Annual Report on Form 10-K
Notice of 2016 Annual Meeting
Proxy Statement

# 2016 annual report

REGIS CORPORATION

REGIS CORPORATION

## To Our Shareholders

In 2016 we followed our vision to make Regis the place for stylists to have successful and satisfying careers. While a simple vision, it is powerful and effective. We know it is through the success and satisfaction of our stylists we earn the repeated trust of our guests.

As I reflect on the year, I am proud of the work our organization has put forth to deliver our first positive full year same-store sales increase since fiscal 2007. This could not have been achieved without improved execution in the organization around our key strategies focused on Leadership Development, Technical Education and Asset Protection. I am also pleased by the fact we expanded our EBITDA by $3.8 million. This reflects our continued efforts to contain our cost structure while we are fixing our business. During the year, we aggressively grew our franchising business, strengthened our balance sheet, and returned $101 million to shareholders in the form of share repurchases. While we have stabilized the business and increased profitability, I end the year with mixed emotions. We still need to reverse guest traffic declines that have persisted for many years. We are progressing and we are working with a high sense of urgency focused on accelerating our progress and results.

As I stated last year at this time, I believe it is important to let you know we have remained true to our strategy and are hard at work to build the performance-based culture that generates consistent and profitable sales growth. Our largest area of focus and resource dedication remains in the development and improvement of our field leadership capabilities. Having strong field leaders in place is critical to creating a solid foundation for recruiting, coaching, advancing and retaining our stylists. This is our means to achieving sustainable growth. During the year we took a significant step forward by extending training and development programs, tailored to our District Leaders and Salon Managers. This may sound like "apple pie," as most organizations' foundational programs exist and are often taken for granted. In our case, we started from scratch three years ago and are proud of the progress. Today, our leadership training programs are an ongoing tool and expectation for our field operations team.

Another key component of our strategy in the year to come is focused on franchise growth. The aggressive expansion of the Supercuts footprint is contributing to revenue, cash flow and the Supercuts advertising fund. From the start of fiscal 2013 through June 30, 2016, our Supercuts nationwide footprint has grown approximately 16 percent to 2,632 salons. Our franchise footprint has grown more than 50 percent and we ended the year with 1,579 locations. Over the past two years we have shifted a portion of our advertising spending towards national television advertising and have seen strong improvement in brand recognition. Our franchise support team and franchisees are doing an outstanding job growing the brand, and continue to set the bar for strong field execution.

Executing our capital allocation policy remains a top priority. Over the past three years we have made significant investments in Field Leadership, Technical Education and Asset Protection. We did this within our P&L and have built a strong balance sheet and generated excess free cash flow. We are predominately using our excess cash to buy back our shares and have repurchased $149 million over the past two fiscal years.

As I look toward fiscal 2017, I recognize the path to sustainable growth is in the quality of our field leadership and execution capabilities, and while we have made meaningful progress, we still have significant work ahead to improve in these areas. Transforming a culture of 45,000 stylists, 1,000 field leaders and 7,000 salons requires strong leaders, execution, an ongoing commitment and time. I am confident in our strategies to make Regis the place where stylists can have successful and satisfying careers that, in turn, will deliver sustainable growth in guest traffic and profitability.

I would like to thank our employees around the world for their dedication to our shared vision. I would also like to thank our shareholders for their continued support and patience as we execute our strategy and position Regis for long-term growth and profitability.

Sincerely,

Dan Hanrahan
Chief Executive Officer and President
Regis Corporation

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

# FORM 10-K

**(Mark One)**

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

**For the fiscal year ended June 30, 2016**

**OR**

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

**For the transition period from to**

**Commission file number 1-12725**

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

| | | | |
|---|---|---|---|
| Large accelerated filer ☒ | Accelerated filer ☐ | Non-accelerated filer ☐<br>(Do not check if a smaller reporting company) | Smaller reporting company ☐ |

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

The aggregate market value of the voting common equity held by non-affiliates computed by reference to the price at which common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter, December 31, 2015, was approximately $509,674,694. The registrant has no non-voting common equity.

As of August 16, 2016, the registrant had 46,154,722 shares of Common Stock, par value $0.05 per share, issued and outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive Proxy Statement for the annual fiscal 2016 meeting of shareholders (the "2016 Proxy Statement") (to be filed pursuant to Regulation 14A within 120 days after the registrant's fiscal year-end of June 30, 2016) are incorporated by reference into Part III.

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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

**REGIS CORPORATION**
**FORM 10-K**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**
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# PART I

## Item 1. Business

### General:

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

As of June 30, 2016, the Company owned, franchised or held ownership interests in 9,483 locations worldwide. The Company's locations consist of 9,288 company-owned and franchised salons and 195 locations in which we maintain a non-controlling ownership interest of less than 100%. Each of the Company's salon concepts generally offer similar salon products and services and serve the mass marketplace.

Service revenues comprise approximately 79% of total company-owned revenues. The major services supplied by the Company's salons are haircutting and styling (including shampooing and conditioning), hair coloring and other services. The percentage of company-owned service revenues in each fiscal year 2016, 2015, and 2014 attributable to haircutting and styling, hair coloring and other services were 72%, 19% and 9%, respectively.

The Company reports its operations in three operating segments: North American Value, North American Premium and International. The Company's North American Value salon operations are comprised of 5,784 company-owned salons and 2,496 franchised salons operating in the United States, Canada, and Puerto Rico. The Company's North American Premium salon operations are comprised of 680 company-owned salons operating in the United States, Canada, and Puerto Rico. The Company's International operations are comprised of 328 company-owned salons in the United Kingdom. The Company's salons operate primarily under the trade names of SmartStyle, Supercuts, MasterCuts, Regis Salons, and Cost Cutters, and they generally serve two categories within the industry, value and premium. SmartStyle, Supercuts, MasterCuts, Cost Cutters, and other regional trade names are generally within the value category, offering high quality, convenience, and affordably priced hair care and beauty services and retail products. Regis Salons, among other trade names, are in the premium category, offering upscale hair care and beauty services and retail products. The Company's North American Value business is located mainly in strip center locations and Walmart Supercenters and the North American Premium business is primarily in mall-based locations. During fiscal years 2016 and 2015, the number of guest visits at the Company's company-owned salons approximated 72 and 76 million, respectively.

Financial information about our segments and geographic areas for fiscal years 2016, 2015, and 2014 are included in Note 14 to the Consolidated Financial Statements in Part II, Item 8, of this Form 10-K.

### Industry Overview:

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

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

At the individual salon level, barriers to entry are low; however, barriers exist for chains to expand nationally due to the need to establish systems and infrastructure, to recruit experienced field and salon management and stylists, and to lease quality sites. The principal factors of competition in the hair care category are quality, 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.

### Mission and Strategies:

The Company's long-term mission is to create guests for life. To successfully achieve our mission and build a winning organization, we must be the place where stylists can have successful and satisfying careers, which will drive great guest experiences and in turn, guests for life. Our key strategies and priorities are well aligned, focusing on people, processes and metrics to drive execution and performance. Our key strategies follow:

1. Earn the Hearts and Minds of Our Team

2. Develop High Performing Leaders
3. Attain Operational Excellence through Simplicity
4. Achieve Each Salon's Potential
5. Deliver Exceptional Guest Experiences

Our stylists' ability to serve our guests in a professional, courteous, and friendly manner is the most critical element of our service model in cultivating strong guest relationships. Great stylists, coupled with high quality service, convenience, affordability, an inviting salon appearance and atmosphere, and comprehensive retail assortments create guests for life. We are committed to providing an outstanding guest experience that drives guest loyalty and repeat business. To that end, we are investing in a number of areas focused on delivering that promise and helping our stylists have successful careers, including investments in organization, training and technology.

***Stylists***

Creating an organization where stylists can have successful and satisfying careers leads to improved execution, and in turn, great guest experiences.

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

*Technical Education.* Our technical education program is becoming a key point of difference in attracting and retaining stylists. Stylists place a tremendous amount of importance in ongoing development of their craft. They deliver a superior experience for our guests when they are well trained technically and experientially. We employ technical trainers who provide new hire training for stylists joining the Company from beauty schools and training for all stylists in current beauty care and styling trends. We supplement internal training with targeted vendor training and external trainers who bring specialized expertise to our stylists. We utilize training materials to help all levels of field employees navigate the running of a salon and essential elements of guest service training within the context of brand positions.

*Recruiting.* Ensuring we keep our salons fully staffed with great stylists is critical to our success. To that end, we continue to enhance our recruiting efforts across all levels within our organization. We cultivate a pipeline of field leaders through succession planning and recruitment venues from within and outside the salon industry. We also leverage beauty school relationships and participate in job fairs and industry events.

*Technology.* Our point-of-sale (POS) systems and salon workstations throughout North America enable communication with salons and stylists, delivery of online and digital training to stylists, real-time salon level analytics on guest retention, wait times, stylist productivity, and salon performance. We also use technology to provide asset protection dashboards and analytics to help prioritize efforts against our most compelling opportunities to reduce loss in our salons.

***Guests***

Great stylists, coupled with high quality service, convenience, affordability, an inviting salon appearance and atmosphere, and comprehensive retail assortments, create guests for life.

*Convenience.* Our different salon concepts enable our guests to select different service scheduling options based upon their preference. In the value category, the ability to serve walk-in appointments and minimize guest wait times is an essential element in delivering upon convenience. We continue to focus on staffing and retention, optimizing schedules and leveraging our POS systems to help us balance stylist hours with guest traffic and manage guest wait times. In the premium category, our salons generally schedule appointments in advance of service. Our salons are located in high-traffic strip centers, Walmart Supercenters and shopping malls, with guest parking and easy access, and are generally open seven days per week, offering guests a variety of convenient ways to fulfill their beauty needs.

*Affordability.* The Company strives to offer an exceptional value for its services. In the value category, our guests expect outstanding service at affordable prices. These expectations are met with average service transactions ranging from $17 to $22. In the premium category, our guests expect upscale, full service beauty services at reasonable prices. Average service transactions approximate $47 in this category. Pricing decisions are considered on a salon level basis and established based on local conditions.

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

*Retail Assortments.* The Company's salons sell nationally recognized hair care and beauty products, as well as a complete assortment of own-brand products. Retail products offered by the Company are intended to be sold only through professional salons, and complement its salon services business. The Company's stylists are compensated and regularly trained to sell hair care and beauty products to their guests. Additionally, guests are encouraged to purchase products after stylists demonstrate their efficacy by using them in the styling of our guests' hair. The top selling brands within the Company's retail assortment include Paul Mitchell, Biolage, Regis designLINE, Redken, Nioxin, Sexy Hair Concepts, It's a 10, Kenra, Tigi, and Moroccanoil.

*Technology.* Our POS systems have the ability to collect guest and transactional data and enable the Company to invest in guest relationship management, gaining insights into guest behavior, communicating with guests and incenting return visits. Leveraging this technology allows us to monitor guest retention and to survey our guests for feedback on improving the guest experience, and allows guests to use mobile apps to schedule appointments, view wait times and interact in other ways with salons.

*Marketing.* We are focused on driving local traffic at the most efficient cost. This includes leveraging media, guest relationship management programs, digital channels, and local tactical efforts (e.g., couponing), among other programs. Traffic driving efforts are targeted vs. a one-size-fits all approach. Annual marketing plans are based on seasonality, consumer mindset, competitive positioning and return on investment. We continually reallocate marketing investments into vehicles with known, strong returns.

***Salon Support***

Our corporate headquarters is referred to as Salon Support. This acknowledges that creating guests for life mandates a service-oriented, stylist and guest-focused mentality in supporting our field organization to grow our business profitably.

*Organization.* Salon Support and our associated priorities are aligned to our field structure to enhance the effectiveness and efficiency of the service provided to our field organization. During fiscal year 2014, we created a human resources organization to help transform the Company into the place where stylists can have successful and satisfying careers and enhanced our asset protection capabilities by building a strong asset protection team and establishing standard operating procedures to support field and salon leaders.

*Simplification.* Our ongoing simplification efforts focus on improving the way we plan and execute across our many brands. Standardizing processes and procedures around scheduling, inventory management, day-to-day salon execution and reporting makes it easier to lead and execute in a multi-unit organization. Our organization also remains focused on identifying and driving cost saving and profit enhancing initiatives.

**Salon Concepts:**

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

**SmartStyle.** SmartStyle salons offer a full range of custom styling, cutting, and hair coloring, as well as professional hair care products and are located exclusively in Walmart Supercenters. SmartStyle has a walk-in guest base with value pricing. Service revenues represent approximately 69% of total company-owned SmartStyle revenues. Additionally, the Company has 125 franchised Cost Cutters salons located in Walmart Supercenters.

**Supercuts.** Supercuts salons provide consistent, high quality hair care services and professional products to its guests at convenient times and locations at value prices. This concept appeals to men, women, and children. Service revenues represent approximately 90% of total company-owned Supercuts revenues. Additionally, the Company has 1,579 franchised Supercuts locations.

**MasterCuts.** MasterCuts salons are a full service, mall based salon group which focuses on the walk-in consumer who demands moderately priced hair care services. MasterCuts salons emphasize quality hair care services, affordable prices, and time saving services for the entire family. These salons offer a full range of custom styling, cutting and hair coloring services, as well as professional hair care products. Service revenues comprise approximately 83% of the concept's total revenues.

**Other Value.** Other Value salons are made up of acquired regional company-owned salon groups operating under the primary concepts of Hair Masters, Cool Cuts for Kids, Style America, First Choice Haircutters, Famous Hair, Cost Cutters, BoRics, Magicuts, Holiday Hair, Head Start, Fiesta Salons, and TGF, as well as other concept names. Most concepts offer a full range of custom hairstyling, cutting and coloring services, as well as hair care products. Hair Masters offers moderately-priced services, while the other concepts primarily cater to time-pressed, value-oriented families. Service revenues represent approximately 89% of total company-owned Other Value salons revenues. Additionally, the Company has 792 franchised locations of Other Value salons.

**Regis Salons.** Regis Salons are primarily mall based, full service salons providing complete hair care and beauty services aimed at moderate to upscale, fashion conscious consumers. At Regis Salons both appointments and walk-in guests are common. These salons offer a full range of custom styling, cutting and hair coloring services, as well as professional hair care products. Service revenues represent approximately 82% of the concept's total revenues. Regis Salons compete in their existing markets primarily by providing high quality services. Included within the Regis Salon concept are various other trade names, including Carlton Hair, Sassoon, Hair by Stewarts, Hair Excitement, and Renee Beauty.

**International Salons.** International salons are comprised of company-owned salons operating in the United Kingdom primarily under the Supercuts, Regis, and Sassoon concepts. These salons offer similar levels of service as our North American salons. Sassoon is one of the world's most recognized names in hair fashion and appeals to women and men looking for a prestigious full service hair salon. Salons are usually located in prominent high-traffic locations and offer a full range of custom hairstyling, cutting and coloring services, as well as professional hair care products. Service revenues comprise approximately 76% of total company-owned international locations.

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

**System-wide location counts**

| | June 30, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| **Company-owned salons:** | | | |
| SmartStyle/Cost Cutters in Walmart stores | 2,683 | 2,639 | 2,574 |
| Supercuts | 1,053 | 1,092 | 1,176 |
| MasterCuts | 430 | 466 | 505 |
| Other Value | 1,604 | 1,711 | 1,846 |
| Regis | 694 | 761 | 816 |
| Total North American salons(1) | 6,464 | 6,669 | 6,917 |
| Total International salons(2) | 328 | 356 | 360 |
| Total, Company-owned salons | 6,792 | 7,025 | 7,277 |
| **Franchised salons:** | | | |
| SmartStyle/Cost Cutters in Walmart stores | 125 | 127 | 126 |
| Supercuts | 1,579 | 1,393 | 1,213 |
| Other Value | 792 | 804 | 840 |
| Total North American salons | 2,496 | 2,324 | 2,179 |
| Total International salons(2) | — | — | — |
| Total, Franchised salons | 2,496 | 2,324 | 2,179 |
| **Ownership interest locations:** | | | |
| Equity ownership interest locations | 195 | 207 | 218 |
| Grand Total, System-wide | 9,483 | 9,556 | 9,674 |

### Constructed Locations (net relocations)

| | Fiscal Years | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| **Company-owned salons:** | | | |
| SmartStyle/Cost Cutters in Walmart stores | 51 | 68 | 85 |
| Supercuts | 5 | 7 | 13 |
| MasterCuts | — | — | 1 |
| Other Value | 1 | 1 | 4 |
| Regis | — | — | 1 |
| Total North American salons(1) | 57 | 76 | 104 |
| Total International salons(2) | 9 | 15 | 23 |
| Total, Company-owned salons | 66 | 91 | 127 |
| **Franchised salons:** | | | |
| SmartStyle/Cost Cutters in Walmart stores | — | 1 | 3 |
| Supercuts | 146 | 126 | 94 |
| Other Value | 24 | 13 | 37 |
| Total North American salons(1) | 170 | 140 | 134 |
| Total International salons(2) | — | — | — |
| Total, Franchised salons | 170 | 140 | 134 |

### Closed Locations

| | Fiscal Years | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| **Company-owned salons:** | | | |
| SmartStyle/Cost Cutters in Walmart stores | (7) | (3) | (1) |
| Supercuts | (17) | (36) | (44) |
| MasterCuts | (36) | (39) | (27) |
| Other Value | (77) | (114) | (126) |
| Regis | (67) | (55) | (47) |
| Total North American salons(1) | (204) | (247) | (245) |
| Total International salons(2) | (37) | (19) | (14) |
| Total, Company-owned salons | (241) | (266) | (259) |
| **Franchised salons:** | | | |
| SmartStyle/Cost Cutters in Walmart Stores | (2) | — | — |
| Supercuts | (22) | (22) | (19) |
| Other Value | (32) | (50) | (44) |
| Total North American salons(1) | (56) | (72) | (63) |
| Total International salons(2) | — | — | — |
| Total, Franchised salons | (56) | (72) | (63) |

**Conversions (including net franchisee transactions)(3)**

| | Fiscal Years | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| **Company-owned salons:** | | | |
| SmartStyle/Cost Cutters in Walmart stores | — | — | — |
| Supercuts | (27) | (55) | (3) |
| MasterCuts | — | — | (1) |
| Other Value | (31) | (22) | (22) |
| Regis | — | — | — |
| Total North American salons(1) | (58) | (77) | (26) |
| Total International salons(2) | — | — | — |
| Total, Company-owned salons | (58) | (77) | (26) |
| **Franchised salons:** | | | |
| SmartStyle/Cost Cutters in Walmart Stores | — | — | — |
| Supercuts | 62 | 76 | 22 |
| Other Value | (4) | 1 | 4 |
| Total North American salons(1) | 58 | 77 | 26 |
| Total International salons(2) | — | — | — |
| Total, Franchised salons | 58 | 77 | 26 |

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

(2) Canadian and Puerto Rican salons are included in the North American salon totals.

(3) During fiscal years 2016, 2015, and 2014, the Company acquired one, zero, and two salon locations, respectively, from franchisees. During fiscal years 2016, 2015, and 2014, the Company sold 59, 77, and 28 salon locations, respectively, to franchisees.

**Salon Franchising Program:**

***General.*** We have various franchising programs supporting our 2,496 franchised salons as of June 30, 2016, consisting mainly of Supercuts, Cost Cutters, First Choice Haircutters, and Magicuts. These salons have been included in the discussions regarding salon counts and concepts.

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

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

***Franchise Terms.*** Pursuant to a franchise agreement with the Company, each franchisee pays an initial fee for each store and ongoing royalties to the Company. In addition, for most franchise concepts, the Company collects advertising funds from franchisees and administers the funds on behalf of the concepts. Franchisees are responsible for the costs of leasehold improvements, furniture, fixtures, equipment, supplies, inventory, payroll costs and certain other items, including initial working capital. The majority of franchise agreements provide the Company a right of first refusal if the store is to be sold and the franchisee must obtain the Company's approval in all instances where there is a sale of a franchise location.

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

*Supercuts*

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

*Cost Cutters, First Choice Haircutters, and Magicuts*

The majority of existing Cost Cutters franchise agreements have a 15 year term with a 15 year option to renew (at the option of the franchisee), while the majority of First Choice Haircutters franchise agreements have a ten year term with a five year option to renew. The majority of Magicuts franchise agreements have a term equal to the greater of five years or the current initial term of the lease agreement with an option to renew for two additional five year periods. The current franchise agreement is site specific. Franchisees may enter into development agreements with the Company which provide limited territorial protection.

***Franchisee Training.*** The Company provides new franchisees with training, focusing on the various aspects of salon 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 salon managers and stylists with extensive technical training for Supercuts franchises.

**Salon Markets and Marketing:**

***Company-Owned Salons***

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

***Franchised Salons***

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

**Affiliated Ownership Interests:**

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

In addition, the Company has a 27.1% ownership interest in MY Style, which is accounted for as a cost method investment. MY Style operates salons in Japan.

**Corporate Trademarks:**

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

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

**Corporate Employees:**

During fiscal year 2016, the Company had approximately 45,000 full and part-time employees worldwide, of which approximately 39,000 employees were located in the United States. None of the Company's employees are subject to a collective bargaining agreement and the Company believes its employee relations are amicable.

**Executive Officers:**

Information relating to the Executive Officers of the Company follows:

| Name | Age | Position |
|---|---|---|
| Daniel Hanrahan | 59 | President and Chief Executive Officer |
| Steven Spiegel | 54 | Executive Vice President and Chief Financial Officer |
| Eric Bakken | 49 | Executive Vice President, Chief Administrative Officer, Corporate Secretary and General Counsel |
| Jim Lain | 52 | Executive Vice President and Chief Operating Officer |
| Andrew Dulka | 42 | Senior Vice President and Chief Information Officer |
| Annette Miller | 54 | Senior Vice President and Chief Merchandising Officer |
| Heather Passe | 45 | Senior Vice President and Chief Marketing Officer |
| Carmen Thiede | 49 | Senior Vice President and Chief Human Resources Officer |

Daniel Hanrahan has served as President and Chief Executive Officer since August 2012. He most recently served as President of Celebrity Cruises, a subsidiary of Royal Caribbean Cruises Ltd., from February 2005 to July 2012, and as its President and Chief Executive Officer since September 2007. Mr. Hanrahan has served on the Board of Directors of Cedar Fair, L.P., an amusement-resort operator, since 2012 and is a member of its Audit and Compensation Committees.

Steven Spiegel has served as Executive Vice President and Chief Financial Officer since December 2012. Before joining Regis Corporation, he served as Vice President of Finance at Unilever (formerly Alberto Culver) from May 2005 to May 2012.

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

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

Andrew Dulka has served as Senior Vice President and Chief Information Officer since May 2015. He served as Vice President, Retail Systems and Enterprise Architecture from July 2012 to April 2015. Before joining Regis Corporation, he served as Vice President, Infrastructure and Application Maintenance at Allianz Life from December 2009 to July 2012.

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

Heather Passe has served as Senior Vice President and Chief Marketing Officer since July 2012. Before joining Regis Corporation, she served as Vice President Marketing, Customer Relationship Marketing (CRM) and E-Commerce at Carlson from February 2009 to July 2012.

Carmen Thiede has served as Senior Vice President and Chief Human Resources Officer since October 2013. Before joining Regis Corporation, she served as Senior Vice President of Human Resources at Ameriprise Financial from October 2006 to October 2013.

**Governmental Regulations:**

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

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

In Canada, the Company's franchise operations are subject to franchise laws and regulations in the provinces of Ontario, Alberta, Manitoba, New Brunswick and Prince Edward Island. The offering of franchises in Canada occurs by way of a disclosure document, which contains certain disclosures required by the applicable provincial laws. The provincial franchise laws and regulations primarily focus on disclosure requirements, although each requires certain relationship requirements such as a duty of fair dealing and the right of franchisees to associate and organize with other franchisees.

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

The Company maintains an ownership interest in EEG. Beauty schools derive a significant portion of their revenue from student financial assistance originating from the U.S. Department of Education's Title IV Higher Education Act of 1965. For the students to receive financial assistance at the school, the beauty schools must maintain eligibility requirements established by the U.S. Department of Education.

*Financial Information about Foreign and North American Operations*

Financial information about foreign and North American markets is incorporated herein by reference to Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 and segment information in Note 14 to the Consolidated Financial Statements in Part II, Item 8 of this Form 10-K.

*Available Information*

The Company is subject to the informational requirements of the Securities and Exchange Act of 1934 (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.

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

***An inability to continue to execute on our strategy and build on foundational initiatives we've implemented could adversely impact our same-store sales and operating results.***

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

Since fiscal year 2013, we have gone through significant change as we executed upon a number of foundational initiatives to support and focus on our business strategies to return the Company to sustainable long-term growth and profitability.

These foundational changes were disruptive to our business. In fiscal 2014 and 2015, same-store sales declined 4.8% and 0.3%, respectively, compared to the prior year. While fiscal 2016 same-store sales growth of 0.2% represents improved trends, there can be no assurance we will be able to successfully execute on our business strategy in fiscal 2017 and beyond to achieve long-term growth, profitability and a broader scale turn. We will also need to continue to refine our strategy as market dynamics continue to evolve. If our efforts are not effective, our same-store sales, margins and return on invested capital may be adversely affected.

In addition, the unexpected loss of any of our executive leadership team members could adversely affect the momentum we have achieved in executing on our business strategies and could adversely affect our business.

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

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

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

With 9,483 locations and approximately 45,000 employees worldwide, our financial results can be adversely impacted by regulatory or statutory changes in laws. Due to the number of people we employ, laws that increase minimum wage rates, employment taxes, overtime requirements or costs to provide employee benefits may result in additional costs to our Company.

A number of states and cities in which we do business have recently increased or are considering increasing the minimum wage, with increases generally phased over several years depending upon the size of the employer. The Department of Labor has approved changes, effective December 1, 2016, to the classification of employees deemed to be exempt from the overtime requirements of the Fair Labor Standards Act, which are designed to increase the number of employees eligible to receive overtime pay. Increases in minimum wages and overtime pay increase our costs, and our ability to offset these increases through price increases is limited. In fact, increases in minimum wages increased our costs throughout fiscal 2014, 2015 and 2016. In addition, changes in labor laws could increase the likelihood of some or all of our employees being subjected to greater organized labor influence. If a significant portion of our employees were to become unionized, it could have an adverse effect on our business and financial results.

Increases in minimum wages, overtime requirements and unionization could also have an adverse effect on the performance of our franchisees, especially if our franchisees are treated as a "joint employer" with us by the National Labor Relations Board (NLRB) or as a large employer under minimum wage statutes because of their affiliation with us. With respect to the NLRB, it is anticipated that its current standard for joint employer relationships may become more lenient and, as such, we may face an increased risk of being alleged to be a joint employer with our franchisees. In addition, we must comply with state employment laws, including the California Labor Code, which has stringent requirements and penalties for non-compliance.

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

***If we fail to manage cyber threats and protect the security of sensitive information about our guests, employees, vendors or company, we could be subject to business disruption, negative publicity, costly government enforcement actions or private litigation and our reputation could suffer.***

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

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

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

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

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

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

***We rely heavily on our management information systems. If our systems fail to perform adequately or if we experience an interruption in their operation, our results of operations may be affected.***

The efficient operation of our business is dependent on our management information systems. We rely heavily on our management information systems to collect daily sales information and guest demographics, generate payroll information, monitor salon performance, manage salon staffing and payroll costs, inventory control and other functions. Certain of our management information systems are developed and maintained by external vendors, including our POS system. In addition, certain of our systems are outdated or of limited functionality. The failure of our management information systems to perform as we anticipate, or to meet the continuously evolving needs of our business, could disrupt our business and may adversely affect our operating results.

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

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

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

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

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

Our North American Value business is located mainly in strip center locations and Walmart Supercenters and the North American Premium business is primarily in mall-based locations. Our salons are partly dependent on the volume of traffic around these locations in order to generate both service and product revenues. We've experienced a proliferation of alternative channels of distribution, like blow dry bars, booth rental facilities, discount brick-and-mortar and online professional products retailers, and manufacturers selling direct to consumers online. Also, product manufacturers may decide to utilize these other distribution channels to a larger extent than in the past and they generally have the right to terminate relationships with us without much advance notice. In some shopping malls, we have experienced declines in traffic due to changes in consumer preferences favoring locations other than malls. These trends could reduce the volume of traffic around our salons, and in turn, our revenues may be adversely affected.

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

As of June 30, 2016, approximately 26% of our salons are franchised locations. We derive revenues associated with our franchised locations from royalties, service fees and product sales to franchised locations. Our financial results are therefore dependent in part upon the operational and financial success of our franchisees. As we increase our focus on our franchise business, our dependence on our franchisees grows.

We have limited control over how our franchisees' businesses are run. Though we have established operational standards and guidelines, they own, operate and oversee the daily operations of their salon locations. If franchisees do not successfully operate their salons in compliance with our standards, our brand reputation and image could be harmed and our financial results could be affected.

In addition, our franchisees are subject to the same general economic risks as our Company, and their results are influenced by competition, market trends, and disruptions in their markets due to severe weather and other external events. They may also be limited in their ability to open new locations by an inability to secure adequate financing, especially since many of them are small businesses with much more limited access to financing than our Company, or by the limited supply of favorable real estate for new salon locations. A deterioration in the financial results of our franchisees, or a failure of our franchisees to renew their franchise agreements, could adversely affect our operating results through decreased royalty payments, fees and product revenues.

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

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

Furthermore, our reputation is critical to our ability to compete and succeed. Our reputation may be damaged by negative publicity on social media or other channels regarding the quality of services we provide. It may also be damaged by factors that are mostly or entirely out of our control, including actions by our franchisees. If we are not able to successfully compete, our ability to grow same-store sales and increase our revenue and earnings may be impaired.

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

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

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

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

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

We maintain key relationships with certain companies, including Walmart. In particular, we have 2,808 SmartStyle/Cost Cutters salons within Walmart locations, including 51 salons opened during fiscal year 2016 (net of relocations). The continued operation and growth of this business is dependent on our relationship with Walmart. In addition, our company-owned locations are concentrated with leases with certain major regional and national landlords. Termination, modification or mismanagement, of any of these relationships could significantly reduce our revenues and have a material and adverse impact on our business, our operating results and our ability to grow.

***Failure to control costs may adversely affect our operating results.***

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

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

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

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

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

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

***Changes in fashion trends may impact our revenue.***

Changes in consumer tastes, hair product innovation, and fashion trends can have an impact on our financial performance. Our inability to anticipate, gauge and react to changing consumer tastes in a timely manner could adversely impact our revenue.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

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

The Company also operates offices in Edina, Minnesota; Toronto, Canada; and Coventry and London, England. These offices are occupied under long-term leases.

The Company owns distribution centers located in Chattanooga, Tennessee and Salt Lake City, Utah. The Chattanooga facility currently utilizes 230,000 square feet while the Salt Lake City facility utilizes 210,000 square feet. The Salt Lake City facility can be expanded to 290,000 square feet to accommodate future growth.

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

The Company also leases the premises in which approximately 84% of our franchisees operate and has entered into corresponding sublease arrangements with the franchisees. These leases have a five year initial term and one or more five year renewal options. All lease costs are passed through to the franchisees. Remaining franchisees who do not enter into sublease arrangements with the Company negotiate and enter into leases on their own behalf.

None of the Company's salon leases are individually material to the operations of the Company and the Company expects that it will be able to renew its leases on satisfactory terms as they expire or identify and secure other suitable locations. See Note 8 to the Consolidated Financial Statements.

**Item 3. Legal Proceedings**

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

**Item 4. Mine Safety Disclosures**

Not applicable.

## PART II

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

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

The accompanying table sets forth the high and low closing bid quotations for each quarter during fiscal years 2016 and 2015 as reported by the New York Stock Exchange (under the symbol "RGS"). The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not necessarily represent actual transactions.

As of August 10, 2016, Regis shares were owned by approximately 14,000 shareholders based on the number of record holders and an estimate of individual participants in security position listings. The closing stock price was $12.92 per share on August 10, 2016.

| Fiscal Quarter | Fiscal Years 2016 High | Fiscal Years 2016 Low | Fiscal Years 2015 High | Fiscal Years 2015 Low |
|---|---|---|---|---|
| 1st Quarter | $ 16.10 | $ 10.60 | $ 17.51 | $ 13.50 |
| 2nd Quarter | 18.13 | 11.81 | 17.76 | 14.58 |
| 3rd Quarter | 16.55 | 13.04 | 17.41 | 14.70 |
| 4th Quarter | 16.02 | 10.96 | 17.91 | 15.76 |

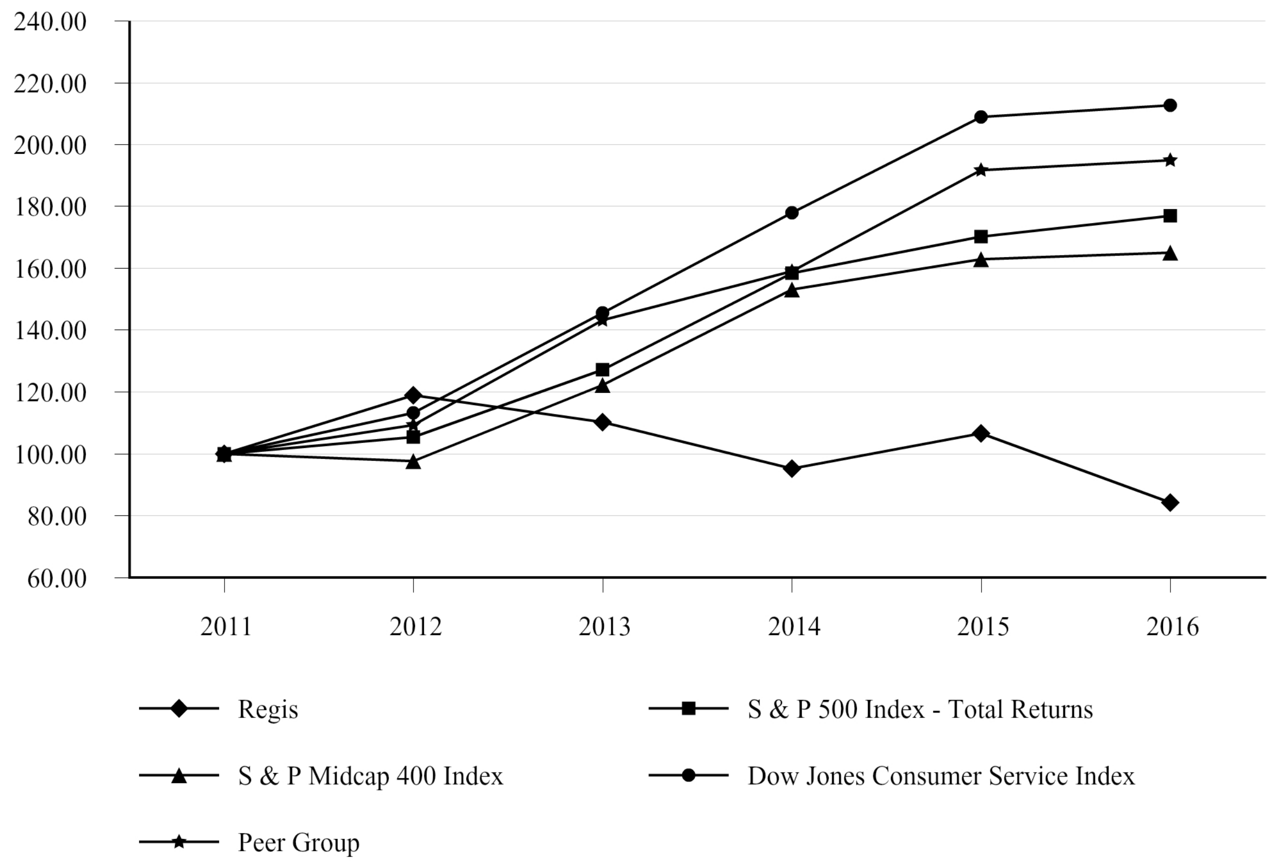
The Company paid dividends of $0.06 per share per quarter during the first and second quarters of fiscal year 2014. In accordance with its capital allocation policy, the Company no longer pays dividends.

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

The Peer Group consists of the following companies: Advance Auto Parts, Inc., Boyd Gaming Corp., Brinker International, Inc., Outerwall, Inc. (formerly Coinstar, Inc.), Cracker Barrel Old Country Store, DineEquity, Inc., Fossil Group, Inc., Fred's, Inc., H&R Block, Inc., Jack in the Box, Inc., Panera Bread Co., Penn National Gaming, Inc., Revlon, Inc., Sally Beauty Holdings, Inc., Service Corporation International, The Cheesecake Factory, Inc. and Ulta Salon, Cosmetics & Fragrance Inc. The Peer Group is a self-constructed peer group of companies that have comparable annual revenues, the guest service element is a critical component to the business and a target of moderate guests in terms of income and style, excluding apparel companies. The Peer Group is the same group of companies the Company utilized as its peer group for executive compensation purposes in fiscal years 2016, 2015 and 2014. Information regarding executive compensation will be set forth in the 2016 Proxy statement.

The comparison assumes the initial investment of $100 in the Company's Common Stock, the S&P 500 Index, the Peer Group, the S&P 400 Midcap Index and the Dow Jones Consumer Services Index on June 30, 2011 and that dividends, if any, were reinvested.

**Comparison of 5 Year Cumulative Total Return**
**Assumes Initial Investment of $100**
**June 2016**




| | June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Regis | $ 100.00 | $ 118.95 | $ 110.22 | $ 95.25 | $ 106.62 | $ 84.23 |
| S & P 500 | 100.00 | 105.45 | 127.17 | 158.46 | 170.22 | 177.02 |
| S & P 400 Midcap | 100.00 | 97.67 | 122.27 | 153.12 | 162.92 | 165.09 |
| Dow Jones Consumer Service Index | 100.00 | 113.30 | 145.52 | 177.89 | 208.91 | 212.73 |
| Peer Group | 100.00 | 109.28 | 143.21 | 159.01 | 191.76 | 194.95 |

In May 2000, the Company's Board of Directors (Board) approved a stock repurchase program with no stated expiration date. Since that time and through June 30, 2016, the Board has authorized $450.0 million to be expended for the repurchase of the Company's stock under this program. All repurchased shares become authorized but unissued shares of the Company. The timing and amounts of any repurchases depends on many factors, including the market price of the common stock and overall market conditions. As of June 30, 2016, 18.4 million shares have been cumulatively repurchased for $390.0 million, and $60.0 million remained outstanding under the approved stock repurchase program.

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

| | Fiscal Years 2016 | 2015 | 2014 |
|---|---|---|---|
| Repurchased Shares | 7,647,819 | 3,054,387 | — |
| Average Price (per share) | $13.19 | $15.64 | $ — |
| Price range (per share) | $10.94 - $15.95 | $13.72 - $17.32 | $ — |
| Total | $101.0 million | $47.9 million | $ — |

The following table shows the stock repurchase activity by the Company or any "affiliated purchaser" of the Company, as defined in Rule 10b-18(a)(3) under the Exchange Act, by month for the quarter ended June 30, 2016:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs (in thousands) |
|---|---|---|---|---|
| 4/1/16 - 4/30/16 | — | $ — | 18,103,403 | $ 64,037 |
| 5/1/16 - 5/31/16 | 292,767 | 13.65 | 18,396,170 | 60,041 |
| 6/1/16 - 6/30/16 | — | — | 18,396,170 | 60,041 |
| Total | 292,767 | $ 13.65 | 18,396,170 | $ 60,041 |

## Item 6. Selected Financial Data

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

| | Fiscal Years | | | | |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2013(b) | 2012(b) |
| | (Dollars in thousands, except per share data) | | | | |
| Revenues | $ 1,790,869 | $ 1,837,287 | $ 1,892,437 | $ 2,018,713 | $ 2,122,227 |
| Operating income (loss)(a) | 17,614 | 3,531 | (34,958) | 13,359 | (2,226) |
| (Loss) income from continuing operations(a) | (11,316) | (33,212) | (139,874) | 5,478 | (51,950) |
| (Loss) income from continuing operations per diluted share | (0.23) | (0.60) | (2.48) | 0.10 | (0.91) |
| Dividends declared, per share | — | — | 0.12 | 0.24 | 0.24 |

| | June 30, | | | | |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2013(b) | 2012(b) |
| | (Dollars in thousands) | | | | |
| Total assets, including discontinued operations | $ 1,036,761 | $ 1,162,015 | $ 1,415,949 | $ 1,391,399 | $ 1,572,725 |
| Long-term debt and capital lease obligations, including current portion | 120,435 | 120,002 | 293,503 | 174,770 | 287,674 |

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

- During fiscal year 2016, the Company recorded a $13.0 million other than temporary non-cash impairment charge to fully impair its investment in EEG and $10.5 million of fixed asset impairment charges.

- During fiscal year 2015, the Company recorded its share of a non-cash deferred tax asset valuation allowance recorded by EEG of $6.9 million, other than temporary impairment charges of its investment in EEG of $4.7 million, $14.6 million of fixed asset impairment charges and established a $2.1 million valuation allowance against its Canadian deferred tax assets.

- During fiscal year 2014, the Company recorded a goodwill impairment charge of $34.9 million associated with Company's Regis salon concept, fixed asset impairment charges of $18.3 million, $15.9 million, net of tax for the Company's share of goodwill and fixed asset impairment charges recorded by EEG and established an $86.6 million valuation allowance against the U.S. and U.K. deferred tax assets.

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

- During fiscal year 2012, the Company recorded a goodwill impairment charge of $67.7 million associated with the Company's Regis salon concept, incremental amortization expense of $16.2 million associated with an adjustment to the useful life of the Company's previously internally developed POS system, $14.4 million for senior management and other restructuring charges, $8.9 million for the Company's share of intangible and fixed asset impairments recorded by EEG and $36.6 million of other than temporary impairment charges associated with the Company's investments in affiliated companies.

(b) In fiscal year 2013 the Hair Restoration Centers operations were accounted for as discontinued operations. Fiscal year 2012 is presented to reflect the Hair Restoration Centers as discontinued operations.

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

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

### BUSINESS DESCRIPTION

Regis Corporation owns, franchises and operates beauty salons. As of June 30, 2016, the Company owned, franchised or held ownership interests in 9,483 locations worldwide. The Company's locations consist of 9,288 company-owned and franchised salons and 195 locations in which we maintain a non-controlling ownership interest of less than 100%. Each of the Company's salon concepts generally offer similar salon products and services and serve the mass market. See discussion within Part I, Item 1.

### RESULTS OF OPERATIONS

Explanations are primarily for North American Value, unless otherwise noted. Discontinued operations are discussed at the end of this section.

***Consolidated Results of Operations***

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

| | Fiscal Years | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2016 | 2015 | 2014 | 2016 | 2015 | 2014 |
| | (Dollars in millions) | | | % of Total Revenues | | | Basis Point Increase (Decrease) | | |
| Service revenues | $ 1,383.7 | $ 1,429.4 | $ 1,480.1 | 77.3% | 77.8% | 78.2% | (50) | (40) | 70 |
| Product revenues | 359.7 | 363.2 | 371.5 | 20.1 | 19.8 | 19.6 | 30 | 20 | (100) |
| Franchise royalties and fees | 47.5 | 44.6 | 40.9 | 2.7 | 2.4 | 2.2 | 30 | 20 | 30 |
| | | | | | | | | | |
| Cost of service(1) | 868.2 | 882.7 | 907.3 | 62.7 | 61.8 | 61.3 | 90 | 50 | 180 |
| Cost of product(2) | 179.3 | 180.6 | 186.9 | 49.9 | 49.7 | 50.3 | 20 | (60) | (480) |
| Site operating expenses | 183.0 | 192.4 | 203.5 | 10.2 | 10.5 | 10.8 | (30) | (30) | 80 |
| General and administrative | 178.0 | 186.1 | 172.8 | 9.9 | 10.1 | 9.1 | (20) | 100 | (210) |
| Rent | 297.3 | 309.1 | 322.3 | 16.6 | 16.8 | 17.0 | (20) | (20) | 90 |
| Depreciation and amortization | 67.5 | 82.9 | 99.7 | 3.8 | 4.5 | 5.3 | (70) | (80) | 80 |
| Goodwill impairment | — | — | 34.9 | — | — | 1.8 | — | (180) | 180 |
| | | | | | | | | | |
| Interest expense | 9.3 | 10.2 | 22.3 | 0.5 | 0.6 | 1.2 | (10) | (60) | (60) |
| Interest income and other, net | 4.2 | 1.7 | 2.0 | 0.2 | 0.1 | 0.1 | 10 | — | (170) |
| | | | | | | | | | |
| Income taxes(3) | (9.0) | (14.6) | (73.0) | 72.3 | (293.4) | (131.9) | N/A | N/A | N/A |
| Equity in loss of affiliated companies, net of income taxes | 14.8 | 13.6 | 11.6 | 0.8 | 0.7 | 0.6 | 10 | 10 | (20) |
| | | | | | | | | | |
| (Loss) income from discontinued operations, net of income taxes | — | (0.6) | 1.4 | — | — | 0.1 | — | (10) | (110) |

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

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

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

**Consolidated Revenues**

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

| | Fiscal Years | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | | (Dollars in thousands) | |
| North American Value salons: | | | |
| SmartStyle | $ 522,700 | $ 500,562 | $ 487,722 |
| Supercuts | 345,094 | 343,299 | 343,372 |
| MasterCuts | 106,791 | 117,246 | 127,758 |
| Other Value | 420,754 | 442,312 | 471,231 |
| Total North American Value salons | 1,395,339 | 1,403,419 | 1,430,083 |
| North American Premium salons | 283,438 | 309,600 | 333,858 |
| International salons | 112,092 | 124,268 | 128,496 |
| Consolidated revenues | $ 1,790,869 | $ 1,837,287 | $ 1,892,437 |
| Percent change from prior year | (2.5)% | (2.9)% | (6.3)% |
| Salon same-store sales increase (decrease)(1) | 0.2 % | (0.3)% | (4.8)% |

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

Decreases in consolidated revenues were driven by the following:

| | Fiscal Years | | |
|---|---|---|---|
| Factor | 2016 | 2015 | 2014 |
| Same-store sales | 0.2 % | (0.3)% | (4.8)% |
| Closed salons | (2.7) | (2.7) | (2.6) |
| New stores and conversions | 0.5 | 0.6 | 0.8 |
| Foreign currency | (1.2) | (0.8) | (0.2) |
| Other | 0.7 | 0.3 | 0.5 |
| | (2.5)% | (2.9)% | (6.3)% |

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

| | Fiscal Years | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| SmartStyle | 3.4 % | 1.6 % | (5.4)% |
| Supercuts | 2.0 % | 1.3 % | 0.5 % |
| MasterCuts | (4.4)% | (4.0)% | (9.4)% |
| Other Value | (0.2)% | (0.7)% | (5.4)% |
| Total North American Value salons | 1.3 % | 0.3 % | (4.5)% |
| North American Premium salons | (3.8)% | (3.0)% | (6.7)% |
| International salons | (2.3)% | 0.6 % | (1.5)% |
| Consolidated same-store sales | 0.2 % | (0.3)% | (4.8)% |

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

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

The same-store sales decrease of 4.8% during fiscal year 2014 was due to a 6.1% decrease in guest visits, partly offset by a 1.3% increase in average ticket. We closed 322 salons (including 63 franchised salons), constructed (net of relocations) 127 company-owned salons and acquired two company-owned salons via franchise buybacks during fiscal year 2014 (2014 Net Salon Count Changes).

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

*Service Revenues*

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

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

The $83.8 million decrease in service revenues during fiscal year 2014 was primarily due to the 3.4% decrease in same-store service sales and the 2014 Net Salon Count Changes. The decrease in same-store service sales was primarily a result of a 4.9% decrease in same-store guest visits, partly offset by a 1.5% increase in average ticket.

*Product Revenues*

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

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

The $44.3 million decrease in product revenues during fiscal year 2014 was primarily due to the 10.3% decrease in same-store product sales and the 2014 Net Salon Count Changes. The decrease in same-store product sales was primarily a result of a 14.7% decrease in same-store guest visits, partly offset by a 4.4% increase in average ticket.

*Royalties and Fees*

The $2.9, $3.8, and $1.8 million increases in royalties and fees during fiscal years 2016, 2015 and 2014, respectively, were due to increases in franchised locations of 172, 145 and 97, respectively, and same-store sales increases at franchised locations.

*Cost of Service*

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

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

The 180 basis point increase in cost of service as a percent of service revenues during fiscal year 2014 was primarily due to the change in expense categorization as a result of the field reorganization that took place during the fourth quarter of fiscal year 2013. The change in expense categorization accounted for 140 basis points of the increase for fiscal year 2014. The remaining increase of 40 basis points for fiscal year 2014 was primarily the result of negative leverage from stylist hours caused by a decline in same-store service sales, increased stylists wages and an increase in healthcare costs, partly offset by cost reductions due to the field reorganization and lower levels of bonuses and the lapping of a full commission coupon event that was not repeated.

*Cost of Product*

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

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

The 480 basis point decrease in cost of product as a percent of product revenues during fiscal year 2014 was primarily the result of lapping a $12.6 million non-cash impairment charge recorded in the prior year. Prior year clearance sales in connection with standardizing plan-o-grams and reducing retail product assortments and reduced sales commissions in fiscal year 2014 further contributed to the decrease in cost of product as a percent of product revenues.

*Site Operating Expenses*

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

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

Site operating expenses increased $1.3 million during fiscal year 2014. After considering the prior year change in expense categorization as a result of the field reorganization that took place during the fourth quarter of fiscal year 2013, site operating expense decreased $7.3 million during fiscal year 2014, primarily from increased salon connectivity costs to support the Company’s POS system and salon workstations and increased marketing costs. These were partly offset by cost savings initiatives to lower utilities, janitorial and repairs and maintenance expenses, lower travel expense due to the field reorganization and reduced incentive compensation from lower same-store sales, lower self-insurance reserves and reduced freight.

*General and Administrative*

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

G&A increased $13.3 million during fiscal year 2015. This increase was primarily driven by higher incentive compensation levels as the Company anniversaries an incentive-lite year, planned strategic investments in Asset Protection and Human Resource initiatives and the lapping of a favorable deferred compensation adjustment within our Unallocated corporate segment. These items were partly offset by cost savings and reduced legal and professional fees.

G&A declined $53.9 million during fiscal year 2014. This improvement was primarily due to the change in expense categorization as a result of the field reorganization. The change in expense categorization accounted for $29.6 million of the decrease for fiscal year 2014. The remaining decrease of $24.3 million during fiscal year 2014 was primarily due to reduced levels of incentive compensation in our North American Value and Unallocated Corporate segments, cost savings from various initiatives and the field reorganization, reduced health insurance costs and a favorable deferred compensation adjustment within our Unallocated Corporate segment, partly offset by legal and professional fees.

*Rent*

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

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

Rent expense decreased by $2.9 million during fiscal year 2014 primarily due to salon closures, primarily within our North American Value and Premium segments, partly offset by rent inflation.

*Depreciation and Amortization*

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

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

D&A increased $8.0 million during fiscal year 2014, primarily due to increased fixed asset impairment charges recorded in our North American Premium and Value segments, partly offset by declines in depreciation expense on a reduced salon base.

*Goodwill Impairment*

The Company did not record a goodwill impairment charge in fiscal year 2016 and 2015.

The Company recorded a goodwill impairment charge of $34.9 million related to the Regis salon concept during fiscal year 2014. The Company redefined its operating segments during the second quarter of fiscal year 2014. In addition, overall performance trends were down. For these reasons, the Company was required to perform this goodwill assessment in the second quarter of fiscal year 2014. As a result of this non-cash charge, the Company has no further goodwill on its balance sheet associated with the Regis salon concept (North American Premium). The Company remains focused on improving the performance of this business as it stabilizes and turns around the business. See Notes 1 and 4 to the Consolidated Financial Statements.

*Interest Expense*

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

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

Interest expense decreased by $14.7 million during fiscal year 2014 primarily due to a $10.6 million make-whole payment associated with the prepayment of private placement debt in June 2013 and decreased average outstanding debt and related interest rates compared to the prior year.

