REGIS CORP
Form 10-K
August 28, 2009

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

FORM 10-K

(Mark One)

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

For the fiscal year ended June 30, 2009

OR

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

For the transition period from to
Commission file number 1-12725

Regis Corporation
(Exact name of Registrant as specified in its charter)

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

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

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

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

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

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

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

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 ý No o

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 preceeding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

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

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

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

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, 2008, was approximately $606,160,026. The Registrant has no non-voting common equity.

As of August 21, 2009, the Registrant had 57,104,388 shares of Common Stock, par value $0.05 per share, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement for the annual meeting of shareholders to be held on October 29, 2009 (the "2009 Proxy Statement") (to be filed pursuant to Regulation 14A within 120 days after the Registrant's fiscal year-end of June 30, 2009) are incorporated by reference into Part III.

REGIS CORPORATION
FORM 10-K
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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PART I

Item 1. Business

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.

(a) General Development of Business

In 1922, Paul and Florence Kunin opened Kunin Beauty Salon, which quickly expanded into a chain of value priced salons located in department stores. In 1958, the chain was purchased by their son and renamed Regis Corporation. In December 2004, the Company purchased Hair Club for Men and Women. On August 1, 2007, the Company contributed its 51 wholly-owned accredited cosmetology schools to Empire Education Group, Inc (EEG). On January 31, 2008, the Company merged its continental European franchise salon operations with the operations of the Franck Provost Salon Group. On February 20, 2008, the Company acquired the capital stock of Cameron Capital I, Inc. (CCI), a wholly-owned subsidiary of Cameron Capital Investments, Inc. CCI owned and operated PureBeauty and BeautyFirst salons. On February 16, 2009, the Company sold its Trade Secret salon concept (Trade Secret), which included CCI. Additionally, the Company continues to acquire hair and retail product salons. Regis Corporation is listed on the NYSE under the ticker symbol "RGS." Discussions of the general development of the business take place throughout this Annual Report on Form 10-K.

(b) Financial Information about Segments

Segment data for the years ended June 30, 2009, 2008 and 2007 are included in Note 16 to the Consolidated Financial Statements in Part II, Item 8, of this Form 10-K.

(c) Narrative Description of Business

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

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Background:

Based in Minneapolis, Minnesota, the Company's primary business is owning, operating and franchising hair and retail product salons. In addition to the primary hair and retail product salons, the Company owns Hair Club for Men and Women, a provider of hair restoration services. As of June 30, 2009, the Company owned, franchised or held ownership interests in over 12,900 worldwide locations. The Company's locations consisted of 10,026 company-owned and franchise salons, 95 hair restoration centers, and 2,804 locations in which the Company maintains an ownership interest of less than 100 percent. Each of the Company's salon concepts offer similar salon products and services and serve the mass market consumer marketplace. The Company's hair restoration centers offer three hair restoration solutions; hair systems, hair transplants and hair therapy, which are targeted at the mass market consumer.

The Company is organized to manage its operations based on significant lines of business salons and hair restoration centers. Salon operations are managed based on geographical location North America and international. The Company's North American salon operations are comprised of 7,537 company-owned salons and 2,045 franchise salons operating in the United States, Canada and Puerto Rico. The Company's international operations are comprised of 444 company-owned salons. The Company's worldwide salon locations operate primarily under the trade names of Regis Salons, MasterCuts, SmartStyle, Supercuts, Cost Cutters, and Sassoon. The Company's hair restoration centers are located in the United States and Canada. During fiscal year 2009, the number of customer visits at the Company's company-owned salons approximated 104 million. The Company had approximately 59,000 corporate employees worldwide during fiscal year 2009.

On August 1, 2007, the Company contributed 51 of its wholly-owned accredited cosmetology schools to EEG in exchange for a 49.0 percent equity interest in EEG. The investment is accounted for under the equity method. The Company recorded an impairment charge related to this transaction of $23.0 million during the three months ended March 31, 2007.

The Company realized that in order to maximize the potential of the beauty school division, it would be necessary to invest heavily in information technology platforms and management. The Company believes that contributing the beauty schools to EEG is the most efficient and accretive way to achieve its goals. This transaction leverages EEG's management expertise, while enabling the Company to maintain a vested interest in the beauty school industry. EEG is the largest beauty school operator in North America with 85 accredited cosmetology schools with revenues of approximately $150 million annually and is overseen by the Empire Beauty School management team.

In January 2008, the Company's effective ownership interest increased to 55.1 percent related to the buyout of EEG's equity interest shareholder. The Company will continue to account for the investment in EEG under the equity method of accounting as Empire Beauty School retains majority voting interest and has full responsibility for managing EEG. Refer to Note 6 to the Consolidated Financial Statements for additional information.

On January 31, 2008, the Company merged its continental European franchise salon operations with the operations of the Franck Provost Salon Group in exchange for a 30.0 percent equity interest in the newly formed Provalliance entity (Provalliance). The merger with the operations of the Franck Provost Salon Group which are also located in continental Europe, created Europe's largest salon operator with approximately 2,500 company-owned and franchise salons as of June 30, 2009.

The Company contributed to Provalliance the shares of each of its European operating subsidiaries, other than the Company's operating subsidiaries in the United Kingdom and Germany. The contributed subsidiaries operate retail hair salons in France, Spain, Switzerland and several other European countries primarily under the Jean Louis David and Saint Algue brands. This transaction is expected to create significant growth opportunities for Europe's salon brands. The Franck Provost Salon Group management structure has a proven platform to build and acquire company-owned stores as well as a strong franchise operating group that is positioned for expansion. The Company recorded a $25.7 million "other-than-temporary" impairment charge in its fourth quarter ended June 30, 2009 on its investment in Provalliance as a result of increased debt and reduced earnings expectations that reduced the fair value of Provalliance below carrying value as of June 30, 2009.

On February 16, 2009, the Company sold Trade Secret. The Company concluded, after a comprehensive review of its strategic and financial options, to divest Trade Secret. The sale of Trade Secret included 655 company-owned salons and 57 franchise salons, all of which had historically been reported within the Company's North America reportable segment. The Company recorded an impairment charge related to this transaction of $183.3 million during the year ended June 30, 2009.

Industry Overview:

Management estimates that annual revenues of the hair care industry are approximately $50 billion to $55 billion in the United States and approximately $160 billion to $170 billion worldwide. The Company estimates that it holds approximately two percent of the worldwide market. The hair salon and hair restoration markets are each highly fragmented, with the vast majority of locations independently owned and operated. However, the influence of salon chains on these markets, both franchise and company-owned, has increased substantially. Management believes that salon chains will continue to have a significant influence on these markets and will continue to increase their presence. As the Company is the principal consolidator of these chains in the hair care industry, it prevails as an established exit strategy for independent salon owners and operators, which affords the Company numerous opportunities for continued selective acquisitions. Management believes the demand for salon services, professional products and hair restoration services will continue to increase as the overall population continues to focus on personal health and beauty, as well as convenience.

Salon Business Strategy:

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

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

> ***Organic Growth.*** The Company executes its organic growth strategy through a combination of new construction of company-owned and franchise salons, as well as same-store sales increases. The square footage requirements related to opening new salons allow the Company great flexibility in securing real estate for new salons as the Company has small or flexible square footage requirements for its salons. The Company's long-term outlook for organic expansion remains strong. The Company has at least one salon in all major cities in the U.S. and has penetrated every viable U.S. market with at least one concept. However, because the Company has a variety of concepts, it can place several of its salons within any given market. Once the economy normalizes, the Company plans to continue to expand in North America. Refer to Note 4 to the Consolidated Financial Statements for additional information.
>
> A key component to successful North American organic growth relates to site selection, as discussed in the following paragraphs.
>
> ***Salon Site Selection.*** The Company's salons are located in high-traffic locations such as: regional shopping malls, strip centers, lifestyle centers, Wal-Mart Supercenters, high-street locations and department stores. The Company is an attractive tenant to landlords due to its financial

strength, successful salon operations and international recognition. In evaluating specific locations for both company-owned and franchise salons, the Company seeks conveniently located, visible sites which allow customers adequate parking and quick and easy location access. Various other factors are considered in evaluating sites, including area demographics, availability and cost of space, the strength of the major retailers within the area, location and strength of competitors, proximity of other company-owned and franchise salons, traffic volume, signage and other leasehold factors in a given center or area.

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

While same-store sales growth plays an important role in the Company's organic growth strategy, it is not critical to achieving the Company's long-term revenue growth objectives. However, same-store sales growth is important to achieving improved annual operating profit. New salon construction and salon acquisitions (described below) are expected to generate low single-digit annual revenue growth. The recent trend has been declining visitation patterns due to the current global economic condition and increasing average ticket price resulting in negative to low single-digit same-store sales growth. The Company expects fiscal year 2010 same-store sales to be in the range of negative 3.0 to positive 1.0 percent.

Pricing is a factor in same-store sales growth. The Company actively monitors the prices charged by its competitors in each market and makes every effort to maintain prices which remain competitive with prices of other salons offering similar services. Price increases are considered on a market-by-market basis and are established based on local market conditions.

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

Over the past 15 years, the Company has acquired 8,020 salons, expanding in both North America and internationally. When contemplating an acquisition, the Company evaluates the existing salon or salon group with respect to the same characteristics as discussed above in conjunction with site selection for constructed salons (conveniently located, visible, strong retailers within the area, etc.). The Company generally acquires mature strip center locations, which are systematically integrated within the salon concept that it most clearly emulates.

In addition to adding new salon locations each year, the Company has an ongoing program of remodeling its existing salons, ranging from redecoration to substantial reconstruction. This program is implemented as management determines that a particular location will benefit from remodeling, or as required by lease renewals. A total of 280 and 186 salons were remodeled in fiscal years 2009 and 2008, respectively.

Recent Salon Additions. During fiscal year 2009, the Company constructed 275 new salons (182 company-owned and 93 franchise). Additionally, the Company acquired 177 company-owned salons, including 83 franchise salon buybacks.

During fiscal year 2008, net of closures and relocations, the Company added approximately 486 salons through new construction and acquisitions. The Company constructed 504 new salons (325 company-owned and 179 franchise). Additionally, the Company acquired 475 company-owned salons, including 150 franchise salon buybacks.

Salon Closures. The Company evaluates its salon performance on a regular basis. Upon evaluation, the Company may close a salon for operational performance or real estate issues. In

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either case, the closures generally occur at the end of a lease term and typically do not require significant lease buyouts. In addition, during the Company's acquisition evaluation process, the Company may identify acquired salons that do not meet operational or real estate requirements. Generally, at the time of acquisition limited value is allocated to these salons, which are usually closed within the first year.

During fiscal year 2009, 313 salons were closed, including 255 company-owned salons and 58 franchise salons (excluding 83 franchise buybacks). In February of 2009, the Company sold its Trade Secret salon concept which consisted of 655 company-owned locations and 57 franchise locations. See Note 2 to the Consolidated Financial Statements for additional information. In June of 2009, the Company approved a plan to close up to 80 underperforming United Kingdom company-owned salons in fiscal year 2010, the majority of which are expected to occur in the first half of fiscal year 2010. All of the 80 locations are in the United Kingdom. The 80 underperforming United Kingdom company-owned salons expected to close in fiscal year 2010 is in addition to the normal closure activity of salons at the end of a lease term. We expect the normal closure activity of company-owned salons to be approximately 150 to 180 salons.

During fiscal year 2008, 285 salons were closed, including 180 company-owned salons and 105 franchise salons (excluding 150 franchise buybacks). In July of 2008 (fiscal year 2009), the Company approved a plan to close up to 160 underperforming company-owned salons in fiscal year 2009. Approximately 100 locations were regional mall based concepts, another 40 locations were strip center concepts and 20 locations were in the United Kingdom. As of June 30, 2009, 70 stores ceased using the leased property or negotiated a lease termination agreement with the lessor in which the Company will cease using the right to the leased property subsequent to June 30, 2009. See Note 11 to the Consolidated Financial Statements for additional information.

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

Centralized Control Over Salon Operations. The Company manages its expansive salon base through a combination of area and regional supervisors, corporate salon directors and chief operating officers. Each area supervisor is responsible for the management of approximately ten to 12 salons. Regional supervisors oversee the performance of five to seven area supervisors or approximately 50 to 80 salons. Salon directors manage approximately 200 to 300 salons while chief operating officers are responsible for the oversight of an entire salon concept. This operational hierarchy is key to the Company's ability to expand successfully. In addition, the Company has an extensive training program, including the production of training DVDs for use in the salons, to ensure its stylists are knowledgeable in the latest haircutting and fashion trends and provide consistent quality hair care services. Finally, the Company tracks salon activity for all of its company-owned salons through the utilization of daily sales detail delivered from the salons' point of sale system. This information is used to reconcile cash on a daily basis.

Consistent, Quality Service. The Company is committed to meeting its customers' hair care needs by providing competitively priced services and products with professional and knowledgeable stylists. The Company's operations and marketing emphasize high quality services to create customer loyalty, to encourage referrals and to distinguish the Company's salons from its competitors. To promote quality and consistency of services provided throughout the Company's

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salons, the Company employs full and part-time artistic directors whose duties are to train salon stylists in current styling trends. The major services supplied by the Company's salons are haircutting and styling (including shampooing and conditioning), hair coloring and waving. During fiscal years 2009, 2008, and 2007, the percentage of company-owned service revenues attributable to each of these services was as follows:

	2009	2008	2007
Haircutting and styling (including shampooing & conditioning)	73%	72%	72%
Hair coloring	17	18	18
Hair waving	4	4	4
Other	6	6	6
	100%	100%	100%

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

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

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

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

Salon Concepts:

The Company's salon concepts focus on providing high quality hair care services and professional products, primarily to the middle consumer market. The Company's North American salon operations consist of 9,582 salons (including 2,045 franchise salons), operating under several concepts, each offering attractive and affordable hair care products and services in the United States, Canada and Puerto Rico. The Company's international salon operations consist of 444 hair care salons located in Europe, primarily in the United Kingdom. Following the table below, the number of new salons expected to be opened within the upcoming fiscal year is discussed. In addition to these openings, the Company typically acquires several hundred salons each year. The number of acquired salons, and the concept under which the acquisitions will fall, vary based on the acquisition opportunities which develop throughout the year.

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Salon Development

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

COMPANY-OWNED AND FRANCHISE LOCATION SUMMARY

NORTH AMERICAN SALONS:	2009	2008	2007	2006	2005
REGIS SALONS					
Open at beginning of period	1,078	1,099	1,079	1,093	1,085
Salons constructed	20	14	17	38	39
Acquired	23	4	49	14	13
Less relocations	(14)	(11)	(14)	(16)	(14)
Salon openings	29	7	52	36	38
Conversions		1	(1)		(1)
Salons closed	(36)	(29)	(31)	(50)	(29)
Total, Regis Salons	1,071	1,078	1,099	1,079	1,093
MASTERCUTS					
Open at beginning of period	615	629	642	636	604
Salons constructed	14	7	15	32	47
Acquired					2
Less relocations	(10)	(6)	(12)	(8)	(13)
Salon openings	4	1	3	24	36
Conversions				(2)	1
Salons closed	(17)	(15)	(16)	(16)	(5)
Total, MasterCuts	602	615	629	642	636
TRADE SECRET					
Company-owned salons:					
Open at beginning of period	674	613	615	597	549
Salons constructed	10	16	20	33	56
Acquired		65	3	2	23
Franchise buybacks		5		5	
Less relocations	(4)	(11)	(11)	(6)	(17)
Salon openings	6	75	12	34	62
Conversions		5	1	1	
Salons sold	(655)				
Salons closed	(25)	(19)	(15)	(17)	(14)
Total company-owned salons		674	613	615	597
Franchise salons:					
Open at beginning of period	106	19	19	24	24
Salons constructed	1	2			
Acquired		93			
Less relocations		(1)			
Salon openings	1	94			
Franchise buybacks		(5)		(5)	
Interdivisional reclassification(4)	(43)				

Salons sold	(57)				
Salons closed	(7)	(2)			
Total franchise salons		106	19	19	24
Total, Trade Secret		780	632	634	621

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NORTH AMERICAN SALONS:	2009	2008	2007	2006	2005
SMARTSTYLE/COST CUTTERS IN WAL-MART					
Company-owned salons:					
Open at beginning of period	2,212	2,000	1,739	1,497	1,263
Salons constructed	71	207	242	215	194
Acquired					
Franchise buybacks	24	12	21	31	45
Less relocations	(2)	(3)	(2)	(2)	(1)
Salon openings	93	216	261	244	238
Conversions				1	
Salons closed	(5)	(4)		(3)	(4)
Total company-owned salons	2,300	2,212	2,000	1,739	1,497
Franchise salons:					
Open at beginning of period	146	151	164	184	201
Salons constructed	1	7	8	11	29
Salon openings	1	7	8	11	29
Franchise buybacks	(24)	(12)	(21)	(31)	(45)
Salons closed	(1)				(1)
Total franchise salons	122	146	151	164	184
Total, SmartStyle/Cost Cutters in Wal-Mart	2,422	2,358	2,151	1,903	1,681
SUPERCUTS					
Company-owned salons:					
Open at beginning of period	1,132	1,094	1,036	915	879
Salons constructed	27	33	45	76	55
Acquired		3			1
Franchise buybacks	6	38	37	77	14
Less relocations	(2)	(6)	(5)	(9)	(6)
Salon openings	31	68	77	144	64
Conversions	(2)			(1)	(3)
Salons closed	(47)	(30)	(19)	(22)	(25)
Total company-owned salons	1,114	1,132	1,094	1,036	915
Franchise salons:					
Open at beginning of period	997	990	978	1,017	960
Salons constructed	51	71	69	74	96
Acquired(2)					1
Less relocations	(7)	(6)	(7)	(7)	(4)
Salon openings	44	65	62	67	93
Conversions	1		1	5	(2)
Franchise buybacks	(6)	(38)	(37)	(77)	(11)
Salons closed	(14)	(20)	(14)	(34)	(23)
Total franchise salons	1,022	997	990	978	1,017
Total, Supercuts	2,136	2,129	2,084	2,014	1,932
PROMENADE					

Company-owned salons:					
Open at beginning of period	2,399	2,223	1,995	1,813	1,431
Salons constructed	36	33	56	104	112
Acquired	71	135	193	122	247
Franchise buybacks	53	95	35	27	80
Less relocations	(16)	(8)	(12)	(12)	(15)
Salon openings	144	255	272	241	424
Conversions	1	(5)		(1)	
Salons closed	(94)	(74)	(44)	(58)	(42)
Total company-owned salons	2,450	2,399	2,223	1,995	1,813

