is the Company's largest advertising fund and is administered by a council consisting of primarily franchisee representatives. The council has overall control of the advertising fund's expenditures and operates in accordance with terms of the franchise operating and other agreements. All stores, company-owned and franchised, contribute to the advertising 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 and system-wide activities.

Affiliated Ownership Interests:

The Company maintains ownership interests in beauty schools. The primary ownership interest is a 54.6% interest in Empire Education Group, Inc. (EEG), which is accounted for as an equity method investment. See Note 1 to the Consolidated Financial Statements in Part II, Item 8, of this Form 10-K. EEG operates accredited cosmetology schools. Contributing the Company's beauty schools in fiscal 2008 to EEG leveraged EEG's management expertise, while enabling the Company to maintain a vested interest in the beauty school industry. Additionally, we utilize our EEG relationship to recruit stylists straight from beauty school.

Corporate Trademarks:

The Company holds numerous trademarks, both in the United States and in many foreign countries. The most recognized trademarks are "SmartStyle," "Supercuts," "MasterCuts," "Regis Salons," "Cost Cutters," "Hair Masters," "First Choice Haircutters," and "Magicuts."

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

Corporate Employees:

As of June 30, 2017, the Company had approximately 41,000 full and part-time employees worldwide, of which approximately 36,000 employees were located in the United States. The Company believes its employee relations are amicable.

Executive Officers:

Information relating to the Executive Officers of the Company follows:

Name	Age	Position
Hugh Sawyer	63	President and Chief Executive Officer
Andrew Lacko	47	Executive Vice President and Chief Financial Officer
Eric Bakken	50	President of Franchise, Executive Vice President, Chief Administrative Officer, Corporate Secretary and General Counsel
Jim Lain	53	Executive Vice President and Chief Operating Officer
Andrew Dulka	43	Senior Vice President and Chief Information Officer
Annette Miller	55	Senior Vice President and Chief Merchandising Officer
Shawn Moren	50	Senior Vice President and Chief Human Resources Officer
Rachel Endrizzi	41	Senior Vice President and Chief Marketing Officer

Hugh Sawyer has served as President and Chief Executive Officer, as well as a member of the Board of Directors, since April 2017. Before joining Regis Corporation, he served as a Managing Director of Huron Consulting Group Inc. ("Huron") from January 2010 to April 2017. While at Huron, he served as Interim President and CEO of JHT Holdings, Inc. from January 2010 to March 2012, as the Chief Administrative Officer of Fisker Automotive Inc. from January 2013 to March 2013 and as Chief Restructuring Officer of Fisker Automotive from March 2013 to October 2013, and as Interim President of Euramax International, Inc. from February 2014 to August 2015. Mr. Sawyer has served as President or CEO of nine companies (including Regis) and on numerous Boards of Directors.

Andrew Lacko was appointed to Executive Vice President and Chief Financial Officer in July 2017. Before joining Regis Corporation, he served as Senior Vice President, Global Financial Planning, Analysis and Corporate Development, of Hertz Global Holdings, Inc. since 2015 and as Vice President - Financial Planning and Analysis of Hertz Global Holdings, Inc. beginning in January 2014. Before joining Hertz, Mr. Lacko served as Vice President, Financial Planning and Analysis at First Data Corp. from 2013 to January 2014. Prior to that, Mr. Lacko served in senior financial planning and analysis and investor relations roles at Best Buy Co., Inc. from 2008 to 2013.

Eric Bakken has served as President of Franchise since April 2017 and as Executive Vice President, Chief Administrative Officer, Corporate Secretary and General Counsel since April 2013. He also served as Interim Chief Financial Officer from September 2016 to January 2017. He served as Executive Vice President, General Counsel and Business Development and Interim Corporate Chief Operating Officer from 2012 to April 2013, and performed the function of interim principal executive officer between July 2012 and August 2012. Mr. Bakken joined the Company in 1994 as a lawyer and became General Counsel in 2004.

Jim Lain has served as Executive Vice President and Chief Operating Officer since November 2013. Before joining Regis Corporation, he served as Vice President at Gap, Inc. from August 2006 to November 2013.

Andrew Dulka has served as Senior Vice President and Chief Information Officer since May 2015. Prior to his current role, he served as Vice President, Retail Systems and Enterprise Architecture from July 2012 to April 2015.

Annette Miller has served as Senior Vice President and Chief Merchandising Officer since December 2014. Before joining Regis Corporation, she served as Senior Vice President of Merchandising, Grocery at Target from 2010 to 2014.

Shawn Moren was appointed to Senior Vice President and Chief Human Resources Officer in August 2017. Before joining Regis Corporation, she served as Senior Vice President, Human Resources, for Bluestem Group, Inc. from July 2013 to August 2017. Prior to that, she served as Vice President, Human Resources, Retail, Supply Chain & Corporate for SUPERVALU during 2013 and as Group Vice President, Human Resources for SUPERVALU from March 2012 to March 2013.

Rachel Endrizzi has served as Senior Vice President and Chief Marketing Officer since May 2017. She joined Regis Corporation in 2004 and most recently served as Vice President, Branding and Marketing Communications.

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 franchise laws and regulations in the provinces of Ontario, Alberta, Manitoba, New Brunswick and Prince Edward Island. The offering of franchises in Canada occurs by way of a disclosure document, which contains certain disclosures required by the applicable provincial laws. The provincial franchise laws and regulations 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.

The Company believes it is operating in substantial compliance with applicable laws and regulations governing all of its operations.

The Company maintains an ownership interest in EEG. 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. Department of Education.

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 13 to the Consolidated Financial Statements in Part II, Item 8 of this Form 10-K.

Available Information

The Company is subject to the informational requirements of the Securities and Exchange Act of 1934, as amended (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 NE, Washington, DC 20549, or by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet site (www.sec.gov) that contains reports, proxy and information statements and other information.

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

We are in the process of implementing, and may further implement, a new strategy, priorities and initiatives under our recently appointed President and Chief Executive Officer, which could affect our performance and could result in an alteration of our strategy moving forward, and any inability to evolve and execute these strategies over time could adversely impact our financial condition and results of operations.

Hugh E. Sawyer became our new President and Chief Executive Officer and a member of the Board of Directors effective as of April 17, 2017. The transition has resulted in, and could further result in, changes in business strategy as Mr. Sawyer seeks to continue to improve the performance of company-owned salons while at the same time accelerate the growth of our franchise model. To date, we have announced that we are seeking strategic alternatives for our mall-based salons, a reorganization of our field structure by brand/concept, and implemented a 120-day plan and other initiatives, including investments in marketing and a SmartStyle mobile app, designed to improve the guest experience.

Our success depends, in part, on our ability to grow our franchise model. We announced plans in fall 2016 to expand the franchise side of our business, including by selling certain company-owned salons to franchisees over time. In January

2017, we began franchising the SmartStyle brand throughout the U.S. for the first time, and during the second half of fiscal 2017, we entered into agreements to sell 233 of our company-owned salons across our brands to new and existing franchisees. This initiative is still in an early stage. It will take time to execute, and we may not be able to effectively do so. Furthermore, it may create additional costs, expose us to additional legal and compliance risks, cause disruption to our current business and impact our short-term operating results.

Our success also depends, in part, on our ability to improve sales, as well as both cost of service and product and operating margins at our company-owned salons. Same-store sales are affected by average ticket and same-store guest visits. A variety of factors affect same-store guest visits, including the guest experience, staffing and retention of stylists and salon leaders, price competition, fashion trends, competition, current economic conditions, product assortment, customer traffic at Walmart where our SmartStyle locations reside, marketing programs and weather conditions. These factors may cause our same-store sales to differ materially from prior periods and from our expectations.

In addition to a new President and Chief Executive Officer, since May we have appointed a new President of Franchise, Chief Financial Officer, Chief Marketing Officer, Chief Human Resources Officer, Vice President of Walmart Relations and Vice President Creative, and over the next fiscal year we may add personnel in a number of key positions, which may further result in new strategies, priorities and initiatives. The process of implementing any new strategies, priorities and initiatives involves inherent risks and the changes we implement could harm our relationships with customers, suppliers, employees or other third parties and may be disruptive to our business. While we believe the pursuit of these changes will have a positive effect on our business in the long term, we cannot provide assurance that these changes will lead to the desired results. If we do not effectively and successfully execute on these changes, it could have a material adverse effect on our business.

It is important for us to attract, train and retain talented stylists and salon leaders.

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

Our continued success depends in part on the success of our franchisees, who operate independently.

As of June 30, 2017, approximately 29% of our salons were franchised locations and we intend to expand our number of franchised locations. We derive revenues associated with our franchised locations from royalties, service fees and product sales to franchised locations. Our financial results are therefore dependent in part upon the operational and financial success of our franchisees. As we increase our focus on our franchise business, our dependence on our franchisees grows.

We have limited control over how our franchisees' businesses are run. Though we have established operational standards and guidelines, they own, operate and oversee the daily operations of their salon locations. If franchisees do not successfully operate their salons in compliance with our standards, our brand reputation and image could be harmed and our financial results could be affected. We could experience greater risks as the scale of our franchise owners increases. Further, some franchise owners may not successfully execute the turnaround of under-performing salons which we have transferred to them.

In addition, our franchisees are subject to the same general economic risks as our Company, and their results are influenced by competition for both guests and stylists, market trends, price competition and disruptions in their markets due to severe weather and other external events. Like us, they rely on external vendors for some critical functions and to protect their company data. They may also be limited in their ability to open new locations by an inability to secure adequate financing, especially since many of them are small businesses with much more limited access to financing than our Company, or by the limited supply of favorable real estate for new salon locations. They may experience financial distress as a result of over-leveraging, which could negatively affect our operating results as a result of delayed payments to us. The bankruptcy of a franchisee could also expose us to liability under leases, which are generally sub-leased by us to our franchisees.

A deterioration in the financial results of our franchisees, or a failure of our franchisees to renew their franchise agreements, could adversely affect our operating results through decreased royalty payments, fees and product revenues.

Acceleration of the sale of certain company-owned salons to franchisees may not improve our operating results and could cause operational difficulties.

During fiscal 2017, we accelerated the sale of company-owned salons to new and existing franchisees. Specifically, in January 2017, we began offering SmartStyle franchises for the first time, and during fiscal 2017 we entered into agreements to rebrand 233 salons across our brands.

Success will depend on a number of factors, including franchisees' ability to improve the results of the salons they purchase and their ability and interest in continuing to grow their business. We also must continue to attract qualified franchisees and work with them to make their business successful. Moving a salon from company-owned to franchisee-owned is expected to reduce our consolidated revenues, increase our royalty revenue and decrease our operating costs; however, the actual benefit from a sale is uncertain and may not be sufficient to offset the loss of revenues.

In addition, challenges in supporting our expanding franchise system could cause our operating results to suffer. If we are unable to effectively select and train new franchisees and support and manage our growing franchisee base, it could affect our brand standards, cause disputes between us and our franchisees, and potentially lead to material liabilities.

The continued unit growth and operation of the SmartStyle business is completely dependent on our relationship with Walmart.

At June 30, 2017, we had 2,828 SmartStyle or Cost Cutters salons within Walmart locations, including 37 salons opened during fiscal year 2017 (net of relocations). Walmart is by far our largest landlord, and we are Walmart's largest tenant. Our business within each of those 2,828 salons relies primarily on the traffic of visitors to the Walmart in which it is located, so our success is tied to Walmart's success in bringing shoppers into their stores. We have limited control over the locations and markets in which we open new SmartStyles, as we only have potential opportunities in locations offered to us by Walmart. Furthermore, Walmart has the right to close up to 100 of our salons per year for any reason, upon payment of certain penalties; to terminate lease agreements for breach, such as if we failed to conform with required operating hours, subject to a notice and cure period; and to terminate the lease if the Walmart store in which it sits is closed. During fiscal year 2017, we began franchising the SmartStyle brand, with Walmart's approval. Operating both company-owned and franchised SmartStyles adds complexity in overseeing franchise compliance and coordination with Walmart.

Our future growth and profitability may depend, in part, on our ability to build awareness and drive traffic with advertising and marketing efforts, and on delivering a quality guest experience to drive repeat visits to our salons.

Our future growth and profitability may depend on the effectiveness, efficiency and spending levels of our marketing and advertising efforts to drive awareness and traffic to our salons. In addition, delivering a quality guest experience is crucial in order to drive repeat visits to our salons. We are developing our marketing and advertising strategies, including national and local campaigns, to build awareness, drive interest, consideration and traffic to our salons. We are also focusing on improving guest experiences to provide brand differentiation and preference, and to ensure we meet our guests' needs. If our marketing, advertising and improved guest experience efforts do not generate sufficient customer traffic and repeat visits to our salons, our business, financial condition and results of operations may be adversely affected.

Changes in regulatory and statutory laws, such as increases in the minimum wage and changes that make collective bargaining easier, and the costs of compliance and non-compliance with such laws, may result in increased costs to our business.

With 9,008 locations and approximately 41,000 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, employment taxes, overtime requirements or costs to provide employee benefits or administration may result in additional costs to our Company.

A number of U.S. states, Canadian provinces and municipalities in which we do business have recently increased or are considering increasing the minimum wage, with increases generally phased over several years depending upon the size of the employer. Increases in minimum wages and overtime pay increase our costs, and our ability to offset these increases through price increases may be limited. In fact, increases in minimum wages increased our costs over the last four years. In addition, a growing number of states, provinces, and municipalities have passed or are considering requirements for paid sick leave, family leave, predictive scheduling (which imposes penalties for changing an employee's shift as it nears), and other requirements that increase the administrative complexity of managing our workforce. Finally, changes in labor laws, such as recent legislation in Ontario and Alberta designed to facilitate union organizing, could increase the likelihood of some of our employees being

subjected to greater organized labor influence. If a significant portion of our employees were to become unionized, it would have an adverse effect on our business and financial results.

Increases in minimum wages, administrative requirements and unionization could also have an adverse effect on the performance of our franchisees, especially if our franchisees are treated as a "joint employer" with us by the National Labor Relations Board (NLRB) or as a large employer under minimum wage statutes because of their affiliation with us. In addition, we must comply with state employment laws, including the California Labor Code, which has stringent requirements and penalties for non-compliance.

Various state and federal laws govern our relationship with our franchisees and our potential sale of a franchise. If we fail to comply with these laws, we could be liable for damages to franchisees and fines or other penalties. A franchisee or government agency may bring legal action against us based on the franchisee/franchisor relationship. Also, under the franchise business model, we may face claims and liabilities based on vicarious liability, joint-employer liability, or other theories or liabilities. All such legal actions not only could result in changes to laws and interpretations, making it more difficult to appropriately support our franchisees and, consequently, impacting our performance, but, also, such legal actions could result in expensive litigation with our franchisees or government agencies that could adversely affect both our profits and our important relations with our franchisees. In addition, other regulatory or legal developments may result in changes to laws or the franchisor/franchisee relationship that could negatively impact the franchise business model and, accordingly, our profits.

In addition to employment and franchise laws, we are also subject to a wide range of federal, state, provincial and local laws and regulations, including those affecting public companies, product manufacture and sale, and governing the franchisor-franchisee relationship, in the jurisdictions in which we operate. Compliance with new, complex and changing laws may cause our expenses to increase. In addition, any non-compliance with laws or regulations could result in penalties, fines, product recalls and enforcement actions or otherwise restrict our ability to market certain products or attract or retain employees, which could adversely affect our business, financial condition and results of operations.

Cybersecurity incidents could result in the compromise of sensitive information about our guests, employees, vendors or company and expose us to business disruption, negative publicity, costly government enforcement actions or private litigation and our reputation could suffer.

The normal operations of our business involve processing, transmission and storage of personal information about our guests as well as employees, vendors and our Company. Cyber-attacks designed to gain access to sensitive information by breaching mission critical systems of large organizations and their third party vendors are constantly evolving, and high profile electronic security breaches leading to unauthorized release of sensitive guest information have occurred at a number of large U.S. companies in recent years. Despite the security measures and processes we have in place, our efforts, and those of our third party vendors, to protect sensitive guest and employee information may not be successful in preventing a breach in our systems, or detecting and responding to a breach on a timely basis. As a result of a security incident or breach in our systems, our systems could be interrupted or damaged, or sensitive information could be accessed by third parties. If that happened, our guests could lose confidence in our ability to protect their personal information, which could cause them to stop visiting our salons altogether. Such events could lead to lost future sales and adversely affect our results of operations. In addition, as the regulatory environment relating to retailers and other companies' obligations to protect sensitive data becomes stricter, a material failure on our part to comply with applicable regulations could subject us to fines or other regulatory sanctions and potentially to lawsuits. These laws are changing rapidly and vary among jurisdictions. Furthermore, while our franchisees are independently responsible for data security at franchised locations, a breach of guest or vendor data at a franchised location could also negatively affect public perception of our brands. More broadly, our incident response preparedness and disaster recovery planning efforts may be inadequate or ill-suited for a security incident and we could suffer disruption of operations or adverse effects to our operating results.

We rely heavily on our information technology systems for our key business processes. If we experience an interruption in their operation, our results of operations may be affected.

The efficient operation of our business is dependent on our management information systems. We rely heavily on our management information systems to collect daily sales information and guest demographics, generate payroll information, monitor salon performance, manage salon staffing and payroll costs, manage our two distribution centers and other inventory and other functions. Such systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, hackers, security breaches, and natural disasters. In addition, certain of our management information systems are developed and maintained by external vendors, including our POS system, and some are outdated or of limited functionality. The failure of our management information systems to perform as we anticipate, or to meet the continuously evolving needs of our business, could disrupt our business operations and result in other negative consequences, including remediation costs, loss of revenue, and reputational damage.

We rely on external vendors for products and services critical to our operations.

We rely on external vendors for the manufacture of our owned brand products, other retail products we sell, and products we use during salon services such as color and chemical treatments. We also rely on external vendors for various services critical to our operations and the security of certain Company data. Our dependence on vendors exposes us to operational, reputational, financial, and compliance risk.

If our product offerings do not meet our guests' expectations regarding safety and quality, we could experience lost sales, increased costs, and exposure to legal and reputational risk. All of our vendors must comply with applicable product safety laws, and we are dependent on them to ensure that the products and packages we buy, for either use on a guest during a service or resale to the public, comply with all safety and quality standards. Events that give rise to actual, potential, or perceived product safety concerns or mislabeling could expose us to government enforcement action and/or private litigation and result in costly product recalls and other liabilities. In addition, we do not own the formulas for certain of our owned brand products, and could be unable to sell those products if the vendor decided to discontinue working with us.

Our vendors are also responsible for the security of certain Company data, as discussed above. In the event that one of our key vendors becomes unable to continue to provide products and services, or their systems fail, are compromised or the quality of their systems deteriorate, we may suffer operational difficulties and financial loss.

Consumer shopping trends and changes in manufacturer choice of distribution channels may negatively affect both service and product revenues.

Our North American Value business is located mainly in strip center locations and Walmart Supercenters and the North American Premium business is primarily in mall-based locations. Our salons are partly dependent on the volume of traffic around these locations in order to generate both service and product revenues. Customer traffic to these shopping areas may be adversely affected by changing consumer shopping trends that favor alternative shopping locations, such as the internet. In particular, we have experienced substantial declines in traffic in some shopping malls due to changes in consumer preferences favoring retail locations other than malls or online shopping.

In addition, we are experiencing a proliferation of alternative channels of distribution, like blow dry bars, booth rental facilities, discount brick-and-mortar and online professional products retailers, and manufacturers selling direct to consumers online, which may negatively affect our product and service revenue. Also, product manufacturers may decide to utilize these other distribution channels to a larger extent than in the past and they generally have the right to terminate relationships with us without much advance notice. These trends could reduce the volume of traffic around our salons, and in turn, our revenues may be adversely affected.

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

Competition on a market by market basis remains challenging as many smaller chain competitors are franchise systems with local operating strength in certain markets and the hair salon industry as a whole is fragmented and highly competitive for customers, stylists and prime locations. Therefore, our ability to attract guests, raise prices and secure suitable locations in certain markets can be adversely impacted by this competition. Our strategies for competing are complicated by the fact that we have multiple brands in multiple segments, which compete on different factors.

We also face significant competition for prime real estate, particularly in strip malls. We compete to lease locations not only with other hair salons, but with a wide variety of businesses looking for similar square footage and high-quality locations.

Furthermore, our reputation is critical to our ability to compete and succeed. Our reputation may be damaged by negative publicity on social media or other channels regarding the quality of services we provide. There has been a substantial increase in the use of social media platforms, which allow individuals to be heard by a broad audience of consumers and other interested persons. Negative or false commentary regarding us or the products or services we offer may be posted on social media platforms at any time. Customers value readily available information and may act on information without further investigation or regard to its accuracy. The harm to our reputation may be immediate, without affording us an opportunity for redress or correction. Our reputation may also be damaged by factors that are mostly or entirely out of our control, including actions by a franchisee or a franchisee's employee. If we are not able to successfully compete, our ability to grow same-store sales and increase our revenue and earnings may be impaired.

We could be subject to changes in tax rates, the adoption of new U.S. or international tax legislation or exposure to additional tax liabilities.

We are subject to income taxes in the U.S. and other foreign jurisdictions. Significant judgment is required in determining our tax provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We are subject to the examination of our income tax returns, payroll taxes and other tax matters by the Internal Revenue Service and other tax authorities and governmental bodies. The Company regularly assesses the likelihood of an adverse outcome resulting from these examinations to determine the adequacy of its provision for income taxes and payroll tax accruals. There can be no assurances as to the outcome of these examinations. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different from our historical tax provisions and employment taxes. The results of an audit or litigation could have a material effect on our consolidated financial statements in the period or periods for which that determination is made.

Our effective income tax rate in the future could be adversely affected by a number of factors, including changes in the mix of earnings in countries with different statutory tax rates, changes in tax laws, the outcome of income tax audits, and any repatriation of non-U.S. earnings on which we have not previously provided U.S. taxes.

Changes to healthcare laws in the U.S. may increase the number of employees who participate in our healthcare plans, which may significantly increase our healthcare costs and negatively impact our operating results.

We offer comprehensive healthcare coverage to eligible employees in the United States. Historically, a majority of our eligible employees do not participate in our healthcare plans. Due to changes to healthcare laws in the United States, it is possible that enrollment in the Company's healthcare plans may increase as individual penalties for failing to have insurance increase pursuant to the Affordable Care Act (ACA), and as employees continue to assess their changing healthcare alternatives, including if Medicaid coverage decreases or health insurance exchanges become less favorable. Furthermore, under the ACA, potential fees and or penalties may be assessed against us as a result of individuals either not being offered healthcare coverage within a limited timeframe or if coverage offered does not meet minimum care and affordability standards. An increase in the number of employees who elect to participate in our healthcare plans, changing healthcare-related requirements or if the Company fails to comply with one or more provisions of ACA may significantly increase our healthcare-related costs and negatively impact our operating results.

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

Changes in interest rates and foreign currency exchange rates will have an impact on our expected results from operations. Historically, we have managed the risk related to fluctuations in these rates through the use of fixed rate debt instruments and other financial instruments. In particular, the United Kingdom's vote in June 2016 to leave the European Union, commonly known as "Brexit," has increased the volatility of currency exchange rates. If the British pound weakens further, it may adversely affect our results of operations.

Failure to simplify and standardize our operating processes across our brands could have a negative impact on our financial results.

Standardization of operating processes across our brands, marketing and products will enable us to simplify our operating model and decrease our costs. Failure to do so could adversely impact our ability to grow revenue and realize further efficiencies within our results of operations.

If our joint venture with Empire Education Group is unsuccessful, our financial results may be affected.

We have a joint venture arrangement with Empire Education Group (EEG), an operator of accredited cosmetology schools. Due to significantly lower financial projections resulting from continued declines in EEG's enrollment, revenue and profitability, we recorded a \$13.0 million non-cash impairment charge in fiscal year 2016, resulting in a full-impairment of our investment. If EEG is unsuccessful in executing its business plan, or if economic, regulatory and other factors, including declines in enrollment, revenue and profitability continue for the for-profit secondary education market, our financial results may be affected by certain potential liabilities related to this joint venture.

Failure to control costs may adversely affect our operating results.

We must continue to control our expense structure. Failure to manage our cost of product, labor and benefit rates, advertising and marketing expenses, operating lease costs, other store expenses or indirect spending could delay or prevent us from achieving increased profitability or otherwise adversely affect our operating results.

If we fail to comply with any of the covenants in our financing arrangements, we may not be able to access our existing revolving credit facility, and we may face an accelerated obligation to repay our indebtedness.

We have several financing arrangements that contain financial and other covenants. If we fail to comply with any of the covenants, it may cause a default under one or more of our financing arrangements, which could limit our ability to obtain additional financing under our existing credit facility, require us to pay higher levels of interest or accelerate our obligations to repay our indebtedness.

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

Changes to the U.S., Canadian and United Kingdom economies have an impact on our business. General economic factors that are beyond our control, such as recession, inflation, deflation, tax rates and policy, energy costs, unemployment trends, extreme weather patterns, other casualty events and other matters that influence consumer confidence and spending, may impact our business. In particular, visitation patterns to our salons can be adversely impacted by increases in unemployment rates and decreases in discretionary income levels.

Brexit may have economic repercussions, including recession, which could adversely impact our operating results.

Changes in consumer tastes, hair product innovation, fashion trends and consumer spending patterns may impact our revenue.

Our success depends in part on our ability to anticipate, gauge and react in a timely manner to changes in consumer tastes, hair product innovation, fashion trends and consumer spending patterns. If we do not timely identify and properly respond to evolving trends and changing consumer demands for hair care, our sales may decline significantly. Furthermore, we may accumulate additional inventory and be required to mark down unsold inventory to prices that are significantly lower than normal prices, which could adversely impact our margins and could further adversely impact our business, financial condition and results of operations.

Operational failure at one of our distribution centers would impact our ability to distribute product.

We operate two distribution centers, one near Chattanooga, Tennessee, and one near Salt Lake City, Utah. These supply our North America company-owned salons and many of our franchisees with retail products to sell and products used during salon services. A technology failure or natural disaster that caused one of the distribution centers to be inoperable would cause disruption in our business and could negatively impact our revenues.

Our enterprise risk management program may leave us exposed to unidentified or unanticipated risks.

We maintain an enterprise risk management program that is designed to identify, assess, mitigate, and monitor the risks that we face. There can be no assurance that our frameworks or models for assessing and managing known risks, compliance with applicable law, and related controls will effectively mitigate risk and limit losses in all market environments or against all types of risk in our business. If conditions or circumstances arise that expose flaws or gaps in our risk management or compliance programs, the performance and value of our business could be adversely affected.

Insurance and other traditional risk-shifting tools may be held by or available to Regis in order to manage certain types of risks, but they are subject to terms such as deductibles, retentions, limits and policy exclusions, as well as risk of denial of coverage, default or insolvency. If we suffer unexpected or uncovered losses, or if any of our insurance policies or programs are terminated for any reason or are not effective in mitigating our risks, we may incur losses that are not covered or that exceed our coverage limits and could adversely impact our results of operations, cash flows and financial position.

We rely on our management team and other key personnel.

We depend on the skills, working relationships, and continued services of key personnel, including our management team and others throughout our organization. We are also dependent on our ability to attract and retain qualified personnel, for whom we compete with other companies both inside and outside our industry. Our business, financial condition or results of operations may be adversely impacted by the unexpected loss of any of our management team or other key personnel, or more generally if we fail to identify, recruit, train and retain talented personnel.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company's corporate offices are headquartered in a 170,000 square foot, three building complex in Edina, Minnesota that is owned by the Company.

The Company also operates offices in Edina, Minnesota; Toronto, Canada; and Coventry and London, England. 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 230,000 square feet while the Salt Lake City facility utilizes 210,000 square feet. The Salt Lake City facility can be expanded to 290,000 square feet to accommodate future growth.

The Company operates all of its salon locations 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 Walmart 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 North American locations.

The Company also leases the premises in which approximately 85% of our 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 are 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 or identify and secure other suitable locations. See Note 7 to the Consolidated Financial Statements.

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 consumer and wage and hour violations. Litigation is inherently unpredictable and the outcome of these matters cannot presently be determined. Although the actions are being vigorously defended, the Company could in the future incur judgments or enter into settlements of claims that could have a material adverse effect on its results of operations in any particular period.

Item 4. Mine Safety Disclosures

Not applicable.

PART II**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Repurchase of Equity Securities**

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 2017 and 2016 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 10, 2017, Regis shares were owned by approximately 12,000 shareholders based on the number of record holders and an estimate of individual participants in security position listings. The closing stock price was \$10.51 per share on August 10, 2017.

Fiscal Quarter	Fiscal Years			
	2017		2016	
	High	Low	High	Low
1st Quarter	\$ 14.49	\$ 12.18	\$ 16.10	\$ 10.60
2nd Quarter	15.56	11.56	18.13	11.81
3rd Quarter	15.61	11.37	16.55	13.04
4th Quarter	11.71	9.02	16.02	10.96

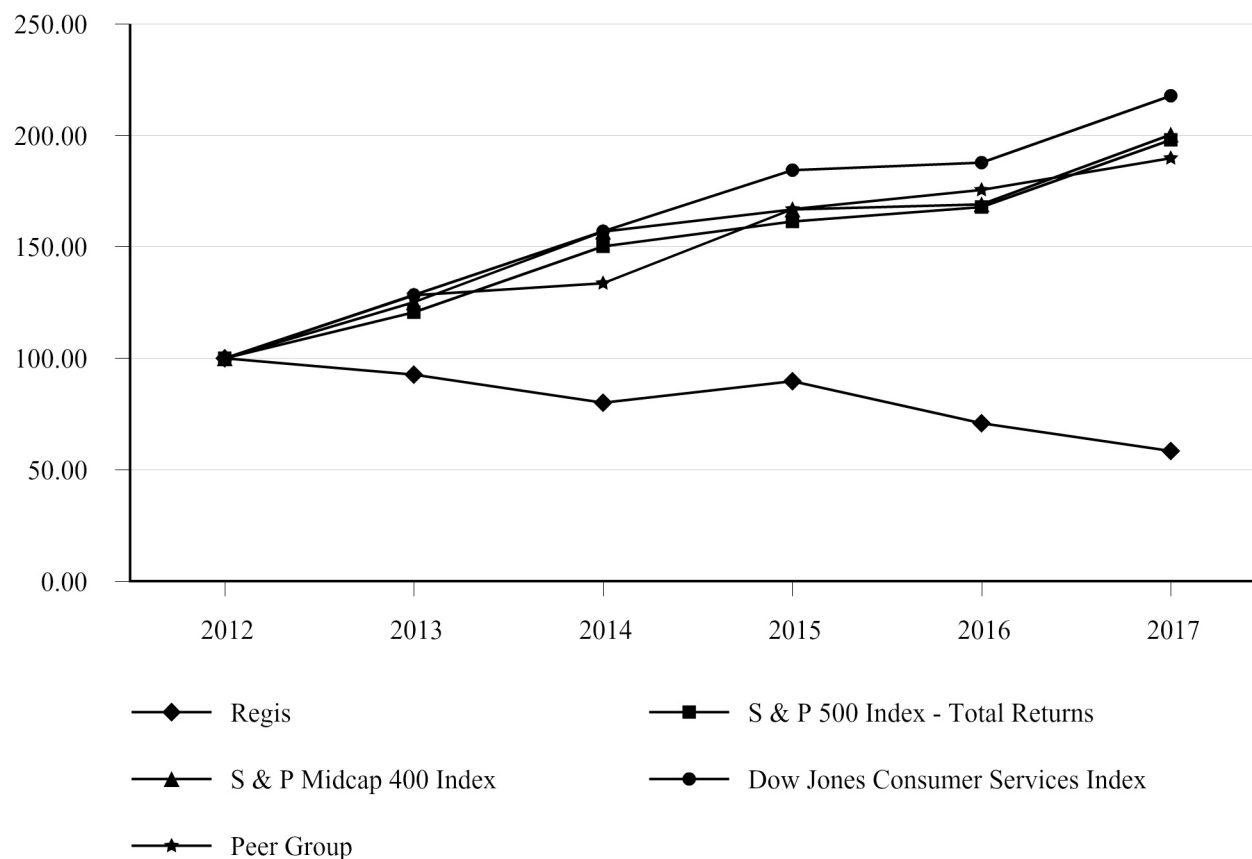
In accordance with its capital allocation policy, the Company no longer pays dividends.

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 Peer Group consists of the following companies: Boyd Gaming Corp., Brinker International, Inc., Buffalo Wild Wings, Inc., Cracker Barrel Old Country Store, DineEquity, Inc., Fossil Group, Inc., Fred's, Inc., Jack in the Box, Inc., Panera Bread Co., Penn National Gaming, Inc., Revlon, Inc., Ruby Tuesday, Inc., Sally Beauty Holdings, Inc., Service Corporation International, The Cheesecake Factory, Inc. and Ulta Salon, Cosmetics & Fragrance Inc. The Peer Group is a self-constructed peer group of companies that have comparable annual revenues and market capitalization and are in the beauty industry or other industries where guest service, multi-unit expansion or franchise play a part. The Company reviewed and adjusted its Peer Group used for executive compensation purposes in early fiscal 2017, resulting in this Peer Group. Information regarding executive compensation will be set forth in the 2017 Proxy Statement.

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, 2012 and that dividends, if any, were reinvested.

Comparison of 5 Year Cumulative Total Return
Assumes Initial Investment of \$100
June 2017



	June 30,					
	2012	2013	2014	2015	2016	2017
Regis	\$ 100.00	\$ 92.66	\$ 80.08	\$ 89.64	\$ 70.81	\$ 58.41
S & P 500	100.00	120.60	150.27	161.43	167.87	197.92
S & P 400 Midcap	100.00	125.18	156.78	166.81	169.03	200.41
Dow Jones Consumer Services Index	100.00	128.44	157.01	184.39	187.76	217.77
Peer Group	100.00	128.35	133.66	166.92	175.56	189.85

In May 2000, the Company's Board of Directors (Board) approved a stock repurchase program with no stated expiration date. Since that time and through June 30, 2017, the Board has authorized \$450.0 million to be expended for the repurchase of the Company's stock under this program. All repurchased shares become authorized but unissued shares of the Company. The timing and amounts of any repurchases depends on many factors, including the market price of the common stock and overall market conditions. As of June 30, 2017, 18.4 million shares have been cumulatively repurchased for \$390.0 million, and \$60.0 million remained outstanding under the approved stock repurchase program.

The Company repurchased the following common stock through its share repurchase program:

	Fiscal Years		
	2017	2016	2015
Repurchased Shares	—	7,647,819	3,054,387
Average Price (per share)	\$ —	\$13.19	\$15.64
Price range (per share)	\$ —	\$10.94 - \$15.95	\$13.72 - \$17.32
Total	\$ —	\$101.0 million	\$47.9 million

Item 6. Selected Financial Data

The following table sets forth selected financial data derived from the Company's Consolidated Financial Statements in Part II, Item 8. The table should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", and Item 8, "Financial Statements and Supplementary Data", of this Report on Form 10-K.

	Fiscal Years				
	2017	2016	2015	2014	2013(b)
	(Dollars in thousands, except per share data)				
Revenues	\$ 1,691,888	\$ 1,790,869	\$ 1,837,287	\$ 1,892,437	\$ 2,018,713
Operating (loss) income(a)	(1,204)	17,614	3,531	(34,958)	13,359
(Loss) income from continuing operations(a)	(16,140)	(11,316)	(33,212)	(139,874)	5,478
(Loss) income from continuing operations per diluted share	(0.35)	(0.23)	(0.60)	(2.48)	0.10
Dividends declared, per share	—	—	—	0.12	0.24

	June 30,				
	2017	2016	2015	2014	2013(b)
	(Dollars in thousands)				
Total assets, including discontinued operations	\$ 1,011,488	\$ 1,035,932	\$ 1,160,843	\$ 1,414,291	\$ 1,390,447
Long-term debt and capital lease obligations, including current portion	120,599	119,606	118,830	291,845	173,818

(a) The following significant items affected each of the years presented:

- During fiscal year 2017, the Company recorded \$11.4 million of non-cash fixed asset impairment charges, \$8.4 million of severance expense related to the termination of former executive officers including the Company's Chief Executive Officer, \$7.7 million of non-cash tax expense related to tax benefits on certain indefinite-lived assets that the Company cannot recognize for reporting purposes and \$5.9 million of expense for a one-time non-cash inventory expense related to salon tools.
- During fiscal year 2016, the Company recorded a \$13.0 million other than temporary non-cash impairment charge to fully impair its investment in EEG, \$10.5 million of non-cash fixed asset impairment charges and \$7.9 million of non-cash tax expense related to tax benefits on certain indefinite-lived assets that the Company cannot recognize for reporting purposes.
- During fiscal year 2015, the Company recorded its share of a non-cash deferred tax asset valuation allowance recorded by EEG of \$6.9 million, non-cash other than temporary impairment charges of its investment in EEG of \$4.7 million, \$14.6 million of non-cash fixed asset impairment charges, \$8.9 million of non-cash tax expense related to tax benefits on certain indefinite-lived assets that the Company cannot recognize for reporting purposes and established a non-cash \$2.1 million valuation allowance against its Canadian deferred tax assets.
- During fiscal year 2014, the Company recorded a non-cash goodwill impairment charge of \$34.9 million associated with the Company's Regis salon concept, non-cash fixed asset impairment charges of \$18.3 million, non-cash of \$15.9 million,

net of tax for the Company's share of goodwill and fixed asset impairment charges recorded by EEG and established a non-cash \$86.6 million valuation allowance against the U.S. and U.K. deferred tax assets.

- During fiscal year 2013, the Company recorded \$7.4 million in restructuring charges and a \$12.6 million non-cash inventory write-down. In addition, the Company recognized a net \$33.8 million foreign currency translation gain in connection with the sale of Provalliance, recorded net other than temporary non-cash impairment charges of \$17.9 million associated with the Company's investment in EEG and incurred a \$10.6 million make-whole payment in connection with the prepayment of \$89.3 million of senior term notes in June 2013.

(b) In fiscal year 2013 the Hair Restoration Centers operations were accounted for as discontinued operations.

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.

BUSINESS DESCRIPTION

Regis Corporation owns, franchises and operates beauty salons. As of June 30, 2017, the Company-owned, franchised or held ownership interests in 9,008 locations worldwide. The Company's locations consist of 8,919 company-owned and franchised salons and 89 locations in which we maintain a non-controlling ownership interest of less than 100%. Each of the Company's salon concepts generally offer similar salon products and services and serve the mass market. See discussion within Part I, Item 1.

RESULTS OF OPERATIONS

Beginning in the fourth quarter of fiscal year 2017, the Company redefined its operating segments to reflect how the chief operating decision maker evaluates the business as a result of the increased focus on the franchise business. Discontinued operations are discussed at the end of this section.

Consolidated Results of Operations

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

	Fiscal Years								
	2017	2016	2015	2017	2016	2015	2017	2016	2015
	(Dollars in millions)			% of Total Revenues(1)			Basis Point Increase (Decrease)		
Service revenues	\$ 1,307.7	\$ 1,383.7	\$ 1,429.4	77.3%	77.3%	77.8%	—	(50)	(40)
Product revenues	335.9	359.7	363.2	19.9	20.1	19.8	(20)	30	20
Franchise royalties and fees	48.3	47.5	44.6	2.9	2.7	2.4	20	30	20
Cost of service(2)	838.2	868.2	882.7	64.1	62.7	61.8	140	90	50
Cost of product(2)	166.3	179.3	180.6	49.5	49.9	49.7	(40)	20	(60)
Site operating expenses	168.4	183.0	192.4	10.0	10.2	10.5	(20)	(30)	(30)
General and administrative	174.5	178.0	186.1	10.3	9.9	10.1	40	(20)	100
Rent	279.3	297.3	309.1	16.5	16.6	16.8	(10)	(20)	(20)
Depreciation and amortization	66.3	67.5	82.9	3.9	3.8	4.5	10	(70)	(80)
Goodwill impairment	—	—	—	—	—	—	—	—	(180)
Interest expense	8.7	9.3	10.2	0.5	0.5	0.6	—	(10)	(60)
Interest income and other, net	3.1	4.2	1.7	0.2	0.2	0.1	—	10	—
Income taxes(3)	(9.2)	(9.0)	(14.6)	(135.0)	72.3	(293.4)	N/A	N/A	N/A
Equity in loss of affiliated companies, net of income taxes	0.1	14.8	13.6	—	0.8	0.7	(80)	10	10
Loss from discontinued operations, net of income taxes	—	—	(0.6)	—	—	—	—	—	(10)

- (1) Cost of service is computed as a percent of service revenues. Cost of product is computed as a percent of product revenues.
- (2) Excludes depreciation and amortization expense.
- (3) Computed as a percent of income (loss) from continuing operations before income taxes and equity in loss of affiliated companies. The income taxes basis point change is noted as not applicable (N/A) as the discussion below is related to the effective income tax rate.

Consolidated Revenues

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

	Fiscal Years		
	2017	2016	2015
	(Dollars in thousands)		
North American Value salons:			
SmartStyle	\$ 523,911	\$ 522,700	\$ 500,562
Supercuts	290,051	295,401	298,078
MasterCuts	94,313	106,791	117,246
Signature Style	372,125	391,518	413,134
Total North American Value salons	1,280,400	1,316,410	1,329,020
North American Franchise salons:			
Product	30,548	31,406	29,756
Royalties and fees	47,973	47,523	44,643
Total North American Franchise salons	78,521	78,929	74,399
North American Premium salons	241,501	283,438	309,600
International salons	91,466	112,092	124,268
Consolidated revenues	<u>\$ 1,691,888</u>	<u>\$ 1,790,869</u>	<u>\$ 1,837,287</u>
Percent change from prior year	(5.5)%	(2.5)%	(2.9)%
Salon same-store sales (decrease) increase(1)	(1.8)%	0.2 %	(0.3)%

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

Decreases in consolidated revenues were driven by the following:

Factor	Fiscal Years		
	2017	2016	2015
Same-store sales	(1.8)%	0.2 %	(0.3)%
Closed salons	(3.5)	(2.7)	(2.7)
New stores and conversions	0.4	0.5	0.6
Foreign currency	(0.8)	(1.2)	(0.8)
Other	0.2	0.7	0.3
	<u>(5.5)%</u>	<u>(2.5)%</u>	<u>(2.9)%</u>

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

	Fiscal Years		
	2017	2016	2015
SmartStyle	(0.4)%	3.4 %	1.6 %
Supercuts	0.4 %	2.0 %	1.3 %
MasterCuts	(3.6)%	(4.4)%	(4.0)%
Signature Style	(1.4)%	(0.2)%	(0.7)%
Total North American Value salons	(0.8)%	1.3 %	0.3 %
North American Premium salons	(5.9)%	(3.8)%	(3.0)%
International salons	(5.7)%	(2.3)%	0.6 %
Consolidated same-store sales	(1.8)%	0.2 %	(0.3)%

The same-store sales decrease of 1.8% during fiscal year 2017 was due to a 5.2% decrease in same-store guest visits, partly offset by a 3.4% increase in average ticket price. We closed 554 salons (including 93 franchised salons), constructed (net of relocations) 41 company-owned salons and acquired one company-owned salon via franchise buyback during fiscal year 2017 (2017 Net Salon Count Changes).

The same-store sales increase of 0.2% during fiscal year 2016 was due to a 3.1% increase in average ticket price, partly offset by a 2.9% decrease in same-store guest visits. We closed 297 salons (including 56 franchised salons), constructed (net of relocations) 66 company-owned salons and acquired one company-owned salon via franchise buyback during fiscal year 2016 (2016 Net Salon Count Changes).

The same-store sales decrease of 0.3% during fiscal year 2015 was due to a 1.9% decrease in same-store guest visits, partly offset by a 1.6% increase in average ticket price. We closed 338 salons (including 72 franchised salons), constructed (net of relocations) 91 company-owned salons and did not acquire any company-owned locations during fiscal year 2015 (2015 Net Salon Count Changes).

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

Service Revenues

The \$75.9 million decrease in service revenues during fiscal year 2017 was primarily due to the 1.4% decrease in same-store service sales, the 2017 Net Salon Count Changes and foreign currency fluctuations. The decrease in same-store service sales was primarily a result of a 4.9% decrease in same-store guest visits, partly offset by a 3.5% increase in average ticket.

The \$45.7 million decrease in service revenues during fiscal year 2016 was primarily due to the 2016 Net Salon Count Changes and foreign currency fluctuations. Same-store service sales were flat, primarily a result of a 2.7% increase in average ticket price, offset by a 2.7% decrease in same-store guest visits.

The \$50.7 million decrease in service revenues during fiscal year 2015 was primarily due to the 0.4% decrease in same-store service sales, the 2015 Net Salon Count Changes and foreign currency fluctuations. The decrease in same-store service sales was primarily a result of a 1.2% decrease in same-store guest visits, partly offset by a 0.8% increase in average ticket price.

Product Revenues

The \$23.8 million decrease in product revenues during fiscal year 2017 was primarily due to the decrease in same-store product sales of 3.4%, the 2017 Net Salon Count Changes and foreign currency fluctuations. The decrease in same-store product sales was primarily a result of a 4.8% decrease in same-store transactions, partly offset by a 1.4% increase in average ticket price.

The \$3.6 million decrease in product revenues during fiscal year 2016 was primarily due to the 2016 Net Salon Count Changes and foreign currency fluctuations, partly offset by the increase in same-store product sales of 1.3%. The increase in same-store product sales was primarily a result of a 2.0% increase in same-store transactions, offset by a 0.7% decrease in average ticket price.

The \$8.2 million decrease in product revenues during fiscal year 2015 was primarily due to the 2015 Net Salon Count Changes. Same-store product sales were flat primarily a result of a 1.7% increase in same-store transactions, offset by a 1.7% decrease in average ticket price.

Royalties and Fees

The \$0.8, \$2.9, and \$3.8 million increases in royalties and fees during fiscal years 2017, 2016 and 2015, respectively, were due to increases in franchised locations of 150, 172 and 145, respectively, and same-store sales increases at franchised locations.

Cost of Service

The 140 basis point increase in cost of service as a percent of service revenues during fiscal year 2017 was primarily due to state minimum wage increases, unfavorable stylist productivity, a one-time inventory expense related to salon tools and a non-recurring rebate in the prior year, partly offset by mix improvement from closing underperforming salons, lower incentives expense and favorable usage rates versus the prior year.

The 90 basis point increase in cost of service as a percent of service revenues during fiscal year 2016 was primarily due to minimum wage increases, unfavorable stylist productivity, higher health insurance costs and mix shifts to more costly color services, partly offset by mix improvement from closing underperforming salons.

The 50 basis point increase in cost of service as a percent of service revenues during fiscal year 2015 was primarily due to state minimum wage increases, higher field incentives as the Company anniversaries an incentive-lite year and the lapping of a prior year rebate, partly offset by improved stylist productivity and a decrease in healthcare costs.

Cost of Product

The 40 basis point decrease in cost of product as a percent of product revenues during fiscal year 2017 was primarily from the closure of salons with higher product costs as a percent of product revenues and favorable shrink rates versus the prior year.

The 20 basis point increase in cost of product as a percent of product revenues during fiscal year 2016 was primarily from increased promotions, partly offset by the closure of salons with higher product costs as a percent of product revenues.

