REGIS CORP
Form 10-K
August 29, 2008

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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, 2008

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 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. o

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

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o	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, 2007, was approximately $1,152,929,000. The Registrant has no non-voting common equity.

As of August 20, 2008, the Registrant had 43,078,627 shares of Common Stock, par value $0.05 per share, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement for the annual meeting of shareholders to be held on October 23, 2008 (the "2008 Proxy Statement") (to be filed pursuant to Regulation 14A within 120 days after the Registrant's fiscal year-end of June 30, 2008) are incorporated by reference into Part III.

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 recent years, 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 owns and operates PureBeauty and BeautyFirst salons. CCI is now accounted for as a wholly-owned subsidiary of the company. 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, 2008, 2007 and 2006 are included in Note 11 to the Consolidated Financial Statements in Part II, Item 8, of this Form 10-K.

(c) Narrative Description of Business

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

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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, 2008, the Company owned, franchised or held ownership interests in over 13,550 worldwide locations. The Company's locations consisted of 10,745 company-owned and franchise salons, 92 hair restoration centers, and 2,714 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 8,110 company-owned salons and 2,163 franchise salons operating in the United States, Canada and Puerto Rico. The Company's international operations are comprised of 472 company-owned salons. The Company's worldwide salon locations operate primarily under the trade names of Regis Salons, MasterCuts, Trade Secret, SmartStyle, Supercuts, Cost Cutters, and Sassoon. The Company's hair restoration centers are located in the United States and Canada. During fiscal year 2008, the number of customer visits at the Company's company-owned salons approximated 111 million. The Company had approximately 65,000 corporate employees worldwide during fiscal year 2008.

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 ($19.6 million net of tax) during the three months ended March 31, 2007.

The Company realized that in order to maximize the potential of the beauty school division, it would be necessary to invest heavily in information technology platforms and management. The Company believes 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 86 accredited cosmetology schools with revenues of approximately $130 million annually and is overseen by the Empire Beauty School management team.

Once the integration of the Regis schools is complete, the Company expects to share in significant synergies and operating improvements. Long-term, the Company expects this transaction to be very accretive and to add significantly more shareholder value than the $23.0 million ($19.6 million net of tax) impairment charge. 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 3 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 2,300 company-owned and franchise salons as of June 30, 2008.

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.

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 owns and operates PureBeauty and BeautyFirst salons. CCI is now accounted for as a wholly-owned subsidiary of the Company. Prior to the acquisition, the Company held a 19.9 percent interest in the voting common stock of CCI which was accounted for under the equity method of accounting. During fiscal year 2008, the Company transformed nine Trade Secret locations to PureBeauty locations. Future transformations will depend on the success of initial transformations.

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. The Company plans to continue to expand in North America and the United Kingdom. Refer to Note 3 to the Consolidated Financial Statements for additional information.

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

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

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

While same-store sales growth plays an important role in the Company's organic growth strategy, it is not critical to achieving the Company's long-term revenue growth objectives. 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 mid to high single-digit annual revenue growth. The trend for the past several years has been declining visitation patterns due to fashion trends and increasing average ticket price resulting in flat to low single-digit same-store sales growth. The Company expects fiscal year 2009 same-store sales growth to be 0.5 to 2.5 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. The Company implemented a pricing initiative in fiscal year 2008 that contributed to same-store sales growth.

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 14 years, the Company has acquired 7,926 locations, expanding in both North America and internationally. When contemplating an acquisition, the Company evaluates the existing salon or salon group with respect to the same characteristics as discussed above in conjunction with site selection for constructed salons (conveniently located, visible, strong retailers within the area, etc.). The Company generally acquires mature strip center locations, which are systematically integrated within the salon concept that it most clearly emulates.

In addition to adding new salon locations each year, the Company has an ongoing program of remodeling its existing salons, ranging from redecoration to substantial reconstruction. This program is implemented as management determines that a particular location will benefit from remodeling, or as required by lease renewals. A total of 186 and 222 salons were remodeled in fiscal years 2008 and 2007, respectively.

Recent Salon Additions.

During fiscal year 2008, net of closures and relocations, the Company added approximately 488 salons through new construction and acquisitions. The Company constructed 509 new salons (328 company-owned and 181 franchise). Additionally, the Company acquired 475 company-owned salons, including 150 franchise salon buybacks.

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

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

During fiscal year 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, the majority of which are expected to occur in the first half of fiscal year 2009. Approximately 100 locations are regional mall based concepts, another 40 locations are strip center concepts and 20 locations are in the United Kingdom. The 160 underperforming company-owned salons expected to close in fiscal year 2009 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 2007, 303 salons were closed, including 135 company-owned salons and 168 franchise salons (excluding 97 franchise buybacks).

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

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

Consistent, Quality Service. The Company is committed to meeting its customers' hair care needs by providing competitively priced services and products with professional and knowledgeable stylists. The Company's operations and marketing emphasize high quality services to create customer loyalty, to encourage referrals and to distinguish the Company's salons from its competitors. To promote quality and consistency of services provided throughout the Company's salons, the Company employs full and part-time artistic directors whose duties are to train salon stylists in current styling trends. The major services supplied by the Company's salons are haircutting and styling (including shampooing and conditioning), hair coloring and waving. During fiscal years 2008, 2007, and 2006, the percentage of company-owned service revenues attributable to each of these services was as follows:

	2008	2007	2006
Haircutting and styling (including shampooing & conditioning)	72%	72%	72%
Hair coloring	18	18	18
Hair waving	4	4	5
Other	6	6	5
	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, OPI Nail and the Company's various private label brands.

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

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

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

Same-store product sales decreased during the twelve months ended June 30, 2008. The 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 to the consumer.

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 10,273 salons (including 2,163 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 472 hair care salons located in Europe, primarily in the United Kingdom. Under the table below, the number of new salons expected to be opened within the upcoming fiscal year is discussed. In addition to these openings, the Company typically acquires several hundred salons each year. The number of acquired salons, and the concept under which the acquisitions will fall, vary based on the acquisition opportunities which develop throughout the year.

Salon Development

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

COMPANY-OWNED AND FRANCHISE LOCATION SUMMARY

NORTH AMERICAN SALONS:	2008	2007	2006	2005	2004
REGIS SALONS					
Open at beginning of period	1,099	1,079	1,093	1,085	1,095
Salons constructed	14	17	38	39	33
Acquired	4	49	14	13	4
Less relocations	(11)	(14)	(16)	(14)	(10)
Salon openings	7	52	36	38	27
Conversions	1	(1)		(1)	(2)
Salons closed	(29)	(31)	(50)	(29)	(35)
Total, Regis Salons	1,078	1,099	1,079	1,093	1,085
MASTERCUTS					
Open at beginning of period	629	642	636	604	590
Salons constructed	7	15	32	47	34
Acquired				2	3
Less relocations	(6)	(12)	(8)	(13)	(9)
Salon openings	1	3	24	36	28
Conversions			(2)	1	1
Salons closed	(15)	(16)	(16)	(5)	(15)
Total, MasterCuts	615	629	642	636	604
TRADE SECRET					
Company-owned salons:					
Open at beginning of period	613	615	597	549	517
Salons constructed	16	20	33	56	26
Acquired	65	3	2	23	12
Franchise buybacks	5		5		2
Less relocations	(11)	(11)	(6)	(17)	(5)
Salon openings	75	12	34	62	35
Conversions	5	1	1		1
Salons closed	(19)	(15)	(17)	(14)	(4)
Total company-owned salons	674	613	615	597	549
Franchise salons:					
Open at beginning of period	19	19	24	24	25
Salons constructed	2				1
Acquired	93				
Less relocations	(1)				
Salon openings	94				1
Franchise buybacks	(5)		(5)		(2)
Salons closed	(2)				
Total franchise salons	106	19	19	24	24
Total, Trade Secret	780	632	634	621	573

NORTH AMERICAN SALONS:	2008	2007	2006	2005	2004
SMARTSTYLE/COST CUTTERS IN WAL-MART					
Company-owned salons:					
Open at beginning of period	2,000	1,739	1,497	1,263	1,033
Salons constructed	207	242	215	194	174
Acquired					
Franchise buybacks	12	21	31	45	61
Less relocations	(3)	(2)	(2)	(1)	
Salon openings	216	261	244	238	235
Conversions			1		
Salons closed	(4)		(3)	(4)	(5)
Total company-owned salons	2,212	2,000	1,739	1,497	1,263
Franchise salons:					
Open at beginning of period	151	164	184	201	230
Salons constructed	7	8	11	29	33
Salon openings	7	8	11	29	33
Franchise buybacks	(12)	(21)	(31)	(45)	(61)
Salons closed				(1)	(1)
Total franchise salons	146	151	164	184	201
Total, SmartStyle/Cost Cutters in Wal-Mart	2,358	2,151	1,903	1,681	1,464
STRIP CENTERS					
Company-owned salons:					
Open at beginning of period	3,317	3,031	2,728	2,310	1,928
Salons constructed	66	101	180	167	166
Acquired	138	193	122	248	162
Franchise buybacks	133	72	104	94	133
Less relocations	(14)	(17)	(21)	(21)	(8)
Salon openings	323	349	385	488	453
Conversions	(5)		(2)	(3)	(8)
Salons closed	(104)	(63)	(80)	(67)	(63)
Total company-owned salons	3,531	3,317	3,031	2,728	2,310
Franchise salons:					
Open at beginning of period	1,998	2,004	2,102	2,105	2,172
Salons constructed	120	135	135	154	146
Acquired(2)				7	
Less relocations	(11)	(19)	(18)	(13)	(10)
Salon openings	109	116	117	148	136
Conversions			2	6	8
Franchise buybacks	(133)	(72)	(104)	(94)	(133)
Salons closed	(63)	(50)	(113)	(63)	(78)
Total franchise salons	1,911	1,998	2,004	2,102	2,105
Total, Strip Centers	5,442	5,315	5,035	4,830	4,415

INTERNATIONAL SALONS(1):	**2008**	**2007**	**2006**	**2005**	**2004**
Company-owned salons:					
Open at beginning of period	481	453	426	416	395
Salons constructed	15	25	33	22	19
Acquired	25	12	10	19	18
Franchise buybacks		4	2		10
Less relocations	(1)	(3)	(4)		
Salon openings	39	38	41	41	47
Conversions	1		(2)	(3)	
Affiliated joint ventures	(40)				
Salons closed	(9)	(10)	(12)	(28)	(26)
Total company-owned salons	472	481	453	426	416
Franchise salons:					
Open at beginning of period	1,574	1,587	1,592	1,594	1,627
Salons constructed	50	110	111	102	88
Acquired(2)					
Less relocations		(1)			
Salon openings	50	109	111	102	88
Conversions	3		2		
Franchise buybacks		(4)	(2)		(10)
Affiliated joint ventures(3)	(1,587)				
Salons closed	(40)	(118)	(116)	(104)	(111)
Total franchise salons		1,574	1,587	1,592	1,594
Total, International Salons	472	2,055	2,040	2,018	2,010

TOTAL SYSTEM WIDE SALONS					
Company-owned salons:					
Open at beginning of period	8,139	7,559	6,977	6,227	5,558
Salons constructed	325	420	531	525	452
Acquired	232	257	148	305	199
Franchise buybacks	150	97	142	139	206
Less relocations	(46)	(59)	(57)	(66)	(32)
Salon openings	661	715	764	903	825
Conversions	2		(4)	(6)	(8)
Affiliated joint ventures	(40)				
Salons closed	(180)	(135)	(178)	(147)	(148)
Total company-owned salons	8,582	8,139	7,559	6,977	6,227
Franchise salons:					
Open at beginning of period	3,742	3,774	3,902	3,924	4,054
Salons constructed	179	253	257	285	268
Acquired(2)	93			7	
Less relocations	(12)	(20)	(18)	(13)	(10)
Salon openings	260	233	239	279	258
Conversions	3		4	6	8
Franchise buybacks	(150)	(97)	(142)	(139)	(206)
Affiliated joint ventures	(1,587)				
Salons closed	(105)	(168)	(229)	(168)	(190)

Total franchise salons	2,163	3,742	3,774	3,902	3,924
Total Salons	10,745	11,881	11,333	10,879	10,151

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

(2) Represents primarily the acquisition of franchise networks.

