SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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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, 2008

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 ☐

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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PART I

Item 1. Business

Unless the context otherwise provides, when we refer to the "Company," "we," "our," or "us," we are referring to Regis Corporation, the Registrant, together with its subsidiaries.

(a) General Development of Business

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

(b) Financial Information about Segments

Segment data for the years ended June 30, 2008, 2007 and 2006 are included in Note 11 to the Consolidated Financial Statements in Part II, Item 8, of this Form 10-K.

(c) Narrative Description of Business

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

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Background:

Based in Minneapolis, Minnesota, the Company's primary business is owning, operating and franchising hair and retail product salons. In addition to the primary hair and retail product salons, the Company owns Hair Club for Men and Women, a provider of hair restoration services. As of June 30,

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2008, the Company owned, franchised or held ownership interests in over 13,550 worldwide locations. The Company's locations consisted of 10,745 company-owned and franchise salons, 92 hair restoration centers, and 2,714 locations in which the Company maintains an ownership interest of less than 100 percent. Each of the Company's salon concepts offer similar salon products and services and serve the mass market consumer marketplace. The Company's hair restoration centers offer three hair restoration solutions; hair systems, hair transplants and hair therapy, which are targeted at the mass market consumer.

The Company is organized to manage its operations based on significant lines of business–salons and hair restoration centers. Salon operations are managed based on geographical location–North America and international. The Company's North American salon operations are comprised of 8,110 company-owned salons and 2,163 franchise salons operating in the United States, Canada and Puerto Rico. The Company's international operations are comprised of 472 company-owned salons. The Company's worldwide salon locations operate primarily under the trade names of Regis Salons, MasterCuts, Trade Secret, SmartStyle, Supercuts, Cost Cutters, and Sassoon. The Company's hair restoration centers are located in the United States and Canada. During fiscal year 2008, the number of customer visits at the Company's company-owned salons approximated 111 million. The Company had approximately 65,000 corporate employees worldwide during fiscal year 2008.

On August 1, 2007, the Company contributed 51 of its wholly-owned accredited cosmetology schools to EEG in exchange for a 49.0 percent equity interest in EEG. The investment is accounted for under the equity method. The Company recorded an impairment charge related to this transaction of $23.0 million ($19.6 million net of tax) during the three months ended March 31, 2007.

The Company realized that in order to maximize the potential of the beauty school division, it would be necessary to invest heavily in information technology platforms and management. The Company believes that contributing the beauty schools to EEG is the most efficient and accretive way to achieve its goals. This transaction leverages EEG's management expertise, while enabling the Company to maintain a vested interest in the beauty school industry. EEG is the largest beauty school operator in North America with 86 accredited cosmetology schools with revenues of approximately $130 million annually and is overseen by the Empire Beauty School management team.

Once the integration of the Regis schools is complete, the Company expects to share in significant synergies and operating improvements. Long-term, the Company expects this transaction to be very accretive and to add significantly more shareholder value than the $23.0 million ($19.6 million net of tax) impairment charge. In January 2008, the Company's effective ownership interest increased to 55.1 percent related to the buyout of EEG's equity interest shareholder. The Company will continue to account for the investment in EEG under the equity method of accounting as Empire Beauty School retains majority voting interest and has full responsibility for managing EEG. Refer to Note 3 to the Consolidated Financial Statements for additional information.

On January 31, 2008, the Company merged its continental European franchise salon operations with the operations of the Franck Provost Salon Group in exchange for a 30.0 percent equity interest in the newly formed Provalliance entity (Provalliance). The merger with the operations of the Franck Provost Salon Group which are also located in continental Europe, created Europe's largest salon operator with approximately 2,300 company-owned and franchise salons as of June 30, 2008.

The Company contributed to Provalliance the shares of each of its European operating subsidiaries, other than the Company's operating subsidiaries in the United Kingdom and Germany. The contributed subsidiaries operate retail hair salons in France, Spain, Switzerland and several other European countries primarily under the Jean Louis David™ and Saint Algue™ brands. This transaction is expected to create significant growth opportunities for Europe's salon brands. The Franck Provost Salon Group management structure has a proven platform to build and acquire company-owned stores as well as a strong franchise operating group that is positioned for expansion.

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On February 20, 2008, the Company acquired the capital stock of Cameron Capital I, Inc. (CCI), a wholly-owned subsidiary of Cameron Capital Investments, Inc. CCI owns and operates PureBeauty and BeautyFirst salons. CCI is now accounted for as a wholly-owned subsidiary of the Company. Prior to the acquisition, the Company held a 19.9 percent interest in the voting common stock of CCI which was accounted for under the equity method of accounting. During fiscal year 2008, the Company transformed nine Trade Secret locations to PureBeauty locations. Future transformations will depend on the success of initial transformations.

Industry Overview:

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

Salon Business Strategy:

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

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

Organic Growth. The Company executes its organic growth strategy through a combination of new construction of company-owned and franchise salons, as well as same-store sales increases. The square footage requirements related to opening new salons allow the Company great flexibility in securing real estate for new salons as the Company has small or flexible square footage requirements for its salons. The Company's long-term outlook for organic expansion remains strong. The Company has at least one salon in all major cities in the U.S. and has penetrated every viable U.S. market with at least one concept. However, because the Company has a variety of concepts, it can place several of its salons within any given market. The Company plans to continue to expand in North America and the United Kingdom. Refer to Note 3 to the Consolidated Financial Statements for additional information.

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

Salon Site Selection. The Company's salons are located in high-traffic locations, such as: regional shopping malls, strip centers, lifestyle centers, Wal-Mart Supercenters, high-street locations and department stores. The Company is an attractive tenant to landlords due to its financial strength, successful salon operations and international recognition. In evaluating specific locations for both company-owned and franchise salons, the Company seeks conveniently located, visible sites which allow customers adequate parking and quick and easy location access. Various other

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factors are considered in evaluating sites, including area demographics, availability and cost of space, the strength of the major retailers within the area, location and strength of competitors, proximity of other company-owned and franchise salons, traffic volume, signage and other leasehold factors in a given center or area.