*Interest Income and Other, net*

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

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

Interest income and other, net decreased $33.4 million during fiscal year 2014. This decrease was primarily due to the recognition of a $33.8 million foreign currency translation gain in connection with the sale of Provalliance during fiscal year 2013.

*Income Taxes*

During fiscal year 2016, the Company recognized income tax expense of $9.0 million on $12.5 million of income from continuing operations before income taxes and equity in loss of affiliated companies, for an effective tax rate of 72.3%. The recorded tax expense and effective tax rate for fiscal year 2016 are different than would normally be expected primarily due to the impact of the valuation allowance against the majority of our deferred tax assets. Approximately $7.9 million of the tax expense relates to non-cash tax expense for tax benefits on certain indefinite-lived assets that the Company cannot recognize for reporting purposes. This non-cash tax expense will continue as long as we have a valuation allowance in place.

During fiscal year 2015, the Company recognized income tax expense of $14.6 million on $5.0 million of loss from continuing operations before income taxes and equity in loss of affiliated companies, for an effective tax rate of (293.4)%. The recorded tax expense and effective tax rate for fiscal year 2015 are different than would be expected primarily due to the establishment of a $2.1 million valuation allowance against the majority of the Canadian deferred tax assets and $8.9 million non-cash tax expense relating to tax benefits on certain indefinite-lived assets that the Company cannot recognize for reporting purposes.

During fiscal year 2014, the Company recognized income tax expense of $73.0 million on $55.3 million of loss from continuing operations before income taxes and equity in loss of affiliated companies, for an effective tax rate of (131.9)%. The recorded tax expense and effective tax rate for fiscal year 2014 are different than would be expected as a result of the $86.6 million non-cash valuation allowance established against the Company's U.S. and U.K. deferred tax assets and the tax effect of the $34.9 million goodwill impairment charge, which was partly non-deductible for tax purposes.

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

*Equity in Loss of Affiliated Companies, Net of Income Taxes*

The loss in affiliated companies, net of income taxes, of $14.8 million for fiscal year 2016 was due to the Company recording a $13.0 million other than temporary non-cash impairment charge and EEG's net loss of $1.8 million. See Note 5 to the Consolidated Financial Statements.

The loss in affiliated companies, net of income taxes, of $13.6 million for fiscal year 2015 was primarily due to the Company recording its portion of EEG's non-cash deferred tax asset valuation allowance ($6.9 million) and EEG's net loss ($2.0 million), plus other than temporary non-cash impairment charges ($4.7 million). See Note 5 to the Consolidated Financial Statements.

The loss in affiliated companies, net of income taxes for fiscal year 2014, was primarily due to the Company recording its portion of EEG's goodwill impairment charge ($12.6 million, net of income taxes) and fixed asset impairment charges ($3.3 million, net of income taxes), partly offset by the recovery of $3.1 million on previously impaired investments in Yamano Holding Corporation. See Note 5 to the Consolidated Financial Statements.

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

During fiscal year 2015 and 2014, the Company recognized $0.6 million of tax expense and $1.4 million of tax benefit associated with the Trade Secret salon concept. See Note 2 to the Consolidated Financial Statements.

**Recent Accounting Pronouncements**

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

## LIQUIDITY AND CAPITAL RESOURCES

**Sources of Liquidity**

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

As of June 30, 2016, cash and cash equivalents were $147.3 million, with $136.9, $5.6 and $4.8 million in the U.S., Canada and Europe, respectively.

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

**Uses of Cash**

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

During fiscal year 2016, the Company repurchased approximately 7.6 million shares of common stock for $101.0 million at an average share price of $13.19, excluding transaction costs.

## Cash Flows

*Cash Flows from Operating Activities*

Fiscal year 2016 cash provided by operating activities of $55.0 million decreased by $38.9 million compared to the previous fiscal year largely due to higher inventory levels, enhanced incentive payouts in the current year relating to the prior fiscal year and lower income tax refunds.

Fiscal year 2015 cash provided by operating activities of $94.0 million decreased by $22.8 million compared to the previous fiscal year, primarily as a result of a $12.0 million decrease in working capital primarily due to lapping fiscal year 2014 income tax refunds and lower earnings.

Fiscal year 2014 cash provided by operating activities of $116.8 million increased by $47.0 million compared to the previous fiscal year primarily as a result of increased cash provided by working capital partly offset by the operating loss. The $77.2 million working capital improvement over the previous year was primarily the result of cash received in fiscal year 2014 for income tax refunds and the collection of weekend credit card receivables outstanding at the end of the previous fiscal year. Fiscal year 2013 working capital included cash used for increased deferred compensation payments and build of the outstanding income tax receivable collected in fiscal year 2014.

*Cash Flows from Investing Activities*

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

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

Cash used in investing activities during fiscal year 2014 of $44.4 million was less than the $165.1 million cash provided in fiscal year 2013. In fiscal year 2014, we used $49.4 million for capital expenditures and received $3.1 million from the recovery of the Company's previously impaired investment in Yamano and the receipt of $2.0 million for the final working capital adjustment on the sale of Hair Club.

*Cash Flows from Financing Activities*

During fiscal years 2016, 2015 and 2014, cash (used in) provided by financing activities were for net (repayments) borrowings of long-term debt of $0.0, $(173.8) and $111.0 million, respectively. During fiscal years 2016 and 2015, the Company repurchased $101.0 and $47.9 million of common stock, respectively. During fiscal year 2014, the Company paid $6.8 million for dividends.

## Financing Arrangements

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

The Company's financing arrangements consist of the following:

| | Maturity Dates | Interest rate % Fiscal Years 2016 | Interest rate % Fiscal Years 2015 | June 30, 2016 | June 30, 2015 |
|---|---|---|---|---|---|
| | (fiscal year) | | | (Dollars in thousands) | |
| Senior term notes - 5.75% | 2018 | — | 5.75 | $ — | $ 120,000 |
| Senior term notes - 5.50% | 2020 | 5.50 | — | 120,435 | — |
| Revolving credit facility | 2018 | — | — | — | — |
| Equipment and leasehold notes payable | 2015 - 2016 | 4.90 - 8.75 | 4.90 - 8.75 | — | 2 |
| | | | | 120,435 | 120,002 |
| Less current portion (included in accrued expenses) | | | | — | (2) |
| Long-term portion | | | | $ 120,435 | $ 120,000 |

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

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

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

| As of June 30, | Debt to Capitalization | Basis Point Increase (Decrease)(1) |
|---|---|---|
| 2016 | 18.8% | 270 |
| 2015 | 16.1 | (1,300) |
| 2014 | 29.1 | 1,210 |

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

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

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

The basis point increase in the debt to capitalization ratio as of June 30, 2014 compared to June 30, 2013 was primarily due to the issuance of the $120.0 million Senior Term Notes, the $34.9 million non-cash goodwill impairment charge for the Regis salon concept, the $86.6 million non-cash valuation allowance established against the United States and United Kingdom deferred tax assets and the $12.6 million (net of tax) charge recorded by the Company for its share of the non-cash goodwill impairment charge recorded by EEG.

**Contractual Obligations and Commercial Commitments**

The following table reflects a summary of obligations and commitments outstanding by payment date as of June 30, 2016:

| Contractual Obligations | Total | Payments due by period: Within 1 year | 1 - 3 years | 3 - 5 years | More than 5 years |
|---|---|---|---|---|---|
| | | (Dollars in thousands) | | | |
| On-balance sheet: | | | | | |
| Debt obligations | $ 120,435 | $ — | $ — | $ 120,435 | $ — |
| Other long-term liabilities | 14,127 | 2,458 | 3,182 | 1,593 | 6,894 |
| Total on-balance sheet | 134,562 | 2,458 | 3,182 | 122,028 | 6,894 |
| Off-balance sheet(a): | | | | | |
| Operating lease obligations | 930,324 | 290,621 | 406,511 | 184,413 | 48,779 |
| Interest on long-term debt | 23,133 | 6,765 | 13,530 | 2,838 | — |
| Total off-balance sheet | 953,457 | 297,386 | 420,041 | 187,251 | 48,779 |
| Total | $1,088,019 | $ 299,844 | $ 423,223 | $ 309,279 | $ 55,673 |

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

*On-Balance Sheet Obligations*

Our long-term obligations are composed primarily of our Senior Term Notes. There were no outstanding borrowings under our revolving credit facility at June 30, 2016.

Other long-term liabilities of $14.1 million include $10.8 million related to a Nonqualified Deferred Salary Plan and a salary deferral program of $3.3 million related to established contractual payment obligations under retirement and severance agreements for a small number of employees.

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

The Company has unfunded deferred compensation contracts covering certain management and executive personnel. Because we cannot predict the timing or amount of future payments related to these contracts, such amounts were not included in the table above. See Note 10 to the Consolidated Financial Statements.

As of June 30, 2016, 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 9 to the Consolidated Financial Statements.

*Off-Balance Sheet Arrangements*

Operating leases primarily represent long-term obligations for the rental of salons, including leases for company-owned locations, as well as salon franchisee lease payments of approximately $232.4 million, which are reimbursed to the Company by franchisees. Regarding franchisee subleases, we generally retain the right to the related salon assets, net of any outstanding obligations, in the event of a default by a franchise owner. Management has not experienced and does not expect any material loss to result from these arrangements.

Interest payments on long-term debt and capital lease obligations are estimated based on each debt obligation's agreed upon rate as of June 30, 2016 and scheduled contractual repayments.

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

agreements to provide services and agreements to indemnify officers, directors and employees in the performance of their work. While our aggregate indemnification obligation could result in a material liability, we are not aware of any current matter that we expect to result in a material liability.

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

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet financial arrangements or other contractually narrow or limited purposes at June 30, 2016. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

**Dividends**

We paid dividends of $0.12 per share during fiscal year 2014. In December 2013, the Board of Directors elected to discontinue declaring regular quarterly dividends.

**Share Repurchase Program**

In May 2000, the Company's Board of Directors (Board) approved a stock repurchase program with no stated expiration date. Since that time and through June 30, 2016, the Board has authorized $450.0 million to be expended for the repurchase of the Company's stock under this program. All repurchased shares become authorized but unissued shares of the Company. The timing and amounts of any repurchases depends on many factors, including the market price of the common stock and overall market conditions. As of June 30, 2016, 18.4 million shares have been cumulatively repurchased for $390.0 million, and $60.0 million remained outstanding under the approved stock repurchase program.

**CRITICAL ACCOUNTING POLICIES**

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

Our significant accounting policies can be found in Note 1 to the Consolidated Financial Statements. We believe the following accounting policies are most critical to aid in fully understanding and evaluating our reported financial condition and results of operations.

*Investments In Affiliates*

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

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

| | Fiscal Year | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | (Dollars in thousands) | | |
| Equity losses (1) | $ (1,829) | $ (8,975) | $ (11,623) |
| Other than temporary impairment | (12,954) | (4,654) | — |
| Total losses | $ (14,783) | $ (13,629) | $ (11,623) |

(1) For fiscal year 2015, includes $6.9 million of expense for a non-cash deferred tax valuation allowance related to EEG. For fiscal year 2014, includes $21.2 million of pretax non-cash impairment charges related to EEG for goodwill and fixed and intangible asset impairments.

*Goodwill*

As of June 30, 2016 and 2015, the North American Value reporting unit had $417.4 and $419.0 million of goodwill, respectively and the North American Premium and International reporting units had no goodwill. See Note 4 to the Consolidated Financial Statements. The Company tests goodwill impairment on an annual basis, during the Company's fourth fiscal quarter, and between annual tests if an event occurs, or circumstances changes, that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

Goodwill impairment test is performed at the reporting unit level, which are the same as the Company's operating segments. The goodwill test involves a two-step process. The first step is a comparison of the reporting unit's fair value to its carrying value, including goodwill. If the reporting unit's fair value exceeds its carrying value, no further procedures are required. However, if the reporting unit's fair value is less than the carrying value, an impairment of goodwill may exist, requiring a second step to measure the amount of impairment loss. If the implied fair value of goodwill is less than the recorded goodwill, an impairment charge is recorded for the difference.

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

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

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

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

*Fiscal Years 2016 and 2015*

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

*Fiscal Year 2014*

During the second quarter of fiscal year 2014, the Company redefined its operating segments and goodwill was reallocated to the new reporting units at June 30, 2014. Additionally, the Regis and Promenade reporting units reported lower than projected same-store sales that were unfavorable compared to the Company's projections used in the fiscal year 2013 annual goodwill impairment test.

Accordingly, during the second quarter of fiscal year 2014, the Company performed interim goodwill impairment tests on its former Regis and Promenade reporting units. The impairment tests resulted in a $34.9 million non-cash goodwill impairment charge on the former Regis reporting unit and no impairment on the former Promenade reporting unit, as its estimated fair value exceeded its carrying value by approximately 12.0%.

As of June 30, 2016, the Company's estimated fair value, as determined by the sum of our reporting units' fair value, reconciled within a reasonable range of our market capitalization, which included an assumed control premium of 25.0%.

*Long-Lived Assets, Excluding Goodwill*

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

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

A summary of long-lived asset impairment charges follows:

| | Fiscal Years | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | (Dollars in thousands) | | |
| North American Value | $ 8,393 | $ 9,612 | $ 11,714 |
| North American Premium | 1,924 | 4,804 | 5,014 |
| International | 161 | 188 | 1,599 |
| Total | $ 10,478 | $ 14,604 | $ 18,327 |

*Income Taxes*

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

During fiscal year 2015 and 2014, respectively, the Company established a $2.1 million valuation allowance on its Canadian deferred tax assets and an $86.6 million valuation allowance on its U.S. and U.K. deferred tax assets.

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

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

*Contingencies*

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

See Note 9 to the Consolidated Financial Statements for discussion regarding certain issues that have resulted from the IRS' audit of fiscal year 2010 through 2013. Final resolution of these issues is not expected to have a material impact on the Company’s financial position.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

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

***Interest Rate Risk:***

The Company has established an interest rate management policy that attempts to minimize its overall cost of debt, while taking into consideration earnings implications associated with volatility in short-term interest rates. On occasion, the Company uses interest rate swaps to further mitigate the risk associated with changing interest rates and to maintain its desired balances of fixed and floating rate debt. In addition, access to variable rate debt is available through the Company's revolving credit facility. The Company reviews its policy and interest rate risk management quarterly and makes adjustments in accordance with market conditions and the Company's short and long-term borrowing needs. As of June 30, 2016, the Company did not have any outstanding variable rate debt as there were no amounts outstanding on the revolving credit facility. The Company had outstanding fixed rate debt balances of $120.4 and $120.0 million at June 30, 2016 and 2015, respectively.

***Foreign Currency Exchange Risk:***

Over 85% of the Company's revenue, expense and capital purchasing activities are transacted in United States dollars. However, because a portion of the Company's operations consists of activities outside of the United States, the Company has transactions in other currencies, primarily the Canadian dollar and British pound. In preparing the Consolidated Financial Statements, the Company is required to translate the financial statements of its foreign subsidiaries from the currency in which they keep their accounting records, generally the local currency, into United States dollars. Different exchange rates from period to period impact the amounts of reported income and the amount of foreign currency translation recorded in accumulated other comprehensive income (AOCI). As part of its risk management strategy, the Company frequently evaluates its foreign currency exchange risk by monitoring market data and external factors that may influence exchange rate fluctuations. As a result, the Company may engage in transactions involving various derivative instruments to hedge assets, liabilities and purchases denominated in foreign currencies. As of June 30, 2016 and 2015, the Company did not have any derivative instruments to manage its foreign currency risk.

During fiscal years 2016, 2015 and 2014, the foreign currency gain (loss) included in net loss was $0.3, $(1.3) and $0.1 million, respectively.

## Item 8. Financial Statements and Supplementary Data

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of Regis Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of comprehensive loss, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Regis Corporation and its subsidiaries at June 30, 2016 and June 30, 2015, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2016 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, 2016, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PRICEWATERHOUSECOOPERS LLP

Minneapolis, Minnesota
August 23, 2016

**REGIS CORPORATION**

**CONSOLIDATED BALANCE SHEET**

**(Dollars in thousands, except per share data)**

| | June 30, 2016 | June 30, 2015 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 147,346 | $ 212,279 |
| Receivables, net | 24,691 | 24,631 |
| Inventories | 134,212 | 128,610 |
| Other current assets | 51,765 | 62,762 |
| Total current assets | 358,014 | 428,282 |
| Property and equipment, net | 183,321 | 218,157 |
| Goodwill | 417,393 | 418,953 |
| Other intangibles, net | 15,185 | 17,069 |
| Investment in affiliates | 520 | 15,321 |
| Other assets | 62,328 | 64,233 |
| Total assets | $ 1,036,761 | $ 1,162,015 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 59,884 | $ 63,302 |
| Accrued expenses | 135,431 | 153,364 |
| Total current liabilities | 195,315 | 216,666 |
| Long-term debt | 120,435 | 120,000 |
| Other noncurrent liabilities | 201,610 | 197,905 |
| Total liabilities | 517,360 | 534,571 |
| Commitments and contingencies (Note 8) | | |
| Shareholders' equity: | | |
| Common stock, $0.05 par value; issued and outstanding, 46,154,410 and 53,664,366 common shares at June 30, 2016 and 2015, respectively | 2,308 | 2,683 |
| Additional paid-in capital | 207,475 | 298,396 |
| Accumulated other comprehensive income | 5,068 | 9,506 |
| Retained earnings | 304,550 | 316,859 |
| Total shareholders' equity | 519,401 | 627,444 |
| Total liabilities and shareholders' equity | $ 1,036,761 | $ 1,162,015 |

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

**REGIS CORPORATION**

**CONSOLIDATED STATEMENT OF OPERATIONS**

**(Dollars in thousands, except per share data)**

| | Fiscal Years | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Revenues: | | | |
| Service | $ 1,383,663 | $ 1,429,408 | $ 1,480,103 |
| Product | 359,683 | 363,236 | 371,454 |
| Royalties and fees | 47,523 | 44,643 | 40,880 |
| | 1,790,869 | 1,837,287 | 1,892,437 |
| Operating expenses: | | | |
| Cost of service | 868,188 | 882,717 | 907,294 |
| Cost of product | 179,341 | 180,558 | 186,924 |
| Site operating expenses | 182,952 | 192,442 | 203,450 |
| General and administrative | 178,033 | 186,051 | 172,793 |
| Rent | 297,271 | 309,125 | 322,262 |
| Depreciation and amortization | 67,470 | 82,863 | 99,733 |
| Goodwill impairment | — | — | 34,939 |
| Total operating expenses | 1,773,255 | 1,833,756 | 1,927,395 |
| Operating income (loss) | 17,614 | 3,531 | (34,958) |
| Other (expense) income: | | | |
| Interest expense | (9,317) | (10,206) | (22,290) |
| Interest income and other, net | 4,219 | 1,697 | 1,952 |
| Income (loss) from continuing operations before income taxes and equity in loss of affiliated companies | 12,516 | (4,978) | (55,296) |
| Income taxes | (9,049) | (14,605) | (72,955) |
| Equity in loss of affiliated companies, net of income taxes | (14,783) | (13,629) | (11,623) |
| Loss from continuing operations | (11,316) | (33,212) | (139,874) |
| (Loss) income from discontinued operations, net of income taxes (Note 2) | — | (630) | 1,353 |
| Net loss | $ (11,316) | $ (33,842) | $ (138,521) |
| Net loss per share: | | | |
| Basic and diluted: | | | |
| Loss from continuing operations | $ (0.23) | $ (0.60) | $ (2.48) |
| (Loss) income from discontinued operations | — | (0.01) | 0.02 |
| Net loss per share, basic and diluted (1) | $ (0.23) | $ (0.62) | $ (2.45) |
| Weighted average common and common equivalent shares outstanding: | | | |
| Basic and diluted | 48,542 | 54,992 | 56,482 |
| Cash dividends declared per common share | $ — | $ — | $ 0.12 |

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

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

# REGIS CORPORATION

## CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

## (Dollars in thousands)

| | Fiscal Years | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Net loss | $ (11,316) | $ (33,842) | $ (138,521) |
| Other comprehensive (loss) income: | | | |
| Foreign currency translation adjustments during the period | (4,276) | (13,515) | 1,930 |
| Recognition of deferred compensation | (162) | 370 | 165 |
| Other comprehensive (loss) income | (4,438) | (13,145) | 2,095 |
| Comprehensive loss | $ (15,754) | $ (46,987) | $ (136,426) |

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

## REGIS CORPORATION

## CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

### (Dollars in thousands, except share data)

| | Common Stock | | Additional Paid-In Capital | Accumulated Other Comprehensive Income | Retained Earnings | Total |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| Balance, June 30, 2013 | 56,630,926 | $ 2,832 | $ 334,266 | $ 20,556 | $ 495,765 | $ 853,419 |
| Net loss | | | | | (138,521) | (138,521) |
| Foreign currency translation adjustments | | | | 1,930 | | 1,930 |
| Proceeds from exercise of SARs & stock options | 11 | — | — | | | — |
| Stock-based compensation | | | 6,400 | | | 6,400 |
| Shares issued through franchise stock incentive program | 20,095 | 1 | 289 | | | 290 |
| Recognition of deferred compensation (Note 10) | | | | 165 | | 165 |
| Net restricted stock activity | 134 | — | (2,603) | | | (2,603) |
| Vested stock option expirations | | | (515) | | | (515) |
| Minority interest (Note 1) | | | | | 220 | 220 |
| Dividends | | | | | (6,793) | (6,793) |
| Balance, June 30, 2014 | 56,651,166 | 2,833 | 337,837 | 22,651 | 350,671 | 713,992 |
| Net loss | | | | | (33,842) | (33,842) |
| Foreign currency translation adjustments | | | | (13,515) | | (13,515) |
| Stock repurchase program | (3,054,387) | (153) | (47,735) | | | (47,888) |
| Proceeds from exercise of SARs & stock options | 623 | — | — | | | — |
| Stock-based compensation | | | 8,647 | | | 8,647 |
| Shares issued through franchise stock incentive program | 27,276 | 1 | 460 | | | 461 |
| Recognition of deferred compensation (Note 10) | | | | 370 | | 370 |
| Net restricted stock activity | 39,688 | 2 | (813) | | | (811) |
| Minority interest (Note 1) | | | | | 30 | 30 |
| Balance, June 30, 2015 | 53,664,366 | 2,683 | 298,396 | 9,506 | 316,859 | 627,444 |
| Net loss | | | | | (11,316) | (11,316) |
| Foreign currency translation adjustments | | | | (4,276) | | (4,276) |
| Stock repurchase program | (7,647,819) | (382) | (100,653) | | | (101,035) |
| Proceeds from exercise of SARs & stock options | 107 | — | — | | | — |
| Stock-based compensation | | | 9,797 | | | 9,797 |
| Shares issued through franchise stock incentive program | 22,084 | 1 | 330 | | | 331 |
| Recognition of deferred compensation (Note 10) | | | | (162) | | (162) |
| Net restricted stock activity | 115,672 | 6 | (734) | | | (728) |
| Minority interest (Note 1) | | | 339 | | (993) | (654) |
| Balance, June 30, 2016 | 46,154,410 | $ 2,308 | $ 207,475 | $ 5,068 | $ 304,550 | $ 519,401 |

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

**REGIS CORPORATION**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

**(Dollars in thousands)**

| | Fiscal Years | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Cash flows from operating activities: | | | |
| Net loss | $ (11,316) | $ (33,842) | $ (138,521) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | | |
| Depreciation and amortization | 56,992 | 68,259 | 81,406 |
| Equity in loss of affiliated companies | 14,783 | 13,629 | 11,623 |
| Deferred income taxes | 7,023 | 11,154 | 70,635 |
| Gain from sale of salon assets, net | (1,000) | (1,210) | — |
| Loss on write down of inventories | — | — | 854 |
| Goodwill impairment | — | — | 34,939 |
| Salon asset impairments | 10,478 | 14,604 | 18,327 |
| Stock-based compensation | 9,797 | 8,647 | 6,400 |
| Amortization of debt discount and financing costs | 1,514 | 1,722 | 8,152 |
| Other non-cash items affecting earnings | 310 | 257 | 224 |
| Changes in operating assets and liabilities(1): | | | |
| Receivables | (577) | 446 | 5,681 |
| Inventories | (7,109) | 6,197 | 2,275 |
| Income tax receivable | 501 | 5,298 | 26,884 |
| Other current assets | (460) | 3,049 | (5,979) |
| Other assets | (1,133) | (4,480) | (88) |
| Accounts payable | (4,624) | (3,261) | 1,907 |
| Accrued expenses | (15,034) | 8,249 | 3,955 |
| Other noncurrent liabilities | (5,113) | (4,756) | (11,919) |
| Net cash provided by operating activities | 55,032 | 93,962 | 116,755 |
| Cash flows from investing activities: | | | |
| Capital expenditures | (31,117) | (38,257) | (49,439) |
| Proceeds from sale of assets | 1,740 | 2,986 | 14 |
| Asset acquisitions, net of cash acquired | — | — | (15) |
| Proceeds from loans and investments | — | — | 5,056 |
| Change in restricted cash | 9,042 | (312) | — |
| Proceeds from company-owned life insurance policies | 2,948 | — | — |
| Net cash used in investing activities | (17,387) | (35,583) | (44,384) |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of long-term debt, net of fees | — | — | 118,058 |
| Repayments of long-term debt and capital lease obligations | (2) | (173,751) | (7,059) |
| Repurchase of common stock | (101,035) | (47,888) | — |
| Purchase of noncontrolling interest | (760) | — | — |
| Dividends paid | — | — | (6,793) |
| Net cash (used in) provided by financing activities | (101,797) | (221,639) | 104,206 |
| Effect of exchange rate changes on cash and cash equivalents | (781) | (3,088) | 914 |
| (Decrease) increase in cash and cash equivalents | (64,933) | (166,348) | 177,491 |
| Cash and cash equivalents: | | | |
| Beginning of year | 212,279 | 378,627 | 201,136 |
| End of year | $ 147,346 | $ 212,279 | $ 378,627 |

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

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. BUSINESS DESCRIPTION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Business Description:**

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

Based on the way the chief operating decision maker evaluates the business, the Company has three reportable segments: North American Value, North American Premium and International salons.

**Consolidation:**

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

**Variable Interest Entities**:

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

As of June 30, 2016, the Company has one VIE, Roosters MGC International LLC (Roosters), where the Company is the primary beneficiary. The Company owns an 84.0% ownership interest in Roosters. As of June 30, 2016, total assets, total liabilities and total shareholders' equity of Roosters were $7.0, $1.2 and $5.8 million, respectively. Net income attributable to the non-controlling interest in Roosters was immaterial for fiscal years 2016, 2015 and 2014. Shareholders' equity attributable to the non-controlling interest in Roosters was $0.9 million and $1.9 million as of June 30, 2016 and 2015 and recorded within retained earnings on the Consolidated Balance Sheet.

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

**Use of Estimates:**

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

**Cash and Cash Equivalents:**

Cash equivalents consist of investments in short-term, highly liquid securities having original maturities of three months or less, which are made as a part of the Company's cash management activity. The carrying values of these assets approximate their fair market values. The Company primarily utilizes a cash management system with a series of separate accounts consisting of lockbox accounts for receiving cash, concentration accounts that funds are moved to, and several "zero balance" disbursement accounts for funding of payroll and accounts payable. As a result of the Company's cash management system, checks issued, but not presented to the banks for payment, may create negative book cash balances. There were no checks outstanding in excess of related book cash balances at June 30, 2016 and 2015.

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

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

**Receivables and Allowance for Doubtful Accounts:**

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

The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses related to existing accounts and notes receivables. As of June 30, 2016 and 2015, the allowance for doubtful accounts was $2.2 and $1.3 million, respectively.

**Inventories:**

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

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

The Company has inventory valuation reserves for excess and obsolete inventories, or other factors that may render inventories unmarketable at their historical costs. Estimates of the future demand for the Company's inventory and anticipated changes in formulas and packaging are some of the other factors used by management in assessing the net realizable value of inventories. During fiscal year 2014, the Company recorded inventory write-downs of $0.9 million associated with standardizing plan-o-grams, eliminating retail products and consolidating from four owned-brand product lines to one.

**Property and Equipment:**

Property and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation of property and equipment is computed using the straight-line method over their estimated useful asset lives (30 to 39 years for buildings, 10 years for improvements and three to ten years for equipment, furniture and software). Depreciation expense was $55.5, $66.6 and $79.7 million in fiscal years 2016, 2015 and 2014, respectively.

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

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

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

**Long-Lived Asset Impairment Assessments, Excluding Goodwill:**

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

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

A summary of long-lived asset impairment charges follows:

| | Fiscal Years | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | (Dollars in thousands) | | |
| North American Value | $ 8,393 | $ 9,612 | $ 11,714 |
| North American Premium | 1,924 | 4,804 | 5,014 |
| International | 161 | 188 | 1,599 |
| Total | $ 10,478 | $ 14,604 | $ 18,327 |

**Goodwill:**

As of June 30, 2016 and 2015, the North American Value reporting unit had $417.4 and $419.0 million of goodwill, respectively and the North American Premium and International reporting units had no goodwill. See Note 4 to the Consolidated Financial Statements. The Company tests goodwill impairment on an annual basis, during the Company's fourth fiscal quarter, and between annual tests if an event occurs, or circumstances changes, that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

Goodwill impairment test is performed at the reporting unit level, which are the same as the Company's operating segments. The goodwill test involves a two-step process. The first step is a comparison of the reporting unit's fair value to its carrying value, including goodwill. If the reporting unit's fair value exceeds its carrying value, no further procedures are required. However, if the reporting unit's fair value is less than the carrying value, an impairment of goodwill may exist, requiring a second step to measure the amount of impairment loss. If the implied fair value of goodwill is less than the recorded goodwill, an impairment charge is recorded for the difference.

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

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

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

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

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

*Fiscal Years 2016 and 2015*

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

*Fiscal Year 2014*

During the second quarter of fiscal year 2014, the Company redefined its operating segments and goodwill was reallocated to the new reporting units at June 30, 2014. Additionally, the Regis and Promenade reporting units reported lower than projected same-store sales that were unfavorable compared to the Company's projections used in the fiscal year 2013 annual goodwill impairment test.

Accordingly, during the second quarter of fiscal year 2014, the Company performed interim goodwill impairment tests on its former Regis and Promenade reporting units. The impairment tests resulted in a $34.9 million non-cash goodwill impairment charge on the former Regis reporting unit and no impairment on the former Promenade reporting unit, as its estimated fair value exceeded its carrying value by approximately 12.0%.

As of June 30, 2016, the Company's estimated fair value, as determined by the sum of our reporting units' fair value, reconciled within a reasonable range of our market capitalization, which included an assumed control premium of 25.0%.

**Investments In Affiliates:**

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

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

| | Fiscal Year | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | (Dollars in thousands) | | |
| Equity losses (1) | $ (1,829) | $ (8,975) | $ (11,623) |
| Other than temporary impairment | (12,954) | (4,654) | — |
| Total losses | $ (14,783) | $ (13,629) | $ (11,623) |

(1) For fiscal year 2015, includes $6.9 million of expense for a non-cash deferred tax valuation allowance related to EEG. For fiscal year 2014, includes $21.2 million of pretax non-cash impairment charges related to EEG for goodwill and fixed and intangible asset impairments.

**Self-Insurance Accruals:**

The Company uses a combination of third party insurance and self-insurance for a number of risks including workers' compensation, health insurance, employment practice liability and general liability claims. The liability represents the Company's estimate of the undiscounted ultimate cost of uninsured claims incurred as of the balance sheet date.

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

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

Although the Company does not expect the amounts ultimately paid to differ significantly from the estimates, self-insurance accruals could be affected if future claims experience differs significantly from historical trends and actuarial assumptions. For fiscal years 2016, 2015 and 2014, the Company recorded (decreases) increases in expense for changes in estimates related to prior year open policy periods of $(0.8), $0.1 and $(2.0) million, respectively. The Company updates loss projections quarterly and adjusts its liability to reflect updated projections. The updated loss projections consider new claims and developments associated with existing claims for each open policy period. As certain claims can take years to settle, the Company has multiple policy periods open at any point in time.

As of June 30, 2016, the Company had $12.7 and $28.0 million recorded in current liabilities and noncurrent liabilities, respectively, related to the Company's self-insurance accruals. As of June 30, 2015, the Company had $18.3 and $29.9 million recorded in current liabilities and noncurrent liabilities, respectively, related to the Company's self-insurance accruals.

**Deferred Rent and Rent Expense:**

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

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

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

**Revenue Recognition and Deferred Revenue:**

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

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

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

**Classification of Expenses:**

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

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

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

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

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

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

**Consideration Received from Vendors:**

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

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

**Shipping and Handling Costs:**

Shipping and handling costs are incurred to store, move and ship product from the Company's distribution centers to company-owned and franchise locations and include an allocation of internal overhead. Such shipping and handling costs related to product shipped to company-owned locations are included in site operating expenses in the Consolidated Statement of Operations. Shipping and handling costs related to shipping product to franchise locations totaled \$3.6, \$3.6 and \$3.2 million during fiscal years 2016, 2015 and 2014, respectively and are included within general and administrative expenses on the Consolidated Statement of Operations. Any amounts billed to franchisees for shipping and handling are included in product revenues within the Consolidated Statement of Operations.

**Advertising:**

Advertising costs, including salon collateral material, are expensed as incurred. Advertising costs expensed and included in site operating expenses in fiscal years 2016, 2015 and 2014 was \$35.5, \$38.7 and \$40.6 million, respectively.

**Advertising Funds:**

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

The Company records advertising expense in the period the company-owned salon makes contributions to the respective advertising fund. During fiscal years 2016, 2015 and 2014, total contributions to the franchise advertising funds totaled \$17.5, \$18.0 and \$18.6 million, respectively.

The Company records all advertising funds as assets and liabilities within the Company's Consolidated Balance Sheet. As of June 30, 2016 and 2015, approximately \$23.3 and \$24.1 million, respectively, representing the advertising funds' assets and liabilities were recorded within total assets and total liabilities in the Company's Consolidated Balance Sheet.

**Stock-Based Employee Compensation Plans:**

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

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

**Preopening Expenses:**

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

**Sales Taxes:**

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

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

### Income Taxes:

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

During fiscal year 2015 and 2014, respectively, the Company established a $2.1 million valuation allowance on its Canadian deferred tax assets and an $86.6 million valuation allowance on its U.S. and U.K. deferred tax assets.

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

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

### Net (Loss) Income Per Share:

The Company's basic earnings per share is calculated as net (loss) income divided by weighted average common shares outstanding, excluding unvested outstanding restricted stock awards and restricted stock units. The Company's dilutive earnings per share is calculated as net (loss) income divided by weighted average common shares and common share equivalents outstanding, which includes shares issuable under the Company's stock option plan and long-term incentive plan and dilutive securities. Stock-based awards with exercise prices greater than the average market value of the Company's common stock are excluded from the computation of diluted earnings per share. While the Company's convertible debt was outstanding, diluted earnings per share would have also reflected the assumed conversion under the convertible debt if the impact was dilutive, along with the exclusion of related interest expense, net of taxes. The impact of the convertible debt was excluded from the computation of diluted earnings per share when interest expense per common share obtainable upon conversion was greater than basic earnings per share.

### Comprehensive (Loss) Income:

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

### Foreign Currency Translation:

Financial position, results of operations and cash flows of the Company's international operations are measured using local currency as the functional currency. Assets and liabilities of these subsidiaries are translated at the exchange rates in effect at each fiscal year end. Translation adjustments arising from the use of differing exchange rates from period to period are included in accumulated other comprehensive income within shareholders' equity. Statement of Operations accounts are translated at the average rates of exchange prevailing during the year. During fiscal years 2016, 2015 and 2014, the foreign currency gain (loss) recorded within interest income and other, net in the Consolidated Statement of Operations was $0.3, $(1.3) and $0.1 million, respectively.

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

**Recent Accounting Standards Adopted by the Company:**

*Balance Sheet Classification of Deferred Taxes*

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

*Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*

In April 2014, the FASB updated the accounting guidance related to the definition of a discontinued operation and related disclosures. The updated accounting guidance defines a discontinued operation as a disposal of a component or a group of components that is to be disposed of or is classified as held for sale and represents a strategic shift that has or will have a major effect on an entity's operations and financial results. The updated guidance was effective for the Company in the first quarter of fiscal year 2016. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

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

*Leases*

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

*Stock Compensation*

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

*Revenue from Contracts with Customers*

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

*Simplifying the Presentation of Debt Issuance Costs*

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

## 2. DISCONTINUED OPERATIONS

*Hair Restoration Centers*

On April 9, 2013, the Company sold its Hair Club for Men and Women business (Hair Club). The Company reported Hair Club as discontinued operations. During fiscal year 2014, the Company collected $3.0 million of cash recorded as receivable as of June 30, 2013, of which $2.0 million was a result of the final working capital provision and $1.0 million was excess cash from the transaction completion date.

*Trade Secret*

On February 16, 2009, the Company sold its Trade Secret salon concept (Trade Secret). The Company reported Trade Secret as a discontinued operation. During fiscal year 2015, the Company recorded expenses of $0.6 million in discontinued operations related to Trade Secret legal fees. During fiscal year 2014, the Company recorded tax benefits of $1.4 million in discontinued operations related to the release of tax reserves associated with the disposition of Trade Secret.

## 3. OTHER FINANCIAL STATEMENT DATA

The following provides additional information concerning selected balance sheet accounts:

| | June 30, | |
|---|---|---|
| | 2016 | 2015 |
| | (Dollars in thousands) | |
| Other current assets: | | |
| Prepaids | $ 30,710 | $ 33,184 |
| Restricted cash | 20,156 | 27,811 |
| Other | 899 | 1,767 |
| | $ 51,765 | $ 62,762 |
| Property and equipment: | | |
| Land | $ 3,864 | $ 3,864 |
| Buildings and improvements | 47,031 | 48,563 |
| Equipment, furniture and leasehold improvements | 694,475 | 748,737 |
| Internal use software | 69,045 | 97,740 |
| Equipment, furniture and leasehold improvements under capital leases | 61,213 | 73,492 |
| | 875,628 | 972,396 |
| Less accumulated depreciation and amortization | (636,222) | (689,128) |
| Less amortization of equipment, furniture and leasehold improvements under capital leases | (56,085) | (65,111) |
| | $ 183,321 | $ 218,157 |
| Accrued expenses: | | |
| Payroll and payroll related costs | $ 74,013 | $ 79,778 |
| Insurance | 15,559 | 21,145 |
| Other | 45,859 | 52,441 |
| | $ 135,431 | $ 153,364 |
| Other noncurrent liabilities: | | |
| Deferred income taxes | $ 100,169 | $ 91,197 |
| Deferred rent | 39,057 | 39,417 |
| Insurance | 28,019 | 29,910 |
| Deferred benefits | 19,490 | 20,710 |
| Other | 14,875 | 16,671 |
| | $ 201,610 | $ 197,905 |

**3. OTHER FINANCIAL STATEMENT DATA (Continued)**

The following provides additional information concerning other intangibles, net:

| | June 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | | | | 2015 | | | |
| | Weighted Average Amortization Periods (1) | Cost (2) | Accumulated Amortization (2) | Net | Weighted Average Amortization Periods (1) | Cost (2) | Accumulated Amortization (2) | Net |
| | (In years) | (Dollars in thousands) | | | (In years) | (Dollars in thousands) | | |
| Brand assets and trade names | 31 | $ 8,206 | $ (3,746) | $ 4,460 | 32 | $ 8,415 | $ (3,551) | $ 4,864 |
| Franchise agreements | 19 | 9,853 | (7,116) | 2,737 | 19 | 10,093 | (6,934) | 3,159 |
| Lease intangibles | 20 | 14,535 | (8,649) | 5,886 | 20 | 14,601 | (7,960) | 6,641 |
| Other | 21 | 5,748 | (3,646) | 2,102 | 20 | 6,115 | (3,710) | 2,405 |
| Total | 22 | $ 38,342 | $ (23,157) | $ 15,185 | 22 | $ 39,224 | $ (22,155) | $ 17,069 |

(1) All intangible assets have been assigned an estimated finite useful life and are amortized on a straight-line basis over the number of years that approximate their expected period of benefit (ranging from three to 40 years).

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

Total amortization expense related to intangible assets during fiscal years 2016, 2015 and 2014 was approximately $1.5, $1.7 and $1.7 million, respectively. As of June 30, 2016, future estimated amortization expense related to intangible assets is estimated to be:

| Fiscal Year | (Dollars in thousands) |
|---|---|
| 2017 | $ 1,480 |
| 2018 | 1,478 |
| 2019 | 1,470 |
| 2020 | 1,468 |
| 2021 | 1,339 |
| Thereafter | 7,950 |
| Total | $ 15,185 |

The following provides supplemental disclosures of cash flow activity:

| | Fiscal Years | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | (Dollars in thousands) | | |
| Cash paid (received) for: | | | |
| Interest | $ 7,660 | $ 12,336 | $ 21,173 |
| Income taxes, net | 2,237 | (1,371) | (16,266) |
| Noncash investing activities: | | | |
| Unpaid capital expenditures | 6,627 | 5,034 | 6,392 |

## 4. GOODWILL

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

| | June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | 2015 | | |
| | Gross Carrying Value (3) | Accumulated Impairment (1) | Net | Gross Carrying Value (3) | Accumulated Impairment (1) | Net |
| | (Dollars in thousands) | | | | | |
| Goodwill | $ 671,054 | $ (253,661) | $ 417,393 | $ 672,614 | $ (253,661) | $ 418,953 |

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

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

(2) See Note 14 to the Consolidated Financial Statements.

(3) The change in the gross carrying value of goodwill relates to foreign currency translation adjustments of $(1.6) and $(6.3) million in fiscal years 2016 and 2015, respectively. All goodwill resides in the Company's North American Value reporting unit.

## 5. INVESTMENTS IN AFFILIATES

*Investment in Empire Education Group, Inc.*

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

The table below summarizes financial information recorded by the Company:

| | Fiscal Year | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | (Dollars in thousands) | | |
| Equity losses (1) | $ (1,832) | $ (8,958) | $ (14,701) |
| Other than temporary impairment | (12,954) | (4,654) | — |
| Total losses related to EEG | $ (14,786) | $ (13,612) | $ (14,701) |
| Investment balance | $ — | $ 14,786 | $ 28,398 |

(1) For fiscal year 2015, includes $6.9 million of expense for a non-cash deferred tax valuation allowance related to EEG. For fiscal year 2014, includes $21.2 million of pretax non-cash impairment charges related to EEG for goodwill and fixed and intangible asset impairments.

The other than temporary impairment charges resulted from EEG's significantly lower financial projections in fiscal years 2016 and 2015 due to continued declines in enrollment, revenue and profitability. The full impairment of the investment follows previous non-cash impairment charges, EEG's impairment of goodwill and its establishment of a deferred tax valuation allowance in prior quarters. While the Company could be responsible for certain liabilities associated with this venture, the Company does not currently expect them to have a material impact on the Company's financial position.

**5. INVESTMENTS IN AFFILIATES (Continued)**

*Investment in MY Style*

The Company accounts for its 27.1% ownership interest in MY Style as a cost method investment.

During fiscal year 2014, MY Style's parent company, Yamano Holdings Corporation (Yamano), redeemed its Class A and Class B Preferred Stock for $3.1 million. The Company had previously estimated the fair values of the Yamano Class A and Class B Preferred Stock to be negligible and recorded an other than temporary non-cash impairment. The Company reported the gain associated with Yamano's redemption within equity in loss of affiliated companies on the Consolidated Statement of Operations.

**6. FAIR VALUE MEASUREMENTS**

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

*Assets and Liabilities Measured at Fair Value on a Recurring Basis*

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

*Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis*

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

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

| | Fiscal Year | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | (Dollars in thousands) | | |
| Long-lived assets (1) | $ (10,478) | $ (14,604) | $ (18,327) |
| Investment in EEG (2) | (12,954) | (4,654) | — |
| Goodwill (3) | — | — | (34,939) |

(1) See Note 1 to the Consolidated Financial Statements.
(2) See Note 5 to the Consolidated Financial Statements.
(3) See Notes 1 and 4 to the Consolidated Financial Statements.

## 7. FINANCING ARRANGEMENTS

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

| | | Interest rate % | | June 30, | |
|---|---|---|---|---|---|
| | | Fiscal Years | | | |
| | Maturity Dates | 2016 | 2015 | 2016 | 2015 |
| | (fiscal year) | | | (Dollars in thousands) | |
| Senior term notes - 5.75% | 2018 | — | 5.75 | $ — | $ 120,000 |
| Senior term notes - 5.50% | 2020 | 5.5 | — | 120,435 | — |
| Revolving credit facility | 2018 | — | — | — | — |
| Equipment and leasehold notes payable | 2015 - 2016 | 4.90 - 8.75 | 4.90 - 8.75 | — | 2 |
| | | | | 120,435 | 120,002 |
| Less current portion (included in accrued expenses) | | | | — | (2) |
| Long-term portion | | | | $ 120,435 | $ 120,000 |

The debt agreements contain covenants, including limitations on incurrence of debt, granting of liens, investments, merger or consolidation, certain restricted payments and transactions with affiliates. In addition, the Company must adhere to specified fixed charge coverage and leverage ratios. The Company was in compliance with all covenants and other requirements of our financing arrangements as of June 30, 2016.

***Convertible Senior Notes***

In July 2014, the Company settled its $172.5 million 5.0% convertible senior notes in cash.

***Senior Term Notes***

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

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

| | June 30, 2016 |
|---|---|
| | (Dollars in thousands) |
| Principal amount on the Senior Term Notes | $ 123,000 |
| Unamortized debt discount | (2,565) |
| Net carrying amount of Senior Term Notes | $ 120,435 |

***Revolving Credit Facility***

In January 2016, the Company amended its revolving credit facility primarily reducing the borrowing capacity from $400.0 to $200.0 million. The revolving credit facility expires in June 2018 and has rates tied to a LIBOR credit spread and a quarterly facility fee on the average daily amount of the facility (whether used or unused). Both the LIBOR credit spread and the facility fee are based on the Company's debt to EBITDA ratio at the end of each fiscal quarter. In addition, the Company may request an increase in revolving credit commitments under the facility of up to $200.0 million under certain circumstances. Events of default under the credit agreement include change of control of the Company and the Company's default with respect to other debt exceeding $10.0 million. As of June 30, 2016 and 2015, the Company had no outstanding borrowings under this revolving credit facility. Additionally, the Company had outstanding standby letters of credit under the revolving credit facility of $1.6 and $2.1 million at June 30, 2016 and 2015, respectively, primarily related to its self-insurance program. Unused available credit under the facility at June 30, 2016 and 2015 was $198.4 and $397.9 million, respectively.

## 8. COMMITMENTS AND CONTINGENCIES

**Operating Leases:**

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

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

Sublease income was $31.4, $30.9 and $29.5 million in fiscal years 2016, 2015 and 2014, respectively. Rent expense on premises subleased was $30.9, $30.5 and $29.1 million in fiscal years 2016, 2015 and 2014, respectively. Rent expense and related rental income on sublease arrangements with franchisees is netted within the rent expense line item on the Consolidated Statement of Operations. In most cases, the amount of rental income related to sublease arrangements with franchisees approximates the amount of rent expense from the primary lease, thereby having no net impact on rent expense or net (loss) income. However, in limited cases, the Company charges a 10.0% mark-up in its sublease arrangements. The net rental income resulting from such arrangements totaled $0.5, $0.4, and $0.4 million for fiscal years 2016, 2015 and 2014, respectively, and was classified in the royalties and fees caption of the Consolidated Statement of Operations.

The Company has a sublease arrangement for a leased building the Company previously occupied. The aggregate amount of lease payments to be made over the remaining lease term are approximately $5.8 million.

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

| | Fiscal Years | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | (Dollars in thousands) | | |
| Minimum rent | $ 228,580 | $ 236,137 | $ 246,844 |
| Percentage rent based on sales | 8,256 | 8,238 | 7,164 |
| Real estate taxes and other expenses | 60,435 | 64,750 | 68,254 |
| | $ 297,271 | $ 309,125 | $ 322,262 |

As of June 30, 2016, future minimum lease payments (excluding percentage rents based on sales) due under existing noncancelable operating leases with remaining terms of greater than one year are as follows:

| Fiscal Year | Corporate leases | Franchisee leases |
|---|---|---|
| | (Dollars in thousands) | |
| 2017 | $ 225,782 | $ 64,839 |
| 2018 | 175,970 | 55,405 |
| 2019 | 130,487 | 44,649 |
| 2020 | 88,439 | 31,673 |
| 2021 | 46,269 | 18,032 |
| Thereafter | 30,951 | 17,828 |
| Total minimum lease payments | $ 697,898 | $ 232,426 |

**Contingencies:**

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

## 8. COMMITMENTS AND CONTINGENCIES (Continued)

**Litigation and Settlements:**

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

See Note 9 to the Consolidated Financial Statements for discussion regarding certain issues that have resulted from the IRS' audit of fiscal year 2010 through 2013. Final resolution of these issues is not expected to have a material impact on the Company's financial position.

## 9. INCOME TAXES

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

| | Fiscal Years | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | (Dollars in thousands) | | |
| Income (loss) before income taxes: | | | |
| U.S. | $ 12,481 | $ (6,630) | $ (52,815) |
| International | 35 | 1,652 | (2,481) |
| | $ 12,516 | $ (4,978) | $ (55,296) |

The provision for income taxes consists of:

| | Fiscal Years | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | (Dollars in thousands) | | |
| Current: | | | |
| U.S. | $ 819 | $ 1,670 | $ 1,430 |
| International | 1,207 | 1,781 | 890 |
| Deferred: | | | |
| U.S. | 6,997 | 9,439 | 69,854 |
| International | 26 | 1,715 | 781 |
| | $ 9,049 | $ 14,605 | $ 72,955 |

**9. INCOME TAXES (Continued)**

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

| | Fiscal Years | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| U.S. statutory rate (benefit) | 35.0% | (35.0)% | (35.0)% |
| State income taxes, net of federal income tax benefit | 5.4 | 3.7 | (0.3) |
| Valuation allowance (1) | 66.5 | 362.8 | 161.9 |
| Tax effect of goodwill impairment | — | — | 11.3 |
| Foreign income taxes at other than U.S. rates | 2.5 | 5.3 | 1.4 |
| Officer life insurance | (7.6) | (9.6) | (1.3) |
| Work Opportunity and Welfare-to-Work Tax Credits | (24.7) | (53.3) | (5.2) |
| Expiration of capital loss carryforward | — | 9.5 | — |
| Other, net | (4.8) | 10.0 | (0.9) |
| | 72.3% | 293.4 % | 131.9 % |

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

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

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

The (0.9)% of Other, net in fiscal year 2014 does not include the rate impact of any items in excess of 5% of computed tax.

**9. INCOME TAXES (Continued)**

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

| | June 30, 2016 | June 30, 2015 |
|---|---|---|
| | (Dollars in thousands) | |
| Deferred tax assets: | | |
| Deferred rent | $ 14,542 | $ 14,561 |
| Payroll and payroll related costs | 27,066 | 27,646 |
| Net operating loss carryforwards | 22,433 | 17,946 |
| Tax credit carryforwards | 30,386 | 25,296 |
| Inventories | 2,369 | 2,684 |
| Accrued advertising | 3,076 | 4,853 |
| Insurance | 4,285 | 6,779 |
| Other | 7,891 | 6,329 |
| Subtotal | $ 112,048 | $ 106,094 |
| Valuation allowance | (110,046) | (103,240) |
| Total deferred tax assets | $ 2,002 | $ 2,854 |
| Deferred tax liabilities: | | |
| Fixed assets | $ — | $ (2,372) |
| Goodwill and intangibles | (95,451) | (87,383) |
| Other | (6,720) | (6,309) |
| Total deferred tax liabilities | $ (102,171) | $ (96,064) |
| Net deferred tax liability | $ (100,169) | $ (93,210) |

At June 30, 2016, the Company has tax effected federal, state, Canada and U.K. net operating loss carryforwards of approximately $15.3, $5.4, $1.1 and $0.6 million, respectively. The federal loss carryforward will expire from fiscal years 2034 to 2036. The state loss carryforwards will expire from fiscal years 2017 to 2036. The Canada loss carryforward will expire in fiscal years 2035 and 2036. The U.K. loss carryforward has no expiration.