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

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, 2008, 157 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 83 percent of the concept's total revenues. The average ticket is approximately $39. 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 $212,000, excluding average opening inventory costs of approximately $17,500. Average annual salon revenues in a Regis Salon which has been open five years or more are approximately $463,000. During fiscal year 2009, the Company plans to open approximately 20 new Regis Salons.

MasterCuts. MasterCuts is a full service, mall based salon group which focuses on the walk-in consumer (no appointment necessary) that demands moderately priced hair care services. MasterCuts salons emphasize quality hair care services, affordable prices and time saving services for the entire family. These salons offer a full range of custom styling, cutting, hair coloring and waving services as well as professional hair care products. The customer mix at MasterCuts is split relatively evenly between men and women. Service revenues compose approximately 81 percent of the concept's total revenues. The average ticket is approximately $18.

The average initial capital investment required for a new MasterCuts salon is approximately $192,000, excluding average opening inventory costs of approximately $13,500. Average annual salon revenues in a MasterCuts salon which has been open five years or more are approximately $294,000. During fiscal year 2009, the Company plans to open approximately 20 new MasterCuts salons.

Trade Secret. Trade Secret salons are designed to emphasize the sale of hair care and beauty products in a retail setting while providing high quality hair care services. Trade Secret salons offer one of the most comprehensive assortments of hair and beauty products in the industry. Trade Secret's retail selection consists of highly recognized brands, and the products held for sale vary with changing trends. These salons offer a full range of custom styling, cutting, hair coloring and waving services as well as professional hair care products. Trade Secret's primary customer base includes the female head of the household shopping for her entire family, as well as singles shopping for their own beauty products and accessories. Trade Secret salons are primarily mall based, however, in recent years, the Company has expanded into strip centers. As of June 30, 2008, 121 company-owned Trade Secret salons were located in strip centers. Product revenues represent approximately 87 percent of the concept's total revenues. The average ticket is approximately $26.

The average initial capital investment required for a new Trade Secret salon is approximately $213,000, excluding average opening inventory costs of approximately $45,000. Average annual salon revenues in a Trade Secret salon which has been open five years or more are approximately $395,000.

During fiscal year 2008 the Company acquired the capital stock of CCI that owns and operates PureBeauty and BeautyFirst salons. During fiscal year 2008, the Company transformed nine Trade Secret locations to PureBeauty locations. Future transformations will depend on the success of initial transformations. In addition to hair care products and services, PureBeauty and BeautyFirst salons will offer cosmetics, skin care and bath and body. The staff will include cosmetologists and aestheticians.

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 34 percent. Additionally, the Company has 146 franchise Cost Cutters 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 $34,000, excluding average opening inventory costs of approximately $13,700. Average annual salon revenues in a SmartStyle salon which has been open five years or more are approximately $275,000. During fiscal year 2009, the Company plans to open approximately 50 to 125 new company-owned SmartStyle salons and approximately 4 franchise salons in Wal-Mart Supercenters.

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

Supercuts. The Supercuts concept provides consistent, high quality hair care services and professional products to its customers at convenient times and locations and at a reasonable price. This concept appeals to men, women and children, although male customers account for approximately 66 percent of the customer mix. Service revenues represent approximately 89 percent of total company-owned strip center revenues. The average ticket is approximately $15.

The average initial capital investment required for a new Supercuts salon is approximately $103,000, excluding average opening inventory costs of approximately $9,000. Average annual salon revenues in a company-owned Supercuts salon which has been open five years or more are approximately $266,000. During fiscal year 2009, the Company plans to open approximately 24 new company-owned Supercuts salons, and anticipates that franchisees will open approximately 63 new franchise Supercuts salons.

Cost Cutters (franchise salons). The Cost Cutters concept is a full service salon concept providing value priced hair care services for men, women and children. These full service salons also sell a complete line of professional hair care products. The customer mix at Cost Cutters is split relatively evenly between men and women. Franchise revenues from Cost Cutters salons are split relatively evenly between franchise revenues related to royalties and fees and those from product sales to franchisees. Average annual salon revenues in a franchised Cost Cutters salon which has been open five years or more are approximately $288,000. During fiscal year 2009, the Company anticipates that Cost Cutters franchisees will open approximately 28 new salons.

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

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

The average initial capital investment required for a new Promenade Salon is approximately $96,000, 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 $239,000. During fiscal year 2009, the Company plans to open approximately 20 new Promenade Salons.

Other Franchise Concepts. This group of franchise salons includes primarily First Choice Haircutters, Magicuts and Pro-Cuts. These concepts function primarily in the high volume, value priced hair care market segment, with key selling features of value, convenience, quality and friendliness, as well as a complete line of professional hair care products. In addition to these franchise salons, the Company operates company-owned First Choice Haircutters and Magicuts salons, as previously discussed above under Strip Center Salons. During fiscal year 2009, the Company anticipates that franchisees will open approximately 20 new franchise salons.

International Salons. The Company's international salons are comprised of company-owned salons operating in the United Kingdom primarily under the Supercuts, Regis, Trade Secret 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 and between £130,000 and £140,000 for a Trade Secret salon. Average annual salon revenues for a salon which has been open five years or more are approximately £222,000 in a Regis salon, £200,000 in a Supercuts salon and £503,000 in Trade Secret salon. During fiscal year 2009, the Company plans to open approximately 13 new company-owned international salons. Sassoon is one of the world's most recognized names in hair fashion and appeals to women and men looking for a prestigious full service hair salon. Salons are usually located 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 £900,000. The Company is exploring suitable locations for potential new salons in fiscal year 2009.

Salon Franchising Program:

General. The Company has various franchising programs supporting its 2,163 franchise salons as of June 30, 2008, 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 6 of "Notes to Consolidated Financial Statements" for further information about the Company's commitments and contingencies, including leases.

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

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

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

Pro Cuts (North America)

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

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

Salon Markets and Marketing:

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

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

Salon Education and Training Programs:

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

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

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. A new, international version of the POS system has been developed and is being tested in selected international salons. The goal of information systems is to maximize the overall value to the business while improving the output per dollar spent by implementing cost-effective solutions and services.

Salon Competition:

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

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

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 92 locations (35 franchise) in the United States and Canada. The domestic hair restoration market is estimated to generate over $4 billion annually. The competitive landscape is highly fragmented and comprised of approximately 4,000 locations. Hair Club and its franchisees have the largest market share, with approximately five percent based on customer count.

In an effort to provide privacy to its customers, Hair Club offices are located primarily in office and professional buildings within larger metropolitan areas. Following is a summary of the company-owned and franchise hair restoration centers in operation at June 30, 2008, 2007, and 2006:

	2008	2007	2006
Company-owned hair restoration centers:			
Open at beginning of period	49	48	41
Constructed	3		1
Acquired		1	1
Franchise buybacks	6	1	7
Less relocations	(1)		(1)
Site openings	8	2	8
Sites closed		(1)	(1)
Total company-owned hair restoration centers	57	49	48
Franchise hair restoration centers:			
Open at beginning of period	41	42	49
Acquired	2	3	
Franchise buybacks	(6)	(1)	(7)
Less Relocations	(2)	(2)	
Site openings	(6)		(7)
Sites closed		(1)	
Total franchise hair restoration centers	35	41	42
Total hair restoration centers	92	90	90

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

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

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

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

Currently, all locations offer hair systems, hair therapy and hair care products. Among the hair restoration centers' product offerings are hair transplants. The hair restoration centers employ a hub and spoke strategy for hair transplants. As of June 30, 2008, 17 locations were equipped and staffed to perform the procedure. Currently, a total of 34 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 and Intelligent Nutrients, LLC., which are accounted for as cost method and 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, and is expected to created 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 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. The investment in Intelligent Nutrients, LLC is for the development of an organic line of products. The organic line of products will be tested in Company owned salons.

The Company maintains a 14.8 percent ownership interest in MY Style. The Company's ownership interest in MY Style enables the Company to expand into the Asian market.

Corporate Trademarks:

The Company holds numerous trademarks, both in the United States and in many foreign countries. The most recognized trademarks are "Regis Salons," "Supercuts," "MasterCuts," "Trade Secret," "SmartStyle," "Cost Cutters," "Hair Masters," "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 2008, the Company had approximately 65,000 full- and part-time employees worldwide, of which approximately 57,000 employees were located in the United States. None of the Company's employees are subject to a collective bargaining agreement and the Company believes that its employee relations are amicable.

Executive Officers:

Information relating to Executive Officers of the Company follows:

Name	Age	Position
Myron Kunin	79	Vice Chairman of the Board of Directors
Paul D. Finkelstein	66	Chairman of the Board of Directors, President and Chief Executive Officer
Randy L. Pearce	53	Senior Executive Vice President, Chief Financial and Administrative Officer
Kris Bergly	47	Executive Vice President and Corporate Chief Operating Officer, Regis Salons, Promenade Salon Concepts, MasterCuts and Supercuts
Bruce Johnson	55	Executive Vice President, Design and Construction
Mark Kartarik	52	Executive Vice President, Regis Corporation and President, Franchise Division
Norma Knudsen	50	Executive Vice President, Merchandising, Chief Operating Officer, Trade Secret
Gordon Nelson	57	Executive Vice President, Fashion, Education and Marketing
Eric A. Bakken	41	Senior Vice President, General Counsel and Secretary

Myron Kunin has served as Vice Chairman of the Board of Directors since 2004. On August 19, 2008, Myron Kunin informed the Company of his decision to retire from the Board of Directors at the end of his current term in October 2008. At the same time, he will also retire from his position as an officer of the Company. He served as Chairman of the Board of Directors of the Company from 1983 to 2004, as Chief Executive Officer of the Company from 1965 until July 1, 1996, as President of the Company from 1965 to 1987 and as a director of the Company since its formation in 1954. He is also Chairman of the Board and holder of the majority voting power of Curtis Squire, Inc., a 2.0 percent shareholder. Further, he is a director of Nortech Systems Incorporated.