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NORTH AMERICAN SALONS:	2009	2008	2007	2006	2005
Franchise salons:					
Open at beginning of period	914	1,008	1,026	1,085	1,145
Salons constructed	40	49	66	61	58
Acquired(2)					6
Less relocations	(7)	(5)	(12)	(11)	(9)
Salon openings	33	44	54	50	55
Conversions			(1)	(3)	5
Franchise buybacks	(53)	(95)	(35)	(27)	(80)
Interdivisional reclassification(4)	43				
Salons closed	(36)	(43)	(36)	(79)	(40)
Total franchise salons	901	914	1,008	1,026	1,085
Total, Promenade	3,351	3,313	3,231	3,021	2,898

INTERNATIONAL SALONS(1):	2009	2008	2007	2006	2005
Company-owned salons:					
Open at beginning of period	472	481	453	426	416
Salons constructed	4	15	25	33	22
Acquired		25	12	10	19
Franchise buybacks			4	2	
Less relocations	(1)	(1)	(3)	(4)	
Salon openings	3	39	38	41	41
Conversions		1		(2)	(3)
Affiliated joint ventures		(40)			
Salons closed	(31)	(9)	(10)	(12)	(28)
Total company-owned salons	444	472	481	453	426
Franchise salons:					
Open at beginning of period		1,574	1,587	1,592	1,594
Salons constructed		50	110	111	102
Acquired(2)					
Less relocations			(1)		
Salon openings		50	109	111	102
Conversions		3		2	
Franchise buybacks			(4)	(2)	
Affiliated joint ventures(3)		(1,587)			
Salons closed		(40)	(118)	(116)	(104)
Total franchise salons			1,574	1,587	1,592
Total, International Salons	444	472	2,055	2,040	2,018

TOTAL SYSTEM WIDE SALONS					
Company-owned salons:					
Open at beginning of period	8,582	8,139	7,559	6,977	6,227
Salons constructed	182	325	420	531	525
Acquired	94	232	257	148	305
Franchise buybacks	83	150	97	142	139
Less relocations	(49)	(46)	(59)	(57)	(66)
Salon openings	310	661	715	764	903

Conversions	(1)	2		(4)	(6)
Affiliated joint ventures		(40)			
Salons sold	(655)				
Salons closed	(255)	(180)	(135)	(178)	(147)
Total company-owned salons	7,981	8,582	8,139	7,559	6,977

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TOTAL SYSTEM WIDE SALONS:	2009	2008	2007	2006	2005
Franchise salons:					
Open at beginning of period	2,163	3,742	3,774	3,902	3,924
Salons constructed	93	179	253	257	285
Acquired(2)		93			7
Less relocations	(14)	(12)	(20)	(18)	(13)
Salon openings	79	260	233	239	279
Conversions	1	3		4	6
Franchise buybacks	(83)	(150)	(97)	(142)	(139)
Affiliated joint ventures		(1,587)			
Salons sold	(57)				
Salons closed	(58)	(105)	(168)	(229)	(168)
Total franchise salons	2,045	2,163	3,742	3,774	3,902
Total Salons	10,026	10,745	11,881	11,333	10,879

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(1) Canadian and Puerto Rican salons are included in the Regis Salons, MasterCuts, Supercuts, and Promenade and not included in the international salon totals.

(2) Represents primarily the acquisition of franchise networks.

(3) Represents European operating subsidiaries contributed to Franck Provost Salon Group.

(4) On February 16, 2009, the Company announced the completion of the sale of its Trade Secret retail product division. As a result of this transaction, the Company reported the Trade Secret operations as discontinued operations for all periods presented. Forty-three franchise salons were not included in the sale of Trade Secret to the purchaser of Trade Secret and are not reported as discontinued operations. These franchise salons are now included in Promenade salons.

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

Regis Salons. Regis Salons are primarily mall based, full service salons providing complete hair care and beauty services aimed at moderate to upscale, fashion conscious consumers. In recent years, the Company has expanded its Regis Salons into strip centers. As of June 30, 2009, of the 1,071 total Regis salons, 158 Regis Salons were located in strip centers. The customer mix at Regis Salons is approximately 78 percent women and both appointments and walk-in customers are common. These salons offer a full range of custom styling, cutting, hair coloring and waving services as well as professional hair care products. Service revenues represent approximately 84 percent of the concept's total revenues. The average ticket is approximately $40. Regis Salons compete in their existing markets primarily by emphasizing the high quality of the services provided. Included within the Regis Salons concept are various other trade names, including Carlton Hair, Sassoon, Mia & Maxx Hair Studios, Hair by Stewarts and Heidi's.

The average initial capital investment required for a new Regis Salon is approximately $150,000 to $200,000, excluding average opening inventory costs of approximately $18,000. Average annual salon revenues in a Regis Salon which has been open five years or more are approximately $431,000.

MasterCuts. MasterCuts is a full service, mall based salon group which focuses on the walk-in consumer (no appointment necessary) that demands moderately priced hair care services. MasterCuts salons emphasize quality hair care services, affordable prices and time saving services for the entire family. These salons offer a full range of custom styling, cutting, hair coloring and waving services as well as professional hair care products. The customer mix at MasterCuts is split relatively evenly between men and women. Service revenues compose approximately 82 percent of the concept's total revenues. The average ticket is approximately $19.

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The average initial capital investment required for a new MasterCuts salon is approximately $150,000 to $200,000, excluding average opening inventory costs of approximately $13,600. Average annual salon revenues in a MasterCuts salon which has been open five years or more are approximately $290,000.

SmartStyle. The SmartStyle salons share many operating characteristics of the Company's other salon concepts; however, they are located exclusively in Wal-Mart Supercenters. SmartStyle has a walk-in customer base, pricing is promotional and services are focused on the family. These salons offer a full range of custom styling, cutting, hair coloring and waving services as well as professional hair care products. The customer mix at SmartStyle Salons is approximately 76 percent women. Professional retail product sales contribute considerably to overall revenues at approximately 33 percent. Additionally, the Company has 122 franchise salons located in Wal-Mart Supercenters. The average ticket is approximately $19.

The average initial capital investment required for a new SmartStyle salon is approximately $35,000 to $45,000, excluding average opening inventory costs of approximately $14,000. Average annual salon revenues in a SmartStyle salon which has been open five years or more are approximately $271,000.

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

Supercuts. The Supercuts concept provides consistent, high quality hair care services and professional products to its customers at convenient times and locations and at a reasonable price. This concept appeals to men, women and children, although male customers account for approximately 66 percent of the customer mix. Service revenues represent approximately 89 percent of total company-owned strip center revenues. The average ticket is approximately $16.

The average initial capital investment required for a new Supercuts salon is approximately $110,000 to $120,000, excluding average opening inventory costs of approximately $8,300. Average annual salon revenues in a company-owned Supercuts salon which has been open five years or more are approximately $269,000.

The Supercuts franchise salons provide consistent, high quality hair care services and professional products to customers at convenient times and locations and at a reasonable price. These Supercuts franchise salons appeal to men, women and children. Service revenues represent approximately 93 percent of the Supercuts franchise total revenues. Average annual revenues in a Supercuts franchise salon which has been open five years or more are approximately $339,000.

Cost Cutters (franchise salons). The Cost Cutters concept is a full service salon concept providing value priced hair care services for men, women and children. These full service salons also sell a complete line of professional hair care products. The customer mix at Cost Cutters is split relatively evenly between men and women. Average annual salon revenues in a franchised Cost Cutters salon which has been open five years or more are approximately $282,000.

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

Promenade Salons. Promenade Salons are made up of successful regional company-owned salon groups acquired over the past several years operating under the primary concepts of Hair Masters, Cool Cuts for Kids, Style America, First Choice Haircutters, Famous Hair, Cost Cutters, BoRics, Magicuts, Holiday Hair and TGF, as well as other concept names. Most concepts offer a full range of custom hairstyling, cutting, coloring and waving, as well as hair care products. Hair Masters offers moderately-priced services to a predominately female demographic, while the other concepts primarily cater to time-pressed, value-oriented families. The customer mix is split relatively evenly between men and women at most concepts. Service revenues represent approximately 89 percent of total company-owned strip center revenues. The average ticket is approximately $18.

The average initial capital investment required for a new Promenade Salon is approximately $80,000 to $90,000, excluding average opening inventory costs of approximately $8,000. Average annual salon revenues in a Promenade Salon which has been open five years or more are approximately $245,000.

Other Franchise Concepts. This group of franchise salons includes primarily First Choice Haircutters, Magicuts, Beauty Supply Outlets and Pro-Cuts. These concepts function primarily in the high volume, value priced hair care market segment, with key selling features of value, convenience, quality and friendliness, as well as a complete line of professional hair care products. In addition to these franchise salons, the Company operates company-owned First Choice Haircutters and Magicuts salons, as previously discussed above under Strip Center Salons.

International Salons. The Company's international salons are comprised of company-owned salons operating in the United Kingdom primarily under the Supercuts, Regis and Sassoon concepts. These salons offer similar levels of service as the North American salons previously mentioned. However, the initial capital investment required is typically between £135,000, and £145,000, for a Regis salon, between £55,000 and £65,000 for a Supercuts salon. Average annual salon revenues for a salon which has been open five years or more are approximately £218,000 in a Regis salon and £208,000 in a Supercuts salon. Sassoon is one of the world's most recognized names in hair fashion and appeals to women and men looking for a prestigious full service hair salon. Salons are usually located on prominent high-street locations and offer a full range of custom hairstyling, cutting, coloring and waving, as well as professional hair care products. The initial capital investment required is approximately £450,000. Average annual salon revenues for a salon which has been open five years or more is approximately £889,000.

Salon Franchising Program:

General. The Company has various franchising programs supporting its 2,045 franchise salons as of June 30, 2009, consisting mainly of Supercuts, Cost Cutters, First Choice Haircutters, Magicuts, and Pro Cuts. These salons have been included in the discussions regarding salon counts and concepts on the preceding pages.

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

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

To further ensure conformity, the Company may enter into the lease for the store site directly with the landlord, and subsequently sublease the site to the franchisee. The franchise agreement and sublease provide the Company with the right to terminate the sublease and gain possession of the store if the franchisee fails to comply with the Company's operational policies and procedures. See Note 10 of "Notes to Consolidated Financial Statements" for further information about the Company's commitments and contingencies, including leases.

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

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

Supercuts (North America)

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

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

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

Pro Cuts (North America)

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

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

Salon Markets and Marketing:

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

Most franchise concepts maintain separate advertising funds (the Funds), that provide comprehensive advertising and sales promotion 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 all of the funds expenditures and operates in accordance with terms of the franchise operating and other agreements. All stores, company-owned and franchised, contribute to the Funds, the majority of which are allocated to the contributing market for media placement and local marketing activities. The remainder is allocated for the creation of national advertising campaigns and system wide activities. This intensive advertising program creates significant consumer awareness, a strong concept image and high loyalty.

Salon Education and Training Programs:

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

The Company has full- and part-time artistic directors who train the stylists in techniques for providing the salon services and instruct the stylists in current styling trends. Stylist training is achieved through seminars, workshops and DVD based programs. The Company was the first in its industry to develop a DVD based training system in its salons and currently has over 200 DVDs designed to enhance technical skills of stylists.

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

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

Salon Staff Recruiting and Retention:

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

Salon Design:

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

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

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

Salon Management Information Systems:

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

Management believes that its information systems provide the Company with operational efficiencies as well as advantages in planning and analysis which are generally not available to competitors. The Company continually reviews and improves its information systems to ensure systems and processes are kept up to date and that they will meet the growing needs of the Company. The goal of information systems is to maximize the overall value to the business while improving the output per dollar spent by implementing cost-effective solutions and services.

Salon Competition:

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

At the individual salon level the barriers to enter the market are not considerable, however, significant barriers exist for chains to expand nationally due to the need to establish systems and infrastructure, recruitment of experienced hair care management and adequate store staff, and leasing of quality sites. The principal factors of competition in the affordable hair care category are quality, consistency and convenience. The Company continually strives to improve its performance in each of these areas and to create additional points of differentiation versus the competition. In order to obtain locations in shopping malls, the Company must be competitive as to rentals and other customary tenant obligations.

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Hair Restoration Business Strategy:

In December 2004, the Company acquired Hair Club for Men and Women (Hair Club), the largest U.S. provider of hair loss solutions and the only company offering a comprehensive menu of proven hair loss products and services. The Company leverages its strong brand, best-in-class service model and comprehensive menu of hair restoration alternatives to build an increasing base of repeat customers that generate recurring cash flow for the Company. From its traditional non-surgical hair replacement systems, to hair transplants, hair therapies and hair care products and services, Hair Club offers a solution for anyone experiencing or anticipating hair loss. The Company's operations consist of 95 locations (33 franchise locations) in the United States and Canada. The domestic hair restoration market is estimated to generate over $4 billion annually. The competitive landscape is highly fragmented and comprised of approximately 4,000 locations. Hair Club and its franchisees have the largest market share, with approximately five percent based on customer count.

In an effort to provide privacy to its customers, Hair Club offices are located primarily in office and professional buildings within larger metropolitan areas. Following is a summary of the company-owned and franchise hair restoration centers in operation at June 30, 2009, 2008, and 2007:

	2009	2008	2007
Company-owned hair restoration centers:			
Open at beginning of period	57	49	48
Constructed	8	3	
Acquired			1
Franchise buybacks	2	6	1
Less relocations	(5)	(1)	
Site openings	5	8	2
Sites closed			(1)
Total company-owned hair restoration centers	62	57	49
Franchise hair restoration centers:			
Open at beginning of period	35	41	42
Acquired		2	3
Franchise buybacks	(2)	(6)	(1)
Less Relocations		(2)	(2)
Site openings	(2)	(6)	
Sites closed			(1)
Total franchise hair restoration centers	33	35	41
Total hair restoration centers	95	92	90

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

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

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

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

Currently, all locations offer hair systems, hair therapy and hair care products. Among the hair restoration centers' product offerings are hair transplants. The hair restoration centers employ a hub and spoke strategy for hair transplants. As of June 30, 2009, 23 locations were equipped and staffed to perform the procedure. Currently, a total of 46 hair restoration centers offer this service to their customers. The Company plans to add the capability to conduct hair transplants to more centers in future periods.

Company-owned-and franchise hair restoration centers are located in markets representing 75 percent of all U.S. television (TV) households. The Company's hair restoration centers advertise on cable TV to over 83 million households. There is an opportunity to add a limited number of new centers in under penetrated markets. Additionally, the Company is currently investigating international expansion opportunities.

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

Affiliated Ownership Interests:

The Company maintains ownership interests in salons and beauty schools. The primary ownership interests are in Provalliance, EEG, Intelligent Nutrients, LLC. and Hair Club for Men, Ltd., which are accounted for as equity method investments.

The Company maintains a 30.0 percent ownership interest in Provalliance. The fiscal year 2008 merger of the operations of the European operating subsidiaries with the Franck Provost Salon Group created a newly formed entity, Provalliance. The Franck Provost Salon Group management structure has a proven platform to build and acquire company-owned stores as well as a strong franchise operating group that is positioned for expansion.

The Company maintains a 55.1 percent ownership interest in EEG. Contributing the Company's beauty schools in fiscal year 2008 to EEG leverages EEG's management expertise, while enabling the Company to maintain a vested interest in the highly profitable beauty school industry.

The Company maintains a 49.0 percent ownership interest in Intelligent Nutrients, LLC. Intelligent Nutrients, LLC currently carries a wide variety of organic, harmonically grown products, including dietary supplements, coffees, teas and aromatics. In addition, professional hair care and personal care products are currently available.

The Company maintains a 50.0 percent ownership in Hair Club for Men, Ltd. Hair Club for Men, Ltd. operates Hair Club centers in Illinois and Wisconsin.

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Corporate Trademarks:

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

"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.

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

Corporate Employees:

During fiscal year 2009, the Company had approximately 59,000 full- and part-time employees worldwide, of which approximately 52,000 employees were located in the United States. None of the Company's employees are subject to a collective bargaining agreement and the Company believes that its employee relations are amicable.

Executive Officers:

Information relating to Executive Officers of the Company follows:

Name	Age	Position
Paul D. Finkelstein	67	Chairman of the Board of Directors, President and Chief Executive Officer
Randy L. Pearce	54	Senior Executive Vice President, Chief Financial and Administrative Officer
Bruce Johnson	56	Executive Vice President, Design and Construction
Mark Kartarik	53	Executive Vice President, Regis Corporation and President, Franchise Division
Norma Knudsen	51	Executive Vice President, Merchandising
Gordon Nelson	58	Executive Vice President, Fashion, Education and Marketing
Eric A. Bakken	42	Senior Vice President, General Counsel and Secretary

Paul D. Finkelstein has served as Chairman of the Board of Directors and CEO since 2004. He served as President and Chief Executive Officer from 1996 to 2004, as President and Chief Operating Officer from 1988 to 1996 and as Executive Vice President from 1987 to 1988. During fiscal year 2009, he was also elected Director of CPI Corp., which operates portrait studios in North America, primarily in Sears and Wal-Mart stores.

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

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

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

Norma Knudsen has served as Executive Vice President, Merchandising since July 2006. She served as Chief Operating Officer, Trade Secret from February 1999 through 2009 and as Vice President, Trade Secret Operations from 1995 to 1999.

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

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

Corporate Community Involvement:

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

Governmental Regulations:

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

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

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

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

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.

(d) Financial Information about Foreign and North American Operations

Financial information about foreign and North American markets is incorporated herein by reference to Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 and segment information in Note 16 to the Consolidated Financial Statements in Part II, Item 8 of this Form 10-K.

(e) Available Information

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

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

Item 1A. Risk Factors

Our business and our industry are affected by cyclical and global economic factors, including the risk of a prolonged recession.

Our financial results are substantially dependent upon overall economic conditions in the United States and in Europe. A prolonged or a deepening recession in the United States, or globally, could substantially further decrease the demand for our products and services below current levels and adversely affect our business. Our industry has historically been vulnerable to significant declines in consumption and product and service pricing during prolonged periods of economic downturn such as at present.

Recessions and other periods of economic dislocation typically result in a lower level of discretionary income for consumers. To the extent discretionary income declines, consumers may be more likely to reduce discretionary spending. This could result in our salon customers foregoing salon treatments or using home treatments as a substitute. It could also result in our hair restoration patients decreasing the amount spent on hair restoration treatments.