The 60 basis point decrease in cost of product as a percent of product revenues during fiscal year 2015 was primarily the result of improved salon-level inventory management and compliance, closure of salons with higher product costs as a percent of product revenues and lapping of an inventory write-down in the prior year. These were partly offset by increased promotional activity and lapping of vendor rebates in the prior year.

Site Operating Expenses

Site operating expenses decreased \$14.5 million during fiscal year 2017 primarily due to store closures, mainly within our North American Value and Premium segments, lower self-insurance costs and cost savings associated with salon telecom costs.

Site operating expenses decreased \$9.5 million during fiscal year 2016 primarily due to store closures, mainly within our North American Value and Premium segments, cost savings associated with salon telecom costs, reduced marketing expenses, lower self-insurance costs and foreign currency, partly offset by the lapping of a sales and use tax refund in the prior year.

Site operating expenses decreased \$11.0 million during fiscal year 2015 primarily due to store closures, mainly within our North American Value and Premium segments, lower self-insurance reserves, reduced marketing expenses, a sales and use tax refund and cost savings.

General and Administrative

General and administrative expense (G&A) declined \$3.5 million during fiscal year 2017. This decrease was primarily driven by lower incentive compensation and cost savings, partly offset by severance related to the termination of former executive officers including the Company's Chief Executive Officer and higher professional fees.

G&A declined \$8.0 million during fiscal year 2016. This decrease was primarily driven by reduced incentive compensation, cost savings, a gain on life insurance proceeds and foreign currency, partly offset by planned strategic investments in Technical Education, higher legal fees and financing arrangement modification fees.

G&A increased \$13.3 million during fiscal year 2015. This increase was primarily driven by higher incentive compensation levels as the Company anniversaries an incentive-lite year, planned strategic investments in Asset Protection and

Human Resource initiatives and the lapping of a favorable deferred compensation adjustment within our Corporate segment. These items were partly offset by cost savings and reduced legal and professional fees.

Rent

Rent expense decreased by \$18.0 million during fiscal year 2017 primarily due to salon closures, primarily within our North American Value and Premium segments and foreign currency fluctuations, partly offset by rent inflation and lease termination fees.

Rent expense decreased by \$11.9 million during fiscal year 2016 primarily due to salon closures, primarily within our North American Value and Premium segments and foreign currency fluctuations, partly offset by rent inflation.

Rent expense decreased by \$13.1 million during fiscal year 2015 primarily due to salon closures, primarily within our North American Value and Premium segments and foreign currency fluctuations, partly offset by rent inflation.

Depreciation and Amortization

Depreciation and amortization expense (D&A) decreased \$1.1 million during fiscal year 2017, primarily driven by lower depreciation expense on a reduced salon base, partly offset by increased fixed asset impairment charges.

D&A decreased \$15.4 million during fiscal year 2016, primarily driven by lower depreciation expense on a reduced salon base and reduced fixed asset impairment charges.

D&A decreased \$16.9 million during fiscal year 2015, primarily driven by lower depreciation expense on a reduced salon base and reduced fixed asset impairment charges.

Interest Expense

Interest expense decreased by \$0.6 million during fiscal year 2017 primarily due to reduced commitment fee amortization resulting from the senior term note modification and the revolving credit facility amendment in fiscal year 2016.

Interest expense decreased by \$0.9 million during fiscal year 2016 primarily due to the lapping of prior year interest for the \$172.5 million convertible senior notes settled in July 2014.

Interest expense decreased by \$12.1 million during fiscal year 2015 primarily due to the settlement of the \$172.5 million convertible senior notes in July 2014, partly offset by interest on the \$120.0 million Senior Term Notes issued in November 2013.

Interest Income and Other, net

Interest income and other, net decreased \$1.1 million during fiscal year 2017 primarily due to prior year gains on re-franchised salon assets sold, lower foreign currency gains and lapping a prior year insurance recovery.

Interest income and other, net increased \$2.5 million during fiscal year 2016 primarily due to lapping a prior year foreign currency loss and an insurance recovery.

Interest income and other, net was flat during fiscal year 2015 compared to the prior year period.

Income Taxes

During fiscal year 2017, the Company recognized income tax expense of \$9.2 million on \$6.8 million of loss from continuing operations before income taxes and equity in loss of affiliated companies. The recorded tax expense for fiscal year 2017 is different than would normally be expected primarily due to the impact of the valuation allowance against the majority of our deferred tax assets. Approximately \$7.7 million of the tax expense relates to non-cash tax expense for tax benefits on certain indefinite-lived assets that the Company cannot recognize for reporting purposes. This non-cash tax expense will continue as long as we have a valuation allowance in place.

During fiscal year 2016, the Company recognized income tax expense of \$9.0 million on \$12.5 million of income from continuing operations before income taxes and equity in loss of affiliated companies. The recorded tax expense for fiscal year 2016 is different than would normally be expected primarily due to the impact of the valuation allowance against the majority of our deferred tax assets. Approximately \$7.9 million of the tax expense relates to non-cash tax expense for tax benefits on certain indefinite-lived assets that the Company cannot recognize for reporting purposes. This non-cash tax expense will continue as long as we have a valuation allowance in place.

During fiscal year 2015, the Company recognized income tax expense of \$14.6 million on \$5.0 million of loss from continuing operations before income taxes and equity in loss of affiliated companies. The recorded tax expense for fiscal year 2015 is different than would be expected primarily due to the establishment of a \$2.1 million valuation allowance against the majority of the Canadian deferred tax assets and \$8.9 million non-cash tax expense relating to tax benefits on certain indefinite-lived assets that the Company cannot recognize for reporting purposes.

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

Equity in Loss of Affiliated Companies, Net of Income Taxes

The loss in affiliated companies, net of income taxes, was \$0.1 million for fiscal year 2017.

The loss in affiliated companies, net of income taxes, of \$14.8 million for fiscal year 2016 was due to the Company recording a \$13.0 million other than temporary non-cash impairment charge and EEG's net loss of \$1.8 million. See Note 4 to the Consolidated Financial Statements.

The loss in affiliated companies, net of income taxes, of \$13.6 million for fiscal year 2015 was primarily due to the Company recording its portion of EEG's non-cash deferred tax asset valuation allowance (\$6.9 million) and EEG's net loss (\$2.0 million), plus other than temporary non-cash impairment charges (\$4.7 million). See Note 4 to the Consolidated Financial Statements.

(Loss) Income from Discontinued Operations, Net of Income Taxes

During fiscal year 2015, the Company recognized \$0.6 million of legal expenses associated with the Trade Secret salon concept. See Note 1 to the Consolidated Financial Statements.

Results of Operations by Segment

Based on our internal management structure, we report four segments: North American Value, North American Franchise, North American Premium and International salons. See Note 13 to the Consolidated Financial Statements. Significant results of operations are discussed below with respect to each of these segments.

North American Value Salons

	Fiscal Years					
	2017	2016	2015	2017	2016	2015
	(Dollars in millions)			Increase (Decrease)		
Total revenue	\$ 1,280.4	\$ 1,316.4	\$ 1,329.0	\$ (36.0)	\$ (12.6)	\$ (30.5)
Same-store sales	(0.8)%	1.3%	0.3%	(210 bps)	100 bps	480 bps
Operating income	\$ 83.6	\$ 96.2	\$ 92.2	\$ (12.6)	\$ 3.9	\$ 3.9

North American Value Salon Revenues

Decreases in North American Value salon revenues were driven by the following:

Factor	Fiscal Years		
	2017	2016	2015
Same-store sales	(0.8)%	1.3 %	0.3 %
Closed salons	(2.8)	(2.5)	(2.6)
New stores and conversions	0.5	0.7	0.7
Foreign currency	(0.1)	(0.9)	(0.7)
Other	0.5	0.5	0.1
	(2.7)%	(0.9)%	(2.2)%

North American Value salon revenues decreased \$36.0 million in fiscal year 2017 primarily due to the closure of 276 salons, the sale of 94 company-owned salons (net of buybacks) to franchisees and the 0.8% decrease in same-store sales. The same-store sales decrease was due to a 4.8% decrease in same-store guest visits, partly offset by a 4.0% increase in average ticket price. Partly offsetting the decrease was revenue growth from construction (net of relocations) of 39 salons during fiscal year 2017.

North American Value salon revenues decreased \$12.6 million in fiscal year 2016 primarily due to the closure of 137 salons and the sale of 58 company-owned salons (net of buybacks) to franchisees. Partly offsetting the decrease was the same-store sales increase of 1.3% and revenue growth from construction (net of relocations) of 57 salons during fiscal year 2016. The same-store sales increase was due to a 3.8% increase in average ticket price, partly offset by a 2.5% decrease in same-store guest visits.

North American Value salon revenues decreased \$30.5 million in fiscal year 2015 primarily due to the closure of 192 salons and the sale of 77 company-owned salons (net of buybacks) to franchisees. Partly offsetting the decrease was revenue growth from construction (net of relocations) of 76 salons during fiscal year 2015 and the same-store sales increase of 0.3%. The same-store sales increase was due to a 1.8% increase in average ticket price, partly offset by a 1.5% decrease in same-store guest visits.

North American Value Salon Operating Income

North American Value salon operating income decreased \$12.6 million during fiscal year 2017 primarily due to minimum wage increases, unfavorable stylist productivity, same-store sales declines and a one-time inventory expense related to salon tools, partly offset by the closure of underperforming salons.

North American Value salon operating income increased \$3.9 million during fiscal year 2016 primarily due to the closure of underperforming salons, same-store sales increases, cost savings associated with salon telecom and utilities costs and reduced marketing expenses, partly offset by minimum wage increases and unfavorable stylist productivity.

North American Value salon operating income increased \$3.9 million during fiscal year 2015 primarily due to the closure of underperforming salons, lower self-insurance costs, reduced fixed asset impairment charges, reduced marketing expenses, same-store sales increases and a sales and use tax refund, partly offset by minimum wage increases.

North American Franchise Salons

	Fiscal Years											
	2017		2016		2015		2017		2016		2015	
	(Dollars in millions)						Increase (Decrease)					
North American Franchise salons:												
Product	\$	30.5	\$	31.4	\$	29.8	\$	(0.9)	\$	1.7	\$	0.1
Royalties and fees		48.0		47.5		44.6		0.5		2.9		3.8
Total North American Franchise	\$	78.5	\$	78.9	\$	74.4	\$	(0.4)	\$	4.5	\$	3.8
Operating income	\$	34.2	\$	33.8	\$	30.4	\$	0.3	\$	3.5	\$	0.9

North American Franchise Salon Revenues

North American Franchise salon revenues decreased \$0.4 million during fiscal year 2017 due to a \$0.9 million decrease in franchise product sales, partly offset by a \$0.5 million increase in royalties and fees. The increase in royalties and fees was primarily due to mix of franchisees opening salons in fiscal year 2017, which shifted to existing franchisees, who pay lower fees for opening additional salons and lapping franchise termination revenue, mostly offset by higher royalties. During fiscal year 2017, franchisees constructed (net of relocations) and closed 138 and 93 franchise-owned salons, respectively, during fiscal year 2017 and purchased (net of Company buybacks) 92 salons from the Company during the same period.

North American Franchise salon revenues increased \$4.5 million during fiscal year 2016 due to a \$1.7 million increase in franchise product sales and a \$2.9 million increase in royalties and fees. Both of these increases are due to increased franchised locations as during fiscal year 2016, franchisees constructed (net of relocations) and closed 170 and 56 franchise-owned salons, respectively, and purchased (net of Company buybacks) 58 salons from the Company during the same period. In addition, the higher royalties are due to positive same-store sales by the franchisees.

North American Franchise salon revenues increased \$3.8 million during fiscal year 2015 due to a \$0.1 million increase in franchise product sales and a \$3.8 million increase in royalties and fees. The increase in royalties is due to an increase in franchised locations and positive same-store sales by the franchisees during the fiscal year 2015. Franchisees constructed (net of relocations) and closed 140 and 72 franchise-owned salons, respectively, during fiscal year 2015 and purchased (net of Company buybacks) 77 salons from the Company during the same period. The higher franchise fees are also due to the increase in franchised locations.

North American Franchise Salon Operating Income

North American Franchise salon operating income increased \$0.3 million during fiscal year 2017 primarily due to the lower bad debt expense and higher margins on product sales due to mix, partly offset by higher incentive costs.

North American Franchise salon operating income increased \$3.5 million during fiscal year 2016 primarily due to the increased number of franchised locations and same-store sales increases at franchised locations.

North American Franchise salon operating income increased \$0.9 million during fiscal year 2015 primarily due to the increased number of franchised locations and same-store sales increases at franchised locations.

North American Franchise Cash Generated from Re-Franchised Salons

During fiscal year 2017, 2016 and 2015, North American Franchise salons generated \$2.3, \$1.7 and \$3.0 million, respectively, of cash from re-franchising salons (the sale of company-owned salons to franchisees).

North American Premium Salons

	Fiscal Years					
	2017	2016	2015	2017	2016	2015
	(Dollars in millions)			Increase (Decrease)		
Total revenue	\$ 241.5	\$ 283.4	\$ 309.6	\$ (41.9)	\$ (26.2)	\$ (24.3)
Same-store sales	(5.9)%	(3.8)%	(3.0)%	(210 bps)	(80 bps)	370 bps
Operating loss	\$ (18.3)	\$ (12.8)	\$ (14.2)	\$ (5.5)	\$ 1.4	\$ 32.1

North American Premium Salon Revenues

Decreases in North American Premium salon revenues were driven by the following:

Factor	Fiscal Years		
	2017	2016	2015
Same-store sales	(5.9)%	(3.8)%	(3.0)%
Closed salons	(7.3)	(3.8)	(3.5)
Foreign currency	—	(0.7)	(0.6)
Other	(1.6)	(0.1)	(0.2)
	(14.8)%	(8.4)%	(7.3)%

North American Premium revenues decreased \$41.9 million during fiscal year 2017 primarily due to the closure of 135 salons and the same-store sales decrease of 5.9%. The same-store sales decrease was due to a 9.6% decrease in same-store guest visits, partly offset by a 3.7% increase in average ticket price.

North American Premium revenues decreased \$26.2 million during fiscal year 2016 primarily due to the closure of 67 salons and the same-store sales decrease of 3.8%. The same-store sales decrease of 3.8% was due to a 6.5% decrease in same-store guest visits, partly offset by a 2.7% increase in average ticket price.

North American Premium revenues decreased \$24.3 million during fiscal year 2015 primarily due to the closure of 55 salons and the same-store sales decrease of 3.0%. The same-store sales decrease was due to a 5.2% decrease in same-store guest visits, partly offset by a 2.2% increase in average ticket price.

North American Premium Salon Operating Loss

North American Premium salon operating loss increased \$5.5 million during fiscal year 2017 primarily due to same-store sales declines and unfavorable stylist productivity, partly offset by the closure of underperforming salons.

North American Premium salon operating loss decreased \$1.4 million during fiscal year 2016 primarily due to the closure of underperforming salons and reduced fixed asset impairment charges, partly offset by same-store sales declines and unfavorable stylist productivity.

North American Premium salon operating loss decreased \$32.1 million during fiscal year 2015 primarily due to a goodwill impairment charge recorded in fiscal year 2014 and the closure of underperforming salons, partly offset by same-store sales declines.

International Salons

	Fiscal Years					
	2017	2016	2015	2017	2016	2015
	(Dollars in millions)			Increase (Decrease)		
Total revenue	\$ 91.5	\$ 112.1	\$ 124.3	\$ (20.6)	\$ (12.2)	\$ (4.2)
Same-store sales	(5.7)%	(2.3)%	0.6%	(340 bps)	(290 bps)	210 bps
Operating (loss) income	\$ (1.9)	\$ (1.9)	\$ 0.3	\$ —	\$ (2.2)	\$ 3.4

International Salon Revenues

Decreases in International salon revenues were driven by the following:

Factor	Fiscal Years		
	2017	2016	2015
Same-store sales	(5.7)%	(2.3)%	0.6 %
Closed salons	(5.2)	(4.2)	(3.1)
New stores and conversions	1.4	0.8	1.5
Foreign currency	(12.5)	(5.4)	(3.3)
Other	3.6	1.3	1.0
	<u>(18.4)%</u>	<u>(9.8)%</u>	<u>(3.3)%</u>

International salon revenues decreased \$20.6 million during fiscal year 2017 primarily due to foreign currency translation, the same-store sales decrease of 5.7% and the closure of 50 salons. This decrease was partly offset by growth from construction (net of relocations) of 10 salons during fiscal year 2017. The same-store sales decrease was due to a 6.7% decrease in same-store guest visits, partly offset by a 1.0% increase in average ticket price.

International salon revenues decreased \$12.2 million during fiscal year 2016 primarily due to foreign currency translation, the closure of 37 salons and the same-store sales decrease of 2.3%. This decrease was partly offset by growth from the construction (net of relocations) of 9 salons during fiscal year 2016. The same-store sales decrease was due to a 2.9% decrease in same-store guest visits, partly offset by a 0.6% increase in average ticket price.

International salon revenues decreased \$4.2 million during fiscal year 2015 primarily due to foreign currency translation and the closure of 19 salons. This decrease was partly offset by growth from the construction (net of relocations) of 15 salons and the same-store sales increase of 0.6%. The same-store sales increase was due to a 2.9% increase in average ticket price, partly offset by a 2.3% decrease in same-store guest visits.

International Salon Operating (Loss) Income

International salon operating loss was flat during fiscal year 2017 primarily due to negative leverage on fixed payroll costs due to decreased same-store sales, offset by a net reduction in salon counts.

International salon operating loss increased \$2.2 million during fiscal year 2016 primarily due to negative leverage on fixed payroll costs due to decreased same-store sales, partly offset by a net reduction in salon counts.

International salon operating income increased \$3.4 million during fiscal year 2015 primarily due to the closure of unprofitable salons, same-store sales increases and reduced fixed asset impairment charges, partly offset by negative leverage on fixed payroll costs.

Corporate

Corporate Operating Loss

Corporate operating loss increased \$0.9 million during fiscal year 2017 primarily driven by severance related to the termination of former executive officers including the Company's Chief Executive Officer, expense associated with legal settlements and higher professional fees, partly offset by lower incentive compensation and cost savings.

Corporate operating loss decreased \$7.4 million during fiscal year 2016 primarily due to reduced incentive compensation, cost savings, and a gain on life insurance proceeds, partly offset by salaries expense, higher legal fees and financing arrangement modification fees.

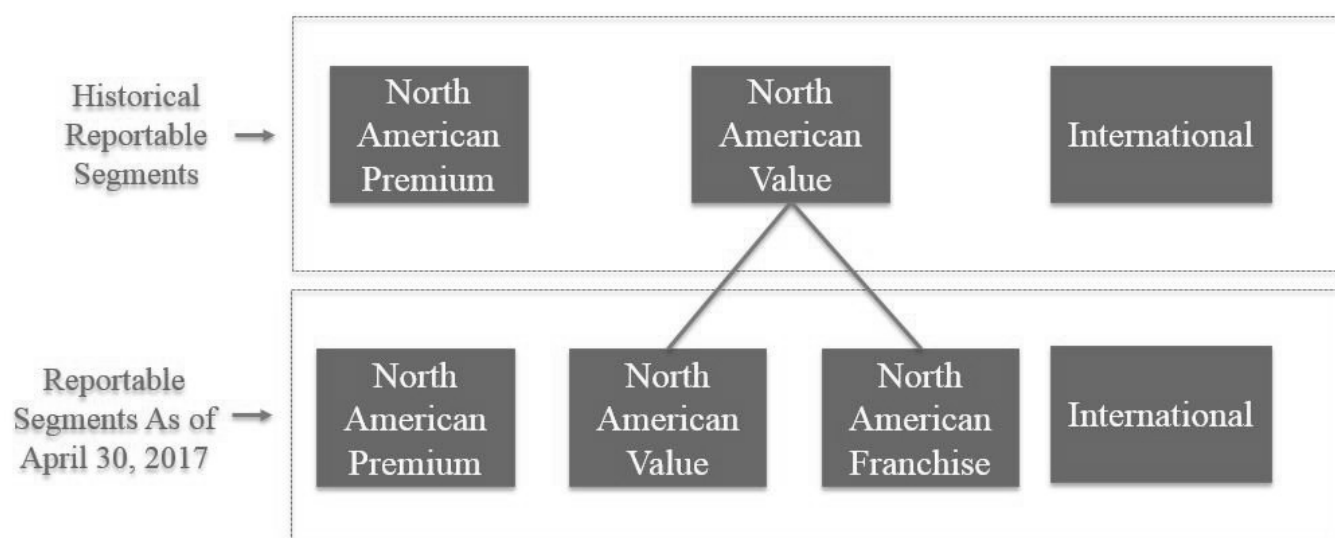
Corporate operating loss increased \$1.8 million during fiscal year 2015 primarily due to higher incentive compensation levels as the Company anniversaried an incentive-lite year, salaries expense and the lapping of a favorable deferred compensation adjustment. These items were partly offset by cost savings, reduced legal and professional fees and lower depreciation on corporate assets.

Recent Developments

Operating and Reportable Segments

Historically, the Company has had three operating segments: North American Value, North American Premium, and International.

During the fourth quarter of fiscal year 2017, the Company redefined its operating segments to reflect how the chief operating decision maker now evaluates the business as a result of a number of factors, including the increased focus on the franchise business and appointing a President of Franchise in April 2017. The Company now reports its operations in four operating segments: North American Value, North American Franchise, North American Premium and International.



Recent Accounting Pronouncements

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

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity

Funds generated by operating activities, available cash and cash equivalents, and our borrowing agreements are our most significant sources of liquidity.

As of June 30, 2017, cash and cash equivalents were \$172.4 million, with \$156.0, \$12.2 and \$4.2 million in the U.S., Canada and Europe, respectively.

The Company's borrowing agreements include \$123.0 million 5.5% senior notes due December 2019 (Senior Term Notes) and a \$200.0 million five-year unsecured revolving credit facility that expires in June 2018. See additional discussion under Financing Arrangements.

Uses of Cash

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

Cash Flows

Cash Flows from Operating Activities

Fiscal year 2017 cash provided by operating activities of \$60.1 million increased by \$4.3 million compared to the previous fiscal year largely due to lower inventory levels in fiscal year 2017, partly offset by lower earnings.

Fiscal year 2016 cash provided by operating activities of \$55.8 million decreased by \$39.0 million compared to the previous fiscal year largely due to higher inventory levels in fiscal year 2016, enhanced incentive payouts in fiscal year 2016 and lower income tax refunds.

Fiscal year 2015 cash provided by operating activities of \$94.7 million decreased by \$22.7 million compared to the previous fiscal year, primarily as a result of a \$12.0 million decrease in working capital primarily due to lapping fiscal year 2014 income tax refunds and lower earnings.

Cash Flows from Investing Activities

Cash used in investing activities during fiscal year 2017 of \$29.1 million was more than the \$17.4 million used in fiscal year 2016. In fiscal year 2017, cash used in investing activities was primarily for capital expenditures of \$33.8 million, partly offset by cash proceeds from sale of salon assets of \$2.3 million, a reduction in restricted cash of \$1.1 million, cash proceeds from company-owned life insurance policies of \$0.9 million and cash proceeds from the sale of the Company's ownership interest in MyStyle of \$0.5 million.

Cash used in investing activities during fiscal year 2016 of \$17.4 million was less than the \$35.6 million used in fiscal year 2015. In fiscal year 2016, we used \$31.1 million for capital expenditures, partly offset by a reduction in restricted cash of \$9.0 million, cash proceeds from company-owned life insurance policies of \$2.9 million and cash proceeds from sale of salon assets of \$1.7 million.

Cash used in investing activities during fiscal year 2015 of \$35.6 million was less than the \$44.4 million used in fiscal year 2014. In fiscal year 2015, we used \$38.3 million for capital expenditures, partly offset by cash proceeds from sale of salon assets of \$3.0 million.

Cash Flows from Financing Activities

During fiscal year 2017, cash used in financing activities of \$6.8 million was for employee taxes paid for shares withheld of \$3.7 million and settlement of equity awards of \$3.2 million.

During fiscal year 2016, cash used in financing activities of \$102.6 million was for repurchases of common stock of \$101.0 million, the purchase of an additional 24% ownership interest in Roosters MGC International, LLC for \$0.8 million, and employee taxes paid for shares withheld of \$0.8 million.

During fiscal year 2015, cash used in financing activities of \$222.4 million was for net repayments of long-term debt of \$173.8 million, repurchases of common stock of \$47.9 million and employee taxes paid for shares withheld of \$0.8 million.

Financing Arrangements

Financing activities are discussed in Note 6 to the Consolidated Financial Statements. Derivative activities are discussed in Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk."

The Company's financing arrangements consist of the following:

	Maturity Dates (fiscal year)	Interest rate %		June 30,	
		Fiscal Years			
		2017	2016	2017	2016
		(Dollars in thousands)			
Senior Term Notes, net	2020	5.50%	5.50%	\$ 120,599	\$ 119,606
Revolving credit facility	2018	—	—	—	—
				\$ 120,599	\$ 119,606

In December 2015, the Company exchanged its \$120.0 million 5.75% senior notes due December 2017 for \$123.0 million 5.5% senior notes due December 2019. The Senior Term Notes were issued at a \$3.0 million discount which is being amortized to interest expense over the term of the notes. Interest on the Senior Term Notes is payable semi-annually in arrears on June 1 and December 1 of each year. The Senior Term Notes are unsecured and not guaranteed by any of the Company's subsidiaries or any third parties.

In January 2016, the Company amended its revolving credit facility primarily reducing the borrowing capacity from \$400.0 to \$200.0 million. The credit facility expires in June 2018 and includes, among other things, a maximum leverage ratio covenant, a minimum fixed charge coverage ratio covenant and certain restrictions on liens, liquidity and other indebtedness. The Company may request an increase in revolving credit commitments under the facility of up to \$200.0 million under certain circumstances. Events of default under the Credit Agreement include a change of control of the Company.

Our debt to capitalization ratio, calculated as the principal amount of debt as a percentage of the principal amount of debt and shareholders' equity at fiscal year-end, was as follows:

As of June 30,	Debt to Capitalization	Basis Point Increase (Decrease)(1)
2017	19.5%	40
2016	19.1	300
2015	16.1	(1,300)

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

The basis point increase in the debt to capitalization ratio as of June 30, 2017 compared to June 30, 2016 was primarily due to net reductions to shareholders' equity resulting from net losses and foreign currency translation adjustments.

The basis point increase in the debt to capitalization ratio as of June 30, 2016 compared to June 30, 2015 was primarily due to the repurchase of 7.6 million shares of common stock for \$101.0 million.

The basis point improvement in the debt to capitalization ratio as of June 30, 2015 compared to June 30, 2014 was primarily due to the \$173.8 million repayment of long-term debt, which included \$172.5 million in settlement of the convertible notes. This was partly offset by the repurchase of 3.1 million shares of common stock for \$47.9 million.

Contractual Obligations and Commercial Commitments

The following table reflects a summary of obligations and commitments outstanding by payment date as of June 30, 2017:

Contractual Obligations	Total	Payments due by period			
		Within 1 year	1 - 3 years	3 - 5 years	More than 5 years
		(Dollars in thousands)			
On-balance sheet:					
Debt obligations	\$ 123,000	\$ —	\$ 123,000	\$ —	\$ —
Other long-term liabilities	12,687	2,972	2,473	1,505	5,737
Total on-balance sheet	135,687	2,972	125,473	1,505	5,737
Off-balance sheet(a):					
Operating lease obligations	853,594	274,921	380,614	155,842	42,217
Interest on long-term debt	16,368	6,765	9,603	—	—
Total off-balance sheet	869,962	281,686	390,217	155,842	42,217
Total	\$1,005,649	\$ 284,658	\$ 515,690	\$ 157,347	\$ 47,954

- (a) In accordance with accounting principles generally accepted in the United States of America, these obligations are not reflected in the Consolidated Balance Sheet.

On-Balance Sheet Obligations

Our long-term obligations are composed primarily of our Senior Term Notes. There were no outstanding borrowings under our revolving credit facility at June 30, 2017.

Other long-term liabilities of \$12.7 million include \$9.6 million related to a Nonqualified Deferred Salary Plan and a salary deferral program of \$3.1 million related to established contractual payment obligations under retirement and severance agreements for a small number of employees.

This table excludes short-term liabilities disclosed on our balance sheet as the amounts recorded for these items will be paid in the next year. We have no unconditional purchase obligations. Also excluded from the contractual obligations table are payment estimates associated with employee health and workers' compensation claims for which we are self-insured. The majority of our recorded liability for self-insured employee health and workers' compensation losses represents estimated reserves for incurred claims that have yet to be filed or settled.

The Company has unfunded deferred compensation contracts covering certain management and executive personnel. Because we cannot predict the timing or amount of future payments related to these contracts, such amounts were not included in the table above. See Note 9 to the Consolidated Financial Statements.

As of June 30, 2017, we have liabilities for uncertain tax positions. We are not able to reasonably estimate the amount by which the liabilities will increase or decrease over time; however, at this time, we do not expect a significant payment related to these obligations within the next fiscal year. See Note 8 to the Consolidated Financial Statements.

Off-Balance Sheet Arrangements

Operating leases primarily represent long-term obligations for the rental of salons, including leases for company-owned locations, as well as salon franchisee lease payments of approximately \$243.2 million, which are reimbursed to the Company by franchisees. Regarding franchisee subleases, we generally retain the right to the related salon assets, net of any outstanding obligations, in the event of a default by a franchise owner. Management has not experienced and does not expect any material loss to result from these arrangements.

Interest payments on long-term debt are calculated based on the Senior Term Notes' agreed upon rate of 5.5%.

We are a party to a variety of contractual agreements under which we may be obligated to indemnify the other party for certain matters, which indemnities may be secured by operation of law or otherwise, in the ordinary course of business. These contracts primarily relate to our commercial contracts, operating leases and other real estate contracts, financial agreements, agreements to provide services and agreements to indemnify officers, directors and employees in the performance of their

work. While our aggregate indemnification obligation could result in a material liability, we are not aware of any current matter that we expect to result in a material liability.

We do not have other unconditional purchase obligations or significant other commercial commitments such as commitments under lines of credit and standby repurchase obligations or other commercial commitments.

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet financial arrangements or other contractually narrow or limited purposes at June 30, 2017. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Dividends

In December 2013, the Board of Directors elected to discontinue declaring regular quarterly dividends.

Share Repurchase Program

In May 2000, the Company's Board of Directors (Board) approved a stock repurchase program with no stated expiration date. Since that time and through June 30, 2017, the Board has authorized \$450.0 million to be expended for the repurchase of the Company's stock under this program. All repurchased shares become authorized but unissued shares of the Company. The timing and amounts of any repurchases depends on many factors, including the market price of the common stock and overall market conditions. As of June 30, 2017, 18.4 million shares have been cumulatively repurchased for \$390.0 million, and \$60.0 million remained outstanding under the approved stock repurchase program.

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. We believe the following accounting policies are most critical to aid in fully understanding and evaluating our reported financial condition and results of operations.

Investments In Affiliates

The Company has equity investments in securities of certain privately held entities. The Company accounts for these investments under the equity or cost method of accounting. Investments accounted for under the equity method are recorded at the amount of the Company's investment and adjusted each period for the Company's share of the investee's income or loss. Investments are reviewed for changes in circumstance or the occurrence of events that suggest the Company's investment may not be recoverable.

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

	Fiscal Year		
	2017	2016	2015
	(Dollars in thousands)		
Equity losses (1)	\$ (81)	\$ (1,829)	\$ (8,975)
Other than temporary impairment	—	(12,954)	(4,654)
Total losses	<u>\$ (81)</u>	<u>\$ (14,783)</u>	<u>\$ (13,629)</u>

(1) For fiscal year 2015, includes \$6.9 million of expense for a non-cash deferred tax valuation allowance related to EEG.

Goodwill

As of June 30, 2017 and 2016, the North American Value reporting unit had \$188.9 and \$189.2 million of goodwill, respectively, the North American Franchise reporting unit had \$228.1 and \$228.2 million of goodwill, respectively, and the

North American Premium and International reporting units had no goodwill. See Note 3 to the Consolidated Financial Statements. The Company tests goodwill impairment on an annual basis, during the Company's fourth fiscal quarter, and between annual tests if an event occurs, or circumstances change, that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

Goodwill impairment testing is performed at the reporting unit level, which is the same as the Company's operating segments. As part of the new simplification guidance issued by the Financial Accounting Standards Board (FASB), the goodwill test involves a one-step comparison of the reporting unit's fair value to its carrying value, including goodwill ("Step 1"). The prior guidance required a hypothetical purchase price allocation as the second step of the goodwill impairment test, but this step has been eliminated. If the reporting unit's fair value exceeds its carrying value, no further procedures are required. However, if the reporting unit's fair value is less than the carrying value, an impairment charge is recorded for the difference between the fair value and carrying value of the reporting unit. The Company early adopted this guidance when completing the annual fiscal year 2017 impairment analysis and therefore only completed Step 1 of the goodwill impairment test.

In applying the goodwill impairment test, the Company may assess qualitative factors to determine whether it is more likely than not that the fair value of the reporting units is less than its carrying value ("Step 0"). Qualitative factors may include, but are not limited to, economic, market and industry conditions, cost factors, and overall financial performance of the reporting unit. If after assessing these qualitative factors, the Company determines it is "more-likely-than-not" that the carrying value is less than the fair value, then performing Step 1 of the goodwill impairment test is unnecessary.

The carrying value of each reporting unit is based on the assets and liabilities associated with the operations of the reporting unit, including allocation of shared or corporate balances among reporting units. Allocations are generally based on the number of salons in each reporting unit as a percent of total company-owned salons.

The Company calculates estimated fair values of the reporting units based on discounted future cash flows utilizing estimates in annual revenue, service and product margins, fixed expense rates, allocated corporate overhead, corporate-owned and franchise salon counts and long-term growth rates for determining terminal value. Where available and as appropriate, comparative market multiples are used in conjunction with the results of the discounted cash flows. The Company periodically engages third-party valuation consultants to assist in evaluating the Company's estimated fair value calculations.

Following is a description of the goodwill impairment assessments for each of the fiscal years:

Fiscal Year 2017

During the fourth quarter of fiscal year 2017, the Company experienced a triggering event due to the redefining of its operating segments. In connection with the change in operating segment structure, the Company changed its North American reporting units from two reporting units: North American Value and North American Premium, to three reporting units: North American Value, North American Franchise and North American Premium.

Pursuant to the change in operating segments, the Company performed a goodwill impairment test on its North American Value reporting unit. The North American Premium and International units do not have any goodwill. The Company compared the carrying value of the North American Value reporting unit, including goodwill, to its estimated fair value. The fair value of the reporting unit exceeded its carrying value by a substantial margin, resulting in no goodwill impairment.

Assessing goodwill for impairment requires management to make assumptions and to apply judgment, including forecasting future sales and expenses, and selecting appropriate discount rates, which can be affected by economic conditions and other factors that can be difficult to predict. The Company does not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions it uses to calculate impairment losses of goodwill. However, if actual results are not consistent with the estimates and assumptions used in the calculations, the Company may be exposed to future impairment losses that could be material.

Based on the changes to the Company's operating segment structure, goodwill has been reallocated based on relative fair value to the North American Value and North American Franchise reporting units at June 30, 2017 and 2016.

Fiscal Years 2016 and 2015

During the Company's annual impairment tests, the Company assessed qualitative factors to determine whether it is more likely than not that the fair value of the reporting units were less than their carrying values ("Step 0"). The Company determined it is "more-likely-than-not" that the carrying values of the reporting units were less than the fair values. Accordingly, the Company did not perform a two-step quantitative analysis.

As of June 30, 2017, the Company's estimated fair value, as determined by the sum of our reporting units' fair value, reconciled within a reasonable range of our market capitalization, which included an assumed control premium of 20.0%.

A summary of the Company's goodwill balance by reporting unit is as follows:

	June 30,	
	2017	2016
	(Dollars in thousands)	
North American Value	\$ 188,888	\$ 189,218
North American Franchise	228,099	228,175
Total	<u>\$ 416,987</u>	<u>\$ 417,393</u>

Long-Lived Assets, Excluding Goodwill

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

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 the Company to realize material impairment charges.

A summary of long-lived asset impairment charges follows:

	Fiscal Years		
	2017	2016	2015
	(Dollars in thousands)		
North American Value	\$ 8,998	\$ 8,393	\$ 9,612
North American Premium	2,105	1,924	4,804
International	263	161	188
Total	<u>\$ 11,366</u>	<u>\$ 10,478</u>	<u>\$ 14,604</u>

Income Taxes

Deferred income tax assets and liabilities are recognized for the expected future tax consequences of events that have been included in the Consolidated Financial Statements or income tax returns. Deferred income tax assets and liabilities are determined based on the differences between the financial statement and tax basis of assets and liabilities using currently enacted tax rates in effect for the years in which the differences are expected to reverse. A valuation allowance is established for any portion of deferred tax assets that are not considered more likely than not to be realized. The Company evaluates all evidence, including recent financial performance, the existence of cumulative year losses and our forecast of future taxable income, to assess the need for a valuation allowance against our deferred tax assets. While the determination of whether or not to record a valuation allowance is not fully governed by a specific objective test, accounting guidance places significant weight on recent financial performance.

The Company has a valuation allowance on the majority of its deferred tax assets amounting to \$120.9 and \$110.0 million at June 30, 2017 and 2016, respectively.

The Company assesses the realizability of its deferred tax assets on a quarterly basis and will reverse the valuation allowance and record a tax benefit when the Company generates sufficient sustainable pretax earnings to make the realizability of the deferred tax assets more likely than not.

The Company reserves for unrecognized tax benefits, interest and penalties related to anticipated tax audit issues in the U.S. and other tax jurisdictions based on an estimate of whether additional taxes will be due. If payment of these amounts ultimately proves to be unnecessary, the reversal of these liabilities would result in tax benefits being recognized in the period in which it is determined that the liabilities are no longer necessary. If the estimate of unrecognized tax benefits, interest and penalties proves to be less than the ultimate assessment, additional expenses would result. Inherent in the measurement of deferred balances are certain judgments and interpretations of tax laws and published guidance with respect to the Company's operations. Income tax expense is primarily the current tax payable for the period and the change during the period in certain deferred tax assets and liabilities.

Contingencies

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

See Note 8 to the Consolidated Financial Statements for discussion regarding certain issues that have resulted from the IRS' audit of fiscal years 2010 through 2013. Final resolution of these issues is not expected to have a material impact on the Company's financial position.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The primary market risk exposure of the Company relates to changes in interest rates in connection with its debt, specifically the revolving credit facility which bears interest at variable rates based on LIBOR plus an applicable borrowing margin. Additionally, the Company is exposed to foreign currency translation risk related changes in the Canadian dollar and British Pound. The Company has established policies and procedures that govern the management of these exposures through the use of derivative financial instrument contracts. By policy, the Company does not enter into such contracts for the purpose of speculation. The following details the Company's policies and use of financial instruments.

Interest Rate Risk:

The Company has established an interest rate management policy that attempts to minimize its overall cost of debt, while taking into consideration earnings implications associated with volatility in short-term interest rates. On occasion, the Company uses interest rate swaps to further mitigate the risk associated with changing interest rates and to maintain its desired balances of fixed and floating rate debt. In addition, access to variable rate debt is available through the Company's revolving credit facility. The Company reviews its policy and interest rate risk management quarterly and makes adjustments in accordance with market conditions and the Company's short and long-term borrowing needs. As of June 30, 2017, the Company did not have any outstanding variable rate debt as there were no amounts outstanding on the revolving credit facility. The Company had an outstanding fixed rate debt balance of \$123.0 million at June 30, 2017 and 2016.

Foreign Currency Exchange Risk:

Over 85% of the Company's revenue, expense and capital purchasing activities are transacted in United States dollars. However, because a portion of the Company's operations consists of activities outside of the United States, the Company has transactions in other currencies, primarily the Canadian dollar and British pound. In preparing the Consolidated Financial Statements, the Company is required to translate the financial statements of its foreign subsidiaries from the currency in which they keep their accounting records, generally the local currency, into United States dollars. Different exchange rates from period to period impact the amounts of reported income and the amount of foreign currency translation recorded in accumulated other comprehensive income (AOCI). As part of its risk management strategy, the Company frequently evaluates its foreign currency exchange risk by monitoring market data and external factors that may influence exchange rate fluctuations. As a result, the Company may engage in transactions involving various derivative instruments to hedge assets, liabilities and purchases denominated in foreign currencies. As of June 30, 2017 and 2016, the Company did not have any derivative instruments to manage its foreign currency risk.

During fiscal years 2017, 2016 and 2015, the foreign currency (loss) gain included in net loss was \$(0.1), \$0.3 and \$(1.3) million, respectively.

Item 8. Financial Statements and Supplementary Data

Index to Consolidated Financial Statements:

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<u>Consolidated Statement of Comprehensive Loss for each of the three years in the period ended June 30, 2017</u>	<u>47</u>
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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Regis Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive loss, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Regis Corporation and its subsidiaries at June 30, 2017 and June 30, 2016, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PRICEWATERHOUSECOOPERS LLP

Minneapolis, Minnesota
August 23, 2017

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

	June 30,	
	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 172,396	\$ 147,346
Receivables, net	23,475	24,691
Inventories	122,104	134,212
Other current assets	52,172	51,765
Total current assets	370,147	358,014
Property and equipment, net	146,994	183,321
Goodwill	416,987	417,393
Other intangibles, net	13,634	15,185
Other assets	63,726	62,019
Total assets	\$ 1,011,488	\$ 1,035,932
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 56,049	\$ 59,884
Accrued expenses	122,013	135,431
Total current liabilities	178,062	195,315
Long-term debt	120,599	119,606
Other noncurrent liabilities	204,606	201,610
Total liabilities	503,267	516,531
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Common stock, \$0.05 par value; issued and outstanding, 46,400,367 and 46,154,410 common shares at June 30, 2017 and 2016, respectively	2,320	2,308
Additional paid-in capital	214,109	207,475
Accumulated other comprehensive income	3,336	5,068
Retained earnings	288,456	304,550
Total shareholders' equity	508,221	519,401
Total liabilities and shareholders' equity	\$ 1,011,488	\$ 1,035,932

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

REGIS CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS
(Dollars in thousands, except per share data)

	Fiscal Years		
	2017	2016	2015
Revenues:			
Service	\$ 1,307,732	\$ 1,383,663	\$ 1,429,408
Product	335,865	359,683	363,236
Royalties and fees	48,291	47,523	44,643
	<u>1,691,888</u>	<u>1,790,869</u>	<u>1,837,287</u>
Operating expenses:			
Cost of service	838,192	868,188	882,717
Cost of product	166,344	179,341	180,558
Site operating expenses	168,439	182,952	192,442
General and administrative	174,502	178,033	186,051
Rent	279,288	297,271	309,125
Depreciation and amortization	66,327	67,470	82,863
Total operating expenses	<u>1,693,092</u>	<u>1,773,255</u>	<u>1,833,756</u>
Operating (loss) income	(1,204)	17,614	3,531
Other (expense) income:			
Interest expense	(8,703)	(9,317)	(10,206)
Interest income and other, net	<u>3,072</u>	<u>4,219</u>	<u>1,697</u>
(Loss) income from continuing operations before income taxes and equity in loss of affiliated companies	(6,835)	12,516	(4,978)
Income taxes	(9,224)	(9,049)	(14,605)
Equity in loss of affiliated companies, net of income taxes	(81)	(14,783)	(13,629)
Loss from continuing operations	<u>(16,140)</u>	<u>(11,316)</u>	<u>(33,212)</u>
Loss from discontinued operations, net of income taxes (Note 1)	—	—	(630)
Net loss	<u>\$ (16,140)</u>	<u>\$ (11,316)</u>	<u>\$ (33,842)</u>
Net loss per share:			
Basic and diluted:			
Loss from continuing operations	\$ (0.35)	\$ (0.23)	\$ (0.60)
Loss from discontinued operations	—	—	(0.01)
Net loss per share, basic and diluted (1)	<u>\$ (0.35)</u>	<u>\$ (0.23)</u>	<u>\$ (0.62)</u>
Weighted average common and common equivalent shares outstanding:			
Basic and diluted	<u>46,359</u>	<u>48,542</u>	<u>54,992</u>

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

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

REGIS CORPORATION
CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS
(Dollars in thousands)

	Fiscal Years		
	2017	2016	2015
Net loss	\$ (16,140)	\$ (11,316)	\$ (33,842)
Other comprehensive (loss) income:			
Foreign currency translation adjustments during the period	(1,889)	(4,276)	(13,515)
Recognition of deferred compensation	157	(162)	370
Other comprehensive loss	(1,732)	(4,438)	(13,145)
Comprehensive loss	<u>\$ (17,872)</u>	<u>\$ (15,754)</u>	<u>\$ (46,987)</u>

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

REGIS CORPORATION
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(Dollars in thousands, except share data)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total
	Shares	Amount				
Balance, June 30, 2014	56,651,166	\$ 2,833	\$ 337,837	\$ 22,651	\$ 350,671	\$ 713,992
Net loss					(33,842)	(33,842)
Foreign currency translation adjustments				(13,515)		(13,515)
Stock repurchase program	(3,054,387)	(153)	(47,735)			(47,888)
Proceeds from exercise of SARs & stock options	623	—	—			—
Stock-based compensation			8,647			8,647
Shares issued through franchise stock incentive program	27,276	1	460			461
Recognition of deferred compensation (Note 9)				370		370
Net restricted stock activity	39,688	2	(813)			(811)
Minority interest (Note 1)					30	30
Balance, June 30, 2015	53,664,366	2,683	298,396	9,506	316,859	627,444
Net loss					(11,316)	(11,316)
Foreign currency translation adjustments				(4,276)		(4,276)
Stock repurchase program	(7,647,819)	(382)	(100,653)			(101,035)
Proceeds from exercise of SARs & stock options	107	—	—			—
Stock-based compensation			9,797			9,797
Shares issued through franchise stock incentive program	22,084	1	330			331
Recognition of deferred compensation (Note 9)				(162)		(162)
Net restricted stock activity	115,672	6	(734)			(728)
Minority interest (Note 1)			339		(993)	(654)
Balance, June 30, 2016	46,154,410	2,308	207,475	5,068	304,550	519,401
Net loss					(16,140)	(16,140)
Foreign currency translation adjustments				(1,889)		(1,889)
Proceeds from exercise of SARs & stock options	4,370	—	(42)			(42)
Stock-based compensation			9,991			9,991
Shares issued through franchise stock incentive program	27,819	1	352			353
Recognition of deferred compensation (Note 9)				157		157
Net restricted stock activity	213,768	11	(3,667)			(3,656)
Minority interest (Note 1)					46	46
Balance, June 30, 2017	<u>46,400,367</u>	<u>\$ 2,320</u>	<u>\$ 214,109</u>	<u>\$ 3,336</u>	<u>\$ 288,456</u>	<u>\$ 508,221</u>

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

REGIS CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
(Dollars in thousands)

	Fiscal Years		
	2017	2016	2015
Cash flows from operating activities:			
Net loss	\$ (16,140)	\$ (11,316)	\$ (33,842)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	54,961	56,992	68,259
Equity in loss of affiliated companies	81	14,783	13,629
Deferred income taxes	7,962	7,023	11,154
Gain from sale of salon assets, net	(492)	(1,000)	(1,210)
Loss on write down of inventories	5,905	—	—
Salon asset impairments	11,366	10,478	14,604
Stock-based compensation	13,142	9,797	8,647
Amortization of debt discount and financing costs	1,403	1,514	1,722
Other non-cash items affecting earnings	935	310	257
Changes in operating assets and liabilities(1):			
Receivables	724	(577)	446
Inventories	4,010	(7,109)	6,197
Income tax receivable	(535)	501	5,298
Other current assets	820	(460)	3,049
Other assets	(2,586)	(1,133)	(4,480)
Accounts payable	(684)	(4,624)	(3,261)
Accrued expenses	(13,667)	(14,280)	9,031
Other noncurrent liabilities	(7,150)	(5,113)	(4,756)
Net cash provided by operating activities	60,055	55,786	94,744
Cash flows from investing activities:			
Capital expenditures	(33,843)	(31,117)	(38,257)
Proceeds from sale of salon assets	2,253	1,740	2,986
Change in restricted cash	1,123	9,042	(312)
Proceeds from company-owned life insurance policies	876	2,948	—
Proceeds from sale of investment	500	—	—
Net cash used in investing activities	(29,091)	(17,387)	(35,583)
Cash flows from financing activities:			
Repayments of long-term debt and capital lease obligations	—	(2)	(173,751)
Repurchase of common stock	—	(101,035)	(47,888)
Purchase of noncontrolling interest	—	(760)	—
Employee taxes paid for shares withheld	(3,698)	(754)	(782)
Settlement of equity awards	(3,151)	—	—
Net cash used in financing activities	(6,849)	(102,551)	(222,421)
Effect of exchange rate changes on cash and cash equivalents	935	(781)	(3,088)
Increase (decrease) in cash and cash equivalents	25,050	(64,933)	(166,348)
Cash and cash equivalents:			
Beginning of year	147,346	212,279	378,627
End of year	\$ 172,396	\$ 147,346	\$ 212,279

(1) Changes in operating assets and liabilities exclude assets and liabilities sold or acquired.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS DESCRIPTION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Description:

Regis Corporation (the Company) owns, operates and franchises hairstyling and hair care salons throughout the United States (U.S.), the United Kingdom (U.K.), Canada and Puerto Rico. Substantially all of the hairstyling and hair care salons owned and operated by the Company in the U.S., Canada and Puerto Rico are located in leased space in enclosed mall shopping centers, strip shopping centers or Walmart Supercenters. Franchised salons throughout the U.S. are primarily located in strip shopping centers and Walmart Supercenters. Salons in the U.K. are primarily company-owned and operate in malls, leading department stores, mass merchants and high-street locations.