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

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

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

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

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

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

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

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

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

(e) Available Information

The Company is subject to the informational requirements of the Securities and Exchange Act of 1934 (Exchange Act). The Company therefore files periodic reports, proxy statements and other information with the Securities and Exchange Commission (SEC). Such reports may be obtained by visiting the Public Reference Room of the SEC at 100 F Street 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

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

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

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

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

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

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

Changes in fashion trends may impact our revenue.

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

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

With approximately 13,550 locations and 65,000 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.

We may not be able to successfully convert the product assortment in Trade Secret concepts.

We are in the early stages of converting the current product assortment in our Trade Secret concept to an assortment of products that includes professional hair care, skin, cosmetics and bath products. We believe that the conversion of the product assortment will attract new customers and improve comparable store sales. There can be no assurance that we will be able to expand our business through the acceptance of an assortment of products that includes professional hair care, skin, cosmetics and bath products. If we are not able to execute this strategy, our comparable store sales and operating results may be adversely affected and could result in goodwill impairment.

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.

We may not be able to achieve the anticipated costs savings related to our approved plan to close up to 160 stores in fiscal year 2009.

In July of 2008, the Company approved a plan to close up to 160 underperforming company-owned salons in fiscal year 2009. The timing and costs of lease terminations and other costs associated with the salon closures may impact the Company's ability to realize the cost savings anticipated from the Company's approved plan. If we are unable to execute our store closures as planned, our operating results may be adversely affected.

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 Regis' private placement debt from investment-grade private placement to non-investment grade. The downgrade does not have any immediate effect on the private placement debt outstanding and corresponding interest rate as of June 30, 2008. 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. See discussion in Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," for additional information.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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

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

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

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

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

Item 3. Legal Proceedings

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

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

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and 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 2008 and 2007 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 20, 2008, Regis shares were owned by approximately 21,900 shareholders based on the number of record holders and an estimate of individual participants in security position listings. The common stock price was $28.62 per share on August 20, 2008.

	2008		2007	
Fiscal Quarter	**High**	**Low**	**High**	**Low**
1st Quarter	$39.07	$30.66	$37.32	$32.78
2nd Quarter	34.12	26.31	40.30	35.90
3rd Quarter	28.22	22.67	43.29	38.90
4th Quarter	31.00	26.35	41.59	37.79

The Company paid quarterly dividends of $0.04 per share in fiscal years 2008 and 2007. 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., Applebee's International, Inc., AutoZone, Inc., Brinker International, Inc., CBRL Group, Inc., Foot Locker, Inc., GameStop Corp., Guitar Center, Inc., 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, 2003 and those dividends, if any, were reinvested.

Comparison of 5 Year Cumulative Total Return
Assumes Initial Investment of $100
June 2008

	2003	2004	2005	2006	2007	2008
Regis	100.00	154.01	135.52	124.01	133.76	92.65
S & P 500	100.00	119.09	126.59	137.47	165.61	143.83
S & P 400 Midcap	100.00	127.88	144.47	164.59	194.94	180.67
Dow Jones Consumer Service Index	100.00	113.69	120.35	119.98	141.90	111.57
Peer Group	100.00	133.98	155.35	164.48	177.53	130.88

(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, 2008, 2007, and 2006, a total accumulated 6.8, 5.1, and 3.0 million shares have been repurchased for $226.5, $176.5, and

$96.8 million, respectively. As of June 30, 2008, $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 three months ended June 30, 2008.

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 October 30, 2007.

Item 6. Selected Financial Data

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

	2008	2007	2006	2005	2004
Revenues(a)	$2,738,865	$2,626,588	$2,430,864	$2,194,294	$1,923,143
Operating income(b)(c)	174,297	164,613	204,491	137,890	178,748
Net income(b)(c)(d)	85,204	83,170	109,578	64,631	104,218
Net income per diluted share(b)(c)(d)	1.95	1.82	2.36	1.39	2.26
Total assets	2,235,871	2,132,114	1,985,324	1,725,976	1,271,859
Long-term debt, including current portion	764,747	709,231	622,269	568,776	301,143
Dividends declared	$ 0.16	$ 0.16	$ 0.16	$ 0.16	$ 0.14

a) Revenues from salons, schools or hair restorations centers acquired each year were $132.3, $108.0, $165.7, $181.2, and $122.3 million during fiscal years 2008, 2007, 2006, 2005, and 2004, 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, $18.2 and $1.0 million in fiscal years 2008, 2007, 2006, 2005 and 2004, respectively. Revenues from the deconsolidated European franchise salon operations were $36.2, $57.0, $52.7, $55.1 and $47.3 million in fiscal years 2008, 2007, 2006, 2005 and 2004, respectively.

b) The following significant items affected operating, net income, and net income per diluted share:

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, $2.5 and $0.1 million in fiscal years 2008, 2007, 2006, 2005 and 2004, respectively. Operating (loss) income from the deconsolidated European franchise salon operations was $5.1, $7.5, $4.8, ($31.0) and $6.7 million in fiscal years 2008, 2007, 2006, 2005 and 2004, respectively.

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

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

Adjustments were recorded in fiscal years 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 $7.1 million ($4.3 million net of tax), $10.2 million ($6.7 million net of tax), and $2.3 million ($1.3 million net of tax) in fiscal years 2008, 2007, and 2005, respectively, and increased by $1.0 million ($0.6 million net of tax) in fiscal year 2006 as a result in the change in estimate.

Expenses of $10.5 million ($6.4 million net of tax), $6.8 million ($4.5 million net of tax), $8.4 million ($5.4 million net of tax), $3.6 million ($2.0 million net of tax), and $3.2 million ($2.0 million net of tax) related to the impairment of property and equipment at underperforming locations were recorded during fiscal years 2008, 2007, 2006, 2005, and 2004, respectively. The $10.5 million impairment charge recognized during 2008 related to the Company's decision to close 160 underperforming salons during fiscal year 2009.

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

Fiscal year 2006 includes a $2.8 million ($1.8 million net of tax) charge related to the settlement of a wage and hour lawsuit under the Fair Labor Standards Act (FLSA).

c)

Effective July 1, 2003, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standard No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123), as amended, using the prospective transition method. Effective July 1, 2005, the Company adopted SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123R), using the modified prospective method of application. Total compensation cost for stock-based payment arrangements totaled $6.8, $4.9, $4.9, $1.2 and $0.2 million ($4.2, $3.2, $3.2, $0.8 and $0.1 million after tax) during fiscal years 2008, 2007, 2006, 2005 and 2004, respectively. Prior to the adoption of these Statements, no compensation cost for stock-based payment arrangements was recognized in earnings. Refer to Note 1 to the Consolidated Financial Statements for further discussion.

d)

An income tax 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.

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 2008 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, 2008, we owned, franchised or held ownership interests in over 13,550 worldwide locations. Our locations consisted of 10,745 system wide North American and international salons, 92 hair restoration centers, and 2,714 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 North American salon operations include 10,273 salons, including 2,163 franchise salons, operating in the United States, Canada and Puerto Rico primarily under the trade names of Regis Salons, MasterCuts, Trade Secret, SmartStyle, Supercuts and Cost Cutters. Our international salon operations include 472 salons located in Europe, primarily in the United Kingdom. Hair Club for Men and Women includes 92 North American locations, including 35 franchise locations. During fiscal year 2008, we had approximately 65,000 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. We believe achieving revenue growth of four to six percent, including same-store sales increases of 0.5 to 2.5 percent, will allow us to increase annual earnings at a mid to high single-digit growth rate. We anticipate expanding our presence in North America and the United Kingdom. In addition we anticipate our joint venture partners to continue to expand.

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. Aside from the 160 store closings of our underperforming salons, we anticipate expanding all of our salon concepts. When commercial opportunities arise, we anticipate testing and developing new salon concepts to complement our existing concepts. An example of this would be the introduction of our new men's concept, RAZE, introduced in Minnetonka, MN during August 2008.

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 2009, our outlook for constructed salons will be between 175 and 200 units, and we expect to add between 350 and 370 net locations through a combination of organic, acquisition and franchise growth. Our long-term outlook anticipates that we will add between 800 to 1,000 net locations each year through a combination of organic, acquisition and franchise growth. Capital expenditures in fiscal year 2009, excluding acquisition expenditures budgeted at $75.0 million, are projected to be approximately $95 million, which includes approximately $50 million for salon maintenance.

Organic salon revenue growth is achieved through the combination of new salon construction and salon same-store sales increases. Each fiscal year, we anticipate building several hundred company-owned salons. We anticipate our franchisees will open approximately 100 to 125 salons as well. Older, unprofitable salons will be closed or relocated. Our long-term outlook for our salon business is for annual consolidated low single digit same-store sales increases. Based on current fashion and economic cycles (i.e., longer hairstyles and lengthening of customer visitation patterns), we project our annual fiscal year 2009 consolidated same-store sales increase to be 0.5 to 2.5 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 2008, we acquired 7,926 salons, net of franchise buybacks. We anticipate adding several hundred company-owned salons each year from acquisitions. Some of these acquisitions may include buying salons from our franchisees.

Hair Restoration Business

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

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

CRITICAL ACCOUNTING POLICIES

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

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

Cost of Product and Services Used and Sold

Cost of product used in salon services is determined by applying estimated gross profit margins to service revenues, which are based on historical factors including product pricing trends and estimated shrinkage. In addition, the estimated gross profit margin is adjusted based on the results of physical inventory counts performed at least semi-annually and the monthly monitoring of factors that could impact our usage rates estimates. These factors include mix of service sales, discounting and special promotions. Cost of product sold to salon customers is determined based on the weighted average cost of product to the Company, adjusted for an estimated shrinkage factor. Product and service inventories are adjusted based on the results of physical inventory counts. During fiscal year 2008, we performed physical inventory counts between September and November and May and June, and adjusted our estimated gross profit margin to reflect the results of the observations. Significant changes in product costs, volumes or shrinkage could have a material impact on our gross margin.

Goodwill

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

During the three months ended March 31 of fiscal years 2008, 2007, and 2006, we performed our annual goodwill impairment analysis on our reporting units. Based on our testing, a $23.0 million ($19.6 million net of tax) impairment charge was recorded during fiscal year 2007 related to our beauty school business. No impairment charges were recorded during fiscal years 2008 and 2006.