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The current economic downturn has affected our financial results for the fiscal year ended June 30, 2009. Our comparable same-store sales results for the twelve months ended June 30, 2009 declined 3.1 percent compared to the twelve months ended June 30, 2008. During the fiscal year ended June 30, 2009 the fair value of our common stock declined such that it began trading below our book value per share. Also, we impaired $41.7 million of goodwill associated with our salon concepts in the United Kingdom and $25.7 million of our investment in Provalliance during fiscal year 2009. If the economic downturn continues to result in negative same-store sales and we are unable to offset the impact with operational savings, our financial results may be further affected. We may be required to take additional impairment charges and to impair certain long-lived assets, goodwill and investments, and such impairments could be material to our consolidated balance sheet and results of operations. The concepts that have the highest likelihood of impairment are Regis and Hair Restoration Centers.

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

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

If we continue to have negative same-store sales our business and results of operations may be affected.

Our success depends, in part, upon our ability to improve sales, as well as both gross margins and operating margins. A variety of factors affect comparable same-store sales, including fashion trends, competition, current economic conditions, changes in our product assortment, the success of marketing programs and weather conditions. These factors may cause our comparable same-store sales results to differ materially from prior periods and from our expectations. Our comparable same-store sales results excluding the Trade Secret salons presented within discontinued operations for the year ended June 30, 2009 declined 3.1 percent compared to the year ended June 30, 2008.

If we are unable to improve our comparable same-store sales on a long-term basis or offset the impact with operational savings, our financial results may be affected. Furthermore, continued declines in same-store sales performance may cause us to be in default of certain covenants in our financing arrangements.

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

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

Changes in fashion trends may impact our revenue.

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

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

With approximately 12,900 locations and 59,000 employees worldwide, our financial results can be adversely impacted by regulatory or statutory changes in laws. Due to the number of people we employ, laws that increase minimum wage rates or increase costs to provide employee benefits may result in additional costs to our company. Compliance with new, complex and changing laws may cause our expenses to increase. In addition, any non-compliance with these laws could result in fines, product recalls and enforcement actions or otherwise restrict our ability to market certain products, which could adversely affect our business, financial condition and results of operations. We are also subject to laws that affect the franchisor-franchisee relationship.

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

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

If our joint ventures are unsuccessful our financial results may be affected.

We have entered into joint venture arrangements with other companies in the hair salon and beauty school businesses in order to maintain and expand our operations in the United States, Asia and continental Europe. If our joint venture partners are unwilling or unable to devote their financial resources or marketing and operational capabilities to our joint venture businesses, or if any of our joint ventures are terminated, we may not be able to realize anticipated revenues and profits in the countries where our joint ventures operate and our business could be materially adversely affected. If our joint venture arrangements are not successful, we may have a limited ability to terminate or modify these arrangements. If any of our joint ventures are terminated, there can be no assurance that we will be able to attract new joint venture partners to continue the activities of the terminated joint venture or to operate independently in the countries in which the terminated joint venture conducted business.

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

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

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

Changes in interest rates will have an impact on our expected results from operations. Currently, we manage the risk related to fluctuations in interest rates through the use of variable rate debt instruments and other financial instruments. During fiscal year 2008, the National Association of Insurance Commissioners downgraded our private placement debt from investment-grade private placement to non-investment grade. The downgrade has not had any effect on the private placement debt outstanding or corresponding interest rate. Any future non-investment grade private placement debt would result in a substantially higher interest rate. The downgrade has not impacted our revolving credit facility or our ability to secure bank borrowings. See discussion in Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," for additional information.

If we fail to protect the security of personal information about our customers, we could be subject to costly government enforcement actions or private litigation and our reputation could suffer.

The nature of our business involves processing, transmission and storage of personal information about our customers. If we experience a data security breach, we could be exposed to government enforcement actions and private litigation. In addition, our customers 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.

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Certain of the terms and provisions of the convertible notes we recently issued may adversely affect our financial condition and operating results and impose other risks.

We recently issued $172,500,000 aggregate principal amount of our 5.0% convertible senior notes due 2014 in a public offering. Certain terms of the notes we issued may adversely affect our financial condition and operating results or impose other risks, such as the following:

- Holders of notes may convert their notes into shares of our common stock, which may dilute the ownership interest of our shareholders,

- If we elect to settle all or a portion of the conversion obligation exercised by holders of the notes through the payment of cash, it could adversely affect our liquidity,

- Holders of notes may require us to purchase their notes upon certain fundamental changes, and any failure by us to purchase the notes in such event would result in an event of default with respect to the notes,

- The fundamental change provisions contained in the notes may delay or prevent a takeover attempt of the Company that might otherwise be beneficial to our investors,

- Recent changes in the accounting method for convertible debt securities that may be settled in cash require us to include both the current period's amortization of the debt discount and the instrument's coupon interest as interest expense, which will decrease our financial results,

- Our ability to pay principal and interest on the notes depends on our future operating performance and any failure by us to make scheduled payments could allow the note holders to declare all outstanding principal and interest to be due and payable, result in termination of other debt commitments and foreclosure proceedings by other lends, or force us into bankruptcy or liquidation, and

- The debt obligations represented by the notes may limit our ability to obtain additional financing, require us to dedicate a substantial portion of our cash flow from operations to pay our debt, limit our ability to adjust rapidly to changing market conditions and increase our vulnerability to downtowns in general economic conditions in our business.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company's corporate offices are headquartered in a 270,000 square foot, four building complex in Edina, Minnesota owned or leased by the Company. The Company also operates small offices in Toronto, Canada; Coventry and London, England; and Boca Raton, Florida. These offices are occupied under long-term leases.

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

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

shopping center locations in those countries have real property leases comparable to the Company's domestic locations.

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

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

Item 3. Legal Proceedings

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

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

None.

PART II

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

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

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

The accompanying table sets forth the high and low closing bid quotations for each quarter during fiscal years 2009 and 2008 as reported by the New York Stock Exchange (under the symbol "RGS"). The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not necessarily represent actual transactions.

As of August 21, 2009, Regis shares were owned by approximately 27,300 shareholders based on the number of record holders and an estimate of individual participants in security position listings. The common stock price was $16.83 per share on August 21, 2009.

	2009		2008	
Fiscal Quarter	**High**	**Low**	**High**	**Low**
1st Quarter	$31.96	$24.34	$39.13	$30.38
2nd Quarter	27.83	8.21	34.96	26.31
3rd Quarter	16.02	9.81	28.40	22.20
4th Quarter	20.36	13.94	31.39	26.32

The Company paid quarterly dividends of $0.04 per share in fiscal years 2009 and 2008. The Company expects to continue paying regular quarterly dividends for the foreseeable future.

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

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

The Peer Group consists of the following companies: Advance Auto Parts, Inc., AutoZone, Inc., Brinker International, Inc., CBRL Group, Inc., DineEquity, Inc., Foot Locker, Inc., GameStop Corp., H&R Block, Inc., Jack in the Box, Inc., Papa John's International, Inc., PetSmart, Inc., RadioShack Corp., Service Corporation International, and Starbucks Corp.

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, 2004 and those dividends, if any, were reinvested.

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Comparison of 5 Year Cumulative Total Return
Assumes Initial Investment of $100
June 2009

	2004	2005	2006	2007	2008	2009
Regis	100.00	88.00	80.52	86.85	60.16	40.18
S & P 500	100.00	106.32	115.50	139.28	121.01	89.28
S & P 400 Midcap	100.00	114.03	128.83	152.67	141.47	101.83
Dow Jones Consumer Service Index	100.00	105.83	109.50	128.02	101.11	83.45
Peer Group	100.00	116.15	123.21	133.21	98.18	89.67

(b) Share Repurchase Program

In May 2000, the Company's Board of Directors (BOD) approved a stock repurchase program. Originally, the program authorized up to $50.0 million to be expended for the repurchase of the Company's stock. The BOD elected to increase this maximum to $100.0 million in August 2003, to $200.0 million on May 3, 2005, and to $300.0 million on April 26, 2007. The timing and amounts of any repurchases will depend on many factors, including the market price of the common stock and overall market conditions. Historically, the repurchases to date have been made primarily to eliminate the dilutive effect of shares issued in conjunction with acquisitions, restricted stock grants and stock option exercises. All repurchased shares become authorized but unissued shares of the Company. This repurchase program has no stated expiration date. As of June 30, 2009, 2008, and 2007, a total accumulated 6.8, 6.8, and 5.1 million shares have been repurchased for $226.5, $226.5, and $176.5 million, respectively. As of June 30, 2009, $73.5 million remains to be spent on share repurchases under this program.

The Company did not repurchase any of its common stock through its share repurchase program during the twelve months ended June 30, 2009.

CEO and CFO Certifications

The certifications by our chief executive officer and chief financial officer required under Section 302 of the Sarbanes-Oxley Act of 2002, have been filed as exhibits to this Annual Report on Form 10-K. Our CEO's annual certification pursuant to NYSE Corporate Governance Standards Section 303A.12(a) that our CEO was not aware of any violation by the company of the NYSE's Corporate Governance listing standards was submitted to the NYSE on November 4, 2008.

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Item 6. Selected Financial Data

Beginning with the period ended December 31, 2008 the operations of Trade Secret concept within the North American reportable segment were accounted for as a discontinued operation. All periods presented will reflect Trade Secret as a discontinued operation. The following discussion of results of operations will reflect results from continuing operations. Discontinued operations will be discussed at the end of this section.

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

	2009	2008	2007	2006	2005
Revenues(a)	$2,429,787	$2,481,391	$2,373,338	$2,168,002	$1,941,360
Operating income(b)	109,073	173,340	141,506	179,147	101,613
Income from continuing operations(c)	6,970	83,901	67,739	92,903	41,791
Income from continuing operations per diluted share(c)	0.16	1.92	1.48	2.00	0.90
Total assets	1,892,486	2,235,871	2,132,114	1,985,324	1,725,976
Long-term debt, including current portion	634,307	764,747	709,231	622,269	568,776
Dividends declared	$ 0.16	$ 0.16	$ 0.16	$ 0.16	$ 0.16

a) Revenues from salons, schools or hair restorations centers acquired each year were $82.1, $110.0, $105.1, $158.3, and $172.5 million during fiscal years 2009, 2008, 2007, 2006, and 2005, respectively. Revenues from the 51 accredited cosmetology schools contributed to Empire Education Group, Inc. on August 1, 2007 were $5.6, $68.5, $48.2 and $18.2 million in fiscal years 2008, 2007, 2006 and 2005, respectively. Revenues from the deconsolidated European franchise salon operations were $36.2, $57.0, $52.7 and $55.1 million in fiscal years 2008, 2007, 2006 and 2005, respectively.

b) The following significant items affected operating income:

- Operating (loss) income from the 51 accredited cosmetology schools contributed to Empire Education Group, Inc. on August 1, 2007 was ($0.3), ($18.6), $2.3 and $2.5 million in fiscal years 2008, 2007, 2006 and 2005, respectively. Operating (loss) income from the deconsolidated European franchise salon operations was $5.1, $7.5, $4.8 and ($31.0) million in fiscal years 2008, 2007, 2006 and 2005, respectively.

- An impairment charge of $41.7 million associated with the Company's United Kingdom salon division, was recorded in fiscal year 2009. An impairment charge of $23.0 million associated with the Company's accredited cosmetology schools was recorded in fiscal year 2007. An impairment charge of $38.3 million related to goodwill associated with the Company's European business was recorded in fiscal year 2005.

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

- Adjustments were recorded in fiscal years 2009, 2008, 2007, 2006 and 2005 related to a change in estimate of the Company's self-insurance accruals, primarily prior years' workers' compensation claims reserves, due to the continued improvement of our safety and return-to-work programs over the recent years as well as changes in state laws. Site operating expenses decreased by $9.9, $6.9, and $10.0 million in fiscal years 2009, 2008, and 2007,

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respectively, and increased by $0.9 and $2.3 million in fiscal years 2006 and 2005, respectively, as a result in the change in estimate.

Expenses of $10.2, $6.1, $5.1, $6.9, and $3.1 million related to the impairment of property and equipment at underperforming locations were recorded during fiscal years 2009, 2008, 2007, 2006, and 2005, respectively.

A $5.7 million charge associated with disposal charges and lease termination fees related to the closure of salons other than in the normal course of business was recorded in fiscal year 2009. A $5.7 million charge associated with disposal charges and lease termination fees related to the closure of salons other than in the normal course of business was recorded in fiscal year 2006.

Fiscal year 2006 includes a $2.8 million charge related to the settlement of a wage and hour lawsuit under the Fair Labor Standards Act (FLSA).

c) The following significant items affected income from continuing operations and income from continuing operations per diluted share:

An income tax charge of approximately $3.8 million was recorded during fiscal year 2009 associated with an adjustment to correct our prior year deferred income tax balances. An income tax charge of approximately $3.0 million of which $1.3 million was recorded through income tax expense and $1.7 million was recorded through other comprehensive income during fiscal year 2008 was associated with repatriating approximately $30.0 million of cash previously considered to be indefinitely reinvested outside of the United States. An income tax benefit increased reported net income by approximately $4.1 million during fiscal year 2007 due to the reinstatement of the Work Opportunity and Welfare-to-Work Tax Credits. Approximately $1.3 million of this benefit related to credits earned during fiscal year 2006, as the change in tax law during fiscal year 2007 was retroactive to January 1, 2006. Work Opportunity and Welfare-to-Work Tax Credits increased reported net income by $0.8 and $1.8 million during fiscal years 2006 and 2005, respectively.

Impairment charges of $25.7 and $7.8 million associated with the Company's investment in Provalliance and for the full carrying value of our investment in and loans to Intelligent Nutrients, LLC were recorded in fiscal year 2009.

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

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

- Management's Overview
- Critical Accounting Policies
- Overview of Fiscal Year 2009 Results
- Results of Operations
- Liquidity and Capital Resources

MANAGEMENT'S OVERVIEW

Regis Corporation (RGS) owns or franchises beauty salons and hair restoration centers. As of June 30, 2009, we owned, franchised or held ownership interests in over 12,900 worldwide locations. Our locations consisted of 10,026 system wide North American and international salons, 95 hair restoration centers, and 2,804 locations in which we maintain an ownership interest less than 100 percent. Our salon concepts offer generally similar products and services and serve mass market consumers. Our salon operations are organized to be managed based on geographical location. Our

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North American salon operations include 9,582 salons, including 2,045 franchise salons, operating in the United States, Canada and Puerto Rico primarily under the trade names of Regis Salons, MasterCuts, SmartStyle, Supercuts and Cost Cutters. Our international salon operations include 444 salons located in Europe, primarily in the United Kingdom. Hair Club for Men and Women includes 95 North American locations, including 33 franchise locations. During fiscal year 2009, we had approximately 59,000 corporate employees worldwide.

Our growth strategy consists of two primary, but flexible, components. Through a combination of organic and acquisition growth, we seek to achieve our long-term objective of six to ten percent annual revenue growth. We anticipate that going forward, the mix of organic and acquisition growth will be roughly equal. However, depending on several factors, including the ability of our salon development program to keep pace with the availability of real estate for new construction, hair restoration lead generation, the availability of attractive acquisition candidates and same-store sales trends, this mix will vary from year to year. Due to the current economic conditions we have recently reduced the pace of our new salon development and salon acquisitions. We expect to continue with our historical trend of building and/or acquiring 700 to 1,000 salons each year once the economy normalizes.

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

Salon Business

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

We execute our salon growth strategy by focusing on real estate. Our salon real estate strategy is to add new units in convenient locations with good visibility and customer traffic, as well as appropriate trade demographics. Our various salon and product concepts operate in a wide range of retailing environments, including regional shopping malls, strip centers and Wal-Mart Supercenters. We believe that the availability of real estate will augment our ability to achieve the aforementioned long-term growth objectives. In fiscal year 2010, our outlook for constructed salons will be between 125 and 175 units. Capital expenditures and acquisitions are expected to be approximately $90.0 to $100.0 million in fiscal year 2010, including capital expenditures of approximately $55.0 to $60.0 million.

Organic salon revenue growth is achieved through the combination of new salon construction and salon same-store sales increases. Once the economy normalizes, we expect we will continue with our historical trend of building several hundred company-owned salons. We anticipate our franchisees will open approximately 50 to 100 salons as well in fiscal year 2010. Older, unprofitable salons will be closed or relocated. Our long-term outlook for our salon business is for annual consolidated low single digit same-store sales increases. Based on current fashion and economic cycles (i.e., longer hairstyles and lengthening of customer visitation patterns), we project our annual fiscal year 2010 consolidated same-store sales to be in the range of negative 3.0 to positive 1.0 percent.

Historically, our salon acquisitions have varied in size from as small as one salon to over one thousand salons. The median acquisition size is approximately ten salons. From fiscal year 1994 to fiscal year 2009, we acquired 8,020 salons, net of franchise buybacks. Once the economy normalizes, we anticipate adding several hundred company-owned salons each year from acquisitions. Some of these acquisitions may include buying salons from our franchisees.

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Hair Restoration Business

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

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

CRITICAL ACCOUNTING POLICIES

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

Our significant accounting policies can be found in Note 1 to the Consolidated Financial Statements contained in Part II, Item 8 of this Form 10-K. We believe the following accounting policies are most critical to aid in fully understanding and evaluating our reported financial condition and results of operations.

Investment In and Loans to Affiliates

The Company has equity investments in securities of certain privately held entities. The Company accounts for these investments under the cost method or equity method of accounting, as appropriate. The Company also has loans receivable from certain of these entities. The valuation of investments accounted for under the cost method considers all available financial information related to the investee. If an unrealized loss for any investment is considered to be other-than-temporary, the loss will be recognized in the Consolidated Statement of Operations in the period the determination is made. 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. During fiscal year 2009, we recorded impairments of $25.7 million and $7.8 million ($4.8 million net of tax) related to our investment in Provalliance and investment in and loans to Intelligent Nutrients, LLC, respectively.

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Goodwill

Goodwill is tested for impairment annually or at the time of a triggering event in accordance with the provisions of Statement of Financial Accounting Standard (SFAS) No. 142, *Goodwill and Other Intangible Assets*. In evaluating whether goodwill is impaired, the Company compares the carrying value of each reporting unit, including goodwill, to the estimated fair value of the reporting unit. 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 the estimated fair value of the reporting units based on discounted future cash flows that utilize estimates in annual revenue growth, gross margins, fixed expense rates, allocated corporate overhead, and long-term growth for determining terminal value. The Company's estimated future cash flows also take into consideration acquisition integration and maturation. Where available and as appropriate, comparative market multiples are used to corroborate the results of the discounted cash flow. We consider our various concepts to be reporting units when we test for goodwill impairment because that is where we believe goodwill resides. We periodically engage third-party valuation consultants to assist in evaluation of the Company's estimated fair value calculations. Our policy is to perform our annual goodwill impairment test during our third quarter of each fiscal year ending June 30.