Based on the way the chief operating decision maker evaluates the business, the Company has four reportable segments: North American Value, North American Franchise, North American Premium and International salons. See Note 13 to the Consolidated Financial Statements.

Consolidation:

The Consolidated Financial Statements include the accounts of the Company and its subsidiaries after the elimination of intercompany accounts and transactions. All material subsidiaries are wholly owned. The Company consolidates variable interest entities where it has determined it is the primary beneficiary of those entities' operations.

Variable Interest Entities:

The Company has interests in certain privately held entities through arrangements that do not involve voting interests. Such entities, known as a variable interest entity (VIE), are required to be consolidated by its primary beneficiary. The Company evaluates whether or not it is the primary beneficiary for each VIE using a qualitative assessment that considers the VIE's purpose and design, the involvement of each of the interest holders and the risk and benefits of the VIE.

As of June 30, 2017, the Company has one VIE, Roosters MGC International LLC (Roosters), where the Company is the primary beneficiary. The Company owns an 84.0% ownership interest in Roosters. As of June 30, 2017, total assets, total liabilities and total shareholders' equity of Roosters were \$7.5, \$0.8 and \$6.7 million, respectively. Net income attributable to the non-controlling interest in Roosters was immaterial for fiscal years 2017, 2016 and 2015. Shareholders' equity attributable to the non-controlling interest in Roosters was \$0.9 million as of June 30, 2017 and 2016 and recorded within retained earnings on the Consolidated Balance Sheet.

The Company accounts for EEG as an equity investment under the voting interest model, as the Company has granted the other shareholder of EEG an irrevocable proxy to vote a certain number of the Company's shares such that the other shareholder of EEG has voting control of 51.0% of EEG's common stock, as well as the right to appoint four of the five members of EEG's Board of Directors. See Note 4 to the Consolidated Financial Statements.

Use of Estimates:

The preparation of Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents:

Cash equivalents consist of investments in short-term, highly liquid securities having original maturities of three months or less, which are made as a part of the Company's cash management activity. The carrying values of these assets approximate their fair market values. The Company primarily utilizes a cash management system with a series of separate accounts consisting of lockbox accounts for receiving cash, concentration accounts that funds are moved to, and several "zero balance" disbursement accounts for funding of payroll and accounts payable. As a result of the Company's cash management system, checks issued, but not presented to the banks for payment, may create negative book cash balances. There were no checks outstanding in excess of related book cash balances at June 30, 2017 and 2016.

The Company has restricted cash primarily related to contractual obligations to collateralize its self-insurance programs. The restricted cash arrangement can be canceled by the Company at any time if substituted with letters of credit. The restricted cash balance is classified within other current assets on the Consolidated Balance Sheet.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. BUSINESS DESCRIPTION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables and Allowance for Doubtful Accounts:

The receivable balance on the Company's Consolidated Balance Sheet primarily includes credit card receivables and accounts and notes receivable from franchisees. The balance is presented net of an allowance for expected losses (i.e., doubtful accounts), primarily related to receivables from the Company's franchisees. The Company monitors the financial condition of its franchisees and records provisions for estimated losses on receivables when it believes franchisees are unable to make their required payments based on factors such as delinquencies and aging trends.

The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses related to existing accounts and notes receivables. As of June 30, 2017 and 2016, the allowance for doubtful accounts was \$0.9 and \$2.2 million, respectively.

Inventories:

Inventories of finished goods consist principally of hair care products for retail product sales. A portion of inventories are also used for salon services consisting of hair color, hair care products including shampoo and conditioner and hair care treatments including permanents, neutralizers and relaxers. Inventories are stated at the lower of cost or market, with cost determined on a weighted average cost basis.

Physical inventory counts are performed annually in the fourth quarter of the fiscal year for salons. Product and service inventories are adjusted based on the physical inventory counts. During the fiscal year, cost of retail product sold to salon guests is determined based on the weighted average cost of product sold, adjusted for an estimated shrinkage factor. The cost of product used in salon services is determined by applying an estimated percentage of total cost of service to service revenues. These estimates are updated quarterly based on cycle count results for the distribution centers and salons, service sales mix, discounting, special promotions and other factors.

The Company has inventory valuation reserves for excess and obsolete inventories, or other factors that may render inventories unmarketable at their historical costs. Estimates of the future demand for the Company's inventory and anticipated changes in formulas and packaging are some of the other factors used by management in assessing the net realizable value of inventories.

Property and Equipment:

Property and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation of property and equipment is computed using the straight-line method over their estimated useful asset lives (30 to 39 years for buildings, 10 years for improvements and three to ten years for equipment, furniture and software). Depreciation expense was \$53.5, \$55.5 and \$66.6 million in fiscal years 2017, 2016 and 2015, respectively.

The Company capitalizes both internal and external costs of developing or obtaining computer software for internal use. Costs incurred to develop internal-use software during the application development stage are capitalized, while data conversion, training and maintenance costs associated with internal-use software are expensed as incurred. Estimated useful lives range from five to seven years.

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

1. BUSINESS DESCRIPTION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Long-Lived Asset Impairment Assessments, Excluding Goodwill:**

The Company assesses the impairment of long-lived assets at the individual salon level, as this is the lowest level for which identifiable cash flows are largely independent of other groups of assets and liabilities, when events or changes in circumstances indicate the carrying value of the assets or the asset grouping may not be recoverable. Factors considered in deciding when to perform an impairment review include significant under-performance of an individual salon in relation to expectations, significant economic or geographic trends, and significant changes or planned changes in our use of the assets. Impairment is evaluated based on the sum of undiscounted estimated future cash flows expected to result from use of the long-lived assets that do not recover the carrying values. If the undiscounted estimated cash flows are less than the carrying value of the assets, the Company calculates an impairment charge based on the assets' estimated fair value. The fair value of the long-lived assets is estimated using a discounted cash flow model based on the best information available, including salon level revenues and expenses. Long-lived asset impairment charges are 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 the Company to realize material impairment charges.

A summary of long-lived asset impairment charges follows:

	Fiscal Years		
	2017	2016	2015
	(Dollars in thousands)		
North American Value	\$ 8,998	\$ 8,393	\$ 9,612
North American Premium	2,105	1,924	4,804
International	263	161	188
Total	<u>\$ 11,366</u>	<u>\$ 10,478</u>	<u>\$ 14,604</u>

Goodwill:

As of June 30, 2017 and 2016, the North American Value reporting unit had \$188.9 and \$189.2 million of goodwill, respectively, the North American Franchise reporting unit had \$228.1 and \$228.2 million of goodwill, respectively, and the North American Premium and International reporting units had no goodwill. See Note 3 to the Consolidated Financial Statements. The Company tests goodwill impairment on an annual basis, during the Company's fourth fiscal quarter, and between annual tests if an event occurs, or circumstances change, that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

Goodwill impairment testing is performed at the reporting unit level, which is the same as the Company's operating segments. As part of the new simplification guidance issued by the Financial Accounting Standards Board (FASB), the goodwill test involves a one-step comparison of the reporting unit's fair value to its carrying value, including goodwill ("Step 1"). The prior guidance required a hypothetical purchase price allocation as the second step of the goodwill impairment test, but this step has been eliminated. If the reporting unit's fair value exceeds its carrying value, no further procedures are required. However, if the reporting unit's fair value is less than the carrying value, an impairment charge is recorded for the difference between the fair value and carrying value of the reporting unit. The Company early adopted this guidance when completing the annual fiscal year 2017 impairment analysis and therefore only completed Step 1 of the goodwill impairment test.

In applying the goodwill impairment test, the Company may assess qualitative factors to determine whether it is more likely than not that the fair value of the reporting units is less than its carrying value ("Step 0"). Qualitative factors may include, but are not limited to, economic, market and industry conditions, cost factors, and overall financial performance of the reporting unit. If after assessing these qualitative factors, the Company determines it is "more-likely-than-not" that the carrying value is less than the fair value, then performing Step 1 of the goodwill impairment test is unnecessary.

The carrying value of each reporting unit is based on the assets and liabilities associated with the operations of the reporting unit, including allocation of shared or corporate balances among reporting units. Allocations are generally based on

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. BUSINESS DESCRIPTION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the number of salons in each reporting unit as a percent of total company-owned salons or expenses of the reporting unit as a percent of total company expenses.

The Company calculates estimated fair values of the reporting units based on discounted future cash flows utilizing estimates in annual revenue, service and product margins, fixed expense rates, allocated corporate overhead, corporate-owned and franchise salon counts and long-term growth rates for determining terminal value. Where available and as appropriate, comparative market multiples are used in conjunction with the results of the discounted cash flows. The Company periodically engages third-party valuation consultants to assist in evaluating the Company's estimated fair value calculations.

Following is a description of the goodwill impairment assessments for each of the fiscal years:

Fiscal Year 2017

During the fourth quarter of fiscal year 2017, the Company experienced a triggering event due to the redefining of its operating segments, which also coincided with the annual assessment date. See Note 13 to the Consolidated Financial Statements. In connection with the change in operating segment structure, the Company changed its North American reporting units from two reporting units: North American Value and North American Premium, to three reporting units: North American Value, North American Franchise and North American Premium.

Pursuant to the change in operating segments, the Company performed a goodwill impairment test on its North American Value reporting unit. The North American Premium and International units do not have any goodwill. The Company compared the carrying value of the North American Value reporting unit, including goodwill, to its estimated fair value. The fair value of the reporting unit exceeded its carrying value by a substantial margin, resulting in no goodwill impairment.

Assessing goodwill for impairment requires management to make assumptions and to apply judgment, including forecasting future sales and expenses, and selecting appropriate discount rates, which can be affected by economic conditions and other factors that can be difficult to predict. The Company does not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions it uses to calculate impairment losses of goodwill. However, if actual results are not consistent with the estimates and assumptions used in the calculations, the Company may be exposed to future impairment losses that could be material.

Based on the changes to the Company's operating segment structure, goodwill has been reallocated based on relative fair value to the North American Value and North American Franchise reporting units at June 30, 2017 and 2016.

Fiscal Years 2016 and 2015

During the Company's annual goodwill impairment tests, the Company assessed qualitative factors to determine whether it is more likely than not that the fair value of the reporting units were less than their carrying value ("Step 0"). The Company determined it is "more-likely-than-not" that the carrying values of the reporting units were less than the fair values. Accordingly, the Company did not perform a two-step quantitative analysis.

As of June 30, 2017, the Company's estimated fair value, as determined by the sum of our reporting units' fair value, reconciled within a reasonable range of our market capitalization, which included an assumed control premium of 20.0%.

A summary of the Company's goodwill balance by reporting unit is as follows:

	June 30,	
	2017	2016
	(Dollars in thousands)	
North American Value	\$ 188,888	\$ 189,218
North American Franchise	228,099	228,175
Total	<u>\$ 416,987</u>	<u>\$ 417,393</u>

Investments In Affiliates:

The Company has equity investments in securities of certain privately held entities. The Company accounts for these investments under the equity or cost method of accounting. Investments accounted for under the equity method are recorded at the amount of the Company's investment and adjusted each period for the Company's share of the investee's income or loss. Investments are reviewed for changes in circumstance or the occurrence of events that suggest the Company's investment may not be recoverable.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. BUSINESS DESCRIPTION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

	Fiscal Year		
	2017	2016	2015
	(Dollars in thousands)		
Equity losses (1)	\$ (81)	\$ (1,829)	\$ (8,975)
Other than temporary impairment	—	(12,954)	(4,654)
Total losses	<u>\$ (81)</u>	<u>\$ (14,783)</u>	<u>\$ (13,629)</u>

(1) For fiscal year 2015, includes \$6.9 million of expense for a non-cash deferred tax valuation allowance related to EEG.

Self-Insurance Accruals:

The Company uses 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 represents the Company's estimate of the undiscounted ultimate cost of uninsured claims incurred as of the balance sheet date.

The Company estimates self-insurance liabilities using a number of factors, primarily based on independent third-party actuarially-determined amounts, historical claims experience, estimates of incurred but not reported claims, demographic factors and severity factors.

Although the Company does 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 historical trends and actuarial assumptions. For fiscal years 2017, 2016 and 2015, the Company recorded (decreases) increases in expense for changes in estimates related to prior year open policy periods of \$(1.3), \$(0.8) and \$0.1 million, respectively. The Company updates loss projections quarterly and adjusts its liability to reflect updated projections. The updated loss projections consider new claims and developments associated with existing claims for each open policy period. As certain claims can take years to settle, the Company has multiple policy periods open at any point in time.

As of June 30, 2017, the Company had \$12.4 and \$26.1 million recorded in current liabilities and noncurrent liabilities, respectively, related to the Company's self-insurance accruals. As of June 30, 2016, the Company had \$12.7 and \$28.0 million recorded in current liabilities and noncurrent liabilities, respectively, related to the Company's self-insurance accruals.

Deferred Rent and Rent Expense:

The Company leases most salon locations under operating leases. Rent expense is recognized on a straight-line basis over the lease term. Tenant improvement allowances funded by landlord incentives, rent holidays and rent escalation clauses which provide for scheduled rent increases during the lease term or for rental payments commencing at a date other than the date of initial occupancy are recorded in the Consolidated Statements of Operations on a straight-line basis over the lease term (including one renewal period if renewal is reasonably assured based on the imposition of an economic penalty for failure to exercise the renewal option). The difference between the rent due under the stated periods of the lease and the straight-line basis is recorded as deferred rent within accrued expenses and other noncurrent liabilities in the Consolidated Balance Sheet.

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

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

Revenue Recognition and Deferred Revenue:

Company-owned salon revenues are recognized at the time when the services are provided. Product revenues are recognized when the guest receives and pays for the merchandise. Revenues from purchases made with gift cards are also recorded when the guest takes possession of the merchandise or services are provided. Gift cards issued by the Company are recorded as a liability (deferred revenue) until they are redeemed.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. BUSINESS DESCRIPTION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Product sales by the Company to its franchisees are included within product revenues on the Consolidated Statement of Operations and recorded at the time product is shipped to franchise locations.

Franchise revenues primarily include royalties, initial franchise fees and net rental income. Royalties are recognized as revenue in the month in which franchisee services are rendered. The Company recognizes revenue from initial franchise fees at the time franchise locations are opened, as this is generally when the Company has performed all initial services required under the franchise agreement.

Classification of Expenses:

The following discussion provides the primary costs classified in each major expense category:

Cost of service— labor costs related to salon employees, costs associated with our field supervision and the cost of product used in providing service.

Cost of product— cost of product sold to guests, labor costs related to selling retail product and the cost of product sold to franchisees.

Site operating— direct costs incurred by the Company's salons, such as advertising, workers' compensation, insurance, utilities, travel costs associated with our field supervision and janitorial costs.

General and administrative— costs associated with salon training, distribution centers and corporate offices (such as salaries and professional fees), including cost incurred to support franchise operations.

Consideration Received from Vendors:

The Company receives consideration for a variety of vendor-sponsored programs. These programs primarily include volume rebates and promotion and advertising reimbursements.

With respect to volume rebates, the Company estimates the amount of rebate it will receive and accrues it as a reduction to the cost of inventory over the period in which the rebate is earned based upon historical purchasing patterns and the terms of the volume rebate program. A quarterly analysis is performed in order to ensure the estimated rebate accrued is reasonable and any necessary adjustments are recorded.

Shipping and Handling Costs:

Shipping and handling costs are incurred to store, move and ship product from the Company's distribution centers to company-owned and franchise locations and include an allocation of internal overhead. Such shipping and handling costs related to product shipped to company-owned locations are included in site operating expenses in the Consolidated Statement of Operations. Shipping and handling costs related to shipping product to franchise locations totaled \$3.7, \$3.6 and \$3.6 million during fiscal years 2017, 2016 and 2015, respectively and are included within general and administrative expenses on the Consolidated Statement of Operations. Any amounts billed to franchisees for shipping and handling are included in product revenues within the Consolidated Statement of Operations.

Advertising:

Advertising costs, including salon collateral material, are expensed as incurred. Advertising costs expensed and included in site operating expenses in fiscal years 2017, 2016 and 2015 was \$35.5, \$35.5 and \$38.7 million, respectively.

Advertising Funds:

The Company has various franchising programs supporting certain of its franchise salon concepts. Most maintain advertising funds that provide comprehensive advertising and sales promotion support. The Company is required to participate in the advertising funds for company-owned locations under the same salon concept. The Company assists in the administration of the advertising funds. However, a group of individuals consisting of franchisee representatives has control over all of the expenditures and operates the funds in accordance with franchise operating and other agreements.

The Company records advertising expense in the period the company-owned salons make contributions to the respective advertising fund. During fiscal years 2017, 2016 and 2015, total Company contributions to the franchise advertising funds totaled \$17.2, \$17.5 and \$18.0 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. BUSINESS DESCRIPTION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company records all advertising funds as assets and liabilities within the Company's Consolidated Balance Sheet. As of June 30, 2017 and 2016, approximately \$21.7 and \$23.3 million, respectively, representing the advertising funds' assets and liabilities were recorded within total assets and total liabilities in the Company's Consolidated Balance Sheet.

Stock-Based Employee Compensation Plans:

The Company recognizes stock-based compensation expense based on the fair value of the awards at the grant date. Compensation expense is recognized on a straight-line basis over the requisite service period of the award (or to the date a participant becomes eligible for retirement, if earlier). The Company uses option pricing methods that require the input of subjective assumptions, including the expected term, expected volatility, dividend yield and risk-free interest rate.

The Company estimates the likelihood and the rate of achievement for performance sensitive stock-based awards at the end of each reporting period. Changes in the estimated rate of achievement can have a significant effect on the recorded stock-based compensation expense as the effect of a change in the estimated achievement level is recognized in the period the change occurs.

Preopening Expenses:

Non-capital expenditures such as payroll, training costs and promotion incurred prior to the opening of a new location are expensed as incurred.

Sales Taxes:

Sales taxes are recorded on a net basis (rather than as both revenue and an expense) within the Company's Consolidated Statement of Operations.

Income Taxes:

Deferred income tax assets and liabilities are recognized for the expected future tax consequences of events that have been included in the Consolidated Financial Statements or income tax returns. Deferred income tax assets and liabilities are determined based on the differences between the financial statement and tax basis of assets and liabilities using currently enacted tax rates in effect for the years in which the differences are expected to reverse. A valuation allowance is established for any portion of deferred tax assets that are not considered more likely than not to be realized. The Company evaluates all evidence, including recent financial performance, the existence of cumulative year losses and our forecast of future taxable income, to assess the need for a valuation allowance against our deferred tax assets. While the determination of whether or not to record a valuation allowance is not fully governed by a specific objective test, accounting guidance places significant weight on recent financial performance.

The Company has a valuation allowance on the majority of its deferred tax assets amounting to \$120.9 and \$110.0 million at June 30, 2017 and 2016, respectively.

The Company assesses the realizability of its deferred tax assets on a quarterly basis and will reverse the valuation allowance and record a tax benefit when the Company generates sufficient sustainable pretax earnings to make the realizability of the deferred tax assets more likely than not.

The Company reserves for unrecognized tax benefits, interest and penalties related to anticipated tax audit issues in the U.S. and other tax jurisdictions based on an estimate of whether additional taxes will be due. If payment of these amounts ultimately proves to be unnecessary, the reversal of these liabilities would result in tax benefits being recognized in the period in which it is determined that the liabilities are no longer necessary. If the estimate of unrecognized tax benefits, interest and penalties proves to be less than the ultimate assessment, additional expenses would result. Inherent in the measurement of deferred balances are certain judgments and interpretations of tax laws and published guidance with respect to the Company's operations. Income tax expense is primarily the current tax payable for the period and the change during the period in certain deferred tax assets and liabilities.

Net (Loss) Income Per Share:

The Company's basic earnings per share is calculated as net (loss) income divided by weighted average common shares outstanding, excluding unvested outstanding restricted stock awards and restricted stock units. The Company's dilutive earnings per share is calculated as net (loss) income divided by weighted average common shares and common share equivalents outstanding, which includes shares issuable under the Company's stock option plan and long-term incentive plan and dilutive securities. Stock-based awards with exercise prices greater than the average market value of the Company's common stock are

1. BUSINESS DESCRIPTION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

excluded from the computation of diluted earnings per share. While the Company's convertible debt was outstanding (repaid in July 2014), diluted earnings per share would have also reflected the assumed conversion under the convertible debt if the impact was dilutive, along with the exclusion of related interest expense, net of taxes.

Comprehensive (Loss) Income:

Components of comprehensive (loss) income include net (loss) income, foreign currency translation adjustments and recognition of deferred compensation, net of tax within shareholders' equity.

Foreign Currency Translation:

The balance sheet, statement of operations and statement of cash flows of the Company's international operations are measured using local currency as the functional currency. Assets and liabilities of these subsidiaries are translated at the exchange rates in effect at each balance sheet date. Translation adjustments arising from the use of differing exchange rates from period to period are included in accumulated other comprehensive income within shareholders' equity. Statement of Operations accounts are translated at the average rates of exchange prevailing during the year. During fiscal years 2017, 2016 and 2015, the foreign currency (loss) gain recorded within interest income and other, net in the Consolidated Statement of Operations was \$(0.1), \$0.3 and \$(1.3) million, respectively.

Discontinued Operations:

During fiscal year 2015, the Company recorded expenses of \$0.6 million in discontinued operations related to Trade Secret legal fees.

Recent Accounting Standards Adopted by the Company:

Stock Compensation

In March 2016, the Financial Accounting Standards Board (FASB) issued updated guidance simplifying the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the consolidated statement of cash flows. The Company early adopted this guidance in the first quarter of fiscal year 2017. The Condensed Consolidated Statement of Cash Flows for the twelve months ended June 30, 2016 and June 30, 2015 reflect the reclassification of employee taxes paid for shares withheld of \$0.8 million from operating to financing activities, in accordance with this new guidance. The other provisions of this new guidance did not have a material impact on the Company's consolidated financial statements.

Simplifying the Presentation of Debt Issuance Costs

In April 2015, the FASB issued updated guidance requiring debt issuance costs related to a recognized debt liability to be presented in the consolidated balance sheet as a direct reduction from the carrying amount of the debt liability. The Company adopted this standard in the first quarter of fiscal year 2017, applying it retrospectively. The Condensed Consolidated Balance Sheet as of June 30, 2016 reflects the reclassification of debt issuance costs of \$0.8 million from other assets to long-term debt, net.

Goodwill Impairment

In January 2017, the FASB issued updated guidance simplifying the accounting for goodwill impairment. The guidance removes Step 2 of the goodwill impairment test, which required a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The Company early adopted this guidance in the fourth quarter of fiscal year 2017 and applied the new guidance to its fiscal year 2017 goodwill impairment assessment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. BUSINESS DESCRIPTION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Leases

In February 2016, the FASB issued updated guidance requiring organizations that lease assets to recognize the rights and obligations created by those leases on the consolidated balance sheet. The new standard is effective for the Company in the first quarter of fiscal year 2020, with early adoption permitted. The Company is currently evaluating the effect the new standard will have on the Company's consolidated financial statements but expects this adoption will result in a material increase in the assets and liabilities on the Company's consolidated balance sheet.

Revenue from Contracts with Customers

In May 2014, the FASB issued updated guidance for revenue recognition. The updated accounting guidance provides a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the exchange for goods or services to a customer at an amount that reflects the consideration it expects to receive for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. The guidance is effective for the Company in the first quarter of fiscal year 2019, with early adoption permitted at the beginning of fiscal year 2018. The standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements. The Company expects to adopt this guidance in fiscal year 2019 using the modified retrospective method of adoption. While the Company is continuing to assess all potential impacts of the standard, the Company currently believes the most significant impact relates to the timing of recognition for gift card breakage, although it is not expected to have a material impact on the Company's consolidated financial statements. The Company is continuing to evaluate the impact the adoption of this new guidance will have on these and other revenue transactions, in addition to the impact on related disclosures.

Intra-Entity Transfers Other Than Inventory

In October 2016, the FASB issued guidance on the accounting for income tax effects of intercompany transfers of assets other than inventory. The guidance requires entities to recognize the income tax impact of an intra-entity transfer of an asset other than inventory when the transfer occurs, rather than when the assets have been sold to an outside party. The guidance is effective for the Company in the first quarter of fiscal year 2019, with early adoption permitted. The Company does not expect the adoption of this standard to have a material impact on the Company's consolidated financial statements.

Restricted Cash

In November 2016, the FASB issued updated cash flow guidance requiring restricted cash and restricted cash equivalents to be included in the cash and cash equivalent balances in the statement of cash flows. Transfers between cash and cash equivalents and restricted cash will no longer be presented in the statement of cash flows and a reconciliation between the balance sheet and statement of cash flows must be disclosed. The guidance is effective for the Company beginning in the first quarter of fiscal year 2019, with early adoption permitted. The Company is currently evaluating the impact this guidance will have on the Company's consolidated statement of cash flows.

Statement of Cash Flows

In August 2016, the FASB issued updated cash flow guidance clarifying cash flow classification and presentation for certain items. The guidance is effective for the Company beginning in the first quarter of fiscal year 2019, with early adoption permitted. The Company does not expect the adoption of this standard to have a material impact on the Company's consolidated statement of cash flows.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. OTHER FINANCIAL STATEMENT DATA

The following provides additional information concerning selected balance sheet accounts:

	June 30,	
	2017	2016
	(Dollars in thousands)	
Other current assets:		
Prepays	\$ 31,842	\$ 30,710
Restricted cash	19,032	20,156
Other	1,298	899
	<u>\$ 52,172</u>	<u>\$ 51,765</u>
Property and equipment:		
Land	\$ 3,864	\$ 3,864
Buildings and improvements	47,471	47,031
Equipment, furniture and leasehold improvements	645,149	694,475
Internal use software	71,495	69,045
Equipment, furniture and leasehold improvements under capital leases	57,561	61,213
	825,540	875,628
Less accumulated depreciation and amortization	(623,873)	(636,222)
Less amortization of equipment, furniture and leasehold improvements under capital leases	(54,673)	(56,085)
	<u>\$ 146,994</u>	<u>\$ 183,321</u>
Accrued expenses:		
Payroll and payroll related costs	\$ 62,680	\$ 74,013
Insurance	14,876	15,559
Other	44,457	45,859
	<u>\$ 122,013</u>	<u>\$ 135,431</u>
Other noncurrent liabilities:		
Deferred income taxes	\$ 108,119	\$ 100,169
Deferred rent	36,271	39,057
Insurance	26,112	28,019
Deferred benefits	17,302	19,490
Other	16,802	14,875
	<u>\$ 204,606</u>	<u>\$ 201,610</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. OTHER FINANCIAL STATEMENT DATA (Continued)

The following provides additional information concerning other intangibles, net:

June 30,									
2017					2016				
Weighted Average Amortization Periods (1)	Cost (2)	Accumulated Amortization (2)	Net		Weighted Average Amortization Periods (1)	Cost (2)	Accumulated Amortization (2)	Net	
(In years)	(Dollars in thousands)				(In years)	(Dollars in thousands)			
Brand assets and trade names	31	\$ 8,187	\$ (4,013)	\$ 4,174	31	\$ 8,206	\$ (3,746)	\$ 4,460	
Franchise agreements	19	9,832	(7,433)	2,399	19	9,853	(7,116)	2,737	
Lease intangibles	20	14,501	(9,356)	5,145	20	14,535	(8,649)	5,886	
Other	21	5,493	(3,577)	1,916	21	5,748	(3,646)	2,102	
Total	22	<u>\$ 38,013</u>	<u>\$ (24,379)</u>	<u>\$ 13,634</u>	22	<u>\$ 38,342</u>	<u>\$ (23,157)</u>	<u>\$ 15,185</u>	

- (1) All intangible assets have been assigned an estimated finite useful life and are amortized on a straight-line basis over the number of years that approximate their expected period of benefit (ranging from three to 40 years).
- (2) The change in the gross carrying value and accumulated amortization of other intangible assets is impacted by foreign currency.

Total amortization expense related to intangible assets during fiscal years 2017, 2016 and 2015 was approximately \$1.5, \$1.5 and \$1.7 million, respectively. As of June 30, 2017, future estimated amortization expense related to intangible assets is estimated to be:

<u>Fiscal Year</u>	<u>(Dollars in thousands)</u>
2018	\$ 1,473
2019	1,466
2020	1,463
2021	1,335
2022	1,288
Thereafter	6,609
Total	<u>\$ 13,634</u>

The following provides supplemental disclosures of cash flow activity:

	Fiscal Years		
	2017	2016	2015
	(Dollars in thousands)		
Cash paid (received) for:			
Interest	\$ 7,293	\$ 7,660	\$ 12,336
Income taxes, net	2,314	2,237	(1,371)
Noncash investing activities:			
Unpaid capital expenditures	2,774	6,627	5,034

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. GOODWILL

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

	June 30,					
	2017			2016		
	Gross Carrying Value (3)	Accumulated Impairment (1)	Net	Gross Carrying Value (3)	Accumulated Impairment (1)	Net
	(Dollars in thousands)					
Goodwill	\$ 670,648	\$ (253,661)	\$ 416,987	\$ 671,054	\$ (253,661)	\$ 417,393

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

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

(2) See Note 13 to the Consolidated Financial Statements.

(3) The change in the gross carrying value of goodwill relates to foreign currency translation adjustments.

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

	North American Value	North American Franchise	Consolidated
	(Dollars in thousands)		
Goodwill, net at June 30, 2015	\$ 189,925	\$ 229,028	\$ 418,953
Translation rate adjustments	(707)	(853)	(1,560)
Goodwill, net at June 30, 2016	189,218	228,175	417,393
Translation rate adjustments	(63)	(76)	(139)
Derecognition related to venditioned salons (1)	(267)	—	(267)
Goodwill, net at June 30, 2017	<u>\$ 188,888</u>	<u>\$ 228,099</u>	<u>\$ 416,987</u>

(1) Goodwill is derecognized for salons sold to franchisees with positive cash flows. The amount of goodwill derecognized is determined by a fraction (the numerator of which is the EBITDA of the salon being sold and the denominator of which is the EBITDA of the North American Value reporting unit) that is applied to the total goodwill balance of the North American Value reporting unit.

4. INVESTMENTS IN AFFILIATES

Investment in Empire Education Group, Inc.

The Company accounts for its 54.6% ownership interest in EEG as an equity method investment under the voting interest model. As EEG was a significant subsidiary for the fiscal year 2016 financial statements, the separate financial statements of EEG are included subsequent to the Company's financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS IN AFFILIATES (Continued)

The table below summarizes financial information recorded by the Company related to its investment in EEG:

	Fiscal Year		
	2017	2016	2015
	(Dollars in thousands)		
Equity losses (1)	\$ —	\$ (1,832)	\$ (8,958)
Other than temporary impairment	—	(12,954)	(4,654)
Total losses related to EEG	<u>\$ —</u>	<u>\$ (14,786)</u>	<u>\$ (13,612)</u>
Investment balance	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 14,786</u>

(1) For fiscal year 2015, includes \$6.9 million of expense for a non-cash deferred tax valuation allowance related to EEG.

The other than temporary impairment charges resulted from EEG's significantly lower financial projections in fiscal years 2016 and 2015 due to continued declines in enrollment, revenue and profitability. The full impairment of the investment followed previous non-cash impairment charges, EEG's impairment of goodwill and its establishment of a deferred tax valuation allowance in prior quarters. The Company has not recorded any equity income or losses related to its investment in EEG subsequent to the impairment. The Company will record equity income related to the Company's investment in EEG once EEG's cumulative income exceeds its cumulative losses, measured from the date of impairment.

While the Company could be responsible for certain liabilities associated with this venture, the Company does not currently expect them to have a material impact on the Company's financial position.

Investment in MY Style

During fiscal year 2017, the Company sold its 27.1% ownership interest in MY Style to MY Style's parent company, Yamano Holdings Corporation for \$0.5 million. This ownership interest was previously accounted for as a cost method investment. Associated with the sale, foreign currency translation loss of \$0.4 million previously classified within accumulated other comprehensive income was recognized in earnings. The Company also reported a \$0.2 million gain associated with the sale within interest income and other, net on the Consolidated Statement of Operations.

5. FAIR VALUE MEASUREMENTS

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The fair values of the Company's cash, cash equivalents, restricted cash, receivables and accounts payable approximated their carrying values as of June 30, 2017 and 2016. As of June 30, 2017, the estimated fair value of the Company's debt was \$125.9 million and the carrying value was \$123.0 million, excluding the \$1.8 million unamortized debt discount and \$0.6 million unamortized debt issuance costs. As of June 30, 2016, the estimated fair value of the Company's debt approximated its carrying value. The estimated fair value of the Company's debt is based on Level 2 inputs.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. FAIR VALUE MEASUREMENTS (Continued)

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

	Fiscal Year		
	2017	2016	2015
	(Dollars in thousands)		
Long-lived assets (1)	\$ (11,366)	\$ (10,478)	\$ (14,604)
Investment in EEG (2)	—	(12,954)	(4,654)

(1) See Note 1 to the Consolidated Financial Statements.

(2) See Note 4 to the Consolidated Financial Statements.

6. FINANCING ARRANGEMENTS

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

	Maturity Dates (fiscal year)	Interest rate %		June 30,	
		Fiscal Years			
		2017	2016	2017	2016
		(Dollars in thousands)			
Senior Term Notes, net	2020	5.50%	5.50%	\$ 120,599	\$ 119,606
Revolving credit facility	2018	—	—	—	—
				<u>\$ 120,599</u>	<u>\$ 119,606</u>

The debt agreements contain covenants, including limitations on incurrence of debt, granting of liens, investments, merger or consolidation, certain restricted payments and transactions with affiliates. In addition, the Company must adhere to specified fixed charge coverage and leverage ratios. The Company was in compliance with all covenants and other requirements of our financing arrangements as of June 30, 2017.

Senior Term Notes

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

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

	June 30,	
	2017	2016
	(Dollars in thousands)	
Principal amount on the Senior Term Notes	\$ 123,000	\$ 123,000
Unamortized debt discount	(1,815)	(2,565)
Unamortized debt issuance costs	(586)	(829)
Senior Term Notes, net	<u>\$ 120,599</u>	<u>\$ 119,606</u>

6. FINANCING ARRANGEMENTS (Continued)***Revolving Credit Facility***

In January 2016, the Company amended its revolving credit facility primarily reducing the borrowing capacity from \$400.0 to \$200.0 million. The revolving credit facility expires in June 2018 and has rates tied to a LIBOR credit spread and a quarterly facility fee on the average daily amount of the facility (whether used or unused). Both the LIBOR credit spread and the facility fee are based on the Company's debt to EBITDA ratio at the end of each fiscal quarter. In addition, the Company may request an increase in revolving credit commitments under the facility of up to \$200.0 million under certain circumstances. Events of default under the credit agreement include change of control of the Company and the Company's default with respect to other debt exceeding \$10.0 million. As of June 30, 2017 and 2016, the Company had no outstanding borrowings under this revolving credit facility. Additionally, the Company had outstanding standby letters of credit under the revolving credit facility of \$1.5 and \$1.6 million at June 30, 2017 and 2016, respectively, primarily related to its self-insurance program. Unused available credit under the facility at June 30, 2017 and 2016 was \$198.5 and \$198.4 million, respectively.

7. COMMITMENTS AND CONTINGENCIES**Operating Leases:**

The Company leases most of its company-owned salons and some of its corporate facilities and distribution centers under operating leases. The original terms of the salon leases range from one to 20 years, with many leases renewable for additional five to ten year terms at the option of the Company. For most leases, the Company is required to pay real estate taxes and other occupancy expenses. Rent expense for the Company's international department store salons is based primarily on a percentage of sales.

The Company also leases the premises in which the majority of its franchisees operate and has entered into corresponding sublease arrangements with franchisees. These leases, generally with terms of approximately five years, are expected to be renewed on expiration. All additional lease costs are passed through to the franchisees.

Sublease income was \$31.5, \$31.4 and \$30.9 million in fiscal years 2017, 2016 and 2015, respectively. Rent expense on premises subleased was \$31.1, \$30.9 and \$30.5 million in fiscal years 2017, 2016 and 2015, respectively. Rent expense and related rental income on sublease arrangements with franchisees is netted within the rent expense line item on the Consolidated Statement of Operations. In most cases, the amount of rental income related to sublease arrangements with franchisees approximates the amount of rent expense from the primary lease, thereby having no net impact on rent expense or net (loss) income. However, in limited cases, the Company charges a 10.0% mark-up in its sublease arrangements. The net rental income resulting from such arrangements totaled \$0.4, \$0.5, and \$0.4 million for fiscal years 2017, 2016 and 2015, respectively, and was classified in the royalties and fees caption of the Consolidated Statement of Operations.

The Company has a sublease arrangement for a leased building the Company previously occupied. The aggregate amount of lease payments to be made over the remaining lease term are approximately \$2.4 million. The amount of rental income approximates the amount of rent expense, thereby having no material impact on rent expense or net (loss) income.

Total rent expense, excluding rent expense on premises subleased to franchisees, includes the following:

	Fiscal Years		
	2017	2016	2015
	(Dollars in thousands)		
Minimum rent	\$ 217,738	\$ 228,580	\$ 236,137
Percentage rent based on sales	7,215	8,256	8,238
Real estate taxes and other expenses	54,335	60,435	64,750
	<u>\$ 279,288</u>	<u>\$ 297,271</u>	<u>\$ 309,125</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. COMMITMENTS AND CONTINGENCIES (Continued)

As of June 30, 2017, future minimum lease payments (excluding percentage rents based on sales) due under existing noncancelable operating leases with remaining terms of greater than one year are as follows:

<u>Fiscal Year</u>	<u>Corporate leases</u>	<u>Franchisee leases</u>
	(Dollars in thousands)	
2018	\$ 205,901	\$ 69,020
2019	160,388	59,194
2020	115,398	45,634
2021	72,448	31,289
2022	34,502	17,603
Thereafter	21,781	20,436
Total minimum lease payments	<u>\$ 610,418</u>	<u>\$ 243,176</u>

Contingencies:

The Company is self-insured for most workers' compensation, employment practice liability and general liability. Workers' compensation and general liability losses are subject to per occurrence and aggregate annual liability limitations. The Company is insured for losses in excess of these limitations. The Company is also self-insured for health care claims for eligible participating employees subject to certain deductibles and limitations. The Company determines its liability for claims incurred but not reported on an actuarial basis.

Litigation and Settlements:

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

See Note 8 to the Consolidated Financial Statements for discussion regarding certain issues that have resulted from the IRS' audit of fiscal years 2010 through 2013. Final resolution of these issues is not expected to have a material impact on the Company's financial position.

8. INCOME TAXES

The components of (loss) income before income taxes are as follows:

	<u>Fiscal Years</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
	(Dollars in thousands)		
(Loss) income before income taxes:			
U.S.	\$ (7,759)	\$ 12,481	\$ (6,630)
International	924	35	1,652
	<u>\$ (6,835)</u>	<u>\$ 12,516</u>	<u>\$ (4,978)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. INCOME TAXES (Continued)

The provision for income taxes consists of:

	Fiscal Years		
	2017	2016	2015
	(Dollars in thousands)		
Current:			
U.S.	\$ 994	\$ 819	\$ 1,670
International	268	1,207	1,781
Deferred:			
U.S.	7,901	6,997	9,439
International	61	26	1,715
	<u>\$ 9,224</u>	<u>\$ 9,049</u>	<u>\$ 14,605</u>

The provision for income taxes differs from the amount of income tax determined by applying the applicable U.S. statutory rate to earnings (loss) before income taxes, as a result of the following:

	Fiscal Years		
	2017	2016	2015
U.S. statutory rate	35.0 %	35.0%	35.0 %
State income taxes, net of federal income tax benefit	(2.2)	5.4	(3.7)
Valuation allowance (1)	(168.0)	66.5	(362.8)
Foreign income taxes at other than U.S. rates	(2.0)	2.5	(5.3)
Officer life insurance	6.8	(7.6)	9.6
Work Opportunity and Welfare-to-Work Tax Credits	23.2	(24.7)	53.3
Expiration of capital loss carryforward	—	—	(9.5)
Other, net (2)	(27.8)	(4.8)	(10.0)
	<u>(135.0)%</u>	<u>72.3%</u>	<u>(293.4)%</u>

(1) See Note 1 to the Consolidated Financial Statements.

(2) The (27.8)% of Other, net in fiscal year 2017 includes the rate impact of meals and entertainment expense disallowance, adjustments resulting from charitable contributions, employee share-based compensation payments, and miscellaneous items of (5.5)%, (8.6)%, (21.8)%, and 8.1%, respectively. Miscellaneous items do not include any items in excess of 5% of computed tax.

The 4.8% of Other, net in fiscal year 2016 does not include the rate impact of any items in excess of 5% of computed tax.

The (10.0)% of Other, net in fiscal year 2015 includes the rate impact of meals and entertainment expense disallowance and miscellaneous items of (6.0)% and (4.0)%, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. INCOME TAXES (Continued)

The components of the net deferred tax assets and liabilities are as follows:

	June 30,	
	2017	2016
	(Dollars in thousands)	
Deferred tax assets:		
Deferred rent	\$ 13,216	\$ 14,542
Payroll and payroll related costs	24,666	27,066
Net operating loss carryforwards	29,171	22,433
Tax credit carryforwards	32,852	30,386
Inventories	1,914	2,369
Fixed assets	7,982	82
Accrued advertising	2,723	3,076
Insurance	4,153	4,285
Other	7,494	7,809
Subtotal	\$ 124,171	\$ 112,048
Valuation allowance	(120,903)	(110,046)
Total deferred tax assets	\$ 3,268	\$ 2,002
Deferred tax liabilities:		
Goodwill and intangibles	\$ (103,889)	\$ (95,451)
Other	(7,498)	(6,720)
Total deferred tax liabilities	\$ (111,387)	\$ (102,171)
Net deferred tax liability	\$ (108,119)	\$ (100,169)

At June 30, 2017, the Company has tax effected federal, state, Canada and U.K. net operating loss carryforwards of approximately \$21.4, \$6.6, \$0.2 and \$1.0 million, respectively. The federal loss carryforward will expire from fiscal years 2034 to 2037. The state loss carryforwards will expire from fiscal years 2018 to 2037. The Canada loss carryforward will expire in fiscal years 2036 and 2037. The U.K. loss carryforward has no expiration.

The Company's tax credit carryforward of \$32.9 million consists of \$30.9 million that will expire from fiscal years 2030 to 2037, \$0.5 million that will expire from fiscal years 2020 to 2027 and \$1.5 million of carryforward that has no expiration date.

As of June 30, 2017, undistributed earnings of international subsidiaries of approximately \$10.2 million were considered to have been reinvested indefinitely and, accordingly, the Company has not provided for U.S. income taxes on such earnings. It is not practicable for the Company to determine the amount of unrecognized deferred tax liabilities on these indefinitely reinvested earnings.

The Company files tax returns and pays tax primarily in the U.S., Canada, the U.K. and Luxembourg as well as states, cities, and provinces within these jurisdictions. The Company's U.S. federal income tax returns for fiscal year 2010 through 2013 have been examined by the Internal Revenue Service (IRS) and were moved to the IRS Appeals Division for outstanding IRS proposed audit adjustments. The Company believes its income tax positions and deductions will be sustained and will continue to vigorously defend such positions. All earlier tax years are closed to examination. With limited exceptions, the Company is no longer subject to state and international income tax examination by tax authorities for years before 2012.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. INCOME TAXES (Continued)

A rollforward of the unrecognized tax benefits is as follows:

	Fiscal Years		
	2017	2016	2015
	(Dollars in thousands)		
Balance at beginning of period	\$ 1,357	\$ 1,496	\$ 1,468
Additions based on tax positions related to the current year	259	138	37
Additions based on tax positions of prior years	80	170	352
Reductions on tax positions related to the expiration of the statute of limitations	(179)	(207)	(361)
Settlements	(129)	(240)	—
Balance at end of period	<u>\$ 1,388</u>	<u>\$ 1,357</u>	<u>\$ 1,496</u>

If the Company were to prevail on all unrecognized tax benefits recorded, a benefit of approximately \$0.9 million would be recorded in the effective tax rate. Interest and penalties associated with unrecognized tax benefits are recorded within income tax expense. During the fiscal years 2017, 2016 and 2015, we recorded interest and penalties of approximately \$0.1 million as additions to the accrual net of the respective reversal of previously accrued interest and penalties. As of June 30, 2017, the Company had accrued interest and penalties related to unrecognized tax benefits of \$1.1 million. This amount is not included in the gross unrecognized tax benefits noted above.

It is reasonably possible the amount of the unrecognized tax benefit with respect to certain of our unrecognized tax positions will increase or decrease during the next fiscal year. However, an estimate of the amount or range of the change cannot be made at this time.

9. BENEFIT PLANS

Regis Retirement Savings Plan:

The Company maintains a defined contribution 401(k) plan, the Regis Retirement Savings Plan (RRSP). The RRSP is a defined contribution profit sharing plan with a 401(k) feature that is intended to qualify under Section 401(a) of the Internal Revenue Code (Code) and is subject to the Employee Retirement Income Security Act of 1974 (ERISA).