On January 31, 2008, we merged our continental European franchise salon operations with the operations of the Franck Provost Salon Group. Prior to the merger, our analysis indicated the net book value of our European franchise business approximated the fair value.

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

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

Long-Lived Assets, Excluding Goodwill

We assess the impairment of long-lived assets annually or when events or changes in circumstances indicate that the carrying value of the assets or the asset grouping may not be recoverable. Our impairment analysis is performed on a salon by salon basis. Factors considered in deciding when to perform an impairment review include significant under-performance of an individual salon in relation to expectations, significant economic or geographic trends, and significant changes or planned changes in our use of the assets. Recoverability of assets that will continue to be used in our operations is measured by comparing the carrying amount of the asset to the related total estimated future net cash flows. If an asset's carrying value is not recoverable through those cash flows, the asset grouping is considered to be impaired. The impairment is measured by the difference between the assets' carrying amount and their fair value, based on the best information available, including market prices or discounted cash flow analysis.

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

During fiscal years 2008, 2007 and 2006, $10.5, $6.8, and $8.4 million ($6.4, $4.5 and $5.4 million net of tax, respectively) of impairment was recorded within depreciation and amortization in the Consolidated Statement of Operations. In July 2008, we approved a plan to close up to 160 underperforming company-owned salons in fiscal year 2009. 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 2008, 2007 and 2006 acquisitions totaled $16.1, $4.5, and $17.3 million, respectively. The residual goodwill generated by fiscal year 2008, 2007, and 2006 acquisitions totaled $16.1, $50.8, and $127.3 million, respectively.

Self-insurance Accruals

We use a combination of third party insurance and self-insurance for a number of risks including workers' compensation, health insurance, employment practice liability and general liability claims. The liability reflected on our Consolidated Balance Sheet represents an estimate of the undiscounted ultimate cost of uninsured claims incurred as of the balance sheet date. In estimating this liability, loss development factors utilize historical data to project the future development of incurred losses. Loss estimates are adjusted based upon actual claims settlements and reported claims. Although we do not expect the amounts ultimately paid to differ significantly from the estimates, self-insurance accruals could be affected if future claims experience differs significantly from the historical trends and actuarial assumptions. We recorded a positive adjustment to our self-insurance accruals of $7.1 million ($4.3 million net of tax) and $10.2 million ($6.7 million net of tax) during fiscal years 2008 and 2007, respectively. The reserve reduction relates primarily to an actuarial change in estimate in prior years workers' compensation claims reserves as a result of continued improvement of our new safety and return-to-work programs over the recent years as well as changes in state laws. In fiscal 2006 we increased self-insurance accruals related to prior year's claims by $1.0 million. During fiscal years 2008, 2007, and 2006, our insurance costs were $46.8, $45.2 and $52.5 million, respectively.

Income Taxes

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

Management must assess the likelihood that deferred tax assets will be recovered. If recovery is not likely, we must increase our provision for taxes by recording a reserve, in the form of a valuation allowance, for the deferred tax assets that will not be ultimately recoverable. Should there be a change in our ability to recover our deferred tax assets, our tax provision would increase in the period in which it is determined that the recovery is 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 2005 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 2004. 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, 2008 the Company's unrecognized income tax benefits were $27.6 million. See Note 8, to the Consolidated Financial Statements, for further information.

Stock-based Compensation Expense

Compensation expense for stock-based compensation is estimated on the grant date using an option-pricing model. During fiscal years 2008, 2007, and 2006, stock-based compensation expense totaled $6.8, $4.9, and $4.9 million, respectively. Our specific weighted average assumptions for the risk free interest rate, expected term, expected volatility and expected dividend yield are documented in Note 10 to the Consolidated Financial Statements. Additionally, under SFAS No. 123R, we are required to estimate pre-vesting forfeitures for purposes of determining compensation expense to be recognized. Future expense amounts for any particular quarterly or annual period could be affected by changes in our assumptions or changes in market conditions.

Contingencies

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

OVERVIEW OF FISCAL YEAR 2008 RESULTS

The following summarizes key aspects of our fiscal year 2008 results:

Revenues increased 4.3 percent to $2.7 billion and consolidated same-store sales increased 0.5 percent during fiscal year 2008. North American same-store service sales increased 3.8 and 3.3 percent during the third and fourth quarter of the fiscal year, the Company's largest comparable increases in eight years. An increase in average ticket price was partially offset by the continued decline in visitation patterns due to fashion trends resulted in an increase in consolidated same-store sales of 0.5 percent. The revenue increase was partially offset by deconsolidation of accredited cosmetology schools and European franchise salon operations. The Company expects fiscal year 2009 same-store sales growth to be 0.5 to 2.5 percent.

A long-lived asset impairment charge of $10.5 million was recorded during fiscal year 2008 related to the approval of a plan to close up to 160 underperforming company-owned salons in fiscal year 2009.

Total debt at the end of the fiscal year was $764.7 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 43.9 percent as compared to June 30, 2007.

Share repurchases of $50.0 million and $79.7 million occurred during fiscal years 2008 and 2007, respectively.

The effective income tax rate was adversely impacted by $3.0 million tax charge, of which $1.3 million was recorded through income tax expense and $1.7 million was recorded through other comprehensive income. primarily associated with repatriating approximately $30.0 million of cash previously considered to be indefinitely reinvested outside of the United States, which caused a 1.0 percent increase in the rate. The joint venture partnership with Franck Provost Group resulted in higher overall taxes being paid by Regis due to Regis' income being subject to higher overall tax rates. In addition, Texas passed a new gross margins tax which, together with a number of states' tax initiatives, negatively affected the tax rate by 1.9 percent. These events were partially offset by Work Opportunity and Welfare-to-Work Tax Credits earned during the fiscal year, which caused a 2.0 percent decrease in the rate.

Site operating expenses were positively impacted by a $7.1 million ($4.3 million net of 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 as well as changes in state laws.

Earnings per share increased to $1.95 per diluted share, up from $1.82 per diluted share in fiscal year 2007, primarily related to the schools goodwill impairment charge in fiscal year 2007.

RESULTS OF OPERATIONS

Consolidated Results of Operations

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

Results of Operations as a Percent of Revenues

	For the Years Ended June 30,		
	2008	**2007**	**2006**
Service revenues	69.2%	68.3%	67.2%
Product revenues	28.3	28.6	29.6
Royalties and fees	2.5	3.1	3.2
Operating expenses:			
Cost of service(1)	57.6	56.6	56.8
Cost of product(2)	51.0	50.6	51.6
Site operating expenses	7.4	7.9	8.2
General and administrative	12.3	12.5	12.1
Rent	14.8	14.6	14.4
Depreciation and amortization	4.8	4.7	4.8
Goodwill impairment	0.0	0.9	0.0
Terminated acquisition income, net	0.0	0.0	(1.4)
Operating income	6.4	6.3	8.4
Income before income taxes	5.0	4.9	7.0
Net income	3.1	3.2	4.5

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

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

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 increased 4.3 percent to $2.7 billion during fiscal year 2008 and 8.1 percent to $2.6 billion during fiscal year 2007. 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,		
	2008	2007	2006
	(Dollars in thousands)		
North American salons:			
Regis	$ 513,820	$ 498,577	$ 481,760
MasterCuts	175,974	174,287	174,674
Trade Secret(1)	257,873	253,250	262,862
SmartStyle	507,349	462,321	413,907
Strip Center(1)	886,646	776,995	703,345
Other(3)	5,558		
Total North American Salons	2,347,220	2,165,430	2,036,548
International salons(1)(2)	256,063	253,430	220,662
Beauty schools(3)		85,627	63,952
Hair restoration centers(1)	135,582	122,101	109,702
Consolidated revenues	$2,738,865	$2,626,588	$2,430,864
Percent change from prior year	4.3%	8.1%	10.8%
Salon same-store sales increase(4)	0.5%	0.2%	0.4%

(1) Includes aggregate franchise royalties and fees of $68.6, $80.5, and $77.9 million in fiscal years 2008, 2007, and 2006, respectively. North American salon franchise royalties and fees represented 59.2, 48.2, and 50.4 percent of total franchise revenues in fiscal years 2008, 2007, and 2006, 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 year 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

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.

The 4.3, 8.1, and 10.8 percent increases in consolidated revenues during fiscal years 2008, 2007 and 2006, respectively, were driven by the following:

	Percentage Increase (Decrease) in Revenues For the Years Ended June 30,		
Factor	**2008**	**2007**	**2006**
Acquisitions (previous twelve months)	5.0%	4.4%	7.5%
Organic growth	2.4	3.2	4.0
Foreign currency	1.0	1.0	(0.1)
Franchise revenues	(0.5)	0.0	(0.1)
Closed salons	(3.6)	(0.5)	(0.5)
	4.3%	8.1%	10.8%

We acquired 475 company-owned salons (including 150 franchise buybacks), and bought back 6 hair restoration centers from franchisees during fiscal year 2008 compared to 354 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 stemmed primarily from the construction of 325 and 420 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 285 and 303 salons (including 105 and 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.

We acquired 354 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 compared to 290 company-owned salons (including 142 franchise buybacks), 30 beauty schools and eight company-owned hair restoration centers (including seven franchise buybacks) during fiscal year 2006. The organic growth stemmed primarily from the construction of 420 and 531 company-owned salons during the twelve months ended June 30, 2007 and 2006, respectively, as well as consolidated same-store sales increases. We closed 303 and 407 salons (including 168 and 229 franchise salons) during the twelve months ended June 30, 2007 and 2006, respectively.

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. During fiscal year 2006, the foreign currency impact was driven by the strengthening of the United States dollar against the British pound and Euro as compared to the prior fiscal year's exchange rates, partially offset by the continued weakening of the United States dollar against the Canadian dollar.

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:

		Increase Over Prior Fiscal Year	
Years Ended June 30,	**Revenues**	**Dollar**	**Percentage**
	(Dollars in thousands)		
2008	$1,894,257	$100,455	5.6%
2007	1,793,802	159,774	9.8
2006	1,634,028	167,692	11.4

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 2.0 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 1.0 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.

The growth in service revenues during fiscal year 2006 was driven primarily by acquisitions and new salon construction (a component of organic growth). Same-store service sales in our salons continued to be modest due to a slight lengthening of customer visitation patterns stemming from a fashion trend towards longer hairstyles.

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:

		Increase Over Prior Fiscal Year	
Years Ended June 30,	**Revenues**	**Dollar**	**Percentage**
	(Dollars in thousands)		
2008	$775,980	$23,700	3.2%
2007	752,280	33,338	4.6
2006	718,942	70,522	10.9

The growth in product revenues during fiscal year 2008 was primarily due to acquisitions, offset by same-store product sales decrease of 3.1 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 decrease of 1.8 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.

The growth in product revenues during fiscal year 2006 was primarily due to acquisitions. Growth was not as robust compared to the prior fiscal years primarily due to a lower same-store product sales increase; same-store product sales increased 0.1 percent during fiscal year 2006.