The discounted cash flow model utilizes projected financial results for each reporting unit. The projected financial results are created from critical assumptions and estimates which are based on management's business plans and historical trends. A summary of the critical assumptions utilized during the fiscal year 2009 annual impairment test are outlined below:

Annual revenue growth. Annual revenue growth is primarily driven by assumed same-store sales rates of negative 3.0 percent to positive 3.0 percent. Other considerations include anticipated economic conditions, moderate acquisition growth, and the anniversary of reduced visitation patterns.

Gross margins. Adjusted for anticipated salon closures, new salon construction and acquisitions estimated future gross margins were held constant in each year for all reporting units.

Fixed expense rates. Fixed expense rate increases of 2.5 percent based on anticipated inflation were used in each year for all reporting units. Fixed expenses consisted of rent, site operating, and allocated general and administrative corporate overhead.

Allocated corporate overheads. Corporate overhead incurred by the home office on behalf of the reporting units is allocated to certain reporting units based on the number of salons in each reporting unit as a percent of total company-owned salons.

Long-term growth. Terminal value earnings before interest, taxes, depreciation and amortization (EBITDA) multiples of 5.0x were used for all reporting units other than Hair Restoration Centers which used a terminal value EBITDA multiple of 6.0x to reflect the relevant expected acquisition price for this reporting unit.

Discount rates. Discount rates of 11.0 percent were used for all reporting units other than Hair Restoration Centers which used a discount rate of 13.0 percent, which were consistent with a weighted average cost of capital for a potential market participant.

In the situations where a reporting unit's carrying value exceeds its fair value, the amount of the impairment loss must be measured. The measurement of impairment is calculated by determining the implied fair value of a reporting unit's goodwill. In calculating the implied fair value of goodwill, the fair value of the reporting unit is allocated to all other assets and liabilities of that unit based on the relative fair values. The excess of the fair value of the reporting unit over the amount assigned to its

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assets and liabilities is the implied fair value of goodwill. The goodwill impairment is measured as the excess of the carrying value of goodwill over its implied fair value.

Based on the Company's annual impairment analysis of goodwill performed during the third quarter of fiscal year 2009, no impairment of goodwill was recorded. The estimated fair value of the Regis salon concept exceeded its carrying value by approximately 4.0 percent or $8.0 million and the estimated fair value of Hair Restoration Centers exceeded carrying value by approximately 12.0 percent or $30.0 million. The respective fair values of the Company's remaining reporting units exceeded fair value by a much larger percentage. While the Company has determined the estimated fair values of the Regis salon concept and Hair Restoration Centers to be appropriate based on the historical level of revenue growth, operating income and cash flows, it is reasonably likely these reportable segments may become impaired in future periods. The term "reasonably likely" refers to an occurrence that is more than remote but less than probable in the judgment of the Company. Because some of the inherent assumptions and estimates used in determining the fair value of this reportable segment are outside the control of management, changes in these underlying assumptions can adversely impact fair value. The amount of impairment is dependent on factors which cannot be predicted with certainty, and can result in impairment of a portion or all of the carrying values of the Regis salon concept and Hair Restoration Centers' goodwill.

As a result of the higher likelihood of impairment of the Regis salon concept and Hair Restoration Centers' goodwill and sensitivity of the Company's critical assumptions in estimating fair value of these reporting units, the Company has provided additional information related to these two reporting units.

The following table summarizes the approximate impact that a change in certain critical assumptions would have on the estimated fair value of our Regis goodwill balance (the approximate impact of the change in the critical assumptions assumes all other assumptions and factors remain constant, in thousands, except percentages):

Critical Assumptions	**Change**	**Approximate Impact on Fair Value (in thousands)**
Discount Rate	1.0%	$ 5,900
Same-Store Sales	1.0%	19,000

The following table summarizes the approximate impact that a change in certain critical assumptions would have on the estimated fair value of our Hair Restoration Centers' goodwill balance (the approximate impact of the change in the critical assumptions assumes all other assumptions and factors remain constant, in thousands, except percentages):

Critical Assumptions	**Change**	**Approximate Impact on Fair Value (in thousands)**
Discount Rate	1.0%	$ 20,300
Same-Store Sales	1.0%	17,800

As part of our annual impairment testing as of March 31, 2009, our estimated fair value as determined by the sum of our reporting units based upon discounted cash flow calculations reconciled to within a reasonable range of our market capitalization which included an assumed control premium. Subsequent to June 30, 2009, the fair value of our stock continues to fluctuate and regularly trades below our book value per share. Adverse changes in expected operating results, an extended period of our stock trading significantly below book value per share, and unfavorable changes in other economic factors may result in further impairment of goodwill. The Company concluded there were no triggering events between the annual impairment testing and June 30, 2009.

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A summary of the Company's goodwill balance as of June 30, 2009 by reporting unit is as follows:

Reporting Unit	As of June 30, 2009 (Dollars in thousands)
Regis	$ 136,274
MasterCuts	4,652
SmartStyle	47,783
Supercuts	120,360
Promenade	305,986
Total North America Salons	615,055
Hair Restoration Centers	149,367
Consolidated Goodwill	$ 764,422

Prior to the annual goodwill impairment analysis for fiscal year 2009, the fair value of the Company's stock declined such that it began trading below book value per share. Due to the adverse changes in operating results and the continuation of the Company's stock trading below book value per share, the Company performed an interim impairment test of goodwill during the three months ended December 31, 2008.

As a result of the Company's interim impairment test of goodwill during the three months ended December 31, 2008, a $41.7 million impairment charge for the full carrying amount of goodwill within the salon concepts in the United Kingdom was recorded within continuing operations. The recent performance challenges of the international salon operations indicated that the estimated fair value was less than the current carrying of this reporting units net assets, including goodwill.

During the three months ended March 31 of fiscal years 2008 and 2007, we performed our annual goodwill impairment analysis on our reporting units. Based on our testing, a $23.0 million impairment charge was recorded during fiscal year 2007 related to our beauty school business. No impairment charges were recorded during fiscal years 2008.

Long-Lived Assets, Excluding Goodwill

We assess the impairment of long-lived assets annually or when events or changes in circumstances indicate that the carrying value of the assets or the asset grouping may not be recoverable. Our impairment analysis is performed on a salon by salon basis. The Company's test for impairment is performed at a salon level as this is the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. 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 related salon assets that does not recover the carrying value of the salon assets. When the sum of a salon's undiscounted estimated future cash flow is zero or negative, impairment is measured as the full carrying value of the related salon's equipment and leasehold improvements. When the sum of a salon's undiscounted cash flows is greater than zero but less than the carrying value of the related salon's equipment and leasehold improvements, a discounted cash flow analysis is performed to estimate the fair value of the salon assets and impairment is measured as the difference between then carrying value of the salon assets and the estimated fair value. The fair value estimate is based on the best information available, including market data.

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

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amounts of long-lived assets are assessed, these factors could cause us to realize material impairment charges.

During fiscal years 2009, 2008 and 2007, $10.2, $6.1, and $5.1 million, respectively, of impairment was recorded within depreciation and amortization in the Consolidated Statement of Operations. In June 2009, we approved a plan to close up to 80 underperforming United Kingdom company-owned salons in fiscal year 2010 that was in addition to the July 2008 approved plan of closing up to 160 underperforming company-owned salons in fiscal year2009. We also evaluated the appropriateness of the remaining useful lives of its affected property and equipment and whether a change to the depreciation charge was warranted. Impairment charges are included in depreciation related to company-owned salons in the Consolidated Statement of Operations.

Purchase Price Allocation

We make numerous acquisitions. The purchase prices are allocated to assets acquired, including identifiable intangible assets, and liabilities assumed based on their estimated fair values at the dates of acquisition. Fair value is estimated based on the amount for which the asset or liability could be bought or sold in a current transaction between willing parties. For our acquisitions, the majority of the purchase price that is not allocated to identifiable assets, or liabilities assumed, is accounted for as residual goodwill rather than identifiable intangible assets. This stems from the value associated with the walk-in customer base of the acquired salons, the value of which is not recorded as an identifiable intangible asset under current accounting guidance and the limited value of the acquired leased site and customer preference associated with the acquired hair salon brand. Residual goodwill further represents our opportunity to strategically combine the acquired business with our existing structure to serve a greater number of customers through our expansion strategies. Identifiable intangible assets purchased in fiscal year 2009, 2008 and 2007 acquisitions totaled $1.3, $16.1, and $4.5 million, respectively. The residual goodwill generated by fiscal year 2009, 2008, and 2007 acquisitions totaled $30.8, $105.3, and $50.8 million, respectively.

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 an estimate of the undiscounted ultimate cost of uninsured claims incurred as of the balance sheet date.

The workers' compensation, general liability and employment practices liability analysis includes applying loss development factors to the Company's historical claims data (total paid and incurred amounts per claim) for all policy years where the Company has not reached its aggregate limits to project the future development of incurred claims. The workers' compensation analysis is performed for four models; California, Ohio, Texas and all other states. A variety of accepted actuarial methodologies are followed to determine these liabilities, including several methods to predict the loss development factors for each policy period. These liabilities are determined by modeling the frequency (number of claims) and severity (cost of claims), fitting statistical distributions to the experience, and then running simulations. A similar analysis is performed for both general liability and employment practices liability, however, it is a single model for all liability claims rather than the four separate models used for workers' compensation.

The health insurance analysis utilizes trailing twelve months of paid and 24 months of incurred medical and prescription claims to project the amount of incurred but not yet reported claims liability amount. The lag factors are developed based on the Company's specific claim data utilizing a completion factor methodology. The developed factor, expressed as a percentage of paid claims, is applied to the trailing twelve months of paid claims to calculate the estimated liability amount. The calculated liability amount is reviewed for reasonableness based on reserve adequacy ranges for historical periods by testing prior reserve levels against actual expenses to date.

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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 the historical trends and actuarial assumptions. For fiscal years 2009, 2008, and 2007, we recorded decreases in expense from changes in estimates related to prior year open policy periods continuing operations of $9.9, $6.9, and $10.0 million, respectively. A 10.0 percent change in the self-insurance reserve would affect income from continuing operations before income taxes and equity in income of affiliated companies by $4.0, $4.7 and $4.8 million for the three years ended June 30, 2009, 2008 and 2007, respectively. The Company updates loss projections each year and adjusts its recorded liability to reflect the current 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.

Income Taxes

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

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

In addition, the calculation of tax liabilities involves dealing with uncertainties in the application of complex tax regulations. Management recognizes potential liabilities for anticipated tax audit issues in the United States and other tax jurisdictions based on our estimate of whether and the extent to which additional taxes will be due. If payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary. If our estimate of tax liabilities proves to be less than the ultimate assessment, a further charge to expense would result. In the United States, fiscal years 2006 and after remain open for federal tax audit. For state tax audits, the statute of limitations generally spans three to four years, resulting in a number of states remaining open for tax audits dating back to fiscal year 2005. However, the company is under audit in a number of states in which the statute of limitations has been extended to fiscal years 2000 and forward. Internationally (including Canada), the statute of limitations for tax audits varies by jurisdiction, but generally ranges from three to five years.

We adopted the provisions of FASB Interpretation ("FIN") No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109*, effective July 1, 2007. FIN No. 48 provides guidance regarding the recognition, measurement, presentation, and disclosure in the financial statements of tax positions taken or expected to be taken on a tax return, including the decision whether to file or not to file in a particular jurisdiction. As a result of the adoption of FIN No. 48, effective July 1, 2007, the Company recognized a $20.7 million increase in the liability for unrecognized income tax benefits, including interest and penalties. As of June 30, 2009 the Company's unrecognized income tax benefits were $14.8 million. See Note 13, to the Consolidated Financial Statements, for further information.

Contingencies

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

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OVERVIEW OF FISCAL YEAR 2009 RESULTS

The following summarizes key aspects of our fiscal year 2009 results:

Revenues decreased 2.1 percent to $2.4 billion and consolidated same-store sales decreased 3.1 percent during fiscal year 2009. The Company experienced a decline in customer visitation as a result of the continued global economic decline, partially offset by an increase in average ticket price, resulted in a decrease in consolidated same-store sales of 3.1 percent. The revenue decrease was partially offset by $32.2 million of product sold to the purchaser of Trade Secret. The Company expects fiscal year 2010 same-store sales to be in the range of negative 3.0 to positive 1.0 percent.

The Trade Secret concept was sold on February 16, 2009 and results have been reported within discontinued operations within the Consolidated Financial Statements. Reported as part of the loss on discontinued operations was a pre-tax $183.3 million non-cash write-off consisting primarily of inventories, property and equipment, and goodwill. The Trade Secret concept locations sold included 655 company-owned salons and 57 franchised salons.

Goodwill impairment charges of $41.7 million associated with our salon concepts in the United Kingdom were recorded during fiscal year 2009.

Other-than-temporary impairment charges of $25.7 million of our investment in Provalliance were recorded during fiscal year 2009.

Other-than-temporary impairment charges of $7.8 million for the full carrying value of our investment in and loans to Intelligent Nutrients, LLC were recorded during fiscal year 2009.

Long-lived asset impairment charges of $10.2 million were recorded during fiscal year 2009.

Total debt at the end of the fiscal year was $634.3 million and our debt-to-capitalization ratio, calculated as total debt as a percentage of total debt and shareholders' equity at fiscal year end, increased 20 basis points to 44.1 percent as compared to June 30, 2008.

The annual effective income tax rate of 53.3 percent was adversely impacted by the pre-tax non-cash goodwill impairment charge of $41.7 million and an adjustment to correct our prior year deferred income tax balances of $3.8 million. Offsetting these amounts were favorable releases of FIN 48 reserves primarily due to the expiration of statutes of limitation resulting in a decrease in income tax expense of $5.7 million.

Site operating expenses were positively impacted by a $9.9 million pre-tax change in estimate of the Company's self-insurance accruals, primarily workers' compensation, due to the continued improvement of our safety and return-to-work programs over the recent years.

Lease termination costs of $6.2 million ($5.7 million pre-tax included in continuing operations, with $0.5 million included in loss from discontinued operations) were incurred as a result of the 76 salons that ceased using the right to use the leased property or negotiated a lease termination agreement in connection with the Company's planned closure of up to 160 underperforming company-owned salons.

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RESULTS OF OPERATIONS

Beginning with the period ended December 31, 2008 the operations of Trade Secret concept within the North American reportable segment were accounted for as a discontinued operation. All periods presented will reflect Trade Secret as a discontinued operation. The following discussion of results of operations will reflect results from continuing operations. Discontinued operations will be 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 in Item 8, expressed as a percent of revenues. The percentages are computed as a percent of total revenues, except as noted.

Results of Operations as a Percent of Revenues

	For the Years Ended June 30,		
	2009	2008	2007
Service revenues	75.5%	75.1%	74.3%
Product revenues	22.9	22.2	22.3
Royalties and fees	1.6	2.7	3.4
Operating expenses:			
Cost of service(1)	57.0	57.1	56.0
Cost of product(2)	50.9	48.0	48.8
Site operating expenses	7.8	7.4	8.0
General and administrative	12.0	13.0	13.4
Rent	14.3	14.6	14.4
Depreciation and amortization	4.8	4.6	4.7
Goodwill impairment	1.7		1.0
Lease termination costs	0.2		
Operating income	4.5	7.0	6.0
Income from continuing operations before income taxes and equity in (loss) income of affiliated companies	3.2	5.5	4.4
Income from continuing operations	0.3	3.4	2.9
(Loss) income from discontinued operations	(5.4)	0.1	0.7
Net (loss) income	(5.1)	3.4	3.5

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

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

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Consolidated Revenues

Consolidated revenues primarily include revenues of company-owned salons, product and equipment sales to franchisees, hair restoration center revenues, and franchise royalties and fees. As compared to the prior fiscal year, consolidated revenues decreased 2.1 percent to $2.4 billion during fiscal year 2009 and increased 4.6 percent to $2.5 billion during fiscal year 2008. The following table details our consolidated revenues by concept. All service revenues, product revenues (which include product and equipment sales to franchisees), and franchise royalties and fees are included within their respective concept within the table.

	For the Years Ended June 30,		
	2009	2008	2007
	(Dollars in thousands)		
North American salons:			
Regis	$ 474,964	$ 514,219	$ 498,577
MasterCuts	170,338	175,974	174,287
SmartStyle	529,782	507,349	462,321
Supercuts(1)	310,913	305,104	287,416
Promenade(1)(6)	631,701	581,542	489,579
Other(3)		5,558	
Total North American Salons(5)	2,117,698	2,089,746	1,912,180
International salons(1)(2)	171,569	256,063	253,430
Beauty schools(3)			85,627
Hair restoration centers(1)	140,520	135,582	122,101
Consolidated revenues	$2,429,787	$2,481,391	$2,373,338
Percent change from prior year	(2.1)%	4.6%	9.5%
Salon same-store sales (decrease) increase(4)	(3.1)%	1.5%	0.9%

(1) Includes aggregate franchise royalties and fees of $39.6, $67.6, and $79.9 million in fiscal years 2009, 2008, and 2007, respectively. North American salon franchise royalties and fees represented 93.7, 58.6, and 47.8 percent of total franchise revenues in fiscal years 2009, 2008, and 2007, respectively. The decrease in aggregate franchise royalties and fees and the increase in North American salon franchise royalties and fees as a percent of total revenues for fiscal years 2009 and 2008 is a result of the deconsolidation of the Company's European franchise salon operations.

(2) On January 31, 2008, the Company deconsolidated the results of operations of its European franchise salon operations. Accordingly, revenue growth was negatively impacted as a result of the deconsolidation. See Item 6, Selected Financial Data, for further information

(3) On August 1, 2007, the Company contributed its 51 accredited cosmetology schools to Empire Education Group, Inc. Accordingly, revenue growth was negatively impacted as a result of the deconsolidation. See Item 6, Selected Financial Data, for further information. For the fiscal year ended June 30, 2008, the results of operations for the month ended July 31, 2007 for the accredited cosmetology schools are reported in the North American salons segment. The Company retained ownership of its one North American and four United Kingdom Sassoon schools. Subsequent to August 1, 2007 results of operations for the Sassoon schools are included in the respective North American and international salon segments.

(4) Same-store sales increases or decreases 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. Annual same-store sales increases are the sum of the same-store sales increases computed on a daily basis. Relocated locations are included in

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same-store sales as they are considered to have been open in the prior period. International same-store sales are calculated in local currencies so that foreign currency fluctuations do not impact the calculation. We began including hair restoration centers in same-store sales calculations beginning with the third fiscal quarter of 2007. Management believes that same-store sales, a component of organic growth, are useful in order to help determine the increase in salon revenues attributable to its organic growth (new salon construction and same-store sales growth) versus growth from acquisitions.