The 401(k) portion of the RRSP is a cash or deferred arrangement intended to qualify under section 401(k) of the Code and under which eligible employees may elect to contribute a percentage of their eligible compensation. Employees who are 18 years of age or older and who were not highly compensated employees as defined by the Code during the preceding RRSP year are eligible to participate in the RRSP commencing with the first day of the month following their completion of one month of service.

The discretionary employer contribution profit sharing portion of the RRSP is a noncontributory defined contribution component covering full-time and part-time employees of the Company who have at least one year of eligible service, defined as 1,000 hours of service during the RRSP year, are employed by the Company on the last day of the RRSP year and are employed at Salon Support, distribution centers, as field leaders, artistic directors or consultants, and that are not highly compensated employees as defined by the Code. Participants' interest in the noncontributory defined contribution component become 20.0% vested after completing two years of service with vesting increasing 20.0% for each additional year of service, and with participants becoming fully vested after six full years of service.

Nonqualified Deferred Salary Plan:

The Company maintains a Nonqualified Deferred Salary Plan (Executive Plan), which covers Company officers and all other employees who are highly compensated as defined by the Code. The discretionary employer contribution portion of the Executive Plan is a profit sharing component in which a participant's interest becomes 20.0% vested after completing two years of service with vesting increasing 20.0% for each additional year of service, and with participants becoming fully vested after six full years of service. Certain participants within the Executive Plan also receive a matching contribution from the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. BENEFIT PLANS (Continued)

Regis Individual Secured Retirement Plan (RiSRP):

The Company maintains a Regis Individual Secured Retirement Plan (RiSRP), pursuant to which eligible employees may use post-tax dollars to purchase life insurance benefits. Salon Support employees at the director level and above, as well as regional vice presidents, are eligible to participate. The Company may make discretionary contributions on behalf of participants within the RiSRP, which may be calculated as a matching contribution. The participant is the owner of the life insurance policy under the RiSRP.

Stock Purchase Plan:

The Company has an employee stock purchase plan (ESPP) available to qualifying employees. Under the terms of the ESPP, eligible employees may purchase the Company's common stock through payroll deductions. The Company contributes an amount equal to 15.0% of the purchase price of the stock to be purchased on the open market and pays all expenses of the ESPP and its administration, not to exceed an aggregate contribution of \$11.8 million. As of June 30, 2017, the Company's cumulative contributions to the ESPP totaled \$10.6 million.

Deferred Compensation Contracts:

The Company has unfunded deferred compensation contracts covering certain current and former key executives. Effective June 30, 2012, these contracts were amended and the benefits were frozen.

Expense associated with the deferred compensation contracts included in general and administrative expenses on the Consolidated Statement of Operations totaled \$0.2, \$0.2 and \$0.4 million for fiscal years 2017, 2016 and 2015, respectively.

The table below presents the projected benefit obligation of these deferred compensation contracts in the Consolidated Balance Sheet:

	June 30,	
	2017	2016
	(Dollars in thousands)	
Current portion (included in accrued liabilities)	\$ 1,658	\$ 1,353
Long-term portion (included in other noncurrent liabilities)	5,163	5,898
	\$ 6,821	\$ 7,251

The accumulated other comprehensive income (loss) for the deferred compensation contracts, consisting of primarily unrecognized actuarial income, was \$0.7 and \$0.5 million at June 30, 2017 and 2016, respectively.

The Company had previously agreed to pay the former Vice Chairman an annual amount for the remainder of his life. Additionally, the Company has a survivor benefit plan for the former Vice Chairman's spouse. In October 2013, the former Vice Chairman passed away and the Company began paying survivor benefits to his spouse. Estimated associated costs included in general and administrative expenses on the Consolidated Statement of Operations totaled \$0.3, \$0.2 and \$0.8 million for fiscal years 2017, 2016 and 2015, respectively. Related obligations totaled \$2.8 and \$3.0 million at June 30, 2017 and 2016, respectively, with \$0.5 million within accrued expenses at June 30, 2017 and 2016, respectively and the remainder included in other noncurrent liabilities in the Consolidated Balance Sheet.

In connection with the passing of two former employees in January 2016, the Company received \$2.9 million in life insurance proceeds. The Company recorded a gain of \$1.2 million in general and administrative in the Consolidated Statement of Operations associated with the proceeds.

In connection with the passing of a former employee in January 2017, the Company received \$0.9 million in life insurance proceeds. The Company recorded a gain of \$0.1 million in general and administrative in the Consolidated Statement of Operations associated with the proceeds.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. BENEFIT PLANS (Continued)

Compensation expense included in (loss) income before income taxes and equity in loss of affiliated companies related to the aforementioned plans, excluding amounts paid for expenses and administration of the plans included the following:

	Fiscal Years		
	2017	2016	2015
	(Dollars in thousands)		
Executive plans	\$ 249	\$ 289	\$ 224
ESPP	284	307	325
Deferred compensation contracts	514	402	1,195

10. EARNINGS PER SHARE

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

For fiscal years 2017, 2016 and 2015, 728,223, 446,992, and 251,763, respectively, of common stock equivalents of potentially dilutive common stock were not included in the diluted earnings per share calculation due to the net loss from continuing operations.

The computation of weighted average shares outstanding, assuming dilution, excluded the following shares as they were not dilutive:

	Fiscal Year		
	2017	2016	2015
Equity-based compensation awards	2,407,158	2,133,675	1,948,507
Shares from convertible debt	—	—	465,055

11. STOCK-BASED COMPENSATION

The Company grants long-term equity-based awards under the 2016 Long Term Incentive Plan (the 2016 Plan). The 2016 Plan, which was approved by the Company's shareholders at its 2016 Annual Meeting, provides for the granting of nonqualified stock options, equity-based stock appreciation rights (SARs), restricted stock awards (RSAs), restricted stock units (RSUs) and stock-settled performance units (PSUs), as well as cash-based performance grants, to employees and non-employee directors of the Company. Under the 2016 Plan, a maximum of 3,500,000 shares were approved for issuance. The 2016 Plan incorporates a fungible share design, under which full value awards (such as RSUs and PSUs) count against the shares reserved for issuance at a rate 2.4 times higher than appreciation awards (such as SARs and stock options). As of June 30, 2017, a maximum of 4,324,855 shares were available for grant under the 2016 Plan. All unvested awards are subject to forfeiture in event of termination of employment, unless accelerated. SAR and RSU awards granted under the 2016 Plan generally include various acceleration terms, including upon retirement for participants aged sixty-two years or older or who are aged fifty-five or older and have fifteen years of continuous service.

The Company also has outstanding awards under the Amended and Restated 2004 Long Term Incentive Plan (the "2004 Plan"), although the 2004 Plan terminated in October 2016 and no additional awards have since been or will be made under the 2004 Plan. The 2004 Plan provided for the granting of nonqualified stock options, equity-based stock appreciation rights (SARs), restricted stock awards (RSAs), restricted stock units (RSUs) and stock-settled performance share units (PSUs), as well as cash-based performance grants, to employees and non-employee directors of the Company.

The Company also has outstanding stock options under the 2000 Stock Option Plan (the "2000 Plan"), although the 2000 Plan terminated in 2010 and no additional awards have since been or will be made under the 2000 Plan. The 2000 Plan allowed the Company to grant both incentive and nonqualified stock options and replaced the Company's 1991 Stock Option Plan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. STOCK-BASED COMPENSATION (Continued)

Under the 2016 Plan, the 2004 Plan and the 2000 Plan, stock-based awards are granted at an exercise price or initial value equal to the fair market value on the date of grant.

Using the fair value of each grant on the date of grant, the weighted average fair values per stock-based compensation award granted during fiscal years 2017, 2016 and 2015 were as follows:

	2017	2016	2015
SARs	\$ 3.68	\$ 3.51	\$ 6.16
RSAs & RSUs	11.73	11.18	15.95
PSUs	12.28	12.11	15.15

The fair value of SARs granted are estimated on the date of grant using the Black-Scholes-Merton (BSM) option valuation model. The significant assumptions used in determining the estimated fair value of SARs granted during fiscal years 2017, 2016 and 2015 were as follows:

	2017	2016	2015
Risk-free interest rate	1.99%	1.71%	1.53 - 1.84%
Expected term (in years)	6.50	6.00	6.00
Expected volatility	31.50%	30.00%	38.00 - 44.00%
Expected dividend yield	0%	0%	0%

The risk free interest rate is determined based on the U.S. Treasury rates approximating the expected life of the SARs granted. Expected volatility is established based on historical volatility of the Company's stock price. Estimated expected life was based on an analysis of historical stock awards granted data which included analyzing grant activity including grants exercised, expired and canceled. The expected dividend yield is determined based on the Company's annual dividend amount as a percentage of the strike price at the time of the grant. The Company uses historical data to estimate pre-vesting forfeiture rates.

Stock-based compensation expense recorded in G&A was as follows:

	2017	2016	2015
SARs	\$ 3,533	\$ 2,774	\$ 2,652
RSAs, RSUs, & PSUs	9,609	7,023	5,995
Total stock-based compensation expense	<u>\$ 13,142</u>	<u>\$ 9,797</u>	<u>\$ 8,647</u>

Total compensation cost for stock-based payment arrangements for fiscal year 2017 includes \$5.4 million related to the termination of former executive officers.

Stock Appreciation Rights & Stock Options:

SARs and stock options granted under the 2016 Plan, 2004 Plan and 2000 Plan generally vest ratably over a three to five year period on each of the annual grant date anniversaries and expire ten years from the grant date. SARs granted subsequent to fiscal year 2012 vest ratably over a three year period with the exception of the April 2017 grant to the Chief Executive Officer, which vests in full after two years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. STOCK-BASED COMPENSATION (Continued)

Activity for all of our outstanding SARs and stock options is as follows:

	Shares (in thousands)		Weighted Average Exercise Price	Weighted- Average Remaining Contractual Life	Aggregate Intrinsic Value (in thousands)
	SARs	Stock Options			
Outstanding balance at June 30, 2016	2,209	98	\$ 16.39		
Granted	1,000	—	11.15		
Forfeited/Expired	(243)	(44)	19.33		
Exercised	(82)	—	10.84		
Outstanding balance at June 30, 2017	2,884	54	\$ 14.47	7.3	\$ —
Exercisable at June 30, 2017	1,571	54	\$ 17.06	5.7	\$ —
Unvested awards, net of estimated forfeitures	1,294	—	\$ 11.26	9.4	\$ —

As of June 30, 2017, there was \$3.7 million of unrecognized expense related to SARs and stock options that is to be recognized over a weighted-average period of 1.7 years.

Restricted Stock Awards & Restricted Stock Units:

RSAs and RSUs granted to employees under the 2016 Plan and 2004 Plan generally vest ratably over a three to five year period on each of the annual grant date anniversaries or vest entirely after a three or five year period. In addition, the Chief Executive Officer has an outstanding RSU grant that vests upon the achievement of a specified value for the Company's stock over a specified period of time. RSUs granted to non-employee directors under the 2016 Plan and 2004 Plan generally vest in equal monthly amounts over a one year period from the Company's previous annual shareholder meeting date and distributions are deferred until the director's board service ends.

Activity for all of our RSAs and RSUs is as follows:

	Shares/Units (in thousands)		Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value (in thousands)
	RSAs	RSUs		
Outstanding balance at June 30, 2016	122	908	\$ 14.91	
Granted	—	517	11.73	
Forfeited	—	(82)	13.78	
Vested	(121)	(534)	14.91	
Outstanding balance at June 30, 2017	1	809	\$ 12.77	\$ 8,326
Vested at June 30, 2017	1	203	\$ 14.69	\$ 2,103
Unvested awards, net of estimated forfeitures	—	565	\$ 12.07	\$ 5,802

As of June 30, 2017, there was \$3.7 million of unrecognized expense related to RSAs and RSUs that is expected to be recognized over a weighted-average period of 1.8 years.

Performance Share Units:

PSUs are grants of restricted stock units which are earned based on the achievement of performance goals established by the Compensation Committee over a performance period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. STOCK-BASED COMPENSATION (Continued)

Activity for all of our PSUs is as follows:

	Shares/Units (in thousands)	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value (in thousands)
	PSUs		
Outstanding balance at June 30, 2016	556	\$ 13.00	
Granted	393	12.28	
Forfeited	(508)	12.68	
Vested	—	—	
Outstanding balance at June 30, 2017	441	\$ 12.74	\$ 4,531
Vested at June 30, 2017	—	\$ —	\$ —
Unvested awards, net of estimated forfeitures	412	\$ 12.74	\$ 4,230

(1) Includes actual or expected payout rates as set forth in the performance criteria.

In connection with the termination of former executive officers, the Company settled certain PSUs for cash of \$3.2 million during fiscal year 2017.

PSUs granted in fiscal year 2017 have a performance period of three years, after which they will vest to the extent earned. Future compensation expense for these unvested awards could reach a maximum of \$2.8 million to be recognized over 2.1 years, if the maximum performance metrics are achieved.

PSUs granted in fiscal years 2016 and 2015 had a performance period of one year. They have been earned and will vest three years from the initial grant date. As of June 30, 2017, there was \$0.6 million of expense related to the fiscal 2016 and 2015 PSUs that is expected to be recognized over a weighted-average period of 1.0 year.

12. SHAREHOLDERS' EQUITY

Authorized Shares and Designation of Preferred Class:

The Company has 100 million shares of capital stock authorized, par value \$0.05, of which all outstanding shares, and shares available under the Stock Option Plans, have been designated as common.

Shareholders' Rights Plan:

The Company previously had a shareholders' rights plan, which expired by its terms in December 2016.

Share Repurchase Program:

In May 2000, the Company's Board approved a stock repurchase program with no stated expiration date. Originally, the program authorized up to \$50.0 million to be expended for the repurchase of the Company's stock. The Board elected to increase this maximum to \$100.0 million in August 2003, to \$200.0 million in May 2005, to \$300.0 million in April 2007, to \$350.0 million in April 2015, to \$400.0 million in September 2015, and to \$450.0 million in January 2016. All repurchased shares become authorized but unissued shares of the Company. The timing and amounts of any repurchases depends on many factors, including the market price of the common stock and overall market conditions. As of June 30, 2017, 18.4 million shares have been cumulatively repurchased for \$390.0 million, and \$60.0 million remained outstanding under the approved stock repurchase program.

Accumulated Other Comprehensive Income:

The components of accumulated other comprehensive income are as follows:

	June 30,		
	2017	2016	2015
	(Dollars in thousands)		
Foreign currency translation	\$ 2,684	\$ 4,573	\$ 8,849
Unrealized gain on deferred compensation contracts	652	495	657
Accumulated other comprehensive income	\$ 3,336	\$ 5,068	\$ 9,506

13. SEGMENT INFORMATION

Segment information is prepared on the same basis the chief operating decision maker reviews financial information for operational decision-making purposes. During the fourth quarter of fiscal year 2017, the Company redefined its operating segments to reflect how the chief operating decision maker now evaluates the business as a result of the increased focus on the franchise business as a result of a number of factors including appointing a President of Franchise in April 2017. The Company now reports its operations in four operating segments: North American Value, North American Franchise, North American Premium and International. The Company's operating segments are its reportable operating segments. Prior to this change, the Company had three operating segments: North American Value, North American Premium, and International. The Company did not operate under the realigned operating segment structure prior to the fourth quarter of fiscal year 2017.

The North American Value reportable operating segment is comprised of 5,439 company-owned salons located mainly in strip center locations and Walmart Supercenters. North American Value salons offer high quality, convenient and value priced hair care and beauty services and retail products. SmartStyle, Supercuts, MasterCuts, Cost Cutters and other regional trade names operating in the United States, Canada and Puerto Rico are generally within the North American Value segment.

The North American Franchise reportable operating segment is comprised of 2,633 franchised salons located mainly in strip center locations, and Walmart Supercenters. North American Franchise salons offer high quality, convenient and value priced hair care and beauty services and retail products. This segment operates in the United States and Canada and primarily includes the Supercuts, SmartStyle, Cost Cutters, First Choice Haircutters, Roosters and Magicuts concepts.

The North American Premium reportable operating segment is comprised of 559 company-owned salons primarily in mall-based locations. North American Premium salons offer upscale hair care and beauty services and retail products at reasonable prices. This segment operates in the United States, Canada and Puerto Rico and primarily includes the Regis salons concept, among other trade names.

The International reportable operating segment is comprised of 275 company-owned and 13 franchised salons located in malls, department stores and high-traffic locations. International salons offer a full range of custom hair care and beauty services and retail products. This segment operates in the United Kingdom primarily under the Supercuts, Regis and Sassoon concepts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. SEGMENT INFORMATION (Continued)

Concurrent with the change in reportable segments, the Company recast its prior period financial information to reflect comparable financial information for the new segment structure. Historical financial information shown in the following table and elsewhere in this filing reflects this change. Financial information concerning the Company's reportable operating segments is shown in the following table:

For the Year Ended June 30, 2017						
	North American Value	North American Franchise	North American Premium	International	Corporate	Consolidated
(Dollars in thousands)						
Revenues:						
Service	\$ 1,035,900	\$ —	\$ 200,732	\$ 71,100	\$ —	\$ 1,307,732
Product	244,500	30,548	40,769	20,048	—	335,865
Royalties and fees	—	47,973	—	318	—	48,291
	<u>1,280,400</u>	<u>78,521</u>	<u>241,501</u>	<u>91,466</u>	<u>—</u>	<u>1,691,888</u>
Operating expenses:						
Cost of service	657,013	—	140,743	40,436	—	838,192
Cost of product	112,156	22,640	20,571	10,977	—	166,344
Site operating expenses	136,895	—	24,885	6,659	—	168,439
General and administrative	44,344	21,193	12,130	8,480	88,355	174,502
Rent	200,700	170	53,253	24,321	844	279,288
Depreciation and amortization	45,737	357	8,260	2,515	9,458	66,327
Total operating expenses	<u>1,196,845</u>	<u>44,360</u>	<u>259,842</u>	<u>93,388</u>	<u>98,657</u>	<u>1,693,092</u>
Operating income (loss)	83,555	34,161	(18,341)	(1,922)	(98,657)	(1,204)
Other (expense) income:						
Interest expense	—	—	—	—	(8,703)	(8,703)
Interest income and other, net	—	—	—	—	3,072	3,072
Income (loss) from continuing operations before income taxes and equity in loss of affiliated companies	<u>\$ 83,555</u>	<u>\$ 34,161</u>	<u>\$ (18,341)</u>	<u>\$ (1,922)</u>	<u>\$ (104,288)</u>	<u>\$ (6,835)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. SEGMENT INFORMATION (Continued)

For the Year Ended June 30, 2016						
	North American Value	North American Franchise	North American Premium	International	Corporate	Consolidated
(Dollars in thousands)						
Revenues:						
Service	\$ 1,064,109	\$ —	\$ 233,520	\$ 86,034	\$ —	\$ 1,383,663
Product	252,301	31,406	49,918	26,058	—	359,683
Royalties and fees	—	47,523	—	—	—	47,523
	<u>1,316,410</u>	<u>78,929</u>	<u>283,438</u>	<u>112,092</u>	<u>—</u>	<u>1,790,869</u>
Operating expenses:						
Cost of service	659,140	—	161,466	47,582	—	868,188
Cost of product	117,464	23,086	24,573	14,218	—	179,341
Site operating expenses	145,494	—	29,751	7,707	—	182,952
General and administrative	44,881	21,472	14,408	10,663	86,609	178,033
Rent	206,948	162	58,144	30,961	1,056	297,271
Depreciation and amortization	46,313	363	7,892	2,843	10,059	67,470
Total operating expenses	<u>1,220,240</u>	<u>45,083</u>	<u>296,234</u>	<u>113,974</u>	<u>97,724</u>	<u>1,773,255</u>
Operating income (loss)	<u>96,170</u>	<u>33,846</u>	<u>(12,796)</u>	<u>(1,882)</u>	<u>(97,724)</u>	<u>17,614</u>
Other (expense) income:						
Interest expense	—	—	—	—	(9,317)	(9,317)
Interest income and other, net	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,219</u>	<u>4,219</u>
Income (loss) from continuing operations before income taxes and equity in loss of affiliated companies	<u>\$ 96,170</u>	<u>\$ 33,846</u>	<u>\$ (12,796)</u>	<u>\$ (1,882)</u>	<u>\$ (102,822)</u>	<u>\$ 12,516</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. SEGMENT INFORMATION (Continued)

	For the Year Ended June 30, 2015					
	North American Value	North American Franchise	North American Premium	International	Corporate	Consolidated
	(Dollars in thousands)					
Revenues:						
Service	\$ 1,081,704	\$ —	\$ 253,520	\$ 94,184	\$ —	\$ 1,429,408
Product	247,316	29,756	56,080	30,084	—	363,236
Royalties and fees	—	44,643	—	—	—	44,643
	1,329,020	74,399	309,600	124,268	—	1,837,287
Operating expenses:						
Cost of service	656,069	—	174,733	51,915	—	882,717
Cost of product	115,116	22,031	28,095	15,316	—	180,558
Site operating expenses	152,739	—	30,769	8,934	—	192,442
General and administrative	44,562	21,296	15,431	11,533	93,229	186,051
Rent	211,885	292	61,716	33,109	2,123	309,125
Depreciation and amortization	56,407	425	13,094	3,148	9,789	82,863
Total operating expenses	1,236,778	44,044	323,838	123,955	105,141	1,833,756
Operating income (loss)	92,242	30,355	(14,238)	313	(105,141)	3,531
Other (expense) income:						
Interest expense	—	—	—	—	(10,206)	(10,206)
Interest income and other, net	—	—	—	—	1,697	1,697
Income (loss) from continuing operations before income taxes and equity in loss of affiliated companies	\$ 92,242	\$ 30,355	\$ (14,238)	\$ 313	\$ (113,650)	\$ (4,978)

The Company's chief operating decision maker does not evaluate reportable segments using assets and capital expenditure information.

Total revenues and property and equipment, net associated with business operations in the U.S. and all other countries in aggregate were as follows:

	June 30,					
	2017		2016		2015	
	Total Revenues	Property and Equipment, Net	Total Revenues	Property and Equipment, Net	Total Revenues	Property and Equipment, Net
	(Dollars in thousands)					
U.S.	\$ 1,486,502	\$ 132,554	\$ 1,563,023	\$ 167,613	\$ 1,585,672	\$ 198,471
Other countries	205,386	14,440	227,846	15,708	251,615	19,686
Total	<u>\$ 1,691,888</u>	<u>\$ 146,994</u>	<u>\$ 1,790,869</u>	<u>\$ 183,321</u>	<u>\$ 1,837,287</u>	<u>\$ 218,157</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. QUARTERLY FINANCIAL DATA (UNAUDITED)

Refer to Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 in this Form 10-K for explanations of items which impacted fiscal years 2017 and 2016 revenues, operating and net (loss) income.

Summarized quarterly data for fiscal years 2017 and 2016 follows:

	Quarter Ended					Year Ended
	September 30	December 31	March 31(a)	June 30(b)		
	(Dollars in thousands, except per share amounts)					
2017						
Revenues	\$ 431,042	\$ 424,043	\$ 412,603	\$ 424,200	\$ 1,691,888	
Cost of service and product revenues, excluding depreciation and amortization	251,242	254,841	248,509	249,944	1,004,536	
Operating income (loss)	7,715	(847)	(12,784)	4,712	(1,204)	
Net income (loss)	3,281	(2,219)	(18,455)	1,253	(16,140)	
Net income (loss) per basic and diluted share(d)	0.07	(0.05)	(0.40)	0.03	(0.35)	
	Quarter Ended				Year Ended	
	September 30	December 31(c)	March 31	June 30		
	(Dollars in thousands, except per share amounts)					
2016						
Revenues	\$ 450,130	\$ 450,467	\$ 442,565	\$ 447,707	\$ 1,790,869	
Cost of service and product revenues, excluding depreciation and amortization	260,804	267,056	260,046	259,623	1,047,529	
Operating income (loss)	4,276	(2,883)	5,621	10,600	17,614	
Net (loss) income	(808)	(13,986)	(2,084)	5,562	(11,316)	
Net (loss) income per basic and diluted share(d)	(0.02)	(0.29)	(0.04)	0.12	(0.23)	

- (a) During the third quarter of fiscal year 2017, the Company recorded \$7.9 million of severance expense related to the termination of former executive officers including the Company's Chief Executive Officer.
- (b) During the fourth quarter of fiscal year 2017, the Company recorded \$5.9 million for a one-time inventory expense related to salon tools.
- (c) During the second quarter of fiscal year 2016, the Company recorded a \$13.0 million other than temporary impairment charge on its investment in EEG.
- (d) Total is an annual recalculation; line items calculated quarterly may not sum to total.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed by the Company in the reports filed or submitted under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate to allow timely decisions regarding required disclosure.

Management, with the participation of the CEO and CFO, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act), at the end of the period. Based on their evaluation, our CEO and CFO, concluded that our disclosure controls and procedures were effective as of June 30, 2017.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including the CEO and the CFO, we carried out an evaluation of the effectiveness of our internal control over financial reporting as of June 30, 2017 using the criteria established in "Internal Control-Integrated Framework " (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based upon this evaluation, management concluded the Company's internal controls over financial reporting were effective as of June 30, 2017 based on those criteria.

The effectiveness of the Company's internal control over financial reporting as of June 30, 2017 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in its report, which appears in Item 8.

Changes in Internal Controls over Financial Reporting

There were no changes in our internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information regarding the Directors of the Company and Exchange Act Section 16(a) filings will be set forth in the sections titled "Item 1—Election of Directors", "Corporate Governance" and "Section 16(a) Beneficial Ownership Reporting Compliance" of the Company's 2017 Proxy Statement, and is incorporated herein by reference. The information required by Item 401 of Regulation S-K regarding the Company's executive officers is included under "Executive Officers" in Item 1 of this Annual Report on Form 10-K. Additionally, information regarding the Company's audit committee and audit committee financial expert, as well nominating committee functions, will be set forth in the section titled "Committees of the Board" and shareholder communications with directors will be set forth in the section titled "Communications with the Board" of the Company's 2017 Proxy Statement, and are incorporated herein by reference.

The Company has adopted a code of ethics, known as the Code of Business Conduct & Ethics that applies to all employees, including the Company's chief executive officer, chief financial officer, directors and executive officers. The Code of Business Conduct & Ethics is available on the Company's website at www.regiscorp.com, under the heading "Corporate Governance - Policies and Disclosures" (within the "Investor Information" section). The Company intends to disclose any substantive amendments to, or waivers from, its Code of Business Conduct & Ethics on its website or in a report on Form 8-K. In addition, the charters of the Company's Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee and the Company's Corporate Governance Guidelines may be found in the same section of the Company's website. Copies of any of these documents are available upon request to any shareholder of the Company by writing to the Company's Corporate Secretary at Regis Corporation, 7201 Metro Boulevard, Edina, Minnesota 55439.

Item 11. Executive Compensation

Information about executive and director compensation will be set forth in the sections titled "Executive Compensation" and "Fiscal 2017 Director Compensation" of the Company's 2017 Proxy Statement, and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding the Company's equity compensation plans will be set forth in the section titled "Equity Compensation Plan Information" and information regarding the beneficial ownership of the Company will be set forth in the section titled "Security Ownership of Certain Beneficial Holders and Management" of the Company's 2017 Proxy Statement, and are incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information regarding certain relationships and related transactions will be set forth in the section titled "Certain Relationships and Related Transactions" of the Company's 2017 Proxy Statement, and is incorporated herein by reference. Information regarding director independence will be set forth in the section titled "Corporate Governance—Director Independence" of the Company's 2017 Proxy Statement, and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

A description of the fees paid to the independent registered public accounting firm will be set forth in the section titled "Item 4—Ratification of Appointment of Independent Registered Public Accounting Firm" of the Company's 2017 Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(b) (1). *All financial statements:*

Consolidated Financial Statements filed as part of this report are listed under Part II, Item 8 of this Form 10-K.

(c) Exhibits:

The exhibits listed in the accompanying index are filed as part of this report. Except where otherwise indicated below, the SEC file number for each report and registration statement from which the exhibits are incorporated by reference is 1-12725. There are no financial statement schedules included with this filing for the reason they are not applicable, not required or the information is included in the financial statements or notes thereto.

Exhibit Number/Description

- | | |
|--------|--|
| 3(a) | Election of the Company to become governed by Minnesota Statutes Chapter 302A and Restated Articles of Incorporation of the Company, dated March 11, 1983; Articles of Amendment to Restated Articles of Incorporation, dated October 29, 1984; Articles of Amendment to Restated Articles of Incorporation, dated August 14, 1987; Articles of Amendment to Restated Articles of Incorporation, dated October 21, 1987; Articles of Amendment to Restated Articles of Incorporation, dated November 20, 1996; Articles of Amendment to Restated Articles of Incorporation, dated July 25, 2000; Articles of Amendment to Restated Articles of Incorporation, dated October 22, 2013. (Incorporated by reference to Exhibit 3(a) of the Company's Annual Report on Form 10-K/A filed on September 26, 2014.) |
| 3(b) | Bylaws of the Company. (Incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on October 31, 2006.) |
| 4(a) | Form of Stock Certificate. (Incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-1 (Reg. No. 40142).) |
| 4(b) | Indenture, dated December 1, 2015, by and between the Company and Wells Fargo Bank, National Association, as Trustee, in respect of the 5.50% Senior Notes due 2019 (Incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on December 4, 2015.) |
| 10(a)* | Regis Corporation Short Term Incentive Compensation Plan, effective August 19, 2014. (Incorporated by reference to Appendix A of the Company's Proxy Statement on Definitive Form 14A filed on September 10, 2014.) |
| 10(b)* | Regis Corporation Executive Retirement Savings Plan Adoption Agreement and Trust Agreement, dated November 15, 2008, between the Company and Fidelity Management Trust Company (The CORPORATE Plan for Retirement EXECUTIVE PLAN basic plan document is incorporated by reference to Exhibit 10(c) to the Company's Annual Report on Form 10-K filed on August 29, 2007). (Incorporated by reference to Exhibit 10(a) of the Company's Quarterly Report on Form 10-Q filed February 9, 2009.) |
| 10(c)* | Employment Agreement, dated August 31, 2012, between the Company and Daniel J. Hanrahan. (Incorporated by reference to Exhibit 10(a) of the Company's Current Report on Form 10-Q filed November 9, 2012.) |
| 10(d)* | Amendment to Employment Agreement, dated January 13, 2015, between the Company and Daniel J. Hanrahan. (Incorporated by reference to Exhibit 10(b) of the Company's Quarterly Report on Form 10-Q filed January 29, 2015.) |
| 10(e)* | Employment Agreement, dated November 28, 2012, between the Company and Steven M. Spiegel. (Incorporated by reference to Exhibit 10(a) of the Company's Quarterly Report on Form 10-Q filed February 4, 2013.) |
| 10(f)* | Amendment No. 1 to Employment Agreement, dated June 30, 2016, between the Company and Steven M. Spiegel. (Incorporated by reference to Exhibit 10(f) of the Company's Annual Report on Form 10-K filed on August 23, 2016.) |
| 10(g)* | Form of Amended and Restated Senior Officer Employment and Deferred Compensation Agreement, dated August 31, 2012, between the Company and certain senior executive officers. (Incorporated by reference to Exhibit 10(b) of the Company's Quarterly Report on Form 10-Q filed November 9, 2012.) |
| 10(h)* | Employment Agreement, dated November 11, 2013, between the Company and Jim B. Lain. (Incorporated by reference to Exhibit 10(c) of the Company's Quarterly Report on Form 10-Q filed February 3, 2014.) |
| 10(i)* | Employment Agreement, dated October 21, 2013, between the Company and Carmen Thiede. (Incorporated by reference to Exhibit 10(b) of the Company's Quarterly Report on Form 10-Q filed February 3, 2014.) |

10(j)*	Employment Agreement, dated December 15, 2014, between the Company and Annette Miller. (Incorporated by reference to Exhibit 10(a) of the Company's Quarterly Report on Form 10-Q filed January 29, 2015.)
10(k)*	Amended and Restated Employment Agreement, dated May 1, 2015, between the Company and Andrew Dulka. (Incorporated by reference to Exhibit 10(k) of the Company's Annual Report on Form 10-K filed August 28, 2015.)
10(l)*	Letter Agreement with Huron Consulting Services LLC for CFO Services, dated January 25, 2017. (Incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q filed on May 4, 2017.)
10(m)*	Employment Agreement, dated April 17, 2017, between the Company and Hugh E. Sawyer.
10(n)*	Restricted Stock Unit Agreement, dated April 17, 2017, between the Company and Hugh E. Sawyer.
10(o)*	Stock Appreciation Right Agreement, dated April 17, 2017, between the Company and Hugh E. Sawyer.
10(p)*	Separation Agreement, dated April 16, 2017, between the Company and Daniel Hanrahan.
10(q)*	Separation Agreement, dated February 28, 2017, between the Company and Heather Passe.
10(r)*	Employment Offer Letter, dated June 16, 2017, between the Company and Andrew H. Lacko.
10(s)*	Amended and Restated 2004 Long Term Incentive Plan, as amended and restated effective October 22, 2013. (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on October 11, 2013.)
10(t)*	Amendment to the Amended and Restated 2004 Long Term Incentive Plan, effective August 29, 2014. (Incorporated by reference to Exhibit 10(b) of the Company's Quarterly Report on Form 10-Q filed on November 4, 2014.)
10(u)*	Form of Restricted Stock Unit Award (Annual Executive Grants).
10(v)*	Form of Stock Appreciation Right Award (Annual Executive Grants).
10(w)*	Form of Performance Stock Unit Award (Fiscal 2017 Executive Grants).
10(x)*	Regis Corporation 2016 Long Term Incentive Plan, effective October 18, 2016. (Incorporated by reference to Appendix A of the Company's Proxy Statement on Definitive Form 14A filed on September 7, 2016.)
10(y)*	Regis Corporation Amended and Restated 1991 Contributory Stock Purchase Plan, as amended and restated effective October 18, 2016. (Incorporated by reference to Appendix B of the Company's Proxy Statement on Definitive Form 14A filed on September 7, 2016.)
10(z)*	Supplemental Performance-Based Cash Retention Bonus Plan, dated January 2017. (Incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q filed on May 4, 2017.)
10(aa)*	Changes to Severance Program, dated January 23, 2017. (Incorporated by reference to Exhibit 10.3 of the Company's Quarterly Report on Form 10-Q filed on May 4, 2017.)
10(bb)	Sixth Amended and Restated Credit Agreement, dated June 11, 2013, among the Company, the various financial institutions party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, Swing Line Lender and an Issuer, Bank of America, N.A., as Syndication Agent, and The Bank of Tokyo-Mitsubishi UFJ, Ltd., U.S. Bank, National Association and Wells Fargo Bank, N.A., as Documentation Agents. (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on June 14, 2013.)
10(cc)	First Amendment, dated as of January 27, 2016, to the Sixth Amended and Restated Credit Agreement, dated June 11, 2013, among the Company, the various financial institutions party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent. (Incorporated by reference to Exhibit 10(c) of the Company's Quarterly Report on Form 10-Q filed on January 28, 2016).
21	List of Subsidiaries of the Company.
23.1	Consent of PricewaterhouseCoopers LLP.
23.2	Consent of Baker Tilly Virchow Krause, LLP.
31.1	Chief Executive Officer of the Company: Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Executive Vice President and Chief Financial Officer of the Company: Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32	Chief Executive Officer and Chief Financial Officer of the Company: Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase

(*) Management contract, compensatory plan or arrangement required to be filed as an exhibit to the Company's Report on Form 10-K.

Item 16. Form 10-K Summary

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

REGIS CORPORATION

By /s/ HUGH. E SAWYER
Hugh E. Sawyer,
President and Chief Executive Officer
(Principal Executive Officer)

By /s/ ANDREW H. LACKO
Andrew H. Lacko,
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

By /s/ KERSTEN D. ZUPFER
Kersten D. Zupfer,
Vice President, Controller
and Chief Accounting Officer
(Principal Accounting Officer)

DATE: August 23, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>/s/ DAVID P. WILLIAMS</u> David P. Williams, <i>Chairman of the Board of Directors</i>	Date: August 23, 2017
<u>/s/ HUGH E. SAWYER</u> Hugh E. Sawyer, <i>Director</i>	Date: August 23, 2017
<u>/s/ DANIEL G. BELTZMAN</u> Daniel G. Beltzman, <i>Director</i>	Date: August 23, 2017
<u>/s/ M. ANN RHOADES</u> M. Ann Rhoades, <i>Director</i>	Date: August 23, 2017
<u>/s/ MICHAEL J. MERRIMAN</u> Michael J. Merriman, <i>Director</i>	Date: August 23, 2017
<u>/s/ STEPHEN E. WATSON</u> Stephen E. Watson, <i>Director</i>	Date: August 23, 2017
<u>/s/ DAVID J. GRISSIN</u> David J. Grissen, <i>Director</i>	Date: August 23, 2017
<u>/s/ MARK LIGHT</u> Mark Light, <i>Director</i>	Date: August 23, 2017

EEG, Inc. and Subsidiaries

Consolidated Financial Statements

June 30, 2017, 2016, and 2015

EEG, Inc. and Subsidiaries

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June 30, 2017, 2016, and 2015

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Independent Auditors' Report

Board of Directors
EEG, Inc. and Subsidiaries

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of EEG, Inc. and Subsidiaries, which comprise the consolidated balance sheet as of June 30, 2017 and 2016, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years ended June 30, 2017, 2016, and 2015, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of EEG, Inc. and Subsidiaries as of June 30, 2017 and 2016, and the results of their operations and their cash flows for the years ended June 30, 2017, 2016, and 2015, in accordance with accounting principles generally accepted in the United States of America.

/s/ BAKER TILLY VIRCHOW KRAUSE, LLP

Wilkes-Barre, Pennsylvania
August 22, 2017

EEG, Inc. and Subsidiaries

Consolidated Balance Sheet
June 30, 2017 and 2016

	2017	2016	2017	2016
Assets			Liabilities and Shareholders' Equity	
Current Assets			Current liabilities	
Cash and cash equivalents	\$ 25,352,516	\$ 40,974,612	Current maturities, capital lease obligation and long term debt	\$ 284,962 \$ 481,346
Restricted cash	1,493,311	139,264	Accounts payable, trade	1,591,499 1,618,751
Accounts receivable:			Affiliates	— 3,118
Students (net of allowance of \$6,173,459 and \$5,921,211 in 2017 and 2016, respectively)	2,658,271	2,529,767	Accounts payable, accrued	2,172,315 2,358,180
Other	60,297	137,306	Accrued payroll	1,813,196 1,285,360
Affiliates, unsecured	14,377	17,992	Accrued expenses	1,688,190 1,368,572
Inventories	2,139,962	2,145,571	Trust liabilities	243,311 139,264
Prepaid expenses	896,441	723,143	Unearned tuition	10,591,801 10,905,463
Prepaid corporate income taxes	34,127	65,303		
			Total current liabilities	18,385,274 18,160,054
Total current assets	32,649,302	46,732,958		
			Capital Lease Obligation	6,485,948 6,770,910
Property and Equipment, Net	29,171,576	32,117,007	Long-Term Debt	— 14,921,514
Other Assets				
Intangibles, not subject to amortization	8,704,186	8,704,186	Deferred Rent	5,695,401 7,063,670
Intangibles, net	84,586	110,740	Total liabilities	30,566,623 46,916,148
Prepublication costs (net of accumulated amortization of \$212,552 and \$149,037 in 2017 and 2016, respectively)	104,089	167,604	Commitments and Contingencies (Notes 11, 14)	
Notes receivable, employees, secured	217,883	216,791	Shareholders' Equity	
Deposits and other assets	928,336	1,063,936	Preferred stock:	
			Series A, 8% cumulative, redeemable, \$0.001 par value, 150 shares authorized, 100 issued and outstanding	10,000,000 10,000,000
Total other assets	10,039,080	10,263,257	Series B, 8% cumulative, redeemable, \$0.001 par value, 114 shares authorized, none issued and outstanding	— —
			Common stock, \$0.001 par value; 10,000 shares authorized, 897,938 shares issued and outstanding	1 1
			Additional paid-in capital	66,346,025 66,346,025
			Accumulated deficit	(35,052,691) (34,148,952)
			Total shareholders' equity	41,293,335 42,197,074
Total	\$ 71,859,958	\$ 89,113,222	Total	\$ 71,859,958 \$ 89,113,222

See notes to consolidated financial statements

EEG, Inc. and Subsidiaries

Consolidated Statement of Operations For the Years Ended June 30, 2017, 2016, and 2015

	2017	2016	2015
Revenue			
Educational services	\$ 102,419,283	\$ 110,684,320	\$ 132,946,719
Products	23,067,181	19,617,360	22,050,047
Total revenue	125,486,464	130,301,680	154,996,766
Operating Expenses			
Cost of educational services, exclusive of depreciation and amortization	72,080,948	83,330,808	97,804,550
Cost of product sales	12,308,256	12,386,245	14,545,443
General, selling, and administrative, exclusive of depreciation and amortization	33,963,801	32,679,233	38,269,157
Depreciation and amortization	4,388,765	4,909,281	5,352,592
Other operating expenses	2,498,050	2,723,148	2,902,235
Loss on disposal and sale of assets	20,427	38,678	167,942
Impairment loss	877,088	91,258	218,950
Total operating expenses	126,137,335	136,158,651	159,260,869
Loss from Operations	(650,871)	(5,856,971)	(4,264,103)
Other Income (Expense)			
Interest expense	(801,796)	(800,875)	(655,523)
Interest income	51,098	70,531	73,156
Miscellaneous income	185,541	513,823	733,594
Total other income (expense), net	(565,157)	(216,521)	151,227
Loss Before (Benefit) Provision for Income Taxes	(1,216,028)	(6,073,492)	(4,112,876)
(Benefit) Provision for Income Taxes	(317,001)	(522,484)	12,625,065
Net loss	\$ (899,027)	\$ (5,551,008)	\$ (16,737,941)

See notes to consolidated financial statements

EEG, Inc. and Subsidiaries

Consolidated Statement of Shareholders' Equity
For the Years Ended June 30, 2017, 2016, and 2015

	Series A		Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total
	Preferred Stock Shares	Amount	Shares	Amount			
Balance, June 30, 2014	—	\$ —	889,938	\$ 1	\$ 66,595,868	\$ (11,820,360)	\$ 54,775,509
Net Loss	—	—	—	—	—	(16,737,941)	(16,737,941)
Repurchase & Cancellation of Shares	—	—	(2)	—	(46,804)	(35,259)	(82,063)
Cancellation of Non-Qualified Stock Option	—	—	—	—	(179,764)	—	(179,764)
Compensation Costs from Stock Options	—	—	—	—	30,981	—	30,981
Balance, June 30, 2015	—	—	887,938	1	66,400,281	(28,593,560)	37,806,722
Net Loss	—	—	—	—	—	(5,551,008)	(5,551,008)
Cancellation of Non-Qualified Stock Options	—	—	—	—	(54,256)	—	(54,256)
Issuance of Preferred Stock	100	10,000,000	—	—	—	—	10,000,000
Preferred stock dividends	—	—	—	—	—	(4,384)	(4,384)
Balance, June 30, 2016	100	10,000,000	887,938	1	66,346,025	(34,148,952)	42,197,074
Net Loss	—	—	—	—	—	(899,027)	(899,027)
Redemption of Preferred Stock	(100)	(10,000,000) 0	—	—	—	—	(10,000,000)
Issuance of Preferred Stock	100	10,000,000	—	—	—	—	10,000,000
Preferred stock dividends	—	—	—	—	—	(4,712)	(4,712)
Balance, June 30, 2017	100	\$10,000,000	887,938	1	\$ 66,346,025	\$ (35,052,691)	\$ 41,293,335

See notes to consolidated financial statements

EEG, Inc. and Subsidiaries
Consolidated Statement of Cash Flows
June 30, 2017, 2016, and 2015

	2017	2016	2015
Cash Flows from Operating Activities			
Net loss	\$ (899,027)	\$ (5,551,008)	\$ (16,737,941)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation	4,299,097	4,798,864	5,214,764
Amortization of intangibles	26,154	46,901	76,714
Amortization of prepublication costs	63,515	63,516	61,114
Provision for uncollectible accounts	252,248	(2,743,629)	1,953,954
Impairment loss	877,088	91,258	218,950
Deferred compensation	—	(217,768)	—
Compensation cost from stock options	—	—	30,981
Loss on disposal and sale of equipment	20,427	38,678	167,942
Changes in assets and liabilities:			
Accounts receivable, student	(380,752)	6,581,543	(5,083,059)
Deferred income taxes	—	(54,256)	13,998,601
Inventories	5,609	487,047	1,338,430
Prepaid expenses and other assets	74,102	1,534,039	3,635,353
Restricted cash and trust liabilities	(1,250,000)	250,062	(250,062)
Notes receivable, employee, secured	(1,092)	(1,090)	(1,156)
Accounts payable and accrued expenses	631,219	(2,006,772)	(1,904,515)
Unearned tuition	(313,662)	1,421,952	(4,225,365)
Deferred rent	(1,368,269)	184,956	2,639,824
Total adjustments	2,935,684	10,475,301	17,872,470
Net cash provided by operating activities	2,036,657	4,924,293	1,134,529
Cash Flows from Investing Activities			
Purchases of property and equipment	(2,252,871)	(3,661,895)	(4,223,078)
Proceeds from sale of property and equipment	1,690	1,523,510	242,003
Investment in prepublication costs	—	—	(13,100)
Net cash used in investing activities	(2,251,181)	(2,138,385)	(3,994,175)
Cash Flows from Financing Activities			
Net repayment of long-term debt	(15,142,677)	(5,721,163)	(636,163)
Repayment of capital lease obligation	(260,183)	(237,560)	(244,149)
Proceeds from preferred stock issuance	10,000,000	10,000,000	—
Repayment of preferred stock	(10,000,000)	—	—
Preferred stock dividends	(4,712)	(4,384)	—
Net cash (used in) provided by financing activities	(15,407,572)	4,036,893	(880,312)
Net (Decrease) Increase in Cash and Cash Equivalents	(15,622,096)	6,822,801	(3,739,958)
Cash and Cash Equivalents, Beginning	40,974,612	34,151,811	37,891,769
Cash and Cash Equivalents, Ending	\$ 25,352,516	\$ 40,974,612	\$ 34,151,811
Supplemental Disclosure of Cash Flow Information			
Interest paid, net of capitalized interest	\$ 803,776	\$ 805,595	\$ 648,105
Income taxes refunded, net	\$ (317,001)	\$ (1,722,836)	\$ (3,736,501)
Supplemental Disclosure of Non-Cash Operating and Financing Activities			
Additional paid-in capital - repurchase and cancellation of shares	\$ —	\$ —	\$ 101,757
Retained earnings - repurchase and cancellation of shares	\$ —	\$ —	\$ 35,259
Notes receivable, employee, secured - repurchase and cancellation of shares	\$ —	\$ —	\$ (110,163)
Accrued expenses - repurchase and cancellation of shares	\$ —	\$ —	\$ (26,853)
Additional paid-in capital - non-qualifying stock option cancellation after vesting	\$ —	\$ 54,256	\$ 179,764
Deferred tax asset - non-qualifying stock option cancelled after vesting	\$ —	\$ (54,256)	\$ (179,764)
Deferred compensation liability	\$ —	\$ 217,768	\$ —
Stock based employee compensation	\$ —	\$ (217,768)	\$ —

See notes to consolidated financial statements

EEG, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2017, 2016, and 2015

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Organizational Matters

EEG, Inc. ("EEG") owns and operates 88 cosmetology schools located throughout the United States. With the exception of 2 cosmetology schools owned by wholly-owned subsidiaries, Gary's Incorporated ("Gary's"), and Northern Westchester School of Hair Dressing and Cosmetology, Inc. ("Northern Westchester"), all of EEG's cosmetology schools are owned directly by EEG. EEG operates cosmetology schools under the brand of Empire Beauty School.