Franchise 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)		
2008	$68,628	$(11,878)	(14.8)%
2007	80,506	2,612	3.4
2006	77,894	(1,644)	(2.1)

Total franchise locations open at June 30, 2008 and 2007 were 2,198 (including 35 franchise hair restoration centers) and 3,783 (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 3,783 (including 41 franchise hair restoration centers) and 3,816 (including 42 franchise hair restoration centers). We purchased 97 of our franchise salons during the twelve months ended June 30, 2007 compared to 142 during the twelve 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.

The decrease in consolidated franchise revenues during fiscal year 2006 was primarily due to the impact of unfavorable foreign currency fluctuations, as well as 142 franchise buybacks during the twelve months ended June 30, 2006.

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:

			Increase (Decrease) Over Prior Fiscal Year		
Years Ended June 30,	Gross Margin	Margin as % of Service and Product Revenues	Dollar	Percentage	Basis Point(1)
		(Dollars in thousands)			
2008	$1,183,548	44.3%	$ 32,739	2.8%	(90)
2007	1,150,809	45.2	97,372	9.2	40
2006	1,053,437	44.8	110,766	11.8	20

(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:

			Increase (Decrease) Over Prior Fiscal Year		
Years Ended June 30,	**Service Margin**	**Margin as % of Service Revenues**	**Dollar**	**Percentage**	**Basis Point(1)**
		(Dollars in thousands)			
2008	$803,547	42.4%	$24,526	3.1%	(100)
2007	779,021	43.4	73,508	10.4	20
2006	705,513	43.2	75,626	12.0	20

(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 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, which accounted for 40 of the total 100 basis point decrease. 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. For the twelve months ended June 30, 2008, the reclassification accounted for approximately 30 basis points of the total 100 basis point decrease and had no impact on total gross margin. During fiscal year 2009, we are forecasting service margins to be in the low 42 percent range of service revenues.

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 1.0 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.

The basis point improvement in service margins as a percent of service revenues during fiscal year 2006 was primarily due to improved payroll and payroll-related costs and a same-store service sales increase of 0.6 percent during the twelve months ended June 30, 2006.

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

			Increase (Decrease) Over Prior Fiscal Year		
Years Ended June 30,	**Product Margin**	**Margin as % of Product Revenues**	**Dollar**	**Percentage**	**Basis Point(1)**
		(Dollars in thousands)			
2008	$380,001	49.0%	$ 8,213	2.2%	(40)
2007	371,788	49.4	23,864	6.9	100
2006	347,924	48.4	35,140	11.2	20

(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.

The basis point decrease in product margins as a percentage of product revenues during fiscal year 2008 was due to recent salon acquisitions which have lower product margins (50 basis points) and negative payroll leverage at our Trade Secret salons (40 basis points). These items were offset by the deconsolidation of the beauty schools and European franchise salon operations (30 basis points). During fiscal year 2009, we are forecasting product margins to be in the high 48 percent range of product revenues.

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.

The basis point improvement in product margins as a percent of product revenues during fiscal year 2006 was primarily related to product sales from the hair restoration centers, which have higher product margins than sales of retail products in salons, for the full year as compared to seven months (since the date of acquisition) during the prior fiscal year. This benefit was partially offset by reduced sales margins realized on several vendor product lines repackaged during the fiscal year.

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)			
2008	$204,001	7.4%	$ (4,100)	(2.0)%	(50)
2007	208,101	7.9	8,499	4.3	(30)
2006	199,602	8.2	16,546	9.0	(10)

(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 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. During fiscal year 2009, we are forecasting site operating expenses be in the high seven percent range of consolidated revenue.

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 $10.2 million ($6.7 million net of tax) 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.

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)			
2008	$337,160	12.3%	$ 8,516	2.6%	(20)
2007	328,644	12.5	34,552	11.7	40
2006	294,092	12.1	33,885	13.0	20

(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 2008 was primarily due to the deconsolidation of the European franchise salon operations and accredited cosmetology schools, partially offset by the payroll costs of the back office support functions associated with the PureBeauty transaction. During fiscal year 2009, we are forecasting G&A expenses to be in the high 11 percent range of consolidated revenues.

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.

The basis point increase in G&A costs as a percent of consolidated revenues during fiscal year 2006 was primarily due to $2.8 million related to the settlement of a Fair Labor Standards Act (FLSA) lawsuit over wage and hour disputes. Excluding the ten basis point impact of this settlement, G&A expenses were relatively consistent as a percent of revenues compared to the prior fiscal year.

Rent

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

			Increase Over Prior Fiscal Year		
Years Ended June 30,	Rent	Expense as % of Consolidated Revenues	Dollar	Percentage	Basis Point(1)
		(Dollars in thousands)			
2008	$406,270	14.8%	$23,450	6.1%	20
2007	382,820	14.6	31,894	9.1	20
2006	350,926	14.4	39,942	12.8	20

(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 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. During fiscal year 2009, we are forecasting rent expense as a percent of consolidated revenues to be approximately 15 percent of consolidated revenues, excluding the impact of closing 160 stores. We expect to record an additional $15.0 million to $20.0 million of lease termination costs in fiscal year 2009 related to the 160 underperforming Company-owned salons that the Company has approved to close in fiscal year 2009.

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.

During fiscal year 2006, $4.1 million in lease termination costs were recognized through rent expense. These costs resulted from our decision to close 64 company-owned salon locations and refocus efforts on improving the sales and operations of nearby salons. Additionally, the increase in this fixed-cost expense as a percent of consolidated revenues was due to salon rent increasing at a faster rate than salon same-store sales during fiscal year 2006.

Depreciation and Amortization

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

Periods Ended June 30,	D&A	Expense as % of Consolidated Revenues	Increase (Decrease) Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
		(Dollars in thousands)			
2008	$ 130,448	4.8%	$ 6,311	5.1%	10
2007	124,137	4.7	8,234	7.1	(10)
2006	115,903	4.8	24,150	26.3	60

(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 2008 was primarily due to higher salon impairment charges in fiscal year 2008 related to the Company's decision to close 160 underperforming salons in fiscal year 2009, when compared to salon impairment charges in fiscal year 2007. Impairment charges of $10.5 million ($6.4 million net of tax) 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. During fiscal year 2009, we are forecasting D&A to be in the mid four percent range of consolidated revenue.

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 $6.8 million ($4.3 million net of tax) were recorded during fiscal 2007 related to the impairment of property and equipment at underperforming locations.

The basis point increase in D&A as a percent of consolidated revenues during fiscal year 2006 was primarily due to increased salon impairment charges during fiscal year 2006 over fiscal year 2005, stemming from lower same-store sales volumes during recent fiscal years. Impairment charges of $7.4 and $1.0 million were recognized for the North American and international operations, respectively, during fiscal year 2006. Additionally, $2.4 million in losses on disposal of property and equipment was recognized related to the fourth quarter closure of 64 salons. We decided to close these company-owned salon locations in order to refocus efforts on improving the sales and operations of nearby salons.

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)			
2008	$	%	$ (23,000)	%	
2007	23,000	0.9	23,000		90
2006					

(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.

A $23.0 million ($19.6 million net of tax) impairment charge was recorded during fiscal year 2007 related to our beauty school business. No impairment charges were recorded during fiscal years 2008 and 2006.

Terminated Acquisition Income, net

Terminated acquisition income, net was as follows:

Years Ended June 30,	Terminated Acquisition Income, net	Expense as % of Consolidated Revenues	Increase (Decrease) Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
		(Dollars in thousands)			
2008	$	%	$	%	
2007			33,683		
2006	(33,683)	1.4	(33,683)		140

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

A net settlement gain of $33.7 million ($21.7 million net of tax) was recognized during fiscal year 2006 stemming from a termination fee collected from Alberto-Culver Company due to the terminated merger agreement for Sally Beauty Company. The termination fee gain is net of direct transaction related expenses associated with terminated merger agreement. No termination income was recorded during fiscal years 2008 and 2007.

Interest

Interest expense was as follows:

Years Ended June 30,	Interest	Expense as % of Consolidated Revenues	Increase Over Prior Fiscal Year Dollar	Percentage	Basis Point(1)
		(Dollars in thousands)			
2008	$44,571	1.6%	$ 2,801	6.7%	
2007	41,770	1.6	6,781	19.4	20
2006	34,989	1.4	10,604	43.5	30

(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.

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. During fiscal year 2009, we expect interest expense to decrease to approximately $41 million.

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.

The basis point increase in interest expense as a percent of consolidated revenues during fiscal year 2006 was primarily due to an increase in our debt level stemming from fiscal year 2006 acquisition activity. Additionally, increased borrowing rates contributed to the fiscal year 2006 increase in interest expense as a percent of consolidated revenues.

Income Taxes

Our reported effective tax rate was as follows:

Years Ended June 30,	Effective Rate	Basis Point Increase (Decrease)
2008	38.9%	390
2007	35.0	(60)
2006	35.6	(890)

The basis point increase in our overall effective income tax rate for the fiscal year ended June 30, 2008 is 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%. 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%. During fiscal year 2009, we are forecasting the effective tax rate to be approximately 37.8 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 ($19.6 million net of tax) 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.

The basis point improvement in our overall effective income tax rate for the fiscal year ended June 30, 2006 was related to the 2005 goodwill impairment charge in the international salon segment, which is non-deductible for tax purposes. The goodwill impairment caused an 11.0 percent increase in the fiscal year 2005 tax rate. Excluding the impact of the goodwill impairment, the increase in the fiscal year 2006 tax rate over the prior year was primarily due to the elimination of the Work Opportunity and Welfare-to-Work Tax Credits, which expired on December 31, 2005. During fiscal year 2005, excluding the impact of the goodwill impairment, the improvement in the effective tax rate over fiscal year 2004 was primarily due to the successful settlement of our federal audit and the retroactive reinstatement of the Work Opportunity and Welfare-to-Work Tax Credits during fiscal year 2005.

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, 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.

During the fiscal year ended June 30, 2006, foreign currency translation had a negative impact on consolidated revenues due to the weakening of the British pound and Euro against the United States dollar, partially offset by the strengthening of the Canadian dollar.

	Favorable (Unfavorable) Impact of Foreign Currency Exchange Rate Fluctuations					
	Impact on Revenues			Impact on Income Before Income Taxes		
(Dollars in thousands) Currency	Fiscal 2008	Fiscal 2007	Fiscal 2006	Fiscal 2008	Fiscal 2007	Fiscal 2006
Canadian dollar	$ 15,179	$ 3,606	$ 7,274	$ 2,538	$ 608	$ 1,060
British pound	7,689	15,167	(6,753)	134	616	(341)
Euro	3,831	4,388	(2,472)	755	782	(292)
Total	$ 26,699	$ 23,161	$ (1,951)	$ 3,427	$ 2,006	$ 427

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.