(5) Beginning with the period ended December 31, 2008, the operations of Trade Secret concept within the North American reportable segment were accounted for as a discontinued operation. All periods presented reflect Trade Secret as a discontinued operation. Accordingly, Trade Secret revenues are excluded from this presentation.

(6) Trade Secret, Inc. was sold by Regis Corporation on February 16, 2009. The agreement included a provision that Regis Corporation will supply product to the purchaser of Trade Secret at cost for a transition period of approximately six months following the date of the sale, with possible extension to not more than eleven months. For the fiscal year ended June 30, 2009, the Company generated revenue of $32.2 million in product revenues, which represented 1.3 percent of consolidated revenues.

The decrease of 2.1 percent and the increases of 4.6, and 9.5 percent in consolidated revenues during fiscal years 2009, 2008 and 2007, respectively, were driven by the following:

	Percentage Increase (Decrease) in Revenues For the Years Ended June 30,		
Factor	**2009**	**2008**	**2007**
Acquisitions (previous twelve months)	3.4%	4.6%	4.8%
Organic	(1.4)	3.4	4.0
Foreign currency	(2.2)	1.1	1.1
Franchise revenues	(1.1)	(0.6)	0.0
Closed salons	(0.8)	(3.9)	(0.4)
	(2.1)%	4.6%	9.5%

We acquired 177 company-owned salons (including 83 franchise buybacks), and bought back two hair restoration centers from franchisees during fiscal year 2009 compared to 354 company-owned salons (including 145 franchise buybacks) and bought back six hair restoration centers from franchisees during fiscal year 2008. The organic decrease was primarily due to consolidated same-store sales decrease of 3.1 percent, partially offset by the construction of 172 company-owned salons during the twelve months ended June 30, 2009. The organic increase was primarily from the construction of 309 company-owned salons during the 12 months ended June 30, 2008, as well as consolidated same-store sales of 1.5 percent. We closed 281and 264 salons (including 51 and 103 franchise salons) during the twelve months ended June 30, 2009 and 2008, respectively.

We acquired 354 company-owned salons (including 145 franchise buybacks), and bought back 6 hair restoration centers from franchisees during fiscal year 2008 compared to 351 company-owned salons (including 97 franchise buybacks), one beauty school and two company-owned hair restoration centers (including one franchise buyback) during fiscal year 2007. The organic growth was primarily from the construction of 309 and 400 company-owned salons during the twelve months ended June 30, 2008 and 2007, respectively, as well as consolidated same-store sales increases. Franchise revenues decreased primarily due to the merger of our 1,587 continental Europe franchise salons with Franck Provost Salon Group on January 31, 2008. We closed 264 and 288 salons (including 103 and

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168 franchise salons) during the twelve months ended June 30, 2008 and 2007, respectively. The decrease in closed salons as a percent of revenues was primarily due to the 51 accredited cosmetology schools contributed to Empire Education Group, Inc. on August 1, 2007.

During fiscal year 2009, the foreign currency impact was driven by the strengthening of the United States dollar against the Canadian dollar, British pound and Euro as compared to the prior fiscal year's exchange rates. During fiscal years 2008 and 2007, the foreign currency impact was driven by the continued weakening of the United States dollar against the Canadian dollar, British pound, and Euro as compared to the prior fiscal year's exchange rates. Consolidated revenues are primarily composed of service and product revenues, as well as franchise royalties and fees. Fluctuations in these three major revenue categories were as follows:

Service Revenues. Service revenues include revenues generated from company-owned salons and service revenues generated by hair restoration centers. Consolidated service revenues were as follows:

Years Ended June 30,	Revenues	(Decrease) Increase Over Prior Fiscal Year Dollar	Percentage
	(Dollars in thousands)		
2009	$1,833,958	$ (28,532)	(1.5)%
2008	1,862,490	98,010	5.6
2007	1,764,480	159,969	10.0

The decrease in service revenues during fiscal year 2009 was due to same-store service sales decreasing 2.5 percent. Same-store service sales decreased 2.5 percent due to a decline in customer visits. Service revenues were also negatively impacted due to the strengthening of the United States dollar against the Canadian dollar, British pound, and Euro and the deconsolidation of the European franchise salon operations on January 31, 2008. Partially offsetting the decrease was growth due to acquisitions during the twelve months and an increase in average ticket.

The growth in service revenues during fiscal year 2008 was driven by acquisitions and new salon construction (a component of organic growth). Service revenue growth was driven by a consolidated same-store service sales increase of 2.2 percent during the twelve months ended June 30, 2008 as a result of price increases. Growth was negatively impacted as a result of the deconsolidation of our 51 accredited cosmetology schools to Empire Education Group, Inc. on August 31, 2007.

The growth in service revenues during fiscal year 2007 was driven primarily by acquisitions and new salon construction (a component of organic growth). Consolidated same-store service sales increased 1.1 percent during the twelve months ended June 30, 2007. Additionally, hair restoration service revenues contributed to the increase in consolidated service revenues during the twelve months ended June 30, 2007 due to strong recurring and new customer revenues and increases in hair transplant management fees. Same-store sales were negatively impacted by the sustained long-hair trend, as customer visitation patterns continued to be modest related to the fashion trend towards longer hairstyles.

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Product Revenues. Product revenues are primarily sales at company-owned salons, hair restoration centers, and sales of product and equipment to franchisees. Consolidated product revenues were as follows:

Years Ended June 30,	Revenues	Increase Over Prior Fiscal Year Dollar	Percentage
	(Dollars in thousands)		
2009	$556,205	$ 4,919	0.9%
2008	551,286	22,374	4.2
2007	528,912	42,661	8.8

The growth in product revenues during fiscal year 2009 was primarily due to product sales of $32.2 million to the purchaser of Trade Secret, partially offset by same-store product sales decreasing 5.1 percent. Same-store product sales decreased 5.1 percent during the fiscal year 2009 due to a decline in customer visits and a change in product mix, as a larger percentage of product sales came from promotional items.

The growth in product revenues during fiscal year 2008 was primarily due to acquisitions, offset by same-store product sales decrease of 0.8 percent during the twelve months ended June 30, 2008. This decrease is due to the recent decline in the global economic condition and the continued trend of product diversion and increased appeal of mass hair care lines by the consumer.

The growth in product revenues during fiscal year 2007 was primarily due to acquisitions. Growth was not as robust compared to the prior fiscal year due to a same-store product sales increase of 0.2 percent during the twelve months ended June 30, 2007, related to product diversion, reduced promotions and increased appeal of mass retail hair care lines by the consumer.

Royalties and Fees. Consolidated franchise revenues, which include royalties and franchise fees, were as follows:

Years Ended June 30,	Revenues	Increase (Decrease) Over Prior Fiscal Year Dollar	Percentage
	(Dollars in thousands)		
2009	$39,624	$(27,991)	(41.4)%
2008	67,615	(12,331)	(15.4)
2007	79,946	2,706	3.5

Total franchise locations open at June 30, 2009 and 2008 were 2,078 (including 33 franchise hair restoration centers) and 2,134 (including 35 franchise hair restoration centers). The decrease in consolidated franchise revenues during fiscal year 2009 was primarily due to the merger of the 1,587 European franchise salon operations with Franck Provost Salon Group on January 31, 2008.

Total franchise locations open at June 30, 2008 and 2007 were 2,134 (including 35 franchise hair restoration centers) and 3,764 (including 41 franchise hair restoration centers). The decrease in consolidated franchise revenues during fiscal year 2008 was primarily due to the merger of the 1,587 European franchise salon operations with Franck Provost Salon Group on January 31, 2008. The decrease in consolidated franchise revenues during fiscal year 2008 was partially offset due to the weakening of the United States dollar against the Canadian dollar, British pound and Euro as compared to the exchange rates for fiscal year 2007.

Total franchise locations open at June 30, 2007 and 2006 were 3,764 (including 41 franchise hair restoration centers) and 3,797 (including 42 franchise hair restoration centers). We purchased 97 of our franchise salons during the twelve months ended June 30, 2007 compared to 137 during the twelve

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months ended June 30, 2006, which drove the overall decrease in the number of franchise salons between periods. The increase in consolidated franchise revenues during fiscal year 2007 was primarily due to the weakening of the United States dollar against the Canadian dollar, British pound and Euro as compared to the exchange rates for fiscal year 2006, partially offset by a decreased number of franchise salons, as discussed above.

Gross Margin (Excluding Depreciation)

Our cost of revenues primarily includes labor costs related to salon employees and hair restoration center employees, the cost of product used in providing services and the cost of products sold to customers and franchisees. The resulting gross margin was as follows:

Years Ended June 30,	Gross Margin	Margin as % of Service and Product Revenues	Increase (Decrease) Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
		(Dollars in thousands)			
2009	$1,062,406	44.4%	$(24,420)	(2.2)%	(60)
2008	1,086,826	45.0	40,643	3.9	(60)
2007	1,046,183	45.6	98,167	10.4	30

(1) Represents the basis point change in gross margin as a percent of service and product revenues as compared to the corresponding period of the prior fiscal year.

Service Margin (Excluding Depreciation). Service margin was as follows:

Years Ended June 30,	Service Margin	Margin as % of Service Revenues	Increase (Decrease) Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
		(Dollars in thousands)			
2009	$789,239	43.0%	$(10,692)	(1.3)%	10
2008	799,931	42.9	24,397	3.1	(110)
2007	775,534	44.0	73,650	10.5	30

(1) Represents the basis point change in service margin as a percent of service revenues as compared to the corresponding period of the prior fiscal year.

The basis point improvement in service margins as a percent of service revenues during fiscal year 2009 was primarily due to an improvement in labor expenses. Labor expenses improved as a result of cost control initiatives and revised salon commission plans.

The basis point decrease in service margins as a percent of service revenues during fiscal year 2008 was primarily due to the absence of the beauty school segment service revenue from consolidated service revenues. The decrease was also due to a change made during the first fiscal quarter as a result of refinements made to our inventory tracking systems. The refinements resulted in better tracking and accounting for retail products that our salon stylists transfer from retail shelves to the back bar for use in servicing customers. The cost of these products had historically been included as a component of our product gross margin, whereas they are now more appropriately included in our service margin.

The basis point improvement in service margins as a percent of service revenues during fiscal year 2007 was primarily due to a same-store service sales increase of 1.1 percent during the twelve months ended June 30, 2007 compared to 0.6 percent during the twelve months ended

June 30, 2006. The improvement was also due to increased tuition in the schools segment, increased hair restoration service revenues due to strong recurring and new customer revenues and increases in hair transplant management fees and the continued focus on management of salon payroll costs.

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Product Margin (Excluding Depreciation). Product margin was as follows:

Years Ended June 30,	Product Margin	Margin as % of Product Revenues	Increase (Decrease) Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
	(Dollars in thousands)				
2009	$273,167	49.1%	$(13,728)	(4.8)%	(290)
2008	286,895	52.0	16,246	6.0	80
2007	270,649	51.2	24,517	10.0	60

(1) Represents the basis point change in product margin as a percent of product revenues as compared to the corresponding period of the prior fiscal year.

Trade Secret, Inc. was sold by Regis Corporation on February 16, 2009. The agreement included a provision that Regis Corporation will supply product to the purchaser at cost for a transition period of six months following the date of the sale, with possible extension to not more than eleven months.

The following tables breakout product revenue, cost of product and product margin as a percent of product revenues between product and product sold to the purchaser of Trade Secret.

Breakout of Product Revenue	For the Years Ended June 30, 2009	2008	2007
Product	$523,968	$551,286	$528,912
Product sold to purchaser of Trade Secret	32,237		
Total product revenues	$556,205	$551,286	$528,912

Breakout of Cost of Product	For the Years Ended June 30, 2009	2008	2007
Cost of product	$250,801	$264,391	$258,263
Cost of product sold to purchaser of Trade Secret	32,237		
Total cost of product	$283,038	$264,391	$258,263

Product Margin as % of Product Revenues	For the Years Ended June 30, 2009	2008	2007
Margin on product other than sold to purchaser of Trade Secret	52.1%	52.0%	51.2%
Margin on product sold to purchaser of Trade Secret			
Total product margin	49.1%	52.0%	51.2%

The basis point improvement in product margin other than sold to purchaser of Trade Secret as a percentage of product revenues during fiscal year 2009 was due to selling higher cost inventories in fiscal year 2008 obtained in conjunction with several acquisitions. In addition, product margins improved due to the deconsolidation of the European franchise salon operations and a write-off of slow moving inventories in fiscal year 2008. Partially offsetting the improvement was mix play, as a larger than expected percentage of product sales came from lower-margin promotional items. We are not promoting or discounting at a higher rate, but we are continuing to see customers be more value-focused through buying promotional items at a higher rate than prior periods.

The basis point improvement in product margins as a percentage of product revenues during fiscal year 2008 was due to refinements made to our inventory tracking systems. The refinements resulted in better tracking and accounting for retail products that our salon stylists transfer from retail shelves to the back bar for use in servicing customers. The cost of these products had historically been included as a component of our product gross margin, whereas they are now more appropriately included in our service margin. In addition, product margins improved due to the deconsolidation of the beauty schools and European franchise salon operations.

The basis point improvement in product margins as a percent of product revenues during fiscal year 2007 was primarily due to a reduction in retail promotional discounting as compared to fiscal year 2006.

Site Operating Expenses

This expense category includes direct costs incurred by our salons and hair restoration centers, such as on-site advertising, workers' compensation, insurance, utilities and janitorial costs. Site operating expenses were as follows:

			Increase (Decrease) Over Prior Fiscal Year		
Years Ended June 30,	**Site Operating**	**Expense as % of Consolidated Revenues**	**Dollar**	**Percentage**	**Basis Point(1)**
	(Dollars in thousands)				
2009	$190,456	7.8%	$ 5,687	3.1%	40
2008	184,769	7.4	(5,845)	(3.1)	(60)
2007	190,614	8.0	9,664	5.3	(30)

(1) Represents the basis point change in site operating expenses as a percent of consolidated revenues as compared to the corresponding period of the prior fiscal year.

The basis point increase in site operating expenses as a percent of consolidated revenues during fiscal year 2009 was primarily due to the reclassification of rubbish removal and utilities that we pay our landlords as part of our operating lease agreements from rent into site operating expense. Partially offsetting the basis point increase was an incremental $3.0 million benefit due to the reduction in self insurance accruals compared to the fiscal year 2008 reduction in self insurance accruals. The reduction was primarily related to prior years' workers' compensation reserves as a result of successful safety and return-to-work programs implemented over the past few years.

The basis point improvement in site operating expenses as a percent of consolidated revenues during fiscal year 2008 was primarily due to a decrease in workers' compensation expense due to a continued reduction in the frequency and severity of injury claims from our successful salon safety programs.

The basis point improvement in site operating expenses as a percent of consolidated revenues during fiscal year 2007 was primarily due to an actuarial reduction in insurance claims reserves, primarily workers' compensation, as a result of the continued improvement of our safety and return-to-work programs over the recent years, as well as changes in state laws, providing an additional benefit of $10.0 million during fiscal year 2007. The basis point improvement in site operating expenses as a percent of consolidated revenues during fiscal year 2006 was primarily due to reduced workers' compensation insurance-related costs stemming from decreased claims activity.

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General and Administrative

General and administrative (G&A) includes costs associated with our field supervision, salon training and promotions, product distribution centers and corporate offices (such as salaries and professional fees), including costs incurred to support franchise and hair restoration center operations. G&A expenses were as follows:

			Increase (Decrease) Over Prior Fiscal Year		
Years Ended June 30,	G&A	Expense as % of Consolidated Revenues	Dollar	Percentage	Basis Point(1)
		(Dollars in thousands)			
2009	$291,661	12.0%	$(29,902)	(9.3)%	(100)
2008	321,563	13.0	3,840	1.2	(40)
2007	317,723	13.4	32,729	11.5	30

(1) Represents the basis point change in G&A as a percent of consolidated revenues as compared to the corresponding period of the prior fiscal year.

The basis point improvement in G&A costs as a percentage of consolidated revenues during fiscal year 2009 was primarily due to cost savings initiatives implemented by the Company during the first half of fiscal year 2009 including the reduction of field supervisory staff and the reduction of the fiscal year 2009 marketing budget. The basis point improvement was also related to the deconsolidation of the European franchise salon operations.

The basis point improvement in G&A costs as a percentage of consolidated revenues during fiscal year 2008 was primarily due to the deconsolidation of the European franchise salon operations and accredited cosmetology schools.

The planned basis point increase in G&A costs as a percent of consolidated revenues during fiscal year 2007 was primarily due to increases in salon supervisor salaries, benefits, travel expenses, professional fees and the timing of promotional salon and hair restoration advertising.

Rent

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

			Increase (Decrease) Over Prior Fiscal Year		
Years Ended June 30,	Rent	Expense as % of Consolidated Revenues	Dollar	Percentage	Basis Point(1)
		(Dollars in thousands)			
2009	$347,792	14.3%	$(13,684)	(3.8)%	(30)
2008	361,476	14.6	19,654	5.7	20
2007	341,822	14.4	31,048	10.0	10

(1) Represents the basis point change in rent expense as a percent of consolidated revenues as compared to the corresponding period of the prior fiscal year.

The basis point improvement in rent expense as a percent of consolidated revenues during fiscal year 2009 was primarily due to the reclassification of rubbish removal and utilities that we pay our landlords as part of our operating lease agreements to site operating expense from rent expense. Partially offsetting the basis point improvement was negative leverage in this fixed cost category due to negative same-store sales.

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The basis point increase in rent expense as a percent of consolidated revenues during fiscal year 2008 was primarily due to rent expense increasing at a faster rate than location same-store sales and the deconsolidation of the schools and European franchise salon operations, offset by recent salon acquisitions having a lower occupancy cost.

The basis point increase in rent expense as a percent of consolidated revenues during fiscal years 2007 and 2006 was primarily due to rent expense increasing at a faster rate than location same-store sales. Additionally, fiscal year 2007 is impacted by an extra week of rent in the United Kingdom.

Depreciation and Amortization

Depreciation and amortization expense (D&A) was as follows:

			Increase (Decrease) Over Prior Fiscal Year		
Years Ended June 30,	**D&A**	**Expense as % of Consolidated Revenues**	**Dollar**	**Percentage**	**Basis Point(1)**
		(Dollars in thousands)			
2009	$115,655	4.8%	$2,362	2.1%	20
2008	113,293	4.6	1,829	1.6	(10)
2007	111,464	4.7	8,390	8.1	(10)

(1) Represents the basis point change in depreciation and amortization as a percent of consolidated revenues as compared to the corresponding period of the prior fiscal year.