Principles of Consolidation

The consolidated financial statements include the accounts of EEG and its wholly-owned subsidiaries, Gary's and Northern Westchester (collectively referred to as the "Company"). All significant intercompany transactions and balances have been eliminated in consolidation.

Subsequent Events

The Company evaluated subsequent events for recognition or disclosure through August 22, 2017, the date the consolidated financial statements were available to be issued.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments, purchased with maturity of 90 days or less to be cash equivalents.

Restricted Cash

Restricted cash consists of monies that have not been applied to student accounts receivable, a pledged certificate of deposit to a bank, and various amounts pledged to other entities (Note 2).

Student Accounts Receivable

Student accounts receivable are reported at amounts management expects to collect on balances outstanding. Accounts are charged to bad debt expense when deemed uncollectible based upon a periodic review of individual accounts. The allowance for doubtful accounts is estimated based on the Company's historical losses.

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Inventories

The Company maintains an inventory of beauty supplies, mannequins, tablet computers, and textbooks for instructional use and resale. Inventories are recorded at the lower of cost, determined using the first-in, first-out method, or market.

Property and Equipment

Property and equipment is stated at cost, net of accumulated depreciation. Depreciation is provided using the straight-line method based on the lesser of estimated useful lives of the assets of 5 to 15 years or the lease term. Property and equipment under capital lease are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. Property and equipment under capital lease are being amortized using the straight-line method over the lesser of the lease term or the estimated useful lives of the assets. Amortization of asset under capital lease is included in depreciation expense.

The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. The Company assesses the recoverability of long-lived assets by calculating expected future cash flows to be generated by the assets. If future undiscounted cash flows are insufficient to support the carrying cost of an asset group, then an impairment loss, measured as the difference between the carrying amount of the asset and the discounted future cash flows it may generate, is calculated and recorded. The Company recorded impairments of tangible fixed assets of \$877,088, \$91,258, and \$218,950 for the years ended June 30, 2017, 2016, and 2015, respectively.

Intangible Assets

The Company has recorded values for Intangibles, not subject to amortization and Intangibles, net.

Intangibles, not subject to amortization comprise Accreditation and a Non-Compete Agreement with Regis Corporation ("Regis"), an affiliated company, valued as of the acquisition dates of acquired schools. Intangibles, not subject to amortization are tested for impairment at least annually in the fourth quarter, or sooner if circumstances indicate necessity for earlier testing (Note 4).

Intangibles, net comprise the recorded values of Copyrights and Trade names, Below market rate leases, Business covenants, and Customer lists valued as of the acquisition date of acquired schools. These intangible assets have finite lives, and are stated at cost, net of accumulated amortization. Costs associated with extending or renewing these assets are expensed as incurred. These assets are amortized using a straight-line method over their estimated lives of 2 to 20 years (Note 4).

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Prepublication Costs

The Company capitalizes all prepublication direct costs incurred in the physical production of master publication-ready textbooks. These costs include the cost of manuscripts, salaries of staff directly working on designing, writing and editing the master volumes, the costs of supplies, photography, models, expendable goods, rental and maintenance of facilities, depreciation and amortization of equipment and leasehold improvements used directly by the production staff, and costs of nonemployee translators, editors, and writers. The capitalization of prepublication costs ceases when the master volume textbook is ready for submission to a printing house for mass production of the text. Prepublication costs are amortized using the straight-line method over estimated lives of 5-7 years. Amortization expense related to prepublication costs for the years ended June 30, 2017, 2016, and 2015, was \$63,515, \$63,516 and \$61,114, respectively.

Revenue Recognition

Tuition revenue is recognized pro-ratably as the school term progresses based upon student hours attended. Unearned tuition is recorded as a result of cash received in advance of students attending class. Revenues for registration fees and products sold are recognized upon completion of the enrollment application and sale of the related products sold, respectively, as the Company has no further performance requirements. Revenues related to other services are recognized upon performance. Revenues exclude sales taxes.

Income Taxes

The Company accounts for its income taxes using the asset and liability method which requires the establishment of deferred tax assets and liabilities for future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance will be recognized (Note 8). The Company and its subsidiaries file a consolidated federal income tax return and certain consolidated state income tax returns where applicable.

A tax benefit for an uncertain tax position is recognized when it is more likely than not that the position will be sustained upon examination based on its technical merits. This position is measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized. Interest and penalties related to unrecognized tax benefits are recognized as a component of other expense.

Potentially adverse material tax positions are evaluated to determine whether an uncertain tax position may have previously existed or has been originated. In the event an adverse tax position is determined to exist, penalty and interest will be accrued, in accordance with the Internal Revenue Service guidelines, and recorded as a component of other expenses in the Company's statement of income. The Company believes no significant uncertain tax positions exist, either individually or in the aggregate, that give rise to the non-recognition of an existing tax benefit.

EEG, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2017, 2016, and 2015

1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Advertising Costs

Advertising costs are charged to operations when incurred. Advertising expense was \$8,521,886, \$9,081,845 and \$10,287,389 for the years ended June 30, 2017, 2016, and 2015, respectively.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under Generally Accepted Accounting Principles ("GAAP"). The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The standard is effective January 1, 2018, for a calendar year public entity. For non-public entities, the amendments in this update are effective for annual reporting periods beginning after December 15, 2018. A non-public entity may elect to apply this guidance earlier; however, not before an annual reporting period beginning after December 15, 2016. Management is evaluating this new guidance.

In February 2016, the FASB issued updated guidance requiring organizations that lease assets to recognize the rights and obligations created by those leases on the consolidated balance sheet. The new standard is effective for the Company in the fiscal year beginning in 2020, with early adoption permitted. The Company is currently evaluating the effect the new standard will have on the Company's consolidated financial statements but expect this adoption will result in a significant increase in the assets and liabilities on the Company's consolidated balance sheet.

2. Restricted Cash

The Company has restricted cash from several sources. The U.S. Department of Education places restrictions on Title IV program funds held for students for unbilled educational services. As a trustee of these Title IV program funds, the Company is required to maintain and restrict these funds pursuant to the terms of our program participation agreement with the Department.

Due to the regulatory climate relating to "For Profit Schools" prior to the 2016 Presidential election, several states started to require schools to insure their State Surety Bonds. To meet this requirement, the Company entered into a Collateral Trust Agreement with RLI Insurance Company on November 29, 2016. As part of that agreement, the Company was required to deposit \$1,250,000 in a Wells Fargo Institutional Money Market Account.

A summary of restricted cash as of June 30, 2017, and 2016 is as follows:

	2017	2016
Third party scholarship funds	\$ 162,000	\$ 71,000
Charitable contribution pledges and other	66,227	58,606
State agencies student funds	15,084	6,963
Title IV program funds	—	2,695
Collateral trust agreement	1,250,000	—
Total restricted cash	<u>\$ 1,493,311</u>	<u>\$ 139,264</u>

EEG, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2017, 2016, and 2015

3. Property and Equipment, Net

Property and equipment consist of the following on June 30:

	2017	2016
Capital lease asset (Note 5)	\$ 8,200,000	\$ 8,200,000
Leasehold improvements	41,558,940	41,456,342
Furniture, fixtures, and equipment	24,988,785	24,120,131
Automotive equipment	267,389	225,021
Audio-video equipment	2,156,995	2,191,302
Signs	1,500,899	1,478,098
Construction in progress	1,122,931	702,295
Total cost	79,795,939	78,373,189
Less accumulated depreciation and amortization	50,624,362	46,256,182
Property and equipment, net	<u>\$ 29,171,577</u>	<u>\$ 32,117,007</u>

The accumulated amortization of the capital lease asset was \$2,662,338 and \$2,236,364 at June 30, 2017, and 2016, respectively. Capitalized interest was \$17,349, \$13,177, and \$11,362 for the years ended June 30, 2017, 2016, and 2015, respectively.

4. Intangible Assets

Intangibles, not subject to amortization consist of the Accreditation of acquired schools amounting to \$7,814,186 and a Non-compete agreement with Regis amounting to \$890,000 at June 30, 2017, and 2016. Accreditation provides schools with the ability to participate in Title IV funding and is an indefinite-lived intangible asset due to the minimal requirements on the part of the Company to renew such status. The Non-compete agreement is effective as long as Regis continues holding an ownership interest in the Company. Accordingly, the asset is classified as an indefinite-lived asset. If Regis terminates its ownership interest, the carrying value of the asset will be amortized over its then remaining two year life.

A summary of intangible assets subject to amortization at June 30, 2017, and 2016, is as follows:

	2017		
	Cost	Accumulated Amortization	Net Carrying Amount
Copyrights and trade names	\$ 2,623,883	\$ 2,606,384	\$ 17,499
Below market rate leases	1,100,614	1,033,527	67,087
Business covenants	725,100	725,100	—
Customer lists	50,000	50,000	—
Total	<u>\$ 4,499,597</u>	<u>\$ 4,415,011</u>	<u>\$ 84,586</u>

EEG, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2017, 2016, and 2015

4. Intangible Assets (Continued)

	2016		
	Cost	Accumulated Amortization	Net Carrying Amount
Copyrights and trade names	\$ 2,623,883	\$ 2,603,792	\$ 20,091
Below market rate leases	1,100,614	1,012,470	88,144
Business covenants	725,100	722,595	2,505
Customer lists	50,000	50,000	—
Total	<u>\$ 4,499,597</u>	<u>\$ 4,388,857</u>	<u>\$ 110,740</u>

Amortization of Intangibles

Amortization expense for the years ended June 30, 2017, 2016, and 2015, was \$26,154, \$46,901, and \$76,714, respectively.

Estimated amortization expense related to intangibles for the next five years is as follows:

Years ending June 30:	
2018	\$ 15,596
2019	15,595
2020	12,289
2021	8,885
2022	8,707
Total	<u>\$ 61,072</u>

5. Capital Lease Obligation

The Company is obligated under a capital lease arrangement with an affiliated company for office space used in the Company's operations. At June 30, 2017, the scheduled future minimum lease payments required under the capital lease and the present value of the net minimum lease payments are as follows:

Years ending June 30:	
2018	\$ 891,522
2019	891,522
2020	891,522
2021	891,522
2022	891,522
Thereafter	7,132,176
Total future minimum lease payments	11,589,786
Less amounts representing interest	4,818,879
Present value of minimum lease payments	6,770,907
Less current portion	284,962
Long-term obligation	<u>\$ 6,485,945</u>

EEG, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2017, 2016, and 2015

6. Long-Term Debt

The Company has a credit facility with a bank maturing September 30, 2017. The maximum availability for borrowings or letters of credit under the facility is \$14,500,000 as of June 30, 2017 and June 30, 2016. Interest is payable monthly at one month Libor plus 550 basis points (6.73% and 5.967% at June 30, 2017, and 2016, respectively). There were borrowings of \$14,000,000 outstanding at June 30, 2016. The Company was contingently liable to the bank for three irrevocable letters of credit totaling \$400,000 and \$500,000 at June 30, 2017, and 2016, respectively. The maximum borrowing availability on the credit facility is reduced by the amount of any outstanding letters of credit. The credit facility is collateralized by a pledge of substantially all of the Company's assets.

The Company had a bank term loan ("Term Loan") with an outstanding balance of \$1,142,677 as of June 30, 2016. The Term Loan was repaid in advance in September 2016. There was no bank term loan as of June 30, 2017.

7. Income Taxes

The components of pretax loss from continuing operations for the years ended June 30 are as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
U.S.	<u>\$ (1,216,028)</u>	<u>\$ (6,073,492)</u>	<u>\$ (4,112,876)</u>

The provision (benefit) for income taxes for the years ended June 30 is comprised of the following:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Current			
Federal	\$ —	\$ (417,286)	\$ (1,570,540)
State	(317,001)	(105,198)	197,006
Deferred			
Federal	—	—	10,264,661
State	—	—	3,733,938
Total	<u>\$ (317,001)</u>	<u>\$ (522,484)</u>	<u>\$ 12,625,065</u>

During fiscal year 2015, the impacts from the decline in student enrollments had a negative impact on the Company's financial performance. Due to losses incurred in recent years, the Company was no longer able to conclude that it was more likely than not that the deferred tax assets would be fully realized and established a valuation allowance on the deferred tax assets.

EEG, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2017, 2016, and 2015

7. Income Taxes (Continued)

Deferred tax assets are as follows at June 30:

	2017	2016
Current assets	\$ 2,678,771	\$ 2,595,819
Less: valuation allowance	(2,678,771)	(2,595,819)
Net current deferred income taxes	<u>\$ —</u>	<u>\$ —</u>
Noncurrent assets	8,518,245	9,528,383
Less: valuation allowance	(8,518,245)	(9,528,383)
Net noncurrent deferred income taxes	<u>\$ —</u>	<u>\$ —</u>

A reconciliation of the statutory U.S. federal income tax rate to our effective income tax rates for continuing operations for the years ended June 30, 2017, 2016, and 2015 is as follows:

	2017	2016	2015
Statutory U.S. federal income tax rate	34.0 %	34.0%	34.0 %
State and local income taxes	—	—	(6.6)
Deferred tax valuation allowance	(34.0)	(34.0)	(308.6)
Estimate to actual rate true up	(26.1)	8.6	(19.6)
Other	—	—	(6.2)
Effective income tax rate	<u>(26.1)%</u>	<u>8.6%</u>	<u>(307)%</u>

The effective tax rate for period ended June 30, 2017, is 26.1 percent due to a Pennsylvania capital stock tax refund. The effective tax rate for period ended June 30, 2016, is 8.6 percent due to the true up to the June 30, 2015 tax return. The effective tax rate for period ended June 30, 2015, included \$12,691,196 of a deferred tax valuation allowance which increased the effective tax rate by approximately 308.6 percent. The effective tax rate was also increased by 19.6 percent related to the estimate to actual state tax rate true up for period ended June 30, 2015.

EEG, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2017, 2016, and 2015

7. Income Taxes (Continued)

The components of the net deferred tax assets and liabilities as of June 30, 2017, and 2016 are as follows:

	2017	2016
Deferred tax assets:		
Net operating loss carryforwards	\$ 7,937,767	\$ 6,474,957
Capital lease	2,650,584	2,830,757
Deferred rent	2,209,617	2,818,259
Allowance for doubtful accounts	2,396,003	2,363,849
State deferred bonus depreciation	424,862	751,304
Payroll and payroll related costs	537,144	487,056
Other	171,073	106,380
Depreciation and amortization	(1,094,656)	(461,080)
Less: valuation allowance	(15,232,394)	(15,371,482)
Total deferred income tax assets	\$ —	\$ —

As of June 30, 2017, 2016, and 2015, there were no unrecognized tax benefits that, if recognized, would significantly affect the Company's effective tax rate. Also, as of June 30, 2017, 2016, and 2015 there were no material penalties and interest recognized in the statement of income, nor does the Company foresee a change in its material tax positions that would give rise to the non-recognition of an existing tax benefit during the forthcoming twelve months.

Tax returns filed with the Internal Revenue Service and state taxing authorities are subject to review. The Company's federal and state income tax returns filed for 2012 and prior are no longer subject to examination by federal or state taxing authorities.

8. Profit Sharing Plan

The Company sponsors a 401(k) savings and profit sharing plan. The Company made no contributions to the plan during the years ended June 30, 2017, and 2016. The Company made contributions to the plan of \$309,422 during the year ended June 30, 2015.

9. Stock Transactions

Common Stock

The minority shareholder of EEG has an irrevocable proxy from Regis providing the holder with 51% of the shareholder vote until such time that the holder owns less than 35% of the total outstanding EEG common stock; EEG commences an initial public offering of common stock; EEG is sold; or if the shareholders' agreement between Regis and the minority shareholder (the "Agreement") is terminated.

Under the terms of the Agreement, certain aspects of the shareholders' relationship are regulated. The Agreement makes certain provisions for governance, and provides for restrictions on transfer or other disposition of the common stock of the Company.

9. Stock Transactions (Continued)

Common Stock (Continued)

The Agreement grants Regis the right to elect one member to the board of directors (The "Board") and to be represented on any committees established by the Board. The Board is limited to five directors.

In addition, the Agreement prohibits certain actions of the Company, without the prior written approval of Regis, as long as Regis owns at least 60% of the common stock owned on the date of the Agreement. The more significant actions requiring approval are: (i) directly or indirectly acquiring any assets, capital stock, or any other interest in another business or entity, other than in the ordinary course of business; (ii) the transfer, lease, mortgage, pledge or encumbrance of substantially all of the Company's assets; (iii) disposal of any business entity or product line, division or subsidiary of the Company; (iv) the merger, consolidation, reorganization or re-capitalization of the Company; (v) the borrowing or issuing of indebtedness except under the existing Regis credit facilities; and (vi) the issuance of any equity security or any options, warrants, convertible securities or other rights to acquire equity securities.

A shareholder wishing to sell all or any portion of their shares owned shall deliver a notice of intention to sell, thereby granting a right of first refusal. Finally, any shareholder holding 20% or more of the then outstanding shares may elect, by written notice, to seek a sale of the Company.

Preferred Stock

The Company has authorized the following preferred stock:

Series A - 150 shares authorized, cumulative, redeemable, \$0.001 par value, \$100,000 per share issuance price. Series A pays dividends at an initial rate of 8% increasing incrementally to an annual rate of 16% within the first year of issuance and then increasing 1% annually thereafter. Series A does not contain voting privileges.

Series B - 114 shares authorized, cumulative, redeemable, \$0.001 par value, \$100,000 per share issuance price. Series B pays dividends at an initial rate of 8% increasing incrementally to an annual rate of 16% within five years of issuance and then increasing 1% annually thereafter. Series B does not contain voting privileges.

Series A preferred stock had 100 shares issued and outstanding and Series B preferred stock had no shares issued and outstanding as of June 30, 2017. The Company at its discretion redeemed 100 shares of Series A preferred stock for \$10,000,000 subsequent to year end.

EEG, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2017, 2016, and 2015

10. Commitments

The Company leases buildings for its school operations, administrative offices, and a storage area under noncancellable operating leases expiring in various years through June 2030. Rent expense was \$12,774,153, \$13,105,468, and \$14,811,929 for the years ended June 30, 2017, 2016, and 2015, respectively.

Minimum future rental payments over the primary terms of the Company's leases as of June 30, 2017, for each of the next five years and in aggregate are:

Years ending June 30:

2018	\$ 13,420,008
2019	11,221,814
2020	7,700,105
2021	4,928,048
2022	3,436,853
Thereafter	6,904,713
Total minimum future rental payments	<u>\$ 47,611,541</u>

11. School Closing Charges and Severance Costs

EEG closed one school at the end of its lease term during the fiscal year ending June 30, 2017.

EEG closed 12 schools during the fiscal year ended June 30, 2016. Nine of the school closures were in advance of the lease end dates and EEG recorded future rental obligations, net of future sublease revenues, totaling \$2,142,533 related to these school closings. These charges are reported in the Statement of Operations as Operating Expenses in the Cost of educational services value. At June 30, 2016, the accrued liability of the net future lease costs, reported under the balance sheet caption of Deferred Rents, had a carrying value of \$1,812,011 for these school closings. Severance costs related to these school closings totaled \$317,812 and are reported in the Statement of Operations as Operating Expenses in the Cost of educational services value.

EEG closed 12 schools during the fiscal year ended June 30, 2015. Nine of the school closures were in advance of the lease end dates and EEG recorded future rental obligations, net of future sublease revenues, totaling \$3,217,347 related to these school closings. These charges are reported in the Statement of Operations as Operating Expenses in the Cost of educational services value. At June 30, 2015, the accrued liability of the net future lease costs, reported under the balance sheet caption of Deferred Rents, had a carrying value of \$2,634,351. Severance costs related to these school closings totaled \$515,020 and are reported in the Statement of Operations as Operating Expenses in the Cost of educational services value.

EEG, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2017, 2016, and 2015

12. Related Party Transactions

There were no purchases of supplies or payments of interest to Regis for the years ended June 30, 2017, 2016 or 2015. There is no amount due to or from Regis at June 30, 2017, or 2016.

The Company is also affiliated with Schoeneman Realty Company (a Partnership) because of common ownership and control.

The Company recognized interest expense of \$629,359, \$652,155, and \$589,463 under a capital lease arrangement with Schoeneman Realty Company for the years ended June 30, 2017, 2016 and 2015, respectively (Note 5). Principal payments on this lease amounted to \$260,183, \$237,559 and \$244,149 for the years ended June 30, 2017, 2016, and 2015, respectively. Interest expense accrued related to the capital lease was \$51,524, \$53,504, and \$55,312 as of June 30, 2017, 2016, and 2015, respectively. This is included in accrued expenses.

13. Contingencies

The Company has been named in a class action complaint to stop its practice of making unsolicited autodialed telephone calls to cellular telephones of consumers nationwide without the proper consent. While Management believes the Company will successfully defend itself in this lawsuit, the ultimate outcome and legal costs to defend the Company are undeterminable at this time. As such, no accrual has been recognized in the accompanying consolidated financial statements.

The Company has, from time to time, been involved in routine litigation incidental to the conduct of business. The Company does not believe there are any other existing litigation matters which could have a material adverse effect on the Company's financial condition.

The Company participates in Government Student Financial Assistance Programs ("Title IV") administered by the U.S. Department of Education ("ED") for the payment of student tuitions. Substantial portions of revenue and collection of accounts receivables as of June 30, 2017, 2016 and 2015 are dependent upon the Company's continued participation in the Title IV programs.

Schools participating in Title IV programs are also required by ED to demonstrate financial responsibility. ED determines a school's financial responsibility through the calculation of a composite score based upon certain financial ratios as defined in regulations. Schools receiving a composite score of 1.5 or greater are considered fully financially responsible. Schools receiving a composite score between 1.0 and 1.5 are subject to additional monitoring and schools receiving a score below 1.0 are required to submit financial guarantees in order to continue participation in the Title IV programs. As of June 30, 2017 and 2016, the Company's composite score exceeded 1.5.

On July 20, 2017 the Company was issued a late fee assessment from the National Accrediting Commission of Career Arts and Sciences ("NACCAS"). This late fee assessment is a result of what NACCAS has characterized as a failure by the Company, to meet an alleged duty to notify NACCAS, in a timely manner, of an apparent non-substantive change in the distribution of shares of the Company's stock. The Company will submit a Petition for Variance Form to NACCAS, management believes that it is probable that the assessment will be abated and as such no accruals have been recognized in the accompanying consolidated financial statements.

EEG, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2017, 2016, and 2015

14. Concentrations of Credit Risk

A material amount of the Company's revenue is derived from student tuition which has been funded or guaranteed by federal or state governments. A change in government funding under the Higher Education Act could have a significant impact on the Company's revenues.

The Company maintains its cash accounts in various commercial banks. Accounts are insured by the Federal Deposit Insurance Corporation to \$250,000.

15. Stock Options

On July 1, 2008, three executives were granted stock options for the purchase of 10 shares under the EEG, Inc. 2008 Non-Qualified Stock Option Plan. These options were granted in replacement of vested options under the Empire Beauty School, Inc. 2003 - 2004 Fiscal Year Stock Options Plan. Empire Beauty School, Inc. was a predecessor to the Company. The options were fully vested on July 1, 2008, and were exercised on September 30, 2013.

On July 1, 2008, four executives were granted stock options under the EEG, Inc. 2008 Non-Qualified Stock Option Plan for the purchase of 50 shares of common stock. These options are fully vested but could not be exercised prior to August 14, 2014, except under limited conditions as specified in the plan. These options expire on March 20, 2018.

The estimated fair value of options granted has been determined as of the date of grant using the Black-Scholes option pricing model. Expected volatility was determined using a publicly traded education segment index. The expected term of the options represented the estimated duration until exercise date. The risk-free rate in the model was 4.6%.

Option activity as June 30, 2017, was as follows:

	Number of Shares	Exercise Price (per share)	Remaining Contractual Life (per share)
Outstanding, June 30, 2016	20	\$ 129,400	1.75
No activity	—	—	—
Total Outstanding, June 30, 2017	20	\$ 129,400	0.75
Weighted Average fair value of options granted:			\$55,929
Option Price Range (Fair Value):			\$45,233 - \$109,408

Equity compensation costs for the years ended June 30, 2017, 2016, and 2015 were \$-0-, \$-0- and \$30,981 respectively.

EEG, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2017, 2016, and 2015

16. Fair Value of Financial Instruments

The carrying amount and estimated fair value of the Company's financial instruments are as follows at June 30:

	2017		2016	
	Carrying Value	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash, cash equivalents, and restricted cash	\$ 26,845,827	\$ 26,845,827	\$ 41,113,876	\$ 41,113,876
Accounts receivable, net	2,718,568	2,718,568	2,667,073	2,667,073
Accounts receivable, affiliates	14,377	N/A	17,992	N/A
Liabilities:				
Long-term debt - other	—	—	15,142,677	15,142,677
Accounts payable, trade	1,591,499	1,591,499	1,618,751	1,618,751
Deferred rent	1,771,162	1,771,162	2,900,839	2,900,839

Fair values were determined as follows:

- Cash, cash equivalents, and restricted cash; accounts receivable, net; and accounts payable, trade - the carrying amounts approximate fair value because of the short-term maturity of these instruments and they are considered level 2 inputs under Fair Value Measurements.
- Accounts receivable, affiliate; accounts payable, and affiliates; - estimating the fair value of these instruments is not practicable because the terms of these transactions would not necessarily be duplicated in the market.
- Long-term debt, other - the carrying amounts of long-term debt, other approximate fair value based on borrowing rates available to the Company for debt with similar terms and they are considered level 2 inputs under Fair Value Measurements.
- Deferred rent - the values are a component of Deferred Rent liability which represents the carrying value and estimated fair value of the future rent liabilities associated with school closings in advance of lease terminations. These values have been determined via discounted cash flow models and are classified as level 3 Fair Value Measurements.

EEG, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
June 30, 2017, 2016, and 2015

17. Fair Value Measurements

EEG is required to measure certain assets such as Intangibles, not subject to amortization and Long-lived assets with carrying values which may be in excess of their implied fair value or not fully recoverable based upon estimated future cash flows on a non-recurring basis.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability between a willing buyer and seller in an orderly transaction. Accounting guidance specifies a fair value hierarchy for estimates of fair value with observable inputs at the highest level, and unobservable inputs at the lowest.

Fair value measurement classifications are as follows:

Level 1 - Quoted prices for identical items in active markets

Level 2 - Quoted prices for similar items in active markets; quoted prices for similar or identical items in non-active markets; and valuations derived by models in which all significant value assumptions are observable in active markets.

Level 3 -Valuations derived by models where one or more material assumptions are unobservable in an active market.

Asset groups containing values measured, and presented on a non-recurring fair value basis at June 30, 2017, are as follows:

Description	Value	Level 3	Impairment
Long-lived assets ⁽¹⁾	\$ —	\$ —	\$ 877,088
Deferred rent ⁽²⁾	\$ 1,771,162	\$ 1,771,162	N/A

(1) Long-lived assets with a carrying amount of \$877,088 were written down to their implied fair values resulting in an impairment charge of \$877,088 (Note 1).

(2) The fair value estimate of future rent obligations of school sites closed in advance of lease terminations were determined under discounted cash flow models and are included as a component of Deferred Rent liability (Note 12).

Asset groups containing values measured, and presented on a non-recurring fair value basis at June 30, 2016, are as follows:

Description	Value	Level 3	Impairment
Long-lived assets ⁽¹⁾	\$ —	\$ —	\$ 91,258
Deferred rent ⁽²⁾	\$ 2,900,839	\$ 2,900,839	N/A

(1) Long-lived assets with a carrying amount of \$91,258 were written down to their implied fair values resulting in an impairment charge of \$91,258 (Note 1).

(2) The fair value estimate of future rent obligations of school sites closed in advance of lease terminations were determined under discounted cash flow models and are included as a component of Deferred Rent liability (Note 12).

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held October 17, 2017

TO THE SHAREHOLDERS OF REGIS CORPORATION:

The Annual Meeting of the Shareholders (the “Annual Meeting”) of Regis Corporation (referred to as “we,” “us,” “our,” “Regis” and the “Company”) will be held at our executive offices located at 7201 Metro Boulevard, Edina, Minnesota 55439, on October 17, 2017 commencing at 9:00 a.m., for the following purposes:

1. To elect the seven directors listed in the proxy statement to serve for a one-year term and until their successors are elected and qualified;
2. To approve, on an advisory basis, the compensation of our named executive officers (referred to as the “Say-on-Pay” proposal);
3. To approve, on an advisory basis, the frequency of future advisory votes on executive compensation (referred to as the “Say-on-Frequency” proposal);
4. To ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for fiscal 2018; and
5. To transact such other business, if any, as may properly come before the Annual Meeting or any adjournment or postponement thereof.

Only holders of record of our common stock at the close of business on August 23, 2017 are entitled to notice of and to vote at the Annual Meeting or any adjournment or postponement thereof.

Whether or not you plan to attend the Annual Meeting in person, please submit your proxy by telephone or through the Internet in accordance with the voting instructions provided to you. If you requested a paper copy of the proxy card by mail, you may also date, sign and mail the proxy card in the postage-paid envelope that is provided with your proxy card. Should you nevertheless attend the Annual Meeting, you may revoke your proxy and vote in person.

If your shares are held in the name of a bank, broker or other holder of record, you will receive instructions from the record holder that you must follow in order for your shares to be voted. If you plan to attend the Annual Meeting and hold shares in your name, please be prepared to provide proper identification, such as a driver’s license. If you hold your shares through a bank or broker, you will need proof of ownership, such as a recent account statement or letter from your bank or broker, along with proper identification in order to attend the Annual Meeting. If you hold your shares through a bank or broker and intend to vote your shares at the Annual Meeting, you will need to provide a legal proxy from your broker.

By Order of the Board of Directors



Eric A. Bakken
Secretary

September 6, 2017

REGIS CORPORATION

PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS, OCTOBER 17, 2017

This Proxy Statement is furnished to shareholders of REGIS CORPORATION, a Minnesota corporation (the “Company”), in connection with the solicitation on behalf of our Board of Directors (the “Board”) of proxies for use at the annual meeting of shareholders to be held on October 17, 2017 (the “Annual Meeting”), and at any adjournment or postponement thereof, for the purposes set forth in the accompanying Notice of Annual Meeting of Shareholders.

The address of our principal executive office is 7201 Metro Boulevard, Edina, Minnesota 55439.

Availability of Proxy Materials

As permitted by rules adopted by the Securities and Exchange Commission (“SEC”), we are making our proxy materials, which include our Notice and Proxy Statement and Annual Report on Form 10-K, available to our shareholders over the Internet. We believe that this e-proxy process expedites our shareholders’ receipt of proxy materials and lowers the costs and reduces the environmental impact of the Annual Meeting. In accordance with such SEC rules, we will send shareholders of record as of the close of business on August 23, 2017 a Notice of Internet Availability of Proxy Materials (the “Notice”), which mailing will commence on or about September 6, 2017. The Notice contains instructions on how shareholders can access our proxy materials and vote their shares over the Internet. If you would like to receive a printed copy of our proxy materials from us instead of downloading them from the Internet, please follow the instructions for requesting such materials included in the Notice.

Solicitation and Revocation of Proxies

In addition to the use of the mails, proxies may be solicited personally or by mail, telephone, fax, email, Internet or other electronic means by our directors, officers and regular employees who will not be additionally compensated for any such services. Proxies may also be solicited by means of press releases and other public statements.

We will pay all solicitation expenses in connection with the Notice and this Proxy Statement and any related proxy soliciting material of the Board, including the expense of preparing, printing, assembling and mailing such material.

Proxies to vote at the Annual Meeting are solicited on behalf of the Board. Any shareholder giving a proxy may revoke it at any time before it is exercised by attending the Annual Meeting and revoking it or by providing written notice of revocation or by submitting another proxy bearing a later date to our Secretary at the address set forth above. Such proxies, if received in time for voting and not revoked, will be voted at the Annual Meeting in accordance with the specifications indicated thereon.

If You Hold Your Shares in “Street Name”

If you hold your shares in “street name,” i.e., through a bank, broker or other holder of record (a “custodian”), your custodian is required to vote your shares on your behalf in accordance with your instructions. If you do not give instructions to your custodian, your custodian will not be permitted to vote your shares with respect to “non-discretionary” items, such as the election of directors, the Say-on-Pay proposal and the Say-on-Pay Frequency proposal. Accordingly, we urge you to promptly give instructions to your custodian to vote on these matters by following the instructions provided to you by your custodian. Please note that if you intend to vote your street name shares in person at the Annual Meeting, you must provide a “legal proxy” from your custodian at the Annual Meeting.

VOTING RIGHTS AND REQUIREMENTS

Only shareholders of record as of the close of business on August 23, 2017 will be entitled to sign proxies or to vote. On that date, there were 46,407,575 shares issued, outstanding and entitled to vote. Each share of common stock is entitled to one vote. A majority of the outstanding shares present in person or by proxy at the Annual Meeting is required to transact business, and constitutes a quorum for voting on items at the Annual Meeting. If you vote, your shares will be part of the quorum. Abstentions and broker non-votes will be counted as being present at the Annual Meeting in determining the quorum, but neither will be counted as a vote in favor of a matter. A “broker non-vote” is a proxy submitted by a bank, broker or other custodian that does not indicate a vote for some of the proposals because the broker does not have or does not exercise discretionary voting authority on certain types of proposals and has not received instructions from its client as to how to vote on those proposals.

Vote Required

The table below summarizes the proposals that will be voted on, the vote required to approve each item, voting options, how votes are counted and how the Board recommends you vote:

Proposal	Vote Required	Voting Options	Board Recommendation(1)	Broker Discretionary Voting Allowed(2)	Impact of Abstention
<u>Item 1:</u> Election of the seven director nominees listed in this Proxy Statement	Majority of votes cast “FOR” must exceed “AGAINST” votes(3)	“FOR” “AGAINST” “ABSTAIN”	“FOR”	No	None
<u>Item 2:</u> Advisory “Say-on-Pay” vote	Majority of votes cast “FOR” must exceed “AGAINST” votes(4)	“FOR” “AGAINST” “ABSTAIN”	“FOR”	No	None
<u>Item 3:</u> Advisory “Say-on-Pay Frequency” vote	Highest number of votes of the frequency alternatives presented(4)	“1 YEAR” “2 YEARS” “3 YEARS” “ABSTAIN”	“1 YEAR”	No	None
<u>Item 4:</u> Ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2018	Majority of votes present in person or by proxy and entitled to vote on this item of business or, if greater, the vote required is a majority of the voting power of the minimum number of shares entitled to vote that would constitute a quorum at the Annual Meeting	“FOR” “AGAINST” “ABSTAIN”	“FOR”	Yes	“AGAINST”

- (1) If you are a registered holder and you sign and submit your proxy card without indicating your voting instructions, your shares will be voted in accordance with the Board’s recommendation.
- (2) A broker non-vote will not count as a vote for or against a director or the Say-on-Pay vote, or for any of the frequency alternatives on the Say-on-Pay Frequency proposal. For Item 4, a broker non-vote will have no effect unless a majority of the voting power of the minimum number of shares entitled to vote that would constitute a quorum at the Annual Meeting is required in order to approve the item, then a broker non-vote will have the same effect as a vote “AGAINST.”
- (3) In an uncontested election of directors at which a quorum is present, if any nominee for director receives a greater number of votes “AGAINST” his or her election than votes “FOR” such election, our Corporate Governance Guidelines require that such person must promptly tender his or her resignation to the Board following certification of the shareholder vote. Our Corporate Governance Guidelines further provide that the Nominating and Corporate Governance Committee will then consider the tendered resignation and make a recommendation to the Board as to whether to accept or reject the tendered resignation. The Board will act on the tendered resignation, taking into account the Nominating and Corporate Governance Committee’s recommendation, and publicly disclose its decision regarding

the tendered resignation and the rationale behind the decision within 90 days from the date of the election. The nominee who tendered his or her resignation will not participate in the Board decisions. Cumulative voting in the election of directors is not permitted.

- (4) The advisory Say-on-Pay and Say-on-Pay Frequency votes are not binding on us; however, we will consider the shareholders to have approved the compensation of our named executive officers if the number of votes cast “FOR” the proposal exceeds the number of shares voted “AGAINST” the proposal, and we will consider the shareholders to have selected the frequency for future advisory Say-on-Pay votes that receives the highest number of votes among the frequency alternatives presented.

ITEM 1 **ELECTION OF DIRECTORS**

Seven directors are to be elected at the Annual Meeting, each to hold office for one year until the 2018 annual meeting of shareholders and until their successors are elected and qualified. Based upon the recommendation of the Nominating and Corporate Governance Committee, the Board has nominated the seven persons named below for election as directors. Each of the Board's nominees are currently directors of Regis, and each nominee has consented to serve if elected. Stephen E. Watson, who has served a director for nine years, is not standing for re-election at the Annual Meeting.

Unless authority to vote is withheld, proxies submitted will be voted for the election of the Board's nominees named herein as directors of Regis. If for any reason a nominee becomes unable to serve or for good cause will not serve if elected, the Nominating and Corporate Governance Committee may designate substitute nominees, in which event the shares represented by proxies returned to us will be voted for such substitute nominees. If the Nominating and Corporate Governance Committee designates any substitute nominees, we will file an amended proxy statement that, as applicable, identifies the substitute nominees, discloses that such nominees have consented to being named in the revised proxy statement and to serve if elected, and includes certain biographical and other information about such nominees required by SEC rules. The director nominees are:

	Age	Director Since	Independent Director/Nominee
Daniel G. Beltzman	42	2012	✓
David J. Grissen	60	2013	✓
Mark S. Light	55	2013	✓
Michael J. Merriman	61	2011	✓
M. Ann Rhoades	72	2015	✓
Hugh E. Sawyer III	63	2017	
David P. Williams	56	2011	✓ Chair

	Principal Position	Other Public Company Directorships
Daniel G. Beltzman	General Partner, Birch Run Capital Advisors, LP	Walter Investment Management Corp. (since December 2015)

Mr. Beltzman founded Birch Run Capital Advisors, LP ("Birch Run"), a financial investment advisory firm, and has served as its General Partner since May 2006. Prior to managing investments, Mr. Beltzman worked at both Deutsche Bank Securities, Inc. and Bank of America Securities, LLC focusing on equity research and mergers and acquisitions. Thereafter, he founded an entrepreneurial venture that provided services to help European builders more efficiently manage their supply chains. Mr. Beltzman also worked with a boutique investment firm that specializes in joint venture equity and mezzanine debt for real estate ventures. Mr. Beltzman has spent the last fourteen years as an investor and manager of Birch Run and its predecessors, during which time he has studied the business models of many public companies, and developed a specific expertise in capital allocation.

Mr. Beltzman's financial experience and expertise, as well as his perspective as a significant shareholder of the Company, contribute valuable insights to the Board.

	Principal Position	Other Public Company Directorships
David J. Grissen	Group President of Marriott International, Inc.	-

Mr. Grissen has served as Group President of Marriott International, Inc., a global operator of hotels and related lodging facilities, since 2013. During his 30 years of experience with Marriott, he has held various positions, including Group President, Americas; President, Americas; Executive Vice President of the Eastern Region; Senior Vice President of the Mid-Atlantic Region and Senior Vice President of Finance and Business Development. He has had responsibility for the financial management and leadership of all the Americas' lodging operations, comprising more than 4,700 hotels and a work force of 160,000 associates, including responsibility for sales and marketing, revenue management, human resources, engineering, room operations, food and beverage/retail/spa, information resources and development. Mr. Grissen was a director of Good Times Restaurants Inc. from 2005 to 2010.

Mr. Grissen's experience leading a complex service organization that includes both franchised and owned operations contributes valuable perspectives to the Board. The Board believes that Mr. Grissen's experience building marketing platforms

for multiple portfolio brands, and his experience in acquisitions and integration, help him guide the Company as it focuses on improving the guest experience through each of its brands.

	Principal Position	Other Public Company Directorships
Mark S. Light	Retired Executive	-

Mr. Light served as Chief Executive Officer of Signet Jewelers Limited, the world's largest retailer of diamond jewelry, until his retirement in July 2017. Signet operates approximately 3,000 stores primarily under the name brands of Kay Jewelers, Zales, Jared The Galleria Of Jewelry, H.Samuel, Ernest Jones, Peoples and Piercing Pagoda. Mr. Light started in Signet's US Division, Sterling Jewelers Inc., as a sales associate 39 years ago, progressed through various management positions, and served as Signet Chief Executive Officer from November 2014 to July 2017, as well as a member of its board of directors.

Mr. Light brings his experience with a company having a business model similar to the Company's, which is focused on customer loyalty and a high performing field sales group, to assist the Board in its efforts to improve the salon experience and the Company's operational performance.

	Principal Position	Other Public Company Directorships
Michael J. Merriman	Operating Advisor, Resilience Capital Partners, LLC	Nordson Corporation (since 2008) (Audit Committee Chair) OMNOVA Solutions Inc. (since 2008) (Nominating and Corporate Governance Committee Chair) Invacare Corporation (since May 2014) (Audit Committee Chair)

Mr. Merriman joined Resilience Capital Partners, LLC, a private equity firm, in 2008. From November 2006 until its sale in November 2007, Mr. Merriman served as Chief Executive Officer of The Lamson & Sessions Co., a publicly held manufacturer of thermoplastic conduit, fittings and electrical switch and outlet boxes. Prior to joining Lamson & Sessions, Mr. Merriman served as the Senior Vice President and Chief Financial Officer of American Greetings Corporation, a publicly held creator and manufacturer of innovative social expression products, from September 2005 until November 2006. He served as the President and Chief Executive Officer of Royal Appliance Mfg. Co., a publicly held manufacturer and marketer of Dirt Devil vacuum cleaners, from 1995 until April 2004, was its Chief Financial Officer from 1992 to 1995 and served on the board of directors from 1993 to 2004. In addition to his current directorships listed above, Mr. Merriman served as a director of American Greetings Corporation from 2006 until it went private in August 2013 and as a director of RC2 Corporation, a publicly held manufacturer of pre-school toys and infant products, from 2004 until its sale in April 2011.

Mr. Merriman brings to the Board his financial acumen, his significant public accounting experience, his experience as a chief executive officer of other publicly traded companies, his service on boards of directors of other publicly traded companies and his retail experience. Mr. Merriman has significant finance, financial reporting and accounting expertise and was formerly a certified public accountant with Arthur Andersen & Co., which provides the Board with valuable expertise. In addition, the Board believes that his wide range of management experience at various public companies allows him to provide valuable insight into the Company's operations as well as its interactions with investors and financial analysts.

	Principal Position	Other Public Company Directorships
M. Ann Rhoades	President, People Ink	-

Ms. Rhoades has served as the President of People Ink, Inc., a human resources consulting firm, since its inception in 1999. From 1999 through 2002, Ms. Rhoades served as JetBlue's Executive Vice President, People. From 1995 to 1999, Ms. Rhoades was the Executive Vice President, Team Services for Promus Hotel/DoubleTree Hotels Corporation. From 1989 to 1995, Ms. Rhoades was the Vice President, People for Southwest Airlines. Ms. Rhoades has served as a director of JetBlue Airways (2001 to May 2015), Restoration Hardware, Inc. (1999 to 2001 and 2005 to 2009), and P.F. Chang's China Bistro, Inc. (2003 to 2012). Ms. Rhoades serves on the boards of the University of New Mexico Alumni Association, New Mexico Appleseed, Safer New Mexico Now and Nexphase Capital, a private equity firm.

Ms. Rhoades brings to our Board her deep experience as a leader and director in a variety of consumer-facing public companies. The Board believes her particular expertise in human resources helps us in our mission to make Regis the place where stylists can have successful and satisfying careers, which will drive great guest experiences and in turn, guests for life.

	Principal Position	Other Public Company Directorships
Hugh E. Sawyer	President and Chief Executive Officer, Regis Corporation	-

Mr. Sawyer has served as President and Chief Executive Officer of Regis, as well as a director, since April 2017. Mr. Sawyer was previously a Managing Director of Huron Consulting Group Inc. ("Huron"), a management consulting firm, beginning in January 2010, and led the Operational Improvement Service Line for Huron's Business Advisory Practice. He has more than 35 years of experience leading operational improvements, turnarounds, mergers and acquisitions and strategic transformations for both public and private companies across a diverse group of industries. While at Huron, he served as Interim President and CEO of JHT Holdings, Inc., a provider of specialized transportation and logistics services, from January 2010 to March 2012; as the Chief Administrative Officer of Fisker Automotive Inc. (now known as Fisker Inc.), a manufacturer of hybrid electric vehicles, from January 2013 to March 2013 and as Chief Restructuring Officer of Fisker Automotive from March 2013 to October 2013; and as Interim President of Euramax International, Inc., a global manufacturer of building products, from February 2014 to August 2015. Including Regis, he has served as the president or chief executive officer of nine companies, including Wells Fargo Armored Service Corporation, The Cunningham Group, Inc., National Linen Service, Inc., Aegis Communications Group, Inc., Allied Holdings, Inc., and Legendary Holdings, Inc. Mr. Sawyer has also served as a director of numerous public and private companies, including Energy Future Competitive Holdings Company LLC and Texas Competitive Electric Holdings Company LLC from 2013 to October 2016, and Edison Mission Energy from July 2012 to April 2014 and thereafter on the Board of Managing Trustees of the EME Reorganization Trust until December 2016.

The Board believes that Mr. Sawyer should continue to serve as a director because as Chief Executive Officer of the Company, he shares responsibility with the Board for guiding the direction of the Company, and he has a deep understanding of the Company's operations, strategy, results of operations and financial condition, as well as issues affecting the Company's industry. Mr. Sawyer's extensive experience leading operational improvements in other companies also enables him to provide important insights to the Board related to the Company's strategy.

	Principal Position	Other Public Company Directorships
David P. Williams	Executive Vice President and Chief Financial Officer, Chemed Corporation	-

Chemed Corporation is a provider, through its subsidiaries, of hospice care and repair and maintenance services, and Mr. Williams has served as its Chief Financial Officer since February 2004. From 1998 until 2004, Mr. Williams was the Senior Vice President and Chief Financial Officer of Chemed's Roto-Rooter Group subsidiary, a leading provider of commercial and residential plumbing and drain cleaning services. Prior to that, Mr. Williams was the Chief Financial Officer of Chemed's Omnia Group subsidiary, a manufacturer of disposable healthcare products, and prior to that was Senior Vice President and Chief Financial Officer of Omnicare's Veratex Group, a national distributor of disposable medical, dental and pharmaceutical products. Prior to joining Chemed, Mr. Williams was with Price Waterhouse in its Comprehensive Professional Services Group.

Mr. Williams' depth of experience in various senior executive roles of public and private companies and his significant accounting and financial expertise enable him to provide meaningful contributions to the oversight of financial and accounting matters at the Company, and qualify him as an audit committee financial expert.