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	Percentage	Same-Store Sales Increase
		(Dollars in thousands)		
2008	$2,347,220	$181,790	8.4%	0.7%
2007	2,165,430	128,882	6.3	0.1
2006	2,036,548	162,337	8.7	0.7

The percentage increases during the years ended June 30, 2008, 2007, and 2006 were due to the following factors:

	Percentage Increase (Decrease) in Revenues For the Years Ended June 30,		
Factor	2008	2007	2006
Acquisitions (previous twelve months)	5.1%	4.0%	4.4%
Organic growth	2.9	2.6	4.4
Foreign currency	0.7	0.2	0.4
Franchise revenues	0.1	0.0	(0.1)
Closed salons	(0.4)	(0.5)	(0.4)
	8.4%	6.3%	8.7%

We acquired 357 North American salons during the twelve months ended June 30, 2008, including 150 franchise buybacks. The organic growth was due primarily to the construction of 310 company-owned salons in North America during the twelve months ended June 30, 2008, and a same-store sales increase of 0.7 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, 3.8 percent and 3.3 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 338 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 395 company-owned salons in North America during the twelve months ended June 30, 2007, partially offset by a lower same-store sales increase of 0.1 percent during the twelve months ended June 30, 2007 as compared to 0.7 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.

We acquired 278 North American salons during the twelve months ended June 30, 2006, including 140 franchise buybacks. The organic growth stemmed primarily from the construction of 498 company-owned salons in North America during the twelve months ended June 30, 2006. The foreign currency impact during fiscal year 2006 was driven by the weakening of the United States dollar against the Canadian dollar as compared to the exchange rate for fiscal year 2005.

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)			
2008	$286,812	12.2%	$ 4,314	1.5%	(80)
2007	282,498	13.0	25,937	10.1	40
2006	256,561	12.6	8,481	3.4	(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 2008 was primarily due to reduced retail product margins, largely the result of recent salon acquisitions which have lower product margins and negative payroll leverage at our Trade Secret salons. Additionally, depreciation and amortization expenses increased as a percent of North American salon revenues due to 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 160 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 $10.5 million. These declines were offset by 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 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.

The basis point decrease in North American salon operating income as a percent of North American salon revenues during fiscal year 2006 was primarily due to reduced retail product margins, largely the result of increased costs associated with the repackaging efforts by suppliers of several top retail product lines. Additionally, rent and depreciation and amortization expenses increased as a percent of North American salon revenues due to lease termination costs and losses on the disposal of property and equipment stemming from salon closures. During the fourth quarter of fiscal year 2006, we decided to close 64 company-owned salon locations prior to the lease end date in order to refocus efforts on improving the sales and operations of nearby salons. Increased salon impairment charges during fiscal year 2006 and lower same-store sales volumes during recent fiscal years also contributed to the increase in depreciation and amortization expenses during fiscal year 2006.

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)		
2008	$256,063	$ 2,633	1.0%	(4.3)%
2007	253,430	32,768	14.8	(0.6)
2006	220,662	(6,122)	(2.7)	(3.0)

The percentage increases (decreases) during the years ended June 30, 2008, 2007, and 2006 were due to the following factors.

	Percentage Increase (Decrease) in Revenues For the Years Ended June 30, 2008	2007	2006
Acquisitions (previous twelve months)	4.1%	2.6%	1.8%
Organic growth	(0.7)	4.4	2.0
Foreign currency	4.5	8.5	(3.9)
Franchise revenues	(5.9)	0.3	(0.5)
Closed salons	(1.0)	(1.0)	(2.1)
	1.0%	14.8%	(2.7)%

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 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.

We acquired 12 international salons during the twelve months ended June 30, 2006, including two franchise buybacks. The organic growth stemmed from the construction of 33 company-owned international salons during the twelve months ended June 30, 2006, partially offset by a same-store sales decrease of 3.0 percent during the twelve months ended June 30, 2006. The foreign currency impact during fiscal year 2006 was driven by the strengthening of the United States dollar against the

British pound and the Euro as compared to the exchange rates for fiscal year 2005. The decrease in franchise revenues was primarily due to the closure and sale of 116 franchise salons during fiscal year 2006.

International Salon Operating Income. Operating income for the international 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)			
2008	$ 11,651	4.6%	$ (5,897)	(33.6)%	(230)
2007	17,548	6.9	3,986	29.4	80
2006	13,562	6.1	31,695	174.8	1,410

(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 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.

The basis point improvement in international salon operating income as a percent of international salon revenues during fiscal year 2006 was primarily due to the goodwill impairment charge of $38.3 million recorded during the three months ended March 31, 2005, offset by a $1.0 million charge in fiscal year 2006 related to the impairment of certain salons' property and equipment which contributed to an increase in depreciation and amortization expense. Exclusive of the prior year goodwill impairment charge, operating income decreased 280 basis points as a percentage of total international salon revenues. This decrease was primarily due to the impact of certain fixed cost categories, such as rent and depreciation expense, measured as a percentage of lower same-store sales, as well as the $1.0 million of property and equipment impairment charges.

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 Dollar	Percentage	Same-Store Sales Increase
		(Dollars in thousands)		
2008	$ 135,582	$ 13,481	11.0%	5.2%
2007	122,101	12,399	11.3	8.7
2006(1)	109,702	50,314	84.7	N/A

(1) We did not own or operate any hair restoration centers until December 2004.

The percentage increases during the years ended June 30, 2008, 2007, and 2006 were due to the following factors:

	Percentage Increase (Decrease) in Revenues For the Years Ended June 30,		
	2008	2007	2006
Acquisitions (previous twelve months)	8.1%	4.7%	81.4%
Organic growth	4.2	6.6	3.8
Franchise revenues	(1.3)	0.0	(0.5)
	11.0%	11.3%	84.7%

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.

We acquired eight hair restoration centers during the twelve months ended June 30, 2006, including seven franchise buybacks, and constructed one hair restoration center during the twelve months ended June 30, 2006. The franchise buybacks drove the decrease in franchise revenues. The increase in total hair restoration revenues during fiscal year 2006 was due to the acquisition of 42 company-owned and 49 franchise hair restoration centers in conjunction with the initial acquisition of Hair Club for Men and Women in December 2004.

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)			
2008	$28,181	20.8%	$ 2,620	10.3%	(10)
2007	25,561	20.9	3,988	18.5	120
2006	21,573	19.7	9,309	75.9	(100)

(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 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.

The basis point decrease in hair restoration operating income as a percent of hair restoration revenues during fiscal year 2006 was due to the write-off of approximately $0.5 million of software acquired as part of the original Hair Club acquisition, as it was determined that the software would no longer be used. The remaining 50 basis point fluctuation in hair restoration center operating income as a percent of hair restoration center revenues was primarily due to our integration of the recently acquired centers.

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 (Decrease) Increase
2008	43.9%	(20)
2007	43.7	(200)
2006	41.7	130

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

The basis point decrease 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 million and $223.4 million, respectively, of our debt outstanding is 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 million 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.

The basis point improvement in the debt to capitalization ratio as of June 30, 2006 as compared to June 30, 2005 was due to increased equity levels stemming primarily from fiscal year 2006 earnings.

Total assets at June 30, 2008, 2007, and 2006 were as follows:

As of June 30,	Total Assets	Increase Over Prior Fiscal Year Dollar	Increase Over Prior Fiscal Year Percentage
	(Dollars in thousands)		
2008	$2,235,871	$103,757	4.9%
2007	2,132,114	146,790	7.4
2006	1,985,324	259,348	15.0

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.

Acquisitions and organic growth were the primary drivers of the increase in total assets as of June 30, 2006 compared to June 30, 2005. Acquisitions were primarily funded by a combination of operating cash flows, debt and the assumption of acquired liabilities.

Total shareholders' equity at June 30, 2008, 2007, and 2006 was as follows:

		Increase Over Prior Fiscal Year	
As of June 30,	**Shareholders' Equity**	**Dollar**	**Percentage**
	(Dollars in thousands)		
2008	$ 976,186	$ 62,878	6.9%
2007	913,308	41,901	4.8
2006	871,407	116,695	15.5

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.

During the twelve months ended June 30, 2006, equity increased as a result of net income, additional paid-in capital recorded in connection with the exercise of stock options, and increased accumulated other comprehensive income due to foreign currency translation adjustments stemming from the strengthening of foreign currencies that underlie our investments in those markets, partially offset by share repurchases under our stock repurchase program.

Cash Flows

Operating Activities

Net cash provided by operating activities during the twelve months ended June 30, 2008, 2007 and 2006 were a result of the following:

	Operating Cash Flows For the Years Ended June 30,		
	2008	2007	2006
	(Dollars in thousands)		
Net income	$ 85,204	$ 83,170	$ 109,578
Depreciation and amortization	119,977	117,327	107,470
Deferred income taxes	(3,789)	(6,243)	7,409
Goodwill and asset impairments	10,471	29,813	12,740
Receivables	(709)	(4,092)	(4,918)
Inventories	(5,232)	2,709	(6,068)
Other current assets	2,554	(15,818)	(7,551)
Accounts payable and accrued expenses	9,249	26,436	46,924
Other noncurrent liabilities	(14,083)	15,067	16,463
Other	18,741	(6,509)	(362)
	$ 222,383	$ 241,860	$ 281,685

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 ($19.6 million net of tax) 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.

During fiscal year 2006, depreciation and amortization increased primarily due to the amortization of intangible assets that we acquired in the acquisition of the hair restoration centers during December 2004 and the amortization of intangibles acquired in conjunction with recent beauty school acquisitions. Also, losses on the disposal of property and equipment (which is included in depreciation and amortization) from salons which were closed during the fourth quarter contributed to the increase. The asset impairment charge was primarily due to impairment charges for underperforming salons and the impairment of a minority investment in a privately held company. SFAS No. 123R requires that the cash retained as a result of the tax deductibility of increases in the value of stock-based arrangements be presented as a cash outflow from operating activities and a cash inflow from financing activities in the Consolidated Statement of Cash Flows (shown as Excess tax benefit from stock-based compensation plans). In periods prior to the three months ended September 30, 2005, and the Company's adoption of SFAS No. 123R, the tax benefit realized upon exercise of stock options was presented as an operating activity (included within accrued expenses) and totaled $9.1 million for the year ended June 30, 2005.

Investing Activities

Net cash used in investing activities during the twelve months ended June 30, 2008, 2007 and 2006 were the result of the following:

	Investing Cash Flows For the Years Ended June 30,		
	2008	2007	2006
	(Dollars in thousands)		
Business and salon acquisitions	$(132,971)	$ (68,747)	$(155,481)
Capital expenditures for remodels or other additions	(35,212)	(35,299)	(41,246)
Capital expenditures for the corporate office (including all technology-related expenditures)	(18,310)	(21,452)	(30,455)
Payment of contingent purchase price			(3,630)
Capital expenditures for new salon construction	(32,277)	(33,328)	(44,583)
Proceeds from loans and investments	10,000	5,250	
Disbursements for loans and investments	(46,400)	(30,673)	(6,000)
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	47	97	730
	$(266,029)	$(193,049)	$(280,665)

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 were completed during fiscal year 2008, compared to 155 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 2007were primarily funded by a combination of operating cash flows and debt. Additionally, 155 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. 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).