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

While same-store sales growth plays an important role in the Company's organic growth strategy, it is not critical to achieving the Company's long-term revenue growth objectives. However, same-store sales growth is important to achieving improved annual operating profit. New salon construction and salon acquisitions (described below) are expected to generate mid to high single-digit annual revenue growth. The trend for the past several years has been declining visitation patterns due to fashion trends and increasing average ticket price resulting in flat to low single-digit same-store sales growth. The Company expects fiscal year 2009 same-store sales growth to be 0.5 to 2.5 percent.

Pricing is a factor in same-store sales growth. The Company actively monitors the prices charged by its competitors in each market and makes every effort to maintain prices which remain competitive with prices of other salons offering similar services. Price increases are considered on a market-by-market basis and are established based on local market conditions. The Company implemented a pricing initiative in fiscal year 2008 that contributed to same-store sales growth.

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

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

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

Recent Salon Additions.

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

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

Salon Closures. The Company evaluates its salon performance on a regular basis. Upon evaluation, the Company may close a salon for operational performance or real estate issues. In either case, the closures generally occur at the end of a lease term and typically do not require

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

During fiscal year 2008, 285 salons were closed, including 180 company-owned salons and 105 franchise salons (excluding 150 franchise buybacks). In July of 2008 (fiscal year 2009), the Company approved a plan to close up to 160 underperforming company-owned salons in fiscal year 2009, the majority of which are expected to occur in the first half of fiscal year 2009. Approximately 100 locations are regional mall based concepts, another 40 locations are strip center concepts and 20 locations are in the United Kingdom. The 160 underperforming company-owned salons expected to close in fiscal year 2009 is in addition to the normal closure activity of salons at the end of a lease term. We expect the normal closure activity of company-owned salons to be approximately 150 to 180 salons.

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

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

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

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

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fiscal years 2008, 2007, and 2006, the percentage of company-owned service revenues attributable to each of these services was as follows:

	2008	2007	2006
Haircutting and styling (including shampooing & conditioning)	72%	72%	72%
Hair coloring	18	18	18
Hair waving	4	4	5
Other	6	6	5
	100%	100%	100%

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

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

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

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

Same-store product sales decreased during the twelve months ended June 30, 2008. The decrease is due to the recent decline in the global economic condition and the continued trend of product diversion and increased appeal of mass hair care lines to the consumer.

Salon Concepts:

The Company's salon concepts focus on providing high quality hair care services and professional products, primarily to the middle consumer market. The Company's North American salon operations consist of 10,273 salons (including 2,163 franchise salons), operating under several concepts, each offering attractive and affordable hair care products and services in the United States, Canada and Puerto Rico. The Company's international salon operations consist of 472 hair care salons located in Europe, primarily in the United Kingdom. Under the table below, the number of new salons expected to be opened within the upcoming fiscal year is discussed. In addition to these openings, the

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

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Salon Development

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

COMPANY-OWNED AND FRANCHISE LOCATION SUMMARY

NORTH AMERICAN SALONS:	2008	2007	2006	2005	2004
REGIS SALONS					
Open at beginning of period	1,099	1,079	1,093	1,085	1,095
Salons constructed	14	17	38	39	33
Acquired	4	49	14	13	4
Less relocations	(11)	(14)	(16)	(14)	(10)
Salon openings	7	52	36	38	27
Conversions	1	(1)	–	(1)	(2)
Salons closed	(29)	(31)	(50)	(29)	(35)
Total, Regis Salons	1,078	1,099	1,079	1,093	1,085
MASTERCUTS					
Open at beginning of period	629	642	636	604	590
Salons constructed	7	15	32	47	34
Acquired	–	–	–	2	3
Less relocations	(6)	(12)	(8)	(13)	(9)

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Salon openings	1	3	24	36	28
Conversions	–	–	(2)	1	1
Salons closed	(15)	(16)	(16)	(5)	(15)
Total, MasterCuts	615	629	642	636	604
TRADE SECRET					
Company-owned salons:					
Open at beginning of period	613	615	597	549	517
Salons constructed	16	20	33	56	26
Acquired	65	3	2	23	12
Franchise buybacks	5	–	5	–	2
Less relocations	(11)	(11)	(6)	(17)	(5)
Salon openings	75	12	34	62	35
Conversions	5	1	1	–	1
Salons closed	(19)	(15)	(17)	(14)	(4)
Total company-owned salons	674	613	615	597	549
Franchise salons:					
Open at beginning of period	19	19	24	24	25

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Salons constructed	2	–	–	–	1
Acquired	93	–	–	–	–
Less relocations	(1)	–	–	–	–
Salon openings	94	–	–	–	1
Franchise buybacks	(5)	–	(5)	–	(2)
Salons closed	(2)	–	–	–	–
Total franchise salons	106	19	19	24	24
Total, Trade Secret	780	632	634	621	573

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NORTH AMERICAN SALONS:	2008	2007	2006	2005	2004
SMARTSTYLE/COST CUTTERS IN WAL-MART					
Company-owned salons:					
Open at beginning of period	2,000	1,739	1,497	1,263	1,033
Salons constructed	207	242	215	194	174
Acquired	–	–	–	–	–
Franchise buybacks	12	21	31	45	61
Less relocations	(3)	(2)	(2)	(1)	–
Salon openings	216	261	244	238	235
Conversions	–	–	1	–	–
Salons closed	(4)	–	(3)	(4)	(5)
Total company-owned salons	2,212	2,000	1,739	1,497	1,263
Franchise salons:					
Open at beginning of period	151	164	184	201	230
Salons constructed	7	8	11	29	33
Salon openings	7	8	11	29	33
Franchise buybacks	(12)	(21)	(31)	(45)	(61)