The Board unanimously recommends that you vote FOR the election of each of the director nominees.

CORPORATE GOVERNANCE

The Board believes that good corporate governance is paramount to ensure that we are managed for the long-term benefit of our shareholders. As part of our ongoing efforts to constantly improve corporate governance, the Board and management have undertaken a number of initiatives to improve our corporate governance policies and practices over recent years. Below is a summary of the key corporate governance practices in effect at Regis:

Corporate Governance Practices

Corporate Governance Practice	Regis Policy
Board Independence and Leadership	All of our directors, other than our President and Chief Executive Officer, are independent, and we have an independent Chair of the Board.
Board Refreshment and Shareholder Insight	All of our nominees joined the Board at or after the 2011 annual meeting of shareholders, and three of them were identified as candidates by, or in coordination with, our shareholders. Mr. Watson, who has served on our Board since 2008, is not standing for re-election.
Annual Election of Directors	All of our directors have one-year terms and stand for election each year.
Majority Voting Standard	Our Board and shareholders have adopted a majority voting standard for the election of directors. Our Corporate Governance Guidelines also require incumbent directors who do not receive a majority vote to tender their resignation to the Board.
10% Threshold for Special Meetings	Shareholders holding 10% or more of our outstanding stock have the right to call a special meeting of shareholders.
Related Party Transactions	Our Board has adopted a Related Party Transaction Approval Policy requiring approval of all related party transactions where the amount involved exceeds \$10,000 for the fiscal year. We did not have any related party transactions during fiscal 2017.
Director Stock Ownership	Under our Corporate Governance Guidelines, our directors are required to hold all common stock received as part of their compensation for service as a director until he or she ceases to be a member of the Board. All of our directors own stock in the Company.
Executive Compensation Best Practices	<p>Our key fiscal 2017 compensation practices and policies are described below in more detail under "<i>Executive Compensation — Compensation Discussion and Analysis</i>" (the "CD&A"), including:</p> <ul style="list-style-type: none"> - Focus on performance-based incentives; - Meaningful stock ownership guidelines for executives; - Independent compensation consultant; - Annual say-on-pay vote; - Prohibition on repricing without shareholder approval; - Clawback policy applicable to all executive officers; and - Prohibition on hedging and restrictions on pledging transactions.

Shareholder Outreach	We have engaged with our shareholders and based on the feedback we received, have adopted executive compensation and governance changes, including those detailed under " <i>Executive Summary — Recent Compensation Program Changes Incorporate Shareholder Feedback</i> " below.
Shareholder Rights Plan	Our shareholder rights plan (sometimes called a “poison pill”) expired by its terms in December 2016 and was not renewed.

Shareholders and other interested persons may view our Corporate Governance Guidelines on our website at www.regiscorp.com. This information is also available in printed form free of charge to any shareholder who requests it by writing to our Corporate Secretary at Regis Corporation, 7201 Metro Boulevard, Edina, Minnesota 55439.

Code of Business Conduct and Ethics

The Board has adopted a Code of Business Conduct and Ethics (the “Code of Ethics”) that applies to all of our employees, directors and officers, including our President and Chief Executive Officer, Chief Financial Officer, principal accounting officer or controller and other senior financial officers. The Code of Ethics, as applied to our principal financial officers, constitutes our “code of ethics” within the meaning of Section 406 of the Sarbanes-Oxley Act and is our “code of business conduct and ethics” within the meaning of the listing standards of the New York Stock Exchange (“NYSE”). The Code of Ethics is posted on our website at www.regiscorp.com. You may request copies, which will be provided free of charge, by writing to our Corporate Secretary, Regis Corporation, 7201 Metro Boulevard, Edina, Minnesota 55439. We intend to promptly disclose future amendments to certain provisions of our Code of Ethics, and any waivers of provisions of the Code of Ethics that are required to be disclosed under the rules of the SEC or under the listing standards of the NYSE, at the same location on our website.

Director Orientation and Continuing Education

Our Nominating and Corporate Governance Committee and the Board oversee the orientation and continuing education of our directors.

Director Independence

With the adoption of our Corporate Governance Guidelines, the Board established independence standards in accordance with the requirements of the NYSE corporate governance rules. To be considered independent under the NYSE rules, the Board must affirmatively determine that a director or director nominee does not have a material relationship with us (directly, or as a partner, shareholder or officer of an organization that has a relationship with us). In addition, no director or director nominee may be deemed independent if the director or director nominee has in the past three years:

- Received (or whose immediate family member has received) more than \$120,000 per year in direct compensation from us, other than director or committee fees;
- Been an employee of ours;
- Had an immediate family member who was an executive officer of ours;
- Been (or whose immediate family member has been) an affiliate or employee of a present or former internal or independent auditor of ours;
- Been (or whose immediate family member has been) employed as an executive officer of another company whose compensation committee within the past three years has included a present executive officer of ours; or
- Is currently an employee or executive officer (or has an immediate family member who is an executive officer) of another company that makes payments to us, or receives payments from us, for property or services in an amount that, in any single fiscal year, exceeds the greater of \$1.0 million or 2% of such other company’s consolidated gross revenues.

Under our director independence standards described above, the Board has determined that each director and director nominee, with the exception of Mr. Sawyer, our President and Chief Executive Officer, is independent. The Board determined that the independence of Mr. Williams, Chief Financial Officer of the parent company of Roto-Rooter, and Mr. Grissen, Group President of Marriott International, Inc., is not impaired by the fact that the Company pays Roto-Rooter and Marriott for plumbing and hotel services, respectively. Accordingly, a supermajority of the Board is independent.

Communications with the Board

Shareholders and other interested parties who wish to contact the Board, any individual director or the non-management or independent directors as a group, are welcome to do so by writing to our Corporate Secretary at the following address: Regis Corporation, 7201 Metro Boulevard, Edina, Minnesota 55439.

Comments or questions regarding our accounting, internal controls or auditing matters will be referred to members of the Audit Committee. Comments or questions regarding the nomination of directors and other corporate governance matters will be referred to members of the Nominating and Corporate Governance Committee.

Executive Sessions of Non-Management and Independent Directors

In order to promote open discussion among non-management directors, the Board has implemented a policy of conducting executive sessions of non-management directors in connection with each regularly scheduled Board meeting. Shareholders may communicate with the non-management directors as a group by following the procedures described above under “*Communications with the Board.*”

The independent Chair of the Board presides over executive sessions of the independent and non-management directors. Shareholders may communicate with the presiding director or the independent and non-management directors as a group by following the procedures described above under “*Communications with the Board.*”

Committees of the Board

The Board has three standing committees: the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. The composition of these committees at fiscal year-end is set forth below.

	Audit	Compensation	Nominating and Corporate Governance
Daniel G. Beltzman		✓	✓
David J. Grissen	✓ ACFE		✓ Chair
Mark S. Light	✓	✓	
Michael J. Merriman		✓ Chair	✓
M. Ann Rhoades	✓	✓	
Hugh E. Sawyer			
Stephen E. Watson		✓	✓
David P. Williams	✓ Chair, ACFE		✓
ACFE denotes Audit Committee Financial Expert			

	Audit	Compensation	Nominating and Corporate Governance
Meetings during fiscal 2017	4	5	4

The Board has determined that all members of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee qualify as independent directors as defined under the NYSE corporate governance rules.

The charters of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee may be viewed on our website at www.regiscorp.com under “Corporate Governance” on the “Investor Information” page. The charters are also available in printed form free of charge to any shareholder who requests them by writing to our Corporate Secretary at 7201 Metro Boulevard, Edina, Minnesota 55439. The charters include information regarding the committees’ composition, purpose and responsibilities.

Audit Committee

The Audit Committee assists the Board in discharging its oversight responsibility to the shareholders and investment community regarding: (i) the integrity of our financial statements and financial reporting processes; (ii) our internal accounting systems and financial and operational controls; (iii) our audit, accounting and financial reporting processes; (iv) the engagement, qualifications and independence of the independent auditor; (v) the performance of our internal audit activities; and (vi) compliance with our ethics programs, including the Code of Ethics, our whistle-blower policy and legal and regulatory requirements.

In carrying out these duties, the Audit Committee maintains free and open communication between the Board, the independent auditor and our management. The Audit Committee meets with management and the independent auditor at least quarterly, generally prior to our earnings releases to discuss the results of the independent auditor's quarterly reviews and fiscal year-end audit.

The Board has determined that all members of the Audit Committee meet the NYSE definitions of independence and financial literacy for Audit Committee members. In addition, the Board has determined that each of Mr. Williams, Mr. Merriman and Mr. Grissen, all whom are independent directors, is an audit committee financial expert (ACFE) for purposes of the SEC rules and possesses accounting or related financial management expertise required by the NYSE. Members serving on the Audit Committee do not currently serve on the audit committees of more than three public companies.

Compensation Committee

The primary responsibilities of the Compensation Committee are to determine and approve, or make recommendations to the Board with respect to, the compensation and benefits packages of the executive officers; and to consider and recommend incentive compensation and equity-based plans. The Compensation Committee also reviews director compensation, oversees the evaluation of the CEO, and evaluates its own performance on an annual basis. Additional information about the responsibilities of the Compensation Committee is provided below under "*Executive Compensation—Compensation Discussion and Analysis*." The Board has determined that all members of the Compensation Committee also meet the NYSE definition of independence applicable to Compensation Committee members.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee discharges the Board's responsibilities related to general corporate governance, including Board organization, membership and evaluation. It monitors Board education and orientation of new directors, and manages the annual CEO evaluation. In addition, the Nominating and Corporate Governance Committee assists the Board in the development of and compliance with the Company's Corporate Governance Guidelines. It also reviews and resolves any director conflicts of interest and presents qualified individuals for election to the Board. Finally, this committee oversees the evaluation of the performance of the Board and each standing committee of the Board. For further information regarding our director nomination process, see "*Director Nomination Process*" below.

Board's Role in Risk Oversight

One of the key responsibilities of the Board is to develop a strategic direction for the Company and provide management oversight for the execution of that strategy. The Board regularly reviews information regarding our financial, strategic and operational issues, as well as the risks associated with each. While the Board has overall responsibility for risk management, each of the Board committees has supporting responsibility for risk management and makes periodic updates to the full Board. Their specific areas of responsibility are:

- The Audit Committee discusses and approves policies with respect to risk assessment and risk management. Throughout the year, its agendas include discussions of the Company's enterprise risk management program and top risks. The Audit Committee oversees the management of financial risks and monitors management's responsibility to identify, assess and manage risks.
- The Compensation Committee is responsible for overseeing our executive compensation programs and reviewing risks relating to our overall compensation plans and arrangements.
- The Nominating and Corporate Governance Committee manages risks associated with potential conflicts of interest pursuant to our Code of Ethics and reviews governance and compliance issues with a view to managing associated risks.

While each committee is responsible for regularly reviewing, evaluating and overseeing the management of such risks, the Board is regularly informed through committee reports about such risks. In addition, the Board and the committees receive regular reports from our Chief Financial Officer, General Counsel, Executive and Senior Vice Presidents and other Company officers and personnel with roles in managing risks. The Compensation Committee is also advised by its compensation consultant, which annually reviews the risk relating to the Company's compensation practices. Our leadership team regularly meets with our General Counsel and head of Internal Audit to discuss and evaluate risk management. Our General Counsel and head of Internal Audit then present their findings for a robust discussion with the Audit Committee and, when appropriate, the Board.

Board Leadership

Since fiscal 2012, our board leadership structure has had separate positions for the Chief Executive Officer and Chair of the Board. In October 2016, upon the recommendation of the Nominating and Corporate Governance Committee, the Board named David Williams as the new Chair. Mr. Williams is one of our independent directors, as was his predecessor as Chair, Stephen Watson. The Board believes that having an independent Chair is an appropriate governance practice to ensure independent Board leadership and is an appropriate leadership structure for our company at this time.

Board Meetings and Attendance

The Board held seven meetings during the fiscal year ended June 30, 2017. Each of the then-serving directors attended, in person or by teleconference, at least 75% of the meetings of both the Board and Board committees on which he or she served. Our Board does not have a formal policy relating to Board member attendance at annual meetings of shareholders; however, our directors are encouraged to attend the meeting each year. At the 2016 annual meeting of shareholders, all but one of the directors attended.

Director Nomination Process

The Nominating and Corporate Governance Committee is responsible for screening and recommending director candidates to the full Board for nomination. The Nominating and Corporate Governance Committee will consider nominations received from our shareholders, provided that proposed candidates meet the requisite director qualification standards discussed below. When appropriate, the Committee will also engage an independent third-party search firm. The Committee will then evaluate the resumes of any qualified candidates recommended by shareholders and search firms, as well as by members of the Board.

Generally, in order to be considered for nomination, a candidate must have:

- High professional and personal ethics and values;
- A strong record of significant leadership and meaningful accomplishments in his or her field;
- Broad experience;
- The ability to think strategically;
- Sufficient time to carry out the duties of Board membership; and
- A commitment to enhancing shareholder value and representing the interests of all shareholders.

Candidates are evaluated based on these qualification standards and the current needs of the Board, with due consideration of the requirement of our Corporate Governance Guidelines and NYSE and SEC regulations that at least a majority of the board consist of independent directors. In addition, when considering nominees to the Board and in evaluating the composition of the Board as a whole, the Nominating and Corporate Governance Committee considers the value of diversity. Although we do not have a specific policy on diversity, the Nominating and Corporate Governance Committee considers diversity of gender, race, national origin and executive or professional experience, including skills such as an understanding of the retail industry, the hair-care market, finance, accounting, marketing, technology and international experience, when considering nominees. The Company believes that the principal qualification of a prospective director is the ability to act effectively on behalf of all shareholders.

All shareholder nominations must be accompanied by a candidate resume that addresses the extent to which the nominee meets the director qualification standards. Nominations will be considered only if we are currently seeking to fill an open director position. All nominations by shareholders should be sent to the Chair of the Nominating and Corporate Governance Committee, c/o the Corporate Secretary, Regis Corporation, 7201 Metro Boulevard, Edina, Minnesota 55439.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This CD&A describes the basic objectives, principles, decisions and rationale underlying our compensation policies as well as the material elements of the compensation of our executive officers identified below (the “Named Executive Officers” or “NEOs”) for fiscal 2017:

Name	Title	Period of Employment
Hugh E. Sawyer III	President and Chief Executive Officer ("CEO")	April 2017 - present
Daniel J. Hanrahan	Former President and CEO	August 2012 - April 2017
Michael C. Pomeroy	Former Interim Chief Financial Officer	February 2017 - June 30, 2017
Steven M. Spiegel	Former Executive Vice President and Chief Financial Officer	December 2012 - September 2016
Eric A. Bakken	Executive Vice President, President - Franchise, General Counsel and Corporate Secretary, and Former Interim Chief Financial Officer (Sept. 2016 - Jan. 2017)	January 1994 - present
Jim B. Lain	Executive Vice President and Chief Operating Officer	November 2013 - present
Carmen D. Thiede	Former Senior Vice President, Chief Human Resources Officer	October 2013 - July 2017
Annette L. Miller	Senior Vice President, Chief Merchandising Officer	December 2014 - present
Heather L. Passe	Former Senior Vice President, Chief Marketing Officer	July 2012 - February 2017

Key executive team developments during fiscal 2017 that are relevant to this year's executive compensation outcomes are:

- Mr. Spiegel, our Chief Financial Officer, left the Company in September 2016.
- Ms. Passe's employment terminated on February 28, 2017.
- On April 17, 2017, the Board appointed Mr. Sawyer President and CEO of the Company, replacing Mr. Hanrahan.
- Mr. Bakken temporarily succeeded Mr. Spiegel, serving as Interim Chief Financial Officer from September 2016 to January 2017.
- From February 1, 2017 to June 30, 2017, Mr. Pomeroy served as Interim Chief Financial Officer, as a contracted service employee under the terms of an engagement letter between the Company and Huron Consulting Services, LLC, his employer ("Huron"). Mr. Pomeroy was paid directly by Huron. He was not eligible for our annual incentive or equity compensation and is excluded from the discussions in this CD&A of how the Compensation Committee sets executive compensation for its executive officers. The fees paid by the Company to Huron for Mr. Pomeroy's services are represented in the Summary Compensation Table under "All Other Compensation."
- Effective July 1, 2017, Mr. Andrew H. Lacko began to serve as our new Executive Vice President and Chief Financial Officer. Mr. Lacko's compensation is not included in the discussions of our executive pay for fiscal 2017, but will be included in next year's proxy statement relating to fiscal 2018.
- Ms. Thiede left the Company effective July 21, 2017.

This CD&A is organized into the following sections and should be read in conjunction with the detailed compensation tables beginning on page 33.

	Pages
Section 1: Executive summary. Provides an overview of our Company and our turnaround, changes to our executive leadership team over the fiscal year, context regarding fiscal 2017 compensation decisions that support our transformation, a summary of 2017 business performance and compensation outcomes, and our Compensation Committee's focus on responsiveness to our shareholders.	15-19
Section 2: How we design executive pay. Outlines our compensation philosophy, development and uses of the peer group and the roles of the Compensation Committee, compensation consultant and executive officers in the setting of the program.	20-22
Section 3: Elements of the executive compensation program in fiscal 2017. Details each element in our program this year, including applicable performance metrics.	22-29
Section 4: Governance policies and additional compensation-related items. Discusses the policies that support our compensation philosophy, including stock ownership guidelines and post-employment compensation policies, among other topics.	30-32

Section 1: Executive Summary

Our Business and Operating Environment

Regis Corporation is a leader in beauty salons and cosmetology education. The Company owns, franchises and operates beauty salons under trade names including Supercuts, SmartStyle, MasterCuts, Regis Salons, Sassoon Salon, Cost Cutters, Roosters and First Choice Haircutters. At June 30, 2017, we owned, franchised or held ownership interests in 9,008 salon locations, primarily in the U.S., Canada, Puerto Rico and the United Kingdom. We also maintain an ownership interest in Empire Education Group.

We operate in a highly competitive industry. In nearly every area in which we operate, there are competitors offering similar hair care services and products at similar prices. Many of our salons are located in strip center and mall-based locations, resulting in many salons being partly dependent on the volume of traffic around these locations in order to generate both service and product revenues. We have experienced a proliferation of alternative channels of distribution, like blow dry bars, booth rental facilities, discount brick-and-mortar and online professional products retailers, as well as manufacturers selling direct to consumers online. In some shopping malls, we have experienced declines in traffic due to changes in consumer preferences favoring retail locations other than malls or online shopping. These trends have each presented challenges to our business in recent years.

The Board hired Mr. Hanrahan as CEO in August 2012 to stabilize the business following multiple years of declining earnings and same-store sales. During his tenure, we made considerable progress, including upgrading our salon infrastructure, strengthening our balance sheet, growing our franchise business, and posting our first positive same-store sales and earnings growth since 2008 in fiscal year 2016. However, in recognition of continued performance challenges and the Board's belief that an aggressive turnaround strategy was necessary, the Board determined to make a change and hire Mr. Sawyer as President and CEO, effective April 17, 2017.

Leadership Changes to Drive our Transformation

After conducting a robust review of our restructuring efforts and growth opportunities, the Board appointed Mr. Sawyer as President and CEO in April 2017. Having served as CEO of eight companies prior to Regis, often in highly complex turnaround situations, Mr. Sawyer brings deep experience in executing strategic transformations and implementing operational improvements to drive growth. In addition, he most recently served as a leader of Huron Consulting Group's Operational Improvement Service Line and worked on-site evaluating our business during the six months prior to his CEO appointment. Mr. Sawyer also has significant governance experience, having served on thirteen boards of directors. In evaluating Mr. Sawyer as a CEO candidate, the Board believed that both his deep turnaround skill set and his strong pre-existing knowledge of Regis would enable him to effectively lead our transformation.

Immediately after joining us as President and CEO, Mr. Sawyer worked with the Board to re-shape the executive team in order to accelerate our turnaround. Selected executive leadership team appointments since April include the appointment of Mr. Bakken to the newly-established role President - Franchise and key appointments of a Chief Financial Officer, Chief

Marketing Officer, Chief Human Resources Officer, Vice President of Walmart Relations and Vice President - Creative. The Board believes that our refreshed, highly skilled management team is well-positioned to execute our turnaround and has a strong sense of urgency to create sustainable value for our shareholders.

Decisive Actions during Fiscal 2017 to Improve Company Performance

In response to recent challenging performance, the Board and management have taken significant actions to accelerate our critical turnaround. Key steps include:

- October 2016 Appointed Mr. Williams as the new Chair of the Board

Announced a strategic shift towards the ongoing growth of our franchise business and accelerated sales of certain company-owned stores to new and existing franchisees
- November 2016 Initiated engagement with Huron Consulting Group to develop execution strategy for shift to expanded franchise model
- January 2017 Began franchising our SmartStyle brand
- April 2017 Executed a CEO transition, appointing Mr. Sawyer, a seasoned turnaround expert with highly relevant expertise, to accelerate our transformation
- May 2017 Announced our consideration of strategic alternatives for our mall-based salons
- July 2017 Announced a field reorganization of the company-owned salons by brand/concept to enable our field leadership to focus on quality guest experiences, enable improved salon execution, drive same-store sales, traffic growth and simplify our operations
- August 2017 Redefined our reportable segments, which provides investors increased transparency to our franchise business

Updated shareholders on our recent initiatives, including a 120-day plan to stabilize performance and establish a platform for longer-term revenue and earnings growth in company-owned salons by focusing on strategic pricing, stylist scheduling, and simplifying our business while focusing on our brands to drive traffic and grow revenues

Our actions over the past year are aimed at accelerating profitable revenue growth, optimizing the balance sheet and creating value for our shareholders.

Executive Compensation Overview for Fiscal 2017

Our executive compensation programs are based on our belief that attracting, retaining and motivating talented executives is critical to the maintenance of our competitive advantage in the haircare industry and to the achievement of the business goals set by the Board. Accordingly, our executive compensation programs are designed to reward executives for achievement of our financial and business goals, while also aligning our executives' interests with those of our shareholders. The below table provides additional detail on each element of executive compensation in fiscal 2017.

Element	Form	Metric	Performance Period	Objective
Base Salary	Cash	Fixed	N/A	Provide a base level of compensation for executive talent
Annual Non-Equity Cash Incentive ("Bonus")	Cash	Cash Flow per Share (70%)	1 year	Motivate executives to meet and exceed objectives aligned with our annual strategic plan
		Same Store Sales % Change (30%)		
Long-Term Incentive Compensation	Performance Stock Units (PSUs) 60% *	Adjusted EPS*	3 years*	Provide market-competitive equity-based compensation opportunities that enhance executive retention while aligning interests of executives and shareholders
	Restricted Stock Units (RSUs) 40%	Time-Based Vesting (value driven by stock price)	Vest ratably over 3 years	

* Change for fiscal 2017. Please see “Recent Compensation Program Changes Incorporate Shareholder Feedback” below for additional detail.

Key Fiscal 2017 Compensation Decisions Support our Transformation

During fiscal 2017, the Compensation Committee (the “Committee”) made several decisions relating to the Company’s compensation programs to accelerate our turnaround and incentivize management to drive value creation for our shareholders.

Compensation Changes Galvanize Executives around Expanding our Franchise Model

To help catalyze our strategic shift toward growing our franchise business and retain key leaders throughout the organization, the Committee made two key changes in January 2017:

- Provided key leaders, excluding our CEO, with a supplemental performance-based retention award
 - Awards vest based on achievement of challenging, pre-defined objectives for growing our franchise business, measured through June 2018; payout requires a five-fold increase in the pace of sales of company-owned salons to franchisees
 - This award is designed to maintain continuity during a critical period and specifically incentivize our leadership team to take actions that will drive franchise-growth goals, during a time of considerable uncertainty and necessary business transformation
- Amended our broad-based severance policy
 - Included a temporary policy to accelerate vesting of certain equity awards for employees who are involuntarily terminated without cause through August 31, 2018, as well as a longer-term shift to lump sum payments and allowing non-competitive employment without offset during the severance period
 - These policy amendments establish an incentive for our employees and management team to focus on execution during a critical period of our turnaround despite meaningful uncertainty due to transformation, leadership changes, and business structure changes.

Key Committee Decisions in Connection with our Leadership Transition

The Committee made several decisions during fiscal 2017 in connection with changes in our leadership team:

- *Compensation structure for new President and CEO, Mr. Sawyer:* The Committee determined to link the vast majority of his compensation to share price improvement in order to create immediate alignment with shareholders and emphasize value creation as a clear objective of our turnaround.

Hugh Sawyer Initial Compensation	
Base Salary	Annual salary of \$950,000
Cash Bonus	Cash bonus of \$585,000 in consideration of forfeited compensation from his prior employer
Long-Term Equity Incentive	<p>Long-term equity awards with an aggregate value of \$5 million to establish an immediate connection to long-term stock performance</p> <ul style="list-style-type: none"> ➤ \$4 million stock-settled Stock Appreciation Rights (SARs); \$1 million performance-contingent RSUs ➤ While each award will vest after a two-year period, SARs will not become exercisable and RSUs will not be settled until three years after the grant date
<i>76% of Mr. Sawyer's at-hire compensation is tied to performance</i>	

Mr. Sawyer will not receive additional annual incentive (bonus) and equity awards until fiscal 2018 and for fiscal 2019, respectively:

Hugh Sawyer Ongoing Compensation			
	Fiscal 2017	Fiscal 2018	Fiscal 2019
Base Salary	\$950,000	\$950,000 (1)	\$950,000 (1)
Annual Incentive (Bonus) Target	-	\$1,092,500 (1)	\$1,092,500 (1)
Long-Term Equity Incentive	-	-	TBD (2)
Sign-On Bonus	\$585,000		
Initial Equity Awards	\$5,000,000		

(1) May be increased in the Committee's discretion.

(2) The Committee has not yet determined the value of this grant. The prior CEO, Mr. Hanrahan, received \$2,600,000.

- *Payments in connection with the termination of Mr. Hanrahan and Ms. Passe:* The Committee authorized severance payments to both executives upon termination that were consistent with our severance policies, as amended, including payment for their earned but unvested PSU awards.

Please see "*Other Compensatory Decisions During Fiscal 2017*" for additional detail on each of the above compensation decisions.

2017 Pay-For-Performance Results

When setting executive compensation for fiscal 2017, the Committee continued its focus on incentivizing management to both create shareholder value and return excess capital to our shareholders, by setting challenging performance expectations compared to fiscal 2016's results for same-store sales and cash flow per share and once again delivered executive pay opportunities primarily through performance-based elements of pay.

For fiscal 2017, the Company reported a net loss of \$16.1 million, or a loss of \$0.35 per share, compared to a net loss of \$11.3 million, or a loss of \$0.23 per share in the prior year. Total revenue decreased 5.5%, to \$1,691.9 million, and same-store sales decreased 1.8% year over year. However, the Company's franchise business continues to grow, and we announced royalties of \$48.3 million compared to \$47.5 million for the previous year as well as a change in segment reporting that gives investors greater transparency to the franchise business. Though these year-long results did not meet our expectations, we saw improvement in the fourth quarter of the year, which we believe was due to initiatives introduced by our new CEO, Mr. Sawyer, including actions related to his 120-day plan.

Given the strong performance orientation, actual compensation outcomes were below target for all of the Named Executive Officers. Specifically, while the annual cash incentive was earned at only 42% of target as a result of achieving above-threshold performance in cash flow per share (focused on effective and efficient Adjusted EBITDA growth, as defined below,) and below-threshold performance in same-store sales growth, the Committee exercised negative discretion in deciding not to pay out any cash incentives to the Company's officers (Vice President and above) in light of overall performance in fiscal 2017. We believe that the Committee's decision reflects a program that drives accountability and pay-for-performance alignment.

Recent Compensation Program Changes Incorporate Shareholder Feedback

The Committee, the Board and executive leadership are committed to considering the perspectives of our shareholders on all aspects of our business, including executive compensation.

Following our 2015 Say-on-Pay vote, management and members of our Board, including the Chair of the Committee, conducted robust, productive engagement with our shareholders to solicit their views on our executive compensation program. We reached out to our top ten largest shareholders, representing approximately 64% of our common stock in total, and held meetings with holders of approximately 56% of our common stock. Feedback from engagement was relayed to our full Committee, informing the Committee's broader review of our executive compensation program during fiscal 2016. Accordingly, the Committee implemented a number of compensation changes that directly respond to our shareholders and that enhance alignment with our strategic goals. The majority of these program enhancements became effective in fiscal 2017.

Key Shareholder Feedback Area / Theme	Actions Taken	Effective
Performance Stock Units <i>One-year performance period is not adequately long term</i>	<p>The Committee increased the performance period for PSUs from one year to three years</p> <p>➤ In addition, the Committee moved to further emphasize performance awards and full-value awards in our long-term incentive program: fiscal 2017 long-term awards comprise 60% PSUs and 40% RSUs, compared to 40% PSUs, 40% SARs, and 20% RSUs in prior years</p>	FY 2017
Overlapping Performance Metrics <i>Same metrics, targets and weightings in both the short- and long-term incentive programs is problematic</i>	<p>The Committee established separate metrics, targets and weightings for the short- and long-term incentive programs:</p> <p>➤ Short-term award payouts are based on Company performance against cash flow per share (weighted 70%) and same-store sales (weighted 30%)</p> <p>➤ PSU awards are based on three-year cumulative pre-tax adjusted EPS performance</p>	FY 2017
Peer Group <i>Benchmarking process includes too many larger peers</i>	<p>The Committee reviewed and revised our peer group</p> <p>➤ Removed three former peers with significantly higher revenues and/or market cap that are not in our industry</p> <p>➤ Included two new peers used by both leading proxy advisory firms in their fiscal 2016 reports</p>	FY 2017
Disclosures of Adjustments with regard to Key Incentive Metrics <i>Adjustments made for compensation purposes to Adjusted EBITDA and CAPEX made it difficult to ascertain rigor of goals</i>	<p>➤ Starting with our 2016 proxy statement, we included a table detailing the adjustments used by the Committee for compensation purposes from GAAP to Adjusted EBITDA in years that we made a payout based on these metrics</p>	FY 2016

After disclosing these changes in our proxy statement last fall, we received strong support for our Say-on-Pay vote at our 2016 annual meeting of shareholders. Our Committee and Board remain committed to engaging with our shareholders to discuss our executive compensation programs, especially as we execute our transformation to drive value creation for our investors.

Positioning Our Executive Compensation Programs for the Future

The Committee remains committed to delivering appropriate and competitive total direct compensation for our NEOs, with a significant portion of that compensation being performance-based, and to administering its programs in a manner consistent with good governance practices. The Committee anticipates the Company's compensation programs and policies will evolve in connection with the transformation of our business, under the leadership of our new CEO.

To assist with this effort, the Committee retained a new compensation consultant in July 2017 to advise the Committee on executive compensation decisions for fiscal 2018 and beyond. The Committee selected Pay Governance as its new consultant and directed Pay Governance to conduct a holistic review of the Company's executive compensation programs and practices. This work is currently ongoing. In addition, Pay Governance is assisting the Committee in considering appropriate changes to our incentive compensation metrics in light of the transformation of our business.

Section 2: How We Design Executive Pay

Compensation Philosophy

The Committee has adopted a compensation philosophy that centers on the following guiding principles:

- Generally target total direct compensation at the market median, with the following considerations:
 - Achieving our desired competitive position will occur over time and will consider not only the total program value, but also the reward vehicles that are used (i.e., performance-based incentives versus fixed benefits).
 - Moving toward the market median will consider our size and performance relative to peers (noted below) to ensure that targeted compensation is appropriately calibrated and that realizable compensation is consistent with absolute and relative performance.
- Align with shareholder interests by designing a compensation portfolio that pays for performance.
 - For fiscal 2017, as in 2016, the Committee incentivized management to drive increases in cash flow per share, as it believed increasing cash flow per share is a leading indicator for eventual stock price appreciation. It also tied compensation to increases in same-store sales, as in past years.
 - For fiscal 2017, the Committee moved to further emphasize performance awards and full-value awards in its long-term incentive program. Long-term awards were made up of two components (60% PSUs and 40% RSUs), compared to 40% PSUs, 40% SARs, and 20% RSUs in prior years.
 - For fiscal 2017, the Committee adopted a new performance measure for the PSUs and increased the performance period of those units to three years. This performance measure is cumulative adjusted earnings per share because we believe that improvements in this measure correlate to increased stock price performance and encourage the leadership team to deliver sustained financial performance.

The Committee also recognizes the need to remain flexible to address particular circumstances as they arise so that we can remain competitive in retaining talent and incentivize executives to achieve our current strategic objectives. During fiscal 2017, the Board replaced the Company's CEO, and the Committee designed the equity awards made in connection with the commencement of Mr. Sawyer's employment to tie his compensation directly to the extent to which he increases the Company's stock price over his first two years as CEO. See "*Compensatory Arrangements with Mr. Sawyer.*"

Review of External Market Data

The Committee considers compensation in the external market as one factor in its executive compensation decisions, both relevant broad retail industry data and data from a group of companies it considers its peers. At the beginning of fiscal 2017, with the assistance of its independent compensation consultant, Willis Towers Watson, the Committee reviewed and revised the list of companies in its peer group, which was first selected in 2013.

After review, the Committee re-aligned its peer group, eliminating three companies formerly used as peers that now have significantly higher revenues and/or market capitalization and are not in the Company's industry (Advance Auto Parts,

Keurig Green Mountain, and H&R Block) and adding two new peers that are similar to the Company in revenue and/or market capitalization and are in similar industries (multi-unit, quick-service restaurants Ruby Tuesday and Buffalo Wild Wings, both of which are also franchisors).

Boyd Gaming Corp.	Fred's, Inc.	Ruby Tuesday
Brinker International, Inc.	Jack in the Box, Inc.	Sally Beauty Holdings, Inc.
Buffalo Wild Wings	Outerwall, Inc.	Service Corporation International
Cracker Barrel Old Country Store	Panera Bread Co.	The Cheesecake Factory, Inc.
DineEquity, Inc.	Penn National Gaming, Inc.	Ulta Beauty, Inc.
Fossil Group, Inc. (1)	Revlon, Inc.	

(1) Note that Fossil Group, Inc. is excluded for purposes of benchmarking Chief Executive Officer compensation because its chief executive officer does not receive any annual compensation.

The Committee reviewed the compensation of its then-NEOs against this revised peer group in early fiscal 2017 as part of its determination of fiscal 2017 compensation. In addition, it received broader retail market data from multiple survey sources, including Towers Watson Compensation DataBank-Retail Industry; Towers Watson Compensation Survey Report-Retail Industry; and Mercer Retail Industry Survey. Data from these broader sources were adjusted to our revenue size.

Role of the Compensation Committee

The Committee is charged with developing and administering the base salary, annual and long-term incentives, and benefit programs for our executive officers. Our annual incentive program is typically referred to as our “bonus” program, and it is reported as “Non-Equity Incentive Plan Compensation” in the Summary Compensation Table. In developing our compensation programs, a basic objective for the Committee was that the total compensation awarded to the NEOs be fair, reasonable and competitive in relation to the median compensation for similar positions within our peer group, as identified above, as well as in the broader retail market. This objective is consistent with our executive pay philosophy.

The primary purpose of the Committee is to discharge the responsibilities of the Board relating to the compensation of our executive officers. Accordingly, the primary duties and responsibilities of the Committee are:

- to determine and approve, or make recommendations to the Board with respect to, the compensation of all executive officers; and
- to consider and recommend the structure of, and changes to, our incentive compensation, equity-based plans and benefit programs.

Role of Executive Officers in Compensation Decisions

The Committee believes that in order for our executive compensation programs to be effective, management must have an opportunity to provide input. Committee meetings during fiscal 2017 were regularly attended by our Chief Executive Officer; Chief Administrative Officer, Corporate Secretary and General Counsel; Chief Human Resources Officer; and other executives as needed. In particular, our Chief Executive Officer has an opportunity to present materials and discuss management’s views regarding compensation issues. Our Chief Executive Officer furnishes his input to the Committee on the compensation of the Company’s executive officers, including the other NEOs, and he may be present during deliberations and voting on the other executives’ compensation. However, our Chief Executive Officer was not present during deliberations and voting regarding his own compensation or during other executive sessions of the Committee.

Role of the Independent Compensation Consultant

Throughout fiscal 2017, the Committee used Willis Towers Watson as an independent consulting firm to provide executive compensation consulting services to the Committee. The Committee assessed Willis Towers Watson’s independence pursuant to applicable SEC rules and concluded that no conflict of interest exists that would prevent Willis Towers Watson from independently representing the Committee.

In advising the Committee, Willis Towers Watson prepared competitive pay analyses regarding both the peer group and the broader retail market for the elements of annual compensation and provided information on the performance of our business compared to the peer group. Based on these analyses, Willis Towers Watson advised the Committee on the level and design of the annual compensation programs for our executive officers. The Chair of the Committee worked directly with Willis Towers Watson to determine the scope of the work needed to assist the Committee in its decision-making processes. Willis Towers Watson worked with management, at the direction of the Committee, to fully understand the future business direction and the historical, current and desired future direction of our pay policies and practices, as well as to facilitate the development of our compensation strategies, including the approach to determining compensation levels.

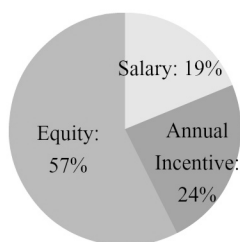
In July 2017, the Committee retained a new compensation consultant to advise the Committee on executive compensation decisions for fiscal 2018 and beyond. The Committee selected Pay Governance as its new consultant, replacing Willis Towers Watson. In connection with its selection of Pay Governance, the Committee assessed Pay Governance's independence pursuant to applicable SEC and NYSE rules and concluded that no conflict of interest exists that would prevent Pay Governance from independently advising the Committee.

Section 3: Elements of the Executive Compensation Program in Fiscal 2017

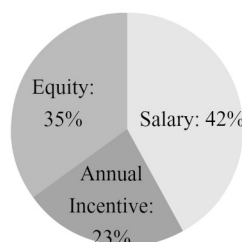
Target Compensation Mix for Fiscal 2017

The Committee established the mix of base salary and incentive compensation by referencing market practices for total direct compensation and for each element, subject to adjustments in the Committee's discretion based on company-wide and individual performance factors. In developing the total direct compensation package for an NEO, the Committee considered the internal relationship of pay across all executive positions. To tie compensation to performance, the Committee structured annual non-equity incentive compensation and the performance-based element of long-term incentive compensation in a manner that provided the opportunity to earn above market compensation for results above target, and below market compensation when the target is not achieved. Target total compensation for Mr. Hanrahan, our former CEO, was slightly higher than fiscal 2016 due to an increase in his long-term incentive award value, and average target total compensation increased slightly for our other NEOs on average due primarily to increases in base salary, as discussed below.

**2017 CEO Target
Compensation Mix
(Hanrahan)**



**2017 Other NEO Target
Compensation Mix
(Average)**



Base Salary Decisions for Fiscal 2017

The Committee, assisted by its independent compensation consultant, increased the base salaries of most of our NEOs, other than Mr. Hanrahan, near the beginning of fiscal 2017. These increases took into account both salary and target total compensation against market comparisons, as well as each individual's historical increases. Before this action, base salary was generally flat from fiscal 2013 through 2016, absent promotions and newly hired executives.

	Base Salary at June 30, 2016 (Annualized) (\$)	Base Salary at June 30, 2017 (or Date of Termination, if earlier) (Annualized) (\$)	Increase (%)
Daniel J. Hanrahan	850,000	850,000	-
Steven M. Spiegel	400,000	440,000	10
Eric A. Bakken	450,000	495,000	10
Jim B. Lain	400,000	400,000	-
Carmen D. Thiede	360,000	400,000	11
Annette L. Miller	360,000	375,000	4
Heather L. Passe	360,000	375,000	4

Annual Incentive Decisions for Fiscal 2017

Annual non-equity incentive compensation (“AIC”) for our NEOs is determined each year under our Short Term Incentive Plan (the “Short Term Plan”). The AIC earned by our NEOs for fiscal 2017 is reported under the “Non-Equity Incentive Plan” column of the Summary Compensation Table. AIC amounts are governed by the Short Term Plan and the AIC performance criteria, and payout levels are set each year by the Committee, in accordance with the terms of the Short Term Plan. The target AIC amounts are established by the Committee as a percentage of base salary. Fiscal 2017 target AIC was flat year over year for the continuing executives. Mr. Sawyer is first eligible to earn an annual non-equity incentive award in fiscal 2018 at a target of 115% of his base salary, pursuant to his employment agreement.

	Target AIC (as a Percentage (%) of Salary)	Target AIC (\$)
Daniel J. Hanrahan	125	1,062,500
Steven M. Spiegel	60	264,000
Eric A. Bakken	60	297,000
Jim B. Lain	60	240,000
Carmen D. Thiede	50	200,000
Annette L. Miller	50	187,500
Heather L. Passe	50	187,500

Each year, the Committee evaluates our annual strategic plan to determine if the financial metrics are appropriate to measure achievement of our objectives and to motivate executives, and sets corresponding financial metrics to be included in the AIC awards. For fiscal 2017, the Committee established the following metrics:

Performance Measure	Weighting	Performance Goal		Award Multiplier
1. (Adjusted EBITDA - CAPEX) divided by Fully Diluted Outstanding Shares ("cash flow per share")	70%	Maximum	\$1.79 per share	200%
		Target	\$1.37 per share	100%
		Threshold	\$1.24 per share	50%
2. Same-Store Sales (SSS) Percentage Change	30%	Maximum	4%	200%
		Target	1%	100%
		Threshold	0%	50%

In fiscal 2017, the Committee determined to use essentially the same performance measures as fiscal 2016, with target performance goals set higher than the prior year's actual results. The Committee set the target for payouts on fiscal 2017 cash flow per share performance at \$1.37 per share, compared to the fiscal 2016 actual result of \$1.28. For same-store sales, the Committee similarly set a target of 1.0% growth, compared to fiscal 2016's actual performance of an increase of 0.2%.

Under the terms of the plan, actual performance for fiscal 2017 would have resulted in a payout of 42.39%, based on same-store sales results falling below threshold goals at a decrease of 1.8% and cash flow per share results slightly exceeding threshold goals, at \$1.27. However, based on its assessment of the overall performance of the Company, the Committee

exercised its negative discretion to provide that no annual incentive amounts would be paid to any of the Company's officers, defined for these purposes as the Vice Presidents and above, for fiscal 2017.

	Actual AIC (\$)
Daniel J. Hanrahan	\$0
Steven M. Spiegel	N/A
Eric A. Bakken	\$0
Jim B. Lain	\$0
Carmen D. Thiede	N/A
Annette L. Miller	\$0
Heather L. Passe	\$0


In setting the metrics for fiscal 2017, the Committee defined Adjusted EBITDA as net income (loss) excluding interest expense, income taxes, depreciation and amortization, adjusted to exclude equity in income (loss) of affiliated companies, discontinued operations and identified discrete items impacting comparability for each respective period (i.e., expenses, charges, or favorable or unfavorable impacts of extraordinary, unusual, infrequent or non-recurring items and other similar items) including, for fiscal 2017, discrete items that arise during the course of the year, severance charges incurred in strategically reorganizing our teams in the field and position eliminations, tax charges or benefits arising from regulatory audits, unusual costs associated with labor or employment claims and issues, impacts from new labor overtime rules in excess of budgeted amounts, sales of divisions or businesses, impact of Affordable Care Act auto-enrollment, and foreign currency gains or loss variances from budgeted assumptions. The Committee defined CAPEX as the purchase of tangible fixed assets held for use in the operation of the business, classified as property and equipment, including accruals of capital expenditures received but not paid for by the end of the fiscal year, reduced by certain tenant allowance receipts and cash proceeds from sales of property to franchisees (to the extent of our net carrying value in such property). Outstanding shares were defined as the number of fully diluted outstanding shares at the end of the performance period.

Long-Term Incentive Decisions for Fiscal 2017

The Committee considers equity-based long-term incentive compensation ("LTI") to be critical to the alignment of executive compensation with the creation of shareholder value. Therefore, LTI represented more than half of Mr. Hanrahan's compensation at target, and 35% of the other NEOs' compensation, on average. The Committee set the value of LTI awards to our then-current NEOs at the beginning of fiscal 2017 as follows:

	Target Value of Long-Term Incentive (\$)
Daniel J. Hanrahan	2,600,000
Steven M. Spiegel	400,000
Eric A. Bakken	400,000
Jim B. Lain	400,000
Carmen D. Thiede	250,000
Annette L. Miller	250,000
Heather L. Passe	400,000

For fiscal year 2017, the Committee changed the targeted long-term incentive mix for the NEOs. Specifically, the Committee moved from using three vehicles (40% PSUs, 40% SARs and 20% time-based RSUs) to using two vehicles (60% PSUs and 40% RSUs). This change was made to further emphasize the performance-based element of the program (PSUs) by making it the majority of the weight, while recognizing that a time-based element will drive retention during the business transformation.

Increased Emphasis on Performance-Based Long-Term Compensation in Fiscal 2017			
2016 LTI Mix		2017 LTI Mix	
40% PSUs			<u>60% PSUs</u>
40% SARs			
20% RSUs			<u>40% RSUs</u>

We use the term performance stock units, or PSUs, to denote grants of stock units that are earned based on the achievement of the performance goals established by the Committee. PSUs granted in fiscal 2016 and earlier had a one-year performance period, after which any earned units had an additional two-year service-based vesting requirement, prior to settling in shares of stock. Beginning with PSUs granted in fiscal 2017, the PSUs have a three-year performance period, at which time any earned units settle in shares of stock.

All of our long-term equity incentive compensation awards for fiscal 2017 were granted pursuant to our 2004 Amended and Restated Long Term Incentive Plan (the "2004 Long Term Plan"). For our equity awards, the grant date for the awards is the date the grant becomes effective. The terms of these awards are described in more detail below in the narrative accompanying the Grants of Plan-Based Awards in 2017 table. The 2004 Long Term Plan was replaced in October 2016 by our 2016 Long Term Incentive Plan (the "2016 Long Term Plan"), upon approval by our shareholders.

Upon grant, LTI awards to our NEOs for fiscal 2017 were as follows:

	60% PSUs (# Granted)	40% RSUs (#)	Total Value (at Target) (\$)
Daniel J. Hanrahan (1)	124,105	82,736	2,600,000
Steven M. Spiegel (1)	19,093	12,728	400,000
Eric A. Bakken	19,093	12,728	400,000
Jim B. Lain	19,093	12,728	400,000
Carmen D. Thiede	11,933	7,955	250,000
Annette L. Miller	11,933	7,955	250,000
Heather L. Passe (1)	19,093	12,728	400,000

(1) The fiscal 2017 PSUs granted to Mr. Hanrahan, Mr. Spiegel, and Ms. Passe were forfeited upon their termination of employment.

In addition to changing the long-term incentive mix, the performance measure used in the PSUs was changed to Adjusted Earnings Per Share (EPS). The Committee made this change for several reasons:

- Consistent with investor feedback and our longer term objectives, this ended the use of same-store sales and cash flow per share in both the short-term and long-term incentive plans;
- Also, consistent with investor feedback and our longer term objectives, this allowed us to set a three-year goal, as opposed to a one-year goal; and
- The Committee chose Adjusted EPS because it believed that it is a measure that directly aligns with stock price performance and, when measured over a three-year period, will encourage sustained value creation and pay-for-performance.