The Company's tax credit carryforward of $30.4 million consists of $28.4 million that will expire from fiscal years 2028 to 2036, $0.5 million that will expire from fiscal years 2020 to 2026 and $1.5 million of carryforward that has no expiration date.

As of June 30, 2016, undistributed earnings of international subsidiaries of approximately $11.2 million were considered to have been reinvested indefinitely and, accordingly, the Company has not provided for U.S. income taxes on such earnings. It is not practicable for the Company to determine the amount of unrecognized deferred tax liabilities on these indefinitely reinvested earnings.

The Company files tax returns and pays tax primarily in the U.S., Canada, the U.K. and Luxembourg as well as states, cities, and provinces within these jurisdictions. The Company's U.S. federal income tax returns for fiscal year 2010 through 2013 have been examined by the Internal Revenue Service (IRS) and are moving to the IRS Appeals Division for outstanding IRS proposed audit adjustments.   The Company believes its income tax positions and deductions will be sustained and will continue to vigorously defend such positions. All earlier tax years are closed to examination. With limited exceptions, the Company is no longer subject to state and international income tax examination by tax authorities for years before 2011.

**9. INCOME TAXES (Continued)**

A rollforward of the unrecognized tax benefits is as follows:

| | Fiscal Years | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | (Dollars in thousands) | | |
| Balance at beginning of period | $ 1,496 | $ 1,468 | $ 10,015 |
| Additions (reductions) based on tax positions related to the current year | 138 | 37 | (2,114) |
| Additions (reductions) based on tax positions of prior years | 170 | 352 | (505) |
| Reductions on tax positions related to the expiration of the statute of limitations | (207) | (361) | (994) |
| Settlements | (240) | — | (4,934) |
| Balance at end of period | $ 1,357 | $ 1,496 | $ 1,468 |

If the Company were to prevail on all unrecognized tax benefits recorded, a benefit of approximately $0.9 million would be recorded in the effective tax rate. Interest and penalties associated with unrecognized tax benefits are recorded within income tax expense. During the fiscal years 2016, 2015 and 2014, we recorded interest and penalties of approximately $0.1 million as additions to the accrual net of the respective reversal of previously accrued interest and penalties. As of June 30, 2016, the Company had accrued interest and penalties related to unrecognized tax benefits of $1.1 million. This amount is not included in the gross unrecognized tax benefits noted above.

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

**10. BENEFIT PLANS**

**Regis Retirement Savings Plan:**

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

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

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

**Nonqualified Deferred Salary Plan:**

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

**10. BENEFIT PLANS (Continued)**

**Regis Individual Secured Retirement Plan (RiSRP):**

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

**Stock Purchase Plan:**

The Company has an employee stock purchase plan (ESPP) available to qualifying employees. Under the terms of the ESPP, eligible employees may purchase the Company's common stock through payroll deductions. The Company contributes an amount equal to 15.0% of the purchase price of the stock to be purchased on the open market and pays all expenses of the ESPP and its administration, not to exceed an aggregate contribution of $11.8 million. As of June 30, 2016, the Company's cumulative contributions to the ESPP totaled $10.3 million.

**Deferred Compensation Contracts:**

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

Expense associated with the deferred compensation contracts included in general and administrative expenses on the Consolidated Statement of Operations totaled $0.2, $0.4 and $0.9 million for fiscal years 2016, 2015 and 2014, respectively.

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

| | June 30, | |
|---|---|---|
| | 2016 | 2015 |
| | (Dollars in thousands) | |
| Current portion (included in accrued liabilities) | $ 1,353 | $ 2,845 |
| Long-term portion (included in other noncurrent liabilities) | 5,898 | 5,853 |
| | $ 7,251 | $ 8,698 |

The accumulated other comprehensive income (loss) for the deferred compensation contracts, consisting of primarily unrecognized actuarial income, was $0.5 and $0.7 million at June 30, 2016 and 2015, respectively.

The Company had previously agreed to pay the former Vice Chairman an annual amount for the remainder of his life. Additionally, the Company has a survivor benefit plan for the former Vice Chairman's spouse. In October 2013, the former Vice Chairman passed away and the Company began paying survivor benefits to his spouse. At this time, the Company reduced the accrual for future obligations to account for the reduction in benefits to the survivor. In connection with the passing of the former Vice Chairman, the Company received $5.8 million in life insurance proceeds. The Company recorded a gain of $1.0 million recorded in general and administrative in the Consolidated Statement of Operations associated with the proceeds. Estimated associated costs (benefits) included in general and administrative expenses on the Consolidated Statement of Operations totaled $0.2, $0.8 and $(2.1) million for fiscal years 2016, 2015 and 2014, respectively. Related obligations totaled $3.0 and $3.3 million at June 30, 2016 and 2015, respectively, with $0.5 million within accrued expenses at June 30, 2016 and 2015, respectively and the remainder included in other noncurrent liabilities in the Consolidated Balance Sheet.

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

## 10. BENEFIT PLANS (Continued)

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

| | Fiscal Years | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | (Dollars in thousands) | | |
| Executive plans | $ 289 | $ 224 | $ 203 |
| ESPP | 307 | 325 | 347 |
| Deferred compensation contracts | 402 | 1,195 | 1,641 |

## 11. EARNINGS PER SHARE

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

For fiscal years 2016, 2015 and 2014, 446,992, 251,763, and 119,750, respectively, of common stock equivalents of potentially dilutive common stock were not included in the diluted earnings per share calculation due to the net loss from continuing operations.

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

| | Fiscal Year | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Equity-based compensation awards | 2,133,675 | 1,948,507 | 1,799,352 |
| Shares from convertible debt | — | 465,055 | 11,307,605 |

## 12. STOCK-BASED COMPENSATION

The Company grants long-term equity-based awards under the Amended and Restated 2004 Long Term Incentive Plan (the "2004 Plan"). The 2004 Plan provides for the granting of nonqualified stock options, equity-based stock appreciation rights (SARs), restricted stock awards (RSAs), restricted stock units (RSUs) and stock-settled performance share units (PSUs), as well as cash-based performance grants, to employees and non-employee directors of the Company. Under the 2004 Plan, a maximum of 6,750,000 shares were approved for issuance. In October 2013, the 2004 Plan was amended to limit the aggregate RSAs, RSUs and PSUs that are available for grant to 3,465,701. As of June 30, 2016, a maximum of 1,931,279 shares of RSAs, RSUs and PSUs were available for grant under the 2004 Plan. All unvested awards are subject to forfeiture in the event of termination of employment, unless accelerated. SAR and RSU awards granted subsequent to July 1, 2012 generally include various acceleration terms for participants aged sixty-two years or older or who are aged fifty-five or older and have fifteen years of continuous service.

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

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

**12. STOCK-BASED COMPENSATION (Continued)**

Using the fair value of each grant on the date of grant, the weighted average fair values per stock-based compensation award granted during fiscal years 2016, 2015 and 2014 were as follows:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Stock options & SARs | $ 3.51 | $ 6.16 | $ 6.00 |
| RSAs & RSUs | 11.18 | 15.95 | 15.50 |
| PSUs | 12.11 | 15.15 | 15.73 |

The fair value of SARs granted are estimated on the date of grant using the Black-Scholes-Merton (BSM) option valuation model. The significant assumptions used in determining the estimated fair value of SARs granted during fiscal years 2016, 2015 and 2014 were as follows:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Risk-free interest rate | 1.71% | 1.53 - 1.84% | 1.67 - 1.96% |
| Expected term (in years) | 6.00 | 6.00 | 6.00 |
| Expected volatility | 30.00% | 38.00 - 44.00% | 44.00% |
| Expected dividend yield | 0% | 0% | 1.52 - 1.61% |

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

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

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| SARs & stock options | $ 2,774 | $ 2,652 | $ 2,145 |
| RSAs, RSUs, & PSUs | 7,023 | 5,995 | 4,255 |
| Total stock-based compensation expense | $ 9,797 | $ 8,647 | $ 6,400 |

**Stock Appreciation Rights & Stock Options:**

SARs and stock options granted under the 2004 Plan and 2000 Plan generally vest ratably over a three to five years period on each of the annual grant date anniversaries and expire ten years from the grant date. SARs granted subsequent to fiscal year 2012 vest ratably over a three year period with the exception of the January 2015 grant which vests entirely after five years and expires seven years from the grant date.

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

| | Shares (in thousands) | | Weighted Average Exercise Price | Weighted-Average Remaining Contractual Life | Aggregate Intrinsic Value (in thousands) |
|---|---|---|---|---|---|
| | SARs | Stock Options | | | |
| Outstanding balance at June 30, 2015 | 1,755 | 179 | $ 19.16 | | |
| Granted | 690 | — | 10.84 | | |
| Forfeited/Expired | (234) | (81) | 21.24 | | |
| Exercised | (2) | — | 15.50 | | |
| Outstanding balance at June 30, 2016 | 2,209 | 98 | $ 16.39 | 7.0 | $ 1,043 |
| Exercisable at June 30, 2016 | 832 | 98 | $ 18.81 | 5.7 | $ — |
| Unvested awards, net of estimated forfeitures | 1,305 | — | $ 14.84 | 7.8 | $ 985 |

**12. STOCK-BASED COMPENSATION (Continued)**

The total cash proceeds and income tax benefit associated with the exercise of SARs and stock options during fiscal years 2016, 2015 and 2014 were immaterial. As of June 30, 2016, there was $3.7 million of unrecognized expense related to SARs and stock options that is to be recognized over a weighted-average period of 2.4 years.

**Restricted Stock Awards & Restricted Stock Units:**

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

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

| | Shares/Units (in thousands) | | Weighted Average Grant Date Fair Value | Aggregate Intrinsic Value (in thousands) |
|---|---|---|---|---|
| | RSAs | RSUs | | |
| Outstanding balance at June 30, 2015 | 133 | 809 | $ 15.86 | |
| Granted | — | 308 | 11.18 | |
| Forfeited | — | (47) | 13.58 | |
| Vested | (11) | (162) | 15.88 | |
| Outstanding balance at June 30, 2016 | 122 | 908 | $ 14.91 | $ 12,825 |
| Vested at June 30, 2016 | — | 153 | $ 15.45 | $ 1,920 |
| Unvested awards, net of estimated forfeitures | 121 | 709 | $ 14.90 | $ 10,328 |

As of June 30, 2016, there was $6.1 million of unrecognized expense related to RSAs and RSUs that is expected to be recognized over a weighted-average period of 2.3 years.

**Performance Share Units:**

PSUs represent shares potentially issuable in the future. Issuance is based upon the relative achievement of the Company's performance goals. If earned upon achievement of the performance criteria, PSUs vest three years from the grant date.

Activity for all of our PSUs is as follows:

| | Shares/Units (in thousands) | Weighted Average Grant Date Fair Value | Aggregate Intrinsic Value (in thousands) (1) |
|---|---|---|---|
| | PSUs | | |
| Outstanding balance at June 30, 2015 | 299 | $ 15.28 | |
| Granted | 414 | 12.11 | |
| Forfeited | (140) | 15.02 | |
| Vested | (17) | 15.11 | |
| Outstanding balance at June 30, 2016 | 556 | $ 13.00 | $ 7,679 |
| Vested at June 30, 2016 | — | $ — | $ — |
| Unvested awards, net of estimated forfeitures | 507 | $ 12.97 | $ 7,114 |

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

PSUs granted in fiscal years 2016 and 2015 were earned. As of June 30, 2016, there was $3.5 million of expense related to the fiscal 2016 and 2015 PSUs that is expected to be recognized over a weighted-average period of 1.8 years.

During fiscal year 2014, the Company granted PSUs which were not earned during the performance period.

## 13. SHAREHOLDERS' EQUITY

**Authorized Shares and Designation of Preferred Class:**

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

In addition, 250,000 shares of authorized capital stock have been designated as Series A Junior Participating Preferred Stock ("Preferred Stock"). None of the Preferred Stock has been issued.

**Shareholders' Rights Plan:**

The Company has a shareholders' rights plan pursuant to which one preferred share purchase right is held by shareholders for each outstanding share of common stock. The rights become exercisable only following the acquisition by a person or group, without the prior consent of the Board of Directors, of 20.0% or more of the Company's voting stock, or following the announcement of a tender offer or exchange offer to acquire an interest of 20.0% or more. If the rights become exercisable, they entitle all holders, except the takeover bidder, to purchase one one-thousandth of a share of Preferred Stock at an exercise price of $140, subject to adjustment, or in lieu of purchasing the Preferred Stock, to purchase for the same exercise price common stock of the Company (or in certain cases common stock of an acquiring company) having a market value of twice the exercise price of a right.

**Share Repurchase Program:**

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

**Accumulated Other Comprehensive Income:**

The components of accumulated other comprehensive income are as follows:

| | June 30, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | (Dollars in thousands) | | |
| Foreign currency translation | $ 4,573 | $ 8,849 | $ 22,364 |
| Unrealized gain on deferred compensation contracts | 495 | 657 | 287 |
| Accumulated other comprehensive income | $ 5,068 | $ 9,506 | $ 22,651 |

## 14. SEGMENT INFORMATION

Segment information is prepared on the same basis the chief operating decision maker reviews financial information for operational decision-making purposes. The Company has three operating segments: North American Value, North American Premium and International.

The North American Value reportable operating segment is comprised of 8,280 company-owned and franchised salons located mainly in strip center locations and Walmart Supercenters. North American Value salons offer high quality, convenient and value priced hair care and beauty services and retail products. SmartStyle, Supercuts, MasterCuts, Cost Cutters and other regional trade names operating in the United States, Canada and Puerto Rico are generally within the North American Value segment.

The North American Premium reportable operating segment is comprised of 680 company-owned salons primarily in mall-based locations. North American Premium salons offer upscale hair care and beauty services and retail products at reasonable prices. This segment operates in the United States, Canada and Puerto Rico and primarily includes the Regis salons concept, among other trade names.

The International reportable operating segment is comprised of 328 company-owned salons located in malls, department stores and high-traffic locations. International salons offer a full range of custom hair care and beauty services and retail products. This segment operates in the United Kingdom primarily under the Supercuts, Regis and Sassoon concepts.

Financial information concerning the Company's reportable operating segments is shown in the following table:

| | Fiscal Years | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | (Dollars in thousands) | | |
| Revenues: | | | |
| North American Value salons | $ 1,395,339 | $ 1,403,419 | $ 1,430,083 |
| North American Premium salons | 283,438 | 309,600 | 333,858 |
| International salons | 112,092 | 124,268 | 128,496 |
| | $ 1,790,869 | $ 1,837,287 | $ 1,892,437 |
| Depreciation and amortization expense: | | | |
| North American Value salons | $ 46,676 | $ 56,832 | $ 66,038 |
| North American Premium salons | 7,892 | 13,094 | 15,859 |
| International salons | 2,843 | 3,148 | 5,227 |
| Total segment depreciation and amortization expense | 57,411 | 73,074 | 87,124 |
| Unallocated Corporate | 10,059 | 9,789 | 12,609 |
| | $ 67,470 | $ 82,863 | $ 99,733 |
| Operating income (loss): | | | |
| North American Value salons | $ 130,016 | $ 122,597 | $ 117,832 |
| North American Premium salons(1) | (12,796) | (14,238) | (46,419) |
| International salons | (1,882) | 313 | (3,076) |
| Total segment operating income | 115,338 | 108,672 | 68,337 |
| Unallocated Corporate | (97,724) | (105,141) | (103,295) |
| Operating income (loss) | 17,614 | 3,531 | (34,958) |
| Interest expense | (9,317) | (10,206) | (22,290) |
| Interest income and other, net | 4,219 | 1,697 | 1,952 |
| Income (loss) from continuing operations before income taxes and equity in loss of affiliated companies | $ 12,516 | $ (4,978) | $ (55,296) |

(1) Included in the North American Premium salons segment's operating loss for fiscal year 2014 is a goodwill impairment charge of $34.9 million.

**14. SEGMENT INFORMATION (Continued)**

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

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

| | June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | 2015 | | 2014 | |
| | Total Revenues | Property and Equipment, Net | Total Revenues | Property and Equipment, Net | Total Revenues | Property and Equipment, Net |
| | (Dollars in thousands) | | | | | |
| U.S. | $ 1,563,023 | $ 167,613 | $ 1,585,672 | $ 198,471 | $ 1,626,794 | $ 240,460 |
| Other countries | 227,846 | 15,708 | 251,615 | 19,686 | 265,643 | 26,078 |
| Total | $ 1,790,869 | $ 183,321 | $ 1,837,287 | $ 218,157 | $ 1,892,437 | $ 266,538 |

**15. QUARTERLY FINANCIAL DATA (UNAUDITED)**

Refer to Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 in this Form 10-K for explanations of items which impacted fiscal years 2016 and 2015 revenues, operating and net (loss) income.

Summarized quarterly data for fiscal years 2016 and 2015 follows:

| | Quarter Ended | | | | |
|---|---|---|---|---|---|
| | September 30 | December 31 | March 31(a) | June 30(a) | Year Ended |
| | (Dollars in thousands, except per share amounts) | | | | |
| **2016** | | | | | |
| Revenues | $ 450,130 | $ 450,467 | $ 442,565 | $ 447,707 | $ 1,790,869 |
| Cost of service and product revenues, excluding depreciation and amortization | 260,804 | 267,056 | 260,046 | 259,623 | 1,047,529 |
| Operating income (loss) | 4,276 | (2,883) | 5,621 | 10,600 | 17,614 |
| Net (loss) income(b) | (808) | (13,986) | (2,084) | 5,562 | (11,316) |
| Net (loss) income per basic and diluted share(d) | (0.02) | (0.29) | (0.04) | 0.12 | (0.23) |

| | Quarter Ended | | | | |
|---|---|---|---|---|---|
| | September 30 | December 31 | March 31 | June 30 | Year Ended |
| | (Dollars in thousands, except per share amounts) | | | | |
| **2015** | | | | | |
| Revenues | $ 464,551 | $ 455,887 | $ 453,960 | $ 462,889 | $ 1,837,287 |
| Cost of service and product revenues, excluding depreciation and amortization | 268,664 | 268,049 | 261,947 | 264,615 | 1,063,275 |
| Operating (loss) income | (754) | (671) | 5,402 | (446) | 3,531 |
| Loss from continuing operations(b) | (9,843) | (16,663) | (4,763) | (1,943) | (33,212) |
| Loss from discontinued operations(c) | — | — | — | (630) | (630) |
| Net loss(b)(c) | (9,843) | (16,663) | (4,763) | (2,573) | (33,842) |
| Loss from continuing operations per share, basic and diluted(d) | (0.18) | (0.30) | (0.09) | (0.04) | (0.60) |
| Loss from discontinued operations per share, basic and diluted | — | — | — | (0.01) | (0.01) |
| Net loss per basic and diluted share(d) | (0.18) | (0.30) | (0.09) | (0.05) | (0.62) |

**15. QUARTERLY FINANCIAL DATA (UNAUDITED) (Continued)**

(a) During the third quarter of fiscal year 2016, the Company recorded a cumulative adjustment to correct prior period errors that related to the overstatement of interest expense, insurance expense and telephone expense, and the understatement of depreciation expense in prior periods. The impact of these items on the Company's Consolidated Statement of Operations decreased interest expense by $0.6 million, decreased site operating expenses by $0.5 million, increased depreciation expense by $0.3 million, and decreased net loss by $0.8 million. During the fourth quarter of fiscal year 2016, the Company recorded an adjustment to correct an error related to the overstatement of depreciation expense in prior periods. The impact of this item on the Company's Consolidated Statement of Operations decreased depreciation expense and net loss by $1.1 million. Because these errors were not material to the Company's consolidated financial statements for any prior periods, the respective quarter, or fiscal year, the Company recorded adjustments to correct the errors during each respective quarter for fiscal 2016.

(b) During the second quarter of fiscal year 2016, the Company recorded a $13.0 million other than temporary impairment charge on its investment in EEG. During the second quarter of fiscal year 2015, the Company recorded a $4.7 million other than temporary impairment charge and $6.9 million of its share of a deferred tax valuation allowance on its investment in EEG.

(c) During the fourth quarter of fiscal year 2015, the Company recorded expenses of $0.6 million in discontinued operations related to legal fees related to Trade Secret.

(d) Total is an annual recalculation; line items calculated quarterly may not sum to total.

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

None.

## Item 9A. Controls and Procedures

### Evaluation of Disclosure Controls and Procedures

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

Management, with the participation of the CEO and CFO, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-5(e) and 15d-15(e) promulgated under the Exchange Act), at the end of the period. Based on their evaluation, our CEO and CFO, concluded that our disclosure controls and procedures were effective as of June 30, 2016.

### Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including the CEO and the CFO, we carried out an evaluation of the effectiveness of our internal control over financial reporting as of June 30, 2016 using the criteria established in "Internal Control-Integrated Framework " (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based upon this evaluation, management concluded the Company's internal controls over financial reporting were effective as of June 30, 2016 based on those criteria.

The effectiveness of the Company's internal control over financial reporting as of June 30, 2016 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears in Item 8.

### Changes in Internal Controls over Financial Reporting

The material weakness identified in the 2015 Annual Report on Form 10-K was remediated as of June 30, 2016 through the completion of the actions described in Item 9A of the 2015 Annual Report on Form 10-K. There have been no changes in our internal control over financial reporting during the quarter ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### Item 9B. Other Information

None.

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance

Information regarding the Directors of the Company and Exchange Act Section 16(a) filings will be set forth in the sections titled "Item 1—Election of Directors", "Corporate Governance" and "Section 16(a) Beneficial Ownership Reporting Compliance" of the Company's 2016 Proxy Statement, and is incorporated herein by reference. The information required by Item 401 of Regulation S-K regarding the Company's executive officers is included under "Executive Officers" in Item 1 of this Annual Report on Form 10-K. Additionally, information regarding the Company's audit committee and audit committee financial expert, as well nominating committee functions, will be set forth in the section titled "Committees of the Board" and shareholder communications with directors will be set forth in the section titled "Communications with the Board" of the Company's 2016 Proxy Statement, and are incorporated herein by reference.

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

### Item 11. Executive Compensation

Information about executive and director compensation will be set forth in the section titled "Executive Compensation" of the Company's 2016 Proxy Statement, and is incorporated herein by reference.

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

Information regarding the Company's equity compensation plans will be set forth in the section titled "Equity Compensation Plan Information" and information regarding the beneficial ownership of the Company will be set forth in the section titled "Security Ownership of Certain Beneficial Holders and Management" of the Company's 2016 Proxy Statement, and are incorporated herein by reference.

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

Information regarding certain relationships and related transactions will be set forth in the section titled "Certain Relationships and Related Transactions" of the Company's 2016 Proxy Statement, and is incorporated herein by reference. Information regarding director independence will be set forth in the section titled "Corporate Governance—Director Independence" of the Company's 2016 Proxy Statement, and is incorporated herein by reference.

### Item 14. Principal Accounting Fees and Services

A description of the fees paid to the independent registered public accounting firm will be set forth in the section titled "Item 5—Ratification of Appointment of Independent Registered Public Accounting Firm" of the Company's 2016 Proxy Statement and is incorporated herein by reference.

# PART IV

## Item 15. Exhibits and Financial Statement Schedules

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

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

(c) Exhibits:

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

*Exhibit Number/Description*

| | |
|---|---|
| 3(a) | Election of the Company to become governed by Minnesota Statutes Chapter 302A and Restated Articles of Incorporation of the Company, dated March 11, 1983; Articles of Amendment to Restated Articles of Incorporation, dated October 29, 1984; Articles of Amendment to Restated Articles of Incorporation, dated August 14, 1987; Articles of Amendment to Restated Articles of Incorporation, dated October 21, 1987; Articles of Amendment to Restated Articles of Incorporation, dated November 20, 1996; Articles of Amendment to Restated Articles of Incorporation, dated July 25, 2000; Articles of Amendment to Restated Articles of Incorporation, dated October 22, 2013. (Incorporated by reference to Exhibit 3(a) of the Company's Report on 10-K/A filed on September 26, 2014.) |
| 3(b) | By-Laws of the Company. (Incorporated by reference to Exhibit 3.1 of the Company's Report on Form 8-K filed on October 31, 2006.) |
| 3(c) | Certificate of the Voting Powers, Designations, Preferences and Relative Participating, Optional and Other Special Rights and Qualifications, Limitations or Restrictions of Series A Junior Participating Preferred Stock of the Company. (Attached as Exhibit A to the Rights Agreement dated December 26, 2006, and incorporated by reference to Exhibit 2 of the Company's Registration Statement on Form 8-A12B filed on December 26, 2006.) |
| 4(a) | Shareholder Rights Agreement, dated December 23, 1996, between the Company and Norwest Bank Minnesota, N.A. as Rights Agent. (Incorporated by reference to Exhibit 4 of the Company's Report on Form 8-A12G filed on February 4, 1997 (File No. 000-11230).) |
| 4(b) | Rights Agreement, dated December 26, 2006, between the Company and Wells Fargo Bank, N.A., as Rights Agent, and Form of Right Certificate attached as Exhibit B to the Rights Agreement. (Incorporated by reference to Exhibits 1 and 3 of the Company's Registration Statement on Form 8-A12B, filed on December 26, 2006.) |
| 4(c) | Amendment No. 1, dated as of October 29, 2008, to Rights Agreement, dated December 26, 2006, between Regis Corporation and Wells Fargo Bank, N.A. (Incorporated by reference to Exhibit 4 to the Company’s Form 8-A12B/A filed on October 29, 2008.) |
| 4(d) | Amendment No. 2, dated as of June 13, 2013, to Rights Agreement, dated December 26, 2006, between Regis Corporation and Wells Fargo Bank, N.A. (Incorporated by reference to Exhibit 4 to the Company's Registration Statement on Form 8-A12B/A filed on June 19, 2013.) |
| 4(e) | Form of Stock Certificate. (Incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-1 (Reg. No. 40142).) |
| 4(f) | Indenture dated November 27, 2013 by and between the Company and Wells Fargo Bank, N.A, as Trustee. (Incorporated by reference to Exhibit 10.4 of the Company's Report on Form 8-K filed December 4, 2013.) |
| 4(g) | Indenture dated December 1, 2015 by and between Regis Corporation and Wells Fargo Bank, National Association (Incorporated by reference to Exhibit 10.2 of the Company's Report on Form 8-K filed on December 4, 2015.) |
| 10(a)* | Short Term Incentive Compensation Plan, effective August 19, 2014. (Incorporated by reference to Appendix A of the Company's Proxy Statement on Definitive Form 14A filed on September 10, 2014, for the year ended June 30, 2014.) |
| 10(b)* | Regis Corporation Executive Retirement Savings Plan Adoption Agreement and Trust Agreement, dated November 15, 2008 between the Company and Fidelity Management Trust Company (The CORPORATE Plan for Retirement EXECUTIVE PLAN basic plan document is incorporated by reference to Exhibit 10(c) to the Company's Report on Form 10-K filed on August 29, 2007, for the year ended June 30, 2007). (Incorporated by reference to Exhibit 10(a) of the Company's Report on Form 10-Q filed February 9, 2009.) |

| | |
|---|---|
| 10(c)* | Employment Agreement, dated August 31, 2012, between the Company and Daniel J. Hanrahan. (Incorporated by reference to Exhibit 10(a) of the Company's Report on Form 10-Q filed November 9, 2012.) |
| 10(d)* | Amendment to Employment Agreement, dated January 13, 2015, between the Company and Daniel J. Hanrahan. (Incorporated by reference to Exhibit 10(b) of the Company's Report on Form 10-Q filed January 29, 2015.) |
| 10(e)* | Employment Agreement, dated November 28, 2012, between the Company and Steven M. Spiegel. (Incorporated by reference to Exhibit 10(a) of the Company's Report on Form 10-Q filed February 4, 2013.) |
| 10(f)* | Amendment No. 1 to Employment Agreement, dated June 30, 2016, between the Company and Steven M. Spiegel. |
| 10(g)* | Form of Amended and Restated Senior Officer Employment and Deferred Compensation Agreement, dated August 31, 2012, between the Company and certain senior executive officers. (Incorporated by reference to Exhibit 10(b) of the Company's Report on Form 10-Q filed November 9, 2012.) |
| 10(h)* | Employment Agreement, dated November 11, 2013, between the Company and Jim B. Lain. (Incorporated by reference to Exhibit 10(c) of the Company's Report on Form 10-Q filed February 3, 2014.) |
| 10(i)* | Employment Agreement, dated October 21, 2013, between the Company and Carmen Thiede. (Incorporated by reference to Exhibit 10(b) of the Company's Report on Form 10-Q filed February 3, 2014.) |
| 10(j)* | Employment Agreement, dated December 15, 2014, between the Company and Annette Miller. (Incorporated by reference to Exhibit 10(a) of the Company's Report on Form 10-Q filed January 29, 2015.) |
| 10(k)* | Amended and Restated Employment Agreement, dated May 1, 2015, between the Company and Andrew Dulka. (Incorporated by reference to Exhibit 10(k) of the Company’s Report on Form 10-K filed August 28, 2015.) |
| 10(l)* | Amended and Restated 2004 Long Term Incentive Plan, as amended and restated effective October 22, 2013. (Incorporated by reference to Exhibit 10.1 of the Company's Report on Form 8-K filed on October 11, 2013.) |
| 10(m)* | Amendment to the Amended and Restated 2004 Long Term Incentive Plan, effective August 29, 2014. (Incorporated by reference to Exhibit 10(b) of the Company's Report on Form 10-Q filed November 4, 2014.) |
| 10(n) | Sixth Amended and Restated Credit Agreement, dated June 11, 2013, among the Company, and various financial institutions party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, Swing Line Lender, and Issuer, Bank of America, as Syndication Agent, and The Bank of Tokyo-Mitsubishi UFJ, Ltd., U.S. Bank National Association, and Wells Fargo Bank, N.A., as Documentation Agents. (Incorporated by reference to Exhibit 10.1 of the Company's Report on Form 8-K filed June 14, 2013.) |
| 10(o) | First Amendment, dated as of January 27, 2016, to the Sixth Amended and Restated Credit Agreement, dated June 11, 2013 among the Company, various financial institutions and JPMorgan Chase Bank, N.A., as Administrative Agent. (Incorporated by reference to Exhibit 10(c) of the Company’s Report on Form 10-Q filed January 28, 2016). |
| 10(p) | Purchase Agreement dated November 27, 2013 by and between the Company and an Initial Purchaser. (Incorporated by reference to Exhibit 10.1 of the Company's Report on Form 8-K filed December 4, 2013.) |
| 10(q) | Purchase Agreement dated November 27, 2013 by and between the Company and an Initial Purchaser. (Incorporated by reference to Exhibit 10.2 of the Company's Report on Form 8-K filed December 4, 2013.) |
| 10(r) | Purchase Agreement dated November 27, 2013 by and between the Company and an Initial Purchaser. (Incorporated by reference to Exhibit 10.3 of the Company's Report on Form 8-K filed December 4, 2013.) |
| 10(s) | Form of Exchange Agreement. (Incorporated by reference to Exhibit 10.1 of the Company's Report on Form 8-K filed on December 4, 2015.) |
| 21 | List of Subsidiaries of Regis Corporation |
| 23.1 | Consent of PricewaterhouseCoopers LLP |
| 23.2 | Consent of Baker Tilly Virchow Krause, LLP |
| 31.1 | Chief Executive Officer of the Company: Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Executive Vice President and Chief Financial Officer of the Company: Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |

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

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

## SIGNATURES

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

REGIS CORPORATION

By /s/ DANIEL J. HANRAHAN

Daniel J. Hanrahan,
*President and Chief Executive Officer*
*(Principal Executive Officer)*

By /s/ STEVEN M. SPIEGEL

Steven M. Spiegel,
*Executive Vice President,*
*Chief Financial Officer*
*(Principal Financial Officer)*

By /s/ KERSTEN D. ZUPFER

Kersten D. Zupfer,
*Vice President, Controller*
*and Chief Accounting Officer*
*(Principal Accounting Officer)*

DATE: August 23, 2016

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

| | |
|---|---|
| /s/ STEPHEN E. WATSON<br>Stephen E. Watson,<br>*Chairman of the Board of Directors* | Date: August 23, 2016 |
| /s/ DANIEL J. HANRAHAN<br>Daniel J. Hanrahan,<br>*Director* | Date: August 23, 2016 |
| /s/ DANIEL G. BELTZMAN<br>Daniel G. Beltzman,<br>*Director* | Date: August 23, 2016 |
| /s/ M. ANN RHOADES<br>M. Ann Rhoades,<br>*Director* | Date: August 23, 2016 |
| /s/ MICHAEL J. MERRIMAN<br>Michael J. Merriman,<br>*Director* | Date: August 23, 2016 |
| /s/ DAVID P. WILLIAMS<br>David P. Williams,<br>*Director* | Date: August 23, 2016 |
| /s/ DAVID J. GRISSEN<br>David J. Grissen,<br>*Director* | Date: August 23, 2016 |
| /s/ MARK LIGHT<br>Mark Light,<br>*Director* | Date: August 23, 2016 |

# EEG, Inc. and Subsidiaries

Consolidated Financial Statements

June 30, 2016, 2015, and 2014

# EEG, Inc. and Subsidiaries

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June 30, 2016, 2015, and 2014


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# Independent Auditors' Report

Board of Directors
EEG, Inc. and Subsidiaries

## Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of EEG, Inc. and Subsidiaries, which comprise the consolidated balance sheet as of June 30, 2016 and 2015, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years ended June 30, 2016, 2015, and 2014, and the related notes to the financial statements.

## Management's Responsibility for the Financial Statements

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

## Auditors' Responsibility

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

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

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

## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of EEG, Inc. and Subsidiaries as of June 30, 2016 and 2015, and the results of their operations and their cash flows for the years ended June 30, 2016, 2015, and 2014, in accordance with accounting principles generally accepted in the United States of America.

/s/ BAKER TILLY VIRCHOW KRAUSE, LLP

Wilkes-Barre, Pennsylvania
August 22, 2016

## EEG, Inc. and Subsidiaries

Consolidated Balance Sheet
June 30, 2016 and 2015

| Assets | 2016 | 2015 |
|---|---|---|
| **Current Assets** | | |
| Cash and cash equivalents | $ 40,974,612 | $ 34,151,811 |
| Restricted cash | 139,264 | 449,243 |
| Accounts receivable: | | |
| Students (net of allowance of $5,921,211 and $8,664,840 in 2016 and 2015, respectively) | 2,529,767 | 6,367,681 |
| Other | 137,306 | 80,833 |
| Affiliates, unsecured | 17,992 | 45,859 |
| Inventories | 2,145,571 | 2,632,618 |
| Prepaid expenses | 723,143 | 1,278,926 |
| Prepaid corporate income taxes | 65,303 | 1,431,345 |
| Total current assets | 46,732,958 | 46,438,316 |
| **Property and Equipment, Net** | 32,117,007 | 34,907,422 |
| **Other Assets** | | |
| Intangibles, not subject to amortization | 8,704,186 | 8,704,186 |
| Intangibles, net | 110,740 | 157,641 |
| Prepublication costs (net of accumulated amortization of $149,037 and $85,522 in 2016 and 2015, respectively) | 167,604 | 231,120 |
| Notes receivable, employees, secured | 216,791 | 215,701 |
| Deposits and other assets | 1,063,936 | 704,756 |
| Total other assets | 10,263,257 | 10,013,404 |
| Total | $ 89,113,222 | $ 91,359,142 |

| Liabilities and Shareholders' Equity | 2016 | 2015 |
|---|---|---|
| **Current liabilities** | | |
| Current maturities, capital lease obligation and long term debt | $ 481,346 | $ 458,722 |
| Accounts payable, trade | 1,618,751 | 2,389,701 |
| Affiliates | 3,118 | — |
| Accounts payable, accrued | 2,358,180 | 3,431,053 |
| Accrued payroll | 1,285,360 | 1,535,836 |
| Accrued expenses | 1,368,572 | 1,284,163 |
| Trust liabilities | 139,264 | 199,181 |
| Unearned tuition | 10,905,463 | 9,483,511 |
| Total current liabilities | 18,160,054 | 18,782,167 |
| **Capital Lease Obligation** | 6,770,910 | 7,031,094 |
| **Long-Term Debt** | 14,921,514 | 20,642,677 |
| **Deferred Rent** | 7,063,670 | 6,878,714 |
| **Deferred Compensation** | — | 217,768 |
| Total liabilities | 46,916,148 | 53,552,420 |
| **Commitments and Contingencies (Notes 11, 14)** | | |
| **Shareholders' Equity** | | |
| Preferred stock: | | |
| Series A, 8% cumulative, redeemable, $0.001 par value, 150 shares authorized, 100 issued and outstanding | 10,000,000 | — |
| Series B, 8% cumulative, redeemable, $0.001 par value, 114 shares authorized, none issued and outstanding | — | — |
| Common stock, $0.001 par value; 10,000 shares authorized, 897.938 shares issued and outstanding | 1 | 1 |
| Additional paid-in capital | 66,346,025 | 66,400,281 |
| Accumulated deficit | (34,148,952) | (28,593,560) |
| Total shareholders' equity | 42,197,074 | 37,806,722 |
| Total | $ 89,113,222 | $ 91,359,142 |

See Notes to Consolidated Financial Statements

## EEG, Inc. and Subsidiaries

Consolidated Statement of Operations
For the Years Ended June 30, 2016, 2015, and 2014

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| **Revenue** | | | |
| Educational services | $ 110,684,320 | $ 132,946,719 | $ 146,462,085 |
| Products | 19,617,360 | 22,050,047 | 20,078,121 |
| Total revenue | 130,301,680 | 154,996,766 | 166,540,206 |
| **Operating Expenses** | | | |
| Cost of educational services, exclusive of depreciation and amortization | 83,330,808 | 97,804,550 | 95,493,987 |
| Cost of product sales | 12,386,245 | 14,545,443 | 12,815,299 |
| General, selling, and administrative, exclusive of depreciation and amortization | 32,679,233 | 38,269,157 | 42,850,496 |
| Depreciation and amortization | 4,909,281 | 5,352,592 | 7,385,895 |
| Other operating expenses | 2,723,148 | 2,902,235 | 3,052,561 |
| Loss on disposal and sale of assets | 38,678 | 167,942 | 14,026 |
| Impairment loss | 91,258 | 218,950 | 38,454,344 |
| Total operating expenses | 136,158,651 | 159,260,869 | 200,066,608 |
| **Loss from Operations** | (5,856,971) | (4,264,103) | (33,526,402) |
| **Other Income (Expense)** | | | |
| Interest expense | (800,875) | (655,523) | (661,863) |
| Interest income | 70,531 | 73,156 | 38,702 |
| Miscellaneous income | 513,823 | 733,594 | 185,167 |
| Total other income (expense), net | (216,521) | 151,227 | (437,994) |
| **Loss Before (Benefit) Provision for Income Taxes** | (6,073,492) | (4,112,876) | (33,964,396) |
| **(Benefit) Provision for Income Taxes** | (522,484) | 12,625,065 | (7,265,186) |
| Net Loss | $ (5,551,008) | $ (16,737,941) | $ (26,699,210) |

See Notes to Consolidated Financial Statements

## EEG, Inc. and Subsidiaries

Consolidated Statement of Shareholders' Equity
For the Years Ended June 30, 2016, 2015, and 2014

| | Series A Preferred Stock | | Common Stock | | Additional Paid-in Capital | Retained Earnings (Accumulated Deficit) | Total |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | | | |
| **Balance, June 30, 2013** | — | $ — | 889.938 | $ 1 | $ 65,990,071 | $ 14,878,850 | $ 80,868,922 |
| **Net Loss** | | | | — | — | (26,699,210) | (26,699,210) |
| **Stock Option Exercise** | | | 10 | — | 234,020 | — | 234,020 |
| **Compensation Costs from Stock Options** | | | | — | 371,777 | — | 371,777 |
| **Balance, June 30, 2014** | — | — | 899.938 | 1 | 66,595,868 | (11,820,360) | 54,775,509 |
| **Net Loss** | | | | — | — | (16,737,941) | (16,737,941) |
| **Repurchase & Cancellation of Shares** | | | (2) | — | (46,804) | (35,259) | (82,063) |
| **Cancellation of Non-Qualified Stock Option** | | | | — | (179,764) | — | (179,764) |
| **Compensation Costs from Stock Options** | | | | — | 30,981 | — | 30,981 |
| **Balance, June 30, 2015** | — | — | 897.938 | 1 | 66,400,281 | (28,593,560) | 37,806,722 |
| **Net Loss** | | | | — | — | (5,551,008) | (5,551,008) |
| **Cancellation of Non-Qualified Stock Option** | | | | — | (54,256) | — | (54,256) |
| **Issuance of Preferred Stock** | 100 | 10,000,000 | | — | — | — | 10,000,000 |
| **Preferred stock dividends** | | | | | | (4,384) | (4,384) |
| **Balance, June 30, 2016** | 100 | $10,000,000 | 897.938 | $ 1 | $ 66,346,025 | $ (34,148,952) | $ 42,197,074 |

See Notes to Consolidated Financial Statements

**EEG, Inc. and Subsidiaries**

Consolidated Statement of Cash Flows
June 30, 2016, 2015, and 2014

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| Net loss | $ (5,551,008) | $ (16,737,941) | $ (26,699,210) |
| Adjustments to reconcile net loss to net cash | | | |
| provided by operating activities: | | | |
| Depreciation | 4,798,864 | 5,214,764 | 7,269,278 |
| Amortization of intangibles | 46,901 | 76,714 | 92,210 |
| Amortization of prepublication costs | 63,516 | 61,114 | 24,408 |
| Impairment loss | 91,258 | 218,950 | 38,454,344 |
| Deferred compensation | (217,768) | — | — |
| Compensation cost from stock options | — | 30,981 | 371,777 |
| Loss on disposal and sale of equipment | 38,678 | 167,942 | 14,026 |
| Changes in assets and liabilities: | | | |
| Accounts receivable, student | 6,581,543 | (5,083,059) | (178,954) |
| Deferred income taxes | (54,256) | 13,998,601 | (6,772,707) |
| Provision for uncollectible accounts | (2,743,629) | 1,953,954 | (1,114,546) |
| Inventories | 487,047 | 1,338,430 | (1,776,362) |
| Prepaid expenses and other assets | 1,534,039 | 3,635,353 | (1,472,144) |
| Restricted cash and trust liabilities | 250,062 | (250,062) | — |
| Notes receivable, employee, secured | (1,090) | (1,156) | (35,734) |
| Accounts payable and accrued expenses | (2,006,772) | (1,904,515) | 760,895 |
| Unearned tuition | 1,421,952 | (4,225,365) | (1,249,956) |
| Deferred rent | 184,956 | 2,639,824 | (5,857) |
| Total adjustments | 10,475,301 | 17,872,470 | 34,380,678 |
| Net cash provided by operating activities | 4,924,293 | 1,134,529 | 7,681,468 |
| **Cash Flows from Investing Activities** | | | |
| Purchases of property and equipment | (3,661,895) | (4,223,078) | (4,336,333) |
| Proceeds from sale of property and equipment | 1,523,510 | 242,003 | 54,626 |
| Investment in prepublication costs | — | (13,100) | (254,010) |
| Net cash used in investing activities | (2,138,385) | (3,994,175) | (4,535,717) |
| **Cash Flows from Financing Activities** | | | |
| Net (repayment) proceeds of long-term debt | (5,721,163) | (636,163) | 11,653,536 |
| Repayment of capital lease obligation | (237,560) | (244,149) | (225,701) |
| Proceeds from preferred stock issuance | 10,000,000 | — | — |
| Preferred stock dividends | (4,384) | — | — |
| Net cash provided (used in) by financing activities | 4,036,893 | (880,312) | 11,427,835 |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | 6,822,801 | (3,739,958) | 14,573,586 |
| **Cash and Cash Equivalents, Beginning** | 34,151,811 | 37,891,769 | 23,318,183 |
| **Cash and Cash Equivalents, Ending** | $ 40,974,612 | $ 34,151,811 | $ 37,891,769 |
| **Supplemental Disclosure of Cash Flow Information** | | | |
| Interest paid, net of capitalized interest | $ 805,595 | $ 648,105 | $ 667,278 |
| Income taxes (refunded) paid, net | $ (1,722,836) | $ (3,736,501) | $ 81,264 |
| **Supplemental Disclosure of Non-Cash Operating and Financing Activities** | | | |
| Shareholders note receivable exchanged for common stock | $ — | $ — | $ 234,020 |
| Additional paid-in capital - repurchase and cancellation of shares | $ — | $ 101,757 | $ — |
| Retained earnings - repurchase and cancellation of shares | $ — | $ 35,259 | $ — |
| Notes receivable, employee, secured - repurchase and cancellation of shares | $ — | $ (110,163) | $ — |
| Accrued expenses - repurchase and cancellation of shares | $ — | $ (26,853) | $ — |
| Additional paid-in capital - non-qualifying stock option cancellation after vesting | $ 54,256 | $ 179,764 | $ — |
| Deferred tax asset - non-qualifying stock option cancelled after vesting | $ (54,256) | $ (179,764) | $ — |
| Deferred compensation liability | $ 217,768 | $ — | $ — |
| Stock based employee compensation | $ (217,768) | $ — | $ — |

See Notes to Consolidated Financial Statements

## 1. Nature of Operations and Summary of Significant Accounting Policies

### Nature of Operations and Organizational Matters

EEG, Inc. (“EEG”) owns and operates 89 cosmetology schools located throughout the United States. With the exception of 2 cosmetology schools owned by wholly-owned subsidiaries, Gary’s Incorporated (“Gary’s”), and Northern Westchester School of Hair Dressing and Cosmetology, Inc. (‘Northern Westchester”), all of EEG’s cosmetology schools are owned directly by EEG. EEG operates cosmetology schools under two brands; Empire Beauty School and the Hair Design School.

### Principles of Consolidation

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

### Subsequent Events

The Company evaluated subsequent events for recognition or disclosure through August 22, 2016, the date the consolidated financial statements were issued.

### Use of Estimates

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

### Cash and Cash Equivalents

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

### Restricted Cash

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

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

#### Student Accounts Receivable

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

#### Inventories

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

#### Property and Equipment

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

The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. The Company assesses the recoverability of long-lived assets by calculating expected future cash flows to be generated by the assets. If future undiscounted cash flows are insufficient to support the carrying cost of an asset group, then an impairment loss, measured as the difference between the carrying amount of the asset and the discounted future cash flows it may generate, is calculated and recorded. The Company recorded impairments of tangible fixed assets of $91,258, $218,950, and $9,598,508 for the years ended June 30, 2016, 2015, and 2014, respectively.

#### Intangible Assets

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

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

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

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

### Prepublication Costs

The Company capitalizes all prepublication direct costs incurred in the physical production of master publication-ready textbooks. These costs include the cost of manuscripts, salaries of staff directly working on designing, writing and editing the master volumes, the costs of supplies, photography, models, expendable goods, rental and maintenance of facilities, depreciation and amortization of equipment and leasehold improvements used directly by the production staff, and costs of nonemployee translators, editors, and writers. The capitalization of prepublication costs ceases when the master volume textbook is ready for submission to a printing house for mass production of the text. Prepublication costs are amortized using the straight-line method over estimated lives of 5-7 years. Amortization expense related to prepublication costs for the years ended June 30, 2016, 2015, and 2014, was $63,515, $61,114 and $24,408, respectively.

### Revenue Recognition

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

### Income Taxes

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

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

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

### Income Taxes (Continued)

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

### Advertising Costs

Advertising costs are charged to operations when incurred. Advertising expense was $9,081,845, $10,287,389 and $11,248,526 for the years ended June 30, 2016, 2015, and 2014, respectively.

### Recent Accounting Pronouncements

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

In August 2014, the Financial Accounting Standards Board issued an update on going concern. Under GAAP, continuation of a reporting entity as a going concern is presumed as the basis for preparing financial statements unless and until the entity's liquidation becomes imminent. Currently, there is no guidance in GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern or to provide a footnote disclosure. The auditor is required to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time not to exceed one year beyond the date of the financial statements being audited.

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

### Recent Accounting Pronouncements (Continued)

With this update, an entity's management should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within a year after the date that the financial statements are issued. Management's evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued. If conditions or events raise substantial doubt about an entity's ability to continue as a going concern, but the substantial doubt is alleviated as a result of consideration of management's plan, the entity should disclose information that enables users of the financial statements to understand the critical elements of the situation.

If conditions or events raise substantial doubt about an entity's ability to continue as a going concern, and substantial doubt is not alleviated after consideration of management's plan, an entity should include a statement in the footnotes indicating that there is substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued.

The guidance in this update is effective for annual periods ending after December 15, 2016. Early application is permitted. Management is evaluating this new guidance.

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

## 2. Restricted Cash

The Company has restricted cash from several sources. The U.S. Department of Education places restrictions on Title IV program funds held for students for unbilled educational services. As a trustee of these Title IV program funds, the Company is required to maintain and restrict these funds pursuant to the terms of our program participation agreement with the Department. See table below for a breakdown of what comprised restricted cash as of June 30, 2016, and 2015.

| | 2016 | 2015 |
|---|---|---|
| Third party scholarship funds | $ 71,000 | $ 113,000 |
| Charitable contribution pledges | 58,400 | 67,774 |
| State agencies student funds | 6,963 | 16,090 |
| Title IV program funds | 2,695 | 2,180 |
| Other | 206 | 137 |
| Certificate of deposit | — | 250,062 |
| Total restricted cash | $ 139,264 | $ 449,243 |

### 3. Property and Equipment, Net

Property and equipment consist of the following on June 30:

| | 2016 | 2015 |
|---|---|---|
| Land | $ — | $ 900,000 |
| Building | — | 200,000 |
| Capital lease asset (Note 5) | 8,200,000 | 8,200,000 |
| Leasehold improvements | 41,456,342 | 42,964,878 |
| Furniture, fixtures, and equipment | 24,120,131 | 24,832,102 |
| Automotive equipment | 225,021 | 275,235 |
| Audio-video equipment | 2,191,302 | 2,377,130 |
| Signs | 1,478,098 | 1,519,957 |
| Construction in progress | 702,295 | 577,327 |
| Total cost | 78,373,189 | 81,846,629 |
| Less accumulated depreciation and amortization | 46,256,182 | 46,939,207 |
| Property and equipment, net | $ 32,117,007 | $ 34,907,422 |

The accumulated amortization of the capital lease asset was $2,236,364 and $1,810,390 at June 30, 2016, and 2015, respectively. Capitalized interest was $13,177, $11,362, and $32,690 for the years ended June 30, 2016, 2015, and 2014, respectively.

### 4. Intangible Assets

Intangibles, not subject to amortization consist of the Accreditation of acquired schools amounting to $7,814,186 and a Non-compete agreement with Regis amounting to $890,000 at June 30, 2016, and 2015. Accreditation provides schools with the ability to participate in Title IV funding and is an indefinite-lived intangible asset due to the minimal requirements on the part of the Company to renew such status. The Non-compete agreement is effective as long as Regis continues holding an ownership interest in the Company. Accordingly, the asset is classified as an indefinite-lived asset. If Regis terminates its ownership interest, the carrying value of the asset will be amortized over its then remaining two year life.

## 4. Intangible Assets (Continued)

A summary of intangible assets subject to amortization at June 30, 2016, and, 2015 is as follows:

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

| | 2015 | | |
|---|---|---|---|
| | Cost | Accumulated Amortization | Net Carrying Amount |
| Copyrights and trade names | $ 2,623,883 | $ 2,601,200 | $ 22,683 |
| Below market rate leases | 1,100,614 | 978,181 | 122,433 |
| Business covenants | 730,100 | 717,575 | 12,525 |
| Customer lists | 50,000 | 50,000 | — |
| Total | $ 4,504,597 | $ 4,346,956 | $ 157,641 |

## 4. Intangible Assets (Continued)

### Amortization of Intangibles

Amortization expense for the years ended June 30, 2016, 2015, and 2014, was $46,901, $76,714, and $92,210, respectively.