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Salons closed	–	–	–	(1)	(1)
Total franchise salons	146	151	164	184	201
Total, SmartStyle/Cost Cutters in Wal-Mart	2,358	2,151	1,903	1,681	1,464

STRIP CENTERS

Company-owned salons:					
Open at beginning of period	3,317	3,031	2,728	2,310	1,928
Salons constructed	66	101	180	167	166
Acquired	138	193	122	248	162
Franchise buybacks	133	72	104	94	133
Less relocations	(14)	(17)	(21)	(21)	(8)
Salon openings	323	349	385	488	453
Conversions	(5)	–	(2)	(3)	(8)
Salons closed	(104)	(63)	(80)	(67)	(63)
Total company-owned salons	3,531	3,317	3,031	2,728	2,310
Franchise salons:					
Open at beginning of period	1,998	2,004	2,102	2,105	2,172
Salons constructed	120	135	135	154	146

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Acquired(2)	–	–	–	7	–
Less relocations	(11)	(19)	(18)	(13)	(10)
Salon openings	109	116	117	148	136
Conversions	–	–	2	6	8
Franchise buybacks	(133)	(72)	(104)	(94)	(133)
Salons closed	(63)	(50)	(113)	(63)	(78)
Total franchise salons	1,911	1,998	2,004	2,102	2,105
Total, Strip Centers	5,442	5,315	5,035	4,830	4,415

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

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Salon openings	50	109	111	102	88
Conversions	3	–	2	–	–
Franchise buybacks	–	(4)	(2)	–	(10)
Affiliated joint ventures(3)	(1,587)	–	–	–	–
Salons closed	(40)	(118)	(116)	(104)	(111)
Total franchise salons	–	1,574	1,587	1,592	1,594
Total, International Salons	472	2,055	2,040	2,018	2,010

TOTAL SYSTEM WIDE SALONS

Company-owned salons:					
Open at beginning of period	8,139	7,559	6,977	6,227	5,558
Salons constructed	325	420	531	525	452
Acquired	232	257	148	305	199
Franchise buybacks	150	97	142	139	206
Less relocations	(46)	(59)	(57)	(66)	(32)
Salon openings	661	715	764	903	825
Conversions	2	–	(4)	(6)	(8)
Affiliated joint ventures	(40)	–	–	–	–

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Salons closed	(180)	(135)	(178)	(147)	(148)
Total company-owned salons	8,582	8,139	7,559	6,977	6,227
Franchise salons:					
Open at beginning of period	3,742	3,774	3,902	3,924	4,054
Salons constructed	179	253	257	285	268
Acquired(2)	93	–	–	7	–
Less relocations	(12)	(20)	(18)	(13)	(10)
Salon openings	260	233	239	279	258
Conversions	3	–	4	6	8
Franchise buybacks	(150)	(97)	(142)	(139)	(206)
Affiliated joint ventures	(1,587)	–	–	–	–
Salons closed	(105)	(168)	(229)	(168)	(190)
Total franchise salons	2,163	3,742	3,774	3,902	3,924
Total Salons	10,745	11,881	11,333	10,879	10,151

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

(2) Represents primarily the acquisition of franchise networks.

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

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

Regis Salons. Regis Salons are primarily mall based, full service salons providing complete hair care and beauty services aimed at moderate to upscale, fashion conscious consumers. In recent years, the Company has expanded its Regis Salons into strip centers. As of June 30, 2008, 157 Regis Salons were located in strip centers. The customer mix at Regis Salons is approximately 78 percent women and both appointments and walk-in customers are common. These salons offer a full range of custom styling, cutting, hair coloring and waving services as well as professional hair care products. Service revenues represent approximately 83 percent of the concept's total revenues. The average ticket is approximately $39. Regis Salons compete in their existing markets primarily by emphasizing the high quality of the services provided. Included within the Regis Salons concept are various other trade names, including Carlton Hair, Sassoon, Mia & Maxx Hair Studios, Hair by Stewarts and Heidi's.

The average initial capital investment required for a new Regis Salon is approximately $212,000, excluding average opening inventory costs of approximately $17,500. Average annual salon revenues in a Regis Salon which has been open five years or more are approximately $463,000. During fiscal year 2009, the Company plans to open approximately 20 new Regis Salons.

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

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

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

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

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

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SmartStyle. The SmartStyle salons share many operating characteristics of the Company's other salon concepts; however, they are located exclusively in Wal-Mart Supercenters. SmartStyle has a walk-in customer base, pricing is promotional and services are focused on the family. These salons offer a full range of custom styling, cutting, hair coloring and waving services as well as professional hair care products. The customer mix at SmartStyle Salons is approximately 76 percent women. Professional retail product sales contribute considerably to overall revenues at approximately 34 percent. Additionally, the Company has 146 franchise Cost Cutters salons located in Wal-Mart Supercenters. The average ticket is approximately $19.

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

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

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

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

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

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

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

The average initial capital investment required for a new Promenade Salon is approximately $96,000, excluding average opening inventory costs of approximately $8,000. Average annual salon

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revenues in a Promenade Salon which has been open five years or more are approximately $239,000. During fiscal year 2009, the Company plans to open approximately 20 new Promenade Salons.

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

International Salons. The Company's international salons are comprised of company-owned salons operating in the United Kingdom primarily under the Supercuts, Regis, Trade Secret and Sassoon concepts. These salons offer similar levels of service as the North American salons previously mentioned. However, the initial capital investment required is typically between £135,000 and £145,000 for a Regis salon, between £55,000 and £65,000 for a Supercuts salon and between £130,000 and £140,000 for a Trade Secret salon. Average annual salon revenues for a salon which has been open five years or more are approximately £222,000 in a Regis salon, £200,000 in a Supercuts salon and £503,000 in Trade Secret salon. During fiscal year 2009, the Company plans to open approximately 13 new company-owned international salons. Sassoon is one of the world's most recognized names in hair fashion and appeals to women and men looking for a prestigious full service hair salon. Salons are usually located on prominent high-street locations and offer a full range of custom hairstyling, cutting, coloring and waving, as well as professional hair care products. The initial capital investment required is approximately £450,000. Average annual salon revenues for a salon which has been open five years or more is approximately £900,000. The Company is exploring suitable locations for potential new salons in fiscal year 2009.