While the Committee received and considered input from some of the Company's shareholders that prefer the use of a relative metric in long-term incentive design, it ultimately decided that a relative metric was not the right fit for the Company at this time because the Company does not have true peers on which to form that comparison. As the largest publicly-traded hair salon company, for peer group purposes the Committee looks primarily to quick-serve restaurant chains like Panera and Ruby Tuesday as well as companies in the beauty industry which have very different operations, like Revlon and Ulta.

The Committee defined Adjusted EPS as the Company's cumulative pre-tax earnings per share, adjusted to exclude any income (loss) attributable to its investment in its affiliate Empire Education Group, and identified discrete items impacting comparability for each respective period (i.e., expenses, charges, or favorable or unfavorable impacts of extraordinary, unusual, infrequent or non-recurring items and other similar items), consistent with those set forth in the definition of "Adjusted EBITDA" above. It is computed on a cumulative basis (that is, Adjusted EPS for fiscal 2017 plus Adjusted EPS for fiscal 2018 plus Adjusted EPS for fiscal 2019), and in calculating each year's result, uses the fully diluted outstanding shares at the end of that fiscal year.

The fiscal 2017 PSUs have a three-year performance period, from July 1, 2016 to June 30, 2019. After conclusion of the performance period, the number of PSUs earned will vest immediately upon certification by the Committee. The number of units earned will depend on the extent to which performance goals are attained, as follows (with interpolation between):

Performance Measure	Extent to which Performance Goal is Reached	Award Multiplier to # of Units Earned
	Maximum	200%
Adjusted EPS	Target	100%
	Threshold	50%

The Committee established the target for the fiscal 2017 PSUs with reference to the forecasts for fiscal 2017, 2018 and 2019 performance developed in management's 2016 three-year operating plan, which represented an expectation of improved performance relative to the Company's prior financial results. The Committee set challenging metrics for executive compensation by setting the target 15% above management's forecasted growth in earnings for fiscal 2017, for example. As discussed, fiscal 2017 results were disappointing in comparison to plan. Our future earnings per share will be heavily influenced by the transformation in process in our business, and it is uncertain whether, and to what extent, the fiscal 2017 PSUs will be earned.

Other Compensatory Decisions During Fiscal 2017

During the past year, our company experienced numerous meaningful changes, which the Board and Committee believe will ultimately help position the Company for future success. Most critically, we announced a strategic shift to accelerate and expand our franchise model. In an effort to support retention of key talent and incentivize successful efforts to expand the franchise model and reduce the number of company-owned salons that we manage, the Committee approved the following arrangements:

Changes to Severance Program

In January 2017, the Committee adopted a temporary policy under which employees who are terminated by the Company without cause through August 31, 2018 are entitled to accelerated vesting of unvested RSUs and SARs. This includes acceleration or payment in cash for the value of any earned but unvested PSUs that would otherwise be forfeited upon an executive's involuntary termination without cause, as they remained subject only to time-based vesting requirements. The Committee determined, at the discretion of the CEO (or in the case of our CEO, the Committee), that such payments were equitable because the performance conditions had been satisfied during the executive's leadership. The Committee implemented this change to reinforce our focus on strong execution during a critical turnaround period, despite the dynamic nature of our organizational structure.

At the same time, the Committee provided that any future severance payments would be paid in a lump sum upon termination, rather than as salary continuation (whenever feasible without adverse tax consequences to the employee), and that, for employees with employment agreements under which cash severance would be offset by earnings from other employment, the Committee provided that cash severance would no longer be offset by earnings from non-competitive employment (as determined according to the terms of their employment agreement). These changes were also adopted to incentivize executives to remain with the Company through its transformation in spite of the uncertainty caused by strategic change.

These policy changes do not apply to Mr. Sawyer, as specified in his employment agreement.

Special Incentive Program Based on Franchise Goals

The Committee also adopted a supplemental performance-based cash retention program for certain leaders below the CEO level, to align their compensation with the strategic emphasis towards the growth of our franchise business and to

maintain continuity during a critical 18-month period in our transformation. The NEOs who are eligible, and the maximum amounts they may earn under this program, are as follows:

	Maximum Value of Special Retention Incentive (\$)
Eric A. Bakken	445,500
Jim B. Lain	360,000
Carmen D. Thiede	300,000
Annette L. Miller	281,300
Heather L. Passe	281,300

The actual amount earned will depend on the achievement of certain objectives related to our franchise business during the 18-month period from January 1, 2017 to June 30, 2018. The achievement of these objectives would represent a more than five-fold increase in the pace of sales of company-owned salons to franchisees. In execution of these objectives, management has taken aggressive action to open the SmartStyle brand to franchisees for the first time in the U.S. during the second half of fiscal 2017, as well as acceleration of sales of other salons to franchisees.

If participants are involuntarily terminated without cause, they would receive a payout after the end of the performance period based on the Company's actual results. Participants who voluntarily terminate employment, such as Ms. Thiede, forfeit their right to an award. Any bonus received under this program would be in addition to any amounts received pursuant to the Company's annual incentive plan.

In addition to our strategic emphasis towards the growth of our franchise business, fiscal 2017 was also a time of changes in our executive leadership, and the Committee approved the following special compensatory arrangements:

Compensatory Arrangements with Mr. Sawyer

In April 2017, the Board appointed Mr. Sawyer as President and CEO, replacing Mr. Hanrahan. In connection with his appointment, the Company entered into an employment agreement with Mr. Sawyer with an initial term of three years, and thereafter renewing annually. He is entitled to an annual base salary of \$950,000, a target annual bonus opportunity of 115% of his annual base salary (with eligibility beginning in fiscal 2018), and a sign-on bonus of \$585,000 to compensate him for forfeited compensation from his former employer (furthermore, a pro-rated portion of this bonus must be repaid if he terminates employment under certain circumstances, such as voluntary termination without Good Reason within the first year of his start date). The Company also agreed to reimburse Mr. Sawyer up to \$175,000 for temporary housing expenses for 18 months and to pay him any unspent portion if he remains employed after 18 months.

In addition, the Committee approved sign-on equity awards to Mr. Sawyer with an aggregate value of \$5.0 million, comprised of approximately \$4.0 million of stock-settled SARs and \$1.0 million of performance-contingent RSUs. Mr. Sawyer's initial equity awards are scheduled to vest on the second anniversary of the date of grant subject to his continued service through that date, and in the case of his RSUs, also subject to the satisfaction of performance goals related to the Company's stock price, and subject in each case to certain accelerated vesting events. Furthermore, his SARs will not become exercisable and his RSUs will not be settled until the third anniversary of the date of grant, and his SARs will be exercisable until the tenth anniversary of the date of grant. Mr. Sawyer did not receive an additional equity grant when the Company made its fiscal 2018 annual equity grants in August 2017. Commencing August 2018 (for fiscal 2019), Mr. Sawyer will be eligible to receive annual equity grants commensurate with his position.

The Committee designed Mr. Sawyer's compensation to be strongly performance-based, both upon hire and on an ongoing basis, with 76% of his compensation at hire and approximately 80% in future years tied to the Company's performance. In addition, Mr. Sawyer will not receive an annual incentive award for fiscal 2017 or a long-term incentive for fiscal 2018.

	Fiscal 2017 (\$)	Fiscal 2018 (\$)		Fiscal 2019 (\$)	
Base Salary	950,000	950,000	(1)	950,000	(1)
Annual Incentive (Bonus) Target	-	1,092,500	(1)	1,092,500	(1)
Long-Term Incentive Award	-	-		TBD	(2)
Sign-On Bonus	585,000	-		-	
Sign-On Equity	5,000,000	-		-	

(1) May be increased in the Committee's discretion.

(2) The Committee has not yet determined the value of this grant. The prior CEO, Mr. Hanrahan, received \$2,600,000.

The Committee believes that the sign-on equity grants to Mr. Sawyer were appropriate and in the best interests of the Company because they:

- Immediately align Mr. Sawyer's compensation with the Company's shareholders
- Give Mr. Sawyer an opportunity to share in value created by stock price appreciation since he joined the Company
- Reflect the market for CEO talent in our industry and among our peer group
- Represent a one-time grant that was not supplemented by an annual equity grant for fiscal 2018

The Committee, assisted by its independent compensation consultant, Willis Towers Watson, structured Mr. Sawyer's sign-on equity awards so that they have value only if the Company's stock price increases within the next two years from the stock price prior to the date the Company announced Mr. Sawyer's appointment. The equity awards consist primarily of SARs, which only provide the holder with value if the stock price increases. In addition, 20% of the value at grant was in performance-contingent RSUs, which include a performance condition that provides that they will vest only if the Company's stock price reaches certain levels by the two-year anniversary of the date of grant.

Separation Agreement with Mr. Hanrahan

In connection with the termination of Mr. Hanrahan's employment, he received the severance benefits triggered by a termination without cause under his employment agreement, as amended, the terms of his outstanding equity awards, and the policies of the Company applicable to terminations without cause, including payment for his earned but unvested PSUs, as reflected in "Changes to Severance Program" above. These amounts are detailed below under "Potential Payments Upon Termination or Change in Control — Actual Payments upon Termination to NEOs No Longer Employed" below. As a condition of these payments, pursuant to his employment agreement, Mr. Hanrahan was required to execute a separation agreement, which included non-competition and non-solicitation provisions as well as a release of claims.

Separation Agreement with Ms. Passe

Ms. Passe received the severance benefits triggered by a termination without cause under her employment agreement, as well as the policies of the Company applicable to terminations without cause, including payment for her earned but unvested PSUs. She also received a commitment to reimbursement for certain career transition services. These amounts are detailed below under "Potential Payments Upon Termination or Change in Control — Actual Payments Upon Termination to NEOs No Longer Employed" below. As a condition of these payments, pursuant to her employment agreement, Ms. Passe was required to execute a separation agreement, which included non-competition and non-solicitation provisions as well as a release of claims.

Other Outstanding Awards

From time to time, the Committee may also make equity grants in other circumstances, such as recruiting new executive talent, upon the promotion of an executive, and to retain key individuals. During the past three fiscal years, we have made the following special grants, which remained outstanding as of June 30, 2017. These are also reflected in the Outstanding Equity Awards table below.

- *Sign-on Equity Awards to Mr. Sawyer in April 2017*, as detailed above under "Compensatory Arrangements with Mr. Sawyer."

- *Sign-on Equity Awards to Ms. Miller in December 2014*, of RSUs and SARs (reflecting the Company's share price on the date of her commencement of employment), vesting in December 2017.
- *Retention RSU Grants in August 2014*, to the then-NEOs other than our CEO, which cliff vest on the third anniversary of the date of grant, assuming continued employment. These grants were made to recognize the important work the executive team accomplished in fiscal 2014 in the effort to reorganize the Company and to lay the groundwork that we believe will lead to long-term strategic success, and to retain and incentivize them to continue their work toward these objectives. These awards vested by their terms in August 2017.

Benefits

Consistent with our current compensation philosophy, we provide minimal benefits, and these benefits align with the market median and with current market practices. The benefits we provided our NEOs in fiscal 2017 are summarized in the footnotes to the Summary Compensation Table or are otherwise reported in the accompanying tables, including footnotes. Current benefits for our NEOs include core benefits available to all full-time employees (e.g., coverage for medical, dental, prescription drugs, basic life insurance, and long-term disability coverage).

During fiscal 2016, we added an additional optional retirement savings option, the Regis Individual Secured Retirement Plan (the "RiSRP"), to provide our NEOs and other Company officers a post-tax option to save money for retirement. We provide the same Company match in the RiSRP as under the Executive Retirement Savings Plan. Both plans are described in detail below under "*Summary of Executive Agreements*."

Prior to fiscal 2013, we also provided certain supplemental retirement benefits, additional life insurance benefits and certain gross-up payments. Where applicable, these benefits are described below under "*Summary of Executive Agreements*." These benefits were eliminated or frozen prior to fiscal 2013 and continue to be provided only in the case of certain grandfathered agreements, as described below.

Section 4: Governance Policies and Additional Compensation-Related Items

We believe in holding ourselves to a high standard of ethics, transparency, and accountability. Accordingly, we have adopted corporate governance practices and policies that in many cases go beyond SEC and stock exchange requirements to reflect emerging best practices.

Compensation Practice	Regis Policy
Independent Compensation Committee	Our Compensation Committee is composed solely of directors who are independent under the standards of the SEC and the NYSE, including the higher standards applicable to Compensation Committee members.
Clawback Policy	During fiscal 2017, we amended our “clawback” policy so that it permits us to recover certain equity as well as cash incentive payments from executive officers whose misconduct or negligence resulted in a significant financial restatement.
Limited Severance Benefits and Perks	We have benchmarked and implemented market severance terms (generally, base salary plus bonus, or two times base plus bonus after a change in control), while retaining our “double trigger” structure.
No Tax Gross-Ups	We do not provide tax gross-ups on perquisites, and gross-ups on “golden parachute” payments are available only on a grandfathered basis. Mr. Bakken is the only currently employed NEO who so qualifies.
Frozen Supplemental Retirement Benefit Plan	We froze the benefits under our supplemental retirement benefit plan as of June 30, 2012, as well as certain executive life insurance benefits. Mr. Bakken is the only currently employed NEO who so qualifies.
Stock Ownership Guidelines	We have meaningful stock ownership guidelines for our executives, discussed in more detail below.
Hedging Restrictions/Prohibitions	Our insider trading policy prohibits our employees, officers and directors from engaging in transactions that “hedge” their investments in our stock.
Pledging Restrictions/Prohibitions	Our insider trading policy prohibits our employees, officers and directors from holding our stock in a margin account or pledging it as collateral for a loan, except in the limited circumstance that an individual has demonstrated financial capacity to repay the loan without resort to the pledged securities and obtains General Counsel approval.
Independent Compensation Consultant	Willis Towers Watson advised our independent Compensation Committee during fiscal 2017. For fiscal 2018, the Committee has retained Pay Governance to provide these services.
Annual Risk Assessment	We conduct an annual risk assessment of our compensation programs, which is led by our independent compensation consultant.
Annual Say-on-Pay Vote	We offer our shareholders the opportunity to cast an advisory vote on our executive compensation every year.
No Repricing or Exchange of Underwater Options/SARs	Our plan prohibits the repricing or exchange of underwater stock options and stock appreciation rights without shareholder approval.

Stock Ownership by Named Executive Officers

The Board believes that each of our officers who has reached the level of Senior Vice President or above should be a shareholder and should have a significant financial stake in the Company. Accordingly, the Committee adopted stock ownership

requirements, which are reflected in our Corporate Governance Guidelines, requiring each officer to hold our common stock having a fair market value equal to a multiple of their base salary, as set forth below:

- Chief Executive Officer—3x annual base salary
- Executive Vice President—2x annual base salary
- Senior Vice President—1x annual base salary

The current stock ownership requirements were established in April 2013. The guidelines require officers to retain at least 75% of the shares received from equity compensation awards, net of shares withheld or tendered to satisfy withholding taxes, until the stock ownership requirement is satisfied. All shares beneficially owned by an officer are included in the calculation, except that shares subject to performance-based vesting conditions and shares subject to unexercised stock options and SARs are not included. For purposes of the stock ownership calculation, the shares are valued at the greater of (i) the average closing price of a share of the Company's common stock during the most recent fiscal year and (ii) the closing price on the last day of the most recent fiscal year.

As set forth in the table below, as of June 30, 2017, all of our currently employed NEOs held stock greater than our stock ownership policy minimum, other than Mr. Pomeroy, who was not subject to the policy, and Mr. Sawyer, who joined our company in April 2017 and whose sign-on equity awards are not counted as they are subject to pending performance-based vesting conditions. See "*Compensatory Arrangements with Mr. Sawyer*" for more detail on these awards.

	Stock Ownership Guideline	Current Ownership Level
Hugh E. Sawyer	3x	0.1x
Michael C. Pomeroy	N/A	N/A
Eric A. Bakken	2x	2.9x
Jim B. Lain	2x	2.8x
Carmen D. Thiede	1x	2.5x
Annette L. Miller	1x	1.2x

The Nominating and Corporate Governance Committee is responsible for measuring and monitoring compliance with these guidelines.

Employment Agreements and Post-Employment Compensation

Each of the NEOs named in this proxy statement is party to a written employment agreement with the Company, with the exception of Mr. Pomeroy. Pursuant to their employment agreements, all of our NEOs are entitled to certain compensation and other benefits if their employment terminates due to certain articulated reasons (including in connection with a change in control), as described below under "*Summary of Executive Agreements*." The employment agreements with our NEOs contain covenants not to compete or solicit, as well as confidentiality provisions, that the Committee considers especially valuable in the event of an executive's termination of employment. They provide for payment of post-termination payments, conditioned upon signing and not rescinding a release of claims and compliance with the restrictive covenants in the employment agreement.

The Committee and the Board recognize the importance to us and our shareholders of avoiding the distraction and loss of key management personnel that may occur in connection with any rumored or actual change in control of the Company. Accordingly, the Committee and Board have structured change in control provisions to incentivize executives to remain employed while a transaction is under consideration or pending, and not to favor one transaction structure over another merely because of the impact on the executive's compensation. These provisions are discussed in the section captioned "*Summary of Executive Agreements*."

Deductibility of Executive Compensation

Code Section 162(m) imposes a \$1 million limit on the amount that a public company may deduct for compensation paid to a company's chief executive officer or any of its three other most highly compensated executive officers (other than its chief financial officer) who are employed as of the end of the year. This limitation does not apply to compensation that meets

the requirements under Section 162(m) for “qualifying performance-based” compensation (i.e., compensation paid only if the individual’s performance meets pre-established objective goals based on performance criteria approved by shareholders). The Committee’s policy is to design compensation programs that further the best interests of the Company and our shareholders and that preserve the tax deductibility of compensation expenses. Non-equity incentive compensation paid to executive officers under the Short Term Plan and stock options, SARs and PSUs awarded under the Long Term Plan are designed to qualify as performance-based compensation. The Committee also believes, however, that it must maintain the flexibility to take actions that it deems to be in our best interests but that may not qualify for tax deductibility under Section 162(m). In this regard, the Committee recognizes that if the amount of base salary and any other compensation that is not determined to be performance-based under Section 162(m), such as time-vested restricted stock, guaranteed bonuses for new executives, discretionary bonus payouts or bonus payouts that are adjusted to exclude certain items that would have negatively impacted the bonus calculation, for any of our executive officers exceeds \$1 million, any amounts over \$1 million will not be deductible for federal income tax purposes. The amount of any non-deductible compensation has not had a material impact on our consolidated tax position.

As required under the tax rules, we must obtain shareholder approval of the material terms of the performance goals for qualifying performance-based compensation every five years. We last received shareholder approval of the Short Term Plan in 2014, of the extension of the term of the 2004 Long Term Plan in 2013, and of the 2016 Long Term Plan in 2016.

Regulatory Considerations

The Committee considered (i) the impact of the \$1 million limit on the deductibility of non-performance based compensation imposed by Code Section 162(m), (ii) the accounting treatment of various types of equity-based compensation under Accounting Standards Codification (ASC) Topic 718, and (iii) the non-deductibility of excess parachute tax payments under Code Section 280G (and the related excise tax imposed on covered employees under Code Section 4999) in its design of executive compensation programs. In addition, the Committee considered other tax and accounting provisions in developing the compensation programs for our NEOs. These included the special rules applicable to non-qualified deferred compensation arrangements under Code Section 409A, as well as the overall income tax rules applicable to various forms of compensation. While the Committee strove to compensate our NEOs in a manner that produced favorable tax and accounting treatment, its main objective was to develop fair and equitable compensation arrangements that appropriately motivate, reward and retain those executives.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis contained in this Proxy Statement with the management of the Company. Based on its review and related discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

Michael J. Merriman, Chair
Daniel G. Beltzman
Mark S. Light
M. Ann Rhoades
Stephen E. Watson
Members of the Compensation Committee

SUMMARY COMPENSATION TABLE

The following table shows, for each person who served as our principal executive officer and principal financial officer, whether permanently or in an interim capacity, in fiscal 2017, the three other most highly compensated executive officers in fiscal 2017 who were still serving as such on June 30, 2017, and one additional person who would have been among the three other most highly compensated executive officers but for the fact that she was no longer an executive officer on June 30, 2017 (together referred to as the Named Executive Officers or “NEOs”), information concerning compensation earned for services in all capacities during each of the fiscal years ended June 30, 2017, 2016, and 2015.

Name and Principal Position	Year	Salary\$(1)	Bonus\$(2)	Stock Awards \$(3)	Option Awards \$(3)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings \$(4)	All Other Compensation \$(5)	Total(\$)
Hugh E. Sawyer III <i>President and Chief Executive Officer(6)</i>	2017	197,917	585,000	730,044	3,680,000	—	—	4,682	5,197,643
Daniel J. Hanrahan <i>Former President and Chief Executive Officer(7)</i>	2017	698,250	—	2,599,992	—	—	—	9,406,633	12,704,875
	2016	882,000	—	1,716,471	533,520	1,315,694	—	38,280	4,485,965
	2015	882,000	—	4,349,984	2,899,980	1,755,994	—	46,746	9,934,704
Michael C. Pomeroy <i>Interim Chief Financial Officer(8)</i>	2017	—	—	—	—	—	—	300,000	300,000
Eric A. Bakken <i>Executive Vice President, President - Franchise, Former Interim Chief Financial Officer, General Counsel and Corporate Secretary</i>	2017	519,500	—	399,990	—	—	—	31,625	951,115
	2016	482,000	—	239,997	160,000	334,341	142,940	73,375	1,432,653
	2015	482,000	—	319,984	159,998	371,858	—	94,781	1,428,621
Steven M. Spiegel <i>Former Executive Vice President and Chief Financial Officer(9)</i>	2017	111,333	—	399,990	—	—	—	19,995	531,318
	2016	432,000	—	239,997	160,000	297,192	—	91,826	1,221,015
	2015	432,000	—	319,984	159,998	330,540	—	95,856	1,338,378
Jim B. Lain <i>Executive Vice President and Chief Operating Officer</i>	2017	432,000	—	399,990	—	—	—	10,465	842,455
	2016	432,000	—	209,993	140,000	297,192	—	13,820	1,093,005
	2015	432,000	—	269,971	139,995	330,540	—	22,051	1,194,557
Carmen D. Thiede <i>Senior Vice President and Chief Human Resources Officer(10)</i>	2017	425,333	—	249,992	—	—	—	41,565	716,890
Annette L. Miller <i>Executive Vice President and Chief Merchandising Officer</i>	2017	407,000	—	249,992	—	—	—	21,772	678,764
Heather L. Passe <i>Former Senior Vice President and Chief Marketing Officer(11)</i>	2017	268,833	—	399,990	—	—	—	1,217,552	1,886,375
	2016	392,000	—	239,997	160,000	222,894	—	32,961	1,047,852
	2015	392,000	—	319,984	159,998	297,486	—	35,188	1,204,656

- (1) Includes amounts provided to the NEOs (with the exception of Mr. Sawyer and Mr. Pomeroy) in the form of a modest perquisite allowance of approximately \$32,000 per NEO that primarily covers an automobile allowance. The entire allowance is paid to the NEOs regardless of whether they spend the entire amount on automobile expenses and, therefore, is reported as base salary; however, the allowance amount is not included as base salary for purposes of determining other compensation and benefits amounts. Mr. Hanrahan, Mr. Spiegel and Ms. Passe received a pro-rated portion of the perquisite allowance in fiscal year 2017 as their employment terminated during the year.
- (2) In fiscal 2017, Mr. Sawyer received a sign-on bonus, subject to a one-year clawback if he terminates employment voluntarily other than for Good Reason.
- (3) Values expressed represent the aggregate grant date fair value of stock or option awards granted in each fiscal year, as computed in accordance with FASB ASC Topic 718, based on the closing stock price on the grant date for RSUs and PSUs and the Black-Scholes model for SARs. See Note 11 to our consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2017 for a description of the assumptions used in calculating these amounts.

The grant date fair values for stock awards for the fiscal year ended June 30, 2017 include:

- PSUs that were granted in August 2016: Mr. Hanrahan—\$1,560,000; Mr. Bakken—\$239,999; Mr. Spiegel—\$239,999; Mr. Lain—\$239,999; Ms. Thiede —\$149,998; Ms. Miller—\$149,998; and Ms. Passe—\$239,999. The grant date fair values of these awards assumed that the target level achievement would be attained. If the grant date fair values had been calculated assuming the maximum level of achievement, the grant date fair values would have been: Mr. Hanrahan—\$3,120,000; Mr. Bakken—\$479,998; Mr. Spiegel—\$479,998; Mr. Lain—\$479,998; Ms. Thiede —\$299,996; Ms. Miller—\$299,996; and Ms. Passe—\$479,998. PSUs granted to Mr. Hanrahan, Mr. Spiegel and Ms. Passe were forfeited as these individuals terminated employment prior to June 30, 2017 in accordance with the grant agreements.
- A special sign-on grant of SARs and RSUs made to Mr. Sawyer in April 2017 valued at \$3,680,000 and \$730,044, respectively; these awards cliff vest after two years. In the case of the RSUs, they are also subject to the satisfaction of performance goals related to the Company's stock price. Furthermore, the SARs will not become exercisable and the RSUs will not be settled until the third anniversary of the date of grant, and the SARs will be exercisable until the tenth anniversary of the date of grant.

The grant date fair values for stock awards for the fiscal year ended June 30, 2016 include:

- PSUs granted in August 2015 were earned during the performance period ended June 30, 2016 at the following amounts: Mr. Hanrahan—\$1,568,283; Mr. Spiegel—\$198,126; Mr. Bakken—\$198,126; Mr. Lain —\$173,353; and Ms. Passe —\$198,126. The grant date fair values of these awards assumed that the target level achievement would be attained.

The grant date fair values for stock awards for the fiscal year ended June 30, 2015 include:

- PSUs granted in August 2014 were earned during the performance period ended June 30, 2015 at the following amounts: Mr. Hanrahan—\$1,487,425; Mr. Spiegel—\$264,432; Mr. Bakken—\$264,432; Mr. Lain —\$231,368; and Ms. Passe —\$264,432. The grant date fair values of these awards assumed that the target level achievement would be attained.
- A special one-time grant of RSUs and SARs made to Mr. Hanrahan in January 2015 valued at \$2,999,996 and \$1,999,981, respectively; these awards cliff vest five years after grant, and the SARs expire seven years after grant. These were accelerated pursuant to their terms when Mr. Hanrahan was involuntarily terminated without cause.

(4) Amounts represent the change in the present value of benefits under the pension plans. Mr. Bakken is the only NEO eligible for such plans. The pension value for Mr. Bakken decreased by \$5,743 in fiscal 2015 and by \$6,843 in fiscal 2017.

(5) The following table sets forth All Other Compensation amounts by type:

Name	Company Match and Profit-Sharing Contribution \$(a)	Moving / Travel Expenses \$(b)	Severance \$(c)	Fees to Third-Party Consultant \$(d)	Total All Other Compensation \$(d)
Hugh E. Sawyer	—	4,401	—	—	4,682
Daniel J. Hanrahan	19,792	—	9,343,752	—	9,406,633
Michael C. Pomeroy	—	—	—	300,000	300,000
Eric A. Bakken	25,036	—	—	—	31,625
Steven M. Spiegel	6,250	5,415	—	—	19,995
Jim B. Lain	2,000	—	—	—	10,465
Carmen D. Thiede	24,700	—	—	—	41,565
Annette L. Miller	13,500	—	—	—	21,772
Heather L. Passe	17,984	—	1,192,672	—	1,217,552

(a) The Company matches our NEOs' contributions into our deferred compensation plans up to \$25,000 per calendar year. Amounts greater than \$25,000 are due to the difference between calendar and fiscal year compensation.

- (b) Mr. Sawyer is entitled to reimbursement of temporary housing expenses for 18 months, up to \$175,000 in total, pursuant to his employment agreement. Any unspent portion will be paid to him if he remains employed after 18 months. Mr. Spiegel was entitled to reimbursement of travel expenses for commuting from Chicago to Minneapolis pursuant to his employment agreement.
- (c) Mr. Hanrahan's severance includes two times his base salary (\$1,700,000), fiscal 2017 bonus based on actual results (\$0), 18 months of medical and dental continuation (up to \$22,227), equity acceleration upon a termination without cause pursuant to certain of his award agreements (\$3,537,627) and, pursuant to the Committee policies adopted in January 2017 as a retention measure, additional equity acceleration upon a termination without cause (\$1,373,171) and the value of his fiscal 2014 and 2015 PSUs, which were earned but not yet vested at the date of termination, valued at the closing price on his last day of employment (\$2,710,732). See "*Other Compensatory Decisions During Fiscal 2017*" in CD&A. It is important to note that the grant date value of the equity awards that were accelerated are also included in the Summary Compensation Table under "Stock Awards" for the fiscal year in which they were granted to Mr. Hanrahan, as follows: FY15 in full (\$4,349,984), FY16 in full (\$1,716,471), and the portion representing the FY17 RSUs (\$1,039,992).

Ms. Passe's severance includes one times her base salary (\$375,000), pro-rated fiscal 2017 bonus based on actual results (\$0), 12 months of medical and dental continuation (up to \$18,465), reimbursement for career transition services (up to \$10,000), and, pursuant to the Committee policy adopted in January 2017 as a retention measure, equity acceleration upon a termination without cause (\$348,792) and the value of her fiscal 2014 and fiscal 2015 PSUs, which were earned but not yet vested at the date of termination, valued at the closing price on her last day of employment (\$440,415). See "*Other Compensatory Decisions During Fiscal 2017*" in CD&A.

- (d) Total All Other Compensation for Mr. Sawyer, Mr. Hanrahan, Mr. Bakken, Mr. Spiegel, Mr. Lain, Ms. Thiede, Ms. Miller and Ms. Passe also includes \$281, \$43,089, \$6,589, \$8,330, \$8,465, \$16,865, \$8,272 and \$6,896 of perquisites, respectively, which primarily relate to medical benefits, including the reimbursement of co-pay and other out-of-pocket expenses and the Company employee stock purchase program.

- (6) Mr. Sawyer commenced employment on April 17, 2017.
- (7) Mr. Hanrahan's employment terminated April 16, 2017.
- (8) Mr. Pomeroy was appointed as Interim Chief Financial Officer on January 24, 2017 and served in this capacity until June 30, 2017. He is a Senior Director with Huron Consulting Services LLC ("Huron"), a management consulting firm, and Huron made Mr. Pomeroy available to the Company as a contracted service employee under the terms of an engagement letter between the Company and Huron. Pursuant to that engagement letter, the Company paid Huron a fee of \$60,000 per month as compensation for Mr. Pomeroy's services, as well as reimbursement of typical, documented out of pocket expenses.
- (9) Mr. Spiegel left the Company effective September 30, 2016.
- (10) Ms. Thiede left the Company effective July 21, 2017.
- (11) Ms. Passe's employment terminated effective February 28, 2017.

GRANTS OF PLAN-BASED AWARDS IN 2017

The following table sets forth certain information concerning plan-based awards granted to the Named Executive Officers during the fiscal year ended June 30, 2017. No options were repriced or materially modified during the fiscal year.

Name	Grant Date	Approval Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(1)			Estimated Possible Payouts Under Equity Incentive Plan Awards(2)			All Other Stock Awards: Number of Shares of Stock or Units(2)	All Other Option Awards: Number of Securities Underlying Options(2)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock & Option Awards \$(3)
			Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)(3)	Target (#)	Maximum (#)				
Hugh E. Sawyer	4/17/2017	4/11/2017							89,686			730,044
	4/17/2017	4/11/2017								1,000,000	11.15	3,680,000
Daniel J. Hanrahan			531,250 (4)	1,062,500 (4)	2,125,000 (4)							
	8/31/2016	8/15/2016				62,053 (4)	124,105 (4)	248,210 (4)				1,560,000
	8/31/2016	8/15/2016							82,736			1,039,992
Michael C. Pomeroy			—	—	—	—	—	—	—	—	—	—
Eric A. Bakken			148,500	297,000	594,000							
					445,500 (5)							
	8/31/2016	8/15/2016				9,547 (6)	19,093 (6)	38,186 (6)				239,999
	8/31/2016	8/15/2016							12,728			159,991
Steven M. Spiegel			132,000 (4)	264,000 (4)	528,000 (4)							
	8/31/2016	8/15/2016				9,547 (4)	19,093 (4)	38,186 (4)				239,999
	8/31/2016	8/15/2016							12,728			159,991
Jim B. Lain			120,000	240,000	480,000							
					360,000 (5)							
	8/31/2016	8/15/2016				9,547 (6)	19,093 (6)	38,186 (6)				239,999
	8/31/2016	8/15/2016							12,728			159,991
Carmen D. Thiede			100,000	200,000	400,000							
					300,000 (5)							
	8/31/2016	8/15/2016				5,967 (6)	11,933 (6)	23,866 (6)				149,998
	8/31/2016	8/15/2016							7,955			99,994
Annette L. Miller			93,750	187,500	375,000							
					281,300 (5)							
	8/31/2016	8/15/2016				5,967 (6)	11,933 (6)	23,866 (6)				149,998
	8/31/2016	8/15/2016							7,955			99,994
Heather L. Passe			94,000 (4)	188,000 (4)	376,000 (4)							
					281,300 (5)							
	8/31/2016	8/15/2016				9,547 (4)	19,093 (4)	38,186 (4)				239,999
	8/31/2016	8/15/2016							12,728			159,991

- (1) These amounts represent the threshold, target, and maximum non-equity incentive (bonus) amounts that could have been earned by our executives for fiscal 2017 under the Short Term Plan, as described under “*Annual Incentive Decisions for Fiscal 2017*” in CD&A. Based on fiscal 2017 results and the Committee's exercise of negative discretion, no non-equity incentive awards were paid.
- (2) The August 2016 option and stock awards were granted under the 2004 Long Term Plan. The April 2017 stock awards to Mr. Sawyer were granted under the 2016 Long Term Plan.
- (3) Amounts are computed in accordance with FASB ASC Topic 718.
- (4) The amounts for Mr. Hanrahan, Mr. Spiegel and Ms. Passe represent the bonus opportunities they would have been eligible to receive if they had remained employed for the entire fiscal year. Pursuant to their employment or separation agreements and the circumstances of their termination of employment, Mr. Spiegel and Ms. Thiede were not entitled to receive any non-equity incentive award for fiscal year 2017; Mr. Hanrahan was entitled to receive an award based on the Company's actual results; and Ms. Passe was entitled to receive a pro-rated award based on the portion of the year during which she was employed and the Company's actual results.
- (5) Represents the maximum amount that may be earned by each NEO who is a participant under a supplemental performance-based cash retention bonus program, depending upon the achievement of certain objectives related to expanding the Company's franchise model during the 18-month period ending June 30, 2018. This plan does not have a threshold or target level. If participants are involuntarily terminated without cause, they would receive a payout after the end of the performance period based on the Company's actual results. Any such bonus received would be in addition to any amounts received pursuant to the Company's annual incentive plan. See “*Other Compensatory Decisions in Fiscal 2017*” in CD&A.

- (6) These amounts represent the threshold, target and maximum number of PSUs that were available to our executives with respect to the fiscal 2017 PSU awards for the performance period ended June 30, 2019 as described under "*Long-Term Incentive Decisions for Fiscal 2017*" in the CD&A.

Summary of Terms of Equity Awards

The terms of the equity awards granted as part of the long-term incentives for fiscal 2017 are summarized below:

- Performance Stock Units—PSUs are grants of restricted stock units that are earned based on the achievement of the performance goals established by the Committee. After the performance period, the participant receives a number of restricted stock units equal to the original number of PSUs granted multiplied by the award multiplier that corresponds to the performance that was attained. The fiscal 2017 PSUs have a three-year performance period (July 1, 2016 to June 30, 2019), after which they will vest to the extent earned, as described above in the CD&A under "*Long-Term Incentive Decisions for Fiscal 2017*." In the event of a termination of employment, unvested PSUs are generally forfeited; provided, however, that a pro-rated amount of the fiscal 2017 PSUs will vest at the target level upon a participant's death or disability, or upon a Change in Control (as defined in the 2004 Long-Term Plan). In addition, a pro-rated amount of the units will vest based on actual performance at the end of the performance period upon a participant's retirement (which is defined to mean termination at age 62 or after age 55 with 15 years or more of continuous service), or if a participant is terminated by the Company without Cause after July 1, 2017. The PSUs earn dividend equivalents, but have no voting rights.
- Restricted Stock Units—RSUs vest as to one-third of the shares on each of the first three anniversaries of the date of grant. In the event of a termination of employment, unvested RSUs are generally forfeited; provided, however, that the vesting is accelerated in the event of death, disability or a change in control and a pro-rated amount of the units will vest in the event of retirement (defined as described above for PSUs). The RSUs earn dividend equivalents, but have no voting rights. In addition, in the event of a termination of employment without Cause, prior to August 31, 2018, the RSUs will vest in full.

The sign-on grant of SARs and RSUs to Mr. Sawyer in April 2017 cliff vest after two years, and in the case of his RSUs, are also subject to the satisfaction of performance goals related to the Company's stock price, and subject in each case to certain accelerated vesting events. Furthermore, his SARs will not become exercisable and his RSUs will not be settled until the third anniversary of the date of grant, and his SARs will be exercisable until the tenth anniversary of the date of grant. See discussion in CD&A, "*Compensatory Arrangements with Mr. Sawyer*."

OUTSTANDING EQUITY AWARDS AT 2017 FISCAL YEAR-END

The following table sets forth certain information concerning outstanding equity awards held by the Named Executive Officers at June 30, 2017.

Name	Option Awards					Stock Awards(1)					
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable		Option Exercise Price(\$)	Option Expiration Date(2)	Number of Shares or Units of Stock That Have Not Vested (#)		Market Value of Shares or Units of Stock That Have Not Vested (\$)(3)	Equity Incentive Plan Awards: Number of Unearned Shares or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares or Other Rights That Have Not Vested (\$)(3)	
Hugh E. Sawyer	—	1,000,000	(4)	11.15	4/17/2027						
						89,686	(5)	921,075			
Daniel J. Hanrahan	—	—		—	—	—		—	—	—	
Michael C. Pomeroy	—	—		—	—	—		—	—	—	
Eric A. Bakken	3,200	—		28.57	4/24/2018						
	15,500	—		19.14	4/30/2019						
	4,200	—		18.90	4/29/2020						
	4,200	—		16.60	4/28/2021						
	22,250	—		18.01	8/31/2022						
	26,578	—		15.78	8/30/2023						
	15,944	7,972	(6)	15.11	8/29/2024						
	15,194	30,390	(7)	10.84	8/31/2025						
						1,764	(6)	18,116			
						5,294	(8)	54,369			
						4,919	(7)	50,518			
						12,728	(9)	130,717			
						17,500	(10)	179,725			
						18,277	(11)	187,705			
									19,093	(12)	196,085
Steven M. Spiegel	—	—		—	—	—		—	—	—	
Jim B. Lain	6,519	—		15.50	11/11/2023						
	13,952	6,974	(6)	15.11	8/29/2024						
	13,295	26,591	(7)	10.84	8/31/2025						
						36,129	(13)	371,045			
						1,544	(6)	15,857			
						3,970	(8)	40,772			
						4,304	(7)	44,202			
						12,728	(9)	130,717			
						15,312	(10)	157,254			
						15,992	(11)	164,238			
									11,423	(12)	117,314
Carmen D. Thiede	17,921	—		14.94	10/21/2023						
	9,966	4,981	(6)	15.11	8/29/2024						
	9,496	18,994	(7)	10.84	8/31/2025						
						29,228	(14)	300,172			
						1,103	(6)	11,328			
						3,309	(8)	33,983			
						3,074	(7)	31,570			
						7,955	(9)	81,698			
						10,937	(10)	112,323			
						11,423	(11)	117,314			
									11,933	(12)	122,552

Name	Option Awards					Stock Awards(1)			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable		Option Exercise Price(\$)	Option Expiration Date(2)	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(3)	Equity Incentive Plan Awards: Number of Unearned Shares or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares or Other Rights That Have Not Vested (\$)(3)
Annette L. Miller	9,246	4,623	(15)	16.40	12/15/2024				
	9,496	18,994	(7)	10.84	8/31/2025				
						1,016	(16)	10,434	
						3,074	(7)	31,570	
						7,955	(9)	81,698	
						10,076	(17)	103,481	
						11,423	(11)	117,314	
								11,933	(12)
Heather L. Passe	—	—	—	—	—	—	—	—	122,552

- (1) Stock award numbers include accrued dividend equivalents where applicable.
- (2) All awards of stock options and SARs expire ten years after the date of grant.
- (3) Value based on a share price of \$10.27, which was the last reported sale price for a share of our common stock on the NYSE on June 30, 2017.
- (4) Award vests in full on April 17, 2019.
- (5) Award vests in full on April 17, 2019 if certain performance goals related to the closing price of our common stock are met by April 17, 2019.
- (6) Award vests as to 33% of the shares covered by the award on each of the first three anniversaries of the date of grant, which was August 29, 2014.
- (7) Award vests as to 33% of the shares covered by the award on each of the first three anniversaries of the date of grant, which was August 31, 2015.
- (8) Award vests in full on August 29, 2017.
- (9) Award vests as to 33% of the shares covered by the award on each of the first three anniversaries of the date of grant, which was August 31, 2016.
- (10) Amounts presented represent the number of shares earned during the performance period ended June 30, 2015 with respect to the performance units granted on August 29, 2014. These units will cliff vest on August 29, 2017.
- (11) Amounts presented represent the number of shares earned during the performance period ended June 30, 2016 with respect to the performance units granted on August 31, 2015. These units will cliff vest on August 31, 2018.
- (12) Amounts presented represent the number of shares earned during the performance period ended June 30, 2019 with respect to the performance units granted on August 31, 2016. These units will cliff vest on August 31, 2019 if earned.
- (13) Award vests in full on November 11, 2018.
- (14) Award vests in full on October 21, 2018.
- (15) Award vests in full on December 15, 2017.
- (16) Award vests as to 33% of the shares covered by the award on each of the first three anniversaries of the date of grant, which was December 15, 2014.

- (17) Amounts presented represent the number of shares earned during the performance period ended June 30, 2015 with respect to the performance units granted on December 15, 2014. These units will cliff vest on December 15, 2017.

2017 OPTION EXERCISES AND STOCK VESTED

The following table sets forth certain information concerning SARs exercised and stock vested during fiscal 2017 for the Named Executive Officers:

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)(2)	Value Realized on Exercise \$(1)	Number of Shares Acquired on Vesting (#)(2)	Value Realized on Vesting \$(1)
Hugh E. Sawyer	—	—	—	—
Daniel J. Hanrahan	—	—	470,959	5,183,150
Michael C. Pomeroy	—	—	—	—
Eric A. Bakken	—	—	7,866	100,143
Steven M. Spiegel	15,194	21,879	5,929	75,801
Jim B. Lain	—	—	4,517	58,394
Carmen D. Thiede	—	—	3,761	46,835
Annette L. Miller	—	—	2,554	34,410
Heather L. Passe	45,584	4,103	30,634	379,919

- (1) Value realized on exercise is calculated as the difference between the market value of our common stock on the respective exercise date(s) and the exercise price of the option(s) on a pre-tax basis. Value realized on vesting is the market value of our common stock on the vesting date multiplied by the number of shares acquired, before taxes.
- (2) The number of shares acquired on exercise or vesting of stock awards includes shares that were forfeited for withholding tax obligations. The number of shares forfeited for each Named Executive Officer is reported below:

Name	Number of Shares Used to Pay Taxes on Exercised or Vested Awards (#)
Hugh E. Sawyer	—
Daniel J. Hanrahan	243,965
Michael C. Pomeroy	—
Eric A. Bakken	4,145
Steven M. Spiegel	8,517
Jim B. Lain	2,258
Carmen D. Thiede	1,960
Annette L. Miller	1,150
Heather L. Passe	36,126

SUMMARY OF EXECUTIVE AGREEMENTS

Employment Agreements

We are party to an employment agreement with each of our NEOs, except for Mr. Pomeroy. The key provisions of the employment agreements are summarized below.

NEOs Currently Employed

Name	Date of Employment Agreement	Base Salary as of June 30, 2017 (\$)	FY17 Target Annual Incentive Award (% of Base Salary) (1)
Hugh E. Sawyer	4/17/2017	950,000	N/A
Eric A. Bakken	8/31/2012	495,000	60
Jim B. Lain	11/11/2013	400,000	60
Annette L. Miller	12/16/2014	375,000	50

(1) Under Mr. Sawyer's employment agreement, he is first eligible for an annual incentive award in fiscal 2018, with a target payout equal to 115% of his base salary. Mr. Bakken's target annual incentive was increased to 75% upon his promotion to President - Franchise, first effective for fiscal 2018.

NEOs No Longer Employed

Name	Date of Employment Agreement	Base Salary as of Termination of Employment (\$)	FY17 Target Annual Incentive Award (% of Base Salary)
Daniel J. Hanrahan	8/31/2012 amended 1/13/2015	850,000	125
Steven M. Spiegel	11/28/2012 amended 6/30/2016	440,000	60
Carmen D. Thiede	10/21/2013 amended 1/24/2014	400,000	50
Heather L. Passe	8/31/2012	375,000	50

Ongoing Compensation

- Base Salary—Each NEO receives an annual base salary in the amount set forth above. The base salary amounts are reviewed annually by the Committee and subject to adjustment.
- Bonus—Each NEO is eligible for an annual incentive award. The annual incentive award is set as a percentage of the NEO's then-current base salary for achievement of target performance, but the actual payout may be less than or greater than such amount for actual performance that is less than or greater than target, respectively.
- Long-Term Incentives—Each NEO is entitled to participate in the Company's long-term equity incentive program on the same basis as the Company's other executive officers, with the value of the awards being set annually by the Committee. Mr. Sawyer is not eligible for annual long-term equity awards for fiscal 2018 as he received initial equity awards in connection with the commencement of his employment as described below.
- Life Insurance and Other Benefits—During the term of their employment, each NEO is entitled to life insurance and health and welfare benefits offered to other headquarters employees; provided that Mr. Sawyer has agreed not to participate in the employee stock purchase plan.
- Termination of Employment Payments, Benefits and Other Obligations—The following section separately addresses benefits provided to the NEOs upon death or disability, termination without Cause or for Good Reason, termination for Cause or without Good Reason and termination after a Change in Control. The

severance payments described below are contingent upon the NEO signing and not rescinding a release and complying with certain non-competition and non-solicitation provisions.