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

| Years ending June 30: | | |
|---|---|---|
| 2017 | $ | 26,154 |
| 2018 | | 15,596 |
| 2019 | | 15,595 |
| 2020 | | 12,289 |
| 2021 | | 8,885 |
| Total | $ | 78,519 |

## 5. Capital Lease Obligation

The Company is obligated under a capital lease arrangement with an affiliated company for office space used in the Company's operations. At June 30, 2016, the scheduled future minimum lease payments required under the capital lease and the present value of the net minimum lease payments are as follows:

| Years ending June 30: | | |
|---|---|---|
| 2017 | $ | 891,522 |
| 2018 | | 891,522 |
| 2019 | | 891,522 |
| 2020 | | 891,522 |
| 2021 | | 891,522 |
| Thereafter | | 8,023,700 |
| Total future minimum lease payments | | 12,481,310 |
| Less amounts representing interest | | 5,450,217 |
| Present value of minimum lease payments | | 7,031,093 |
| Less current portion | | 260,183 |
| Long-term obligation | $ | 6,770,910 |

## 6. Long-Term Debt

The Company has a credit facility with a bank maturing September 30, 2017. The maximum availability for borrowings or letters of credit under the facility is $14,500,000 as of June 30, 2016 and $20,000,000 as of June 30, 2015. Interest is payable monthly at one month Libor plus 550 basis points (5.9375% and 2.69% at June 30, 2016, and 2015, respectively). There were borrowings of $14,000,000 and $19,500,000 outstanding at June 30, 2016, and 2015, respectively. The Company was contingently liable to the bank for three irrevocable letters of credit totaling $500,000 at June 30, 2016 and 2015. The maximum borrowing availability on the credit facility is reduced by the amount of any outstanding letters of credit. The credit facility is collateralized by a pledge of substantially all of the Company's assets.

The Company has a bank term loan ("Term Loan"). The Term Loan has a 120 month term with a final maturity of August 31, 2021. The Term Loan may be called by the lender on August 31, 2016. Interest is currently payable at a rate of 2.625% on the Term Loan. Long-term borrowings under the Term Loan were $921,514 and $1,142,677 as of June 30, 2016, and 2015, respectively. The current portion of these borrowings was $221,163 as of both June 30, 2016, and 2015. The Company will be required to pay $221,163 in equal annual installments in each of the next four years with the remainder of $36,862 paid out in the fifth year. The Term Loan is collateralized by substantially all of the Company's assets.

## 7. Deferred Compensation

In 2008, the Company assumed a non-qualified deferred compensation arrangement with an executive of the Company. The executive was fully vested and the company recognized a gain with regard to this deferred compensation. The executive left the Company in May 2016 and his departure triggered a revaluation of the liability per the terms of the agreement. As a result of this revaluation, the original estimated liability of $217,768 was reversed to zero in this fiscal year.

## 8. Income Taxes

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

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| U.S. | $ (6,073,492) | $ (4,112,876) | $ (33,964,396) |

## 8. Income Taxes (Continued)

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

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Current | | | |
| Federal | $ (417,286) | $ (1,570,540) | $ (157,680) |
| State | (105,198) | 197,006 | (334,799) |
| Deferred | | | |
| Federal | — | 10,264,661 | (5,698,153) |
| State | — | 3,733,938 | (1,074,554) |
| Total | $ (522,484) | $ 12,625,065 | $ (7,265,186) |

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

| | 2016 | 2015 |
|---|---|---|
| Beginning Balance | $ 12,691,196 | $ — |
| Establishment of valuation allowance on deferred tax assets | — | 12,564,735 |
| Changes to deferred tax asset valuation allowance | (566,994) | 126,461 |
| Ending Balance, June 30 | $ 12,124,202 | $ 12,691,196 |

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

## 8. Income Taxes (Continued)

Deferred tax assets are as follows at June 30:

| | 2016 | 2015 |
|---|---|---|
| Current assets | $ 2,595,819 | $ 3,752,805 |
| Less: valuation allowance | (2,595,819) | (3,752,805) |
| Net current deferred income taxes | $ — | $ — |
| | | |
| Noncurrent assets | 9,528,383 | 8,938,391 |
| Less: valuation allowance | (9,528,383) | (8,938,391) |
| Net noncurrent deferred income taxes | $ — | $ — |

A reconciliation of the statutory U.S. federal income tax rate to our effective income tax rates for continuing operations for the years ended June 30, 2016, 2015, and 2014 is as follows:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Statutory U.S. federal income tax rate | 34.0% | 34.0 % | 34.0% |
| State and local income taxes | — | (6.6) | 2.4 |
| Nondeductible goodwill | — | — | (15.7) |
| Deferred tax valuation allowance | (34.0) | (308.6) | — |
| Estimate to actual rate true up | 8.6 | (19.6) | — |
| Other | — | (6.2) | 0.7 |
| Effective income tax rate | 8.6% | (307.0)% | 21.4% |

The effective tax rate for period ended June 30, 2016, is 8.6 percent due to the true up to the June 30, 2015 tax return. The effective tax rate for period ended June 30, 2015, included $12,691,196 of a deferred tax valuation allowance which increased the effective tax rate by approximately 308.6 percent. The effective tax rate was also increased by 19.6 percent related to the estimate to actual state tax rate true up for period ended June 30, 2015. The effective tax rate for the year ended June 30, 2014, included a $15.2 million non-deductible Goodwill impairment charge which decreased the negative effective tax rate by approximately 15.7 percent.

## 8. Income Taxes (Continued)

The components of the net deferred tax assets and liabilities as of June 30, 2016, and 2015 are as follows:

| | 2016 | 2015 |
|---|---|---|
| Deferred tax assets: | | |
| Net operating loss carryforwards | $ 3,227,677 | $ — |
| Capital lease | 2,830,757 | 2,858,920 |
| Deferred rent | 2,818,259 | 2,681,882 |
| Allowance for doubtful accounts | 2,363,849 | 3,377,935 |
| State deferred bonus depreciation | 751,304 | 722,034 |
| Payroll and payroll related costs | 487,056 | 860,321 |
| Other | 106,380 | 767,989 |
| Depreciation and amortization | (461,080) | 1,422,115 |
| Less: valuation allowance | (12,124,202) | (12,691,196) |
| Total deferred income tax assets | $ — | $ — |

As of June 30, 2016, 2015, and 2014, there were no unrecognized tax benefits that, if recognized, would significantly affect the Company's effective tax rate. Also, as of June 30, 2016, 2015, and 2014 there were no material penalties and interest recognized in the statement of income, nor does the Company foresee a change in its material tax positions that would give rise to the non-recognition of an existing tax benefit during the forthcoming twelve months.

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

## 9. Profit Sharing Plan

The Company sponsors a 401(k) savings and profit sharing plan. The Company made no contributions to the plan during the year ended June 30, 2016. The Company made contributions to the plan of $309,422 and $319,307 during the years ended June 30, 2015, and 2014.

## 10. Stock Transactions

### Common Stock

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

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

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

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

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

### Preferred Stock

The Company has authorized the following preferred stock:

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

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

## 10. Stock Transactions (Continued)

### Preferred Stock (Continued)

Series A preferred stock had 100 shares issued and outstanding and Series B preferred stock had no shares issued and outstanding as of June 30, 2016. The Company at its discretion redeemed 100 shares of Series A preferred stock for $10,000,000 subsequent to year end. No Series A or B preferred stock was issued and outstanding on June 30, 2015.

## 11. Commitments

The Company leases buildings for its school operations, administrative offices, and a storage area under noncancellable operating leases expiring in various years through June 2030. Rent expense was $13,105,468, $14,811,929, and $14,915,571 for the years ended June 30, 2016, 2015, and 2014, respectively.

Minimum future rental payments over the primary terms of the Company's leases as of June 30, 2016, for each of the next five years and in aggregate are:

| Years ending June 30: | |
|---|---|
| 2017 | $ 13,544,398 |
| 2018 | 12,874,479 |
| 2019 | 10,507,827 |
| 2020 | 7,112,455 |
| 2021 | 4,559,909 |
| Thereafter | 8,827,895 |
| Total minimum future rental payments | $ 57,426,963 |

Certain operating lease agreements contain scheduled rent increases. In accordance with generally accepted accounting principles, this rent has been accounted for on a straight-line basis. The difference between the straight-line basis and the amount of rent paid is recorded as a noncurrent liability, deferred rent.

## 12. School Closing Charges and Severance Costs

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

## 12. School Closing Charges and Severance Costs (Continued)

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

## 13. Related Party Transactions

There were no purchases of supplies or payments of interest to Regis for the years ended June 30, 2016, 2015 or 2014. There is no amount due to or from Regis at June 30, 2016, or 2015.

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

The Company recognized interest expense of $652,155, $589,463, and $600,466 under a capital lease arrangement with Schoeneman Realty Company for the years ended June 30, 2016, 2015 and 2014, respectively (Note 5). Principal payments on this lease amounted to $237,559, $244,149 and $225,683 for the years ended June 30, 2016, 2015, and 2014, respectively. Interest expense accrued related to the capital lease was $53,504, $55,312, and $49,478 as of June 30, 2016, 2015, and 2014, respectively. This is included in accrued expenses.

## 14. Contingencies

The Company has been named a co-defendant in a lawsuit filed in New York State which seeks class action status. While management believes the Company will successfully defend itself in this lawsuit, the ultimate outcome and legal costs to defend the Company are undeterminable at this time. As such, no accruals have been recognized in the accompanying consolidated financial statements.

The Company has been named a co-defendant and defendant in lawsuits filed in New Jersey and Pennsylvania, respectively. Each of the suits seek class action status. While management believes the Company will successfully defend itself in these lawsuits, the ultimate outcome and legal costs to defend the Company are undeterminable at this time. As such, no accruals have been recognized in the accompanying consolidated financial statements.

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

## 15. Concentrations of Credit Risk

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

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

## 16. Stock Options

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

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

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

Option activity as June 30, 2016, was as follows:

| | Number of Shares | Exercise Price (per share) | Remaining Contractual Life (per share) |
|---|---|---|---|
| Outstanding, June 30, 2015 | 40 | $ 129,400 | 3.00 |
| Less: Options cancelled after vesting, May 2016 | 20 | $ 129,400 | 0.00 |
| Total Outstanding, June 30, 2016 | 20 | $ 129,400 | 2.00 |

| | |
|---|---|
| Weighted Average fair value of options granted: | $55,929 |
| Option Price Range (Fair Value): | $45,233 - $109,408 |

Equity compensation costs for the years ended June 30, 2016, 2015 and 2014 were -0-, $30,981 and $371,777 respectively.

### 17. Fair Value of Financial Instruments

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

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Amount | Fair Value |
| Assets: | | | | |
| Cash, cash equivalents, and restricted cash | $ 41,113,876 | $ 41,113,876 | $ 34,601,054 | $ 34,601,054 |
| Accounts receivable, net | 2,667,073 | 2,667,073 | 6,448,514 | 6,448,514 |
| Accounts receivable, affiliates | 17,992 | N/A | 45,859 | N/A |
| Liabilities: | | | | |
| Long Term Debt, other | 15,142,677 | 15,142,677 | 20,863,840 | 20,863,840 |
| Accounts payable, trade | 1,618,751 | 1,618,751 | 2,389,701 | 2,389,701 |
| Deferred rent | 2,900,839 | 2,900,839 | 2,634.351 | 2,634.351 |

Fair values were determined as follows:

- Cash, cash equivalents, and restricted cash; accounts receivable, net; and accounts payable, trade - the carrying amounts approximate fair value because of the short-term maturity of these instruments and they are considered level 2 inputs under Fair Value Measurements.

- Accounts receivable, affiliate; accounts payable, affiliates; and long-term debt, affiliate - estimating the fair value of these instruments is not practicable because the terms of these transactions would not necessarily be duplicated in the market.

- Long-term debt, other - the carrying amounts of long-term debt, other approximate fair value based on borrowing rates available to the Company for debt with similar terms and they are considered level 2 inputs under Fair Value Measurements.

- Deferred rent - the values are the component of Deferred Rent liability which represents the carrying value and estimated fair value of the future rent liabilities associated with school closings in advance of lease terminations. These values have been determined via discounted cash flow models and are classified as level 3 Fair Value Measurements.

## 18. Fair Value Measurements

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

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

Fair value measurement classifications are as follows:

Level 1 - Quoted prices for identical items in active markets

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

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

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

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

(1) Long-lived assets with a carrying amount of $91,258 were written down to their implied fair values resulting in an impairment charge of $91,258 (Note 1).
(2) The fair value estimate of future rent obligations of school sites closed in advance of lease terminations were determined under discounted cash flow models and are included as a component of Deferred Rent liability (Note 12).

Asset groups containing values measured, and presented on a non-recurring fair value basis at June 30, 2015, are as follows:

| Description | Value | Level 3 | Impairment |
|---|---|---|---|
| Long-lived assets(1) | $ — | $ — | $ 218,950 |
| Deferred rent(2) | $ 2,634,351 | $ 2,634,351 | N/A |

(1) Long-lived assets with a carrying amount of $218,950 were written down to their implied fair values resulting in an impairment charge of $218,950 (Note 1).
(2) The fair value estimate of future rent obligations of school sites closed in advance of lease terminations were determined under discounted cash flow models and are included as a component of Deferred Rent liability (Note 12).

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**To Be Held October 18, 2016**

TO THE SHAREHOLDERS OF REGIS CORPORATION:

The Annual Meeting of the Shareholders (the “Annual Meeting”) of Regis Corporation (referred to as “we,” “us,” “our,” “Regis” and the “Company”) will be held at our executive offices located at 7201 Metro Boulevard, Edina, Minnesota 55439, on October 18, 2016 commencing at 9:00 a.m., for the following purposes:

1. To elect the eight directors listed in the proxy statement to serve for a one-year term and until their successors are elected and qualified;

2. To approve, on an advisory basis, the compensation of our named executive officers (referred to as the “Say-on-Pay” proposal);

3. To approve our 2016 long-term incentive compensation plan, including the reservation of 3,500,000 shares thereunder;

4. To approve the amendment and restatement of our employee stock purchase plan to, among other things, increase the total number of shares available for issuance from 3,550,000 to 4,550,000;

5. To ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for fiscal 2017; and

6. To transact such other business, if any, as may properly come before the Annual Meeting or any adjournment or postponement thereof.

Only holders of record of our common stock at the close of business on August 24, 2016 are entitled to notice of and to vote at the Annual Meeting or any adjournment or postponement thereof.

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

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

By Order of the Board of Directors

Eric A. Bakken
*Secretary*

September 6, 2016

REGIS CORPORATION

**PROXY STATEMENT**

**ANNUAL MEETING OF SHAREHOLDERS, OCTOBER 18, 2016**

This Proxy Statement is furnished to shareholders of REGIS CORPORATION, a Minnesota corporation (the "Company"), in connection with the solicitation on behalf of our Board of Directors (the "Board") of proxies for use at the annual meeting of shareholders to be held on October 18, 2016 (the "Annual Meeting"), and at any adjournment or postponement thereof, for the purposes set forth in the accompanying Notice of Annual Meeting of Shareholders.

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

**Availability of Proxy Materials**

As permitted by rules adopted by the Securities and Exchange Commission ("SEC"), we are making our proxy materials, which include our Notice and Proxy Statement and Annual Report on Form 10-K, available to our shareholders over the Internet. We believe that this e-proxy process expedites our shareholders' receipt of proxy materials and lowers the costs and reduces the environmental impact of the Annual Meeting. In accordance with such SEC rules, we will send shareholders of record as of the close of business on August 24, 2016 a Notice of Internet Availability of Proxy Materials (the "Notice"), which mailing will commence on or about September 6, 2016. The Notice contains instructions on how shareholders can access our proxy materials and vote their shares over the Internet. If you would like to receive a printed copy of our proxy materials from us instead of downloading them from the Internet, please follow the instructions for requesting such materials included in the Notice.

**Solicitation and Revocation of Proxies**

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

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

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

**If You Hold Your Shares in "Street Name"**

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

## VOTING RIGHTS AND REQUIREMENTS

Only shareholders of record as of the close of business on August 24, 2016 will be entitled to sign proxies or to vote. On that date, there were 46,154,722 shares issued, outstanding and entitled to vote. Each share of common stock is entitled to one vote. A majority of the outstanding shares present in person or by proxy at the Annual Meeting is required to transact business, and constitutes a quorum for voting on items at the Annual Meeting. If you vote, your shares will be part of the quorum. Abstentions and broker non-votes will be counted as being present at the Annual Meeting in determining the quorum, but neither will be counted as a vote in favor of a matter. A "broker non-vote" is a proxy submitted by a bank, broker or other custodian that does not indicate a vote for some of the proposals because the broker does not have or does not exercise discretionary voting authority on certain types of proposals and has not received instructions from its client as to how to vote on those proposals.

**Vote Required**

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

| Proposal | Vote Required | Voting Options | Board Recommen-dation(1) | Broker Discretionary Voting Allowed(2) | Impact of Abstention |
|---|---|---|---|---|---|
| Item 1: Election of the eight director nominees listed in this Proxy Statement | Majority of votes cast-"FOR" must exceed "AGAINST" votes(3) | "FOR" "AGAINST" "ABSTAIN" | "FOR" | No | None |
| Item 2: Advisory "Say-on-Pay" vote | Majority of votes cast-"FOR" must exceed "AGAINST" votes(4) | "FOR" "AGAINST" "ABSTAIN" | "FOR" | No | None |
| Item 3: Approval of our 2016 long-term incentive plan, including the reservation of 3,500,000 shares thereunder | Majority of votes present in person or by proxy and entitled to vote on this item of business or, if greater, the vote required is a majority of the voting power of the minimum number of shares entitled to vote that would constitute a quorum at the Annual Meeting | "FOR" "AGAINST" "ABSTAIN" | "FOR" | No | "AGAINST" |
| Item 4: Approval of the amendment and restatement of our employee stock purchase plan to, among other things, increase the total number of shares available for issuance from 3,550,000 to 4,550,000 | Majority of votes present in person or by proxy and entitled to vote on this item of business or, if greater, the vote required is a majority of the voting power of the minimum number of shares entitled to vote that would constitute a quorum at the Annual Meeting | "FOR" "AGAINST" "ABSTAIN" | "FOR" | No | "AGAINST" |
| Item 5: Ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2017 | Majority of votes present in person or by proxy and entitled to vote on this item of business or, if greater, the vote required is a majority of the voting power of the minimum number of shares entitled to vote that would constitute a quorum at the Annual Meeting | "FOR" "AGAINST" "ABSTAIN" | "FOR" | Yes | "AGAINST" |

(1) If you are a registered holder and you sign and submit your proxy card without indicating your voting instructions, your shares will be voted in accordance with the Board's recommendation.

(2) A broker non-vote will not count as a vote for or against a director or the Say-on-Pay vote. For Items 3, 4 and 5, a broker non-vote will have no effect unless a majority of the voting power of the minimum number of shares entitled to vote that would constitute a quorum at the Annual Meeting is required in order to approve the item, then a broker non-vote will have the same effect as a vote "AGAINST."

(3) In an uncontested election of directors at which a quorum is present, if any nominee for director receives a greater number of votes "AGAINST" his or her election than votes "FOR" such election, our Corporate Governance Guidelines require that such person must promptly tender his or her resignation to the Board following certification of the shareholder vote. Our Corporate Governance Guidelines further provide that the Nominating and Corporate Governance Committee will then consider the tendered resignation and make a recommendation to the Board as to whether to accept or reject the tendered resignation. The Board will act on the tendered resignation, taking into account the Nominating and Corporate Governance Committee's recommendation, and publicly disclose its decision regarding the tendered resignation and the rationale behind the decision within 90 days from the date of the election. The nominee who tendered his or her resignation will not participate in the Board decisions. Cumulative voting in the election of directors is not permitted.

(4) The advisory Say-on-Pay vote is not binding on us; however, we will consider the shareholders to have approved the compensation of our named executive officers if the number of votes cast "FOR" the proposal exceed the number of shares voted "AGAINST" the proposal.

## ITEM 1
## ELECTION OF DIRECTORS

Eight directors are to be elected at the Annual Meeting, each to hold office for one year until the 2017 annual meeting of shareholders and until their successors are elected and qualified. Based upon the recommendation of the Nominating and Corporate Governance Committee, the Board has nominated the eight persons named below for election as directors. All of the Board's nominees are currently directors of Regis and each nominee has consented to serve if elected.

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

| | Age | Director Since | Independent Director/Nominee |
|---|---|---|---|
| Daniel G. Beltzman | 41 | 2012 | ✓ |
| David J. Grissen | 59 | 2013 | ✓ |
| Daniel J. Hanrahan | 59 | 2012 | |
| Mark S. Light | 54 | 2013 | ✓ |
| Michael J. Merriman | 60 | 2011 | ✓ |
| M. Ann Rhoades | 71 | 2015 | ✓ |
| Stephen E. Watson | 71 | 2008 | ✓ Chair |
| David P. Williams | 55 | 2011 | ✓ |

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

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

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

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

Mr. Grissen has served as Group President of Marriott International, Inc., a global operator of hotels and related lodging facilities, since 2013. During his 29 years of experience with Marriott, he has held various positions, including Group President, Americas; President, Americas; Executive Vice President of the Eastern Region; Senior Vice President of the Mid-Atlantic Region and Senior Vice President of Finance and Business Development. He has had responsibility for the financial management and leadership of all the Americas' lodging operations, comprising more than 3,400 hotels and a work force of 100,000 associates, including responsibility for sales and marketing, revenue management, human resources, engineering, room operations, food and beverage/retail/spa, information resources and development. Mr. Grissen was a director of Good Times Restaurants Inc. from 2005 to 2010.

Mr. Grissen's experience leading a complex service organization that includes both franchised and owned operations contributes valuable perspectives to the Board. The Board believes that Mr. Grissen's experience building marketing platforms for multiple portfolio brands, and his experience in acquisitions and integration, help him guide the Company as it focuses on improving the guest experience through each of its brands.

| | Principal Position | Other Public Company Directorships |
|---|---|---|
| Daniel J. Hanrahan | President and Chief Executive Officer, Regis Corporation | Cedar Fair, L.P. (since 2012) |

Mr. Hanrahan is the President and Chief Executive Officer of the Company, which positions he has held since August 2012. Prior to joining the Company, he served as President of Celebrity Cruises at Royal Caribbean Cruises Ltd., a global cruise vacation company, since February 2005, and as its President and Chief Executive Officer since September 2007. Mr. Hanrahan served as President and Chief Executive Officer of Azamara Cruises at Royal Caribbean from February 2005 to July 2009. From 1999 until February 2005, Mr. Hanrahan served in a variety of positions with the Royal Caribbean International brand, including Senior Vice President, Sales and Marketing.

The Board believes that Mr. Hanrahan should continue to serve as a director because as Chief Executive Officer of the Company, he shares responsibility with the Board for guiding the direction of the Company, and he has a deep understanding of the Company's operations, strategy, results of operations and financial condition, as well as issues affecting the Company's industry. Mr. Hanrahan's prior operational background and his extensive experience across a wide spectrum of consumer-facing brands enable him to provide important insights to the Board related to the Company's strategy to improve the salon experience.

| | Principal Position | Other Public Company Directorships |
|---|---|---|
| Mark S. Light | Chief Executive Officer and Director, Signet Jewelers Limited | Signet Jewelers Limited (since November 2014) |

Signet Jewelers Limited is the world's largest retailer of diamond jewelry. Signet operates approximately 3,625 stores primarily under the name brands of Kay Jewelers, Zales, Jared The Galleria Of Jewelry, H.Samuel, Ernest Jones, Peoples and Piercing Pagoda. Mr. Light started in Signet's US Division, Sterling Jewelers Inc. as a sales associate 38 years ago. He has progressed through various management positions to his current position, Signet Chief Executive Officer, to which he was appointed in November 2014, holding many titles along the way. These include Sterling Division President, Executive Vice President of Operations, President and Chief Operating Officer, President and Chief Executive Officer, and Signet Chief Operating Officer.

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

| | Principal Position | Other Public Company Directorships |
|---|---|---|
| Michael J. Merriman | Operating Advisor, Resilience Capital Partners, LLC | Nordson Corporation (since 2008) (Audit Committee Chair)<br><br>OMNOVA Solutions Inc. (since 2008) (Presiding Director and Compensation Committee Chair)<br><br>Invacare Corporation (since May 2014) (Audit Committee Chair) |

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

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

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

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

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

| | Principal Position | Other Public Company Directorships |
|---|---|---|
| Stephen E. Watson | Retired Executive | Kohl's Corporation (since 2006) (Lead Director and Audit Committee Member)<br><br>Chico's FAS, Inc. (since Nov. 2010) |

Mr. Watson was elected a director of Regis in April 2008, and became the Chairman of the Board on January 29, 2013. Mr. Watson brings to the Board nearly 40 years of executive and director experience in the retail industry. From 1973 through 1996, Mr. Watson held various executive officer positions with Dayton Hudson Corporation, including Chairman and Chief Executive Officer of Dayton Hudson Department Stores Co. and President of Dayton Hudson Corporation. From 1997 until his retirement in 2002, Mr. Watson was President and Chief Executive Officer of Gander Mountain Company, a privately held retailer for outdoor sports and recreation activities. In addition to his current directorships listed above, from 1997 through December 2005, Mr. Watson was a director of ShopKo Stores, Inc., an operator of general merchandise stores, and from 2004 through May 2007, Mr. Watson was a director of Smart & Final, Inc., an operator of grocery stores. He also served on the boards of Norwest Bank from 1990 to 1996, Target Corporation from 1991 to 1996, Retek Inc. from November 1999 to 2004 and Eddie Bauer Holdings, Inc. from 2005 to 2009.

Mr. Watson's experience as the leading senior executive officer of several complex and specialty retail businesses, his experience as a director of other retail-oriented public companies and his broad-based knowledge in the areas of retail operations, corporate finance, accounting, marketing and merchandise procurement, bring significant value to our Board. He also contributes a wealth of knowledge and experience of serving on the boards of several public retail companies where he has also served as an audit and governance committee chair.

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

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

Mr. Williams' depth of experience in various senior executive roles of public and private companies and his significant accounting and financial expertise enable him to provide meaningful contributions to the oversight of financial and accounting matters at the Company, and qualify him as an audit committee financial expert.

**The Board unanimously recommends that you vote FOR the election of each of the director nominees.**

## CORPORATE GOVERNANCE

The Board believes that good corporate governance is paramount to ensure that we are managed for the long-term benefit of our shareholders. As part of our ongoing efforts to constantly improve corporate governance, the Board and management have undertaken a number of initiatives to improve our corporate governance policies and practices over recent years. Below is a summary of the key corporate governance practices in effect at Regis:

### Corporate Governance Practices

| Corporate Governance Practice | Regis Policy |
|---|---|
| Board Independence and Leadership | All of our directors, other than our President and Chief Executive Officer, are independent, and we have an independent Chairman of the Board. |
| Board Refreshment and Shareholder Insight | Seven of our eight current directors joined the Board at or after the 2011 annual meeting of shareholders, and three of them were identified as candidates by, or in coordination with, our shareholders. In addition, we had a new director, Ms. Rhoades, elected at the 2015 annual meeting of shareholders. |
| Annual Election of Directors | All of our directors have one-year terms and stand for election each year. |
| Majority Voting Standard | In 2013, our Board and shareholders adopted a majority voting standard for the election of directors. We also amended our Corporate Governance Guidelines to require incumbent directors who do not receive a majority vote to tender their resignation to the Board. |
| 10% Threshold for Special Meetings | Shareholders holding 10% or more of Regis's outstanding stock have the right to call a special meeting of shareholders. |
| Related Party Transactions | Our Board has adopted a Related Party Transaction Approval Policy requiring approval of all related party transactions where the amount involved exceeds $10,000 for the fiscal year. We did not have any related party transactions during fiscal 2016. |
| Director Stock Ownership | Under our Corporate Governance Guidelines, our directors are required to hold all common stock received as part of their compensation for service as a director until he or she ceases to be a member of the board. All of our directors own stock in the Company. |
| Executive Compensation Best Practices | Our key fiscal 2016 compensation practices and policies are described below in more detail under "Compensation Discussion and Analysis" (the "CD&A"), including:<br>- Focus on performance-based incentives;<br>- Meaningful stock ownership guidelines for executives;<br>- Independent compensation consultant;<br>- Annual say-on-pay vote;<br>- Prohibition on repricing without shareholder approval;<br>- Clawback policy applicable to all executive officers; and<br>- Prohibition on hedging transactions.<br>- Pledging allowed only with General Counsel approval. |

| | |
|---|---|
| Compensation Design Changes for Fiscal 2017 | We subsequently adopted changes to our compensation program in response to shareholder feedback, which will apply beginning in fiscal year 2017, including:<br><br>- Increased the performance period for PSUs from one to three years;<br><br>- Established separate targets for long-term and short-term incentives; and<br><br>- Reviewed and revised our peer group, including removal of peers with significantly larger market cap and/or revenues who are not in our industry. |
| Shareholder Rights Plan | It is the Board's intention to not renew the Company's shareholder rights plan (sometimes called a "poison pill") when it expires in December 2016. |

Shareholders and other interested persons may view our Corporate Governance Guidelines on our website at *www.regiscorp.com*. This information is also available in printed form free of charge to any shareholder who requests it by writing to our Corporate Secretary at Regis Corporation, 7201 Metro Boulevard, Edina, Minnesota 55439.

**Code of Business Conduct and Ethics**

The Board has adopted a Code of Business Conduct and Ethics (the "Code of Ethics") that applies to all of our employees, directors and officers, including our President and Chief Executive Officer, Chief Financial Officer, principal accounting officer or controller and other senior financial officers. The Code of Ethics, as applied to our principal financial officers, constitutes our "code of ethics" within the meaning of Section 406 of the Sarbanes-Oxley Act and is our "code of business conduct and ethics" within the meaning of the listing standards of the New York Stock Exchange ("NYSE"). The Code of Ethics is posted on our website at *www.regiscorp.com*. You may request copies, which will be provided free of charge, by writing to Corporate Secretary, Regis Corporation, 7201 Metro Boulevard, Edina, Minnesota 55439. We intend to promptly disclose future amendments to certain provisions of our Code of Ethics, and any waivers of provisions of the Code of Ethics that are required to be disclosed under the rules of the SEC or under the listing standards of the NYSE, at the same location on our website.

**Director Orientation and Continuing Education**

Our Nominating and Corporate Governance Committee and the Board oversee the orientation and continuing education of our directors.

**Director Independence**

With the adoption of our Corporate Governance Guidelines, the Board established independence standards in accordance with the requirements of the NYSE corporate governance rules. To be considered independent under the NYSE rules, the Board must affirmatively determine that a director or director nominee does not have a material relationship with us (directly, or as a partner, shareholder or officer of an organization that has a relationship with us). In addition, no director or director nominee may be deemed independent if the director or director nominee has in the past three years:

- Received (or whose immediate family member has received) more than $120,000 per year in direct compensation from us, other than director or committee fees;
- Been an employee of ours;
- Had an immediate family member who was an executive officer of ours;
- Been (or whose immediate family member has been) an affiliate or employee of a present or former internal or independent auditor of Regis;
- Been (or whose immediate family member has been) employed as an executive officer of another company whose compensation committee within the past three years has included a present executive officer of Regis; or

- Is currently an employee or executive officer (or has an immediate family member who is an executive officer) of another company that makes payments to us, or receives payments from us, for property or services in an amount which, in any single fiscal year, exceeds the greater of $1.0 million or 2% of such other company's consolidated gross revenues.

Under our director independence standards described above, the Board has determined that each director and director nominee, with the exception of Mr. Hanrahan, our President and Chief Executive Officer, is independent. The Board determined that the independence of Mr. Williams, Chief Financial Officer of the parent company of Roto-Rooter, and Mr. Grissen, Group President of Marriott International, Inc. is not impaired by the fact that the Company pays Roto-Rooter and Marriott for plumbing and hotel services. Accordingly, a supermajority of the Board is independent.

**Communications with the Board**

Shareholders and other interested parties who wish to contact the Board, any individual director or the non-management or independent directors as a group, are welcome to do so by writing to our Corporate Secretary at the following address: Regis Corporation, 7201 Metro Boulevard, Edina, Minnesota 55439.

Comments or questions regarding our accounting, internal controls or auditing matters will be referred to members of the Audit Committee. Comments or questions regarding the nomination of directors and other corporate governance matters will be referred to members of the Nominating and Corporate Governance Committee.

**Executive Sessions of Non-Management and Independent Directors**

In order to promote open discussion among non-management directors, the Board has implemented a policy of conducting executive sessions of non-management directors in connection with each regularly scheduled Board meeting. Shareholders may communicate with the non-management directors as a group by following the procedures described above under "Communications with the Board."

The independent Chairman of the Board presides over executive sessions of the independent and non-management directors. Shareholders may communicate with the presiding director or the independent and non-management directors as a group by following the procedures described above under "Communications with the Board."

**Committees of the Board**

The Board has three standing committees: the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. The composition of these committees at fiscal year-end is set forth below.

| | | Members | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Meetings during FY16 | Beltzman | Grissen | Hanrahan | Light | Merriman | Rhoades | Watson | Williams |
| Audit | 4 | | ✓ | | ✓ | | ✓ | | *C |
| Compensation | 4 | ✓ | | | ✓ | C | ✓ | ✓ | |
| Nominating and Corporate Governance | 5 | ✓ | C | | | ✓ | | ✓ | ✓ |

C denotes Chair
* denotes Audit Committee Financial Expert

The Board has determined that all members of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee qualify as independent directors as defined under the NYSE corporate governance rules.

The charters of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee may be viewed on our website at *www.regiscorp.com* under "Corporate Governance" on the "Investor Information" page. The charters are also available in printed form free of charge to any shareholder who requests them by writing to our

Secretary at 7201 Metro Boulevard, Edina, Minnesota 55439. The charters include information regarding the committees' composition, purpose and responsibilities.

***Audit Committee***

The Audit Committee assists the Board in discharging its oversight responsibility to the shareholders and investment community regarding: (i) the integrity of our financial statements and financial reporting processes; (ii) our internal accounting systems and financial and operational controls; (iii) our audit, accounting and financial reporting processes; (iv) the engagement, qualifications and independence of the independent auditor; (v) the performance of our internal audit activities; and (vi) compliance with our ethics programs, including the Code of Ethics, our whistle-blower policy and legal and regulatory requirements.

In carrying out these duties, the Audit Committee maintains free and open communication between the Board, the independent auditor and our management. The Audit Committee meets with management and the independent auditor at least quarterly, generally prior to our earnings releases to discuss the results of the independent auditor's quarterly reviews and fiscal year-end audit.

The Board has determined that all members of the Audit Committee meet the NYSE definitions of independence and financial literacy for Audit Committee members. In addition, the Board has determined that David Williams, who is an independent director, is an audit committee financial expert for purposes of the SEC rules and possesses accounting or related financial management expertise required by the NYSE. Members serving on the Audit Committee do not currently serve on the audit committees of more than three public companies.

***Compensation Committee***

The primary responsibilities of the Compensation Committee are (i) to determine and approve, or make recommendations to the Board with respect to, the compensation and benefits packages of the executive officers; and (ii) to consider and recommend incentive compensation and equity-based plans. Additional information about the responsibilities of the Compensation Committee is provided below under "Executive Compensation—Compensation Discussion and Analysis." The Board has determined that all members of the Compensation Committee also meet the NYSE definition of independence applicable to Compensation Committee members.

***Nominating and Corporate Governance Committee***

The Nominating and Corporate Governance Committee discharges the Board's responsibilities related to general corporate governance, including Board organization and membership and evaluation. It monitors Board education and orientation of new directors, and manages the annual CEO evaluation. In addition, the Nominating and Corporate Governance Committee assists the Board in the development of and compliance with the Company's Corporate Governance Guidelines. It also reviews and resolves any director conflicts of interest and presents qualified individuals for election to the Board. Finally, this committee oversees the evaluation of the performance of the Board and each standing committee of the Board. For further information regarding our director nomination process, see "Director Nomination Process" below.

**Board's Role in Risk Oversight**

One of the key responsibilities of the Board is to develop a strategic direction for the Company and provide management oversight for the execution of that strategy. The Board regularly reviews information regarding our financial, strategic and operational issues, as well as the risks associated with each. While the Board has overall responsibility for risk management, each of the Board committees has supporting responsibility for risk management and makes periodic updates to the full Board. Their specific areas of responsibility are:

- The Audit Committee discusses and approves policies with respect to risk assessment and risk management. Throughout the year, its agendas include discussions of the Company's enterprise risk management program and top risks. The Audit Committee oversees the management of financial risks and monitors management's responsibility to identify, assess and manage risks.

- The Compensation Committee is responsible for overseeing our executive compensation programs and reviewing risks relating to our overall compensation plans and arrangements.

- The Nominating and Corporate Governance Committee manages risks associated with potential conflicts of interest pursuant to our Code of Ethics and reviews governance and compliance issues with a view to managing associated risks.

While each committee is responsible for regularly reviewing, evaluating and overseeing the management of such risks, the Board is regularly informed through committee reports about such risks. In addition, the Board and the committees receive regular reports from our Chief Financial Officer, General Counsel, Executive and Senior Vice Presidents and other Company officers and personnel with roles in managing risks. The Compensation Committee is also advised by its compensation consultant, Willis Towers Watson, which annually reviews the risk relating to the Company's compensation practices. Our leadership team regularly meets with our General Counsel and head of Internal Audit to discuss and evaluate risk management. Our General Counsel and head of Internal Audit then present their findings for a robust discussion with the Audit Committee and, when appropriate, the Board.

**Board Leadership**

Since fiscal 2012, our board leadership structure has had separate positions for the Chief Executive Officer and Chairman of the Board. Daniel Hanrahan is currently the Chief Executive Officer of the Company and Stephen Watson is currently the independent Chairman of the Board. The Board believes that having an independent Chairman is an appropriate governance practice to ensure independent Board leadership and is an appropriate leadership structure for our company at this time.

**Board Meetings and Attendance**

The Board held five meetings during the fiscal year ended June 30, 2016. Each of the then-serving directors attended, in person or by teleconference, at least 75% of the meetings of both the Board and Board committees on which he served. Our Board does not have a formal policy relating to Board member attendance at annual meetings of shareholders; however, our directors are encouraged to attend the meeting each year. At the 2016 annual meeting of shareholders, all but one of the directors and director nominees attended.

**Director Nomination Process**

The Nominating and Corporate Governance Committee is responsible for screening and recommending director candidates to the full Board for nomination. The Nominating and Corporate Governance Committee will consider nominations received from our shareholders, provided that proposed candidates meet the requisite director qualification standards discussed below. When appropriate, the Committee will also engage an independent third-party search firm. The Committee will then evaluate the resumes of any qualified candidates recommended by shareholders and search firms, as well as by members of the Board.

Generally, in order to be considered for nomination, a candidate must have:

- High professional and personal ethics and values;
- A strong record of significant leadership and meaningful accomplishments in his or her field;
- Broad experience;
- The ability to think strategically;
- Sufficient time to carry out the duties of Board membership; and
- A commitment to enhancing shareholder value and representing the interests of all shareholders.

Candidates are evaluated based on these qualification standards and the current needs of the Board, with due consideration of the requirement of our Corporate Governance Guidelines and NYSE and SEC regulations that at least a majority of the board consist of independent directors. In addition, when considering nominees to the Board and in evaluating the composition of the Board as a whole, the Nominating and Corporate Governance Committee considers the value of diversity. Although we do not have a specific policy on diversity, the Nominating and Corporate Governance Committee considers diversity of gender, race, national origin and executive or professional experience, including skills such as an understanding of the retail industry, the hair-care market, finance, accounting, marketing, technology and international experience, when considering nominees. The Company believes that the principal qualification of a prospective director is the ability to act effectively on behalf of all shareholders.

All shareholder nominations must be accompanied by a candidate resume which addresses the extent to which the nominee meets the director qualification standards. Nominations will be considered only if we are currently seeking to fill an open director position. All nominations by shareholders should be sent to the Chairperson of the Nominating and Corporate Governance Committee, c/o the Corporate Secretary, Regis Corporation, 7201 Metro Boulevard, Edina, Minnesota 55439.

## EXECUTIVE COMPENSATION
### Compensation Discussion and Analysis

This CD&A describes the basic objectives, principles, decisions and rationale underlying our compensation policies as well as the material elements of the compensation of our executive officers identified below (the "Named Executive Officers" or "NEOs") for fiscal 2016:

| Name | Title | Period of Employment |
|---|---|---|
| Daniel J. Hanrahan | President and Chief Executive Officer ("CEO") | August 2012-present |
| Steven M. Spiegel | Executive Vice President and Chief Financial Officer | December 2012-present |
| Eric A. Bakken | Executive Vice President, Chief Administrative Officer, Corporate Secretary and General Counsel | January 1994-present |
| Jim B. Lain | Executive Vice President and Chief Operating Officer | November 2013-present |
| Heather L. Passe | Senior Vice President, Chief Marketing Officer | July 2012-present |

This CD&A is organized into the following sections and should be read in conjunction with the detailed compensation tables beginning on page 27.


| | Pages |
|---|---|
| **Section 1: Executive summary.** Provides an overview of our Company, context to our compensation program, and a summary of 2016 business performance and compensation outcomes. | 14-16 |
| **Section 2: How we design executive pay.** Outlines our compensation philosophy, our engagement with shareholders and changes made after the 2015 say-on-pay vote, development and uses of the peer group and the roles of the Compensation Committee, compensation consultant and executive officers in the setting of the program. | 16-19 |
| **Section 3: Elements of the executive compensation program in Fiscal 2016.** Details each element in our program this year, including applicable performance metrics. | 19-23 |
| **Section 4: Governance policies and additional compensation-related items.** Discusses the policies that support our compensation philosophy, including stock ownership guidelines and post-employment compensation policies, among other topics. | 24-26 |


**Section 1: Executive Summary**

Regis Corporation owns, franchises and operates beauty salons under trade names including SmartStyle, Supercuts, MasterCuts, Regis Salons and Cost Cutters. At June 30, 2016, we owned, franchised or held ownership interests in 9,483 salon locations, primarily in the U.S., Canada, Puerto Rico and the United Kingdom.

When designing the executive compensation programs and amounts, the Compensation Committee applies a two-pronged compensation philosophy:

1. Pay for performance, aligning executive compensation with shareholder interests

2. Provide a target total direct compensation opportunity that is generally at the market median in order to attract, retain and engage key executive talent.

The executive leadership team has led transformational changes in the business. In fiscal 2016, we achieved positive same-store sales for the first time since 2007, and generated full-year same store sales comps averaging 0.2% compared to a decline of 0.3% in fiscal 2015 and a 4.8% decline in fiscal 2014. We also grew Adjusted EBITDA by $3.8 million year over year, reflecting continued efforts to control costs while improving operations.

Transforming a culture comprised of 45,000 stylists, 1,000 field leaders and 7,000 salons requires strong execution, an ongoing commitment and time. Consequently, as our company moves forward through transformational initiatives, our improvement is unlikely to be linear. Furthermore, it is key to our success to retain our top stylists, field leadership, and executive leadership.

All of these factors contributed to the Compensation Committee's decision-making for Fiscal 2016, which:

- Incentivized management to both create shareholder value and return excess capital to our shareholders, by setting challenging performance expectations for fiscal 2016 for same store sales and cash flow per share; and

- Delivered executive pay opportunities primarily through performance-based elements of pay; for instance, approximately 80% of Mr. Hanrahan's compensation is tied to our company's performance, with over 50% denominated as equity, to emphasize ownership and long-term shareholder alignment.

Our financial and stock price performance in fiscal 2016 resulted in CEO compensation that was 13% above the target value established by the Committee, which reflects our pay for performance orientation. In addition, the compensation paid to our CEO over the most recent three years approximates the median of relevant industry competitors, which is aligned with our near-median performance on three-year total shareholder return (TSR). The following graph shows our pay for performance alignment relative to a 17-company comparator group, developed based on industry, revenue and market capitalization characteristics, consistent with how a leading proxy advisory firm evaluates us. Our revenue is just below the median of these companies, and our market capitalization is at the 13th percentile. The graph presents data for the comparator companies as of their last fiscal year disclosed prior to July 2016 and for our company as of the end of our fiscal 2016.

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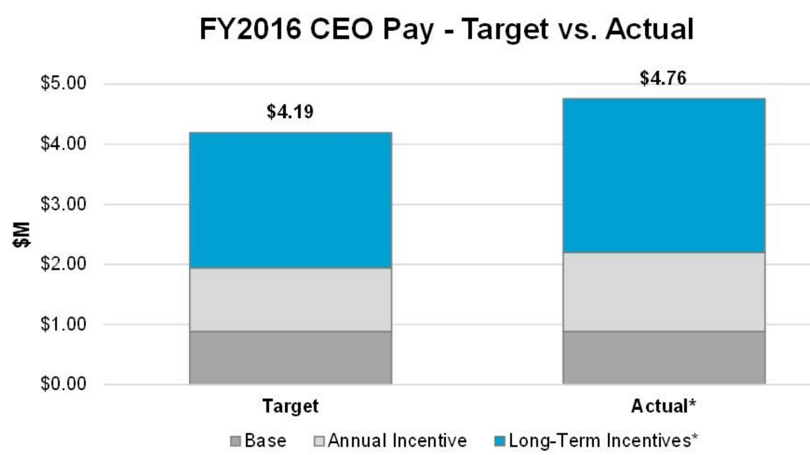
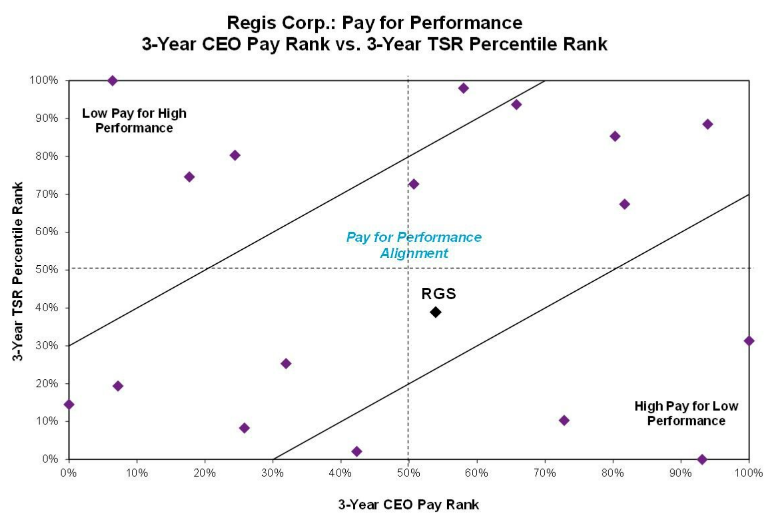



* *Actual pay considers the payout of 123.8% of target on the annual incentive and PSU plans. Actual long-term incentive values are based off of the fiscal year-end stock price of $12.45.*




To continue to support our compensation philosophy and encourage ongoing shareholder alignment in a performance-based manner, the Committee made significant changes to our compensation program for fiscal 2017. These changes respond to the perspectives of our shareholders as well as select proxy advisory firm comments relative to our historical design that were raised in connection with our fiscal 2016 say-on-pay vote. These changes as detailed below under "*Shareholder Engagement*."

**Section 2: How We Design Executive Pay**

***Shareholder Engagement***

The Compensation Committee (also called the "Committee" in this CD&A), the Board and executive leadership are committed to considering the perspectives of our shareholders on all aspects of our business, including executive compensation.

In October 2015, 62.5% of the votes cast were in favor of the non-binding resolution approving our executive compensation, commonly known as say-on-pay. While this vote represented majority shareholder support, it is much lower than the results of the annual say-on-pay votes in 2013 and 2014, which were 97% and 99%, respectively, and below what our Committee deems acceptable.

During fall 2015, management and some of our directors, in particular the Chair of the Compensation Committee, Michael Merriman, reached out to our ten largest shareholders, which together owned approximately 64% of our common stock, and had meaningful conversations with holders of approximately 56% of our common stock, to discuss their views on our compensation program. Based on their feedback, as well as the issues raised by the proxy advisory firms in connection with our 2015 annual meeting, the Committee undertook a full review of our executive compensation program during fiscal 2016, assisted by its independent compensation consultant, and made significant changes in program design:

| Issue Raised in connection with 2016 Annual Meeting | Actions Taken |
|---|---|
| One-year performance period for PSUs is not long-term | The Committee increased the performance period for PSUs from one year to three years, effective for fiscal 2017 compensation. |
| Use of the same performance metrics, targets and weightings for the Short-Term and Long-Term Plans | Effective for fiscal 2017 compensation, the Committee established separate metrics, targets and weightings. Specifically, the fiscal 2017 AIC (Short-Term) awards have a one-year performance period and payout is based on Company performance against cash flow per share (weighted 70%) and same-store sales (weighted 30%), as in fiscal 2016. The fiscal 2017 PSUs, however, are based on the Company's three-year cumulative pre-tax adjusted EPS performance, and will constitute 60% of the value of equity awards for fiscal 2017, with the remaining 40% in RSUs. |
| Peer group includes too many larger peers | In August 2017, the Committee reviewed and revised the Company’s peer group, including removal of all three former peers with significantly higher revenues and/or market cap that are not in Regis’ industry and inclusion of two new peers used by both leading proxy advisory firms in their fiscal 2016 reports. |
| Supplemental equity awards to CEO made in fiscal 2015 and retention awards to other NEOs for fiscal 2014 | No special awards were made for fiscal 2016. |
| Adjustments made for compensation purposes to Adjusted EBITDA and CAPEX made it difficult to ascertain the rigor of the goals | A table detailing the adjustments from GAAP net income to Adjusted EBITDA for compensation purposes is attached to this proxy statement as Schedule A. |

Note that these changes apply to fiscal 2017 compensation, as the design and performance goals for fiscal 2016 compensation had already been determined by the Committee; therefore, these design changes are not reflected in the remainder of this CD&A nor in the Summary Compensation Table and other tables that follow.

Our Committee and Board remain committed to engaging with our shareholders to discuss our executive compensation programs, seeking shareholder input and improving the ability of our compensation programs to motivate our executives to drive long-term shareholder returns.

***Compensation Philosophy***

The Committee has adopted a compensation philosophy that centers on the following guiding principles:

- Generally target total direct compensation at the market median, with the following considerations:
    - Achieving our desired competitive position will occur over time and will consider not only the total program value, but also the reward vehicles that are used (i.e., performance-based incentives versus fixed benefits).
    - Moving toward the market median will consider our size and performance relative to peers (noted below) to ensure that targeted compensation is appropriately calibrated and that realizable compensation is consistent with absolute and relative performance.
- Align with shareholder interests by designing a compensation portfolio that pays for performance.
    - Specifically, for fiscal 2016, the Committee incentivized management to drive increases in cash flow per share, as we believe increasing cash flow per share is a leading indicator for eventual stock price appreciation. It also tied compensation to increases in same-store sales.
    - In fiscal 2016, long-term incentives were made up of three components (40% performance share units, 40% stock appreciation rights, and 20% restricted stock units), a combination that incentivizes stock ownership, aligns management and shareholders and minimizes the use of strictly time-based awards to emphasize performance.
    - For fiscal 2017, the Committee continued the use of cash flow per share and same-store sales in the annual incentive plan, and adjusted the design of the long-term incentives as set forth under "*Shareholder Engagement*," pursuant to this overarching philosophy.
- Maintain a minimal value of benefits and perquisites that is consistent with the market.

As discussed in detail under "*Shareholder Engagement*," the Committee reviewed the executive compensation program and made changes that are effective for fiscal 2017. The Committee also recognizes the need to remain flexible to address particular circumstances as they arise so that we can remain competitive in retaining talent and incentivize executives to achieve our current strategic objectives.

***Review of External Market Data***

In setting executive compensation for fiscal 2016 that aligned with our compensation philosophy, the Committee considered the practices in the external market. The market was defined by the Committee to be:

- A peer group consisting of 17 companies; and
- Other relevant broad retail industry data.

The Committee first selected the companies below as our peer group (the “Peer Group”) in fiscal 2013, based on the following criteria:

- Companies in similar industries, particularly those operating in specialty retail with a high service emphasis and with franchise operations; and

- Companies with comparable annual revenues at that time, generally at one-half to two and one-half times Regis' revenues, such that Regis' revenues, gross profit and number of employees were above the median of the peer group in each of those areas.