The basis point increase in D&A as a percent of consolidated revenues during fiscal year 2009 was primarily due to the decrease in same-store sales. In addition, the Company recorded impairment charges of $10.2 million related to the impairment of property and equipment at underperforming locations, including those salons under the Company approved plan to close up to 80 underperforming United Kingdom company-owned salons.

The basis point improvement in D&A as a percent of consolidated revenues during fiscal year 2008 was primarily due to same-store sales increasing at a faster rate than D&A. The improvement was partially offset by higher salon impairment charges in fiscal year 2008 related to the Company's decision to close 160 (112 continuing operations) underperforming salons in fiscal year 2009, when compared to salon impairment charges in fiscal year 2007. Impairment charges of $6.1 million were recorded during fiscal 2008 related to the impairment of property and equipment at underperforming locations. The majority of closings are expected to occur in the first half of fiscal year 2009. The decision to close the underperforming stores was the result of a comprehensive review of our salon portfolio, further continuing our initiative to enhance profitability.

The basis point improvement in D&A for fiscal year 2007 relates primarily to lower salon impairment charges in fiscal year 2007 when compared to salon impairment charges in fiscal year 2006. Impairment charges of $5.1 million were recorded during fiscal 2007 related to the impairment of property and equipment at underperforming locations.

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Goodwill Impairment

Goodwill impairment was as follows:

Years Ended June 30,	Goodwill Impairment	Expense as % of Consolidated Revenues	Increase (Decrease) Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
	(Dollars in thousands)				
2009	$ 41,661	1.7%	$ 41,661	100.0%	170
2008			(23,000)	(100.0)	(100)
2007	23,000	1.0	23,000	100.0	100

(1) Represents the basis point change in goodwill impairment as a percent of consolidated revenues as compared to the corresponding period of the prior fiscal year.

The Company recorded a $41.7 million goodwill impairment charge related to the salon concepts in the United Kingdom during fiscal year 2009. The recent performance challenges of the International salon operations indicated that the estimated fair value of the International salon operations was less than the current carrying value of the reporting unit's net assets, including goodwill. There is no remaining goodwill recorded within the salon concepts in the United Kingdom.

No impairment charges were recorded during fiscal years 2008.

The Company recorded a $23.0 million impairment charge related to the Company's beauty school operating segment during fiscal year 2007. During fiscal year 2007, the Company entered into an agreement to merge its 51 accredited cosmetology schools into Empire Education Group, Inc. The terms of the transaction indicated the estimated fair value of the accredited cosmetology schools was less than the carrying value of the beauty school's net assets, including goodwill, immediately prior to the merger.

Lease Termination Costs

Lease termination costs were as follows:

Years Ended June 30,	Lease Termination Costs	Expense as % of Consolidated Revenues	Increase (Decrease) Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
	(Dollars in thousands)				
2009	$ 5,732	0.2%	$ 5,732	100.0%	20
2008					
2007					

(1) Represents the basis point change in lease termination costs as a percent of consolidated revenues as compared to the corresponding periods of the prior fiscal year.

The lease termination costs are associated with the Company's plan to close up to 160 (112 from continuing operations) underperforming company-owned salons in fiscal year 2009. During fiscal year 2009 we closed 71 salons. During the first fiscal quarter of 2010, we anticipate recording lease termination costs of approximately $3.4 million in connection with closing underperforming salons in the United Kingdom.

See further discussion within Note 11 of the Condensed Consolidated Financial Statements.

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Interest Expense

Interest expense was as follows:

Years Ended June 30,	Interest	Expense as % of Consolidated Revenues	Increase (Decrease) Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
		(Dollars in thousands)			
2009	$39,768	1.6%	$(4,511)	(10.2)%	(20)
2008	44,279	1.8	2,632	6.3	
2007	41,647	1.8	6,734	19.3	20

(1) Represents the basis point change in interest expense as a percent of consolidated revenues as compared to the corresponding period of the prior fiscal year.

The basis point improvement in interest as a percent of consolidated revenues during the twelve months ended June 30, 2009 was primarily due to lower average interest rates on variable rate debt and decreased debt levels as a result of the Company's commitment to reduce debt levels.

Interest as a percent of consolidated revenues during the twelve months ended June 30, 2008 was consistent with the twelve months ended June 30, 2007.

The basis point increase in interest expense as a percent of consolidated revenues during fiscal year 2007 was primarily due to increased debt levels due to the Company's repurchase of $79.7 million of our outstanding common stock, acquisitions and the timing of income tax payments during the fiscal year.

Interest Income and Other, net

Interest income and other, net was as follows:

Years Ended June 30,	Interest	Income as % of Consolidated Revenues	Increase Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
		(Dollars in thousands)			
2009	$9,461	0.4%	$1,288	15.8%	10
2008	8,173	0.3	3,120	61.7	10
2007	5,053	0.2	4,432	713.7	20

(1) Represents the basis point change in interest income and other, net as a percent of consolidated revenues as compared to the corresponding period of the prior fiscal year.

The basis point improvement in interest income and other, net as a percent of consolidated revenues during the twelve months ended June 30, 2009 was primarily due to the Company receiving $2.9 million for administrative services from the purchaser of Trade Secret and foreign currency transaction gains. Partially offsetting the basis point improvement was a decrease in interest income due to a decline in interest rates.

The basis point improvement in interest income and other, net as a percent of consolidated revenues during the twelve months ended June 30, 2008 and 2007 was primarily due to the increased interest income as a result of higher cash balances available to earn interest.

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Income Taxes

Our reported effective tax rate was as follows:

Years Ended June 30,	Effective Rate	Basis Point Increase (Decrease)
2009	53.3%	1,380
2008	39.5	410
2007	35.4	(50)

The basis point increase in our overall effective income tax rate for the fiscal year ended June 30, 2009 was primarily the result of the pre-tax non-cash goodwill impairment charge of $41.7 million recorded during the three months ended December 31, 2008 which caused an increase in the tax rate of 14.5 percent. The majority of the impairment charge was not deductible for tax purposes. In addition, a 4.8 percent increase in the tax rate was due to an adjustment of prior year deferred income taxes. Offsetting the unfavorable shifts in the income tax rate was a 7.3 percent decrease in the tax rate due to the release of reserves for unrecognized tax benefits upon the expiration of the statute of limitation in federal, state and international jurisdictions.

The basis point increase in our overall effective income tax rate for the fiscal year ended June 30, 2008 was primarily the result of the shift in income from low to high tax jurisdictions as a result of the merger of European franchise salon operations with the Franck Provost Salon Group. As a result of the merger with the Franck Provost Salon Group, the Company repatriated approximately $30 million cash previously considered to be indefinitely reinvested outside of the United States. In addition, certain costs related to the transaction were not deductible for tax purposes. The combined effect of these items caused an increase in the tax rate of 2.1 percent. In addition, Texas and other states introduced new taxes or restrictive rules. The combined effect of these new taxes, together with other adjustments, caused an increase in the tax rate of 1.9 percent.

The basis point improvement in our overall effective income tax rate for the fiscal year ended June 30, 2007 was primarily due to the tax benefit received during the three months ended December 31, 2006 related to the retroactive reinstatement to January 1, 2006 of the Work Opportunity and Welfare-to-Work Tax Credits. The basis point improvement was also due to increases in international income subject to tax in lower tax foreign jurisdictions, partially offset by the pre-tax, non-cash goodwill impairment charge of $23.0 million recorded during the three months ended March 31, 2007. The majority of the impairment charge was not deductible for tax purposes.

In December 2006, President Bush signed the Tax Relief and Health Care Act of 2006 into law. This Act retroactively reinstated the Work Opportunity and Welfare-to-Work Tax Credits for a two year period beginning January 1, 2006. In accordance with generally accepted accounting principles, the financial impact of the tax credits earned during the entire calendar year was required to be reflected in the Company's tax rate for the quarter in which the Act was signed into law, which was the Company's quarter ended December 31, 2006. The fiscal year 2007 tax rate reflects $4.1 million related to Work Opportunity and Welfare-to-Work Tax Credits, a portion of which was earned during fiscal year 2006, but not reflected in the related financial statements due to the expiration of the prior statute. Under the prior law which was retroactive to January 1, 2004 and expired on December 31, 2005, the Company earned employment credits of $0.8 and $1.8 million during fiscal years 2006 and 2005, respectively. On May 26, 2007, President Bush signed into law the Small Business and Work Opportunity Tax Act of 2007. Whereas under the Tax Relief and Health Care Act of 2006 the Work Opportunity and Welfare-to-Work Tax Credits were to expire on December 31, 2007, this Act enhances and extends the credits to September 1, 2011.

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Equity in (Loss) Income of Affiliated Companies, Net of Income Taxes

Equity in (loss) income of affiliates, represents the income or loss generated by our equity investment in Empire Education Group, Inc., Provalliance, and other equity method investments was as follows:

Years Ended June 30,	Equity (Loss) Income	Increase (Decrease) Over Prior Fiscal Year	
		Dollar	Percentage
	(Dollars in thousands)		
2009	$(29,846)	$(30,695)	(3,615.4)%
2008	849	849	100.0
2007			

The increase in losses was primarily due to the impairment losses of $25.7 and $4.8 million, on our investment in Provalliance and investment in and loans to Intelligent Nutrients, LLC, respectively. Primarily the result of the weakened economy across continental Europe, Provalliance has recorded income at levels much less than expected by Regis management during the Company's fiscal year ended June 30, 2009. In addition, Provalliance significantly increased its debt levels resulting from acquisitions since January 31, 2008 but had significantly reduced future income expectations as a result of current economic conditions. The Company calculated the estimated fair value of Provalliance based on discounted future cash flows that utilize estimates in annual revenue growth, gross margins, capital expenditures, income taxes and long-term growth for determining terminal value. The discounted cash flow model utilizes projected financial results based on Provalliance's business plans and historical trends. The increased debt and reduced earnings expectations reduced the fair value of Provalliance as of June 30, 2009. Accordingly, the Company could no longer justify the carrying amount of its investment in Provalliance and recorded a $25.7 million "other-than-temporary" impairment charge in its fourth quarter ended June 30, 2009.The $4.8 million impairment charge was based on Intelligent Nutrients, LLC's inability to develop a professional organic brand of shampoo and conditioner with broad consumer appeal. The Company determined the losses in value to be "other-than-temporary." Partially offsetting the impairment losses was equity in income recorded for our investments in Provalliance, Empire Education Group, Inc. and Hair Club for Men, Ltd. See Note 6 to the Consolidated Financial Statements for further discussion of each respective affiliated company.

Equity in income of affiliated companies, net of taxes for the year ended June 30, 2008 was due to equity in income recorded for our investments in Provalliance and Empire Education Group, Inc., partially offset by equity in losses recorded for our investments in Intelligent Nutrients, LLC and PureBeauty and BeautyFirst.

(Loss) Income from Discontinued Operations, net of Taxes

Income from discontinued operations was as follows:

Years Ended June 30, 2009	(Loss) Income from Discontinued Operations, Net of Taxes	Decrease Over Prior Fiscal Year	
		Dollar	Percentage
	(Dollars in thousands)		
2009	$ (131,436)	$(132,739)	(10,187.2)%
2008	1,303	(14,128)	(91.6)
2007	15,431	(1,244)	(7.5)

During the quarter ended December 31, 2008, we concluded that our Trade Secret concept was held for sale and presented it as discontinued operations for all comparable prior periods. The loss from discontinued operations during fiscal year 2009 represents operating losses and non-cash

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impairment charges of $183.3 million. The income for the years ended June 30, 2008 and 2007 are the result of operating income, net of tax. The decrease in income from discontinued operations during fiscal year 2008 was primarily due to same-store sales decreasing 7.9 percent and reduced retail product margins, largely the result of recent salon acquisitions which have lower product margins. The decrease in income from discontinued operations during fiscal year 2008 was also due to long-lived asset impairment charges of $4.4 million in fiscal year 2008 as compared to $1.7 million during fiscal year 2007. See Note 2 to the Consolidated Financial Statements for further discussion.

Recent Accounting Pronouncements

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

Effects of Inflation

We compensate some of our salon employees with percentage commissions based on sales they generate, thereby enabling salon payroll expense as a percent of company-owned salon revenues to remain relatively constant. Accordingly, this provides us certain protection against inflationary increases, as payroll expense and related benefits (our major expense components) are variable costs of sales. In addition, we may increase pricing in our salons to offset any significant increases in wages. Therefore, we do not believe inflation has had a significant impact on the results of our operations.

Constant Currency Presentation

The presentation below demonstrates the effect of foreign currency exchange rate fluctuations from year to year. To present this information, current period results for entities reporting in currencies other than United States dollars are converted into United States dollars at the average exchange rates in effect during the corresponding period of the prior fiscal year, rather than the actual average exchange rates in effect during the current fiscal year. Therefore, the foreign currency impact is equal to current year results in local currencies multiplied by the change in the average foreign currency exchange rate between the current fiscal period and the corresponding period of the prior fiscal year.

During the fiscal years ended June 30, 2009, foreign currency translation had an unfavorable impact on consolidated revenues due to the weakening of the Canadian dollar, British pound, and Euro against the United States dollar.

During the fiscal years ended June 30, 2008 and 2007, foreign currency translation had a favorable impact on consolidated revenues due to the strengthening of the Canadian dollar, British pound, and Euro against the United States dollar.

	Favorable (Unfavorable) Impact of Foreign Currency Exchange Rate Fluctuations					
	Impact on Revenues			Impact on Income Before Income Taxes		
(Dollars in thousands) Currency	Fiscal 2009	Fiscal 2008	Fiscal 2007	Fiscal 2009	Fiscal 2008	Fiscal 2007
Canadian dollar	$ (18,509)	$ 14,400	$ 3,396	$ (3,009)	$ 2,487	$ 567
British pound	(36,624)	7,689	15,167	7,248	134	616
Euro	(496)	3,831	4,388	(252)	755	782
Total	$ (55,629)	$ 25,920	$ 22,951	$ 3,987	$ 3,376	$ 1,965

Results of Operations by Segment

Based on our internal management structure, we report three segments: North American salons, international salons and hair restoration centers. Significant results of operations are discussed below with respect to each of these segments.

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North American Salons

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

Years Ended June 30,	Revenues	Increase Over Prior Fiscal Year Dollar	Increase Over Prior Fiscal Year Percentage	Same-Store Sales (Decrease) Increase
		(Dollars in thousands)		
2009	$2,117,698	$ 27,952	1.3%	(2.9)%
2008	2,089,746	177,566	9.3	1.8
2007	1,912,180	138,494	7.8	0.9

The percentage increases during the years ended June 30, 2009, 2008, and 2007 were due to the following factors:

Factor	Percentage Increase (Decrease) in Revenues For the Years Ended June 30, 2009 2009	2008	2007
Acquisitions (previous twelve months)	3.7%	4.6%	4.5%
Organic	(0.9)	4.2	3.5
Foreign currency	(0.9)	0.8	0.2
Franchise revenues	(0.1)	0.1	0.0
Closed salons	(0.5)	(0.4)	(0.4)
	1.3%	9.3%	7.8%

We acquired 177 North American salons during the twelve months ended June 30, 2009, including 83 franchise buybacks. The organic decrease was due primarily to same-store sales decrease of 2.9 percent, partially offset by the construction of 168 company-owned salons in North America and $32.2 million of product sales to the purchaser of Trade Secret during the twelve months ended June 30, 2009. The foreign currency impact during fiscal year 2009 resulted from the strengthening of the United States dollar against the Canadian dollar as compared to the exchange rate for fiscal year 2008.

We acquired 287 North American salons during the twelve months ended June 30, 2008, including 145 franchise buybacks. The organic growth was due primarily to the construction of 294 company-owned salons in North America during the twelve months ended June 30, 2008, and a same-store sales increase of 1.8 percent during the twelve months ended June 30, 2008. The Company experienced the largest comparable increase in same-store service sales in eight years during the third and fourth quarter of fiscal year 2008, 4.1 percent and 3.4 percent, respectively. The foreign currency impact during fiscal year 2008 was driven by the weakening of the United States dollar against the Canadian dollar as compared to the exchange rate for fiscal year 2007.

We acquired 335 North American salons during the twelve months ended June 30, 2007, including 93 franchise buybacks. The organic growth was due primarily to the construction of 375 company-owned salons in North America during the twelve months ended June 30, 2007, partially offset by a lower same-store sales increase of 0.9 percent during the twelve months ended June 30, 2007 as compared to 1.1 percent during the twelve months ended June 30, 2006. The foreign currency impact during fiscal year 2007 was driven by the weakening of the United States dollar against the Canadian dollar as compared to the exchange rate for fiscal year 2006.

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North American Salon Operating Income. Operating income for the North American salons was as follows:

Years Ended June 30,	Operating Income	Operating Income as % of Total Revenues	Increase (Decrease) Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
	(Dollars in thousands)				
2009	$275,628	13.0%	(10,227)	(3.6)%	(70)
2008	285,855	13.7	26,464	10.2	10
2007	259,391	13.6	28,174	12.2	60

(1) Represents the basis point change in North American salon operating income as a percent of total North American salon revenues as compared to the corresponding period of the prior fiscal year.

The basis point decrease in North American salon operating income as a percent of North American salon revenues during fiscal year 2009 was primarily due to negative leverage in fixed cost categories due to negative same-store sales and lease termination costs associated with the Company's plan to close underperforming company-owned salons. In addition, the basis point decrease was due to an increase in North American revenues of $32.2 million related to product sales to the purchaser of Trade Secret at cost.

The basis point increase in North American salon operating income as a percent of North American salon revenues during fiscal year 2008 was primarily due a decrease in workers' compensation expense due to a continued reduction in the frequency and severity of injury claims from our successful salon safety programs. Partially offsetting the increase was impairment losses on the disposal of property and equipment stemming from salon closures. In July 2008 (fiscal year 2009), we approved a plan to close up to 112 underperforming company-owned salon locations in fiscal year 2009 prior to the lease end date in order to enhance overall profitability, which resulted in impairment charges of $6.1 million.

The basis point improvement in North American salon operating income as a percent of North American salon revenues during fiscal year 2007 was due to improved product margins and a reduction in workers' compensation expense as a result of the continued improvement of our safety and return-to-work programs over the recent years, as well as changes in state laws and rent expense increasing at a faster rate than salon same-store sales.