We constructed 531 company-owned salons, two beauty schools and one hair restoration center and acquired 290 company-owned salons (142 of which were franchise buybacks), 30 beauty schools and eight hair restoration centers (seven of which were franchise buybacks) during fiscal year 2006. During fiscal year 2006, we entered into a credit agreement with a third party, under which we lent $6.0 million, and in 2007, we extended the term of the note to March 31, 2009. Refer to Note 3, to the Consolidated Financial Statements for further details surrounding this arrangement.

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

	Years Ended June 30,					
	2008		2007		2006	
	Constructed	Acquired	Constructed	Acquired	Constructed	Acquired
Regis	14	4	17	49	38	14
MasterCuts	7		15		32	
Trade Secret	16	65	20	3	33	2
SmartStyle	207		242		215	
Promenade	66	138	101	193	180	122
International	15	25	25	12	33	10
Beauty schools			2	1	2	30
Hair restoration centers	3			1	1	1
	328	232	422	259	534	179

Financing Activities

Net cash (used in) or provided by financing activities during the twelve months ended June 30, 2008, 2007 and 2006 were the result of the following:

	Financing Cash Flows For the Years Ended June 30,		
	2008	2007	2006
	(Dollars in thousands)		
Net (payments) borrowings on revolving credit facilities	$ (8,613)	$ 84,806	$ 56,250
Net borrowings (repayments) of long-term debt	46,839	(15,888)	(20,787)
Proceeds from the issuance of common stock	8,893	14,310	14,410
Repurchase of common stock	(49,957)	(79,710)	(20,280)
Excess tax benefit from stock-based compensation plans	1,420	4,536	4,556
Dividend payments	(6,964)	(7,169)	(7,256)
Other	(2,622)	(7,310)	1,678
	$ (11,004)	$ (6,425)	$ 28,571

During fiscal year 2008, 2007, and 2006, net borrowings were primarily used to fund loans and acquisitions, share repurchases, and customary income tax payments. Acquisitions funded are discussed in Note 3 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

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.

Fiscal Year 2006

During fiscal year 2006, 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 expense) 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 2006.

Other Financing Arrangements

Private Shelf Agreement

At June 30, 2008 and 2007, we had $255.2 and $189.7 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 July 2008 through December 2017. The interest rates on the notes range from 4.65 to 8.39 percent as of June 30, 2008 and 2007. 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.

As a result of the fair value hedging activities discussed in Note 5 of Part II, Item 8 of this Form 10-K, an adjustment of approximately $0.3 and $0.9 million was made to increase the carrying value of the Company's long-term fixed rate debt at June 30, 2008 and 2007, respectively.

Acquisitions

Acquisitions are discussed throughout Management's Discussion and Analysis in this Item 7, as well as in Note 3 to the Consolidated Financial Statements in Part II, Item 8 of this Form 10-K. The most significant of these acquisitions relates to the purchase of the hair restoration centers; refer to Note 3 of the Consolidated Financial Statements for related pro forma information. The remainder of the acquisitions, individually and in the aggregate, was not material to our operations. 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, 2008:

	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	$217,494	$128,306	$212,224	$171,429	$ 729,453
Capital lease obligations	12,730	17,005	5,559		35,294
Other long-term liabilities	2,356	3,289	2,252	21,711	29,608
Total on-balance sheet	232,580	148,600	220,035	193,140	794,355
Off-balance sheet(a):					
Operating lease obligations	358,603	538,012	289,102	201,577	1,387,294
Interest on long-term debt and capital lease obligations	38,644	65,612	34,669	15,735	154,660
Other long-term obligations	206				206
Total off-balance sheet	397,453	603,624	323,771	217,312	1,542,160
Total(b)	$630,033	$752,224	$543,806	$410,452	$2,336,515

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

(b) As of June 30, 2008, we have liabilities for uncertain tax positions. We are not able to reasonably estimate the amount by which the liabilities will increase or decrease over time; however, at this time, we do not expect a significant payment related to these obligations within the next fiscal year. See Note 8 to the Consolidated Financial Statements 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 and a revolving credit facility. Certain senior term notes 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." At June 30, 2008, $0.3 million represented a deferred gain related to the termination of certain interest rate hedge contracts. 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, 2008 and scheduled contractual repayments.

Other long-term liabilities include a total of $19.9 million related to the Executive Profit Sharing Plan and a salary deferral program, $9.7 million (including $0.6 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 $20.2, $20.1, and $15.3 million at June 30, 2008, 2007, and 2006, respectively, and are included in other noncurrent liabilities in the Consolidated Balance Sheet. Refer to Note 9 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 $156.8 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.

Other long-term obligations represent our guarantees, primarily entered into during previous fiscal years, on a limited number of equipment lease agreements between our salon franchisees and leasing companies. If the franchisee should fail to make payments in accordance with the lease, we will be held liable under such agreements and retain the right to possess the related salon operations. We believe the fair value of the salon operations exceeds the maximum potential amount of future lease payments for which we could be held liable. The existing guaranteed lease obligations, which have an aggregate undiscounted value of $0.2 million at June 30, 2008, terminate within fiscal year 2009. The Company 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 2008 and are currently in fiscal 2009. 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, 2008. 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 4 to the Consolidated Financial Statements in Part II, Item 8. Derivative activities are discussed in Note 5 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, 2008, we have available an unused committed line of credit amount of $179.2 million under our existing revolving credit facility.

Dividends

We paid dividends of $0.16 per share during fiscal years 2008, 2007 and 2006. On August 25, 2008, the Board of Directors of the Company declared a $0.04 per share quarterly dividend payable September 17, 2008 to shareholders of record on September 3, 2008.

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, 2008, 2007, and 2006, a total accumulated 6.8, 5.1, and 3.0 million shares have been repurchased for $226.5, $176.5, and $96.8 million, respectively. As of June 30, 2008, $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; changes in consumer tastes and fashion trends; labor and benefit costs; legal claims; risk inherent to international development (including currency fluctuations); the continued ability of the Company and its franchisees to obtain suitable locations and financing for new salon development; governmental initiatives such as minimum wage rates, taxes and possible franchise legislation; the ability of the Company to successfully identify, acquire and integrate salons that support its growth objectives; the ability of the Company to maintain satisfactory relationships with suppliers; 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.

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 $1.9 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 does not have any immediate effect on the private placement debt outstanding and corresponding interest rate as of June 30, 2008. 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 $0.3 and $0.9 million increases to long-term debt related to fair value swaps at June 30, 2008 and 2007, respectively, the Company had the following outstanding debt balances:

	As of June 30,	
	2008	2007
	(Dollars in thousands)	
Fixed rate debt	$525,647	$461,431
Variable rate debt	239,100	247,800
	$764,747	$709,231

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.

Pay fixed rates, receive variable rates

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 rate) on notional amounts of indebtedness of $35.0 and $15.0 million as of June 30, 2008, 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.

Pay variable rates, receive fixed rates

The Company has interest rate swap contracts under which it pays variable rates of interest (based on the three-month LIBOR rate plus a credit spread) and receives fixed rates of interest on an aggregate $5.0 and $14.0 million notional amount at June 30, 2008 and 2007, respectively, with a maturation date of July 2008. These swaps were designated as hedges of a portion of the Company's senior term notes and are being accounted for as fair value hedges.

During fiscal year 2003, the Company terminated a portion of a $40.0 million interest rate swap contract. The remainder of this swap contract was terminated during the fourth quarter of fiscal year 2005. The terminations resulted in the Company realizing gains of $1.1 and $1.5 million during fiscal year 2005 and 2003, respectively, which are deferred in long-term debt in the Consolidated Balance Sheet and are being amortized against interest expense over the remaining life of the underlying debt that matures in July 2008. Approximately $0.5 million of the deferred gain was amortized against interest expense during fiscal years 2008, 2007 and 2006, respectively, resulting in a remaining deferred gain of $0.4 and $0.9 million in long-term debt at June 30, 2008 and 2007, respectively.

Tabular Presentation:

The following table presents information about the Company's debt obligations and derivative financial instruments that are sensitive to changes in interest rates. For fixed rate debt obligations, the table presents principal amounts and related weighted-average interest rates by fiscal year of maturity. For variable rate obligations, the table presents principal amounts and the weighted-average forward LIBOR interest rates as of June 30, 2008 through June 30, 2013. For the Company's derivative financial instruments, the table presents notional amounts and weighted-average interest rates by expected (contractual) maturity dates. Notional amounts are used to calculate the contractual payments to be exchanged under the contract.

	Expected maturity date as of June 30,						June 30, 2008		June 30, 2007
	2009	2010	2011	2012	2013	Thereafter	Total	Fair Value	Fair Value
Liabilities									
(U.S.$ equivalent in thousands)									
Long-term debt:									
Fixed rate (U.S.$)	$ 91,124	$53,521	$91,790	$93,885	$ 53,898	$ 141,429	$525,647	$531,924	$460,557
Average interest rate	7.1%	6.0%	6.0%	7.0%	5.4%	5.6%	6.2%		
Variable rate (U.S.$)	139,100				70,000	30,000	239,100	239,100	247,800
Average interest rate	3.0%				3.3%	3.4%	3.2%		
Total liabilities	$230,224	$53,521	$91,790	$93,885	$123,898	$ 171,429	$764,747	$771,024	$708,357
Interest rate derivatives									
(U.S.$ equivalent in thousands)									
Pay variable/receive fixed (U.S.$)	$ 5,000						$ 5,000	$	$
Average pay rate**	4.6%						4.6%		
Average receive rate**	7.1%						7.1%		
Pay fixed/receive variable (U.S.$)					35,000	$ 15,000	$ 50,000	$ 1,366	$ (1,728)
Average pay rate**					2.8%	2.8%			
Average receive rate**					4.8%	4.9%			

** Represents the average expected cost of borrowing for outstanding derivative balances as of June 30, 2008.

Foreign Currency Exchange Risk:

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

liabilities and purchases denominated in foreign currencies. As of June 30, 2008, the Company has entered into the following financial instruments to manage its foreign currency exchange risk:

Hedge of the Net Investment in Foreign Subsidiaries:

The Company has numerous investments in foreign subsidiaries, and the net assets of these subsidiaries are exposed to exchange rate volatility. The Company frequently evaluates its foreign currency exchange risk by monitoring market data and external factors that may influence exchange rate fluctuations. As a result, the Company may engage in transactions involving various derivative instruments to hedge assets, liabilities and purchases denominated in foreign currencies.