In fiscal 2016, as in 2015 and 2014, the Committee determined to use the same Peer Group, finding that these companies continued to serve as a reasonable comparison to the Company. Keurig Green Mountain, Inc. was removed from the peer group after it went private in March 2016.

| | | |
|---|---|---|
| Advance Auto Parts, Inc. | Fossil Group, Inc.* | Revlon, Inc. |
| Boyd Gaming Corp. | Fred's, Inc. | Sally Beauty Holdings, Inc. |
| Brinker International, Inc. | H&R Block, Inc. | Service Corporation International |
| Outerwall, Inc. | Jack in the Box, Inc. | The Cheesecake Factory, Inc. |
| Cracker Barrel Old Country Store | Panera Bread Co. | Ulta Salon, Cosmetics & Fragrance, Inc. |
| DineEquity, Inc. | Penn National Gaming, Inc. | |

**Note that Fossil Group, Inc. is excluded for purposes of benchmarking Chief Executive Officer compensation because its chief executive officer does not receive any annual compensation.*

The Peer Group data served as the primary comparison for the Chief Executive Officer and Chief Financial Officer positions, and the data from other survey sources were the primary comparison for the other executive officer positions as aligning comparable job titles for the broader group is difficult to do among the more limited data available from the Peer Group. The broader retail market data were from multiple survey sources including Towers Watson Compensation DataBank-Retail Industry; Towers Watson Compensation Survey Report-Retail Industry; Mercer Retail Industry Survey; and the Hay Group Retail Executive Survey. Data from these broader sources were adjusted to Regis' revenue size.

For fiscal 2017, the Committee has approved a revised peer group, as discussed above under "*Shareholder Engagement*."

***Role of the Compensation Committee***

The Committee is charged with developing and administering the base salary, annual and long-term incentives, and benefit programs for our executive officers. Our annual incentive program is typically referred to as our "bonus" program and it is reported as "Non-Equity Incentive Plan Compensation" in the Summary Compensation Table. In developing our compensation programs, a basic objective for the Committee was that the total compensation awarded to the NEOs be fair, reasonable and competitive in relation to the median compensation for similar positions within our Peer Group, as identified above, as well as in the broader retail market. This objective is consistent with our executive pay philosophy.

The primary purpose of the Committee is to discharge the responsibilities of the Board relating to the compensation of our executive officers. Accordingly, the primary duties and responsibilities of the Committee are:

- to determine and approve, or make recommendations to the Board with respect to, the compensation of all executive officers; and

- to consider and recommend the structure of, and changes to, our incentive compensation, equity-based plans and benefit programs.

***Role of Executive Officers in Compensation Decisions***

The Committee believes that in order for our executive compensation programs to be effective, management must have an opportunity to provide input. Committee meetings during fiscal 2016 were regularly attended by our Chief Executive Officer; Executive Vice President, Chief Administrative Officer, Corporate Secretary and General Counsel; Senior Vice President, Chief Human Resources Officer; and other executives as needed. In particular, our Chief Executive Officer has an opportunity to present materials and discuss management's views regarding compensation issues. Our Chief Executive Officer furnishes his input to the Committee on the compensation of the Company's executive officers, including the other NEOs, and he may be present during deliberations and voting on the other executives' compensation. However, our Chief Executive Officer was not present during deliberations and voting regarding his own compensation or during other executive sessions of the Committee.

*Role of the Independent Compensation Consultant*

The Committee has engaged Willis Towers Watson (formerly known as Towers Watson) as an independent consulting firm to provide executive compensation consulting services to the Committee. The Committee has assessed Willis Towers Watson's independence pursuant to applicable SEC rules and concluded that no conflict of interest exists that would prevent Willis Towers Watson from independently representing the Committee.

In advising the Committee, Willis Towers Watson prepares competitive pay analyses regarding both the Peer Group and the broader retail market for the elements of annual compensation, and provides information on the performance of our business compared to the Peer Group. Based on these analyses, Willis Towers Watson advised the Committee on the level and design of the annual compensation programs for our executive officers. The Chairperson of the Committee worked directly with Willis Towers Watson to determine the scope of the work needed to assist the Committee in its decision-making processes. Willis Towers Watson worked with management, at the direction of the Committee, to fully understand the future business direction and the historical, current and desired future direction of our pay policies and practices, as well as to facilitate the development of our compensation strategies, including the approach to determining compensation levels.

**Section 3: Elements of the Executive Compensation Program in Fiscal 2016**

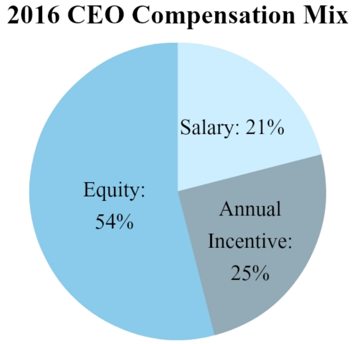
*Total Direct Compensation for Fiscal 2016*

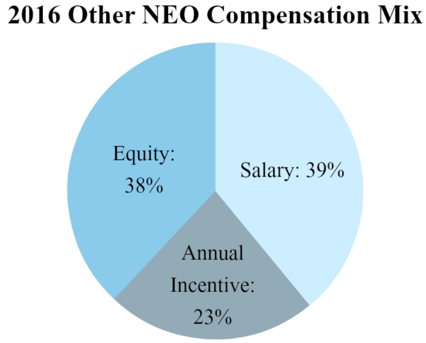
While the Committee has established overall compensation and benefits programs for our NEOs that are intended to work in accordance with our stated philosophy, individual elements of our compensation packages are designed for different purposes within that philosophy. The elements of compensation for our NEOs were:

| Element | Description | Why we include this component |
|---|---|---|
| Base Salary | Short-term fixed cash compensation | Provide a base level of compensation for executive talent |
| Annual Non-Equity Cash Incentive ("Bonus") | Short-term variable cash compensation, based on corporate performance against annually established metrics | Motivate executives to meet and exceed objectives in consideration of our annual strategic plan |
| Long-Term Incentive Compensation | Long-term variable equity compensation, including performance units, stock appreciation rights and restricted stock units | Provide market-competitive equity-based compensation opportunities, enhancing executive retention while aligning interests of executives and shareholders |

*Target Compensation Mix for Fiscal 2016*

The Committee established the mix of base salary and incentive compensation by referencing market practices for total direct compensation and for each element, subject to adjustments in the Committee's discretion based on company-wide and individual performance factors. In developing the total direct compensation package for an NEO, the Committee considered the internal relationship of pay across all executive positions. To tie compensation to performance, the Committee structured annual non-equity incentive compensation and the performance-based element of long-term incentive compensation in a manner that provided the opportunity to earn above market compensation for results above target, and below market compensation when the target is not achieved. Target total direct compensation for the NEOs was flat for fiscal 2016 compared to fiscal 2015 for our CEO, and increased slightly for our other NEOs on average.




***Base Salary Decisions for Fiscal 2016***

For fiscal 2016, base salaries remained flat with fiscal 2015 base salaries. The base salaries paid in fiscal 2016 to each of our NEOs are shown under the "Salary" column of the Summary Compensation Table. Base salary has been generally flat for our NEOs since fiscal 2013.

***Annual Incentive Decisions for Fiscal 2016***

Annual non-equity incentive compensation ("AIC") for our NEOs is determined each year under our Short Term Incentive Plan (the "Short Term Plan"). The AIC earned by our NEOs for fiscal 2016 is reported under the Non-Equity Incentive Plan column of the Summary Compensation Table. AIC amounts are governed by the Short Term Plan and the AIC performance criteria and payout levels are set each year by the Committee, in accordance with the terms of the Short Term Plan. The target AIC amounts are a percentage of base salary, as follows:

| | Target AIC (as a Percentage of Salary) | Target AIC ($) |
|---|---|---|
| Daniel J. Hanrahan | 125% | $1,062,500 |
| Steven M. Spiegel | 60% | $240,000 |
| Eric A. Bakken | 60% | $270,000 |
| Jim B. Lain | 60% | $240,000 |
| Heather L. Passe | 50% | $180,000 |

Fiscal 2016 Target AIC for Mr. Spiegel, Mr. Bakken and Mr. Lain increased from 50% to 60%. The Committee made these increases to more closely align the compensation of these individuals with the median, consistent with our philosophy, but to do so by increasing performance-based pay rather than base salary.

Each year, the Committee evaluates our annual strategic plan to determine if the financial metrics are appropriate to measure achievement of our objectives and to motivate executives, and sets corresponding financial metrics to be included in the AIC awards. For fiscal 2016, the Committee established the following metrics:

| Performance Measure | Weighting | Performance Goal | | Award Multiplier |
|---|---|---|---|---|
| 1. (Adjusted EBITDA - CAPEX) divided by Fully Diluted Outstanding Shares ("Cash Flow per Share") | 70% | Maximum | $1.435 per share | 200% |
| | | Target | $1.104 per share | 100% |
| | | Threshold | $0.994 per share | 50% |
| 2. Same Store Sales (SSS) Percentage Change | 30% | Maximum | 5% | 200% |
| | | Target | 2% | 100% |
| | | Threshold | 0% | 50% |

In fiscal 2016, the Committee determined to use essentially the same performance measures as fiscal 2015, with significantly higher performance goals. The Committee set the minimum threshold for payouts on fiscal 2016 cash flow per share performance at $0.994 per share, which was above the fiscal 2015 actual result of $0.977. For same-store sales, the Committee similarly set a threshold target of 0% growth, above fiscal 2015's actual performance of a decrease of 0.3%.

Actual results for fiscal 2016 were:

| Performance Measure | Weighting | FY2016 Performance | Award Multiplier |
|---|---|---|---|
| 1. Cash Flow per Share | 70% | 128% | 123.83% |
| 2. Same Store Sales (SSS) Percentage Change | 30% | 0.2% | |

| | Actual AIC ($) |
|---|---|
| Daniel J. Hanrahan | $1,315,694 |
| Steven M. Spiegel | $297,192 |
| Eric A. Bakken | $334,341 |
| Jim B. Lain | $297,192 |
| Heather L. Passe | $222,894 |

In setting the metrics for fiscal 2016, the Committee defined Adjusted EBITDA as net income(loss) excluding interest expense, income taxes, depreciation and amortization, adjusted to exclude equity in income(loss) of affiliated companies, discontinued operations and identified discrete items impacting comparability for each respective period (i.e., expenses, charges, or favorable or unfavorable impacts of extraordinary, unusual, infrequent or non-recurring items and other similar items) including, for fiscal 2016, discrete items that arise during the course of the year, severance charges incurred in strategically reorganizing our teams in the field and position eliminations, tax charges or benefits arising from regulatory audits, unusual costs associated with labor or employment claims and issues, sales of divisions or businesses, impact of Affordable Care Act auto-enrollment, and any impacts associated with the potential rollout of our loyalty program. The Committee defined CAPEX as the purchase of tangible fixed assets held for use in the operation of the business, classified as property and equipment, including accruals of capital expenditures received but not paid for by the end of the fiscal year, reduced by certain tenant allowance receipts and cash proceeds from sales of property to franchisees (to the extent of our net carrying value in such property). Outstanding shares were defined as the number of fully diluted outstanding shares at the end of the performance period.

In applying these definitions, at the end of the performance period, the discrete items included those reflected in our reported Adjusted EBITDA results, which netted to a $1.0 million increase in Adjusted EBITDA compared to GAAP net income, as well as restructuring costs in the current year that provide for economic benefit in future years and costs incurred to remediate the Company’s material weakness, offset by the impact of foreign exchange, certain insurance proceeds, and other unusual and nonrecurring items, which netted to an additional $0.2 million in Adjusted EBITDA used for compensation purposes, all of which adjustments are detailed on Schedule A to this proxy statement. Also, during fiscal 2016, we repurchased 7.7 million shares for $101 million, thereby reducing fully diluted shares outstanding as of June 30, 2016.

***Long-Term Incentive Decisions for Fiscal 2016***

The Committee considers equity-based long-term incentive compensation (“LTI”) to be critical to the alignment of executive compensation with the creation of shareholder value. Therefore, LTI represents more than half of Mr. Hanrahan's compensation at target, and 38% of the other NEOs' compensation, on average. The Committee set the value of LTI awards to our NEOs for fiscal 2016 as follows:

| | Target Value of Long-Term Incentive |
|---|---|
| Daniel J. Hanrahan | $2,250,000 |
| Steven M. Spiegel | $400,000 |
| Eric A. Bakken | $400,000 |
| Jim B. Lain | $350,000 |
| Heather L. Passe | $400,000 |

The value of target LTI awards in fiscal 2016 was flat with fiscal 2015, and has been flat for our NEOs since 2013. Target LTI was split among three equity vehicles; the Committee chose this mix to incentivize management to achieve company performance goals, align management with shareholder interests, and promote retention:

| 40% Performance Stock Units (PSUs) | 40% Stock Appreciation Rights (SARs) | 20% Restricted Stock Units |
|---|---|---|

Our long-term equity incentive compensation awards are granted pursuant to our Long-Term Plan. For our equity awards, the grant date for the awards is the date the grant becomes effective. The exercise price of any stock option or stock appreciation right grant is the closing price of a share of our common stock on the grant date. The terms of these awards are described in more detail below in the narrative accompanying the Grants of Plan-Based Awards in 2016 table.

Upon grant, LTI awards to our NEOs for fiscal 2016 were as follows:

| | 40% Performance Units (#) | 40% SARs (#) | 20% Restricted Stock Units (#) | Total Value (at Target) ($) |
|---|---|---|---|---|
| Daniel J. Hanrahan (1) | 116,834 | 152,000 | 41,512 | 2,250,000 |
| Steven M. Spiegel | 14,760 | 45,584 | 7,380 | 400,000 |
| Eric A. Bakken | 14,760 | 45,584 | 7,380 | 400,000 |
| Jim B. Lain | 12,915 | 39,886 | 6,457 | 350,000 |
| Heather L. Passe | 14,760 | 45,584 | 7,380 | 400,000 |

(1) Under the Long-Term Plan, a maximum of 800,000 shares underlying options and SARs may be granted to an individual as qualified performance-based compensation, calculated on a rolling three-year basis (the "SAR Limit"). In fiscal 2016, the Committee provided that any SARs that would otherwise exceed the SAR Limit would be granted as PSUs in order to retain the same long-term award value and be performance-based, while maximizing Section 162(m) deductibility. As Mr. Hanrahan would have exceeded the SAR Limit in fiscal 2016, he received the excess value as PSUs.

For fiscal 2016, the performance units were earned using the same performance measures, targets and weightings described in the AIC section, with possible payouts ranging from 50% to 200% of the number of performance units. If performance units are earned, those units are subject to two additional years of time-based vesting. The Committee chose to use the same performance measures and a one-year performance period because our ongoing turnaround limited the Committee's visibility into longer performance periods, making it difficult to set appropriately challenging longer-term goals. However, the additional two years of time-based vesting promotes retention past the performance period and encourages continued financial improvement.

Based on the actual fiscal 2016 results, as discussed above, the 2016 performance goals established by the Committee were met above the target. Therefore, the NEOs earned the granted performance units at a multipler of 123.83%, as set forth in the table below. These units will cliff vest on August 31, 2018.

| | Fiscal 2016 Performance Units Earned (#) |
|---|---|
| Daniel J. Hanrahan | 144,676 |
| Steven M. Spiegel | 18,277 |
| Eric A. Bakken | 18,277 |
| Jim B. Lain | 15,993 |
| Heather L. Passe | 18,277 |

The Committee subsequently made significant changes to the LTI awards for fiscal 2017 in response to shareholder feedback, as detailed in "*Shareholder Engagement,*" including adoption of a three-year performance period for PSUs and separate performance goals for the short-term and long-term incentives.

***Other Outstanding Awards***

From time to time, the Committee may also make equity grants under our Long-Term Plan in other circumstances, such as recruiting new executive talent, upon the promotion of an executive, and to retain key individuals. During the past three fiscal years, we have made the following special grants:

- *Awards to Mr. Hanrahan in January 2015*, made up of RSUs valued at $3 million and SARs valued at $2 million (composed of five tranches at increasing stock prices), all of which cliff vest on the fifth anniversary of the date of grant, assuming continued employment. The Committee designed these awards to both incentivize Mr. Hanrahan to remain at Regis through the five-year period of the awards and to provide successively greater realized compensation to Mr. Hanrahan for future stock price appreciation, further aligning his interests with our shareholders.

- *Retention RSU Grants in August 2014*, to the NEOs other than Mr. Hanrahan, which cliff vest on the third anniversary of the date of grant, assuming continued employment. These grants were made to recognize the important work the executive team accomplished in fiscal 2014 in the effort to reorganize the Company and to lay the groundwork that we believe will lead to long-term strategic success, and to retain and incentivize them to continue their work toward these objectives.

- *Sign-on Equity Award to Mr. Lain in November 2013*, of RSUs that will cliff vest on the fifth anniversary of the date of grant, provided Mr. Lain is still employed by the Company at that date. This grant was made in connection with Mr. Lain joining our Company as Chief Operating Officer.

***Benefits***

Consistent with our current compensation philosophy, we provide minimal benefits and these benefits align with the market median and with current market practices. The benefits we provided our NEOs in fiscal 2016 are summarized in the footnotes to the Summary Compensation Table or are otherwise reported in the accompanying tables, including footnotes. Current benefits for our NEOs include core benefits available to all full-time employees (e.g., coverage for medical, dental, prescription drugs, basic life insurance, and long-term disability coverage).

During fiscal 2016, we added an additional optional retirement savings option, the Regis Individual Secured Retirement Plan (the "RiSRP"), to provide our NEOs and other company officers a post-tax option to save money for retirement. Regis provides the same company match in the RiSRP as under the Executive Retirement Savings Plan. Both plans are described in detail below under “*Summary of Executive Agreements*.”

Prior to fiscal 2013, we also provided certain supplemental retirement benefits, additional life insurance benefits and certain gross-up payments. Where applicable, these benefits are described below under “*Summary of Executive Agreements*.” These benefits were eliminated or frozen prior to fiscal 2013, and continue to be provided only in the case of certain grandfathered agreements, as described below.

**Section 4: Governance Policies and Additional Compensation-Related Items**

We believe in holding ourselves to a high standard of ethics, transparency, and accountability. Accordingly, we have adopted corporate governance practices and policies that in many cases go beyond SEC and stock exchange requirements to reflect emerging best practices.

| Compensation Practice | Regis Policy |
|---|---|
| Independent Compensation Committee | Our Compensation Committee is composed solely of directors who are independent under the standards of the SEC and the NYSE, including the higher standards applicable to Compensation Committee members. |
| Clawback Policy | We have adopted a "clawback" policy that permits us to recover certain cash incentive payments from executive officers whose misconduct or negligence resulted in a significant financial restatement. |
| Clawback of Sign-On Bonuses | The cash sign-on bonuses to the NEOs who were hired during fiscal 2014 must be repaid in full if they leave the Company within three years of hire. |
| Severance Benefits and Perks | We have benchmarked and implemented market severance terms (generally, base salary plus bonus, or two times base plus bonus after a change in control), while retaining our "double trigger" structure. |
| No Tax Gross-Ups | We do not provide tax gross-ups on perquisites and gross-ups on "golden parachute" payments are available only on a grandfathered basis. |
| Frozen Supplemental Retirement Benefit Plan | We previously froze the benefits under our supplemental retirement benefit plan as of June 30, 2012, as well as certain executive life insurance benefits. |
| Stock Ownership Guidelines | We have meaningful stock ownership guidelines for our executives, discussed in more detail below. |
| Hedging of Company Stock | Our insider trading policy prohibits our employees, officers and directors from engaging in transactions that "hedge" their investments in our stock. |
| Pledging of Company Stock | Our insider trading policy prohibits our employees, officers and directors from holding our stock in a margin account or pledging it as collateral for a loan, except in the limited circumstance that an individual has demonstrated financial capacity to repay the loan without resort to the pledged securities and obtains General Counsel approval. |
| Independent Compensation Consultant | Our independent Compensation Committee has retained Willis Towers Watson (f/k/a Towers Watson) to advise and report directly to the Committee. |
| Annual Risk Assessment | We conduct an annual risk assessment of our compensation programs, which is led by Willis Towers Watson. |
| Annual Say-on-Pay Vote | We offer our shareholders the opportunity to cast an advisory vote on our executive compensation every year. |
| No Repricing or Exchange of Underwater Options/SARs | Our plan prohibits the repricing or exchange of underwater stock options and stock appreciation rights without shareholder approval. |

### *Stock Ownership by Named Executive Officers*

The Board believes that each of our officers who has reached the level of Senior Vice President or above should be a shareholder and should have a significant financial stake in the Company. Accordingly, the Committee adopted stock ownership requirements, which are reflected in our Corporate Governance Guidelines, requiring each officer to hold Regis common stock having a fair market value equal to a multiple of their base salary, as set forth below:

- Chief Executive Officer—3x annual base salary
- Executive Vice President—2x annual base salary
- Senior Vice President—1x annual base salary

The current stock ownership requirements were established in April 2013. The guidelines require officers to retain at least 75% of the shares received from equity compensation awards, net of shares withheld or tendered to satisfy withholding taxes, until the stock ownership requirement is satisfied. All shares beneficially owned by an officer are included in the calculation, except that shares subject to performance-based vesting conditions and shares subject to unexercised stock options and SARs are not included. For purposes of the stock ownership calculation, the shares are valued at the greater of (i) the average closing price of a share of the Company's common stock during the most recent fiscal year and (ii) the closing price on the last day of the most recent fiscal year.

As set forth in the table below, all of our NEOs held stock greater than our stock ownership policy minimum, as of July 1, 2016:

| | **Stock Ownership Guideline** | **Current Ownership Level** |
|---|---|---|
| Daniel J. Hanrahan | 3x | 9.8x |
| Steven M. Spiegel | 2x | 2.4x |
| Eric A. Bakken | 2x | 2.7x |
| Jim B. Lain | 2x | 2.4x |
| Heather Passe | 1x | 1.6x |

The Committee is responsible for measuring and monitoring compliance with these guidelines.

### *Employment Agreements and Post-Employment Compensation*

Pursuant to their employment agreements, all of our NEOs are entitled to certain compensation and other benefits if their employment terminates due to certain articulated reasons (including in connection with a change in control), as described below under "*Summary of Executive Agreements*." The employment agreements with our NEOs contain covenants not to compete or solicit, as well as confidentiality provisions, that the Committee considers especially valuable in the event of an executive's termination of employment. They provide for payment of post-termination payments in installments over time, and the payments are conditioned upon signing and not rescinding a release of claims and continuing compliance with the restrictive covenants in the employment agreement. In addition, the severance payments will be offset by any compensation the executive officer receives from other employment during the severance period.

The Committee and the Board recognize the importance to us and our shareholders of avoiding the distraction and loss of key management personnel that may occur in connection with any rumored or actual change in control of the Company. Accordingly, the Committee and Board have structured change in control provisions to incentivize executives to remain employed while a transaction is under consideration or pending, and not to favor one transaction structure over another merely because of the impact on the executive's compensation. These provisions are discussed in the section captioned "*Summary of Executive Agreements*."

During fiscal 2016, the Committee approved an amendment to Mr. Spiegel's employment agreement, dated June 30, 2016, to extend the period of time for which he will receive reimbursement for his expenses in commuting from Chicago to our Minneapolis offices from June 30, 2016 to December 31, 2016.

***Deductibility of Executive Compensation***

Code Section 162(m) imposes a $1 million limit on the amount that a public company may deduct for compensation paid to a company's chief executive officer or any of its three other most highly compensated executive officers (other than its chief financial officer) who are employed as of the end of the year. This limitation does not apply to compensation that meets the requirements under Section 162(m) for "qualifying performance-based" compensation (i.e., compensation paid only if the individual's performance meets pre-established objective goals based on performance criteria approved by shareholders). The Committee's policy is to design compensation programs that further the best interests of the Company and our shareholders and that preserve the tax deductibility of compensation expenses. Non-equity incentive compensation paid to executive officers under the Short Term Plan and stock options, SARs and performance share units awarded under the Long Term Plan are designed to qualify as performance-based compensation. The Committee also believes, however, that it must maintain the flexibility to take actions which it deems to be in our best interests but which may not qualify for tax deductibility under Section 162(m). In this regard, the Committee recognizes that if the amount of base salary and any other compensation that is not determined to be performance-based under Section 162(m), such as time-vested restricted stock, guaranteed bonuses for new executives, discretionary bonus payouts or bonus payouts that are adjusted to exclude certain items that would have negatively impacted the bonus calculation, for any of our executive officers exceeds $1 million, any amounts over $1 million will not be deductible for federal income tax purposes. The amount of any non-deductible compensation has not had a material impact on our consolidated tax position.

As required under the tax rules, we must obtain shareholder approval of the material terms of the performance goals for qualifying performance-based compensation every five years. We last received shareholder approval of the Short Term Plan in 2014, and shareholders approved an extension of the term of the Long Term Plan in 2013.

***Regulatory Considerations***

The Committee considered (i) the impact of the $1 million limit on the deductibility of non-performance based compensation imposed by Code Section 162(m), (ii) the accounting treatment of various types of equity-based compensation under Accounting Standards Codification (ASC) Topic 718, and (iii) the non-deductibility of excess parachute tax payments under Code Section 280G (and the related excise tax imposed on covered employees under Code Section 4999 as described above under "Gross-Up Payments") in its design of executive compensation programs. In addition, the Committee considered other tax and accounting provisions in developing the compensation programs for our NEOs. These included the special rules applicable to non-qualified deferred compensation arrangements under Code Section 409A, as well as the overall income tax rules applicable to various forms of compensation. While the Committee strove to compensate our NEOs in a manner that produced favorable tax and accounting treatment, its main objective was to develop fair and equitable compensation arrangements that appropriately motivate, reward and retain those executives.

## COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis contained in this Proxy Statement with the management of the Company. Based on its review and related discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

Michael J. Merriman, Chairman
Daniel G. Beltzman
Mark S. Light
M. Ann Rhoades
Stephen E. Watson
*Members of the Compensation Committee*

## SUMMARY COMPENSATION TABLE

The following table shows, for our principal executive officer, our principal financial officer, and the three other most highly compensated executive officers of Regis in fiscal year 2016 (together referred to as the Named Executive Officers or "NEOs"), information concerning compensation earned for services in all capacities during each of the fiscal years ended June 30, 2016, 2015, and 2014.

| Name and Principal Position | Year | Salary($)(1) | Bonus($)(2) | Stock Awards ($)(3) | Option Awards ($)(3) | Non-Equity Incentive Plan Compensation ($) | Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)(4) | All Other Compensation ($)(5) | Total($) |
|---|---|---|---|---|---|---|---|---|---|
| Daniel J. Hanrahan | 2016 | 882,000 | — | 1,716,471 | 533,520 | 1,315,694 | — | 38,280 | 4,485,965 |
| *President and Chief Executive Officer* | 2015 | 882,000 | — | 4,349,984 | 2,899,980 | 1,755,994 | — | 46,746 | 9,934,704 |
| | 2014 | 882,000 | — | 2,131,137 | 899,996 | — | — | 73,105 | 3,986,238 |
| Steven M. Spiegel | 2016 | 432,000 | — | 239,997 | 160,000 | 297,192 | — | 91,826 | 1,221,015 |
| *Executive Vice President and Chief Financial Officer* | 2015 | 432,000 | — | 319,984 | 159,998 | 330,540 | — | 95,856 | 1,338,378 |
| | 2014 | 432,000 | 100,000 | 319,024 | 160,000 | — | — | 89,548 | 1,100,572 |
| Eric A. Bakken | 2016 | 482,000 | — | 239,997 | 160,000 | 334,341 | 142,940 | 73,375 | 1,432,653 |
| *Executive Vice President, Chief Administrative Officer and General Counsel* | 2015 | 482,000 | — | 319,984 | 159,998 | 371,858 | — | 94,781 | 1,428,621 |
| | 2014 | 482,085 | 112,500 | 546,824 | 160,000 | — | 103,080 | 94,185 | 1,498,674 |
| Jim B. Lain | 2016 | 432,000 | — | 209,993 | 140,000 | 297,192 | — | 13,820 | 1,093,005 |
| *Executive Vice President and Chief Operating Officer(6)* | 2015 | 432,000 | — | 269,971 | 139,995 | 330,540 | — | 22,051 | 1,194,557 |
| | 2014 | 279,026 | 250,000 | 674,390 | 76,272 | — | — | 15,600 | 1,295,288 |
| Heather L. Passe | 2016 | 392,000 | — | 239,997 | 160,000 | 222,894 | — | 32,961 | 1,047,852 |
| *Senior Vice President and Chief Marketing Officer* | 2015 | 392,000 | — | 319,984 | 159,998 | 297,486 | — | 35,188 | 1,204,656 |
| | 2014 | 392,000 | 90,000 | 438,700 | 160,000 | — | — | 34,175 | 1,114,875 |

(1) Includes amounts provided to the NEOs in the form of a modest perquisite allowance of approximately $32,000 per NEO that primarily covers an automobile allowance. The entire allowance is paid to the NEOs regardless of whether they spend the entire amount on automobile expenses and, therefore, is reported as base salary; however, the allowance amount is not included as base salary for purposes of determining other compensation and benefits amounts.

(2) The amounts for fiscal 2014 for Mr. Spiegel, Mr. Bakken and Ms. Passe represent discretionary bonuses, which were paid to certain of the NEOs other than the CEO in August 2014. These bonuses are subject to a three-year clawback if the executive terminates employment voluntarily other than for Good Reason. The fiscal 2014 amount for Mr. Lain represents a sign-on payment of $130,000 made in connection with the commencement of his employment, plus a discretionary bonus of $120,000 paid in August 2014.

(3) Values expressed represent the aggregate grant date fair value of stock or option awards granted in each fiscal year, as computed in accordance with FASB ASC Topic 718, based on the closing stock price on the grant date. See Note 12 to our consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2016 for a description of the assumptions used in calculating these amounts.

The grant date fair values for stock awards for the fiscal year ended June 30, 2016 include:

- Performance units that were granted in August 2015: Mr. Hanrahan—$1,266,481; Mr. Spiegel—$159,998; Mr. Bakken—$159,998; Mr. Lain—$139,999; and Ms. Passe —$159,998. The grant date fair values of these awards assumed that the target level achievement would be attained. If the grant date fair values had been calculated assuming the maximum level of achievement, the grant date fair values would have been: Mr. Hanrahan—$2,532,962; Mr. Spiegel—$319,996; Mr. Bakken—$319,996; Mr. Lain—$279,998; and Ms. Passe —$319,996.

The grant date fair values for stock awards for the fiscal year ended June 30, 2015 include:

- Performance units granted in August 2014 were earned during the performance period ended June 30, 2015 at the following amounts: Mr. Hanrahan—$1,487,425; Mr. Spiegel—$264,432; Mr. Bakken—$264,432; Mr. Lain—$231,368; and Ms. Passe —$264,432. The grant date fair values of these awards assumed that the target level achievement would be attained.

- A special one-time grant of restricted stock units and stock appreciation rights grant made to Mr. Hanrahan in January 2015 valued at $2,999,996 and $1,999,981, respectively; these awards cliff vest five years after grant and the stock appreciation rights expire seven years after grant.

The grant date fair values for stock awards for the fiscal year ended June 30, 2014 include:

- Performance units that were granted, but were not earned and thus were forfeited, in the following amounts: Mr. Hanrahan—$889,997; Mr. Spiegel—$159,993; Mr. Bakken—$159,993; Mr. Lain—$76,260; and Ms. Passe —$159,993. The grant date fair values of these awards assumed that the target level achievement would be attained.

- Special performance units that were granted, but were not earned and thus were forfeited, in the following amounts: Mr. Hanrahan—$781,142; Mr. Spiegel—$79,042; Mr. Bakken—$306,842; and Ms. Passe—$198,718. The grant date fair values of these awards assumed that the target level achievement would be attained.

(4) Amounts represent the change in the present value of benefits under the pension plans. Mr. Bakken is the only NEO eligible for such plans. The pension value for Mr. Bakken decreased by $5,743 in fiscal 2015.

(5) The following table sets forth All Other Compensation amounts by type:

| Name | Company Match and Profit-Sharing Contribution ($)(a) | Dividends and Dividend Equivalents on Stock and Option Awards ($) | Insurance Premiums ($) | Travel Expenses ($)(b) | Total All Other Compensation ($)(c) |
|---|---|---|---|---|---|
| Daniel J. Hanrahan | 26,042 | — | — | — | 38,280 |
| Steven M. Spiegel | 26,042 | — | 23,246 | 20,074 | 91,826 |
| Eric A. Bakken | 25,000 | — | 31,954 | — | 73,375 |
| Jim B. Lain | 1,000 | — | — | — | 13,820 |
| Heather L. Passe | 24,588 | — | — | — | 32,961 |

(a) The Company matches our NEOs' contributions into our deferred compensation plans up to $25,000 per calendar year. Amounts greater than $25,000 are due to timing.

(b) Mr. Spiegel is entitled to reimbursement of travel expenses for commuting from Chicago to Minneapolis pursuant to his employment agreement.

(c) Total All Other Compensation for Mr. Hanrahan, Mr. Spiegel, Mr. Bakken, Mr. Lain, and Ms. Passe also includes $12,238, $22,464, $16,421, $12,820, and $8,373 of perquisites, respectively, which primarily relate to medical benefits, including the reimbursement of co-pay and other out-of-pocket expenses.

(6) Mr. Lain commenced employment on November 11, 2013.

## GRANTS OF PLAN-BASED AWARDS IN 2016

The following table sets forth certain information concerning plan-based awards granted to the Named Executive Officers during the fiscal year ended June 30, 2016. No options were repriced or materially modified during the fiscal year.

| | | | Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(1) | | | Estimated Possible Payouts Under Equity Incentive Plan Awards(2) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Name | Grant Date | Approval Date | Threshold ($) | Target ($) | Maximum ($) | Threshold (#)(3) | Target (#) | Maximum (#) | All Other Stock Awards: Number of Shares of Stock or Units(#)(2) | All Other Option Awards: Number of Securities Underlying Options(#)(2) | Exercise or Base Price of Option Awards ($/Sh) | Grant Date Fair Value of Stock & Option Awards ($)(3) |
| Daniel J. Hanrahan | | | 531,250 | 1,062,500 | 2,125,000 | | | | | | | |
| | 8/31/2015 | 8/17/2015 | | | | 58,417 (4) | 116,834 (4) | 233,668 (4) | | | | 1,266,481 |
| | 8/31/2015 | 8/17/2015 | | | | | | | 41,512 | | | 449,990 |
| | 8/31/2015 | 8/17/2015 | | | | | | | | 152,000 | 10.84 | 533,520 |
| Steven M. Spiegel | | | 120,000 | 240,000 | 480,000 | | | | | | | |
| | 8/31/2015 | 8/17/2015 | | | | 7,380 (4) | 14,760 (4) | 29,520 (4) | | | | 159,998 |
| | 8/31/2015 | 8/17/2015 | | | | | | | 7,380 | | | 79,999 |
| | 8/31/2015 | 8/17/2015 | | | | | | | | 45,584 | 10.84 | 160,000 |
| Eric A. Bakken | | | 135,000 | 270,000 | 540,000 | | | | | | | |
| | 8/31/2015 | 8/17/2015 | | | | 7,380 (4) | 14,760 (4) | 29,520 (4) | | | | 159,998 |
| | 8/31/2015 | 8/17/2015 | | | | | | | 7,380 | | | 79,999 |
| | 8/31/2015 | 8/17/2015 | | | | | | | | 45,584 | 10.84 | 160,000 |
| Jim B. Lain | | | 120,000 | 240,000 | 480,000 | | | | | | | |
| | 8/31/2015 | 8/17/2015 | | | | 6,458 (4) | 12,915 (4) | 25,830 (4) | | | | 139,999 |
| | 8/31/2015 | 8/17/2015 | | | | | | | 6,457 | | | 69,994 |
| | 8/31/2015 | 8/17/2015 | | | | | | | | 39,886 | 10.84 | 140,000 |
| Heather L. Passe | | | 90,000 | 180,000 | 360,000 | | | | | | | |
| | 8/31/2015 | 8/17/2015 | | | | 7,380 (4) | 14,760 (4) | 29,520 (4) | | | | 159,998 |
| | 8/31/2015 | 8/17/2015 | | | | | | | 7,380 | | | 79,999 |
| | 8/31/2015 | 8/17/2015 | | | | | | | | 45,584 | 10.84 | 160,000 |

(1) These amounts represent the potential target bonus amounts that were available to our executives for fiscal 2016 under the Short Term Plan as described under "*Annual Incentive Decisions for Fiscal 2016*" in the CD&A section of this Proxy Statement.

(2) The option and stock awards were granted under the Long Term Plan.

(3) Amounts are computed in accordance with FASB ASC Topic 718.

(4) These amounts represent the threshold, target and maximum number of performance units that were available to our executives with respect to the fiscal 2016 performance unit award for the performance period ended June 30, 2016 as described under "*Long-Term Incentive Decisions for Fiscal 2016*" in the CD&A section of this Proxy Statement.

***Summary of Terms of Equity Awards***

The terms of the equity awards granted as part of the long-term incentives for fiscal 2016 are summarized below:

- Performance Units—The performance units are subject to both performance-based vesting and time-based vesting, described above in the CD&A under "*Long-Term Incentive Decisions for Fiscal 2016.*" In the event of a termination of employment, unvested performance units are generally forfeited; provided, however, that a pro-rated amount of the performance units will pay out at the target level upon a participant's death or disability and a pro-rated amount of the performance units will pay out based on actual performance at the end of the performance period upon a participant's retirement, which is defined to mean termination at age 62 or after age 55 with 15 years or more of continuous service. Similarly, in the event of a change in control during the performance period, a pro-rated amount of the performance units will pay out at the target level. The performance units earn dividend equivalents, but have no voting rights.

- SARs—The SARs vest as to one-third of the shares on each of the first three anniversaries of the date of grant and settle in the form of shares of common stock. In the event of a termination of employment, unvested SARs are generally forfeited; provided, however, that vesting is accelerated in the event of death, disability, retirement (defined as described above for performance units) and a change in control. The participant or his or her successor has one year to exercise the SARs in the event of death or disability and

90 days in the event of retirement or other termination of employment without cause. The SARs do not have any voting or dividend rights until the shares are vested and exercised.

- Restricted Stock Units—The restricted stock units vest as to one-third of the shares on each of the first three anniversaries of the date of grant. In the event of a termination of employment, unvested restricted stock units are generally forfeited; provided, however, that the vesting is accelerated in the event of death, disability or a change in control and a pro-rated amount of the units will vest in the event of retirement (defined as described above for performance units). The restricted stock units earn dividend equivalents, but have no voting rights.

## OUTSTANDING EQUITY AWARDS AT 2016 FISCAL YEAR-END

The following table sets forth certain information concerning outstanding equity awards held by the Named Executive Officers at June 30, 2016.

| | Option Awards | | | | Stock Awards(1) | | | |
|---|---|---|---|---|---|---|---|---|
| Name | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable | Option Exercise Price($) | Option Expiration Date(2) | Number of Shares or Units of Stock That Have Not Vested (#) | Market Value of Shares or Units of Stock That Have Not Vested ($)(3) | Equity Incentive Plan Awards: Number of Unearned Shares or Other Rights That Have Not Vested (#) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares or Other Rights That Have Not Vested ($)(3) |
| Daniel J. Hanrahan.......... | 150,000 | — | 18.01 | 8/31/2022 | | | | |
| | 99,667 | 49,834 (4) | 15.78 | 8/30/2023 | | | | |
| | 44,843 | 89,686 (5) | 15.11 | 8/29/2024 | | | | |
| | — | 60,537 (6) | 17.02 | 1/13/2022 | | | | |
| | — | 65,755 (6) | 18.72 | 1/13/2022 | | | | |
| | — | 71,828 (6) | 20.59 | 1/13/2022 | | | | |
| | — | 78,864 (6) | 22.64 | 1/13/2022 | | | | |
| | — | 86,986 (6) | 24.85 | 1/13/2022 | | | | |
| | — | 152,000 (7) | 10.84 | 8/31/2025 | | | | |
| | | | | | 120,585 (8) | 1,501,283 | | |
| | | | | | 9,581 (4) | 119,283 | | |
| | | | | | 19,854 (5) | 247,182 | | |
| | | | | | 176,263 (6) | 2,194,474 | | |
| | | | | | 41,512 (7) | 516,824 | | |
| | | | | | 98,439 (9) | 1,225,566 | | |
| | | | | | 144,675 (10) | 1,801,204 | | |
| | | | | | | | 20,427 (11) | 254,316 |
| Steven M. Spiegel........... | 15,482 | — | 16.45 | 12/3/2022 | | | | |
| | 17,718 | 8,860 (4) | 15.78 | 8/30/2023 | | | | |
| | 7,972 | 15,944 (5) | 15.11 | 8/29/2024 | | | | |
| | — | 45,584 (7) | 10.84 | 8/31/2025 | | | | |
| | | | | | 24,667 (12) | 307,104 | | |
| | | | | | 1,703 (4) | 21,202 | | |
| | | | | | 3,529 (5) | 43,936 | | |
| | | | | | 5,294 (13) | 65,910 | | |
| | | | | | 7,380 (7) | 91,881 | | |
| | | | | | 17,500 (9) | 217,875 | | |
| | | | | | 18,277 (10) | 227,549 | | |
| Eric A. Bakken................ | 3,200 | — | 39.04 | 4/26/2017 | | | | |
| | 3,200 | — | 28.57 | 4/24/2018 | | | | |
| | 15,500 | — | 19.14 | 4/30/2019 | | | | |
| | 4,200 | — | 18.90 | 4/29/2020 | | | | |
| | 4,200 | — | 16.60 | 4/28/2021 | | | | |
| | 22,250 | — | 18.01 | 8/31/2022 | | | | |
| | 17,718 | 8,860 (4) | 15.78 | 8/30/2023 | | | | |
| | 7,972 | 15,944 (5) | 15.11 | 8/29/2024 | | | | |
| | — | 45,584 (7) | 10.84 | 8/31/2025 | | | | |
| | | | | | 1,937 (14) | 24,116 | | |
| | | | | | 1,703 (4) | 21,202 | | |
| | | | | | 3,529 (5) | 43,936 | | |
| | | | | | 5,294 (13) | 65,910 | | |
| | | | | | 7,380 (7) | 91,881 | | |
| | | | | | 17,500 (9) | 217,875 | | |
| | | | | | 18,277 (10) | 227,549 | | |

| | Option Awards | | | | Stock Awards(1) | | | |
|---|---|---|---|---|---|---|---|---|
| Name | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable | Option Exercise Price($) | Option Expiration Date(2) | Number of Shares or Units of Stock That Have Not Vested (#) | Market Value of Shares or Units of Stock That Have Not Vested ($)(3) | Equity Incentive Plan Awards: Number of Unearned Shares or Other Rights That Have Not Vested (#) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares or Other Rights That Have Not Vested ($)(3) |
| Jim B. Lain..................... | 2,173 | 4,346 (15) | 15.50 | 11/11/2023 | | | | |
| | 6,976 | 13,950 (5) | 15.11 | 8/29/2024 | | | | |
| | — | 39,886 (7) | 10.84 | 8/31/2025 | | | | |
| | | | | | 820 (15) | 10,209 | | |
| | | | | | 36,129 (16) | 449,806 | | |
| | | | | | 3,088 (5) | 38,446 | | |
| | | | | | 3,970 (13) | 49,427 | | |
| | | | | | 6,457 (7) | 80,390 | | |
| | | | | | 15,312 (9) | 190,634 | | |
| | | | | | 15,992 (10) | 199,100 | | |
| Heather L. Passe............. | 13,325 | — | 18.01 | 8/31/2022 | | | | |
| | 17,718 | 8,860 (4) | 15.78 | 8/30/2023 | | | | |
| | 7,972 | 15,944 (5) | 15.11 | 8/29/2024 | | | | |
| | — | 45,584 (7) | 10.84 | 8/31/2025 | | | | |
| | | | | | 1,703 (4) | 21,202 | | |
| | | | | | 3,529 (5) | 43,936 | | |
| | | | | | 5,294 (13) | 65,910 | | |
| | | | | | 7,380 (7) | 91,881 | | |
| | | | | | 17,500 (9) | 217,875 | | |
| | | | | | 18,277 (10) | 227,549 | | |

(1) Stock award numbers include accrued dividend equivalents where applicable.

(2) All awards of stock options and SARs expire ten years after the date of grant, except the SARs granted in January 2015 to Mr. Hanrahan expire seven years after the date of the grant.

(3) Value based on a share price of $12.45, which was the last reported sale price for a share of our common stock on the NYSE on June 30, 2016.

(4) Award vests as to 33% of the shares covered by the award on each of the first three anniversaries of the date of grant, which was August 30, 2013.

(5) Award vests as to 33% of the shares covered by the award on each of the first three anniversaries of the date of grant, which was August 29, 2014.

(6) Award vests in full on January 13, 2020.

(7) Award vests as to 33% of the shares covered by the award on each of the first three anniversaries of the date of grant, which was August 31, 2015.

(8) Award vests in full on August 6, 2017.

(9) Amounts presented represent the number of shares earned during the performance period ended June 30, 2015 with respect to the performance units granted on August 29, 2014. These units will cliff vest on August 29, 2017.

(10) Amounts presented represent the number of shares earned during the performance period ended June 30, 2016 with respect to the performance units granted on August 31, 2015. These units will cliff vest on August 31, 2018.

(11) Award vests in full if the closing price of our common stock (as reported on the NYSE) equals or exceeds $35.00 for any consecutive 20-day period until August 6, 2017. The restricted stock units terminate if they do not vest prior to August 6, 2017.

(12) Award vests in full on December 3, 2017.

(13) Award vests in full on August 29, 2017.

(14) Award vests as to 30% of the shares covered by the award on each of the first two anniversaries of the date of grant, which is August 31, 2012, and 20% of the shares covered by the award on each of the third and fourth anniversaries of the date of grant.

(15) Award vests as to 33% of the shares covered by the award on each of the first three anniversaries of the date of grant, which was November 11, 2013.

(16) Award vests in full on November 11, 2018.

## 2016 OPTION EXERCISES AND STOCK VESTED

The following table sets forth certain information concerning options and SARs exercised and stock vested during fiscal 2016 for the Named Executive Officers:

| | Option Awards | | Stock Awards | |
|---|---|---|---|---|
| **Name** | **Number of Shares Acquired on Exercise (#)(2)** | **Value Realized on Exercise ($)(1)** | **Number of Shares Acquired on Vesting (#)(2)** | **Value Realized on Vesting ($)(1)** |
| Daniel J. Hanrahan | — | — | 28,020 | 320,510 |
| Steven M. Spiegel | — | — | 4,427 | 55,716 |
| Eric A. Bakken | — | — | 8,206 | 96,317 |
| Jim B. Lain | 2,173 | 2,890 | 2,365 | 32,416 |
| Heather L. Passe | — | — | 4,226 | 48,794 |

(1) Value realized on exercise is calculated as difference between the market value of Regis Corporation common stock on the respective exercise date(s) and the exercise price of the option(s) on a pre-tax basis. Value realized on vesting is the market value of Regis common stock on the vesting date multiplied by the number of shares acquired, before taxes.

(2) The number of shares acquired on exercise or vesting of stock awards includes shares that were forfeited for withholding tax obligations. The number of shares forfeited for each Named Executive Officer is reported below:

| **Name** | **Number of Shares Used to Pay Taxes on Exercised or Vested Awards (#)** |
|---|---|
| Daniel J. Hanrahan | 10,425 |
| Steven M. Spiegel | 1,377 |
| Eric A. Bakken | 3,048 |
| Jim B. Lain | 1,700 |
| Heather L. Passe | 1,574 |

### Summary of Executive Agreements

#### *Employment Agreements*

We are party to an employment agreement with each of our NEOs. The key provisions of the employment agreements are summarized below.

| Name | Date of Employment Agreement | Base Salary as of June 30, 2016 ($) | FY16 Annual Incentive Award (% of Base Salary) |
|---|---|---|---|
| Daniel J. Hanrahan | 8/31/2012 amended 1/13/2015 | 850,000 | 125 |
| Steven M. Spiegel | 11/28/2012 amended 6/30/2016 | 400,000 | 60 |
| Eric A. Bakken | 8/31/2012 | 450,000 | 60 |
| Jim B. Lain | 11/11/2013 | 400,000 | 60 |
| Heather L. Passe | 8/31/2012 | 360,000 | 50 |

*Ongoing Compensation*

- Base Salary—Each NEO receives an annual base salary in the amount set forth above. The base salary amounts are reviewed annually by the Compensation Committee and subject to adjustment.

- Bonus—Each NEO is eligible for an annual incentive award. The annual incentive award is set as a percentage of the NEO's then-current base salary for achievement of target performance, but the actual payout may be less than or greater than such amount for actual performance that is less than or greater than target, respectively.

- Long-Term Incentives—Each NEO is entitled to participate in the Company's long-term equity incentive program on the same basis as the Company's other executive officers, with the value of the awards being set annually by the Compensation Committee.

- Life Insurance and Other Benefits—During the term of their employment, each NEO is entitled to life insurance and health and welfare benefits offered to other headquarters employees.

- Termination of Employment Payments, Benefits and Other Obligations—The following section separately addresses benefits provided to the NEOs upon death or disability, termination without Cause or for Good Reason, termination for Cause or without Good Reason and termination after a Change in Control.

  - *Death or Disability*. Each NEO is entitled to his or her accrued compensation and obligations, including a pro rata bonus for the year of termination. Pursuant to standard provisions for such awards, the NEOs will receive full vesting of any unvested stock option, restricted stock/restricted stock units and other incentive awards.

  - *Dismissal without Cause or Resignation for Good Reason (Prior to or More than Twenty-Four Months Following a Change in Control)*. If an NEO is terminated without Cause or if he or she terminates for Good Reason, the NEO will receive an amount equal to one times his or her annual base salary (two times for Mr. Hanrahan) plus a prorated portion of any bonus he or she would have earned for the year of termination (based on actual performance), plus 12 months (18 months in the case of Mr. Hanrahan) of benefits continuation coverage.

  - *Dismissal without Cause or Resignation for Good Reason in Connection with a Change in Control*. If Mr. Hanrahan, Mr. Spiegel, Mr. Bakken or Mr. Lain's employment is terminated without Cause or if he terminates for Good Reason within 24 months following a change of control, then he will instead receive an amount equal to two times base salary plus two times the target annual bonus for the year of termination, as well as 18 months of benefits continuation payments, subject to reduction pursuant to the "best of net" provisions in the employment agreements for Messrs. Hanrahan, Spiegel and Bakken. For Ms. Passe, the severance amount is the same as for any dismissal without Cause.

  - *Dismissal for Cause or Resignation without Good Reason*. The NEOs are entitled to accrued compensation and obligations where dismissal is for Cause. Severance benefits are not payable in the event of a termination of employment for Cause.

- Provision for Offset of Severance—The severance payments will be paid over the course of the severance period and offset by any compensation an NEO receives from other substantially full-time employment during the severance period. The severance payments are also contingent upon signing and not rescinding a release and complying with certain non-competition and non-solicitation provisions.

- Restrictive Covenants—The NEOs are subject to restrictive covenants prohibiting the disclosure or use of confidential information, along with two-year covenants regarding non-competition and non-solicitation of employees. Our remedies for violation of restrictive covenants include injunctive relief and forfeiture of severance benefits.

- Mandatory Arbitration—Disputes arising under the Employment Agreements are to be resolved by binding arbitration.

*Sign-On, Relocation and Related Benefits*

When executive officers join our company, from time to time we have agreed to sign-on incentives and relocation benefits that are not part of their ongoing compensation to incentivize them to leave their former employers and join our company. Specifically:

- Sign-On Incentives—When he joined our company in November 2013, Mr. Lain received a sign-on bonus equal to $130,000, which must be repaid to our company if he terminates employment under certain circumstances, such as termination without Good Reason within three years of his start date, and a special equity award of restricted stock units having a value equal to $560,000, which will vest in full at the end of five years, provided he is still employed with the Company on such date.