Salon Franchising Program:

General. The Company has various franchising programs supporting its 2,163 franchise salons as of June 30, 2008, consisting mainly of Supercuts, Cost Cutters, First Choice Haircutters, Magicuts, and Pro Cuts. These salons have been included in the discussions regarding salon counts and concepts on the preceding pages.

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

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

To further ensure conformity, the Company may enter into the lease for the store site directly with the landlord, and subsequently sublease the site to the franchisee. The franchise agreement and sublease provide the Company with the right to terminate the sublease and gain possession of the store

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if the franchisee fails to comply with the Company's operational policies and procedures. See Note 6 of "Notes to Consolidated Financial Statements" for further information about the Company's commitments and contingencies, including leases.

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

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

Supercuts (North America)

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

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

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

Pro Cuts (North America)

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

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

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Salon Markets and Marketing:

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

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

Salon Education and Training Programs:

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

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

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

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

Salon Staff Recruiting and Retention:

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

Salon Design:

The Company's salons are designed, built and operated in accordance with uniform standards and practices developed by the Company based on its experience. Salon fixtures and equipment are

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generally uniform, allowing the Company to place large orders for these items with cost savings due to the economies of scale.

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

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

Salon Management Information Systems:

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

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

Salon Competition:

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

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

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Hair Restoration Business Strategy:

In December 2004, the Company acquired Hair Club for Men and Women (Hair Club), the largest U.S. provider of hair loss solutions and the only company offering a comprehensive menu of proven hair loss products and services. The Company leverages its strong brand, best-in-class service model and comprehensive menu of hair restoration alternatives to build an increasing base of repeat customers that generate recurring cash flow for the Company. From its traditional non-surgical hair replacement systems, to hair transplants, hair therapies and hair care products and services, Hair Club offers a solution for anyone experiencing or anticipating hair loss. The Company's operations consist of 92 locations (35 franchise) in the United States and Canada. The domestic hair restoration market is estimated to generate over $4 billion annually. The competitive landscape is highly fragmented and comprised of approximately 4,000 locations. Hair Club and its franchisees have the largest market share, with approximately five percent based on customer count.

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

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

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Franchise buybacks	(6)	(1)	(7)
Less Relocations	(2)	(2)	–
Site openings	(6)	–	(7)
Sites closed	–	(1)	–
Total franchise hair restoration centers	35	41	42
Total hair restoration centers	92	90	90

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

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

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the needs of each individual client and educate them on the hair restoration centers' suite of hair loss solutions.

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

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

Currently, all locations offer hair systems, hair therapy and hair care products. Among the hair restoration centers' product offerings are hair transplants. The hair restoration centers employ a hub and spoke strategy for hair transplants. As of June 30, 2008, 17 locations were equipped and staffed to perform the procedure. Currently, a total of 34 hair restoration centers offer this service to their customers. The Company plans to add the capability to conduct hair transplants to more centers in future periods.

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

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

Affiliated Ownership Interests:

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

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

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

The Company maintains a 49.0 percent ownership interest in Intelligent Nutrients, LLC. The investment in Intelligent Nutrients, LLC is for the development of an organic line of products. The organic line of products will be tested in Company owned salons.

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

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Corporate Trademarks:

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

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

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

Corporate Employees:

During fiscal year 2008, the Company had approximately 65,000 full- and part-time employees worldwide, of which approximately 57,000 employees were located in the United States. None of the Company's employees are subject to a collective bargaining agreement and the Company believes that its employee relations are amicable.

Executive Officers:

Information relating to Executive Officers of the Company follows:

Name	Age	Position
Myron Kunin	79	Vice Chairman of the Board of Directors
Paul D. Finkelstein	66	Chairman of the Board of Directors, President and Chief Executive Officer
Randy L. Pearce	53	Senior Executive Vice President, Chief Financial and Administrative Officer
Kris Bergly	47	Executive Vice President and Corporate Chief Operating Officer, Regis Salons, Promenade Salon Concepts, MasterCuts and Supercuts
Bruce Johnson	55	Executive Vice President, Design and Construction
Mark Kartarik	52	Executive Vice President, Regis Corporation and President, Franchise Division

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Norma Knudsen	50	Executive Vice President, Merchandising, Chief Operating Officer, Trade Secret
Gordon Nelson	57	Executive Vice President, Fashion, Education and Marketing
Eric A. Bakken	41	Senior Vice President, General Counsel and Secretary

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

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

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

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

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

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

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

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

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

Corporate Community Involvement:

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

Governmental Regulations:

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

In the United States, the Company's franchise operations are subject to the Federal Trade Commission's Trade Regulation Rule on Franchising (the FTC Rule) and by state laws and

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

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

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

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

(d) Financial Information about Foreign and North American Operations

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

(e) Available Information

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

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

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Item 1A. Risk Factors

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

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

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

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

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

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

Changes in fashion trends may impact our revenue.

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

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

With approximately 13,550 locations and 65,000 employees worldwide, our financial results can be adversely impacted by regulatory or statutory changes in laws. Due to the number of people we employ, laws that increase minimum wage rates or increase costs to provide employee benefits may result in additional costs to our company. Compliance with new, complex and changing laws may cause our expenses to increase. In addition, any non-compliance with these laws could result in fines, product recalls and enforcement actions or otherwise restrict our ability to market certain products, which could adversely affect our business, financial condition and results of operations. We are also subject to laws that affect the franchisor-franchisee relationship.