- *Death or Disability.* Each NEO is entitled to his or her accrued compensation and obligations, including a pro rata bonus for the year of termination. Pursuant to standard provisions for such awards, the NEOs will receive full vesting of any unvested stock option, restricted stock/restricted stock units and other incentive awards.
- *Dismissal without Cause or Resignation for Good Reason (Prior to or More than Twenty-Four Months Following a Change in Control).* If an NEO is terminated without Cause or if he or she terminates for Good Reason, the NEO will receive an amount equal to one times his or her annual base salary (two times for Mr. Hanrahan and two times for Mr. Sawyer if he is terminated during the first year of his employment) plus a pro-rated portion of any bonus he or she would have earned for the year of termination (based on actual performance), plus 12 months (18 months in the case of Messrs. Sawyer and Hanrahan) of benefits continuation coverage.
- *Dismissal without Cause or Resignation for Good Reason in Connection with a Change in Control.* If Mr. Bakken, Mr. Lain, Ms. Thiede, or Ms. Miller's employment is terminated without Cause or if he or she terminates for Good Reason within 24 months following a change of control, then s/he will instead receive an amount equal to two times base salary plus two times the target annual bonus for the year of termination, as well as 18 months of benefits continuation payments, subject to reduction pursuant to the "best of net" provisions in Mr. Bakken's employment agreement. For Mr. Sawyer, the severance amount is the same as for any dismissal without Cause.
- *Dismissal for Cause or Resignation without Good Reason.* The NEOs are entitled to accrued compensation and obligations where dismissal is for Cause. Severance benefits are not payable in the event of a termination of employment for Cause.
- Provision for Offset of Severance—The agreements provide that severance payments will be paid over the course of the severance period and offset by any compensation an NEO receives from other substantially full-time employment during the severance period. However, the Committee modified these provisions during fiscal 2017 to provide that severance will be paid in a lump sum and not offset by non-competitive employment. See "*Changes to Severance Program*" in CD&A. The severance payments are also contingent upon signing and not rescinding a release and complying with certain non-competition and non-solicitation provisions.
- Restrictive Covenants—The NEOs are subject to restrictive covenants prohibiting the disclosure or use of confidential information, along with two-year covenants regarding non-competition and non-solicitation of employees. Our remedies for violation of restrictive covenants include injunctive relief and forfeiture of severance benefits.
- Mandatory Arbitration—Disputes arising under the employment agreements are to be resolved by binding arbitration.

Sign-On, Relocation and Related Benefits

When executive officers join our Company, from time to time we have agreed to sign-on incentives and relocation benefits that are not part of their ongoing compensation to incentivize them to leave their former employers and join our Company. Specifically, these benefits that were granted or paid in fiscal 2017 to the NEOs include:

- Sign-On Incentives—When he joined our company in April 2017, Mr. Sawyer received a sign-on bonus equal to \$585,000, subject to a one-year clawback, and initial equity awards with an aggregate value of \$5.0 million, comprised of \$4.0 million of stock-settled SARs and \$1.0 million of RSUs. See "*Compensatory Arrangements with Mr. Sawyer*" in CD&A for further detail about these awards.
- Relocation Expenses—We also agreed to reimburse Mr. Sawyer up to \$175,000 for temporary housing expenses for 18 months and to pay him any unspent portion if he remains employed after 18 months.

- Commuting Expenses—We had agreed, under his employment agreement, as amended, to reimburse Mr. Spiegel for commuting expenses, specifically the actual expense of one round-trip by air from Chicago, Illinois to Minneapolis, Minnesota per week that such travel is completed, pursuant to which Mr. Spiegel was reimbursed \$5,415 for his commuting expenses in fiscal 2017.

Additional Separation Benefits

In connection with the termination of Mr. Hanrahan's and Ms. Passe's employment, in addition to the severance benefits described above, they received acceleration of their unvested equity awards pursuant to the Committee's policies adopted in January 2017, including cash payments equal to \$2,710,732 and \$348,792, respectively, representing the value of their performance-based restricted stock units granted in August 2014 and August 2015, for which the performance conditions had been satisfied during their employment, but that were not yet vested solely due to additional time-based vesting requirements.

Historical Retirement and Life Insurance Benefits

- Retirement Benefits—Pursuant to certain grandfathered provisions of his employment agreement, upon retirement (at or after age 65), Mr. Bakken is entitled to receive a lump sum cash payment equal to the present value of a hypothetical annuity of monthly payments that are equal to the greater of \$5,000 or 40% of his respective five-year average monthly compensation for the five-year period ending June 30, 2012 (i.e., July 1, 2007 through June 30, 2012), excluding bonuses (subject to a 20-year vesting schedule), to be paid for 240 months. Mr. Bakken's agreement provides he will be entitled to the fully vested benefit if his employment is terminated without Cause or if he terminates for Good Reason at any time, and his agreement provides he will be entitled to the fully vested benefit if his employment terminates for any reason other than for Cause within two years of a Change in Control. Additionally, upon any termination following a Change in Control (except for Cause), he receives (i) the same retirement benefits described below, except that the lumpsum is equal to the sum of the payments due, determined as if he is fully vested, and (ii) a lump sum payment of any unpaid amounts described below under "*Life Insurance*."

Under this arrangement, an executive officer has the option to elect to receive his or her retirement benefit in the form of the 240 monthly payments rather than the lump sum, provided that such election is made in accordance with the requirements described in his or her employment agreement and consistent with Code Section 409A. In addition to the possibility for reduction based on (i) the vesting schedule and/or (ii) the present value discount for a lump sum payment, an executive's retirement benefit is subject to further discount if paid prior to age 65 (an "Early Retirement"). If payment is made in connection with an Early Retirement, the hypothetical annuity of 240 monthly payments is discounted by first calculating the benefit as an annuity starting at age 65, and then converting it to an immediate commencement annuity using the yield to maturity of 30-year U.S. Treasury Notes as of June 30, 2012 (2.76%).

If an executive officer dies before receiving full payment of his or her retirement benefit, payment will be made in a lump sum or monthly payments will continue, as applicable, to his or her designated beneficiary (or his or her estate). If an executive officer becomes disabled, he or she will receive monthly payments beginning six months after his or her disability begins and continuing until the earlier of his or her death or attainment of age 65, or until he or she ceases to be disabled, in an amount equal to his or her monthly benefit. At death or attainment of age 65, he or she (or his or her beneficiary) will receive the benefit described above under "*Retirement Benefits*." No retirement benefits are payable in the event of termination of employment for Cause.

Under the amended and restated employment agreement signed by Mr. Bakken effective August 31, 2012, we froze vesting in his retirement benefits as of June 30, 2012, subject to the continued right to full acceleration in the event of termination without Cause or termination for Good Reason, as described above. As indicated, we also limited the calculation of the monthly benefit to his five-year average monthly base salary as of June 30, 2012.

Of our NEOs, only Mr. Bakken is eligible for this benefit.

- Life Insurance—We agreed to pay premiums for a total of ten years on the existing policies insuring the lives of certain of our executive officers who were entitled to such benefits and were employed by the Company as of June 30, 2012. As of June 30, 2017, we have made all of the payments that we had agreed to pay on Mr.

Bakken's policies. As of June 30, 2017, the aggregate face amount of Mr. Bakken's policies is approximately \$3.2 million.

Definitions under Executive Agreements

Certain of the terms used in the executive agreements as in effect at the end of fiscal 2017 are defined below:

- **Cause**—Acts resulting in a felony conviction that is materially detrimental to the financial interests of the Company; willful nonperformance by the executive of his material employment duties (other than by reason of physical or mental incapacity) after reasonable notice to the executive and reasonable opportunity (not less than 30 days) to cease such non-performance; or willful engagement in fraud or gross misconduct that is materially detrimental to the financial interests of the Company.
- **Change in Control**—A person is or becomes the beneficial owner of 20% or more of the outstanding common stock or outstanding voting securities of the Company; consummation of a merger or consolidation of the Company, a statutory share exchange or an acquisition of all or substantially all of the Company's assets unless the beneficial owners of the Company's outstanding voting securities immediately prior to the transaction beneficially own more than 50% of the voting power of the outstanding voting securities of the surviving entity in substantially the same proportions; or the incumbent directors cease to constitute at least a majority of the Board. Furthermore, in August 2014, the Board adopted an amendment providing that a Change in Control does not occur if a person becomes the beneficial owner of 20% or more of the outstanding common stock or outstanding voting securities of the Company solely as the result of a change in the aggregate number of shares of outstanding common stock or outstanding voting securities since the last date on which such person acquired beneficial ownership of any shares of common stock or voting securities.
- **Good Reason**—Any adverse alteration in the executive's reporting responsibilities, titles or offices (or, in the case of Mr. Sawyer, a material diminution of his authority, duties or responsibilities); a material reduction of the executive's base salary (or, in the case of Mr. Sawyer, any reduction in his base salary or target bonus percentage); failure by the Company to continue any compensation plan, bonus or incentive plan; material breach of the agreement by the Company; requirement that the executive's principal place of employment be relocated by more than 30 miles from the Company's current address (other than for Mr. Sawyer); or the Company's failure to obtain an agreement from any successor entity to assume the Company's obligations under the agreement.
- **Disability**—Physical or mental disability or health impairment that prevents the effective performance by the executive of his duties on a full time basis.

Retirement Plans and Arrangements

We currently provide the Named Executive Officers the option to participate in two Company-sponsored retirement savings plans: the Executive Retirement Savings Plan, a nonqualified deferred compensation plan, and the Regis Individual Secured Retirement Plan (the "RiSRP"), an employee welfare benefit plan, which was added in fiscal 2016 as a post-tax retirement savings option.

Elections to defer compensation under the Executive Retirement Savings Plan are made annually, prior to the beginning of the year in which the deferred compensation is earned. Executives may defer up to 100% of their annual compensation, including bonus, on a pre-tax basis. Beginning with elections made in fiscal 2016, in-service distributions must be deferred for a minimum of two years. Employer contributions under the Executive Retirement Savings Plan for our Named Executive Officers include a 25% match on up to a maximum of \$100,000 in deferred compensation (i.e., \$25,000) and a discretionary annual profit sharing contribution (each on a calendar-year basis). We deposit the deferred amounts and employer contributions into a trust for the benefit of plan participants. In accordance with tax laws, the assets of the trust are subject to claims of the Company's creditors. Participant account balances are deemed invested as the executive directs, from time to time, among the investment alternatives offered. Subject to compliance with plan terms and applicable tax requirements (including, without limitation, Code Section 409A), executives may elect the distribution date for their plan accounts.

Under the RiSRP, participants may elect to contribute amounts from payroll, up to 100% of their annual compensation, including bonus, on an after-tax basis. Employee contributions under the RiSRP for our NEOs include the same match opportunity as the Executive Retirement Savings Plan, and if an NEO is participating in both plans, their aggregate match is capped at \$25,000. Participants may also make contributions outside of payroll deductions, but these are not eligible

for employer match. Participant contributions and employer matching contributions are deposited in participant-owned life insurance policies. These insurance policies are not subject to claims of the Company's creditors. Each participant's account balances under the life insurance policy is invested as the participant directs, from time to time, among the investment alternatives available under the insurance policy.

PENSION BENEFITS IN 2017

The following table sets forth certain information concerning pension benefits for the Named Executive Officers for fiscal 2017:

Name(1)	Age at June 30, 2017	Plan Name(2)	Number of Years of Credited Service (#)(3)	Present Value of Accumulated Benefit \$(4)	Payments During Last Fiscal Year (\$)
Eric A. Bakken	50	Employment Agreement	23.5	1,001,259	—

- (1) Mr. Bakken is the only NEO eligible for the Company's pension benefits program, as it was frozen prior to the commencement of employment of all our other NEOs.
- (2) Retirement benefits provided under the applicable employment agreement for each Named Executive Officer are described above under "*Summary of Executive Agreements*."
- (3) The number of years of credited service shown for Mr. Bakken represents his actual years of service; however, for purposes of determining the value of their accumulated benefit, his years of credited service was frozen at 18.5.
- (4) The present value of pension benefits for Mr. Bakken is calculated based on the following assumptions: (i) freezing of the pension benefits as described above under "*Summary of Executive Agreements—Retirement Plans and Arrangements*," (ii) expected retirement age of the later of (A) June 30, 2017 or (B) age 65, which is the earliest time a participant may retire without any benefit reduction due to age, and (iii) discount rate of 3.25%.

NONQUALIFIED DEFERRED COMPENSATION FOR 2017

The following table sets forth certain information concerning nonqualified deferred compensation under our Executive Retirement Savings Plan and the RiRSP for the NEOs for fiscal 2017:

Name	Executive Contributions in Last FY (\$)(2)	Registrant Contributions in Last FY (\$)(1)(2)	Aggregate Earnings in Last FY (\$)(2)	Aggregate Withdrawals/ Distributions (\$)	Aggregate Balance at Last FYE (\$)
Hugh E. Sawyer	—	—	—	—	—
Daniel J. Hanrahan	79,167	19,792	56,026	—	600,945
Michael C. Pomeroy	—	—	—	—	—
Eric A. Bakken	104,888	25,036	18,321	(136,156)	325,183
Steven M. Spiegel	25,000	6,250	325	(125,132)	188,327
Jim B. Lain	8,000	2,000	—	—	5,000
Carmen D. Thiede	98,800	24,700	70,859	—	326,525
Heather L. Passe	76,875	17,984	761	(128,655)	194,657
Annette L. Miller	54,000	13,500	649	(121,414)	176,913

- (1) The Company matches deferred compensation contributions at 25% of the amount contributed by the participant, up to \$25,000 per calendar year. Amounts exceeding \$25,000 are due to timing differences between the calendar and fiscal year.
- (2) The following amounts of contributions and earnings reflected in the table above have been reported in the current year or prior years' Summary Compensation Tables as follows:

Name	Total Amount Reported in Current or Prior Summary Compensation Tables (\$)	Current Year Summary Compensation Table			
		Salary (\$)	Non-Equity Incentive Plan (\$)	Above-Market Earnings (\$)	Company Match and Profit-Sharing Contribution in All Other Compensation (\$)
Hugh E. Sawyer	—	—	—	—	—
Daniel J. Hanrahan	755,930	79,167	—	—	19,792
Michael C. Pomeroy	—	—	—	—	—
Eric A. Bakken	337,272	104,888	—	—	25,036
Steven M. Spiegel	94,770	25,000	—	—	6,250
Jim B. Lain	15,000	8,000	—	—	2,000
Carmen D. Thiede	520,884	98,800	—	—	24,700
Heather L. Passe	161,622	76,875	—	—	17,984
Annette L. Miller	123,648	54,000	—	—	13,500

The measurement funds available under the Executive Retirement Savings Plan include the Company's common stock and selected mutual funds, which are the same measurement funds available for employees generally with respect to investment of their funds in the Company's qualified 401(k) plan. Participants in the plan may change their investments in the various measurement funds at any time.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

The tables that follow describe potential payments and benefits provided to our NEOs or their beneficiaries under the employment agreements, plans and arrangements in existence at June 30, 2017 under various scenarios involving a termination of employment and/or a change in control, and assuming that the termination or change in control event(s) occurred on June 30, 2017. The agreements are described in more detail above under "Summary of Executive Agreements." The following presentation has been keyed to the following events upon which an NEO or their beneficiaries would be entitled to a payment or benefit:

- Voluntary termination or involuntary termination not related to a change in control;

- Termination due to death;
- Termination due to disability;
- A change in control not involving an employment termination; and
- Involuntary termination within twenty-four months after a change in control.

Unless otherwise specified, an “involuntary termination” for these purposes includes a termination by the NEO for “Good Reason,” but does not include a termination for “Cause.” A “voluntary termination” refers to a termination by the NEO other than for “Good Reason.” “Cause” and “Good Reason” for these purposes have the meanings described above under “Definitions under Executive Agreements.”

Potential Payments to NEOs Currently Employed

Name	Type of Payment or Benefit	Not Related to Change in Control				After a Change in Control	
		Voluntary Termination(\$)	Involuntary Termination(\$)(1)	Death(\$)	Disability(\$)	Not Involving a Termination of Employment(\$)	Involuntary Termination (\$)(2)
Hugh E. Sawyer	Severance	—	1,900,000	—	—	—	1,900,000
	Medical and Dental Insurance Benefits(3)	—	22,193	—	—	—	22,193
	Accelerated Vesting of Equity(4)(6)	—	—	921,075	921,075	921,075	921,075
	Total	—	1,922,193	921,075	921,075	921,075	2,843,268
Eric A. Bakken	Severance	—	495,000	—	—	—	1,732,500
	Medical and Dental Insurance Benefits(3)	—	18,695	—	—	—	28,042
	Retirement Benefits(5)	1,075,317	1,265,078	1,903,176	2,522,070	—	1,265,078
	Accelerated Vesting of Equity(6)	—	621,157	686,518	686,518	817,242	817,242
	Total	1,075,317	2,399,930	2,589,694	3,208,588	817,242	3,842,862
Jim B. Lain	Severance	—	400,000	—	—	—	1,280,000
	Medical and Dental Insurance Benefits(3)	—	10,048	—	—	—	15,072
	Accelerated Vesting of Equity(6)	—	924,088	989,449	989,449	1,120,173	1,120,173
	Total	—	1,334,136	989,449	989,449	1,120,173	2,415,245
Annette L. Miller	Severance	—	375,000	—	—	—	1,125,000
	Medical and Dental Insurance Benefits(3)	—	18,695	—	—	—	28,042
	Accelerated Vesting of Equity(6)	—	344,497	385,347	385,347	467,049	467,049
	Total	—	738,192	385,347	385,347	467,049	1,620,091

- (1) Severance amounts in the event of Involuntary Termination Not Related to Change in Control represent a cash payment equal to two times annual base salary for Mr. Sawyer and one times annual base salary for the other NEOs, plus, for the other NEOs, a pro-rated portion of any bonus the executive officer would have earned for the year of termination, based on actual performance. Mr. Sawyer was not eligible for a fiscal 2017 bonus pursuant to his employment agreement, and the other NEOs did not receive a bonus payout for fiscal 2017.
- (2) In the event of an Involuntary Termination Related to a Change in Control, Mr. Sawyer would receive the same severance as for any involuntary termination. Severance to the other NEOs represents a cash payment equal to two times annual base salary plus two times the target annual bonus for the year of termination.

Under Code Section 280G, executives will incur an excise tax on portions of these payments if the parachute value of payments exceeds a specified threshold. Under the 2004 Long Term Plan, participants who first received awards prior to October 22, 2013 (which includes only Mr. Bakken) are entitled to an excise tax gross-up if an award granted thereunder, either alone or together with other payments and benefits the participant receives or is entitled to receive would constitute a "parachute payment." The 2016 Long-Term Incentive Plan does not provide for any excise tax gross-ups on parachute payments. Once the grandfathered excise tax gross-up is phased out, the Company will determine, pursuant to Mr. Bakken's employment agreement, whether he is better off receiving the full payment due and paying the excise tax, or receiving a reduced payment that falls just below the excise tax threshold, which is

referred to as a “best of net” provision. For this hypothetical payment as of June 30, 2017, it has been estimated that Mr. Bakken would be better off receiving the full payment due.

- (3) The amount represents the estimated medical and dental insurance premiums for the applicable benefits continuation period following involuntary termination. The continuation period is 18 months for Mr. Sawyer; for the other NEOs, it is 12 months if not related to a change in control and 18 months if related to a change in control.
- (4) Mr. Sawyer is entitled to acceleration of his sign-on equity awards upon death, disability, a change in control, or termination without cause or for good reason, except that in the case of his sign-on RSUs, the Company's stock price must exceed certain thresholds, which it did not on June 30, 2017. For more information about these awards, see *"Compensatory Arrangements with Mr. Sawyer"* in CD&A.
- (5) The amounts represent a lump sum cash payment equal to the present value of a hypothetical annuity of monthly benefits. The annuity amount and payment period vary according to the termination scenario, as described under *"Summary of Executive Agreements— Employment Agreements—Historical Retirement and Life Insurance Benefits."*
- (6) Amounts represent the intrinsic value of SARs, RSUs, and PSUs as of June 30, 2017 for which the vesting would be accelerated. The value entered for SARs is based on the number of units for which vesting would be accelerated times the excess of \$10.27, the closing price of the Company's common stock on June 30, 2017 on the NYSE, over the SAR exercise price. All of the Company's outstanding SAR awards have exercise prices greater than \$10.27. The value included for RSUs and PSUs is the product of the number of units for which vesting would be accelerated and \$10.27.

Actual Payments upon Termination to NEOs No Longer Employed

No payments were made to Mr. Spiegel or Ms. Thiede, who left the Company voluntarily, or Mr. Pomeroy, who was not eligible. The amounts below reflect amounts actually paid to Mr. Hanrahan and Ms. Passe in connection with their termination of employment.

Name	Type of Payment or Benefit	Involuntary Termination(\$)
Daniel J. Hanrahan	Severance(1)	1,700,000
	Medical and Dental Insurance Benefits(2)	22,227
	Accelerated Vesting of Equity(3)	7,621,525
	Total	9,343,752
Heather L. Passe	Severance(1)	375,000
	Medical and Dental Insurance Benefits(2)	18,465
	Accelerated Vesting of Equity(4)	789,207
	Career Transition Services(5)	10,000
	Total	1,192,672

- (1) Represents two times his base salary plus actual bonus based on actual results for Mr. Hanrahan, and one times her base salary plus pro-rated bonus based on actual results for Ms. Passe. No annual incentive bonus payments were made to any of the NEOs due to the Committee's determination to exercise its negative discretion. See *"Long-Term Incentive Decisions for Fiscal 2017."*
- (2) Represents the medical and dental insurance premiums for 18 months for Mr. Hanrahan and 12 months for Ms. Passe.
- (3) Represents the intrinsic value of SARs and RSUs that were accelerated in connection with Mr. Hanrahan's termination of employment, as well as payment in cash for PSUs that were earned but not yet vested. Mr. Hanrahan was entitled to (i) acceleration upon involuntary termination without cause under the terms of certain SAR and RSU awards made by the Company in connection with his initial commencement of employment and special awards granted to him in January 2015 (\$3,537,627), (ii) acceleration of his other outstanding RSU and SAR awards pursuant to the Committee policy approved in January 2017 to accelerate unvested equity upon involuntary termination without cause as a retention measure (\$1,373,171), and (iii) a cash payment equal to the value of his fiscal 2014 and fiscal 2015 PSUs at \$11.15, which was the closing price of our common stock on his last day of employment (\$2,710,727). The value entered for Mr. Hanrahan's SARs is based on the number of units for which vesting would be accelerated times the excess of \$11.15, the closing price of the Company's common stock on April 14, 2017 on the NYSE, over

the SAR exercise price, and the value included for his RSUs is the product of the units for which vesting was be accelerated and \$11.15.

- (4) Represents the intrinsic value of SARs and RSUs that were accelerated in connection with Ms. Passe's termination of employment, as well as payment in cash for PSUs that were earned but not yet vested. Ms. Passe was entitled to (i) acceleration upon involuntary termination without cause pursuant to the Committee's decision in January 2017 to accelerate unvested equity upon involuntary termination without cause as a retention measure (\$348,792) and (ii) a cash payment equal to the value of her fiscal 2014 and fiscal 2015 PSUs at \$12.13, which was the closing price of our common stock on her last day of employment (\$440,415). The value entered for Ms. Passe's SARs is based on the number of units for which vesting would be accelerated times the excess of \$12.13, the closing price of the Company's common stock on February 28, 2017 on the NYSE, over the SAR exercise price, and the value included for her RSUs is the product of the units for which vesting was be accelerated and \$12.13.
- (5) Represents a commitment to reimburse Ms. Passe up to this amount for career transition services.

FISCAL 2017 DIRECTOR COMPENSATION TABLE

Compensation of our directors is reviewed and determined by the Board on an annual basis, with consideration given to industry comparisons of directors' compensation. A portion of director compensation is linked to our stock performance in the form of equity awards. Employee directors do not receive any cash or other compensation for their services as directors. Each of the cash compensation and the equity compensation for non-employee directors who serve during only a portion of a fiscal year is pro-rated. Fiscal 2017 director compensation was flat with fiscal 2016. Our current non-employee director compensation is as follows:

- An annual cash retainer of \$70,000;
- An annual cash retainer for the chair of the Audit Committee of \$15,000;
- Annual cash retainers of \$10,000 and \$7,500 for the chairs of the Compensation Committee and the Nominating and Corporate Governance Committee, respectively;
- An annual grant of deferred stock units valued at \$90,000, which vest monthly over a period of one year and pay out when the director leaves the Board, generally granted on the date of the director's election or re-election at the annual meeting of shareholders; and
- An annual grant of deferred stock units valued at \$85,000 payable to our independent Chair of the Board, which vest monthly over a period of one year and pay out when the Chair leaves the Board.

In October 2015, the Compensation Committee provided that Mr. Beltzman would henceforth receive cash in lieu of a director equity grant due to his beneficial ownership of greater than 20% of our outstanding common stock. Therefore, for his term ending October 17, 2017, he is receiving an additional \$90,000 in cash and no equity grant.

The following table shows, for each of the non-employee directors who served during the fiscal year ended June 30, 2017, information concerning their annual and long-term compensation earned during such fiscal year.

Name	Fees Earned or Paid in Cash(\$)	Stock Awards (\$)(1)	Total(\$)
Daniel G. Beltzman	137,500	—	137,500
David J. Grissen	77,500	89,994	167,494
Mark S. Light	70,000	89,994	159,994
Michael J. Merriman	80,000	89,994	169,994
M. Ann Rhoades	70,000	89,994	159,994
Stephen E. Watson	70,000	89,994	159,994
David P. Williams	85,000	174,991	259,991

- (1) Values expressed represent the aggregate grant date fair value of stock awards granted during fiscal 2017, as computed in accordance with FASB ASC Topic 718, based on the closing stock price on the grant date. See Note 11 to our consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2017 for a description of the assumptions used in calculating these amounts.

The following table shows, for each of our current non-employee directors, the aggregate number of stock and option awards beneficially owned by them as of June 30, 2017:

Name	Aggregate Stock Awards Outstanding as of 06/30/17 (#)	Aggregate Option Awards Outstanding as of 06/30/17 (#)
Daniel G. Beltzman	17,535	—
David J. Grissen	25,859	—
Mark S. Light	25,859	—
Michael J. Merriman	36,254	—
M. Ann Rhoades	14,363	—
Stephen E. Watson	58,789	7,000
David P. Williams	43,296	—

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information about our common stock that may be issued under all of our stock-based compensation plans in effect as of June 30, 2017.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders(1)	3,349,644	\$ 14.74	4,559,880 (2)
Equity compensation plans not approved by security holders(3)	1,000,000	11.15	—
Total	4,349,644	\$ 13.92	4,559,880

- (1) Includes stock options granted under our 2000 Stock Option Plan as well as shares granted through stock options, SARs, restricted stock awards, RSUs and PSUs under the 2004 and 2016 Long Term Plans. Information regarding the stock-based compensation plans is included in Notes 1 and 11 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended June 30, 2017.
- (2) The Company's 2016 Long Term Plan provides for the issuance of a maximum of 6,750,000 shares of the Company's common stock through stock options, SARs, restricted stock, or RSUs. As of June 30, 2017, 1,458 shares of unvested restricted stock were outstanding under the 2004 Long Term Plan, which are not reflected in this table. As of June 30, 2017, there are 4,324,855 shares included in the number of securities remaining available for future issuance under equity compensation plans as disclosed in this table. As of June 30, 2017, there were also 235,025 common shares available for issuance under the Company's Stock Purchase Plan.
- (3) Consists of SARs granted to Mr. Sawyer under the NYSE inducement grant exception to its rules for shareholder approval of equity plans in connection with the commencement of his employment, the terms of which are described under "*Compensatory Arrangements with Mr. Sawyer*" in the CD&A.

ITEM 2
APPROVAL OF ADVISORY VOTE ON COMPENSATION OF
NAMED EXECUTIVE OFFICERS

As required by SEC rules, we are providing shareholders with an annual, non-binding advisory vote to approve the executive compensation as disclosed in the CD&A. At the Annual Meeting, shareholders will vote on the following advisory resolution regarding the compensation of our Named Executive Officers as described in this Proxy Statement (commonly referred to as “Say-on-Pay”):

“RESOLVED, that the shareholders of Regis Corporation approve, on an advisory basis, the compensation paid to the Company’s Named Executive Officers as disclosed in the ‘*Compensation Discussion and Analysis*’ section, and compensation tables and narrative discussion contained in the ‘*Executive Compensation*’ section in this Proxy Statement.”

Our executive compensation programs are based on our belief that attracting, retaining and motivating talented executives is critical to the maintenance of our competitive advantage in the haircare industry and to the achievement of the business goals set by the Board. Accordingly, our executive compensation programs are designed to reward executives for achievement of our financial and business goals, while also aligning our executives’ interests with those of our shareholders. We believe that we best achieve these goals by providing our executives with a mix of compensation elements that incorporate cash and equity, as well as short-term and long-term components, and that are tied to our business goals, all as described above in the CD&A of this Proxy Statement.

As described above in the CD&A, we believe that our fiscal 2017 financial results yielded the pay-for-performance alignment that the Compensation Committee is focused on. Also as described above in the CD&A under the heading “*Recent Compensation Program Changes Incorporate Shareholder Feedback*,” changes to our executive compensation program for fiscal 2017 responded directly to concerns raised by our shareholders.

For a comprehensive description of our executive compensation program, philosophy and objectives, including the specific elements of executive compensation that comprised the program in fiscal 2017, please refer to the CD&A, as well as the Summary Compensation Table and other executive compensation tables (and accompanying narrative disclosures) that follow the CD&A.

This advisory vote will not affect any compensation already paid or awarded to our NEOs and will not be binding on the Board or the Compensation Committee. However, the Compensation Committee will review and carefully consider the outcome of the vote. If there are a significant number of negative votes, the Compensation Committee will seek to understand the concerns that influenced the vote and consider them in making future executive compensation decisions.

Upon recommendation of the Compensation Committee of the Board, the Board unanimously recommends a vote FOR the approval of the compensation of our Named Executive Officers.

ITEM 3
APPROVAL OF ADVISORY VOTE ON FREQUENCY OF FUTURE ADVISORY VOTES
ON EXECUTIVE COMPENSATION

At least once every six years, we are required to provide our shareholders with an opportunity to select, on an advisory basis, the frequency of future advisory votes on the compensation of our NEOs (commonly referred to as “Say-on-Pay Frequency”). We first held this advisory vote at our 2011 annual meeting, where our shareholders voted to conduct advisory votes on executive compensation every year. By voting on this Item 3, our shareholders may vote to recommend that future advisory votes on executive compensation be held every year, every two years or every three years, or abstain from voting on this matter entirely.

After careful consideration of this proposal, our Board has determined that an advisory vote on executive compensation that occurs every year continues to be the most appropriate frequency and, therefore, our Board recommends that shareholders vote for an advisory vote on executive compensation every year. The Board believes that submitting future advisory votes on executive compensation every year is appropriate because:

- Compensation decisions are made annually, and shareholders should have an opportunity to vote on such decisions on a real-time basis;
- Executive compensation is an important aspect of corporate governance on which shareholders should have a regular opportunity to share their views; and
- An annual Say-on-Pay vote provides the highest level of accountability and direct communication with our shareholders on this important corporate governance topic.

The advisory Say-on-Pay Frequency vote will not be binding on the Board or the Compensation Committee. However, the Board will review and carefully consider the outcome of this advisory vote when considering how frequently to seek an advisory vote in future years.

Upon recommendation of the Compensation Committee, the Board unanimously recommends a vote for “1 YEAR” as the frequency of future advisory votes on executive compensation.

ITEM 4
RATIFICATION OF APPOINTMENT OF INDEPENDENT
REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has selected PricewaterhouseCoopers LLP, certified public accountants and independent registered public accounting firm, as our independent registered public accounting firm for the fiscal year ending June 30, 2018. Although not required, the Board wishes to submit the selection of PricewaterhouseCoopers LLP for shareholders' ratification at the Annual Meeting. If the shareholders do not so ratify, the Audit Committee will reconsider its selection.

Representatives of PricewaterhouseCoopers LLP are expected to be present at the Annual Meeting, will have the opportunity to make a statement if they desire and are expected to be available to respond to appropriate questions.

Upon the recommendation of the Audit Committee of the Board, the Board unanimously recommends a vote FOR ratification of the appointment of PricewaterhouseCoopers LLP.

Audit Fees

Aggregate audit fees billed for professional services rendered by PricewaterhouseCoopers LLP were \$1,754,500 for the year ended June 30, 2017, and \$1,842,000 for the year ended June 30, 2016. Such fees were primarily for professional services rendered for the audits of our consolidated financial statements as of and for the years ended June 30, 2017 and 2016, limited reviews of our unaudited condensed consolidated interim financial statements, and accounting consultations required to perform an audit in accordance with generally accepted auditing standards.

Audit-Related Fees

There were no audit-related services by PricewaterhouseCoopers LLP in the years ended June 30, 2017 or 2016.

Tax Fees

Aggregate income tax compliance and related services fees billed for professional services rendered by PricewaterhouseCoopers LLP were \$401,000 for the year ended June 30, 2017 and \$307,000 for the year ended June 30, 2016. The tax fees for the years ended June 30, 2017 and 2016 were for tax compliance, consulting and planning-related professional services, as well as assistance with tax audits.

All Other Fees

In addition to the fees described above, aggregate fees of \$1,800 were billed by PricewaterhouseCoopers LLP during each of the years ended June 30, 2017 and 2016, for fees related to a research tool that we access through PricewaterhouseCoopers LLP.

Audit Committee Pre-Approval Policies and Procedures

The Audit Committee has approved the engagement of PricewaterhouseCoopers LLP to perform auditing services for the current fiscal year ending June 30, 2018. In accordance with Company policy, any additional audit or non-audit services must be approved in advance. All of the professional services provided by PricewaterhouseCoopers LLP during the years ended June 30, 2017 and June 30, 2016 were approved or pre-approved in accordance with the policies of our Audit Committee.

AUDIT COMMITTEE REPORT

The Audit Committee reports to and assists the Board in providing oversight of the financial management, independent auditors and financial reporting procedures of the Company. Each member of the Audit Committee is "independent" within the meaning of applicable NYSE listing standards. The Audit Committee has adopted a written charter describing its functions, which has been approved by the Board.

Our management is responsible for preparing our financial statements and the overall reporting process, including our system of internal controls. Our independent auditors, PricewaterhouseCoopers LLP, are responsible for auditing the financial statements and our system of internal controls over financial reporting and expressing opinions thereon.

In this context, the Committee has met and held discussions with management and the independent auditors. Management represented to the Committee that our consolidated financial statements were prepared in accordance with generally accepted accounting principles, and the Committee has reviewed and discussed the consolidated financial statements with management and the independent auditors. The Committee discussed with the independent auditors matters required to be discussed by the applicable rules of the Public Company Accounting Oversight Board (PCAOB).

In addition, the Committee has received the written disclosures and the letter from the independent accountant required by applicable requirements of the PCAOB regarding the independent accountant's communications with the Committee concerning independence, and has discussed with the independent auditors the independent auditors' independence.

The Committee discussed with our independent auditors the overall scope and plans for their audit. The Committee meets with the independent auditors, with and without management present, to discuss the results of their examinations, the evaluations of our internal controls and the overall quality of our financial reporting.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board that the audited financial statements be included in our Annual Report on Form 10-K for the year ended June 30, 2017 for filing with the SEC. The Committee also has recommended to the Board the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending June 30, 2018.

David P. Williams, Chair
David J. Grissen
Mark S. Light
M. Ann Rhoades
Members of the Audit Committee

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), requires our officers, directors, and persons who own more than 10% of a registered class of our equity securities, to file reports of ownership and changes in ownership with the SEC. Such officers, directors and shareholders are required by the SEC’s regulations to furnish us with copies of all such reports.

To our knowledge, based solely on a review of copies of reports filed with the SEC during the fiscal year ended June 30, 2017, all applicable Section 16(a) filing requirements were complied with.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During fiscal 2017, we were not a party to any related party transactions covered by the Exchange Act rules.

In April 2013, the Board adopted a written Related Party Transaction Approval Policy, which sets forth our policies and procedures for the review, approval or ratification of certain related party transactions by the Nominating and Corporate Governance Committee. The policy applies to any transaction, arrangement or relationship (including any indebtedness or guarantee of indebtedness) or any series of similar transactions, arrangements or relationships in which the Company, or any of its subsidiaries, is or will be a participant and in which a related person has a direct or indirect interest, but exempts the following:

- Payment of compensation by the Company to a related party for the related party’s service to the Company as a director, officer or employee;
- Transactions available to all employees or all shareholders of the Company on the same terms;
- Transactions that, when aggregated with the amount of all other transactions between the Company and the related party or any entity in which the related party has an interest, involve less than \$10,000 in a fiscal year; and
- Transactions in the ordinary course of the Company’s business at the same prices and on the same terms as are made available to customers of the Company generally.

The Nominating and Corporate Governance Committee must approve any related party transaction subject to this policy before commencement of the related party transaction; provided, however, that if a related party is only first identified after it commences or first becomes a related party transaction, it must be brought to the Nominating and Corporate Governance Committee for ratification. Alternatively, the Nominating and Corporate Governance Committee has delegated authority to its Chair to approve related party transactions if they arise between the Nominating and Corporate Governance Committee’s meetings.

The Nominating and Corporate Governance Committee will analyze the following factors, in addition to any other factors it deems appropriate, in determining whether to approve a related party transaction:

- Whether the terms are fair to the Company;
- Whether the transaction is material to the Company;
- The role the related party has played in arranging the related party transaction;
- The structure of the related party transaction; and
- The interests of all related parties in the related party transaction.

The Nominating and Corporate Governance Committee may, in its sole discretion, approve or deny any related party transaction. Approval of a related party transaction may be conditioned upon the Company and the related party taking any actions that the Nominating and Corporate Governance Committee deems appropriate. The Nominating and Corporate Governance Committee reviews this policy on an annual basis.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of August 23, 2017, the ownership of our common stock by each shareholder who is known by us to own beneficially more than 5% of our outstanding shares, by each director and director nominee, by each executive officer and former executive officer identified in the Summary Compensation Table, and by all current executive officers and directors as a group. Except as indicated below, the parties listed in the table have the sole voting and investment power with respect to the shares indicated. Unless otherwise indicated, the address for each person or entity named below is c/o Regis Corporation, 7201 Metro Boulevard, Edina, Minnesota 55439. Our company had 46,407,575 shares of common stock issued and outstanding as of August 23, 2017.

Name of Beneficial Owner or Identity of Group	Number of Shares Beneficially Owned(1)	Percent of Class
<i>More than 5% Shareholders:</i>		
Birch Run Capital Advisors, LP(2)	10,655,170	23.0%
BlackRock, Inc.(3)	4,676,425	10.1%
Dimensional Fund Advisors LP(4)	3,925,466	8.5%
Brown Advisory Incorporated(5)	3,512,510	7.6%
The Vanguard Group(6)	3,038,650	6.5%
Cramer Rosenthal McGlynn, LLC(7)	2,406,572	5.2%
<i>Named Executive Officers:</i>		
Hugh E. Sawyer(8)	10,500	*
Daniel J. Hanrahan(9)	291,917	*
Michael C. Pomeroy	—	*
Eric A. Bakken(10)	84,304	*
Steven M. Spiegel(9)(11)	10,566	*
Jim B. Lain	27,250	*
Carmen D. Thiede(9)	15,560	*
Annette L. Miller	6,232	*
Heather L. Passe(9)	22,975	*
<i>Directors and Nominees (in addition to Mr. Sawyer, who is listed above):</i>		
Daniel G. Beltzman(2)	10,672,250	23.0%
David J. Grissen	25,859	*
Mark S. Light	25,859	*
Michael J. Merriman	46,253	*
M. Ann Rhoades	14,363	*
Stephen E. Watson	90,251	*
David P. Williams(12)	80,295	*
All current executive officers and directors as a group (fifteen persons)(13)	11,115,163	24.0%

* less than 1%

- (1) Includes the following shares not currently outstanding but deemed beneficially owned because of the right to acquire them pursuant to restricted stock units that vest within 60 days: 31,260 shares by Mr. Bakken, 27,222 shares by Mr. Lain, 4,190 shares by Ms. Miller, 2,417 shares by Mr. Williams and 1,243 shares by Ms. Rhoades and Messrs. Grissen, Light, Merriman, and Watson.
- (2) Based on information in a Schedule 13D/A filed by Birch Run Capital Advisors, LP ("Birch Run") on August 22, 2014 and Form 4s filed by Mr. Beltzman on September 2, 2014 and March 17 and 18, 2015 reporting purchases by the Funds (as defined below), these securities are owned directly by Birch Run Capital Partners, L.P., Torch BRC, L.P. and Walnut BRC, L.P. (collectively, the "Funds"). Birch Run Capital Partners, L.P. is the record owner of 1,658,941 shares. Torch BRC, L.P. is the record owner of 3,962,648 shares. Walnut BRC, L.P. is the record owner of 5,033,581 shares. Birch Run Capital GP, LLC serves as the General Partner to Birch Run Capital Partners, L.P.; Walnut BRC GP,

LLC serves as the General Partner to Walnut BRC, L.P.; and Torch BRC GP, LLC serves as the General Partner to Torch BRC, L.P. (collectively, "the General Partners"). Mr. Beltzman and Gregory Smith are the co-Managers of the General Partners. Furthermore, Birch Run Capital Advisors, LP ("the Advisor") serves as the registered investment adviser to the Funds. BRC Advisors GP, LLC ("Advisor GP") serves as General Partner to the Advisor. Mr. Beltzman and Mr. Smith are the Limited Partners of the Adviser and the Co-Managers of the Adviser GP. The Adviser, the Adviser GP, Mr. Beltzman and Mr. Smith may be deemed to share voting and dispositive power over the reported securities. Each of the Adviser, the Adviser GP, Mr. Beltzman, and Mr. Smith disclaim beneficial ownership of any interests of the reported securities in excess of such person's or entity's respective pecuniary interest in the securities. On its Schedule 13D/A, Birch Run reported sole voting power over 0 shares, shared voting power over 8,504,788 shares, sole dispositive power over 0 shares and shared dispositive power over 9,996,589 shares. Based on the Form 4s referenced above, the shared voting power number has likely increased, and the shared dispositive power number has likely increased to 10,655,170. The address for Birch Run is 1350 Broadway, Suite 2215, New York, NY 10018.

- (3) Based on information in a Schedule 13G/A filed by BlackRock, Inc. on July 10, 2017, BlackRock, Inc. reported sole voting power over 4,567,171 shares, shared voting power over 0 shares, sole dispositive power over 4,676,425 shares and shared dispositive power over 0 shares. BlackRock, Inc. is a parent holding company and holds the sole power to dispose or to direct the disposition of shares held by its subsidiaries BlackRock Institutional Trust Company, N.A., BlackRock Fund Advisors, BlackRock Asset Management Canada Limited, BlackRock Asset Management Ireland Limited, BlackRock Advisors, LLC, BlackRock Asset Management Schweiz AG, BlackRock Investment Management, LLC, BlackRock Investment Management (Australia) Limited, and BlackRock Investment Management (UK) Limited (collectively, the "BlackRock Subsidiaries"). None of the BlackRock Subsidiaries own more than 5% of our outstanding shares of common stock. The address for BlackRock, Inc. is 40 East 52nd Street, New York, NY 10022.
- (4) Based on information in a Schedule 13G/A filed by Dimensional Fund Advisors LP ("Dimensional") on February 9, 2017, Dimensional reported sole voting power over 3,801,678 shares, shared voting power over 0 shares, sole dispositive power over 3,925,466 shares and shared dispositive power over 0 shares. The address for Dimensional is Palisades West, Building One, 6300 Bee Cave Road, Austin, TX, 78746.
- (5) Based on information in a Schedule 13G/A filed by Brown Advisory Incorporated ("Brown") on February 8, 2017, Brown reported sole voting power over 3,494,681 shares, shared voting power over 0 shares, sole dispositive power over 0 shares and shared dispositive power over 3,512,510 shares. Brown is a parent holding company and holds the sole power to vote or to direct the vote of shares held by its subsidiaries Brown Investment Advisory & Trust Company, Brown Advisory LLC, and Highmount Capital LLC (collectively, the "Brown Subsidiaries"). Except for Brown Advisory LLC, which owns 2,536,425 shares of the class of securities reported, none of the Brown Subsidiaries own more than 5% of our outstanding shares of common stock. The address for Brown is 901 South Bond Street, Suite 400, Baltimore, MD 21231.
- (6) Based on information in a Schedule 13G/A filed by The Vanguard Group ("Vanguard") on February 9, 2017, Vanguard reported sole voting power over 43,688 shares, shared voting power over 8,600 shares, sole dispositive power over 2,988,162 shares and shared dispositive power over 50,488 shares. The address for Vanguard is 100 Vanguard Blvd., Malvern, PA 19355.
- (7) Based on information in a Schedule 13G/A filed by Cramer Rosenthal McGlynn, LLC ("Cramer Rosenthal") on February 15, 2017, Cramer Rosenthal reported sole voting power over 2,366,247 shares, shared voting power over 40,325 shares, sole dispositive voting power over 2,406,572 shares and shared dispositive power over 0 shares. The address for Cramer Rosenthal is 520 Madison Ave, New York, NY 10022.
- (8) Shares are held in a joint brokerage account with his spouse.
- (9) For former named executive officers, the number shown takes into account forfeitures and accelerations (net of shares forfeited for taxes) of equity that occurred in connection with the officer's termination of employment, but does not include sales or acquisitions after they ceased to be a named executive officer, if any.
- (10) Includes 400 shares held indirectly through a profit-sharing account.
- (11) Includes 2,000 shares held in a joint brokerage account with his spouse.

- (12) Includes 2,000 shares held in a joint brokerage account with his father.
- (13) See footnotes 1, 2, 8, 10, 11 and 12 for information regarding the nature of certain indirect and deemed ownership of the shares included in this amount.

PROPOSALS OF SHAREHOLDERS

Shareholders who intend to present proposals at the 2018 annual meeting of shareholders, and who wish to have such proposals included in our proxy statement for the 2018 annual meeting, must be certain that such proposals are received by us not later than May 9, 2018. Such proposals must meet the requirements set forth in the rules and regulations of the SEC in order to be eligible for inclusion in the proxy statement for our 2018 annual meeting.

For shareholders who intend to present proposals or director nominees directly at the 2018 annual meeting and not for inclusion in our 2018 proxy statement, we must receive notice of such proposal not later than July 19, 2018 and not earlier than June 19, 2018, provided that in the event that the date of the 2018 annual meeting is more than 30 days before or more than 70 days after the anniversary date of the Annual Meeting, notice by the shareholder must be delivered not earlier than the close of business on the 120th day prior to the 2018 annual meeting and not later than the close of business on the later of the 90th day prior to the 2018 annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made by us. Such proposals must meet the requirements set forth in our bylaws in order to be presented at our 2018 annual meeting.

Proposals and notices of intention to present proposals at our 2018 annual meeting should be addressed to our Corporate Secretary, 7201 Metro Boulevard, Edina, Minnesota 55439.

ANNUAL REPORT TO SHAREHOLDERS AND FORM 10-K

Our Annual Report to Shareholders and Form 10-K, including financial statements for the year ended June 30, 2017, is available on our website at www.regiscorp.com. If requested, we will provide shareholders with copies of any exhibits to the Form 10-K upon the payment of a fee covering our reasonable expenses in furnishing the exhibits. Such requests should be directed to our Corporate Secretary, at our address stated herein.

NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIALS

Important Notice Regarding the Availability of Proxy Materials for the Shareholders Meeting to be held on October 17, 2017.

The Notice and Proxy Statement and Annual Report on Form 10-K are available in the Investor Information Relations section of our website, www.regiscorp.com.

GENERAL

The Board knows of no other matter to be acted upon at the Annual Meeting. However, if any other matter is properly brought before the Annual Meeting, the shares covered by your proxy will be voted thereon in accordance with the best judgment of the persons acting under such proxy.

Your vote is very important no matter how many shares you own. You are urged to read this Proxy Statement carefully and, whether or not you plan to attend the Annual Meeting, to promptly submit a proxy by telephone or through the Internet in accordance with the voting instructions provided to you.

By Order of the Board

Eric A. Bakken
Secretary

September 6, 2017