- Other Inducement Terms—For the year ended June 30, 2014, Mr. Lain was entitled, under his employment agreement, to receive a long-term incentive award valued at target at $300,000, prorated for the portion of the year he was employed.

- Commuting Expenses—We agreed to reimburse Mr. Spiegel for commuting expenses, specifically the actual expense of one round-trip by air from Chicago, Illinois to Minneapolis, Minnesota for each week that such travel is completed during his period of employment and continuing until the earlier of (i) July 1, 2016 or (ii) such time as Mr. Spiegel moves his permanent residence from the Chicago, Illinois area to the Minneapolis/St. Paul, Minnesota metropolitan area. This benefit was extended to December 31, 2016 by an amendment to Mr. Spiegel's employment agreement dated June 30, 2016. Mr. Spiegel was reimbursed $20,074 for his commuting expenses in fiscal 2016.

- Relocation Expenses—Mr. Lain relocated from Chicago, Illinois in fiscal 2014, and we agreed to pay certain relocation expenses in his employment agreement. Mr. Lain was reimbursed a total of $9,117 for his relocation expenses, all in fiscal 2014. Mr. Spiegel will be entitled to relocation benefits when he moves from the Chicago, Illinois area, capped at $75,000.

*Historical Retirement and Life Insurance Benefits*

- Retirement Benefits—Pursuant to certain grandfathered provisions of his employment agreement, upon retirement (at or after age 65), Mr. Bakken is entitled to receive a lump sum cash payment equal to the present value of a hypothetical annuity of monthly payments which are equal to the greater of $5,000 or 40% of his respective five-year average monthly compensation for the five-year period ending June 30, 2012 (i.e., July 1, 2007 through June 30, 2012), excluding bonuses (subject to a 20-year vesting schedule), to be paid for 240 months. Mr. Bakken's agreement provides he will be entitled to the fully vested benefit if his employment is terminated without Cause or if he terminates for Good Reason at any time, and his agreement provides he will be entitled to the fully vested benefit if his employment terminates for any reason other than for Cause within two years of a Change in Control. Additionally, upon any termination following a Change in Control (except for Cause), he receives (i) the same retirement benefits described below, except that the lump-sum is equal to the sum of the payments due, determined as if he is fully vested, and (ii) a lump sum payment of any unpaid amounts described below under "Life Insurance."

  Under this arrangement, an executive officer has the option to elect to receive his or her retirement benefit in the form of the 240 monthly payments rather than the lump sum, provided that such election is made in accordance with the requirements described in his or her employment agreement and consistent with Code Section 409A. In addition to the possibility for reduction based on: (i) the vesting schedule, and/or (ii) the present value discount for a lump sum payment, an executive's retirement benefit is subject to further discount if paid prior to age 65 (an "Early Retirement"). If payment is made in connection with an Early Retirement, the hypothetical annuity of 240 monthly payments is discounted by first calculating the benefit as an annuity starting at age 65, and then converting it to an immediate commencement annuity using the yield to maturity of 30-year U.S. Treasury Notes as of June 30, 2012 (2.76%).

If an executive officer dies before receiving full payment of his or her retirement benefit, payment will be made in a lump sum or monthly payments will continue, as applicable, to his or her designated beneficiary (or his or her estate). If an executive officer becomes disabled, he or she will receive monthly payments beginning six months after his or her disability begins and continuing until the earlier of his or her death or attainment of age 65, or until he or she ceases to be disabled, in an amount equal to his or her monthly benefit. At death or attainment of age 65, he or she (or his or her beneficiary) will receive the benefit described above under "Retirement Benefits." No retirement benefits are payable in the event of termination of employment for Cause.

Under the amended and restated employment agreement signed by Mr. Bakken effective August 31, 2012, we froze vesting in his retirement benefits as of June 30, 2012, subject to the continued right to full acceleration in the event of termination without Cause or termination for Good Reason, as described above. As indicated, we also limited the calculation of the monthly benefit to his five-year average monthly base salary as of June 30, 2012.

Of our NEOs, only Mr. Bakken is eligible for this benefit.

- Life Insurance—We agreed to pay premiums for a total of ten years on the existing policies insuring the lives of certain of our executive officers who were entitled to such benefits and were employed by the Company as of June 30, 2012. As of June 30, 2016, we have made all of the payments that we had agreed to pay on Mr. Bakken's policies. As of June 30, 2016, the aggregate face amount of Mr. Bakken's policies is approximately $3.2 million.

***Definitions under Executive Agreements***

Certain of the terms used in the executive agreements as in effect during fiscal 2016 are defined below:

- Cause—Acts resulting in a felony conviction that is materially detrimental to the financial interests of the Company; willful nonperformance by the executive of his material employment duties (other than by reason of physical or mental incapacity) after reasonable notice to the executive and reasonable opportunity (not less than 30 days) to cease such non-performance; or willful engagement in fraud or gross misconduct that is materially detrimental to the financial interests of the Company.

- Change in Control—A person is or becomes the beneficial owner of 20% or more of the outstanding common stock or outstanding voting securities of the Company; consummation of a merger or consolidation of the Company, a statutory share exchange or an acquisition of all or substantially all of the Company's assets unless the beneficial owners of the Company's outstanding voting securities immediately prior to the transaction beneficially own more than 50% of the voting power of the outstanding voting securities of the surviving entity in substantially the same proportions; or the incumbent directors cease to constitute at least a majority of the Board. Furthermore, in August 2014, the Board adopted an amendment providing that a Change in Control does not occur if a person becomes the beneficial owner of 20% or more of the outstanding common stock or outstanding voting securities of the Company solely as the result of a change in the aggregate number of shares of outstanding common stock or outstanding voting securities since the last date on which such person acquired beneficial ownership of any shares of common stock or voting securities.

- Good Reason—Assignment to the executive of duties inconsistent with his status or any adverse alteration in the executive's reporting responsibilities, titles or offices; a material reduction of the executive's base salary; failure by the Company to continue any compensation plan, bonus or incentive plan; material breach of the agreement by the Company; requirement that the executive's principal place of employment be relocated by more than 30 miles from the Company's current address; or the Company's failure to obtain an agreement from any successor entity to assume the Company's obligations under the agreement.

- Disability—Physical or mental disability or health impairment that prevents the effective performance by the executive of his duties on a full time basis.

***Retirement Plans and Arrangements***

We currently provide the Named Executive Officers the option to participate in two Company-sponsored retirement savings plans: the Executive Retirement Savings Plan, a nonqualified deferred compensation plan, and the Regis Individual Secured Retirement Plan (the "RiSRP"), an employee welfare benefit plan, which was added in fiscal 2016 as a post-tax retirement savings option.

Elections to defer compensation under the Executive Retirement Savings Plan are made annually, prior to the beginning of the year in which the deferred compensation is earned. Executives may defer up to 100% of their annual compensation, including bonus, on a pre-tax basis. Beginning with elections made in fiscal 2016, in-service distributions must be deferred for a minimum of two years. Employer contributions under the Executive Retirement Savings Plan for our Named Executive Officers include a 25% match on up to a maximum of $100,000 in deferred compensation (i.e., $25,000) and a discretionary annual profit sharing contribution (each on a calendar-year basis). We deposit the deferred amounts and employer contributions into a trust for the benefit of plan participants. In accordance with tax laws, the assets of the trust are subject to claims of the Company's creditors. Participant account balances are deemed invested as the executive directs, from time to time, among the investment alternatives offered. Subject to compliance with plan terms and applicable tax requirements (including, without limitation, Code Section 409A), executives may elect the distribution date for their plan accounts.

Under the RiSRP, participants may elect to contribute amounts from payroll, up to 100% of their annual compensation including bonus, on an after-tax basis. Employee contributions under the RiSRP for our NEOs include the same match opportunity as the Executive Retirement Savings Plan, and if an NEO is participating in both plans, their aggregate match is capped at $25,000. Participants may also make contributions outside of payroll deductions, but these are not eligible for employer match. Participant contributions and employer matching contributions are deposited in participant-owned life insurance policies. These insurance policies are not subject to claims of the Company's creditors. Each participant's account balances under the life insurance policy is invested as the participant directs, from time to time, among the investment alternatives available under the insurance policy.

## PENSION BENEFITS IN 2016

The following table sets forth certain information concerning pension benefits for the Named Executive Officers for fiscal 2016:

| Name(1) | Age at June 30, 2016 | Plan Name(2) | Number of Years of Credited Service (#)(3) | Present Value of Accumulated Benefit ($)(4) | Payments During Last Fiscal Year ($) |
|---|---|---|---|---|---|
| Eric A. Bakken | 49 | Employment Agreement | 22.5 | 1,008,102 | — |

(1) Messrs. Hanrahan, Spiegel and Lain and Ms. Passe do not participate in the Company's pension benefits program as it was frozen prior to the commencement of their employment.

(2) Retirement benefits provided under the applicable employment agreement for each Named Executive Officer are described above under "Summary of Executive Agreements."

(3) The number of years of credited service shown for Mr. Bakken represents his actual years of service; however, for purposes of determining the value of their accumulated benefit, his years of credited service was frozen at 18.5 as described above.

(4) The present value of pension benefits for Mr. Bakken is calculated based on the following assumptions: (i) freezing of the pension benefits as described above under "Summary of Executive Agreements—*Retirement Plans and Arrangements*," (ii) expected retirement age of the later of (A) June 30, 2016 or (B) age 65, which is the earliest time a participant may retire without any benefit reduction due to age, and (iii) discount rate of 3.0%.

## NONQUALIFIED DEFERRED COMPENSATION FOR 2016

The following table sets forth certain information concerning nonqualified deferred compensation under our Executive Retirement Savings Plan and the RiRSP for the NEOs for fiscal 2016:

| Name | Executive Contributions in Last FY ($)(2) | Registrant Contributions in Last FY ($)(1)(2) | Aggregate Earnings in Last FY ($)(2) | Aggregate Withdrawals/ Distributions ($) | Aggregate Balance at Last FYE ($) |
|---|---|---|---|---|---|
| Daniel J. Hanrahan | 104,167 | 26,042 | 6,390 | — | 464,346 |
| Steven M. Spiegel | 104,167 | 26,042 | (256) | — | 58,374 |
| Eric A. Bakken | 103,500 | 25,000 | (830) | — | 197,513 |
| Jim B. Lain | 4,000 | 1,000 | — | — | — |
| Heather L. Passe | 109,950 | 24,588 | (6,424) | — | 66,543 |

(1) The Company matches deferred compensation contributions up to $25,000 per calendar year.

(2) The following amounts of contributions and earnings reflected in the table above have been reported in the current year or prior years' Summary Compensation Tables as follows:

| | Total Amount | Current Year Summary Compensation Table | | | |
|---|---|---|---|---|---|
| Name | Reported in Current or Prior Summary Compensation Tables ($) | Salary ($) | Non-Equity Incentive Plan ($) | Above-Market Earnings ($) | Company Match and Profit-Sharing Contribution in All Other Compensation ($) |
| Daniel J. Hanrahan | 600,945 | 104,167 | — | — | 26,042 |
| Steven M. Spiegel | 188,327 | 104,167 | — | — | 26,042 |
| Eric A. Bakken | 325,183 | 103,500 | — | — | 25,000 |
| Jim B. Lain | 5,000 | 4,000 | — | — | 1,000 |
| Heather L. Passe | 194,657 | 109,950 | — | — | 24,588 |

The measurement funds available under the Executive Retirement Savings Plan include the Company's common stock and selected mutual funds, which are the same measurement funds available for employees generally with respect to investment of their funds in the Company's qualified 401(k) plan. Participants in the plan may change their investments in the various measurement funds at any time.

### Potential Payments Upon Termination or Change in Control

The tables that follow describe potential payments and benefits provided to our NEOs or their beneficiaries under the employment agreements, plans and arrangements in existence at June 30, 2016 under various scenarios involving a termination of employment and/or a change in control, and assuming that the termination or change in control event(s) occurred on June 30, 2016. The agreements are described in more detail above under "Summary of Executive Agreements." The following presentation has been keyed to the following events upon which an NEO or their beneficiaries would be entitled to a payment or benefit:

- Voluntary termination or involuntary termination not related to a change in control;
- Termination due to death;
- Termination due to disability;
- A change in control not involving an employment termination; and
- Involuntary termination within twenty-four months after a change in control.

Unless otherwise specified, an "involuntary termination" for these purposes includes a termination by the NEO for "Good Reason," but does not include a termination for "Cause." A "voluntary termination" refers to a termination by the NEO other than for “Good Reason.” “Cause” and “Good Reason” for these purposes have the meanings described above under “Definitions under Executive Agreements.”

| | | Not Related to Change in Control | | | | After a Change in Control | |
|---|---|---|---|---|---|---|---|
| **Name** | **Type of Payment or Benefit** | **Voluntary Termination ($)** | **Involuntary Termination($) (1)** | **Death($)** | **Disability ($)** | **Not Involving a Termination of Employment($)** | **Involuntary Termination ($)(2)** |
| Daniel J. Hanrahan | Severance | — | $ 3,015,694 | — | — | — | $ 3,825,000 |
| | Medical and Dental Insurance Benefits(3) | — | $ 22,193 | — | — | — | $ 22,193 |
| | Accelerated Vesting of Equity(4) | — | 3,950,074 | $8,104,853 | $8,104,853 | $ 8,104,853 | $ 8,104,853 |
| | Tax Gross-up | | | | | | $ 2,229,473 |
| | **Total** | **—** | **$ 6,987,961** | **$8,104,853** | **$8,104,853** | **$ 8,104,853** | **$ 14,181,519** |
| Steven M. Spiegel | Severance | — | $ 697,192 | — | — | — | $ 1,280,000 |
| | Medical and Dental Insurance Benefits(3) | — | $ 18,421 | — | — | — | $ 27,631 |
| | Accelerated Vesting of Equity(4) | — | — | $1,048,848 | $1,048,848 | $ 1,048,848 | $ 1,048,848 |
| | **Total** | **—** | **$ 715,613** | **$1,048,848** | **$1,048,848** | **$ 1,048,848** | **$ 2,356,479** |
| Eric A. Bakken | Severance | — | $ 784,341 | — | — | — | $ 1,440,000 |
| | Medical and Dental Insurance Benefits(3) | — | $ 18,421 | — | — | — | $ 27,631 |
| | Retirement Benefits(5) | $ 1,046,435 | $ 1,231,100 | $1,903,176 | $2,609,653 | | $ 1,231,100 |
| | Accelerated Vesting of Equity(4) | — | — | $ 765,863 | $ 765,863 | $ 765,863 | $ 765,863 |
| | **Total** | **$ 1,046,435** | **$ 2,033,862** | **$2,669,039** | **$3,375,516** | **$ 765,863** | **$ 3,464,594** |
| Jim B. Lain | Severance | — | $ 697,192 | — | — | — | $ 1,280,000 |
| | Medical and Dental Insurance Benefits(3) | — | $ 9,871 | — | — | — | $ 14,807 |
| | Accelerated Vesting of Equity(4) | — | — | $1,082,228 | $1,082,228 | $ 1,082,228 | $ 1,082,228 |
| | **Total** | **—** | **$ 707,063** | **$1,082,228** | **$1,082,228** | **$ 1,082,228** | **$ 2,377,035** |
| Heather L. Passe | Severance | — | $ 582,894 | — | — | — | $ 582,894 |
| | Medical and Dental Insurance Benefits(3) | — | $ 18,421 | — | — | — | $ 18,421 |
| | Accelerated Vesting of Equity(4) | — | — | $ 741,744 | $ 741,744 | $ 741,744 | $ 741,744 |
| | **Total** | **—** | **$ 601,315** | **$ 741,744** | **$ 741,744** | **$ 741,744** | **$ 1,343,059** |

(1) Severance amounts in the event of Involuntary Termination Not Related to Change in Control represent a cash payment equal to two times annual base salary for Mr. Hanrahan and one times annual base salary for the other NEOs, plus a prorated portion of any bonus the executive officer would have earned for the year of termination, based on actual performance.

(2) The severance amounts, in the event of an Involuntary Termination Related to a Change in Control, represent a cash payment equal to two times annual base salary plus two times the target annual bonus for the year of termination for Messrs. Hanrahan, Spiegel, Bakken and Lain. For Ms. Passe, the severance amount is the same as under an Involuntary Termination Not Related to a Change in Control.

Under Code Section 280G, executives will incur an excise tax on portions of these payments if the parachute value of payments exceeds a specified threshold. Under the Long-Term Plan, participants who first received awards prior to October 22, 2013 (which includes Mr. Hanrahan, Mr. Bakken, Mr. Spiegel and Ms. Passe) are entitled to an excise tax gross-up if an award granted thereunder, either alone or together with other payments and benefits the participant receives or is entitled to receive would constitute a "parachute payment." The 2016 Long-Term Incentive Plan does not provide for any excise tax gross-ups on parachute payments. Once the grandfathered excise tax gross-up is phased out, the Company will determine, pursuant to Messrs. Hanrahan, Bakken and Spiegel's employment agreements, whether the executive is better off receiving the full payment due and paying the excise tax, or receiving a reduced payment that falls just below the excise tax threshold, which is referred to as a “best of net” provision.

(3) The amount represents the estimated medical and dental insurance premiums for the applicable benefits continuation period following involuntary termination. If not related to a change in control, the continuation period is 18 months for Mr. Hanrahan and 12 months for other executive officers. If after a change in control, the period is increased to 18 months for Messrs. Spiegel, Bakken and Lain.

(4) Amounts represent the intrinsic value of stock appreciation rights (SARs), restricted stock units (RSUs), and performance unit awards (PSUs) as of June 30, 2016 for which the vesting would be accelerated. The value entered for SARs is based on the number of units for which vesting would be accelerated times the excess of $12.45, the closing price of the Company's common stock on June 30, 2016 on the NYSE, over the SAR exercise price. The value included for restricted stock units is the product of the number of units for which vesting would be accelerated and $12.45. The value included for the performance units granted in August 2014 and August 2015 is the product of the shares earned for the applicable fiscal year (i.e., based on the performance outcome for fiscal 2015 and fiscal 2016, respectively) and $12.45.

(5) The amounts represent a lump sum cash payment equal to the present value of a hypothetical annuity of monthly benefits. The annuity amount and payment period vary according to the termination scenario, as described under "Summary of Executive Agreements— *Employment Agreements—Historical Retirement and Life Insurance Benefits.*"

**Fiscal 2016 Director Compensation Table**

Compensation of our directors is reviewed and determined by the Board on an annual basis, with consideration given to industry comparisons of directors' compensation. A portion of director compensation is linked to our stock performance in the form of equity awards. Employee directors do not receive any cash or other compensation for their services as directors. Each of the cash compensation and the equity compensation for non-employee directors who serve during only a portion of a fiscal year is prorated. Our current non-employee director compensation is as follows:

- An annual cash retainer of $70,000;
- An annual cash retainer for the chairman of the Audit Committee of $15,000;
- Annual cash retainers of $10,000 and $7,500 for the chairs of the Compensation Committee and the Nominating and Corporate Governance Committee, respectively;
- An annual grant of deferred stock units valued at $90,000, which vest monthly over a period of one year and pay out when the director leaves the Board, generally granted on the date of the director's election or re-election at the annual meeting of shareholders; and
- An annual grant of deferred stock units valued at $85,000 payable to our independent Chairman of the Board, which vest monthly over a period of one year and pay out when the Chairman leaves the Board.

In October 2015, the Compensation Committee reviewed these arrangements and provided that Mr. Beltzman would receive cash in lieu of a director equity grant due to his beneficial ownership of greater than 20% of our outstanding common stock. Therefore, for his term ending October 18, 2016, he is receiving an additional $90,000 in cash and no equity grant.

The following table shows, for each of the non-employee directors who served during the fiscal year ended June 30, 2016, information concerning their annual and long-term compensation earned during such fiscal year.

| Name | Fees Earned or Paid in Cash($) | Stock Awards ($)(1) | Total($) |
|---|---|---|---|
| Daniel G. Beltzman | 137,500 | — | 137,500 |
| James P. Fogarty(2) | 17,500 | — | 17,500 |
| David J. Grissen | 77,500 | 89,998 | 167,498 |
| Mark S. Light | 70,000 | 89,998 | 159,998 |
| Michael J. Merriman | 80,000 | 89,998 | 169,998 |
| M. Ann Rhoades(2) | 48,968 | 89,998 | 138,966 |
| Stephen E. Watson | 70,000 | 174,993 | 244,993 |
| David P. Williams | 85,000 | 89,998 | 174,998 |

(1) Values expressed represent the aggregate grant date fair value of stock awards granted during fiscal 2016, as computed in accordance with FASB ASC Topic 718, based on the closing stock price on the grant date. See Note 12 to our consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2016 for a description of the assumptions used in calculating these amounts.

(2) Mr. Fogarty's term as a director ended October 20, 2015 and Ms. Rhoades joined the Board on October 20, 2015.

The following table shows, for each of our current non-employee directors, the aggregate number of stock and option awards outstanding as of June 30, 2016:

| Name | Aggregate Stock Awards Outstanding as of 06/30/16 (#) | Aggregate Option Awards Outstanding as of 06/30/16 (#) |
|---|---|---|
| Daniel G. Beltzman | 17,535 | — |
| David J. Grissen | 18,403 | — |
| Mark S. Light | 18,403 | — |
| Michael J. Merriman | 28,798 | — |
| M. Ann Rhoades | 6,907 | — |
| Stephen E. Watson | 51,333 | 7,000 |
| David P. Williams | 28,798 | — |

## ADVANCES OF DEFENSE COSTS FOR CERTAIN LITIGATION MATTERS

Certain members of the Company's current Board, certain former Board members and certain former officers were named as defendants in a lawsuit alleging breaches of fiduciary duties to the Company in connection with approval of certain executive compensation arrangements and certain related party transactions. The current and former directors and officers who were named as defendants in this action have a legal right under the Minnesota Business Corporation Act and the Company's Restated Articles of Incorporation to advancement of their costs of defense. This case was dismissed by court order in September 2014 and the court also denied the plaintiff's motion for an award of fees in September 2015, so this matter is now concluded. In fiscal 2016, the Company advanced defense costs on behalf of the current and former directors and officers amounting to approximately $11,200, in addition to an aggregate of approximately $1.8 million advanced in fiscal 2013 through fiscal 2015. The Company has directors and officers insurance that provided reimbursement for certain amounts advanced which exceeded the Company's $500,000 retention.

## EQUITY COMPENSATION PLAN INFORMATION

The following table provides information about our common stock that may be issued under all of our stock-based compensation plans in effect as of June 30, 2016.

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans | |
|---|---|---|---|---|
| Equity compensation plans approved by security holders(1) | 3,215,087 | $ 15.85 | 2,305,826 | (2) |
| Equity compensation plans not approved by security holders | — | | — | |
| Total | 3,215,087 | $ 15.85 | 2,305,826 | |

(1) Includes stock options granted under the Regis Corporation 2000 Stock Option Plan as well as shares granted through stock options, SARs and restricted stock units under the Long Term Plan. Information regarding the stock-based compensation plans is included in Notes 1 and 12 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended June 30, 2016.

(2) The Company's Long Term Plan provides for the issuance of a maximum of 6,750,000 shares of the Company's common stock through stock options, SARs, restricted stock, or restricted stock units. As of June 30, 2016, 122,043 unvested restricted stock shares were outstanding under the Long Term Plan, which are not reflected in this table. As

of June 30, 2016, there are 1,931,279 full value awards (restricted stock shares or units) or 1,741,610 partial value awards (stock options or SARs) included in the number of securities remaining available for future issuance under equity compensation plans as disclosed in this table. As of June 30, 2016, there were also 374,547 common shares available for issuance under the Company's Stock Purchase Plan.

## ITEM 2
## APPROVAL OF ADVISORY VOTE ON COMPENSATION OF NAMED EXECUTIVE OFFICERS

As required by SEC rules, we are providing shareholders with an annual, non-binding advisory vote to approve the executive compensation as disclosed in the CD&A. At the Annual Meeting, shareholders will vote on the following advisory resolution regarding the compensation of our Named Executive Officers as described in this Proxy Statement (commonly referred to as "Say-on-Pay"):

"RESOLVED, that the shareholders of Regis Corporation approve, on an advisory basis, the compensation paid to the Company's Named Executive Officers as disclosed in the '*Compensation Discussion and Analysis*' section, and compensation tables and narrative discussion contained in the '*Executive Compensation*' section in this Proxy Statement."

Our executive compensation programs are based on our belief that attracting, retaining and motivating talented executives is critical to the maintenance of our competitive advantage in the haircare industry and to the achievement of the business goals set by the Board. Accordingly, our executive compensation programs are designed to reward executives for achievement of our financial and business goals, while also aligning our executives' interests with those of our shareholders. We believe that we best achieve these goals by providing our executives with a mix of compensation elements that incorporate cash and equity, as well as short-term and long-term components, and that are tied to our business goals, all as described above in the CD&A of this Proxy Statement.

As described above in the CD&A, we believe that our fiscal 2016 financial results yielded the pay for performance alignment that the Committee is focused on. Also as described above in the CD&A under the heading "*Shareholder Engagement*," we have made several changes to our executive compensation program for fiscal 2017 in response to concerns raised in connection with our 2015 Say-on-Pay vote.

For a comprehensive description of our executive compensation program, philosophy and objectives, including the specific elements of executive compensation that comprised the program in fiscal 2016, please refer to the CD&A, as well as the Summary Compensation Table and other executive compensation tables (and accompanying narrative disclosures) that follow the CD&A.

This advisory vote will not affect any compensation already paid or awarded to our NEOs and will not be binding on the Board or the Compensation Committee. However, the Compensation Committee will review and carefully consider the outcome of the vote. If there are a significant number of negative votes, the Compensation Committee will seek to understand the concerns that influenced the vote and consider them in making future executive compensation decisions.

**Upon recommendation of the Compensation Committee of the Board, the Board unanimously recommends a vote FOR the approval of the compensation of our Named Executive Officers.**

## ITEM 3
## APPROVAL OF REGIS CORPORATION
## 2016 LONG TERM INCENTIVE PLAN

**Introduction**

We are seeking shareholder approval for the Regis Corporation 2016 Long Term Incentive Plan (the "2016 Plan"), which was approved by our Board of Directors, subject to shareholder approval, on August 16, 2016. Upon approval of the 2016 Plan by our shareholders, no further awards will be made under our current Long Term Plan (the Amended and Restated 2004 Long-Term Incentive Plan), and the 2016 Plan will be the only active plan under which equity awards may be made to our employees and non-employee directors.

As of August 24, 2016, our current Long Term Plan had only 1,872,738 shares remaining available for issuance. Many of the shares remaining available at the record date were used to make annual equity awards at the end of August 2016, as is our practice.

The 2016 Plan authorizes 3,500,000 shares for awards, which allows us to make equity compensation awards in late August 2017, prior to the 2017 annual meeting of shareholders. With the introduction of a fungible share design in the 2016 Plan, even with approval of the shares requested at this time, we expect to return to our shareholders to seek approval of additional shares at our October 2017 annual meeting of shareholders for awards to be granted the following year.

***Awards Outstanding and Shares Available for Grant***

The table below shows, as of August 24, 2016, the shares reserved for issuance of outstanding awards and available for future grant under our current Long Term Plan. The table also shows the number of shares that will be available for future grants under each equity compensation plan following approval of the 2016 Plan by our shareholders.

| | **As of August 24, 2016 (1)** | | **After Approval of 2016 Plan** | |
|---|---|---|---|---|
| | **Shares Reserved for Issuance of Outstanding Awards (2)** | **Shares Available For Future Awards** | **Shares Reserved for Issuance of Outstanding Awards** | **Shares Available for Future Awards** |
| Long Term Plan (3) | 4,017,391 | 1,872,738 (3) | 4,667,391 | **0** |
| 2016 Plan | 0 | 0 | 0 | 3,500,000 |
| **Total** | 4,017,391 | 1,872,738 | 4,667,391 | 3,500,000 |

(1) Our practice is to make our annual equity grants at the end of August. Accordingly, on August 31, 2016, we issued equity awards that used many of the shares remaining available under the Long-Term Plan as of the record date in the table above. The exact number of shares subject to such awards had not been finalized as of the date of finalizing this proxy statement; however, based on the closing price of our common stock on August 24, 2016 of $13.49 per share, the aggregate number of shares subject to the awards granted on August 31, 2016 (RSUs and PSUs, at target) would be approximately 650,000 shares.

(2) Shares reserved for issuance of outstanding awards at August 24, 2016 consist of the following:

| | **Types of Awards** | | | |
|---|---|---|---|---|
| | **Options/SARs** | **Full Value Awards** | **Weighted Average Exercise Price of Options/SARs** | **Weighted Average Term to Expiration** |
| Long Term Plan (3) | 2,285,709 | 1,731,682 | $16.39 | 7.0 years |

(3) No further equity awards will be granted under the Long Term Plan following shareholder approval of the 2016 Plan; however, any shares that would return to the Long Term Plan as a result of an award terminating, expiring or being forfeited or being settled in cash in lieu of shares will instead become available under the 2016 Plan.

***Primary Differences Between 2016 Plan and Long Term Plan***

The 2016 Plan is substantially similar to our current Long Term Plan; however, the key differences include:

- All awards will be subject to a minimum one-year vesting period, subject to limited customary exceptions;
- The 2016 Plan incorporates a fungible share design, with a 2.4:1 ratio, under which full value awards (such as RSUs and PSUs) count against the shares reserved for issuance at a higher rate than appreciation awards (such as SARs and stock options);
- SARs will have a maximum term of ten years under the Plan (which conforms to the terms of SARs we have granted previously);
- Awards may not be canceled for cash or other property or the grant of a full value award at a time when the exercise price of the award is greater than the current fair market value of a share of our common stock; and
- The 2016 Plan does not provide for any excise tax gross-ups on “parachute payments,” whereas the Long Term Plan entitles certain “grandfathered” participants to an excise tax gross-up payment.

The complete text of the 2016 Plan is attached as Appendix A.

**Why We Believe You Should Vote for the 2016 Plan**

The Board believes that equity compensation is an important part of total compensation for our executives as well as for certain other senior and management-level employees. We believe that shareholders should approve the 2016 Plan for the following reasons:

*Compensation Philosophy.* As described in the CD&A, our compensation programs are intended to work together to reward our executive officers for achieving the pre-established business goals set by the Board, to induce their commitment and continued service with the Company, and to align their interests with those of our shareholders through equity compensation and stock ownership requirements. We believe that equity compensation is one of the most effective tools to achieve these goals, and consistent with our goals for the future, we believe that equity-based incentives will continue to play an important role in our ability to incentivize our executives and other employees.

*Plan Provisions Designed to Serve Shareholders' Interests and Promote Effective Corporate Governance.* The 2016 Plan, which is summarized in more detail below, includes several provisions that are designed to serve the interests of our shareholders and promote effective corporate governance, including:

- It is administered by our independent Compensation Committee;
- A fungible share design with a 2.4:1 ratio;
- Prohibits re-pricing of stock options or SARs, including any cancellation for cash or other property or the grant of a full value award at a time when the exercise price of the stock option or SAR is greater than the current fair market value of a share of our common stock;
- We cannot issue stock options or SARs at an exercise price that is less than the fair market value of our common stock on the date of grant;
- Prohibits liberal share recycling;
- All awards are subject to a minimum one-year vesting period, subject to limited customary exceptions (death, disability, a change in control, certain substituted or exchanged awards and awards not exceeding 5% of the total shares reserved under the Plan);
- Provides for the forfeiture of outstanding awards if the Compensation Committee determines that the employee has engaged in certain misconduct that is materially detrimental to the interests of the Company;
- Does not apply a “liberal” change in control definition to awards; and

- We cannot materially modify the 2016 Plan without prior shareholder approval, which includes amendments that would increase the number of shares of our common stock available, increase the award limits under the Plan, permit awards of options at a price less than fair market value, permit re-pricing of options or SARs, or expand the class of persons eligible to receive awards under the Plan. Shareholder approval is also required for any action that would, absent such approval, violate the rules and regulations of the NYSE or any other securities exchange applicable to us.

*Reasonable Share Request*. We are requesting only sufficient shares to make one additional year of equity grants in the normal course. We expect to return to our shareholders to seek approval of additional shares for the 2016 Plan at our 2017 annual meeting of shareholders.

*Section 162(m) Approval.* Shareholder approval of the 2016 Plan will constitute shareholder approval of the material terms of the 2016 Plan for purposes of Section 162(m) of the Code. In general, Section 162(m) places a limit on the deductibility for federal income tax purposes of the compensation paid to our Chief Executive Officer and each of our three other most highly compensated executive officers (other than our Chief Financial Officer). Under Section 162(m), compensation paid to such persons in excess of $1 million in a taxable year generally is not deductible. However, compensation that qualifies as “performance based” under Section 162(m) does not count against the $1 million deduction limitation. One of the requirements of “performance based” compensation for purposes of Section 162(m) is that the material terms of the plan under which compensation may be paid be disclosed to and approved by our shareholders and re-approved at least every five years thereafter. For purposes of Section 162(m), the material terms include (a) the employees eligible to receive compensation, (b) a description of the business criteria on which the performance goals may be based and (c) the maximum amount of compensation that can be paid to an employee under the plan.

**Run Rate for PSUs**

We grant PSUs as part of our long-term equity compensation program, as discussed in detail in CD&A. In recent years, 40% of the long-term incentive value awarded to executive officers has been in the form of PSUs to further align pay and performance and, commencing with the grants for fiscal 2017, 60% of the long-term incentive value was awarded in the form of PSUs. The following table details the PSUs granted and earned in the three previous fiscal years:

| Earned in fiscal year | Granted (# shares) | Earned (# shares) | Grant Date(s) |
|---|---|---|---|
| 2014 | 203,375 | 0 | 8/2012 |
| 2015 | 178,892 | 0 | 8/2013, 10/2013 and 11/2013 |
| 2016 | 196,288 | 324,405 | 8/2014 and 12/2014 |

**Summary of the 2016 Plan**

***Administration***

The Compensation Committee will administer the 2016 Plan and will have full power and authority to determine when and to whom awards will be granted, and the type, amount and other terms and conditions of each award, consistent with the provisions of the 2016 Plan. In addition, the Compensation Committee can specify whether, and under what circumstances, awards to be received under the 2016 Plan may be deferred automatically or at the election of either the holder of the award or the Compensation Committee. Subject to the provisions of the 2016 Plan, the Compensation Committee may amend or waive the terms and conditions, or accelerate the exercisability of an outstanding award. The Compensation Committee has authority to interpret the 2016 Plan, and establish rules and regulations for the administration of the 2016 Plan. The Compensation Committee may delegate its authority under the 2016 Plan to members of the Board or executive officers of the Company as it relates to awards to persons not subject to Section 16 of the Exchange Act. In addition, the Board may replace the Compensation Committee with a different committee or exercise the powers of the Compensation Committee at any time, except with respect to the grant of awards to our executive officers. Each person who is or has been a member of the Compensation Committee or of the Board, and any other person to whom the Compensation Committee delegates authority under the 2016 Plan, is indemnified by the Company from any loss resulting from any action taken or failure to act, made in good faith, under the 2016 Plan.

### *Eligible Participants*

Any employee, officer, director or other individual, who is selected by the Compensation Committee, is eligible to receive an award under the 2016 Plan. As of August 24, 2016, our approximately 45,000 employees, including officers, and seven non-employee directors were eligible to be selected by the Compensation Committee to receive awards under the 2016 Plan.

### *Shares Available For Awards*

Upon approval by our shareholders of this proposal, 3,500,000 shares of common stock will be available for issuance under the 2016 Plan.

Certain awards under the 2016 Plan are subject to limitations as follows:

- Full value awards granted under the 2016 Plan will count as 2.4 shares against the pool of authorized shares, whereas options and SARs will count as one share against the pool of authorized shares;
- During any three-consecutive calendar year period, the maximum number of shares of our common stock for which options and SARs, in the aggregate, may be granted to any participant shall not exceed 800,000 shares; and
- For performance unit awards that are intended to be "performance based compensation," no more than $2,000,000 in dollar-denominated awards may be granted to any participant during any three-consecutive calendar year period.

Subject to certain restrictions in Code Sections 409A and 422(b), the Compensation Committee will adjust the number of shares and share limits described above in the case of any equity restructuring within the meaning of FASB ASC Topic 718 that causes the per share value of shares to change, such as a stock dividend or stock split, to the extent that such awards would not otherwise automatically adjust in the equity restructuring. In the event of any other change in capitalization, which may include a merger, consolidation or any partial or complete liquidation of the Company, or other similar corporate transaction or event that does not constitute an equity restructuring within the meaning of FASB ASC Topic 718, the Committee may make similar adjustments in order to prevent dilution or enlargement of the benefits or potential benefits intended to be provided under the 2016 Plan.

If any shares of our common stock subject to any award under the 2016 Plan, or to an award under the Long Term Plan that is outstanding on the date our shareholders approve the 2016 Plan, that expires, is forfeited or cancelled, or is settled or paid in cash will, to the extent of such expiration, forfeiture, cancellation or cash settlement, become available again for future awards under the 2016 Plan. Each share that again becomes available for awards in such manner shall increase the share reserve, with shares subject to full value awards increasing the share reserve by 2.4 shares and shares subject to options and SARs increasing the share reserve by one share. However, shares tendered or withheld in payment of the purchase price of a stock option, shares tendered or withheld to satisfy a tax withholding obligation, shares repurchased with proceeds received by the Company from exercise of a stock option and shares subject to a stock appreciation right that are not issued in connection with the stock settlement of the stock appreciation right may not be used again under the 2016 Plan. Awards granted under the plan in substitution for awards previously granted in connection with a merger, consolidation or acquisition are not charged against the number of shares available for grant as awards under the 2016 Plan.

### *Types of Awards and Terms and Conditions*

The 2016 Plan permits the granting of:

- Stock options (incentive stock options, non-qualified stock options);
- Stock appreciation rights (SARs);
- Restricted stock;
- Restricted stock units; and
- Performance awards.

Awards may be granted alone, in addition to, in combination with or in substitution for, any other award granted under the 2016 Plan or any other compensation plan. The exercise price per share under any stock option and the grant price of any SAR may not be less than the fair market value on the date of grant of such option or SAR. Determinations of fair market value under the 2016 Plan will be made by reference to the closing price of our common stock on the NYSE. The term of awards of the stock-based portion of the plan will not be longer than ten years.

*Stock Options.* The holder of an option will be entitled to purchase a number of shares of our common stock at a specified exercise price during a specified time period (not to exceed ten years), all as determined by the Committee. The option exercise price may be payable either in cash or, at the discretion of the Compensation Committee, in other securities or other property having a fair market value on the exercise date equal to the exercise price. We have not granted stock options in recent years.

*Stock Appreciation Rights.* The holder of an SAR is entitled to receive the excess of the fair market value (calculated as of the exercise date or, at the Compensation Committee's discretion, as of any time during a specified period before or after the exercise date) of a specified number of shares of our common stock over the grant price of the SAR during a specified period (not to exceed ten years).

*Restricted Stock.* The holder of restricted stock will own shares of our common stock (including, for example, the right to vote the restricted shares or to receive any dividends with respect to the shares). The Compensation Committee also may permit acceleration of the forfeiture period in the case of a participant's death, disability or retirement, or a change in control of the Company. If the participant's employment or service as a director, as applicable, terminates during the forfeiture period for any other reason, unvested restricted stock will be forfeited, unless the Compensation Committee determines that it would be in the Company's best interest to waive the remaining restrictions. We have not granted restricted stock in recent years.

*Restricted Stock Units.* The holder of a restricted stock unit is entitled to receive a share of our common stock, or cash in the amount of the fair market value of a share of common stock, as of a future date, subject to certain restrictions and to a risk of forfeiture. The Compensation Committee also may permit acceleration of the forfeiture period in the case of a participant's death, disability or retirement, or a change in control of the Company. If the participant's employment or service as a director, as applicable, terminates during the forfeiture period for any other reason, unvested restricted stock will be forfeited, unless the Compensation Committee determines that it would be in the Company's best interest to waive the remaining restrictions.

*Performance Awards.* Performance awards granted under the 2016 Plan are intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code ("Section 162(m)"). Performance awards give participants the right to receive payments in cash or common stock, based solely upon the achievement of certain performance goals during a specified performance period. At a minimum, the performance period shall be at least one fiscal year in length. The Compensation Committee must designate all participants for each performance period, and establish performance goals and target awards for each participant no later than 90 days after the beginning of each performance period within the parameters of Section 162(m). Performance goals may be based on a number of performance criteria, either alone or in any combination, and on either a consolidated or a business unit level, and on an absolute or relative basis compared to other companies and indexes or other external measures, including: earnings per share (EPS), sales, cash flow, cash flow from operations, operating profit or income, net income, operating margin, net income margin, return on net assets, economic value added, return on total assets, return on common equity, return on total capital, total shareholder return, revenue, revenue growth, earnings before interest, taxes, depreciation and amortization ("EBITDA"), EBITDA growth, funds from operations per share and per share growth, cash available for distribution, cash available for distribution per share and per share growth, share price performance or improvements in the Company's attainment of expense levels, and implementation or completion of critical projects.

*Duration, Termination and Amendment.* Unless the 2016 Plan is discontinued or terminated by the Board, the 2016 Plan will expire on October 18, 2026. No awards may be made after that date. However, unless otherwise expressly provided in an applicable award agreement, any award granted under the 2016 Plan prior to expiration may extend beyond the end of such period through the award's normal expiration date.

The Board and, pursuant to the delegation of its authority, the Compensation Committee may amend, alter or discontinue the 2016 Plan at any time, although shareholder approval must be obtained for any action that would increase the number of shares of our common stock available, increase the award limits under the 2016 Plan, reprice awards of options or SARs at a price less than fair market value, permit repricing of options or SARs or expand the class of persons eligible to receive awards under the 2016 Plan. Shareholder approval is also required for any action that would, absent such approval, violate the rules and regulations of the NYSE or any other securities exchange applicable to us.

*Change in Control; Fundamental Change.* Except as otherwise provided in an award agreement, in the event of a change in control, the vesting of stock options and SARs is accelerated, the restrictions on restricted stock and restricted stock units shall lapse and the shares shall be issued and performance units shall be fully distributable. Our SARs and restricted stock units granted in recent years provide for acceleration of vesting upon a change in control; however, our performance-based restricted stock units granted in recent years provide for acceleration of vesting of only a pro-rated portion of the target award if a change in control occurs during the performance period. In the event of a fundamental change, such as a dissolution, liquidation, sale of assets, merger or consolidation or statutory share exchange, the Compensation Committee has the discretion to provide for substitute awards or cancel outstanding options and SARs in exchange for cash payments to the recipients.

***Prohibition on Repricing Awards***

No option or SAR may be amended to reduce its exercise price, no option or SAR may be canceled and replaced with an option or SAR having a lower exercise price, and no award may be cancelled in exchange for cash or other property or the grant of a full value award at a time when the exercise price of the award is greater than the current fair market value of a share of our common stock, except in connection with a stock dividend or other distribution, including a stock split, merger or other similar corporate transaction or event, in order to prevent dilution or enlargement of the benefits, or potential benefits intended to be provided under the Long Term Plan.

***Transferability of Awards***

Unless otherwise provided by the Committee, awards under the 2016 Plan may only be transferred by will or by the laws of descent and distribution.

***Federal Income Tax Consequences***

*Grant of Options and SARs.* The grant of a stock option or SAR is not expected to result in any taxable income for the recipient.

*Exercise of Options and SARs.* Upon exercising a non-qualified stock option, the optionee must recognize ordinary income equal to the excess of the fair market value of the shares of our common stock acquired on the date of exercise over the exercise price, and we will generally be entitled at that time to an income tax deduction for the same amount. The holder of an incentive stock option generally will have no taxable income upon exercising the option (except that an alternative minimum tax liability may arise), and we will not be entitled to an income tax deduction. Upon exercising an SAR, the fair market value on the exercise date of any shares of our common stock received is taxable to the recipient as ordinary income and generally deductible by us.

*Disposition of Shares Acquired Upon Exercise of Options and SARs.* The tax consequence upon a disposition of shares acquired through the exercise of an option or SAR will depend on how long the shares have been held and whether the shares were acquired by exercising an incentive stock option or by exercising a non-qualified stock option or SAR. Generally, there will be no tax consequence to us in connection with the disposition of shares acquired under an option or SAR, except that we may be entitled to an income tax deduction in the case of the disposition of shares acquired under an incentive stock option before the applicable incentive stock option holding periods set forth in the Code have been satisfied.

*Awards Other than Options and SARs.* As to other awards granted under the 2016 Plan that are payable either in cash or shares of our common stock that are either transferable or not subject to substantial risk of forfeiture, the holder of the award must recognize ordinary income equal to (i) the amount of cash received or, as applicable, (ii) the excess of (A) the fair market value of the shares received (determined as of the date of receipt) over (B) the amount (if any) paid for the shares by the holder of the award. We will generally be entitled at that time to an income tax deduction for the same amount.

*Income Tax Deduction.* Subject to the usual rules concerning reasonable compensation, and assuming that, as expected, performance awards paid under the 2016 Plan are "qualified performance-based compensation" within the meaning of Section 162(m), we will generally be entitled to a corresponding income tax deduction at the time a participant recognizes ordinary income from awards made under the 2016 Plan. Shareholder approval of the 2016 Plan is only one of several requirements under Section 162(m) that must be satisfied for amounts realized under the 2016 Plan to qualify for the “qualified performance-based compensation” exemption under Section 162(m), and submission of the material terms of the 2016 Plan for shareholder approval should not be viewed as a guarantee that we will be able to deduct all compensation under the 2016 Plan. Nothing in this proposal precludes us or the Committee from making any payment or granting awards that do not qualify for tax deductibility under Section 162(m).

*Delivery of Shares for Tax Obligation.* Under the 2016 Plan, the Compensation Committee may permit participants receiving or exercising awards, subject to the discretion of the Compensation Committee and upon such terms and conditions as it may impose, to deliver shares of our common stock (either shares received upon the receipt or exercise of the award or shares previously owned by the holder of the option) to us to satisfy federal and state income tax obligations.

*New Plan Benefits*

The Committee has not yet approved any awards under, subject to, or conditioned upon shareholder approval of, the 2016 Plan. In addition, because all awards under the 2016 Plan are discretionary with the Committee, neither the number nor type of future 2016 Plan awards to be received by or allocated to particular participants or groups of participants is presently determinable.

Information regarding awards made under the Long Term Plan during fiscal 2016 to our directors and Named Executive Officers is provided elsewhere in this Proxy Statement.  Please see the “Fiscal 2016 Director Compensation Table” section of this Proxy Statement for additional information regarding grants under the Long Term Plan to non-employee directors during the fiscal 2016. In addition, please refer to the “Grants of Plan-Based Awards” table of this Proxy Statement for a listing of awards granted to our Named Executive Officers during fiscal 2016.

The closing sales price of a share of our common stock as reported on the New York Stock Exchange on August 24, 2016 was $13.49.

**Upon the recommendation of the Compensation Committee of the Board, the Board unanimously recommends a vote FOR the approval of the 2016 Plan.**

## ITEM 4
## AMENDMENT AND RESTATEMENT OF THE COMPANY'S 1991 CONTRIBUTORY STOCK PURCHASE PLAN

### Introduction

Our 1991 Contributory Stock Purchase Plan (the "Stock Purchase Plan") is an employee stock purchase plan. It enables us to provide our employees with a convenient opportunity to purchase our common stock and thereby to motivate our employees and more closely align the interests of our employees with our shareholders. At August 24, 2016, only 348,776 shares remained available for issuance under the Stock Purchase Plan, out of a total of 3,550,000 shares.

Our Board approved an amendment and restatement of the Stock Purchase Plan on August 16, 2016, upon recommendation of the Compensation Committee, subject to shareholder approval. The amendments include, among other clarifications and updates, the following primary changes:

- increase in the number for shares of common stock authorized for issuance under the Stock Purchase Plan from 3,550,000 to 4,550,000; and
- increase in the amount we may contribute to the Stock Purchase Plan from $11,800,000 to $14,000,000.

The complete text of the Stock Purchase Plan, as amended, is attached as Appendix B.

### Background

The Stock Purchase Plan was initially effective on January 1, 1992, and was amended to increase the amount the Company could contribute to the plan from $5.0 million to $10.0 million effective May 3, 2005. The Stock Purchase Plan was further amended and restated to reflect changes in plan administration effective March 1, 2007 and was further amended to increase the shares reserved for issuance and the amount we could contribute under the plan from 2,050,000 to 3,550,000 shares and from $10.0 million to $11.8 million, respectively, which was approved by our shareholders on October 29, 2009.

### Summary of the Stock Purchase Plan

| Key Features | Regis Plan |
|---|---|
| Purchase Price | Our common stock is purchased on the open market at market price, with funds contributed 85% by the participant and 15% by the Company |
| Offering Period | Monthly |
| Shares Allocated to Plan | Including the effect of this amendment, less than 8% of our currently outstanding shares are reserved for the Stock Purchase Plan (including all past purchases), and the shares for future issuance represent approximately 3% of our outstanding shares |
| Run Rate | With this amendment, we expect to ask shareholders for additional shares for the Stock Purchase Plan in 5-10 years, depending on future stock prices |

### *Description of the Stock Purchase Plan*

Currently, 3,550,000 shares of common stock have been reserved for issuance under the Stock Purchase Plan, and the Company is authorized to contribute up to $11,800,000 to the Stock Purchase Plan. Upon shareholder approval of this proposal, an additional 1,000,000 shares of common stock will be reserved for issuance under the Stock Purchase Plan and an additional $2,200,000 may be contributed by us to the Stock Purchase Plan. As of August 24, 2016, 3,201,224 shares have been issued under the Stock Purchase Plan and $10,624,263 has been contributed to the Stock Purchase Plan.

### *Administration*

The Stock Purchase Plan is administered by the Compensation Committee (the "Committee"). Members of the Committee are ineligible to participate under the Stock Purchase Plan. All questions of interpretation of the Stock Purchase

Plan are determined in the sole discretion of the Committee, and its determinations are final and binding upon all participants. The Committee authorizes various officers and employees to carry out the general administration of the Stock Purchase Plan.

***Eligibility***

All full and part time employees of the Company and its subsidiaries are eligible to participate in the Stock Purchase Plan. As of August 24, 2016, the Company's approximately 45,000 employees are eligible to participate in the Stock Purchase Plan.

***Enrollment Periods***

The Committee implements the Stock Purchase Plan by establishing enrollment periods. An employee who is eligible to participate may enroll prior to the date on which an enrollment period begins. The Committee has currently authorized monthly enrollment periods, which is subject to change.

***Payment of Purchase Price; Payroll Deductions; Dividends***

The Stock Purchase Plan currently operates on a monthly basis by payroll deductions. In each calendar month, the prior month's contributions plus a matching contribution by us are used to purchase shares of our common stock in the open market. The number of shares allocated to a participant's account is equal to the participant's contribution, plus our related contribution, divided by the average price of our common stock at which the Administrative Agent purchases shares.

Each participant must establish a dividend default policy for shares held in the employee's account. If the participant so elects, we will reinvest all dividends declared on the common stock held the participant's account in additional shares. We pay the expenses associated with the reinvestment, but do not make any contribution toward the purchase of shares acquired with dividend proceeds. We do not currently pay dividends on our common stock.

***Purchase Price***

Common stock is purchased on the open market on behalf of the participants with funds contributed 85% by the participants and 15% by us. The purchase occurs as soon as practicable on or following the last day of the purchase period. We bear all commissions and other expenses incurred in these purchases.

***Minimum/Maximum Participant Contribution***

Participants can select a contribution amount of not less than 1% nor more than 10% of the participant's monthly cash compensation.

***Termination of Participation***

A participant may terminate his or her participation in the Stock Purchase Plan at any time by giving written notice to us, which termination shall be effective as soon as administratively feasible.

***Amendment and Termination of the Plan***

The Board may at any time amend the Stock Purchase Plan, provided that the amendment shall require shareholder approval to the extent necessary to comply with any applicable law, regulation or stock exchange rule. We may at any time terminate the Stock Purchase Plan upon 30 days notice.