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

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

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

We have entered into joint venture arrangements with other companies in the hair salon and beauty school businesses in order to maintain and expand our operations in the United States, Asia and continental Europe. If our joint venture partners are unwilling or unable to devote their financial

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resources or marketing and operational capabilities to our joint venture businesses, or if any of our joint ventures are terminated, we may not be able to realize anticipated revenues and profits in the countries where our joint ventures operate and our business could be materially adversely affected. If our joint venture arrangements are not successful, we may have a limited ability to terminate or modify these arrangements. If any of our joint ventures are terminated, there can be no assurance that we will be able to attract new joint venture partners to continue the activities of the terminated joint venture or to operate independently in the countries in which the terminated joint venture conducted business.

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

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

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

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

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

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

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

Changes in interest rates will have an impact on our expected results from operations. Currently, we manage the risk related to fluctuations in interest rates through the use of variable rate debt instruments and other financial instruments. During fiscal year 2008, the National Association of Insurance Commissioners downgraded Regis' private placement debt from investment-grade private placement to non-investment grade. The downgrade does not have any immediate effect on the private placement debt outstanding and corresponding interest rate as of June 30, 2008. Any future non-investment grade private placement debt would result in a substantially higher interest rate. The downgrade has no impact on the Company's current revolving credit facility or its ability to secure future bank borrowings. See discussion in Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," for additional information.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

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

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

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

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

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

Item 3. Legal Proceedings

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

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

None.

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PART II

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

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

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

The accompanying table sets forth the high and low closing bid quotations for each quarter during fiscal years 2008 and 2007 as reported by the New York Stock Exchange (under the symbol "RGS"). The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not necessarily represent actual transactions.

As of August 20, 2008, Regis shares were owned by approximately 21,900 shareholders based on the number of record holders and an estimate of individual participants in security position listings. The common stock price was $28.62 per share on August 20, 2008.

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

The Company paid quarterly dividends of $0.04 per share in fiscal years 2008 and 2007. The Company expects to continue paying regular quarterly dividends for the foreseeable future.

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

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

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

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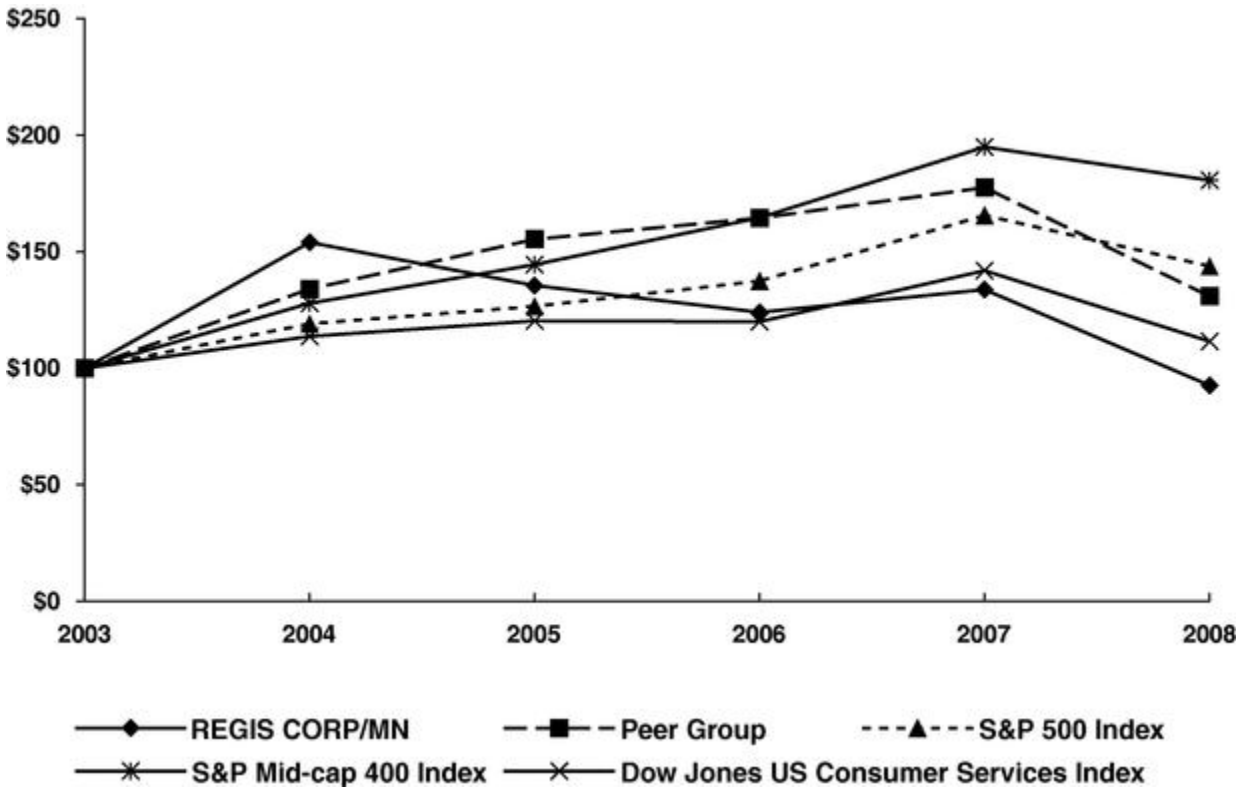
The comparison assumes the initial investment of $100 in the Company's Common Stock, the S&P 500 Index, the Peer Group, the S&P 400 Midcap Index and the Dow Jones Consumer Services Index on June 30, 2003 and those dividends, if any, were reinvested.