During September 2006, the Company's 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) was settled, resulting in a cash outlay of $8.9 million. This cash outlay was recorded within investing activities within the Consolidated Statement of Cash Flows. The related cumulative tax-effected net loss of $7.9 million was recorded in accumulated other comprehensive income (AOCI) in fiscal year 2007. This amount will remain deferred within AOCI indefinitely, as the event which would trigger its release from AOCI and recognition in earnings is the sale or liquidation of the Company's international operations that the cross-currency swap hedged. The Company currently has no intent to sell or liquidate this portion of its business operations.

Forward Foreign Currency Contracts:

The Company's exposure to foreign exchange risk includes risks related to fluctuations in the Canadian dollar relative to the U.S. dollar. The exposure to Canadian dollar exchange rates on the Company's fiscal year 2008 cash flows primarily includes payments in Canadian dollars from the Company's Canadian salon operations for retail inventory exported from the United States.

The Company seeks to manage exposure to changes in the value of the Canadian dollar. In order to do so, the Company entered into forward currency contracts during fiscal year 2007 to reduce the risk of significant negative impact on its U.S. dollar cash flows or income. The Company does not hedge foreign currency exposure in a manner that would entirely eliminate the effect of changes in foreign currency exchange rates on net income and cash flows. Forward currency contracts to sell Canadian dollars and buy $10.3 million U.S. dollars were outstanding as of June 30, 2008 to hedge forecasted intercompany foreign currency denominated transactions stemming from monthly product shipments from the U.S. to Canadian salons. These contracts mature at various dates between July 2008 and May 2010. See Note 5 to the Consolidated Financial Statements for further discussion.

On May 29, 2007, the Company entered into several forward foreign currency contracts to sell Canadian dollars and buy an aggregate $16.9 million U.S. dollars, with maturation dates between June 2007 and May 2010. The purpose of the forward contracts is to protect against adverse movements in the Canadian dollar exchange rate. The contracts were designated and are effective as cash flow hedges of Canadian dollar denominated forecasted intercompany transactions related to monthly product shipments from the U.S. to Canadian salons. These cash flow hedges were recorded at fair value within accrued expenses in the Consolidated Balance Sheet, with a corresponding offset in other comprehensive income within shareholders' equity.

On February 1, 2006, the Company entered into several forward foreign currency contracts to sell Canadian dollars and buy an aggregate $15.8 million U.S. dollars, with maturation dates between July 2006 and May 2009. The contracts were designated and were effective as cash flow hedges of Canadian dollar denominated forecasted intercompany transactions. These cash flow hedges were recorded at fair value within accrued expenses in the Consolidated Balance Sheet, with a corresponding offset in other comprehensive income within shareholders' equity.

On January 3, 2007, the Company terminated its remaining Canadian forward foreign currency contracts entered into on February 1, 2006 having a $14.5 million notional amount. The termination resulted in a deferred gain of $0.4 million which is recorded in AOCI in the Consolidated Balance Sheet. The deferred gain will be recorded into income through May 31, 2009 as the forecasted foreign currency transactions are recognized in earnings. Approximately $0.2 million and $0.1 million of the deferred gain was amortized against cost of sales during fiscal years 2008 and 2007, respectively, resulting in a remaining deferred gain of $0.1 million and $0.3 million in AOCI at June 30, 2008 and 2007.

In September 2007 the Company entered into several forward foreign currency contracts to hedge the U.S. Dollar value of future Chinese Yuan denominated payments to Chinese vendors. The foreign currency contracts totaled approximately 6.0 million Chinese Yuan or $0.8 million U.S. dollars and have maturation dates between April 2008 and September 2008. The purpose of the forward contracts is to protect against adverse movements in the Chinese Yuan exchange rate. The contracts were designated and are effective as cash flow hedges of Chinese Yuan denominated foreign currency firm commitments. These cash flow hedges were recorded at fair value within other current assets in the Condensed Consolidated Balance Sheet, with a corresponding offset in other comprehensive income within shareholders' equity.

The table below provides information about the Company's forecasted sales transactions in U.S. dollar equivalents. (The information is presented in U.S. dollars because that is the Company's reporting currency.) The table summarizes information on transactions that are sensitive to foreign currency exchange rates and the related foreign currency forward exchange agreements. For the foreign currency forward exchange agreements, the table presents the notional amounts and weighted average exchange rates by expected (contractual) maturity dates. These notional amounts generally are used to calculate the contractual payments to be exchanged under the contract.

	Expected Transaction date June 30,			June 30, 2008
	2009	**2010**	**Total**	**Fair Value**
Forecasted Transactions				
(U.S.$ equivalent in thousands)				
Inventory Shipments to Canadian Salons (U.S.$)	$ 5,621	$ 4,684	$ 10,305	$ (460)
Business Travel to Asian Countries (U.S. $)	571		571	27
Foreign Currency Forward Exchange Agreements				
(U.S.$ equivalent in thousands)				
Pay $CND and CNY/receive $U.S.:				
Contract Amount	$ 6,192	$ 4,684	$ 10,876	$ (433)
Average Contractual Exchange Rate	0.8633	0.9368	0.8949	

Item 8. Financial Statements and Supplementary Data

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Management's Statement of Responsibility for Financial Statements and Report on Internal Control over Financial Reporting

Financial Statements

Management is responsible for preparation of the consolidated financial statements and other related financial information included in this annual report on Form 10-K. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, incorporating management's reasonable estimates and judgments, where applicable.

Management's Report on Internal Control over Financial Reporting

This report is provided by management pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 and the SEC rules promulgated thereunder. Management, including the chief executive officer and chief financial officer, is responsible for establishing and maintaining adequate internal control over financial reporting and for assessing effectiveness of internal control over financial reporting.

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

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

Management has assessed the Company's internal control over financial reporting as of June 30, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the assessment of the Company's internal control over financial reporting, management has concluded that, as of June 30, 2008, the Company's internal control over financial reporting was effective.

The Company's independent registered public accounting firm, PricewaterhouseCoopers LLP, has audited the effectiveness of the Company's internal control over financial reporting as of June 30, 2008, as stated in their report which follows in Item 8 of this Form 10-K.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Regis Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of changes in shareholders' equity and comprehensive income and of cash flows present fairly, in all material respects, the financial position of Regis Corporation and its subsidiaries at June 30, 2008 and June 30, 2007, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2008 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Statement of Responsibility for Financial Statements and Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 8 to the consolidated financial statements, Regis Corporation changed the manner in which it accounts for unrecognized income tax benefits effective June 1, 2007. As discussed in Note 1 to the consolidated financial statements, Regis Corporation changed the manner in which it accounts for defined benefit arrangements effective June 30, 2007 and changed its method of accounting for share-based payments as of July 1, 2005.

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

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

/s/ PRICEWATERHOUSECOOPERS LLP
PricewaterhouseCoopers LLP
Minneapolis, Minnesota
August 29, 2008

REGIS CORPORATION

CONSOLIDATED BALANCE SHEET

(Dollars in thousands, except per share data)

	June 30, 2008	June 30, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 127,627	$ 184,785
Receivables, net	37,824	67,773
Inventories	212,468	196,582
Deferred income taxes	15,954	18,775
Other current assets	51,278	57,149
Total current assets	445,151	525,064
Property and equipment, net	481,851	494,085
Goodwill	870,993	812,383
Other intangibles, net	144,291	213,452
Investment in affiliates	203,706	20,213
Other assets	89,879	66,917
Total assets	$2,235,871	$2,132,114
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Long-term debt, current portion	$ 230,224	$ 223,352
Accounts payable	69,693	74,532
Accrued expenses	207,605	240,748
Total current liabilities	507,522	538,632
Long-term debt and capital lease obligations	534,523	485,879
Other noncurrent liabilities	217,640	194,295
Total liabilities	1,259,685	1,218,806
Commitments and contingencies (Note 6)		
Shareholders' equity:		
Common stock, $0.05 par value; issued and outstanding, 43,070,927 and 44,164,645 common shares at June 30, 2008 and 2007, respectively	2,153	2,209
Additional paid-in capital	143,265	178,029
Accumulated other comprehensive income	101,973	78,278
Retained earnings	728,795	654,792
Total shareholders' equity	976,186	913,308
Total liabilities and shareholders' equity	$2,235,871	$2,132,114

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

REGIS CORPORATION

CONSOLIDATED STATEMENT OF OPERATIONS

(In thousands, except per share data)

	Years Ended June 30, 2008	2007	2006
Revenues:			
Service	$1,894,257	$1,793,802	$1,634,028
Product	775,980	752,280	718,942
Royalties and fees	68,628	80,506	77,894
	2,738,865	2,626,588	2,430,864
Operating expenses:			
Cost of service	1,090,710	1,014,781	928,515
Cost of product	395,979	380,492	371,018
Site operating expenses	204,001	208,101	199,602
General and administrative	337,160	328,644	294,092
Rent	406,270	382,820	350,926
Depreciation and amortization	130,448	124,137	115,903
Goodwill impairment		23,000	
Terminated acquisition income, net			(33,683)
Total operating expenses	2,564,568	2,461,975	2,226,373
Operating income	174,297	164,613	204,491
Other income (expense):			
Interest expense	(44,571)	(41,770)	(34,989)
Interest income and other, net	8,373	5,113	651
Income before income taxes and equity in income of affiliated companies	138,099	127,956	170,153
Income taxes	(53,744)	(44,786)	(60,575)
Equity in income of affiliated companies, net of income taxes	849		
Net income	$ 85,204	$ 83,170	$ 109,578
Net income per share:			
Basic	$ 1.97	$ 1.86	$ 2.43
Diluted	$ 1.95	$ 1.82	$ 2.36
Weighted average common and common equivalent shares outstanding:			
Basic	43,157	44,723	45,168
Diluted	43,587	45,623	46,400
Cash dividends declared per common share	$ 0.16	$ 0.16	$ 0.16

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

REGIS CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

(Dollars in thousands)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total	Comprehensive Income
	Shares	Amount					
Balance, June 30, 2005	44,952,002	2,248	229,871	46,124	476,469	754,712	70,140
Net income					109,578	109,578	109,578
Foreign currency translation adjustments				10,476		10,476	10,476
Changes in fair market value of financial instruments designated as cash flow hedges, net of taxes				1,466		1,466	1,466
Stock repurchase plan	(585,384)	(29)	(20,251)			(20,280)	
Proceeds from exercise of stock options	843,370	43	14,367			14,410	
Stock-based compensation			4,905			4,905	
Shares issued through franchise stock incentive program	7,971		314			314	
Payment for contingent consideration in salon acquisitions (Note 3)			(3,630)			(3,630)	
Tax benefit realized upon exercise of stock options			6,712			6,712	
Issuance of restricted stock	85,500	4	(4)				
Dividends					(7,256)	(7,256)	