***Income Tax Information***

The 15% contribution by us is regarded as additional compensation to the participant and applicable withholding taxes are deducted from a participant's compensation. Furthermore, if and when shares are sold, the average price at which shares were acquired each month (excluding all commission, taxes and other similar costs of acquisition paid by us) is the cost basis for purposes of determining the participant's capital gain or loss, either short-term or long-term, depending on the holding period of such shares. The holding period begins when the shares are actually purchased.

***New Plan Benefits***

No benefits or amounts have been granted, awarded or received under the Stock Purchase Plan that were subject to shareholder approval. In addition, the benefits to be received by our executive officers, directors and employees as a result of the proposed amendment and restatement of the Stock Purchase Plan are not determinable, since the amounts of future purchases by participants are based on elective participant contributions.

**Upon recommendation of the Compensation Committee, the Board recommends a vote FOR the approval of the amendment and restatement of the Stock Purchase Plan.**

## ITEM 5
## RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has selected PricewaterhouseCoopers LLP, certified public accountants and independent registered public accounting firm, as our independent registered public accounting firm for the fiscal year ending June 30, 2017. Although not required, the Board wishes to submit the selection of PricewaterhouseCoopers LLP for shareholders' ratification at the Annual Meeting. If the shareholders do not so ratify, the Audit Committee will reconsider its selection.

Representatives of PricewaterhouseCoopers LLP are expected to be present at the Annual Meeting, will have the opportunity to make a statement if they desire and are expected to be available to respond to appropriate questions.

**Upon the recommendation of the Audit Committee of the Board, the Board unanimously recommends a vote FOR ratification of the appointment of PricewaterhouseCoopers LLP.**

### Audit Fees

Aggregate audit fees billed for professional services rendered by PricewaterhouseCoopers LLP were $1,842,000 for the year ended June 30, 2016, and $1,990,000 for the year ended June 30, 2015. Such fees were primarily for professional services rendered for the audits of our consolidated financial statements as of and for the years ended June 30, 2016 and 2015, limited reviews of our unaudited condensed consolidated interim financial statements, statutory audits of certain of our subsidiaries, and accounting consultations required to perform an audit in accordance with generally accepted auditing standards.

### Audit-Related Fees

There were no audit-related services by PricewaterhouseCoopers LLP in the years ended June 30, 2016 or 2015.

### Tax Fees

Aggregate income tax compliance and related services fees billed for professional services rendered by PricewaterhouseCoopers LLP were $307,000 for the year ended June 30, 2016 and $415,000 for the year ended June 30, 2015. The tax fees for the years ended June 30, 2016 and 2015 were for tax compliance, consulting and planning-related professional services, as well as assistance with tax audits.

### All Other Fees

In addition to the fees described above, aggregate fees of $1,800 were billed by PricewaterhouseCoopers LLP during each of the years ended June 30, 2016 and 2015, for fees related to a research tool that we access through PricewaterhouseCoopers LLP.

### Audit Committee Pre-Approval Policies and Procedures

The Audit Committee has approved the engagement of PricewaterhouseCoopers LLP to perform auditing services for the current fiscal year ending June 30, 2017, based upon an engagement letter submitted by PricewaterhouseCoopers LLP. In accordance with Company policy, any additional audit or non-audit services must be approved in advance. All of the professional services provided by PricewaterhouseCoopers LLP during the years ended June 30, 2016 and June 30, 2015 were approved or pre-approved in accordance with the policies of our Audit Committee.

## AUDIT COMMITTEE REPORT

The Audit Committee reports to and assists the Board in providing oversight of the financial management, independent auditors and financial reporting procedures of the Company. Each member of the Audit Committee is "independent" within the meaning of applicable NYSE listing standards. The Audit Committee has adopted a written charter describing its functions, which has been approved by the Board.

Our management is responsible for preparing our financial statements and the overall reporting process, including our system of internal controls. Our independent auditors, PricewaterhouseCoopers LLP, are responsible for auditing the financial statements and our system of internal controls over financial reporting and expressing opinions thereon.

In this context, the Committee has met and held discussions with management and the independent auditors. Management represented to the Committee that our consolidated financial statements were prepared in accordance with generally accepted accounting principles, and the Committee has reviewed and discussed the consolidated financial statements with management and the independent auditors. The Committee discussed with the independent auditors matters required to be discussed by the applicable rules of the Public Company Accounting Oversight Board (PCAOB).

In addition, the Committee has received the written disclosures and the letter from the independent accountant required by applicable requirements of the PCAOB regarding the independent accountant's communications with the Committee concerning independence, and has discussed with the independent auditors the independent auditors' independence.

The Committee discussed with our independent auditors the overall scope and plans for their audit. The Committee meets with the independent auditors, with and without management present, to discuss the results of their examinations, the evaluations of our internal controls and the overall quality of our financial reporting.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board that the audited financial statements be included in our Annual Report on Form 10-K for the year ended June 30, 2016 for filing with the SEC. The Committee also has recommended to the Board the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending June 30, 2017.

David P. Williams, Chair
David J. Grissen
Mark Light
M. Ann Rhoades
*Members of the Audit Committee*

## SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires our officers, directors, and persons who own more than 10% of a registered class of our equity securities, to file reports of ownership and changes in ownership with the SEC. Such officers, directors and shareholders are required by the SEC's regulations to furnish us with copies of all such reports.

To our knowledge, based solely on a review of copies of reports filed with the SEC during the fiscal year ended June 30, 2016, all applicable Section 16(a) filing requirements were complied with.

## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During fiscal 2016, we were not a party to any related party transactions covered by the Exchange Act rules.

In April 2013, the Board adopted a written Related Party Transaction Approval Policy, which sets forth our policies and procedures for the review, approval or ratification of certain related party transactions by the Nominating and Corporate Governance Committee. The policy applies to any transaction, arrangement or relationship (including any indebtedness or guarantee of indebtedness) or any series of similar transactions, arrangements or relationships in which the Company, or any of its subsidiaries, is or will be a participant and in which a related person has a direct or indirect interest, but exempts the following:

- Payment of compensation by the Company to a related party for the related party's service to the Company as a director, officer or employee;
- Transactions available to all employees or all shareholders of the Company on the same terms;
- Transactions which, when aggregated with the amount of all other transactions between the Company and the related party or any entity in which the related party has an interest, involve less than $10,000 in a fiscal year; and
- Transactions in the ordinary course of the Company's business at the same prices and on the same terms as are made available to customers of the Company generally.

The Nominating and Corporate Governance Committee must approve any related party transaction subject to this policy before commencement of the related party transaction; provided, however, that if a related party is only first identified after it commences or first becomes a related party transaction, it must be brought to the Nominating and Corporate Governance Committee for ratification. Alternatively, the Nominating and Corporate Governance Committee has delegated authority to its Chairperson to approve related party transactions if they arise between the Nominating and Corporate Governance Committee's meetings.

The Nominating and Corporate Governance Committee will analyze the following factors, in addition to any other factors it deems appropriate, in determining whether to approve a related party transaction:

- Whether the terms are fair to the Company;
- Whether the transaction is material to the Company;
- The role the related party has played in arranging the related party transaction;
- The structure of the related party transaction; and
- The interests of all related parties in the related party transaction.

The Nominating and Corporate Governance Committee may, in its sole discretion, approve or deny any related party transaction. Approval of a related party transaction may be conditioned upon the Company and the related party taking any actions that the Nominating and Corporate Governance Committee deems appropriate. The Nominating and Corporate Governance Committee reviews this policy on an annual basis.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of August 24, 2016, the ownership of our common stock by each shareholder who is known by us to own beneficially more than 5% of our outstanding shares, by each director and director nominee, by each executive officer and former executive officer identified in the Summary Compensation Table, and by all current executive officers and directors as a group. Except as indicated below, the parties listed in the table have the sole voting and investment power with respect to the shares indicated. Unless otherwise indicated, the address for each person or entity named below is c/o Regis Corporation, 7201 Metro Boulevard, Edina, Minnesota 55439. Our company had 46,154,722 shares of common stock issued and outstanding as of August 24, 2016.

| Name of Beneficial Owner or Identity of Group | Number of Shares Beneficially Owned(1) | Percent of Class |
|---|---|---|
| ***More than 5% Shareholders:*** | | |
| Birch Run Capital Advisors, LP(2) | 10,655,170 | 23.1% |
| Dimensional Fund Advisors LP(3) | 4,525,747 | 9.8% |
| BlackRock, Inc.(4) | 3,919,895 | 8.5% |
| The Vanguard Group (5) | 2,830,061 | 6.1% |
| Heartland Advisors, Inc. (6) | 2,621,664 | 5.7% |
| Brown Advisory Incorporated(7) | 2,597,965 | 5.6% |
| ***Current Executive Officers:*** | | |
| Daniel J. Hanrahan | 98,657 | * |
| Steven M. Spiegel (8) | 13,464 | * |
| Eric A. Bakken(9) | 57,104 | * |
| Jim B. Lain | 4,923 | * |
| Heather L. Passe | 10,771 | * |
| ***Directors and Nominees (in addition to Mr. Hanrahan, who is listed above):*** | | |
| Daniel G. Beltzman(2) | 10,672,250 | 23.1% |
| David J. Grissen | 18,403 | * |
| Mark S. Light | 18,403 | * |
| Michael J. Merriman | 28,798 | * |
| M. Ann Rhoades | 6,907 | * |
| Stephen E. Watson | 82,796 | * |
| David P. Williams(10) | 55,798 | * |
| All current executive officers and directors as a group (fifteen persons)(11) | 11,092,640 | 24.0% |

* less than 1%

(1) Includes the following shares not currently outstanding but deemed beneficially owned because of the right to acquire them pursuant to restricted stock units which vest within 60 days: 33,734 shares by Mr. Hanrahan, 5,969 shares by Mr. Spiegel, 8,018 shares by Mr. Bakken, 3,697 shares by Mr. Lain, 6,028 shares by Ms. Passe, 2,240 shares by Mr. Watson, and 1,152 shares by Ms. Rhoades and each of Messrs. Grissen, Light, Merriman, and Williams.

(2) Based on information in a Schedule 13D/A filed by Birch Run Capital Advisors, LP ("Birch Run") on August 22, 2014 and Form 4s filed by Mr. Beltzman on September 2, 2014 and March 17 and 18, 2015 reporting purchases by the Funds (as defined below), these securities are owned directly by Birch Run Capital Partners, L.P., Torch BRC, L.P. and Walnut BRC, L.P. (collectively, the "Funds"). Birch Run Capital Partners, L.P. is the record owner of 1,658,941 shares. Torch BRC, L.P. is the record owner of 3,962,648 shares. Walnut BRC, L.P. is the record owner of 5,033,581 shares. Birch Run Capital GP, LLC serves as the General Partner to Birch Run Capital Partners, L.P.; Walnut BRC GP, LLC serves as the General Partner to Walnut BRC, L.P.; and Torch BRC GP, LLC serves as the General Partner to Torch BRC, L.P. (collectively, "the General Partners"). Daniel Beltzman and Gregory Smith are the co-Managers of the General Partners. Furthermore, Birch Run Capital Advisors, LP ("the Advisor") serves as the registered investment adviser to the Funds. BRC Advisors GP, LLC ("Advisor GP") serves as General Partner to the Advisor. Mr. Beltzman and Mr. Smith are the Limited Partners of the Adviser and the Co-Managers of the Adviser GP. The Adviser, the

Adviser GP, Mr. Beltzman and Mr. Smith may be deemed to share voting and dispositive power over the reported securities. Each of the Adviser, the Adviser GP, Mr. Beltzman, and Mr. Smith disclaim beneficial ownership of any interests of the reported securities in excess of such person's or entity's respective pecuniary interest in the securities. On its Schedule 13D/A, Birch Run reported sole voting power over 0 shares, shared voting power over 8,504,788 shares, sole dispositive power over 0 shares and shared dispositive power over 9,996,589 shares. Based on the Form 4s referenced above, the shared voting power number has likely increased, and the shared dispositive power number has likely increased to 10,655,170. The address for Birch Run is 1350 Broadway, Suite 2215, New York, NY 10018.

(3) Based on information in a Schedule 13G/A filed by Dimensional Fund Advisors LP ("Dimensional") on February 9, 2016, Dimensional reported sole voting power over 4,352,844 shares, shared voting power over 0 shares, sole dispositive power over 4,525,747 shares and shared dispositive power over 0 shares. The address for Dimensional is Palisades West, Building One, 6300 Bee Cave Road, Austin, TX, 78746.

(4) Based on information in a Schedule 13G/A filed by BlackRock, Inc. on January 27, 2016, BlackRock, Inc. reported sole voting power over 3,814,471 shares, shared voting power over 0 shares, sole dispositive power over 3,919,895 shares and shared dispositive power over 0 shares. BlackRock, Inc. is a parent holding company and holds the sole power to dispose or to direct the disposition of shares held by its subsidiaries BlackRock Institutional Trust Company, N.A., BlackRock Fund Advisors, BlackRock Asset Management Canada Limited, BlackRock Asset Management Ireland Limited, BlackRock Advisors, LLC, BlackRock Asset Management Schweiz AG, BlackRock Investment Management, LLC, BlackRock Investment Management (Australia) Limited, and BlackRock Investment Management (UK) Limited (collectively, the "BlackRock Subsidiaries"). None of the BlackRock Subsidiaries own more than 5% of our outstanding shares of common stock. The address for BlackRock, Inc. is 40 East 52nd Street, New York, NY 10022.

(5) Based on information in a Schedule 13G/A filed by The Vanguard Group ("Vanguard") on February 10, 2016, Vanguard reported sole voting power over 47,722 shares, shared voting power over 6,500 shares, sole dispositive power over 2,779,239 shares and shared dispositive power over 50,822 shares. The address for Vanguard is 100 Vanguard Blvd., Malvern, PA 19355.

(6) Based on information in a Schedule 13G/A filed by Heartland Advisors, Inc. ("Heartland") on August 10, 2016, Heartland reported sole voting power over 0 shares, shared voting power over 2,621,664 shares, sole dispositive voting power over 0 shares and shared dispositive power over 2,621,664 shares. The address for Heartland is 789 N. Water Street, Milwaukee, WI 53202.

(7) Based on information in a Schedule 13G filed by Brown Advisory Incorporated ("Brown") on July 8, 2016, Brown reported sole voting power over 2,568,885 shares, shared voting power over 0 shares, sole dispositive power over 0 shares and shared dispositive power over 2,597,965 shares. Brown is a parent holding company and holds the sole power to vote or or to direct the vote of shares held by its subsidiaries Brown Investment Advisory & Trust Company, Brown Advisory LLC, and Highmount Capital LLC (collectively, the "Brown Subsidiaries"). Except for Brown Advisory LLC, which owns 2,536,425 shares of the class of securities reported, none of the Brown Subsidiaries own more than 5% of our outstanding shares of common stock. The address for Brown is 901 South Bond Street, Suite 400, Baltimore, MD 21231.

(8) Includes 2,000 shares held in a joint brokerage account with his spouse.

(9) Includes 400 shares held indirectly through a profit-sharing account.

(10) Includes 2,000 shares held in a joint brokerage account with his father.

(11) See footnotes 1, 2, 8, 9 and 10 for information regarding the nature of certain indirect and deemed ownership of the shares included in this amount.

## PROPOSALS OF SHAREHOLDERS

Shareholders who intend to present proposals at the 2017 annual meeting of shareholders, and who wish to have such proposals included in our Proxy Statement for the 2017 annual meeting, must be certain that such proposals are received by us not later than May 9, 2017. Such proposals must meet the requirements set forth in the rules and regulations of the SEC in order to be eligible for inclusion in the proxy statement for our 2017 annual meeting.

For shareholders who intend to present proposals or director nominees directly at the 2017 annual meeting and not for inclusion in our 2017 proxy statement, we must receive notice of such proposal not later than July 20, 2017 and not earlier than June 20, 2017, provided that in the event that the date of the 2017 annual meeting is more than 30 days before or more than 70 days after the anniversary date of the Annual Meeting, notice by the shareholder must be delivered not earlier than the close of business on the 120th day prior to the 2017 annual meeting and not later than the close of business on the later of the 90th day prior to the 2017 annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made by us. Such proposals must meet the requirements set forth in our bylaws in order to be presented at our 2017 annual meeting.

Proposals and notices of intention to present proposals at our 2017 annual meeting should be addressed to our Secretary, 7201 Metro Boulevard, Edina, Minnesota 55439.

## ANNUAL REPORT TO SHAREHOLDERS AND FORM 10-K

Our Annual Report to Shareholders and Form 10-K, including financial statements for the year ended June 30, 2016, is available on our website at *www.regiscorp.com*. If requested, we will provide shareholders with copies of any exhibits to the Form 10-K upon the payment of a fee covering our reasonable expenses in furnishing the exhibits. Such requests should be directed to our Secretary, at our address stated herein.

## NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIALS

**Important Notice Regarding the Availability of Proxy Materials for the Shareholders Meeting to be held on October 18, 2016.**

**The Notice and Proxy Statement and Annual Report on Form 10-K are available in the Investor Information Relations section of our website, *www.regiscorp.com.***

## GENERAL

The Board knows of no other matter to be acted upon at the Annual Meeting. However, if any other matter is properly brought before the Annual Meeting, the shares covered by your proxy will be voted thereon in accordance with the best judgment of the persons acting under such proxy.

**Your vote is very important no matter how many shares you own.** You are urged to read this Proxy Statement carefully and, whether or not you plan to attend the Annual Meeting, to promptly submit a proxy by telephone or through the Internet in accordance with the voting instructions provided to you.

By Order of the Board

Eric A. Bakken
*Secretary*

September 6, 2016

**SCHEDULE A**

**Reconciliation of Adjusted EBITDA for Compensation Purposes to Net Income (Loss)**

| | **Inc / (Dec) ($) (in millions)** |
|---|---|
| Reported Net Income (loss) | (11.3) |
| Interest Expense | 9.3 |
| Income Taxes | 9.0 |
| Depreciation & Amortization | 67.5 |
| **EBITDA** | **$74.5** |
| *Discrete Adjustments* | |
| Legal Fees | 1.6 |
| Professional Fees | 0.1 |
| Financing Arrangements Expense | 0.8 |
| Self-Insurance Reserve Adjustments | (0.3) |
| Gain on Life Insurance Proceeds | (1.2) |
| **Adjusted EBITDA** | **$90.3** |
| *Discrete Adjustments* | |
| Severance (Strategic) | 1.2 |
| Remediation - Deferred Rent | 0.6 |
| Insurance Proceeds | (0.5) |
| Prior Year Adjustment (Insurance) | (0.5) |
| Foreign Exchange Impact | (0.2) |
| Special Claims | (0.2) |
| Bonus Accrual | (0.1) |
| **Adjusted EBITDA for Compensation Purposes** | **$90.5** |

**APPENDIX A**

**REGIS CORPORATION**
**2016 LONG TERM INCENTIVE PLAN**

***ARTICLE I***

***ESTABLISHMENT AND PURPOSE***

1.1 *Establishment.* This Regis Corporation 2016 Long Term Incentive Plan ("Plan") is established by Regis Corporation ("Company"), effective as of October 18, 2016 (the "Effective Date"), provided approval of the Company's shareholders is obtained at the Company's 2016 annual meeting of shareholders.

1.2 *Purpose.* The purpose of the Plan is to foster and promote the long-term financial success of the Company and materially increase shareholder value by motivating performance through incentive compensation. The Plan also is intended to encourage Participant ownership in the Company, attract and retain talent, and enable Participants to participate in the long-term growth and financial success of the Company. The Plan and the grant of Awards thereunder are expressly conditioned upon the Plan's approval by the shareholders of the Company.

1.3 *Compliance with 409A.* The Plan is intended to meet the requirements of paragraph (2), (3) and (4) of Code Section 409A (a) to the extent applicable, and the terms and provisions of the Plan should be interpreted and applied in a manner consistent with such requirements, including the regulations and other guidance issued under Code Section 409A.

***ARTICLE II***

***DEFINITIONS***

For purposes of the Plan, the following terms are defined as set forth below:

2.1 "*Affiliate*" means any entity that is a subsidiary or a parent corporation, as defined in Section 424(e) of the Code, of the Company or any other entity designated by the Committee as covered by the Plan in which the Company has, directly or indirectly, at least a 20% voting interest.

2.2 "*Agreement*" means any agreement entered into pursuant to the Plan by which an Award is granted to a Participant, and any amendments thereto.

2.3 "*Award*" means any Stock Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit or Performance Unit granted to a Participant under the Plan. Awards shall be subject to the terms and conditions of the Plan and shall be evidenced by an Agreement containing such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall deem desirable. Any Award may be granted as a performance-based Award if the Committee establishes one or more measures of consolidated, business unit or individual performance which must be attained, and the performance period over which the specified performance is to be attained, as a condition to the grant, vesting, exercisability, lapse of restrictions and/or settlement of such Award. In connection with any such Award, the Committee shall determine the extent to which performance measures have been attained and other applicable terms and conditions have been satisfied, and the degree to which the grant, vesting, exercisability, lapse of restrictions and/or settlement of such Award has been earned. Any performance-based Award that is intended by the Committee to qualify for the Performance-Based Exception (as defined in Section 12.3) under Code Section 162(m) shall additionally be subject to the requirements of Section 12.3 of this Plan.

2.4 "*Beneficiary*" means any person or other entity, which has been designated by a Participant in his or her most recent written beneficiary designation filed with the Committee to receive the compensation, specified under the Plan to the extent permitted. If there is no designated beneficiary, then the term means any person or other entity entitled by will or the laws of descent and distribution to receive such compensation.

2.5 "*Board of Directors*" or "*Board*" means the Board of Directors of the Company.

2.6 "*Cause*" means, for purposes of determining whether and when a Participant has incurred a Termination of Employment for Cause, any act or omission which permits the Company to terminate the written employment agreement or arrangement between the Participant and the Company or an Affiliate for "cause" as defined in such agreement or arrangement. In the event there is no such agreement or arrangement or the agreement or arrangement does not define the term "Cause," then "Cause" means (1) (a) a felony conviction under any Federal or state statute which is materially detrimental to the financial interests of the Company, or (b) willful non-performance by the Participant of his or her material employment duties other than by reason of his or her physical or mental incapacity after reasonable written notice to the Participant and reasonable opportunity (not less than thirty (30) days) to cease such non-performance; or (2) the Participant willfully engaging in fraud or gross misconduct which is materially detrimental to the financial interests of the Company.

2.7 "*Change in Control*" means the first to occur of any of the following events:

(1) any "person" within the meaning of Section 2(a)(2) of the Securities Act of 1933 and Section 14(d) of the Exchange Act is or has become the "beneficial owner," as defined in Rule 13d-3 under the Exchange Act, of twenty percent (20%) or more of either (a) the then outstanding shares of Common Stock of the Company (the "Outstanding Common Stock") or (b) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Voting Securities"), except for an acquisition by an entity resulting from a Business Combination (as defined below) in which clauses (i) and (ii) of subparagraph (2) applies, provided that a Change in Control shall not occur if a person becomes the beneficial owner of twenty percent (20%) or more of the Outstanding Common Stock or Outstanding Voting Securities solely as the result of a change in the aggregate number of shares of Outstanding Common Stock or Outstanding Voting Securities since the last date on which such person acquired beneficial ownership of any shares of Common Stock or voting securities (provided, however, that if a person becomes the beneficial owner of twenty percent (20%) or more of the Outstanding Common Stock or Outstanding Voting Securities by reason of such change in the aggregate number of shares of Outstanding Common Stock or Outstanding Voting Securities and thereafter becomes the beneficial owner of any additional shares of Common Stock or voting securities (other than pursuant to a dividend or distribution paid or made by the Company on the Outstanding Common Stock or Outstanding Voting Securities or pursuant to a split or subdivision of the Outstanding Common Stock or Outstanding Voting Securities), then a Change in Control shall occur unless upon becoming the beneficial owner of such additional shares of Common Stock or voting securities such person does not beneficially own more than twenty percent (20%) of the Outstanding Common Stock or Outstanding Voting Securities);

(2) consummation of (a) a merger or consolidation of the Company with or into another entity, (b) a statutory share exchange or (c) the acquisition by any person (as defined above) of all or substantially all of the assets of the Company (each, a "Business Combination"), unless immediately following such Business Combination, (i) all or substantially all of the beneficial owners of the Outstanding Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than fifty percent (50%) of the voting power of the then outstanding shares of voting stock (or comparable voting equity interests) of the surviving or acquiring entity resulting from such Business Combination (including such beneficial ownership of an entity that, as a result of such transaction, owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries), in substantially the same proportions (as compared to the other beneficial owners of the Company's voting stock immediately prior to such Business Combination) as their beneficial ownership of the Company's voting stock immediately prior to such Business Combination and (ii) no person (as defined above) beneficially owns, directly or indirectly, twenty percent (20%) or more of the voting power of the outstanding voting stock (or comparable equity interests) of the surviving or acquiring entity (other than a direct or indirect parent entity of the surviving or acquiring entity, that, after giving effect to the Business Combination, beneficially owns, directly or indirectly, 100% of the outstanding voting stock (or comparable equity interests) of the surviving or acquiring entity), or

(3) individuals who constitute the Company's Board of Directors on the Effective Date (the "Incumbent Board") have ceased for any reason to constitute at least a majority thereof, provided that any person becoming a director subsequent to the Effective Date whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least three-quarters (75%) of the directors comprising the Incumbent Board shall be, for purposes of this Plan, considered as though such person were a member of the Incumbent Board;

provided, however, that for any payment with respect to any Award under the Plan that is subject to Section 409A of the Code, the Change in Control must also be a change in control event under Treas. Reg. Section 1.409A-3(i)(5).

2.8 "*Code*" means the Internal Revenue Code of 1986, as amended from time to time, and any successor, along with related rules, regulations and interpretations.

2.9 "*Commission*" means the Securities and Exchange Commission or any successor thereto.

2.10 "*Committee*" means the committee of the Board responsible for granting Awards under the Plan, which shall be the Compensation Committee of the Board, until such time as the Board may designate a different committee. The Committee shall consist solely of two or more directors, each of whom is a "Non-Employee Director" within the meaning of Rule 16b-3 and each of whom is also an "outside director" under Section 162(m) of the Code. In addition, each member of the Committee must be an "independent director" as determined under the corporate governance rules of the New York Stock Exchange, as amended from time to time.

2.11 "*Common Stock*" means the shares of the Company's common stock, $0.05 par value, whether presently or hereafter issued, and any other stock or security resulting from adjustment thereof as described hereinafter, or the common stock of any successor to the Company which is designated for the purpose of the Plan.

2.12 "*Company*" means Regis Corporation, a Minnesota corporation, and includes any successor or assignee corporation or corporations into which the Company may be merged, changed or consolidated; any corporation for whose securities the securities of the Company shall be exchanged; and any assignee of or successor to substantially all of the assets of the Company.

2.13 "*Covered Employee*" means a Participant who, in the sole judgment of the Committee, may be treated as a "covered employee" within the meaning of Section 162(m) of the Code at the time income is recognized by the Participant in connection with an Award that is intended to qualify for the Performance-Based Exception (as defined below).

2.14 "*Disability*" means that the Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months.

2.15 "*Exchange Act*" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

2.16 "*Exercise Price*" means the price at which the Common Stock may be purchased under an Option or may be obtained under a Stock Appreciation Right.

2.17 "*Fair Market Value*" means the value of one share of Common Stock, determined pursuant to the applicable method described below, without regard to whether the Common Stock is restricted or represents a minority interest:

> (1) if the Common Stock is listed on a securities exchange or quoted on an automated quotation system, the closing price of a share of Common Stock on the relevant date (or, if such date is not a business day or a day on which quotations are reported, then on the immediately preceding date on which quotations were reported) or if a closing price was not reported on the grant date, then the arithmetic mean of the high and low prices on that date or on the first preceding trading date, as reported by the principal national exchange on which such shares are traded (in the case of an exchange) or by the automated quotation system, as the case may be;
>
> (2) if the Common Stock is not listed on a national securities exchange or quoted on the automated quotation system, but is actively traded in the over-the counter market, the average of the closing bid and asked prices for a share of the Common Stock on the relevant date (or, if such date is not a business day or a day on which quotations are reported, then on the immediately preceding date on which quotations were reported), or the most recent preceding date for which such quotations are reported; and
>
> (3) if, on the relevant date, the Common Stock is not publicly traded or reported as described in (1) or (2) above, the value determined by the reasonable application of a reasonable valuation method which is consistent with Treas. Reg. § 1.409A-1(b)(5)(iv), selected in good faith by the Board.

2.18 "*Full Value Award*" means an Award other than a Stock Option Award or Stock Appreciation Right Award.

2.19 "*Grant Date*" means the date as of which an Award is granted pursuant to the Plan or such later effective date for the Award as specified at the time of grant.

2.20 "*Incentive Stock Option*" means any Stock Option intended to be and designated as an "incentive stock option" within the meaning of Section 422 of the Code.

2.21 "*Non-Qualified Stock Option*" means an Option to purchase Common Stock in the Company granted under the Plan, the taxation of which is pursuant to Section 83 of the Code.

2.22 "*Option Period*" means the period during which the Option remains outstanding in accordance with an Agreement and Article VI.

2.23 "*Participant*" means a person who satisfies the eligibility conditions of Article V and to whom an Award has been granted by the Committee under the Plan. In the event that a Representative is appointed for a Participant, then the term "Participant" shall mean such appointed Representative. Notwithstanding the appointment of a Representative, the term "Termination of Employment" shall mean the Termination of Employment of the Participant.

2.24 "*Performance Unit*" shall have the meaning set forth in Section 9.1 hereof.

2.25 "*Plan*" means the Regis Corporation 2016 Long Term Incentive Plan, as herein set forth and as may be amended from time to time.

2.26 "*Prior Plan*" means the Regis Corporation Amended and Restated 2004 Long Term Incentive Plan, and awards outstanding under the Prior Plan as of the Effective Date shall be referred to as "Prior Plan Awards."

2.27 "*Representative*" means (a) the person or entity acting as the executor or administrator of a Participant's estate pursuant to the last will and testament of a Participant or pursuant to the laws of the jurisdiction in which the Participant had the Participant's primary residence at the date of the Participant's death; (b) the person or entity acting as the guardian or temporary guardian of a Participant; (c) the person or entity which is the beneficiary of the Participant upon or following the Participant's death; or (d) the person to whom an Award has been permissibly transferred; provided that only one of the foregoing shall be the Representative at any point in time as determined under applicable law and recognized by the Committee.

2.28 "*Restricted Stock*" means Common Stock granted to a Participant under Section 8.1 hereof and which is subject to certain restrictions and to a risk of forfeiture or repurchase by the Company.

2.29 "*Restricted Stock Unit*" means an Award to a Participant under Section 8.1 hereof under which no Common Stock actually is awarded to the Participant on the date of grant. Each Award of a Restricted Stock Unit entitles a Participant to receive a share of Common Stock, or cash in the amount of the Fair Market Value of a share of Common Stock, as of a future date, subject to certain restrictions and to a risk of forfeiture.

2.30 "*Rule 16b-3*" means Rule 16b-3, as from time to time in effect and applicable to the Plan and Participants, promulgated by the Commission under Section 16 of the Exchange Act.

2.31 "*Stock Appreciation Right*" means a right granted under Article VII.

2.32 "*Stock Option*" or "*Option*" means a right, granted to a Participant under Section 6.1 hereof, to purchase Common Stock at a specified price during specified time periods.

2.33 "*Termination of Employment*" means the occurrence of any act or event whether pursuant to an employment agreement or otherwise that actually or effectively causes or results in the person's ceasing, for whatever reason, to be any and all of an officer or employee of the Company or of any Affiliate, including, without limitation, death, Disability, dismissal, severance at the election of the Participant, retirement, or severance as a result of the discontinuance, liquidation, sale or transfer by the Company or its Affiliates of a business owned or operated by the Company or its Affiliates.

With respect to any person who is not an employee with respect to the Company or an Affiliate (such as a non-employee member of the Board), the Agreement shall establish what act or event shall constitute a Termination of Employment for purposes of the Plan. A Termination of Employment shall occur with respect to an employee who is employed by an Affiliate if the Affiliate shall cease to be an Affiliate and the Participant shall not immediately thereafter become an employee of the Company or an Affiliate. To the extent that an Award granted under the Plan is subject to Internal Revenue Code Section 409A, a Termination of Employment shall mean a "separation from service" under Code Section 409A and the regulations and guidance issued with respect thereto (all references herein to Code Section 409A shall include such regulations and guidance). Notwithstanding the foregoing, no Termination of Employment shall be deemed to have occurred in the case of (1) an approved leave of absence; and (2) any change in status so long as the individual remains in the service of the Company or any Affiliate in a capacity that satisfies the eligibility conditions of Article V.

In addition, certain other terms used herein have definitions given to them in the first place in which they are used.

## *ARTICLE III*

***ADMINISTRATION***

3.1 *Committee Structure and Actions.* The Plan shall be administered by the Committee in accordance with the rules and responsibilities of the Committee.

3.2 *Committee Authority.* Subject to the terms of the Plan, the Committee shall have the authority:

(1) to select those persons to whom Awards may be granted from time to time;

(2) to determine whether and to what extent Awards are to be granted hereunder;

(3) to determine the number of shares of Common Stock to be covered by each Award granted hereunder;

(4) to determine the terms and conditions of any Award granted hereunder, provided that the Exercise Price of any Option or Stock Appreciation Right shall not be less than the Fair Market Value per share as of the Grant Date;

(5) to adjust the terms and conditions, at any time or from time to time, of any Award, subject to the limitations of Section 12.1;

(6) to determine to what extent and under what circumstances shares of Common Stock and other amounts payable with respect to an Award shall be deferred;

(7) to provide for the forms of Agreement to be utilized in connection with this Plan;

(8) to determine what legal requirements are applicable to the Plan, Awards, and the issuance of Common Stock, and to require of a Participant that appropriate action be taken with respect to such requirements;

(9) to cancel, with the consent of the Participant or as otherwise provided in the Plan or an Agreement, outstanding Awards;

(10) to require as a condition of the exercise of an Award or the issuance or transfer of a certificate (or other representation of title) of Common Stock, the withholding from a Participant of the amount of any taxes as may be necessary in order for the Company or any other employer to obtain a deduction or as may be otherwise required by law;

(11) to determine whether and with what effect an individual has incurred a Termination of Employment (or, as applicable, a “separation from service” pursuant to Code Section 409A);

(12) to determine the restrictions or limitations on the transfer of Common Stock;

(13) to determine whether an Award is to be adjusted, modified or purchased, or is to become fully exercisable, under the Plan or the terms of an Agreement;

(14) to determine the permissible methods of Award exercise and payment within the terms and conditions of the Plan and the particular Agreement;

(15) to adopt, amend and rescind such rules and regulations as, in its opinion, may be advisable in the administration of this Plan; and

(16) to appoint and compensate agents, counsel, auditors or other specialists to aid it in the discharge of its duties.

The Committee shall have the authority to adopt, alter and repeal such administrative rules, guidelines and practices governing the Plan as it shall, from time to time, deem advisable, to interpret the terms and provisions of the Plan and any Award issued under the Plan (and any Agreement) and to otherwise supervise the administration of the Plan. The Committee’s policies and procedures may differ with respect to Awards granted at different times and may differ with respect to a Participant from time to time, or with respect to different Participants at the same or different times.

Any determination made by the Committee pursuant to the provisions of the Plan shall be made in its sole discretion, and in the case of any determination relating to an Award may be made at the time of the grant of the Award or, unless in contravention of any express term of the Plan or an Agreement, at any time thereafter. All decisions made by the Committee pursuant to the provisions of the Plan shall be final and binding on all persons, including the Company and Participants. Any determination shall not be subject to *de novo* review if challenged in court.

3.3 *Delegation of Authority.* To the extent not inconsistent with applicable law or stock exchange rules, the Committee may delegate all or any portion of its authority under the Plan to determine and administer Awards to Participants who are not subject to Section 16 of the Exchange Act to one or more persons who are either members of the Board of Directors or executive officers of the Company.

3.4 *Indemnification.* Each person who is or has been a member of the Committee or of the Board, and any other person to whom the Committee delegates authority under the Plan, shall be indemnified and held harmless by the Company, to the extent permitted by law, against and from (1) any loss, cost, liability or expense that may be imposed upon or reasonably incurred by such person in connection with or resulting from any claim, action, suit or proceeding to which such person may be a party or in which such person may be involved by reason of any action taken or failure to act, made in good faith, under the Plan and (2) any and all amounts paid by such person in settlement thereof, with the Company's approval, or paid by such person in satisfaction of any judgment in any such action, suit or proceeding against such person, provided such person shall give the Company an opportunity, at the Company's expense, to handle and defend the same before such person undertakes to handle and defend it on such person's own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such person or persons may be entitled under the Company's articles of incorporation or bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

## *ARTICLE IV*

## *SHARES SUBJECT TO PLAN*

4.1 *Number of Shares.* Subject to the adjustment under Section 4.6, the number of shares of Common Stock that have been reserved for issuance and may be the subject of Awards and issued under the Plan shall be 3,500,000. Such shares may consist, in whole or in part, of authorized and unissued shares or shares acquired from a third party. In determining the number of shares of Common Stock to be counted against this share reserve in connection with any Award, the following rules shall apply:

(1) Shares that are subject to Awards of Options or Stock Appreciation Rights shall be counted against the share reserve as one share for every one share granted.

(2) Shares that are subject to Full Value Awards shall be counted against the share reserve as 2.4 shares for every one share granted.

(3) Where the number of shares subject to an Award is variable on the Grant Date, the number of shares to be counted against the share reserve shall be the maximum number of shares that could be received under that particular Award, until such time as it can be determined that only a lesser number of shares could be received.

(4) Awards that may be settled solely in cash shall not be counted against the share reserve, nor shall they reduce the shares authorized for grant to a Participant in any calendar year.

4.2 *Release of Shares.* The Committee shall have full authority to determine the number of shares of Common Stock available for Awards, which shall include (without limitation) as available for distribution any shares of Common Stock that have ceased to be subject to an Award or a Prior Plan Award; any shares of Common Stock subject to any Award or Prior Plan Award that have been previously forfeited; and any shares under an Award or Prior Plan Award that otherwise terminates without issuance of Common Stock being made to a Participant. Each share that again becomes available for Awards as provided in the previous sentence shall correspondingly increase the share reserve under Section 4.1 by one share if such share was subject to an Option or Stock Appreciation Right and by 2.4 shares if such share was subject to a Full Value Award. Notwithstanding the foregoing, the following shares of Common Stock shall not again become available for Awards or increase the number of shares available for grant under the Plan: (i) shares tendered by the Participant or withheld by the Company in payment of the purchase price of an Option issued under the Plan or the Prior Plan, (ii) shares tendered by the Participant or withheld by the Company to satisfy any tax withholding obligation with respect to an Award or a Prior Plan Award, (iii) shares repurchased by the Company with proceeds received from the exercise of an Option issued under the Plan or Prior Plan, and (iv) shares subject to a Stock Appreciation Right issued under this Plan or the Prior Plan that are not issued in connection with the stock settlement of that Stock Appreciation Right upon its exercise. Any shares that are available immediately prior to the termination of the Plan, or any shares of Common Stock returned to the Company for any reason subsequent to the termination of the Plan, may be transferred to a successor plan. For purposes of this Section 4.2, the terms Option and Stock Appreciation Right shall include stock options and stock appreciation rights granted under the Prior Plan, and the term Full Value Award shall include restricted stock, restricted stock units and performance units granted under the Prior Plan.

4.3 *Substitute Awards.* Substitute awards granted pursuant to Section 12.10 of the Plan shall not be charged against the maximum number of shares set forth above. Additionally, in the event that a company acquired by the Company or an Affiliate or which the Company or any Affiliate combines has shares available under a pre-existing plan approved by shareholders and not adopted in contemplation of such acquisition or combination, the shares available for grant pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to the holders of common stock of the entities party to such acquisition or combination) may be used for Awards under the Plan and shall not be charged against the foregoing maximum share limitations; provided that Awards using such available shares shall not be made after the date awards or grants could have been made under the terms of the pre-existing plan, absent the acquisition or combination, and shall only be made to individuals who were not employees of the Company or an Affiliate prior to such acquisition or combination.

4.4 *Restrictions on Awards.* Common Stock issued upon exercise of an Award shall be subject to the terms and conditions specified herein and to such other terms, conditions and restrictions as the Committee in its discretion may determine or provide in the Award Agreement. The Company shall not be required to issue or deliver any certificates for Common Stock, cash or other property prior to (i) the completion of any registration or qualification of such shares under federal, state or other law, or any ruling or regulation of any government body which the Committee determines to be necessary or advisable; (ii) the satisfaction of any applicable withholding obligation in order for the Company or an Affiliate to obtain a deduction or discharge its legal obligation with respect to the exercise of an Award; or (iii) where required by Code Section 409A for payments or transfers made upon a Participant's "separation from service" as defined in Code Section 409A to a Participant who is a "specified employee" under Code Section 409A, the first business day after the expiration of the six month period following such separation from service or if earlier, the date of Participant's death. The Company may cause any certificate (or other representation of title) for any shares of Common Stock to be delivered to be properly marked with a legend or other notation reflecting the limitations on transfer of such Common Stock as provided in this Plan or as the Committee may otherwise require. The Committee may require any person exercising an Award to make such representations and furnish such information as it may consider appropriate in connection with the issuance or delivery of the Common Stock in compliance with applicable law or otherwise. Fractional shares shall not be delivered, but shall be rounded to the next lower whole number of shares.

4.5 *Shareholder Rights.* No person shall have any rights of a shareholder as to Common Stock subject to an Award until, after proper exercise of the Award or other action required, such shares shall have been recorded on the Company's official shareholder records as having been issued and transferred. Upon exercise of the Award or any portion thereof, the Company will have a reasonable period in which to issue and transfer the shares, and the Participant will not be treated as a shareholder for any purpose whatsoever prior to such issuance and transfer. No adjustment shall be made for cash dividends or other rights for which the record date is prior to the date such shares are recorded as issued and transferred in the Company's official shareholder records, except as provided herein or in an Agreement.

4.6 *Effect of Certain Changes.* In the event of any equity restructuring (within the meaning of Financial Accounting Standards Board Accounting Standards Codification Topic 718, referred to as "ASC Topic 718") that causes the per share value of shares of Common Stock to change, such as a stock dividend or stock split, the Committee shall cause there to be made an equitable adjustment to the number and kind of shares of Common Stock or other securities issued or reserved for issuance pursuant to the Plan, to limits on numbers of certain types of Awards and per-Participant limitations, and to outstanding Awards (including but not limited to the number and kind of shares of Common Stock to which such Awards are subject, and the exercise or strike price of such Awards) to the extent such other Awards would not otherwise automatically adjust in the equity restructuring; provided, in each case, that with respect to Incentive Stock Options, no such adjustment shall be authorized to the extent that such adjustment would cause such Incentive Stock Option to violate Section 422(b) of the Code or any successor provision; provided, further, that no such adjustment shall be authorized under this Section to the extent that such adjustment would cause an Award to be subject to adverse tax consequences under Section 409A of the Code. In the event of any other change in corporate capitalization, which may include a merger, consolidation, any reorganization (whether or not such reorganization comes within the definition of such term in Section 368 of the Code), or any partial or complete liquidation of the Company to the extent such events do not constitute equity restructurings or business combinations within the meaning of ASC Topic 718, such equitable adjustments described in the foregoing sentence may be made as determined to be appropriate and equitable by the Committee to prevent dilution or enlargement of rights. In either case, any such adjustment shall be conclusive and binding for all purposes of the Plan. Unless otherwise determined by the Committee, the number of shares of Common Stock subject to an Award shall always be a whole number.

## *ARTICLE V*

## *ELIGIBILITY*

5.1 *Eligibility.* Except as herein provided, the persons who shall be eligible to participate in the Plan and be granted Awards shall be those persons who are common law employees of the Company or any Affiliate, non-employee members of the Board, or other individuals selected by the Committee. Of those persons described in the preceding sentence, the Committee may, from time to time, select persons to be granted Awards and shall determine the terms and conditions with respect thereto. In making any such selection and in determining the form of the Award, the Committee shall give consideration to such factors deemed appropriate by the Committee.

## *ARTICLE VI*

## *STOCK OPTIONS*

6.1 *General.* The Committee shall have authority to grant Options under the Plan at any time or from time to time. An Option shall entitle the Participant to receive Common Stock upon exercise of such Option, subject to the Participant's satisfaction in full of any conditions, restrictions or limitations imposed in accordance with the Plan or an Agreement (the terms and provisions of which may differ from other Agreements) including, without limitation, payment of the Exercise Price.

6.2 *Grant.* The grant of an Option shall occur as of the Grant Date determined by the Committee. Stock Options may be granted alone or in connection with other Awards. An Award of Options shall be evidenced by, and subject to the terms of, an Agreement. Only a person who is a common-law employee of the Company, any parent corporation of the Company, or a subsidiary (as such terms are defined in Section 424 of the Code) on the date of grant shall be eligible to be granted an Incentive Stock Option. To the extent that any Option is not designated as an Incentive Stock Option or even if so designated does not qualify as an Incentive Stock Option, it shall constitute a Non-Qualified Stock Option.

6.3 *Terms and Conditions.* Options shall be subject to such terms and conditions as shall be determined by the Committee, including the following:

(1) *Exercise Price.* Except in the case of substitute awards granted pursuant to Section 12.10 of the Plan, the Exercise Price per share shall not be less than the Fair Market Value per share as of the Grant Date. If an Option intended to qualify as an Incentive Stock Option is granted to an individual who owns or who is deemed to own shares possessing more than ten percent (10%) of the combined voting power of all classes of stock of the Company, a corporation which is a parent corporation of the Company, or any subsidiary of the Company (each as defined in Section 424 of the Code) (a "10% Owner"), the Exercise Price per share shall not be less than one hundred ten percent (110%) of such Fair Market Value per share.

(2) *Option Period.* The Option Period of each Option shall be fixed by the Committee, provided that no Option shall be exercisable more than ten (10) years after the date the Option is granted. In the case of an Incentive Stock Option granted to a 10% Owner, the Option Period shall not exceed five (5) years. No Option which is intended to be an Incentive Stock Option shall be granted more than ten (10) years from the date the Plan is adopted by the Company or the date the Plan is approved by the shareholders of the Company, whichever is earlier.

(3) *Exercisability.* Unless otherwise provided in an Award Agreement and subject to the provisions of Section 12.17, Options shall become exercisable at the rate of twenty percent (20%) of the total number of shares as of each anniversary of the Grant Date. In addition, the Committee may at any time accelerate the exercisability of all or part of any Option. If the Committee intends that an Option be able to qualify as an Incentive Stock Option, the Committee may, in its discretion, provide that the aggregate Fair Market Value (determined at the date of grant of the Option) of the Common Stock as to which such Incentive Stock Option held by a Participant which is exercisable for the first time during any calendar year (including all other incentive stock options held by the Participant issued under all plans of the Company and its Affiliates), shall not exceed $100,000.

(4) *Method of Exercise.* Subject to the provisions of this Article VI and the Agreement, a Participant may exercise Options, in whole or in part after they become exercisable, during the Option Period by giving written notice of exercise on a form provided by the Committee to the Company specifying the number of shares of Common Stock subject to the Option to be purchased or in such other manner as is prescribed by the Committee or its delegates. Such notice shall be accompanied by payment in full of the purchase price by cash or certified check or such other form of payment as the Company may accept. If permitted by the Committee, payment in full or in part may also be made by (i) withholding Common Stock otherwise issuable to the Participant upon exercise of the Option or by delivering Common Stock already owned by the Participant, in each case having a total Fair Market Value on the date of exercise equal to the Option Price; (ii) the delivery of cash by a broker-dealer as a "cashless" exercise, provided such method of payment may not be used by a director or executive officer of the Company to the extent it would violate the Sarbanes-Oxley Act of 2002; or (iii) any combination of the foregoing.

(5) *Non-transferability of Options.* Except as provided under the Plan or an Agreement, or as otherwise approved by the Committee, no Option shall be sold, assigned, margined, transferred, encumbered, conveyed, gifted, alienated, hypothecated, pledged, or otherwise disposed of, other than by will or by the laws of descent and distribution, and all Options shall be exercisable during the Participant's lifetime only by the Participant or the Participant's Representative.

6.4 *Termination by Reason of Death.* Unless otherwise provided in an Agreement or determined by the Committee, if a Participant incurs a Termination of Employment due to death or dies within three (3) months after a termination described in Section 6.7, any unexpired and unexercised Option held by such Participant shall thereafter be fully exercisable for a period of one (1) year immediately following the date of such death or until the expiration of the Option Period, whichever period is the shorter.

6.5 *Termination by Reason of Disability.* Unless otherwise provided in an Agreement or determined by the Committee, if a Participant incurs a Termination of Employment due to a Disability, any unexpired and unexercised Option held by such Participant shall thereafter be fully exercisable by the Participant for a period of one (1) year immediately following the date of such termination or until the expiration of the Option Period, whichever period is the shorter, and the Participant's death at any time following such Termination of Employment due to Disability shall not affect the foregoing.

6.6 *Termination for Cause.* If the Participant incurs a Termination of Employment for Cause, the Option shall terminate immediately.

6.7 *Other Termination.* Unless otherwise provided in an Agreement or determined by the Committee, and subject to the provisions of Section 12.17, if a Participant incurs a Termination of Employment that is involuntary on the part of the Participant (but is not due to death, Disability or termination for Cause) or is voluntary on the part of the Participant, any Option held by such Participant shall thereupon terminate, except that such Option, to the extent then exercisable, may be exercised for the lesser of the ninety (90) consecutive day period commencing with the date of such Termination of Employment or until the expiration of the Option Period, whichever period is the shorter. Unless otherwise provided in an Agreement, the death or Disability of a Participant after a Termination of Employment otherwise provided herein shall not extend the time permitted to exercise an Option.

## *ARTICLE VII*

## *STOCK APPRECIATION RIGHTS*

7.1 *General.* The Committee shall have authority to grant Stock Appreciation Rights under the Plan at any time or from time to time. Stock Appreciation Rights may be awarded either alone or in addition to other Awards granted under the Plan. Subject to the Participant's satisfaction in full of any conditions, restrictions or limitations imposed in accordance with the Plan or an Agreement, a Stock Appreciation Right shall entitle the Participant to surrender to the Company the Stock Appreciation Right and to be paid therefore in cash or Common Stock the amount described in Section 7.3(2).

7.2 *Grant.* The grant of a Stock Appreciation Right shall occur as of the Grant Date determined by the Committee Except in the case of substitute awards granted pursuant to Section 12.10 of the Plan, in no event shall the Exercise Price per share be less than the Fair Market Value per share as of the Grant Date. A Stock Appreciation Right entitles a Participant to receive cash or Common Stock as determined by the Committee and set forth in the Award Agreement in accordance with Section 7.3(2). An Award of Stock Appreciation Rights shall be evidenced by, and subject to the terms of an Agreement, which shall become effective upon execution by the Participant.

7.3 *Terms and Conditions.* Stock Appreciation Rights shall be subject to such terms and conditions as shall be determined by the Committee, including the following:

(1) *Period and Exercise.* The term of a Stock Appreciation Right shall be established by the Committee, provided that the term of a Stock Appreciation Right shall not exceed ten (10) years after the Grant Date. A Stock Appreciation Right shall be for such period and shall be exercisable at such times and to the extent provided in the Agreement. Subject to Section 10.1 and the terms set by the Committee, Stock Appreciation Rights shall be exercisable at the rate of one-third of the shares subject to the Award as of each anniversary of the Grant Date. In addition, the Committee may at any time accelerate the exercisability of all or part of any Stock Appreciation Right. Stock Appreciation Rights shall be exercised by the Participant's giving written notice of exercise on a form provided by the Committee (if available) to the Company specifying the portion of the Stock Appreciation Right to be exercised or in such other manner as is prescribed by the Committee or its delegates.