International Salons

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

Years Ended June 30,	Revenues	Increase (Decrease) Over Prior Fiscal Year Dollar	Percentage	Same-Store Sales (Decrease)
	(Dollars in thousands)			
2009	$171,569	$ (84,494)	(33.0)%	(7.2)%
2008	256,063	2,633	1.0	(4.3)
2007	253,430	32,768	14.8	(0.6)

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The percentage increases (decreases) during the years ended June 30, 2009, 2008, and 2007 were due to the following factors.

	Percentage Increase (Decreased) in Revenues For the Years Ended June 30, 2009		
	2009	2008	2007
Acquisitions (previous twelve months)	%	4.1%	2.6%
Organic	(4.8)	(0.7)	4.4
Foreign currency	(14.5)	4.5	8.5
Franchise revenues	(9.2)	(5.9)	0.3
Closed salons	(4.5)	(1.0)	(1.0)
	(33.0)%	1.0%	14.8%

We did not acquire any international salons during the twelve months ended June 30, 2009. The organic decline was primarily due to a decrease of same-store sales of 7.2 percent for the twelve months ended June 30, 2009, partially offset by the four company-owned international salons constructed. The foreign currency impact during fiscal year 2009 resulted from the strengthening of the United States dollar against the British Pound and Euro as compared to the exchange rates for fiscal year 2008. Franchise revenues decreased primarily due to the merger of our continental Europe franchise salon operations with Franck Provost Salon Group on January 31, 2008.

We acquired 25 international salons during the twelve months ended June 30, 2008, none of which were franchise buybacks. The decrease in organic growth was due to a decrease of same-store sales of 4.3 percent for the twelve months ended June 30, 2008 and due to an additional week in the fiscal year 2007 reporting period as compared to the fiscal year 2008 reporting period. This decrease was partially offset by the 15 company-owned international salons constructed and the inclusion of the four United Kingdom Sassoon schools for the twelve months ended June 30, 2008. The foreign currency impact during fiscal year 2008 was driven by the weakening of the United States dollar against the British Pound and Euro as compared to the exchange rates for fiscal year 2007. Franchise revenues decreased primarily due to the merger of our continental Europe franchise salon operations with Franck Provost Salon Group on January 31, 2008.

We acquired 16 international salons during the twelve months ended June 30, 2007, including four franchise buybacks. The organic growth was due to the construction of 25 company-owned international salons during the twelve months ended June 30, 2007 and the additional week in the fiscal year 2007 reporting period as compared to the fiscal year 2006 reporting period, partially offset by a same-store sales decrease of 0.6 percent for the twelve months ended June 30, 2007. The foreign currency impact during fiscal year 2007 was driven by the weakening of the United States dollar against the British pound and the Euro as compared to the exchange rates for fiscal year 2006.

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International Salon Operating Income. Operating income for the international salons was as follows:

Years Ended June 30,	Operating (Loss) income	Operating (Loss) income as % of Total Revenues	Increase (Decrease) Over Prior Fiscal Year		
			Dollar	Percentage	Basis Point(1)
		(Dollars in thousands)			
2009	$ (45,481)	(26.5)%	$ (57,132)	(490.4)%	(3,110)
2008	11,651	4.6	(5,897)	(33.6)	(230)
2007	17,548	6.9	3,986	29.4	80

(1) Represents the basis point change in international salon operating income (loss) as a percent of total international salon revenues as compared to the corresponding period of the prior fiscal year.

The basis point decrease in international salon operating income as a percent of international salon revenues during fiscal year 2009 was primarily due to negative same-store sales and the $41.7 million goodwill impairment of the United Kingdom reporting unit during the fiscal year 2009.

The basis point decrease in international salon operating income as a percent of international salon revenues during fiscal year 2008 was primarily due to the deconsolidation of our European franchise salon operations, negative same-store sales, and higher impairment charges of $1.1 million related to the Company approved plan to close underperforming company-owned salon locations in fiscal year 2009. These decreases were offset by the inclusion of the Sassoon schools in the segment.

The basis point improvement in international salon operating income as a percent of international salon revenues during fiscal year 2007 was primarily due to improved product margins and severance expenses incurred in fiscal 2006 that did not occur in fiscal 2007. A same-store product sales increase of 7.1 percent for the twelve months ended June 30, 2007 also contributed to the improvement.

Hair Restoration Centers

Hair Restoration Center Revenues. Total hair restoration center revenues were as follows:

Years Ended June 30,	Revenues	Increase Over Prior Fiscal Year		Same-Store Sales (Decrease) Increase
		Dollar	Percentage	
		(Dollars in thousands)		
2009	$ 140,520	$ 4,938	3.6%	(0.8)%
2008	135,582	13,481	11.0	5.2
2007	122,101	12,399	11.3	8.7

The percentage increases during the years ended June 30, 2009, 2008, and 2007 were due to the following factors:

	Percentage Increase (Decrease) in Revenues For the Years Ended June 30, 2009		
	2009	2008	2007
Acquisitions (previous twelve months)	5.9%	8.1%	4.7%
Organic	(0.9)	4.2	6.6
Franchise revenues	(1.4)	(1.3)	0.0
	3.6%	11.0%	11.3%

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We acquired two hair restoration centers during the twelve months ended June 30, 2009, both of which were franchise buybacks, and constructed eight hair restoration centers during the twelve months ended June 30, 2009. The decrease in organic hair restoration revenues during fiscal year 2009 was due to the decrease in same-store sales of 0.8 percent.

We acquired six hair restoration centers during the twelve months ended June 30, 2008, all of which were franchise buybacks, and constructed three hair restoration centers during the twelve months ended June 30, 2008. The increase in organic hair restoration revenues during fiscal year 2008 was due to the increase in same-store sales of 5.2 percent.

We acquired two hair restoration centers during the twelve months ended June 30, 2007, one of which was a franchise buyback. The increase in total hair restoration revenues during fiscal year 2007 was due to strong recurring and new customer revenues and increases in hair transplant management fees.

Hair Restoration Center Operating Income. Operating income for our hair restoration centers was as follows:

			Increase (Decrease) Over Prior Fiscal Year		
Years Ended June 30,	**Operating Income**	**Operating Income as % of Total Revenues**	**Dollar**	**Percentage**	**Basis Point(1)**
		(Dollars in thousands)			
2009	$23,871	17.0%	$ (4,310)	(15.3)%	(380)
2008	28,181	20.8	2,620	10.3	(10)
2007	25,561	20.9	3,988	18.5	120

(1) Represents the basis point change in hair restoration center operating income as a percent of total hair restoration center revenues as compared to the corresponding period of the prior fiscal year.

The basis point decrease in hair restoration operating income as a percent of hair restoration revenues during fiscal year 2009 was primarily due to lower operating margins on newly constructed and acquired centers and negative leverage in fixed cost categories due to negative same-store sales.

The basis point decrease in hair restoration operating income as a percent of hair restoration revenues during fiscal year 2008 was primarily due to lower operating margins at the six acquired franchise centers during the twelve months ended June 30, 2008.

The basis point improvement in hair restoration operating income as a percent of hair restoration revenues during fiscal year 2007 was due to strong recurring and new customer revenues and increases in hair transplant management fees, partially offset by an increase in professional fees and advertising and marketing expenses.

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LIQUIDITY AND CAPITAL RESOURCES

Overview

We continue to maintain a strong balance sheet to support system growth and financial flexibility. Our debt to capitalization ratio, calculated as total debt as a percentage of total debt and shareholders' equity at fiscal year end, was as follows:

As of June 30,	Debt to Capitalization	Basis Point Increase(1)
2009	44.1%	20
2008	43.9	20
2007	43.7	200

(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, 2009 compared to June 30, 2008 was primarily due to a decrease in shareholders' equity from the non-cash goodwill impairment within the United Kingdom salon division, the loss from discontinued operations related to the sale of Trade Secret, the non-cash impairment of our investment in Provalliance and foreign currency due to the strengthening of the United States dollar against the Canadian dollar, Euro and British Pound. The impact of the decrease in shareholders' equity on the debt to capitalization ratio was partially offset by a decrease in debt from June 30, 2008 to June 30, 2009. As of June 30, 2009 and 2008, approximately $55.5 and $230.2 million, respectively, of our debt outstanding is classified as a current liability. As of June 30, 2009 and 2008 we had borrowings on our revolving credit facility of $5.0 and $139.1 million, respectively. Our principal on-going cash requirements are to finance construction of new stores, remodel certain existing stores, acquire salons and purchase inventory. Customers pay for salon services and merchandise in cash at the time of sale, which reduces our working capital requirements. As a result of the convertible senior notes and common stock issuances subsequent to the fiscal year ended June 30, 2009, there was a significant reduction in debt to capitalization.

The basis point increase in the debt to capitalization ratio as of June 30, 2008 compared to June 30, 2007 and June 30, 2007 compared to June 30, 2006 was primarily due to increased debt levels stemming from share repurchases, acquisitions and timing of customary income tax payments made during fiscal year 2008 and 2007. As of June 30, 2008 and 2007, approximately $230.2 and $223.4 million, respectively, of our debt outstanding was classified as a current liability. We have a revolving credit facility which provides for possible acceleration of the maturity date based on provisions that are not objectively determinable and we have therefore included the outstanding borrowings under our revolving credit facility in our current portion of debt. As of June 30, 2008 and 2007 we had borrowings on our revolving credit facility of $139.1 and $147.8 million, respectively. Our principal on-going cash requirements are to finance construction of new stores, remodel certain existing stores, acquire salons and purchase inventory. Customers pay for salon services and merchandise in cash at the time of sale, which reduces our working capital requirements.

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Total assets at June 30, 2009, 2008, and 2007 were as follows:

As of June 30,	Total Assets	(Decrease) Increase Over Prior Fiscal Year	
		Dollar	Percentage
	(Dollars in thousands)		
2009	$ 1,892,486	$ (343,385)	(15.4)%
2008	2,235,871	103,757	4.9
2007	2,132,114	146,790	7.4

The non-cash goodwill impairment within the United Kingdom salon division, non-cash impairment of our investment in Provalliance, non-cash impairment related to the sale of Trade Secret salon concept, and a planned reduction in inventory were the primary factors for the decrease in total assets as of June 30, 2009 compared to June 30, 2008.

Acquisitions and new salon construction (a component of organic growth) were the primary drivers of the increase in total assets as of June 30, 2008 compared to June 30, 2007. Acquisitions and new salon construction were primarily funded by a combination of operating cash flow, debt, and assumption of liabilities.

Acquisitions and new salon construction (a component of organic growth) were the primary drivers of the increase in total assets as of June 30, 2007 compared to June 30, 2006. Cash increases in our international segment accounted for $11.1 million of the $49.4 million increase in consolidated cash for the twelve months ended June 30, 2007.

Total shareholders' equity at June 30, 2009, 2008, and 2007 was as follows:

As of June 30,	Shareholders' Equity	(Decrease) Increase Over Prior Fiscal Year	
		Dollar	Percentage
	(Dollars in thousands)		
2009	$ 802,860	$ (173,326)	(17.8)%
2008	976,186	62,878	6.9
2007	913,308	41,901	4.8

During the twelve months ended June 30, 2009, equity decreased primarily as a result of the non-cash goodwill impairment within the United Kingdom salon division, the non-cash impairment of our investment in Provalliance, the non-cash impairment related to the sale of Trade Secret and foreign currency due to the strengthening of the United States dollar against the Canadian dollar, Euro, and British Pound. As a result of the convertible senior notes and common stock issuances subsequent to the fiscal year ended June 30, 2009, there was a significant increase in shareholders' equity.

During the twelve months ended June 30, 2008, equity increased primarily as a result of net income and increased accumulated other comprehensive income due primarily to foreign currency translation adjustments as the result of the strengthening of foreign currencies that underlie our investments in those markets, partially offset by lower common stock and additional paid-in capital balances stemming from share repurchases during the twelve months ended June 30, 2008.

During the twelve months ended June 30, 2007, equity increased primarily as a result of net income and increased accumulated other comprehensive income due primarily to foreign currency translation adjustments as the result of the strengthening of foreign currencies that underlie our investments in those markets, partially offset by lower common stock and additional paid-in capital balances stemming from share repurchases during the twelve months ended June 30, 2007.

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Cash Flows

Operating Activities

Net cash provided by operating activities during the twelve months ended June 30, 2009, 2008 and 2007 were a result of the following:

	Operating Cash Flows For the Years Ended June 30,		
	2009	2008	2007
	(Dollars in thousands)		
Net (loss) income	$(124,466)	$ 85,204	$ 83,170
Depreciation and amortization	115,016	119,977	117,327
Equity in loss (income) of affiliated companies	28,940	(849)	
Deferred income taxes	(3,843)	(3,789)	(6,243)
Impairment on discontinued operations	183,289		
Goodwill and asset impairments	51,862	10,471	29,813
Receivables	(12,104)	(709)	(4,092)
Inventories	7,128	(5,232)	2,709
Income tax receivable	(34,652)	20,605	(29,857)
Other current assets	(52)	(18,051)	14,039
Accounts payable and accrued expenses	(26,977)	9,249	26,436
Other noncurrent liabilities	387	(14,083)	15,067
Other	3,536	19,590	(6,509)
	$ 188,064	$222,383	$241,860

During fiscal year 2009, cash provided by operating activities was lower than in the twelve months ended June 30, 2008 primarily due to a decrease in working capital cash flow, primarily related to a current year receivable from the purchaser of Trade Secret and a decrease in accrued payroll.

During fiscal year 2008, cash provided by operating activities was lower than in the twelve months ended June 30, 2007 primarily due to a decrease in working capital cash flow.

During fiscal year 2007, cash provided by operating activities was lower than in the twelve months ended June 30, 2006 due to accounts payable and accrued expenses generating less cash in fiscal 2007 than fiscal 2006, which is primarily related to the timing of income tax payments. Depreciation and amortization increased primarily due to the amortization of acquired intangible assets and increased fixed assets. The goodwill impairment charge of $23.0 million related to our beauty school business. Inventories increased slightly during the twelve months ended June 30, 2007 and 2006 due to growth in the number of salons, partially offset by the Company's planned initiatives to reduce inventory levels in fiscal year 2007. Receivables increased during the twelve months ended June 30, 2007 primarily due to credit card receivables and increased student enrollment in the beauty school segment as compared to June 30, 2006.

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Investing Activities

Net cash used in investing activities during the twelve months ended June 30, 2009, 2008 and 2007 was the result of the following:

	Investing Cash Flows For the Years Ended June 30,		
	2009	2008	2007
	(Dollars in thousands)		
Business and salon acquisitions	$ (40,051)	$ (132,971)	$ (68,747)
Capital expenditures for remodels or other additions	(35,081)	(35,212)	(35,299)
Capital expenditures for the corporate office (including all technology-related expenditures)	(13,113)	(18,310)	(21,452)
Capital expenditures for new salon construction	(25,380)	(32,277)	(33,328)
Proceeds from loans and investments	19,008	10,000	5,250
Disbursements for loans and investments	(20,971)	(46,400)	(30,673)
Transfer of cash related to contribution of schools and European franchise salon operations		(10,906)	
Net investment hedge settlement			(8,897)
Proceeds from sale of assets	77	47	97
	$ (115,511)	$ (266,029)	$ (193,049)

Cash used by investing activities was lower during fiscal year 2009 compared to fiscal year 2008 due to the planned reduction in acquisitions and capital expenditures. Acquisitions during fiscal year 2009 were primarily funded by a combination of operating cash flows and debt. Additionally, the Company completed 280 major remodeling projects during fiscal year 2009, compared to 186 and 222 during fiscal years 2008 and 2007, respectively. We constructed 182 company-owned salons, eight hair restoration centers and acquired 177 company-owned salons (83 of which were franchise buybacks) and two hair restoration centers, all of which were franchise buybacks. In addition during fiscal year 2008, there was a $36.4 million loan to Empire Education Group, Inc. and a transfer of $10.9 million in cash related to the deconsolidation of our schools and European franchise salon business.

Acquisitions during fiscal year 2008 were primarily funded by a combination of operating cash flows and debt. Additionally the Company completed 186 major remodeling projects during fiscal year 2008, compared to 222 and 170 during fiscal years 2007 and 2006, respectively. We constructed 325 company-owned salons, three hair restoration centers and acquired 382 company-owned salons (150 of which were franchise buybacks) and six hair restoration centers, all of which were franchise buybacks. Investing activities also included a $36.4 million loan to Empire Education Group, Inc. In addition, there was $10.9 million in cash held by the schools and European salon businesses that were deconsolidated.

Acquisitions during fiscal year 2007 were primarily funded by a combination of operating cash flows and debt. Additionally, 222 major remodeling projects were completed during fiscal year 2007, compared to 170 and 205 during fiscal years 2006 and 2005, respectively. We constructed 420 company-owned salons and two beauty schools and acquired 354 company-owned salons (97 of which were franchise buybacks), one beauty school and two hair restoration centers (one of which was a franchise buyback) during fiscal year 2007. During fiscal year 2007, loans and investments, net, included $9.9 million related to an equity investment the Company made in October 2006, $8.2 million related to a cost method investment made in April 2007, $3.1 million related to the cost method investment made in April 2007 and $4.0 million related to a note receivable issued under a credit agreement with the entity that is the majority corporate investor of an entity in which we hold a minority interest.

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Investing activities also included an $8.9 million cash outlay related to the settlement of our cross-currency swap (which had a notional amount of $21.3 million and hedged a portion of the Company's net investment in its foreign operations).

The company-owned constructed and acquired locations (excluding franchise buybacks) consisted of the following number of locations in each concept:

	Years Ended June 30,					
	2009		2008		2007	
	Constructed	**Acquired**	**Constructed**	**Acquired**	**Constructed**	**Acquired**
Regis	20	23	14	4	17	49
MasterCuts	14		7		15	
Trade Secret(1)	10		16	65	20	3
SmartStyle	71		207		242	
Supercuts	27		33	3	45	
Promenade	36	71	33	135	56	193
International	4		15	25	25	12
Beauty schools					2	1
Hair restoration centers	8		3			1
	190	94	328	232	422	259

(1) Beginning with the period ended December 31, 2008, the operations of Trade Secret concept within the North American reportable segment were accounted for as discounted operations. All comparable periods will reflect Trade Secret as discontinued operations.