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



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

(b) Share Repurchase Program

In May 2000, the Company's Board of Directors (BOD) approved a stock repurchase program. Originally, the program authorized up to $50.0 million to be expended for the repurchase of the Company's stock. The BOD elected to increase this maximum to $100.0 million in August 2003, to $200.0 million on May 3, 2005, and to $300.0 million on April 26, 2007. The timing and amounts of any repurchases will depend on many factors, including the market price of the common stock and overall market conditions. Historically, the repurchases to date have been made primarily to eliminate the dilutive effect of shares issued in conjunction with acquisitions, restricted stock grants and stock

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option exercises. All repurchased shares become authorized but unissued shares of the Company. This repurchase program has no stated expiration date. As of June 30, 2008, 2007, and 2006, a total accumulated 6.8, 5.1, and 3.0 million shares have been repurchased for $226.5, $176.5, and

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$96.8 million, respectively. As of June 30, 2008, $73.5 million remains to be spent on share repurchases under this program.

The Company did not repurchase any of its common stock through its share repurchase program during the three months ended June 30, 2008.

CEO and CFO Certifications

The certifications by our chief executive officer and chief financial officer required under Section 302 of the Sarbanes-Oxley Act of 2002, have been filed as exhibits to this Annual Report on Form 10-K. Our CEO's annual certification pursuant to NYSE Corporate Governance Standards Section 303A.12(a) that our CEO was not aware of any violation by the company of the NYSE's Corporate Governance listing standards was submitted to the NYSE on October 30, 2007.

Item 6. Selected Financial Data

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

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

a) Revenues from salons, schools or hair restorations centers acquired each year were $132.3, $108.0, $165.7, $181.2, and $122.3 million during fiscal years 2008, 2007, 2006, 2005, and 2004, respectively. Revenues from the 51 accredited cosmetology schools contributed to Empire Education Group, Inc. on August 1, 2007 were $5.6, $68.5, $48.2, $18.2 and $1.0 million in fiscal years 2008, 2007, 2006, 2005 and 2004, respectively. Revenues from the deconsolidated European franchise salon operations were $36.2, $57.0, $52.7, $55.1 and $47.3 million in fiscal years 2008, 2007, 2006, 2005 and 2004, respectively.

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

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Operating (loss) income from the 51 accredited cosmetology schools contributed to Empire Education Group, Inc. on August 1, 2007 was ($0.3), ($18.6), $2.3, $2.5 and $0.1 million in fiscal years 2008, 2007, 2006, 2005 and 2004, respectively. Operating (loss) income from the deconsolidated European franchise salon operations was $5.1, $7.5, $4.8, ($31.0) and $6.7 million in fiscal years 2008, 2007, 2006, 2005 and 2004, respectively.

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

A net settlement gain of $33.7 million ($21.7 million net of tax) was recognized during fiscal year 2006 stemming from a termination fee collected from Alberto-Culver Company due to the

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terminated merger agreement for Sally Beauty Company. The termination fee gain is net of direct transaction-related expenses associated with the terminated merger agreement.

Adjustments were recorded in fiscal years 2008, 2007, 2006 and 2005 related to a change in estimate of the Company's self-insurance accruals, primarily prior years' workers' compensation claims reserves, due to the continued improvement of our safety and return-to-work programs over the recent years as well as changes in state laws. Site operating expenses decreased by $7.1 million ($4.3 million net of tax), $10.2 million ($6.7 million net of tax), and $2.3 million ($1.3 million net of tax) in fiscal years 2008, 2007, and 2005, respectively, and increased by $1.0 million ($0.6 million net of tax) in fiscal year 2006 as a result in the change in estimate.

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

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

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

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

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

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

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

Management's Overview

Critical Accounting Policies

Overview of Fiscal Year 2008 Results

Results of Operations

Liquidity and Capital Resources

MANAGEMENT'S OVERVIEW

Regis Corporation (RGS) owns or franchises beauty salons and hair restoration centers. As of June 30, 2008, we owned, franchised or held ownership interests in over 13,550 worldwide locations. Our locations consisted of 10,745 system wide North American and international salons, 92 hair restoration centers, and 2,714 locations in which we maintain an ownership interest less than 100 percent. Our salon concepts offer generally similar products and services and serve mass market consumers. Our salon operations are organized to be managed based on geographical location. Our North American salon operations include 10,273 salons, including 2,163 franchise salons, operating in the United States, Canada and Puerto Rico primarily under the trade names of Regis Salons, MasterCuts, Trade Secret, SmartStyle, Supercuts and Cost Cutters. Our international salon operations include 472 salons located in Europe, primarily in the United Kingdom. Hair Club for Men and Women includes 92 North American locations, including 35 franchise locations. During fiscal year 2008, we had approximately 65,000 corporate employees worldwide.

Our growth strategy consists of two primary, but flexible, components. Through a combination of organic and acquisition growth, we seek to achieve our long-term objective of six to ten percent annual revenue growth. We anticipate that going forward, the mix of organic and acquisition growth will be roughly equal. However, depending on several factors, including the ability of our salon development program to keep pace with the availability of real estate for new construction, hair restoration lead generation, the availability of attractive acquisition candidates and same-store sales trends, this mix will vary from year to year. We believe achieving revenue growth of four to six percent, including same-store sales increases of 0.5 to 2.5 percent, will allow us to increase annual earnings at a mid to high single-digit growth rate. We anticipate expanding our presence in North America and the United Kingdom. In addition we anticipate our joint venture partners to continue to expand.

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

Salon Business

The strength of our salon business is in the fundamental similarity and broad appeal of our salon concepts that allow flexibility and multiple salon concept placements in shopping centers and neighborhoods. Each concept generally targets the middle market customer, however, each attracts a different demographic. Aside from the 160 store closings of our underperforming salons, we anticipate expanding all of our salon concepts. When commercial opportunities arise, we anticipate testing and developing new salon concepts to complement our

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existing concepts. An example of this would be the introduction of our new men's concept, RAZE, introduced in Minnetonka, MN during August 2008.