(2) *Amount.* Upon the exercise of a Stock Appreciation Right, a Participant shall be entitled to receive an amount in cash or Common Stock equal in value to the excess of the Fair Market Value per share of Common Stock as of the date of exercise over the Exercise Price per share of Common Stock specified in the related Agreement, multiplied by the number

of shares in respect of which the Stock Appreciation Right is exercised. For purposes of determining the number of shares of Common Stock to be delivered upon exercise of a Stock Appreciation Right to be paid in stock, the amount the Participant is entitled to receive in accordance with the foregoing sentence shall be divided by the Fair Market Value per share of Common Stock as of the date of exercise of such Stock Appreciation Right.

(3) *Non-transferability of Stock Appreciation Rights.* Except as provided in the Plan or in an Agreement, no Stock Appreciation Rights shall be sold, assigned, margined, transferred, encumbered, conveyed, gifted, alienated, hypothecated, pledged or otherwise disposed of, other than by will or the laws of descent and distribution, and all Stock Appreciation Rights shall be exercisable during the Participant's lifetime only by the Participant or the Participant's Representative.

(4) *Termination.* A Stock Appreciation Right shall be forfeited or terminated at such time as an Option would be forfeited or terminated under the Plan, unless otherwise provided in an Agreement.

## *ARTICLE VIII*

## *RESTRICTED STOCK AND RESTRICTED STOCK UNITS*

8.1 *General.* The Committee shall have authority to grant Restricted Stock and/or Restricted Stock Units under the Plan at any time or from time to time. The Committee shall determine the number of shares of Restricted Stock and/or the number of Restricted Stock Units to be awarded to any Participant, the time or times within which such Awards may be subject to forfeiture, and any other terms and conditions of the Awards. Each Award shall be confirmed by, and be subject to the terms of, an Agreement which shall become effective upon execution by the Participant.

8.2 *Grant, Awards and Certificates.* An Award of Restricted Stock or of Restricted Stock Units shall occur as of the Grant Date determined by the Committee and as provided in an Agreement. Restricted Stock and Restricted Stock Units may be awarded either alone or in addition to other Awards granted under the Plan. Notwithstanding the limitations on issuance of Common Stock otherwise provided in the Plan, each Participant receiving an Award of Restricted Stock shall be issued a certificate (or other representation of title) in respect of such Restricted Stock. Such certificate shall be registered in the name of such Participant and shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Award as determined by the Committee. The Committee may require that the certificates evidencing such shares be held in custody by the Company until the restrictions thereon shall have lapsed and that, as a condition of any Award of Restricted Stock, the Participant shall have delivered a share power, endorsed in blank, relating to the Common Stock covered by such Award.

8.3 *Terms and Conditions.* Restricted Stock and Restricted Stock Units shall be subject to such terms and conditions as shall be determined by the Committee, including the following:

(1) *Limitations on Transferability.* The issue prices for Restricted Stock and Restricted Stock Units shall be set by the Committee and may be zero. Subject to the provisions of the Plan and the Agreement, during a period set by the Committee, subject to the provisions of SEction 12.17 (and, in the case of Restricted Stock Units, until the date of delivery of Common Stock), commencing with the date of such Award (the "Restriction Period"), the Participant shall not be permitted to sell, assign, margin, transfer, encumber, convey, gift, alienate, hypothecate, pledge or otherwise dispose of Restricted Stock or Restricted Stock Units.

(2) *Rights.* Except as provided in Section 8.3(1), the Participant shall have, with respect to the Restricted Stock, all of the rights of a shareholder of the Company holding the class of Common Stock that is the subject of the Restricted Stock, including, if applicable, the right to vote the shares and the right to receive any cash dividends, except as limited by this Section 8.3(2). A Participant shall have no voting rights with respect to any Restricted Stock Units granted hereunder but shall, to the extent provided in an Agreement, have the right to receive (with respect to such Restricted Stock Units) cash payments or dividend equivalent amounts (as provided in the Participant's Restricted Stock Unit Agreement) equal in value to, and payable at the same time as, the cash dividends payable on a like number shares of Common Stock. Unless otherwise determined by the Committee, cash dividends on a Restricted Stock Award shall not be distributed prior to vesting of the Restricted Stock Award, but shall instead be accumulated and distributed as additional shares of Common Stock after vesting of the Restricted Stock Award, provided that payment shall be made no more than two and a half months after the end of the calendar year in which the Restricted Stock Award vests.

(3) *Criteria.* Based on service, performance by the Participant or by the Company or the Affiliate, including any division or department for which the Participant is employed, or such other factors or criteria as the Committee may determine,

the Committee may provide for the lapse of restrictions in installments and may accelerate the vesting of all or any part of any Award of Restricted Stock and waive the restrictions for all or any part of such Award of Restricted Stock.

(4) *Forfeiture.* Unless otherwise provided in an Agreement or determined by the Committee, if the Participant incurs a Termination of Employment due to death or Disability during the Restriction Period, the restrictions shall lapse and the Participant shall be fully vested in the Restricted Stock or Restricted Stock Units. Except to the extent otherwise provided in the applicable Agreement and the Plan and subject to the provisions of Section 12.17, upon a Participant's Termination of Employment for any reason during the Restriction Period other than a Termination of Employment due to death or Disability, all shares of Restricted Stock and Restricted Stock Units still subject to restriction shall be forfeited by the Participant, except the Committee shall have the discretion to waive in whole or in part any or all remaining restrictions with respect to any or all of such Participant's Restricted Stock and Restricted Stock Units.

(5) *Delivery.* If a share certificate is issued in respect of Restricted Stock, the certificate shall be registered in the name of the Participant but shall be held by the Company for the account of the Participant until the end of the Restricted Period. If and when the Restriction Period expires without a prior forfeiture of Restricted Stock or Restricted Stock Units subject to such Restriction Period, unlegended certificates (or other representation of title) for Common Stock shall be delivered to the Participant at the time and subject to the conditions provided in the Agreement governing such Award.

(6) *Election.* If so provided in the applicable Award Agreement, a Participant may elect to further defer receipt of the Restricted Stock or payment of Common Stock with respect to Restricted Stock Units for a specified period or until a specified event, subject to the Committee's approval and to such terms as are determined by the Committee. Subject to any exceptions adopted by the Committee, such election must be made in compliance with the terms and conditions of Section 409A of the Code.

## *ARTICLE IX*

## *PERFORMANCE UNITS*

9.1 *General.* The Committee shall have authority to grant Performance Units under the Plan at any time or from time to time. A Performance Unit ("*Performance Unit*") consists of the right to receive cash or Common Stock upon achievement of certain performance goals and may be awarded either alone or in addition to other Awards granted under the Plan. The Committee shall have complete discretion to determine the number of Performance Units granted to each Participant. Each Performance Unit Award shall be evidenced by, and be subject to the terms of, an Agreement which will become effective upon execution by the Participant. The time period during which a Performance Unit Award shall be earned shall be the "Performance Period," and shall be at least one (1) fiscal year in length. Performance Units may be subject to performance goals which shall be established by the Committee.

9.2 *Earning Performance Unit Awards.* After the applicable Performance Period shall have ended, the Committee shall determine the extent to which the established performance goals have been achieved.

9.3 *Termination of Employment Due to Death or Disability.* In the event of a Termination of Employment due to death or Disability during a Performance Period, the Participant shall receive a pro rata share (based on the portion of the Performance Period during which the Participant was providing services to the Company or an Affiliate) of the Award (as determined following the completion of the Performance Period) earned with respect to the Participant's Performance Units relating to such Performance Period. Unless otherwise determined by the Committee, in the event that a Participant's employment terminates for any other reason, all Performance Units shall be forfeited by the Participant to the Company. Distribution of earned Performance Units on account of Termination of Employment due to death or Disability shall be made at the same time payments are made to Participants who did not incur a Termination of Employment during the applicable Performance Period.

9.4 *Nontransferability.* Unless otherwise provided in an Agreement, Performance Units may not be sold, assigned, margined, transferred, encumbered, conveyed, gifted, alienated, hypothecated, pledged, or otherwise disposed of, other than by will or by the laws of descent and distribution.

9.5 *Election to Defer.* If so provided in an Award Agreement, a Participant may elect to defer settlement of the Performance Units for a specified period or until a specified event, subject to the Committee's approval, on such terms as are determined by the Committee, and subject to compliance with Section 409A of the Code.

9.6 *Payment.* Payment with respect to Performance Units shall be made in accordance with the related Agreement. Subject to Section 9.5, payment with respect to a Performance Unit shall be made no later than the fifteenth day of the third month after the last day of the applicable Performance Period.

## *ARTICLE X*

## *CHANGE IN CONTROL PROVISIONS*

10.1 *Impact of Event.* Notwithstanding any other provision of the Plan to the contrary and unless otherwise provided in an Agreement, in the event of a Change in Control:

(1) Any Stock Options and Stock Appreciation Rights outstanding as of the date of such Change in Control and not then exercisable shall become fully exercisable to the full extent of the original grant;

(2) The restrictions applicable to any Restricted Stock and Restricted Stock Unit Awards shall lapse. Such Restricted Stock shall become free of all restrictions and become fully vested and transferable to the full extent of the original grant, and such Restricted Stock Units shall become free of all restrictions, fully vested, and payable in shares of cash or Common Stock as determined by the Committee; and

(3) Any performance goal or other condition with respect to any Performance Units shall be deemed to have been satisfied in full at the target level, and such Award shall be fully distributable.

10.2 *Additional Discretion.* In the event of a Change in Control, the Committee shall make a proportional adjustment of the terms of Awards granted hereunder in whatever manner as the Committee deems appropriate to equitably reflect the change (if any) in the value of the Common Stock due to the Change in Control. Notwithstanding anything herein or in an Agreement to the contrary, upon a Change in Control, the Committee shall have full discretion with respect to an outstanding Award to provide that the securities of another entity be substituted hereunder for the Common Stock and to make equitable adjustment with respect thereto.

10.3 *Fundamental Change.* In the event of a proposed (i) dissolution or liquidation of the Company, (ii) a sale of substantially all of the assets of the Company, (iii) a merger or consolidation of the Company with or into any other corporation, regardless of whether the Company is the surviving corporation, or (iv) a statutory share exchange involving the capital stock of the Company (each, a "Fundamental Change"), the Committee may, but shall not be obligated to:

(1) with respect to a Fundamental Change that involves a merger, consolidation or statutory share exchange, make appropriate provision for the protection of each outstanding Stock Options and Stock Appreciation Rights by the substitution of options, stock appreciation rights and appropriate voting common stock of the corporation surviving any such merger or consolidation or, if appropriate, the "parent corporation" (as defined in Section 424(e) of the Code from time to time, and any regulations promulgated thereunder, or any successor provision) of the Company or such surviving corporation, in lieu of the Stock Options, Stock Appreciation Rights and shares of Regis Stock, or

(2) with respect to any Fundamental Change, including, without limitation, a merger, consolidation or statutory share exchange, declare, prior to the occurrence of the Fundamental Change, and provide written notice to each holder of a Stock Option or Stock Appreciation Right of the declaration, that the Stock Option or Stock Appreciation Right, whether or not then exercisable, shall be canceled at the time of, or immediately prior to the occurrence of, the Fundamental Change in exchange for payment to the holder of the Stock Option or Stock Appreciation Right, within 20 days after the Fundamental Change, of cash equal to (i) for each share of Regis Stock covered by the canceled Stock Option, the amount, if any, by which the Fair Market Value (as defined in this Section) per share exceeds the Exercise Price per share covered by such Stock Option and (ii) for each Stock Appreciation Right, the price determined pursuant to Section 7.3(2), except that Fair Market Value of the share of Regis Stock as of the date of exercise of the Stock Appreciation Right as used therein shall be deemed to mean the Fair Market Value of each share of Regis Stock with respect to which the Stock Appreciation Right is determined in the manner hereinafter referred to in this Section 10.3(2). At the time of the declaration provided for in the immediately preceding sentence, the Stock Option or Stock Appreciation Right shall immediately become exercisable in full and the holder of the Stock Option or Stock Appreciation Right shall have the right, during the period preceding the time of cancellation of the Stock Option or Stock Appreciation Right, to exercise the Stock Option or Stock Appreciation Right as to all or any part of the shares of Regis Stock covered thereby or the Stock Appreciation Right in whole or in part, as the case may be. In the event of a declaration pursuant to this Section 10.3(2), each Stock Option and Stock Appreciation Right, to the extent that it shall not have been exercised prior to the Fundamental Change, shall be canceled at the time of, or immediately prior to, the Fundamental Change, as provided in the declaration. Notwithstanding the foregoing, each holder of a Stock Option or Stock Appreciation Right shall not be entitled to the payment provided for in this Section 10.3(2) if such Stock Option or Stock Appreciation Right shall have expired or been forfeited. For purposes of this Section 10.3(2) only, "Fair Market Value" per share of Regis Stock means cash plus the fair market value, as determined in good faith by the Committee, of the non-cash consideration to be received per share

of Regis Stock by the shareholders of the Company upon the occurrence of the Fundamental Change, notwithstanding anything to the contrary provided in this Agreement.

## *ARTICLE XI*

## *PROVISIONS APPLICABLE TO SHARES ACQUIRED UNDER THIS PLAN*

11.1 *No Company Obligation.* Except to the extent required by applicable securities laws, none of the Company, an Affiliate or the Committee shall have any duty or obligation to affirmatively disclose material information to a record or beneficial holder of Common Stock or an Award, and such holder shall have no right to be advised of any material information regarding the Company or any Affiliate at any time prior to, upon, or in connection with receipt, exercise or distribution of an Award. The Company makes no representation or warranty as to the future value of the Common Stock issued or acquired in accordance with the provisions of the Plan.

## *ARTICLE XII*

## *MISCELLANEOUS*

12.1 *Amendments and Termination; No Repricing.* Unless earlier terminated by the Board, the Plan shall terminate on October 18, 2026. The Board may amend, alter, or discontinue the Plan at any time, but no termination, amendment, alteration or discontinuation shall be made which would materially impair the rights of a Participant under an Award theretofore granted without the Participant's consent, except such an amendment (a) made to cause the Plan to comply with applicable law, including without limitation an amendment to bring the Award into compliance with, or obtain an exemption from, the requirements of Code Section 409A; or (b) made to permit the Company or an Affiliate a tax deduction under applicable law. Subject to Section 12.18 of the Plan, the Committee may amend, alter or discontinue the terms of any Award theretofore granted, prospectively or retroactively, on the same conditions and limitations (and exceptions to limitations) as apply to the Board, and further subject to any approval or limitations the Board may impose. Notwithstanding the foregoing, any material amendments (as determined under the rules of the New York Stock Exchange, as amended from time to time or otherwise required by law) to the Plan shall require shareholder approval. Except as provided in Section 4.6, no Option or Stock Appreciation Right Award granted under the Plan may be (i) amended to decrease the Exercise Price thereof, (ii) cancelled in conjunction with the grant of any new Option or Stock Appreciation Right Award with a lower Exercise Price, (iii) cancelled in exchange for cash, other property or the grant of any Full Value Award at a time when the per share Exercise Price of the Option or Stock Appreciation Right Award is greater than the current Fair Market Value of a Share, or (iv) otherwise subject to any action that would be treated under accounting rules as a "repricing" of such Option or Stock Appreciation Right Award, unless such action is first approved by the Company's shareholders.

12.2 *Unfunded Status of Plan.* It is intended that the Plan be an "unfunded" plan for incentive compensation. The Committee may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan to deliver Common Stock or make payments; provided, however, that, unless the Committee otherwise determines, the existence of such trusts or other arrangements is consistent with the "unfunded" status of the Plan.

12.3 *Provisions Relating to Internal Revenue Code Section 162(m).* It is the intent of the Company that certain Awards granted to persons who are Covered Employees within the meaning of Section 162(m) of the Code shall constitute "qualified performance-based compensation" satisfying the requirements of Code Section 162(m) (the "Performance-Based Exception"). Accordingly, the Plan shall be administered and the provisions of the Plan shall be interpreted in a manner consistent with Code Section 162 (m) with respect to such Awards. If any provision of the Plan or any Agreement relating to such an Award does not comply or is inconsistent with the requirements of Code Section 162(m), such provision shall be construed or deemed amended to the extent necessary to conform to such requirements. In addition, the following provisions shall apply with respect to any Award intended to qualify for the Performance-Based Exception:

(1) Not later than the date required or permitted for "qualified performance-based compensation" under Code Section 162(m), the Committee shall determine the Participants who are Covered Employees who will receive Full Value Awards that are intended as qualified performance-based compensation and the amount or method for determining the amount of such compensation.

(2) During any three-consecutive calendar year period, the maximum number of shares of Common Stock for which Options and Stock Appreciation Rights, in the aggregate, may be granted to any Participant shall not exceed 800,000 shares. For Full Value Awards that are intended to qualify for the Performance-Based Exception, if such Awards are denominated in shares or share equivalents, no more than 800,000 shares may be subject to such Awards granted to any Participant during any three-consecutive calendar year period; if such Awards are dollar denominated, the maximum

amount payable with respect to such Awards granted to any Participant during any three-consecutive calendar year period shall not exceed $2,000,000. If, after amounts have been earned with respect to Performance Unit Awards, the payment of such amounts is deferred, any additional amounts attributable to earnings during the deferral period shall be disregarded for purposes of this limit.

(3) *Performance Goals*. Full Value Awards may be subject to performance goals which shall be measured in a specific Performance Period established by the Committee and which shall be based on any of the following performance criteria, either alone or in any combination, on either a consolidated or business unit level, and on an absolute or relative basis compared to other companies or indexes or other external measures, as the Committee may determine: earnings per share ("EPS"); tax-adjusted EPS; pre-tax EPS; sales; cash flow; cash flow from operations; operating profit or income; net income; operating margin; net income margin; return on net assets; economic value added; return on total assets; return on common equity; return on total capital; total shareholder return; revenue; revenue growth; earnings before interest, taxes, depreciation and amortization ("EBITDA"); EBITDA growth; funds from operations per share and per share growth; cash available for distribution; cash available for distribution per share and per share growth; share price performance or improvements in the Company's attainment of expense levels; and implementing or completion of critical projects. The foregoing criteria shall have any reasonable definitions that the Committee may specify, which may include or exclude any or all of the following items as the Committee may specify: unusual or non-recurring items, as defined by GAAP; effects of changes in applicable tax laws or accounting principles; effects of financing activities (e.g., effect on earnings per share of issuance of convertible debt securities); expenses for restructuring or productivity initiatives; other non-operating items; spending for acquisitions; effects of divestitures; and effects of litigation activities and settlements. Any such performance criterion or combination of such criteria may apply to the Participant's Award opportunity in its entirety or to any designated portion or portions of the Award opportunity, as the Committee may specify. In the event applicable tax or other laws change to permit the Committee discretion to alter the governing performance measures without obtaining shareholder approval of such changes, the Committee shall have sole discretion to make such changes without obtaining shareholder approval. The Committee has the right to adjust downward, but not upward, any amount determined to be otherwise payable in connection with such an Award.

(4) *Earning Performance Awards*. After the applicable Performance Period shall have ended, the Committee shall certify the extent to which the established performance goals have been achieved. Payment with respect to Full Value Awards for Covered Employees that are intended to qualify for the Performance-Based Exception shall be a direct function of the extent to which the Company's performance goals have been achieved. Except to the extent otherwise provided in the applicable Award Agreement or the Plan, an Award intended to qualify for the Performance-Based Exception shall provide that in the event of the Participant's Termination of Employment prior to the end of the Performance Period for any reason other than death or Disability, such Award will be payable only (a) if the applicable performance goals are achieved and (b) to the extent, if any, as the Committee shall determine.

(5) *Other Section 162(m) Provisions*. In the manner required by Section 162(m) of the Code, the Committee shall, promptly after the date on which the necessary financial and other information for a particular Performance Period becomes available, certify the extent to which performance goals have been achieved with respect to any Full Value Award intended to qualify for the Performance-Based Exception. The Committee may not increase the amount of any Full Value Award payable to any Participant above the amount established in accordance with the relevant performance goals with respect to any Award intended to qualify for the Performance-Based Exception.

12.4 *No Additional Obligation.* Nothing contained in the Plan shall prevent the Company or an Affiliate from adopting other or additional compensation or benefit arrangements for its employees.

12.5 *Withholding.* No later than the date as of which an amount first becomes includible in the gross income of the Participant for federal income tax purposes with respect to any Award, the Participant shall pay to the Company (or other entity identified by the Committee), or make arrangements satisfactory to the Company or other entity identified by the Committee regarding the payment of, any federal, state, or local taxes of any kind required by law to be withheld with respect to such income. Unless otherwise determined by the Committee, withholding obligations may be settled with Common Stock, including shares of Common Stock that are part of the Award that give rise to the withholding requirement. The obligations of the Company under the Plan shall be conditional on such payment or arrangements, and the Company and its Affiliates shall, to the extent permitted by law, have the right to deduct any such taxes from any payment otherwise due to the Participant. The Committee may permit a Participant to satisfy all or any part of the required tax withholding obligations (but not to exceed the applicable minimum statutory amount required to be withheld if such limitation is necessary to avoid an adverse accounting impact, and otherwise not to exceed the maximum individual statutory tax rate in each applicable jurisdiction) by authorizing the Company to withhold a number of shares of Common Stock that would otherwise be delivered to the Participant pursuant to an Award, or by transferring to the Company shares of Common Stock already owned by the Participant, with the shares so withheld or transferred having a Fair Market Value as of the date the withholding is effected equal to the amount of taxes to be withheld.

12.6 *Controlling Law.* The Plan and all Awards made and actions taken thereunder shall be governed by and construed in accordance with the laws of Minnesota (other than its law respecting choice of law). The Plan shall be construed to comply with all applicable law and to avoid liability to the Company, an Affiliate or a Participant. The Board and the Committee shall administer the Plan, and shall exercise all authority and discretion under the Plan to satisfy the requirements of Code Section 409A.

12.7 *Offset.* Any amounts owed to the Company or an Affiliate by the Participant of whatever nature may be offset by the Company from the value of any Award to be transferred to the Participant.

12.8 *Nontransferability; Beneficiaries.* No Award shall be assignable or transferable by the Participant, otherwise than by will or the laws of descent and distribution or pursuant to a beneficiary designation, and Awards shall be exercisable during the Participant's lifetime only by the Participant (or by the Participant's legal representatives in the event of the Participant's incapacity). Each Participant may designate a Beneficiary to exercise any Option or Stock Appreciation Right or receive any Award held by the Participant at the time of the Participant's death or to be assigned any other Award outstanding at the time of the Participant's death. If a deceased Participant has named no Beneficiary, any Award held by the Participant at the time of death shall be transferred as provided in his or her will or by the laws of descent and distribution. Except in the case of the holder's incapacity, only the holder may exercise an Option or Stock Appreciation Right. Notwithstanding the foregoing, the Board or the Committee may, in its discretion and subject to such limitations and conditions as the Board or the Committee deems appropriate, permit the transfer of an Award by a Participant without consideration to a Participant's children, stepchildren, grandchildren, parents, stepparents, grandparents, spouse (including an ex-spouse incident to divorce), siblings, in-laws, or persons related by reason of legal adoption (collectively, the "Family Members"), or to a trust for the exclusive benefit of the Grantee's Family Members or a partnership, corporation or limited liability the equity interests of which are owned by the Grantee and/or the Grantee's Family Members.

12.09 *No Rights with Respect to Continuance of Employment.* Nothing contained herein shall be deemed to alter the relationship between the Company or an Affiliate and a Participant, or the contractual relationship between a Participant and the Company or an Affiliate if there is a written contract regarding such relationship. Nothing contained herein shall be construed to constitute a contract of employment between the Company or an Affiliate and a Participant. The Company or an Affiliate and each of the Participants continue to have the right to terminate the employment or service relationship at any time for any reason, except as provided in a written contract. The Company or an Affiliate shall have no obligation to retain the Participant in its employ or service as a result of this Plan. There shall be no inference as to the length of employment or service hereby, and the Company or an Affiliate reserves the same rights to terminate the Participant's employment or service as existed prior to the individual becoming a Participant in this Plan.

12.10 *Awards in Substitution for Awards Granted by Other Corporations.* Awards may be granted under the Plan from time to time in substitution for awards held by employees, directors or service providers of other corporations who are about to become officers, directors or employees of the Company or an Affiliate as the result of a merger or consolidation of the employing corporation with the Company or an Affiliate, or the acquisition by the Company or an Affiliate of the assets of the employing corporation, or the acquisition by the Company or Affiliate of the shares of the employing corporation, as the result of which it becomes an Affiliate under the Plan. The terms and conditions of the Awards so granted may vary from the terms and conditions set forth in this Plan at the time of such grant as the majority of the members of the Committee may deem appropriate to conform, in whole or in part, to the provisions of the awards in substitution for which they are granted.

12.11 *Foreign Alternatives.* Notwithstanding the other provisions of the Plan, in the case of any Award to any Participant who is an employee of a foreign subsidiary or foreign branch of the Company or held by a Participant who is in any other category specified by the Committee, the Committee may specify that such Award shall not be represented by Common Stock or other securities but shall be represented by rights approximately equivalent (as determined by the Committee) to the rights that such Participant would have received if shares of Common Stock or other securities had been issued in the name of such Participant otherwise in accordance with the Plan (such rights being hereinafter called "Share Equivalents"). The Share Equivalents representing any such Award may subsequently, at the option of the Committee, be converted into cash or an equivalent number of shares of Common Stock or other securities under such circumstances and in such manner as the Committee may determine.

12.12 *Delivery of Stock Certificates.* To the extent the Company uses certificates to represent shares of Common Stock, certificates to be delivered to Participants under this Plan shall be deemed delivered for all purposes when the Company or a stock transfer agent of the Company shall have mailed such certificates in the United States mail, addressed to the Participant, at the Participant's last known address on file with the Company. Any reference in this Section 12.12 or elsewhere in the Plan or an Agreement to actual stock certificates and/or the delivery of actual stock certificates shall be deemed satisfied by the electronic record-keeping and electronic delivery of shares of Common Stock or other mechanism then utilized by the Company and its agents for reflecting ownership of such shares.

12.13 *Headings.* The headings contained in this Plan are for reference purposes only and shall not affect the meaning or interpretation of this Plan.

12.14 *Severability.* If any provision of this Plan shall for any reason be held to be invalid or unenforceable, such invalidity or unenforceability shall not affect any other provision hereby, and this Plan shall be construed as if such invalid or unenforceable provision were omitted.

12.15 *Successors and Assigns.* This Plan shall inure to the benefit of and be binding upon each successor and assign of the Company. All obligations imposed upon a Participant, and all rights granted to the Company hereunder, shall be binding upon the Participant's heirs, legal representatives and successors.

12.16 *Entire Agreement.* This Plan and each Agreement constitute the entire agreement with respect to the subject matter hereof and thereof, provided that in the event of any inconsistency between the Plan and each Agreement, the terms and conditions of this Plan shall control.

12.17 *Minimum Vesting and Performance Periods*. Notwithstanding any other provision of this Plan, Awards that vest based solely on the satisfaction by the Participant of time-based vesting conditions shall be subject to a vesting period of not less than one year from the applicable Grant Date, and Awards whose grant or vesting is subject to the satisfaction of performance goals over a Performance Period shall be subject to a Performance Period of not less than one year. The foregoing minimum vesting and Performance Periods will not, however, apply in connection with: (i) a Change in Control, (ii) a termination of employment or other service due to death or Disability, (iii) to a Substitute Award that does not reduce the vesting period of the award being replaced, (iv) Awards made in payment of or exchange for other compensation already earned and payable, and (v) Awards involving an aggregate number of Shares not in excess of 5% of the Plan's share reserve specified in Section 4.1.

12.18 *Forfeiture and Compensation Recovery*. The Committee may specify in an Agreement that the Participant's rights, payments, and benefits with respect to an Award will be subject to reduction, cancellation, forfeiture or recovery by the Company upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Such events may include termination of employment or other service for Cause; violation of any material Company or Affiliate policy; breach of noncompetition, non-solicitation or confidentiality provisions that apply to the Participant; a determination that the payment of the Award was based on an incorrect determination that financial or other performance goals were met; or other conduct by the Participant that is detrimental to the business or reputation of the Company or its Affiliates. Awards and any compensation associated therewith may also be made subject to forfeiture or recovery by the Company pursuant to any compensation recovery policy adopted by the Board or the Committee at any time, including in response to the requirements of Section 10D of the Exchange Act and any implementing rules and regulations thereunder, or as otherwise required by law. Any Agreement may be unilaterally amended by the Committee to comply with any such compensation recovery policy.

**APPENDIX B**

# REGIS CORPORATION
# AMENDED AND RESTATED
# 1991 CONTRIBUTORY STOCK PURCHASE PLAN
# (AS AMENDED AND RESTATED OCTOBER 18, 2016)

## Section 1
## Purpose of the Plan

1.1 PURPOSE

The Regis Corporation Amended and Restated 1991 Contributory Stock Purchase Plan (the "Plan") provides eligible employees with an opportunity to purchase the common stock of Regis Corporation, a Minnesota corporation (the "Company") (the "Common Stock") and thereby to share in the Company's future. The Plan provides that participating employees may purchase Common Stock through regular payroll deductions and that the Company will contribute a supplemental amount in aid of the purchase. The intent of the Plan is to establish a closer mutuality of interests between employees and the Company and to motivate participating employees to remain employed by, and to exert greater effort on behalf of, the Company. The Plan was originally effective on January 1, 1992, was amended to increase the amount that the Company could contribute to the Plan, effective as of May 3, 2005, was amended and restated to reflect changes in the Plan administration effective as of March 1, 2007, and was further amended and restated effective August 19, 2009 to increase the number of shares of Common Stock that may be purchased under the Plan and the amount that the Company could contribute to the Plan. The effective date of this amendment and restatement is October 18, 2016, provided that the amendment and restatement is approved by the Company's shareholders at the Company's 2016 annual meeting of shareholders.

1.2 TERM OF PLAN

This Plan commenced on January 1, 1992, and shall terminate at the earliest of the following times, unless extended by the Company's Board of Directors ("Board"):

(a) When the Company has contributed $14,000,000 (including broker's commissions, transfer fees and similar expenses) to the Plan;

(b) When the 4,550,000 shares registered with the Securities and Exchange Commission for issuance under the Plan have been purchased;

(c) At any time after the giving of 30 days notice by the Company.

## Section 2
## Administration of the Plan

2.1 ADMINISTRATIVE COMMITTEE

An Administrative Committee (the "Committee") of not less than three members selected from the Company's Board of Directors shall oversee the Plan's administration. The Chairman of the Board shall appoint the members of the Committee and may from time to time remove members from, add members to, or fill vacancies on the Committee. No Committee member is eligible to participate under the Plan while holding such office.

2.2 PLAN ADMINISTRATOR

The Committee shall appoint an officer or other employee or employees of the Company to serve as the Plan Administrator. The Plan Administrator shall be authorized to designate other employees of the Company to assist him or her in carrying out his or her responsibilities under the Plan. The Plan Administrator and his or her designees shall be responsible for the general administration of the Plan including establishment of operating procedures, enrollment deadlines and such other matters as the Committee deems necessary for the efficient and proper administration of the Plan. In the absence of any such appointment, the Investment Benefits Department for the Company and its designees shall be responsible for the general administration of the Plan, subject to oversight by the Company's Chief Human Resources Officer, and his or her designees shall serve as the Plan Administrator for the Plan.

2.3 ADMINISTRATIVE AGENT

The Plan Administrator shall appoint an Administrative Agent to perform the duties of the Administrative Agent set forth herein or as otherwise delegated. The Plan Administrator shall have the authority to replace the Administrative Agent at any time. The compensation and expense of the Administrative Agent, including any commissions, taxes and other expenses incurred in the purchase of Common Stock under the Plan shall be paid by the Company.

2.4 POWERS AND DUTIES

The Committee shall administer the Plan in accordance with its terms and shall have all powers necessary to effectuate the provisions of the Plan. The Committee shall interpret the Plan and shall determine all questions arising in the administration, interpretation and application of the Plan. In making such determinations and interpretations, the Committee shall follow such rules as it may adopt or change from time to time, which shall be consistently applied so that all persons similarly situated are treated alike. All such interpretations and determinations by the Committee shall be final, conclusive and binding upon all persons. The Committee may delegate its powers set forth herein, and in the absence of any formal designation or reservation of powers, the Committee's powers and duties shall be vested in the Plan Administrator.

2.5 INDEMNIFICATION

In addition to such other rights of indemnification as they may have as officers or directors of the Company, the Committee members, the Plan Administrator and their designees (each an "Indemnitee") shall be indemnified by the Company against the expenses, including attorney's fees, judgments, fines and amounts paid in settlement (provided such settlement is approved by independent legal counsel selected by the Company), actually and reasonably incurred in connection with any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that liability is due to the gross negligence or willful misconduct of the Indemnitee; provided that within 20 days, or such longer period as determined by the Company, after service of any such action, suit or proceeding, the Indemnitee shall in writing offer the Company the opportunity, at its own expense, to handle and defend the same.

2.6 LIABILITY

Neither the Administrative Agent, the Company, its directors, officers or employees, the Committee, the Members of the Committee, the Plan Administrator (including any delegees), any employee of the Administrative Agent, any broker executing orders pursuant to the Plan, nor any other person shall be liable, except as provided in the Securities Act of 1933, as amended, for anything done or omitted to be done by such person with respect to the price, time, quantity or other conditions and circumstances of the purchase or sale of stock or securities hereunder, or in any other connection under the Plan, unless such act or omission constitutes willful misconduct on such person's part.

## Section 3
## Participation in the Plan

3.1 ELIGIBILITY

Subject to Section 3.3, all full and part time employees of the Company and of its presently existing subsidiaries and all future wholly-owned subsidiaries (collectively the "Subsidiaries" and each a "Subsidiary") are eligible to participate in the Plan upon commencement of employment with the Company (the "Eligible Employees").

3.2 CONTINUOUS SERVICE

An employee's participation under the Plan shall automatically terminate if such employee fails to continue his or her employment status throughout the period of his or her participation.

3.3 LEGAL PROHIBITIONS

No employee shall be entitled to participate or to continue participation if, in the opinion of counsel for the Company, any applicable law of the United States or of any state, foreign country or other jurisdiction prohibit his or her participation in the Plan or render the Plan or its operation illegal, invalid, inoperative or unduly burdensome in its application to such employee.

To the extent the Company is unable to, or the Plan Administrator deems it infeasible to, obtain authority from any regulatory body having jurisdiction, which authority is deemed by counsel for the Company to be necessary to the lawful issuance and sale of Common Stock hereunder, the Company, the Committee, and the Plan Administrator shall be relieved of any liability with respect to the failure to issue or sell such Common Stock as to which such requisite authority shall not have been obtained.

## Section 4
## Participation in the Plan

### 4.1 ENROLLMENT PERIOD

Following the initial enrollment period established upon the commencement of the Plan, an Eligible Employee shall be permitted to enroll at any time.

### 4.2 APPLICATION FOR PARTICIPATION

An Eligible Employee may enroll to commence or recommence participation in the Plan through the procedure established by the Administrative Agent. Once an Eligible Employee has enrolled, his or her participation will commence as soon as administratively feasible after his or her enrollment has been processed by the Administrative Agent (a "Participant"). By enrolling to participate in the Plan, the Participant (and any person claiming benefits under the Plan through the Participant) shall (i) authorize contributions to the Plan through payroll deductions from the Participant's Compensation (as defined in Section 4.4 below), (ii) authorize the Administrative Agent to establish a stock purchase plan account for the Participant for the purposes of managing the Participant's participation in the Plan (the "Plan Account"); and (iii) be conclusively deemed to have accepted and have consented to the application to the Participant of the Plan's provisions.

### 4.3 DATE OF PARTICIPATION

A Participant's contributions to the Plan as described in Section 4.4 will begin in the first pay period that is administratively practicable after the Participant's enrollment has been processed. All applications to enroll are subject to the approval of the Committee and participation shall not be allowed unless the applicant is an Eligible Employee. Once enrolled, participation shall remain effective throughout the term of this Plan unless earlier terminated as herein provided.

### 4.4 EMPLOYEE CONTRIBUTIONS

In any jurisdiction where payroll deductions are lawful, each Participant shall, through uniform payroll deductions, contribute during the term of the Plan the allowable amount authorized by such Participant (the "Participant Contributions"). Effective March 1, 2007 payroll deductions shall be a percentage of the participating employee's Compensation (as defined below) for each payroll period as specified by the Participant according to procedures defined by the Investment Benefits Department for the Company. Payroll deductions for each payroll period shall not be less than 1% nor more than 10% of Compensation for such payroll period. The Committee shall have the power to change these percentage limitations.

Prior to March 1, 2007, Eligible Employees were permitted to contribute either a fixed dollar amount or a percentage of compensation per payroll period. Any Participant who was, immediately prior to March 1, 2007, contributing a fixed dollar amount per payroll period to the Plan (a "Grandfathered Participant") shall be permitted to continue to contribute the same fixed dollar amount through the first payroll period following March 1, 2007 in which such Grandfathered Participant is no longer participating in the Plan. After a Grandfathered Participant's participation terminates for any reason, they shall be permitted to reenroll in the Plan provided they are an Eligible Employee at such time, but they will no longer be able to contribute a fixed dollar amount to the Plan.

"Compensation" as used in this Plan means total cash compensation received by an Employee from the Company or a Subsidiary. By way of illustration, and not in limitation, Compensation includes regular compensation such as salary, wages, overtime, and shall also include all bonuses (other than bonuses offered in connection with, and as an inducement for, the commencement of employment) and commissions (estimated as deemed necessary by the Plan Administrator), but excludes: relocation payments or reimbursements, expense reimbursements, tuition or other reimbursements, automobile allowances, housing allowances, cash payments in lieu of sick or vacation time benefits and income realized as a result of participation in any stock option, stock purchase, deferred compensation or similar plan of the Company or any Subsidiary.

### 4.5 CHANGES IN PAYROLL DEDUCTIONS

A Participant may change the percentage of his or her payroll deductions, according to the procedures defined by the Plan Administrator and the Administrative Agent, subject to the minimum and maximum increments set forth in Section 4.4. The change will be effective as soon as administratively practicable after the change request has been processed by the Administrative Agent.

4.6 COMPANY CONTRIBUTIONS

On the date Participant Contributions for a purchase period are provided to the Administrative Agent in accordance with Section 4.7, the Company shall contribute to the Administrative Agent an additional amount equal to 15 percent (15%) of the sum of the Participant Contributions and the contribution to be made by the Company (the "Company Contribution" and, together with the Participant Contributions, the "Contributions"). Accordingly, the Company Contribution for a purchase period shall be equal to 17.65% of the Participant Contributions for that purchase period. The Committee shall have the power to modify the amount of the Company Contribution at any time. The Company will not, however, make any additional contributions towards Common Stock purchased for a Participant's account as a result of cash dividends made by the Company.

In addition, the Company shall pay all administrative expenses of the Plan, including, without limitation, broker's commissions, transfer fees, and similar costs. However, in no event shall the sum of the Company's contributions and its payment of expenses, fees or similar payments under the Plan exceed $14,000,000 in the aggregate (including by way of example broker's commissions, transfer fees, administrative costs and similar expenses).

If any Company Contribution would be inadequate to fully supplement the Participant Contributions for any purchase period because of the $14,000,000 limitation, the Company Contribution shall be prorated among all Participants making Participant Contributions in such purchase period. If a Participant Contribution is in excess of that which would be supplemented by the prorated Company contribution, the excess shall be refunded to the Participant or to the Participant's Plan Account, without interest, as soon as practicable.

The Participants shall have no right, title or vested interest in the Company Contributions except as and when the same are expended and have resulted in the purchase of shares of Company Common Stock under the Plan.

4.7 AGENCY

In withholding or accepting funds as Participant Contributions hereunder, the Company and the Administrative Agent shall be acting as the agent of the Participant. As soon as administratively feasible, but no later than the fifteenth day following the end of each purchase period, the Company shall pay the withheld Participant Contributions over to the Administrative Agent on behalf of each Participant.

4.8 TERMINATION OF PARTICIPATION

Each Participant may at any time voluntarily terminate his or her participation in the Plan by advising the Plan Administrator or the Administrative Agent according to the procedure prescribed by the Plan Administrator, or by the Administrative Agent as applicable. A Participant's election to terminate participation shall be effective as soon as administratively feasible following such time as the election has been processed by the Administrative Agent, or by the Plan Administrator, as applicable.

An employee's participation in the Plan shall automatically terminate when the employee ceases to be employed by the Company and any of its Subsidiaries, whether by reason of retirement, termination of employment, death, or otherwise. Payroll deductions shall cease immediately or as soon as administratively feasible after the termination has been processed by the Plan Administrator. Except as otherwise required by law, the Committee shall determine whether an authorized leave of absence for military or governmental service shall constitute termination of employment for the purpose of this Plan, provided, however, that the procedure used to make such determination shall in all events be uniformly applied to all similarly situated persons.

At the discretion of the Company, purchases of Common Stock may be made (but shall in no event be required) in accordance with Section 5.2 with the final payroll deductions that have been withheld but not yet applied to any such purchase period prior to the Participant's termination (the "Final Participant Contribution"). The purchase or non-purchase shall be dependent upon such factors as the timing of the termination and the transmittal of Participant Contributions to the Administrative Agent. If any such final purchase is not made, the Final Participant Contribution shall be returned to the former Participant as soon as administratively feasible through either a direct refund of the funds to the former Participant, or through a deposit of the funds to the Participant's Plan Account.

4.9 INADEQUATE CONTRIBUTIONS

If in any payroll period a Participant has no or insufficient pay, after other authorized deductions, to permit a Participant Contribution to the Plan in the percentage elected by such Participant, there shall be no deduction for that payroll period and the Company shall not make a Participant Contribution on behalf of that Participant for such period. As such, Participant Contributions under the Plan will be automatically stopped for any Participant who goes on a leave of absence without pay, effective when the Participant ceases to be paid by the Company. In the event that a Participant Contribution is inadvertently made on behalf of a Participant despite insufficient pay in a payroll period, and such inadvertent Participant Contribution is applied to the purchase of Common Stock on behalf of the Participant prior to the discovery of the error, the Participant shall owe the Company the amount that is equal to the excess of (1) the amount applied toward the purchase of Common Stock on behalf of the Participant (exclusive of the amount of the related Company Contribution and exclusive of the Company's payment of fees or similar payments related to the purchase), and (2) the amount, if any, actually deducted from the Participant's Compensation and applied toward the erroneous purchase (the "Shortfall"). The Company shall have the right, subject to applicable federal, state or local law, regulation or similar limitation, to recover the Shortfall as soon as administratively feasible following the discovery of the error by any legal means available, including without limitation through a deduction of the amount of the Shortfall from any amount the Company owes such Participant, including amounts owed as wages or other compensation, fringe benefits, vacation pay or any other amounts owed by the Company to such Participant, or, if such remedy is unavailable, may request that the Participant directly pay the amount of the Shortfall to the Company. The Committee shall have full discretion to determine whether and/or by what available remedy it will pursue recovery of a Shortfall, provided however that the procedure used to make such determination shall in all events be uniformly applied to all similarly-situated persons.

4.10 REFUND REQUESTS

A Participant may request a refund of the Participant Contributions that have been withheld from such Participant's Compensation and that have not yet been applied toward the purchase of Common Stock on such Participant's behalf. Any such request must be directed to the Plan Administrator in the manner prescribed by the Plan Administrator. The Plan Administrator shall have full discretion to determine whether any such request will be granted, provided that the procedure followed in determining whether to grant a refund request shall in all events be uniformly applied to all similarly situated persons. Such procedure shall include such factors as the Plan Administrator deems relevant and may include by way of example the reason for the request and the number of times such participant has previously requested a refund of Participant Contributions under the Plan. If a refund request is approved: (i) all of the Participant's unapplied Participant Contributions will be returned to the Participant as soon as administratively feasible following such approval; (ii) the Participant's participation in the Plan shall be automatically terminated; and (iii) no further Participant Contributions for the purchase of Common Stock will be made until such time as the former Participant resumes participation in the Plan.

4.11 PLAN TERMINATION

The Company may, in its sole discretion, terminate this Plan at any time upon 30 days notice. On the effective date of termination, this Plan and all further Participant contributions shall terminate and the credit balance in each Participant's Plan Account shall be refunded, without interest, as soon as practicable.

## Section 5
## Purchase of Stock

5.1 ACCOUNT

The Administrative Agent shall cause a Plan Account to be maintained for each Participant. Each Plan Account shall be credited with all Common Stock purchased for such Participant with respect to a purchase period and with any cash dividends received by the Administrative Agent with respect to such stock. Each purchase period shall equal one calendar month, provided that the payroll periods during the months of August, September and October 2009 shall be covered by one purchase period that ends October 31, 2009. The Administrative Agent shall cause a statement to be delivered to each active Participant (i.e., a Participant whose Plan Account has reflected activity in the last purchase period) reflecting the Plan Account of such Participant as of the end of each purchase period. Statements will be delivered quarterly to inactive Participants (i.e., those whose Plan Accounts have not had activity in the last purchase period). Statements shall be deemed to be correct unless the Administrative Agent is notified to the contrary within 30 days after it is mailed to a Participant. Delivery may be by electronic means.

The relationship between the Administrative Agent and each Participant shall be governed by a separate agreement of terms and conditions between them (a "Customer Agreement"). In electing to participate in the Plan, a Participant shall be deemed to have accepted the terms of the Customer Agreement.

5.2 PURCHASES

For each purchase period, the Administrative Agent shall cause all the proceeds received from Participant Contributions, the Company's Contribution, and all cash dividends received by the Administrative Agent on the Company's Common Stock held in Participant Plan Accounts as to which dividend reinvestment elections have been made in accordance with Section 5.4, to be applied to the open market purchase of Common Stock of the Company. Such open market purchase shall occur as soon as practicable on or following the last business day of each purchase period during which payroll deductions are made under the Plan. Payroll deductions from the payroll periods in the immediately preceding purchase period (or where purchases are made on the last business day of the purchase period, for such purchase period) will be used toward the purchase of Common Stock. The per share purchase price for Common Stock under the Plan for any purchase period shall be the average price at which the Administrative Agent purchases shares of the Company's Common Stock on the open market (the "Purchase Price"). Within these guidelines, the exact amount, price and timing of the purchases of Common Stock under the Plan, and the policies with respect to the purchase and crediting of fractional shares of Common Stock under the Plan shall be in the sole discretion of the Administrative Agent.

5.3 ALLOCATION OF STOCK PURCHASED

As soon as practicable after completing the purchase of the Common Stock, the Administrative Agent shall credit each Participant's Plan Account with the Participant's pro rata portion of the shares of Common Stock purchased by the Administrative Agent. The Plan Account of each Participant shall be credited with that number of shares equal to: (1)(i) the sum of (A) the Participant's Contributions applied by the Administrative Agent to the purchase of stock, (B) the related Company Contribution which supplemented that Participant's Contributions, and (C) cash dividends to be reinvested, if any, (ii) divided by the Purchase Price. The stock purchased under this Plan may be purchased in the name of the Administrative Agent or its nominee or in the street name of a registered broker. Once the Common Stock is purchased and credited to a Participant's Plan Account, the Participant shall beneficially own, regardless of the name or manner in which said stock is registered, that number of shares credited to such Participant's Plan Account, and the Administrative Agent shall insure that the Participant enjoys all of the rights, privileges and powers provided by law to shareholders.

5.4 REINVESTMENT OF DIVIDENDS

Each Participant will be required to establish a default dividend policy for his or her Plan Account. If a Participant elects to have cash dividends, if any, paid with respect to the Common Stock held in a Participant's Plan Account automatically reinvested in Common Stock, the Administrative Agent shall arrange for the reinvestment of dividends on the open market and the Company shall pay any expenses associated with the reinvestment. The Company will not, however, make the additional Company Contribution described in Section 4.6 toward the purchase of Common Stock for a Participant's account as a result of the reinvestment of cash dividends made by the Company.

5.5 DISTRIBUTION OF ACCOUNT

The Administrative Agent shall retain the shares of Common Stock in the Participant's Plan Account until the Participant requests a sale, transfer or delivery of such shares via his or her on-line account or through the Administrative Agent's customer service phone line, or as otherwise provided by the Administrative Agent.

5.6 DESIGNATION OF BENEFICIARY.

Participants may file a written designation of a beneficiary who is to receive the Common Stock and cash, if any, from the Participant's Plan Account in the event of such Participant's death prior to delivery to such Participant of such Common Stock and cash. Such designation of beneficiary may be changed by the Participant at any time by written notice or as otherwise prescribed by the Plan Administrator or the Administrative Agent as applicable. In the event of the death of a Participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such Participant's death, the Company shall deliver the Common Stock and/or cash to the Participant's surviving legal spouse, or if none, to the Participant's estate.

5.7 RIGHTS NOT TRANSFERABLE

Rights under the Plan are not assignable or transferable by a Participant other than by will or by the laws of descent and distribution and, during the Participant's lifetime, are exercisable only by the Participant.

**Section 6**
**Miscellaneous Provisions**

6.1 GOVERNMENT REGULATION

This Plan and the obligation of the Administrative Agent, Plan Administrator, Committee or Company to purchase and deliver shares of stock under the Plan, shall be subject to all applicable federal, state and foreign laws, rules and regulations, and to such approvals by any regulatory or governmental agency as may, in the opinion of counsel for the Company, be required. Neither the Administrative Agent, the Plan Administrator, the Committee nor the Company shall be required to purchase or deliver any shares of Common Stock prior to the completion of any registration or other qualification of such shares under any state, federal or foreign law or under any rule or regulation of any government body which the Company, pursuant to the opinion of counsel for the Company, shall, in its sole discretion, determine to be necessary or advisable. In the event the Administrative Agent, the Committee or the Company does not purchase or deliver any shares for the above reasons, regardless of cause, they shall not be subject to any penalty or liability other than the refund of Participant Contributions, without interest. In the event the stock purchased or to be purchased under this Plan is not registered under the Securities Act of 1933, as amended, at the respective dates of purchase, delivery or when otherwise deemed appropriate, the Administrative Agent may suspend purchase, delivery or other action until such registration or listing is effective.

6.2 COMPANY RIGHTS

The Company's rights and powers shall not be affected in any way by its participation in this Plan, including but not limited to the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets.

6.3 AMENDMENT OF THE PLAN

The Board of Directors may from time to time suspend or discontinue the Plan or revise or amend it in any respect whatsoever; provided, however, that the Company shall obtain shareholder approval of an amendment to the extent necessary to comply with any applicable law, regulation or stock exchange rule.

6.4 NO RIGHT TO CONTINUED EMPLOYMENT

Nothing contained in this Plan shall be deemed to affect in any way any right of the Company or the subsidiary by which such Participant is employed to terminate the Participant's employment or otherwise dismiss, discharge or discipline the Participant at any time for any reason and without penalty or liability to the Company or the employing subsidiary, and said rights and powers are specifically reserved.

6.5 GOVERNING LAW

All questions relating to the validity, construction, interpretation, and enforcement of this Plan and any rules promulgated hereunder shall be governed by the laws of the State of Minnesota.

6.6 SEVERABILITY

If any term, provision or condition of this Plan is finally adjudged to be unlawful or unenforceable, the same shall be deemed stricken herefrom and the remainder of this Plan shall be and remain in full force and effect.

6.7 DATE OF ADOPTION

Pursuant to resolution, this Plan was duly adopted by the Company's Board of Directors on July 29, 1991 and commenced on January 1, 1992.

6.8 AGREEMENT TO BIND HEIRS

This Plan shall be binding on the heirs, executors, administrators, successors and assigns of any and all parties designated herein.

6.9 WITHHOLDING TAXES

Company Contributions under this Plan on behalf of any Participant shall be regarded as additional compensation paid to such Participant on the date the contributions are made, and any withholding taxes payable to any jurisdiction with respect thereto shall be withheld from the Participant's compensation. Each Participant shall make provision satisfactory to the Plan Administrator for payment of any taxes required by law to be withheld in respect of the purchase or disposition of Common Stock. The Company may, to the extent permitted by law, deduct any such tax obligations from any payment of any kind otherwise due to the Participant.

6.10 QUALIFICATION

The Plan is not intended to qualify either as an employee stock purchase plan under Section 423 of the Internal Revenue Code of 1954, as amended, or as a plan of deferred compensation under Sections 401 through 407 of said Code.