Financing Activities

Net cash used in financing activities during the twelve months ended June 30, 2009, 2008 and 2007 was the result of the following:

	Financing Cash Flows For the Years Ended June 30,		
	2009	**2008**	**2007**
	(Dollars in thousands)		
Net (repayments) borrowings on revolving credit facilities	$(134,100)	$ (8,613)	$ 84,806
Net (repayments) borrowings of long-term debt	(7,504)	46,839	(15,888)
Proceeds from the issuance of common stock	3,894	8,893	14,310
Repurchase of common stock		(49,957)	(79,710)
Excess tax benefit from stock-based compensation plans	163	1,420	4,536
Dividend payments	(6,912)	(6,964)	(7,169)
Other	(3,848)	(2,622)	(7,310)
	$(148,307)	$(11,004)	$ (6,425)

During fiscal year 2009 the primary use of cash within financing activities was for net repayments on revolving credit facilities as reducing debt levels was one step the Company took to help maintain its compliance with debt covenants. The Company utilized intercompany borrowings on a short-term basis as allowed by a recently expanded IRS ruling to reduce debt.

During fiscal year 2008, and 2007, net borrowings were primarily used to fund loans and acquisitions, share repurchases, and customary income tax payments. Acquisitions funded are discussed

in Note 4 to the Consolidated Financial Statements. The proceeds from the issuance of common stock were related to the exercise of stock options. The excess tax benefit from stock-based employee compensation plans was recorded in accordance with the provisions of SFAS No. 123R.

New Financing Arrangements

July 2009 (Fiscal Year 2010)

On July 8, 2009, the Company entered into an agreement to sell to underwriters $150 million aggregate principal amount of 5.0 percent convertible senior notes due 2014, and 11,500,000 shares of its common stock at $12.37 per share, which was the closing price per share on July 8, 2009. The Company completed that agreement on July 14, 2009. In addition, under the July 8, 2009 agreement, the Company granted the underwriters an over-allotment option to purchase up to an additional $22.5 million aggregate principal amount of notes, and up to an additional 1,725,000 shares of common stock, on the same terms and conditions. The underwriters exercised such options in their entirety and, on July 21, 2009, the Company completed the issuance of the additional shares and notes for the exercise by the underwriters of the over-allotment option of $22.5 million aggregate principal amount of notes and an additional 1,725,000 shares of common stock.

The notes are unsecured, senior obligations of the Company and interest will be payable semi-annually at a rate of 5.0 percent per year. The notes will mature on July 15, 2014. The notes will be convertible subject to certain conditions at an initial conversion rate of 64.6726 shares of the Company's common stock per $1,000 principal amount of notes (representing an initial conversion price of approximately $15.46 per share of the Company's common stock), subject to adjustment in certain circumstances.

The net proceeds to the Company from the offerings of convertible senior notes and common stock were approximately $323.8 million after deducting underwriting discounts and before estimated offering expenses. The Company utilized the proceeds to repay $267 million of private placement senior term notes of varying maturities. The remaining proceeds will be used for general corporate purposes including the repayment of bank debt.

In connection with the offerings above, on July 14, 2009, the Company amended the Fourth Amended and Restated Credit Agreement, the Term Loan Agreement and the Amended and Restated Private Shelf Agreement, all subject to the completion of the issuances of the convertible senior notes and common stock discussed below. The amendments included increasing the Company's minimum net worth covenant from $675 million to $800 million, lowering the fixed charge coverage ratio requirement from 1.5x to 1.3x, amending certain definitions, including EBITDA and Fixed Charges, and limiting the Company's Restricted Payments to $20 million if the Company's Leverage Ratio is greater than 2.0x. In addition, the amendments to the Fourth Amended and Restated Credit Agreement reduced the borrowing capacity of the revolving credit facility from $350.0 million to $300.0 million and the amendments to the Restated Private Shelf Agreement incorporated a risk based capital fee calculated on the daily average outstanding principal amount equal to an annual rate of 1.0 percent which commences one year after the effective date of the amendment.

Fiscal Year 2009

During fiscal year 2009, we completed a $85 million term loan that matures in July 2012. The monthly interest payments are based on a one-month LIBOR plus a 1.75 percent spread. The term loan includes customary financial covenants including a leverage ratio, fixed charge ratio and minimum net equity test. We used the proceeds from the term loan to pay down our revolving line of credit facility. We were in compliance with all covenants and other requirements of our credit agreement and senior notes as of June 30, 2009.

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Fiscal Year 2008

During fiscal year 2008, we refinanced our $350.0 million revolving credit facility. Among other changes, this amendment extended the credit facility's expiration date to July 2012, reduced the interest rate on borrowings under the credit facility and modified certain financial covenants. Additionally, we borrowed $125.0 million, and amended the fixed charge coverage ratio under our Private Shelf Agreement.

Under the terms of the July 12, 2007 revolving credit agreement, our ratio of earnings before interest, taxes, depreciation, amortization, and rent expense (EBITDAR) to fixed charges (which includes rent and interest expenses) may not drop below 1.50 on a rolling four quarter basis. We were in compliance with all covenants and other requirements of our credit agreement and senior notes as of June 30, 2008. Additionally, the credit agreements do not include rating triggers or subjective clauses that would accelerate maturity dates.

Fiscal Year 2007

During fiscal year 2007, we neither entered into new borrowing arrangements, nor were any significant amendments made to existing agreements. Under the terms of the April 7, 2005 amended and restated revolving credit agreement, our ratio of earnings before interest, taxes, depreciation, amortization and rent expense (EBITDAR) to fixed charges (which includes rent and interest expenses) may not drop below 1.65 on a rolling four quarter basis. We were in compliance with all covenants and other requirements of our credit agreements and senior notes during fiscal year 2007.

Other Financing Arrangements

Private Shelf Agreement

At June 30, 2009 and 2008, we had $239.6 and $255.2 million, respectively, in unsecured, fixed rate, senior term notes outstanding under a Private Shelf Agreement. The notes require quarterly payments, and final maturity dates range from November 2009 through December 2017. The interest rates on the notes range from 4.65 to 8.39 percent as of June 30, 2009 and 2008. In fiscal 2008, we borrowed $125.0 million, and amended the fixed charge coverage ratio under Private Shelf Agreement.

The Private Shelf Agreement includes financial covenants including debt to earnings before interest, taxes, depreciation and amortization (EBITDA) ratios, fixed charge coverage ratios and minimum net equity tests (as defined within the Private Shelf Agreement), as well as other customary terms and conditions. The maturity date for the debt may be accelerated upon the occurrence of various Events of Default, including breaches of the agreement, certain cross-default situations, certain bankruptcy related situations, and other customary events of default.

On July 3, 2009, the Company amended the Restated Private Shelf Agreement. The amendments included increasing the Company's minimum net worth covenant from $675 million to $800 million, lowering the fixed charge coverage ratio requirement from 1.5x to 1.3x, amending certain definitions, including EBITDA and Fixed Charges, limiting the Company's Restricted Payments to $20 million if the Company's Leverage Ratio is greater than 2.0x and the addition of a risk based capital fee calculated on the daily average outstanding principal amount equal to an annual rate of 1.0 percent that commences one year after the amendment date.

As a result of the fair value hedging activities discussed in Note 9 of Part II, Item 8 of this Form 10-K, an adjustment of approximately $0.0 and $0.3 million was made to increase the carrying value of the Company's long-term fixed rate debt at June 30, 2009 and 2008, respectively.

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Private Placement Senior Term Notes

At June 30, 2009 and 2008, we had $267.0 and $325.0 million, respectively, in private placement senior term notes. The notes had final maturity dates from March 2009 through March 2015. The interest rates on the notes ranged from fixed coupon rates of 4.97 to 7.2 and 52 to 55 basis points over LIBOR on floating coupon rates.

The private placement senior term notes includes financial covenants including debt to EBITDA ratios, fixed charge coverage ratios and minimum net equity tests (as defined within the Private Shelf Agreement), as well as other customary terms and conditions. The maturity date for the debt may be accelerated upon the occurrence of various Events of Default, including breaches of the agreement, certain cross- default situations, certain bankruptcy related situations, and other customary events of default.

On June 29, 2009, the Company entered into a prepayment amendment on the private placement senior term notes whereby the Company negotiated to prepay the notes with a premium over the principal amount that is less than the make-whole premium that is otherwise payable upon redemption. Subsequent to fiscal year 2009, the net proceeds from the convertible senior notes and common stock issuances in July 2009 were utilized to repay the $267.0 million of private placement senior term notes.

Acquisitions

Acquisitions are discussed throughout Management's Discussion and Analysis in this Item 7, as well as in Note 4 to the Consolidated Financial Statements in Part II, Item 8 of this Form 10-K. The acquisitions were funded primarily from operating cash flow, debt and the issuance of common stock.

Contractual Obligations and Commercial Commitments

The following table reflects a summary of obligations and commitments outstanding by payment date as of June 30, 2009:

	Payments due by period				
Contractual Obligations	**Within 1 years**	**1-3 years**	**3-5 years**	**More than 5 years**	**Total**
	(Dollars in thousands)				
On-balance sheet:					
Long-term debt obligations(a)	$ 43,248	$264,892	$140,396	$ 153,571	$ 602,107
Capital lease obligations	12,206	15,275	4,719		32,200
Other long-term liabilities	2,272	2,403	1,916	18,556	25,147
Total on-balance sheet	57,726	282,570	147,031	172,127	659,454
Off-balance sheet(b):					
Operating lease obligations	310,502	448,333	227,009	135,632	1,121,476
Interest on long-term debt and capital lease obligations	31,782	48,400	20,882	6,830	107,894
Total off-balance sheet	342,284	496,733	247,891	142,462	1,229,370
Total(c)	$400,010	$779,303	$394,922	$ 314,589	$1,888,824

(a) The net proceeds of the financing agreements subsequent to fiscal year 2009 were approximately $323.8 million after deducting underwriting discounts and before estimated offering expenses. The Company utilized the proceeds to repay $267 million of private placement senior term notes of varying maturities. The remaining proceeds will be used for general corporate purposes including the repayment of bank debt

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(b)

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

(c)

As of June 30, 2009, 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 13 to the Consolidated Financial Statements for more information on our uncertain tax positions, the amount that may be settled in chase, and the amount reasonably possible to change in the next 12 months.

On-Balance Sheet Obligations

Our long-term obligations are composed primarily of senior term notes, term loan and a revolving credit facility. Certain senior term notes and a portion of the term loan are hedged by contracts with financial institutions commonly referred to as interest rate swaps, as discussed in Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk." Additionally, no adjustment was necessary to mark the hedged portion of the debt obligation to fair value (a reduction to long-term debt). Interest payments on long-term debt and capital lease obligations were estimated based on our total average interest rate at June 30, 2009 and scheduled contractual repayments.

Other long-term liabilities include a total of $16.7 million related to the Executive Profit Sharing Plan and a salary deferral program, $8.4 million (including $0.4 million in interest) related to established contractual payment obligations under retirement and severance payment agreements for a small number of retired employees.

This table excludes the short-term liabilities, other than the current portion of long-term debt, 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, as defined by SFAS No. 47, *Disclosure of Long-Term 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. The deferred compensation contracts are offered to key executives based on their accomplishments within the Company. Because we cannot predict the timing or amount of our future payments related to these contracts, such amounts were not included in the table above. Related obligations totaled $24.5, $20.2, and $20.1 million at June 30, 2009, 2008, and 2007, respectively, and are included in other noncurrent liabilities in the Consolidated Balance Sheet. Refer to Note 14 of the Consolidated Financial Statements for additional information. The obligations are funded by insurance contracts.

Off-Balance Sheet Arrangements

Operating leases primarily represent long-term obligations for the rental of salon and hair restoration center premises, including leases for company-owned locations, as well as future salon franchisee lease payments of approximately $144.1 million, which are reimbursed to the Company by franchisees. Regarding the 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.

We have interest rate swap contracts and forward foreign currency contracts. See Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," for a detailed discussion of our derivative instruments. Future net settlements under these agreements are not included in the table above.

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.

Under the terms of the July 12, 2007 revolving credit facility, our ratio of earnings before interest, taxes, depreciation, amortization and rent expense (EBITDAR) to fixed charges (which includes rent and interest expenses) may not drop below 1.50 on a rolling four quarter basis. We were in compliance with all covenants and other requirements of our credit agreements and senior notes during fiscal year 2009 and are currently in fiscal 2010. Additionally, the credit agreements do not include rating triggers or subjective clauses that would accelerate maturity dates.

As a part of our salon development program, we continue to negotiate and enter into leases and commitments for the acquisition of equipment and leasehold improvements related to future salon locations, and continue to enter into transactions to acquire established hair care salons and businesses.

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, 2009. 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.

Financing

Financing activities are discussed under "Liquidity and Capital Resources" in this Item 7 and in Note 8 to the Consolidated Financial Statements in Part II, Item 8. Derivative activities are discussed in Note 9 to the Consolidated Financial Statements in Part II, Item 8 and Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk."

Management believes that cash generated from operations and amounts available under existing debt facilities will be sufficient to fund its anticipated capital expenditures, acquisitions and required debt repayments for the foreseeable future. As of June 30, 2009, we have available an unused committed line of credit amount of $317.0 million under our existing revolving credit facility.

Dividends

We paid dividends of $0.16 per share during fiscal years 2009, 2008 and 2007. On August 21, 2009, the Board of Directors of the Company declared a $0.04 per share quarterly dividend payable September 15, 2009 to shareholders of record on September 1, 2009.

Share Repurchase Program

In May 2000, the Company's Board of Directors (BOD) approved a stock repurchase program. Originally, the program authorized up to $50.0 million to be expended for the repurchase of the Company's stock. The BOD elected to increase this maximum to $100.0 million in August 2003, to

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$200.0 million on May 3, 2005, and to $300.0 million on April 26, 2007. The timing and amounts of any repurchases will depend on many factors, including the market price of the common stock and overall market conditions. Historically, the repurchases to date have been made primarily to eliminate the dilutive effect of shares issued in conjunction with acquisitions, restricted stock grants and stock option exercises. All repurchased shares become authorized but unissued shares of the Company. This repurchase program has no stated expiration date. As of June 30, 2009, 2008, and 2007, a total accumulated 6.8, 6.8, and 5.1 million shares have been repurchased for $226.5, $226.5, and $176.5 million, respectively. As of June 30, 2009, $73.5 million remains to be spent on share repurchases under this program.

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

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 competition within the personal hair care industry, which remains strong, both domestically and internationally, price sensitivity; changes in economic conditions and in particular, continued weakness in the U.S. and global economies; changes in consumer tastes and fashion trends; the ability of the Company to implement its planned spending and cost reduction plan and to continue to maintain compliance with financial covenants in its credit agreements; labor and benefit costs; legal claims; risk inherent to international development (including currency fluctuations); the continued ability of the Company and its franchisees to obtain suitable locations and financing for new salon development and to maintain satisfactory relationships with landlords and other licensors with respect to existing locations; governmental initiatives such as minimum wage rates, taxes and possible franchise legislation; the ability of the Company to successfully identify, acquire and integrate salons that support its growth objectives; the ability of the Company to maintain satisfactory relationships with suppliers; the ability of the Company to consummate the planned closure of salons and the related realization of the anticipated costs, benefits and time frame; or other factors not listed above. The ability of the Company to meet its expected revenue growth is dependent on salon acquisitions, new salon construction and same-store sales increases, all of which are affected by many of the aforementioned risks. Additional information concerning potential factors that could affect future financial results is set forth 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.

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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, some of 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 to its net investments in its foreign subsidiaries and, to a lesser extent, changes in the Canadian dollar exchange rate. 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 the earnings implications associated with the volatility of short-term interest rates. As part of this policy, the Company has elected to maintain a combination of variable and fixed rate debt. A one percent change in interest rates (including the impact of existing interest rate swap contracts) could impact the Company's interest expense by approximately $1.0 million. During fiscal year 2008, the National Association of Insurance Commissioners downgraded Regis' private placement debt from investment-grade to non-investment grade. The downgrade did not have any effect on the private placement debt outstanding and corresponding interest rate as of June 30, 2009. Any future non investment grade private placement debt would result in a substantially higher interest rate. The downgrade has no impact on the Company's current revolving credit facility or its ability to secure future bank borrowings. Considering the effect of interest rate swaps and including $0.0 and $0.3 million increases to long-term debt related to fair value swaps at June 30, 2009 and 2008, respectively, the Company had the following outstanding debt balances:

	As of June 30, 2009	
	2009	2008
	(Dollars in thousands)	
Fixed rate debt	$534,307	$525,647
Variable rate debt	100,000	239,100
	$634,307	$764,747

The Company manages its interest rate risk by continually assessing the amount of fixed and variable rate debt. On occasion, the Company uses interest rate swaps to further mitigate the risk associated with changing interest rates and to maintain its desired balances of fixed and floating rate debt.

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

Interest Rate Swap Contracts:

The Company manages its interest rate risk by balancing the amount of fixed and variable rate debt. On occasion, the Company uses interest rate swaps to further mitigate the risk associated with changing interest rates and to maintain its desired balances of fixed and variable rate debt. Generally, the terms of the interest rate swap agreements contain quarterly settlement dates based on the notional amounts of the swap contracts.

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Pay fixed rates, receive variable rates

During the three months ended December 31, 2008, the Company entered into two interest rate swap contracts that pay fixed rates of interest and receivable variable rates of interest (based on the one-month LIBOR) on notional amounts of indebtedness of $20.0 million each as of June 30, 2009, and mature in July 2011, respectively. The Company will pay fixed rates of interest of approximately 3.0 percent and 3.4 percent on their respective $20.0 million. The contracts are on an aggregate notional amount of indebtedness of $40.0 million related to the $85.0 million term loan, which the Company entered into during the three months ended December 31, 2008. The contracts expire in July 2011 and the debt matures in July 2012. These interest rate swap contracts were designed and are effective as cash flow hedges. They were recorded at fair value within other noncurrent liabilities in the Consolidated Balance Sheet, with corresponding offset in deferred income taxes and other comprehensive income within shareholders' equity.

During the three months ended December 31, 2005, the Company entered into interest rate swap contracts that pay fixed rates of interest and receive variable rates of interest (based on the three-month LIBOR) on notional amounts of indebtedness of $35.0 and $15.0 million as of June 30, 2009, and mature in March 2013 and March 2015, respectively. These swaps were designated and are effective as cash flow hedges. These cash flow hedges were recorded at fair value within other noncurrent liabilities in the Consolidated Balance Sheet, with a corresponding offset in other comprehensive income within shareholders' equity. These contracts were terminated subsequent to June 30, 2009 in conjunction with the repayment of the private placement senior term notes as discussed in Note 17 to the Consolidated Financial Statements.

Pay variable rates, receive fixed rates

The Company had interest rate swap contracts under which it paid variable rates of interest (based on the three-month LIBOR plus a credit spread) and received fixed rates of interest on an aggregate $5.0 million notional amount at June 30, 2008, with a maturation date of July 2008. These swaps were designated as hedges of a portion of the Company's senior term notes and were being accounted for as fair value hedges.

During fiscal year 2003, the Company terminated a