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We execute our salon growth strategy by focusing on real estate. Our salon real estate strategy is to add new units in convenient locations with good visibility and customer traffic, as well as appropriate trade demographics. Our various salon and product concepts operate in a wide range of retailing environments, including regional shopping malls, strip centers and Wal-Mart Supercenters. We believe that the availability of real estate will augment our ability to achieve the aforementioned long-term growth objectives. In fiscal year 2009, our outlook for constructed salons will be between 175 and 200 units, and we expect to add between 350 and 370 net locations through a combination of organic, acquisition and franchise growth. Our long-term outlook anticipates that we will add between 800 to 1,000 net locations each year through a combination of organic, acquisition and franchise growth. Capital expenditures in fiscal year 2009, excluding acquisition expenditures budgeted at $75.0 million, are projected to be approximately $95 million, which includes approximately $50 million for salon maintenance.

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

Historically, our salon acquisitions have varied in size from as small as one salon to over one thousand salons. The median acquisition size is approximately ten salons. From fiscal year 1994 to fiscal year 2008, we acquired 7,926 salons, net of franchise buybacks. We anticipate adding several hundred company-owned salons each year from acquisitions. Some of these acquisitions may include buying salons from our franchisees.

Hair Restoration Business

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

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

CRITICAL ACCOUNTING POLICIES

The Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the Consolidated Financial Statements, we are required to make various judgments, estimates and assumptions that could have a significant impact on the results reported in the Consolidated Financial Statements. We base these estimates on historical experience and other assumptions believed to be reasonable under the

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circumstances. Estimates are considered to be critical if they meet both of the following criteria: (1) the estimate requires assumptions about material matters that are uncertain at the time the accounting estimates are made, and (2) other materially different estimates could have been reasonably made or material changes in the estimates are reasonably likely to occur from period to period. Changes in these estimates could have a material effect on our Consolidated Financial Statements.

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

Cost of Product and Services Used and Sold

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

Goodwill

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

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

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

The performance challenges and necessary investments in information technology platforms and management that were required to effectively operate our beauty schools led us to exploring strategic alternatives pertaining to our beauty school operating segment. On August 1, 2007 (fiscal year 2008), we merged our 51 accredited cosmetology schools into EEG, creating the largest beauty school operator in North America. This transaction leveraged EEG's management expertise, while enabling us to maintain a vested interest in the beauty school industry. During the three months ended March 31, 2007, the terms of the transaction indicated that the estimated fair value of the accredited cosmetology

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schools was less than the current carrying value of this reporting unit's net assets, including goodwill. Thus, a $23.0 million pre-tax ($19.6 million after tax), non-cash impairment loss was recorded during the three months ended March 31, 2007.

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

Long-Lived Assets, Excluding Goodwill

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

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

During fiscal years 2008, 2007 and 2006, $10.5, $6.8, and $8.4 million ($6.4, $4.5 and $5.4 million net of tax, respectively) of impairment was recorded within depreciation and amortization in the Consolidated Statement of Operations. In July 2008, we approved a plan to close up to 160 underperforming company-owned salons in fiscal year 2009. We also evaluated the appropriateness of the remaining useful lives of its affected property and equipment and whether a change to the depreciation charge was warranted. Impairment charges are included in depreciation related to company-owned salons in the Consolidated Statement of Operations.

Purchase Price Allocation

We make numerous acquisitions. The purchase prices are allocated to assets acquired, including identifiable intangible assets, and liabilities assumed based on their estimated fair values at the dates of acquisition. Fair value is estimated based on the amount for which the asset or liability could be bought or sold in a current transaction between willing parties. For our acquisitions, the majority of the purchase price that is not allocated to identifiable assets, or liabilities assumed, is accounted for as residual goodwill rather than identifiable intangible assets. This stems from the value associated with the walk-in customer base of the acquired salons, the value of which is not recorded as an identifiable intangible asset under current accounting guidance and the limited value of the acquired leased site and customer preference associated with the acquired hair salon brand. Residual goodwill further represents our opportunity to strategically combine the acquired business with our existing structure to serve a greater number of customers through our expansion strategies. Identifiable intangible assets purchased in fiscal year 2008, 2007 and 2006 acquisitions totaled $16.1, $4.5, and $17.3 million,

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respectively. The residual goodwill generated by fiscal year 2008, 2007, and 2006 acquisitions totaled $16.1, $50.8, and $127.3 million, respectively.

Self-insurance Accruals

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

Income Taxes

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

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

In addition, the calculation of tax liabilities involves dealing with uncertainties in the application of complex tax regulations. Management recognizes potential liabilities for anticipated tax audit issues in the United States and other tax jurisdictions based on our estimate of whether and the extent to which additional taxes will be due. If payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary. If our estimate of tax liabilities proves to be less than the ultimate assessment, a further charge to expense would result. In the United States, fiscal years 2005 and after remain open for federal tax audit. For state tax audits, the statute of limitations generally spans three to four years, resulting in a number of states remaining open for tax audits dating back to fiscal year 2004. However, the company is under audit in a number of states in which the statute of limitations has been extended to fiscal years 2000 and forward. Internationally (including Canada), the statute of limitations for tax audits varies by jurisdiction, but generally ranges from three to five years.

We adopted the provisions of FASB Interpretation ("FIN") No. 48, *Accounting for Uncertainty in Income Taxes–an Interpretation of FASB Statement No. 109*, effective July 1, 2007. FIN No. 48 provides guidance regarding the recognition, measurement, presentation, and disclosure in the financial statements of tax positions taken or expected to be taken on a tax return, including the decision whether to file or not to file in a particular jurisdiction. As a result of the adoption of FIN No. 48, effective July 1, 2007, the Company recognized a $20.7 million increase in the liability for unrecognized

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income tax benefits, including interest and penalties. As of June 30, 2008 the Company's unrecognized income tax benefits were $27.6 million. See Note 8, to the Consolidated Financial Statements, for further information.

Stock-based Compensation Expense

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

Contingencies

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

OVERVIEW OF FISCAL YEAR 2008 RESULTS

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

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

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

Total debt at the end of the fiscal year was $764.7 million and our debt-to-capitalization ratio, calculated as total debt as a percentage of total debt and shareholders' equity at fiscal year end, increased 20 basis points to 43.9 percent as compared to June 30, 2007.

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

The effective income tax rate was adversely impacted by $3.0 million tax charge, of which $1.3 million was recorded through income tax expense and $1.7 million was recorded through other comprehensive income. primarily associated with repatriating approximately $30.0 million of cash previously considered to be indefinitely reinvested outside of the United States, which caused a 1.0 percent increase in the rate. The joint venture partnership with Franck Provost Group resulted in higher overall taxes being paid by Regis due to Regis' income being subject to higher overall tax rates. In addition, Texas passed a new gross margins tax which, together with a

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number of states' tax initiatives, negatively affected the tax rate by 1.9 percent. These events were partially offset by Work Opportunity and Welfare-to-Work Tax Credits earned during the fiscal year, which caused a 2.0 percent decrease in the rate.

Site operating expenses were positively impacted by a $7.1 million ($4.3 million net of tax) change in estimate of the Company's self-insurance accruals, primarily workers' compensation, due to the continued improvement of our safety and return-to-work programs over the recent years as well as changes in state laws.

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

RESULTS OF OPERATIONS

Consolidated Results of Operations

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

Results of Operations as a Percent of Revenues

	For the Years Ended June 30,		
	2008	2007	2006
Service revenues	69.2%	68.3%	67.2%
Product revenues	28.3	28.6	29.6
Royalties and fees	2.5	3.1	3.2
Operating expenses:			
Cost of service(1)	57.6	56.6	56.8
Cost of product(2)	51.0	50.6	51.6
Site operating expenses	7.4	7.9	8.2
General and administrative	12.3	12.5	12.1
Rent	14.8	14.6	14.4

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Depreciation and amortization	4.8	4.7	4.8
Goodwill impairment	0.0	0.9	0.0
Terminated acquisition income, net	0.0	0.0	(1.4)
Operating income	6.4	6.3	8.4
Income before income taxes	5.0	4.9	7.0
Net income	3.1	3.2	4.5

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

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

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Consolidated Revenues

Consolidated revenues primarily include revenues of company-owned salons, product and equipment sales to franchisees, hair restoration center revenues, and franchise royalties and fees. As compared to the prior fiscal year, consolidated revenues increased 4.3 percent to $2.7 billion during fiscal year 2008 and 8.1 percent to $2.6 billion during fiscal year 2007. The following table details our consolidated revenues by concept. All service revenues, product revenues (which include product and equipment sales to franchisees), and franchise royalties and fees are included within their respective concept within the table.

	For the Years Ended June 30,		
	2008	2007	2006
	(Dollars in thousands)		
North American salons:			
Regis	$ 513,820	$ 498,577	$ 481,760
MasterCuts	175,974	174,287	174,674
Trade Secret(1)	257,873	253,250	262,862
SmartStyle	507,349	462,321	413,907
Strip Center(1)	886,646	776,995	703,345
Other(3)	5,558	–	–
Total North American Salons	2,347,220	2,165,430	2,036,548
International salons(1)(2)	256,063	253,430	220,662
Beauty schools(3)	–	85,627	63,952
Hair restoration centers(1)	135,582	122,101	109,702
Consolidated revenues	$2,738,865	$2,626,588	$2,430,864
Percent change from prior year	4.3%	8.1%	10.8%

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Salon same-store sales increase(4)	0.5%	0.2%	0.4%

(1) Includes aggregate franchise royalties and fees of $68.6, $80.5, and $77.9 million in fiscal years 2008, 2007, and 2006, respectively. North American salon franchise royalties and fees represented 59.2, 48.2, and 50.4 percent of total franchise revenues in fiscal years 2008, 2007, and 2006, respectively. The decrease in aggregate franchise royalties and fees and the increase in North American salon franchise royalties and fees as a percent of total revenues for fiscal year 2008 is a result of the deconsolidation of the Company's European franchise salon operations.

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

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

(4) Same-store sales increases or decreases are calculated on a daily basis as the total change in sales for company-owned locations which were open on a specific day of the week during the current period and the corresponding prior period. Annual same-store sales increases are the sum of the same-store sales increases computed on a daily basis. Relocated locations are included in

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

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

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

We acquired 475 company-owned salons (including 150 franchise buybacks), and bought back 6 hair restoration centers from franchisees during fiscal year 2008 compared to 354 company-owned salons (including 97 franchise buybacks), one beauty school and two company-owned hair restoration centers (including one franchise buyback) during fiscal year 2007. The organic growth stemmed primarily from the construction of 325 and 420 company-owned salons during the twelve months ended June 30, 2008 and 2007, respectively, as well as consolidated same-store sales increases. Franchise revenues decreased primarily due to the merger of our 1,587 continental Europe franchise salons with Franck Provost Salon Group on January 31, 2008. We closed 285 and 303 salons (including 105 and 168 franchise salons) during the twelve months ended June 30, 2008 and 2007, respectively. The decrease in closed salons as a percent of revenues was primarily due to the 51 accredited cosmetology schools contributed to Empire Education Group, Inc. on August 1, 2007.

We acquired 354 company-owned salons (including 97 franchise buybacks), one beauty school and two company-owned hair restoration centers (including one franchise buyback) during fiscal year 2007 compared to 290 company-owned salons (including 142 franchise buybacks), 30 beauty schools and eight company-owned hair restoration centers (including seven franchise buybacks) during fiscal year 2006. The organic growth stemmed primarily from the construction of 420 and 531 company-owned salons during the twelve months ended June 30, 2007 and 2006, respectively, as well as consolidated same-store sales increases. We closed 303 and 407 salons (including 168 and 229 franchise salons) during the twelve months ended June 30, 2007 and 2006, respectively.

During fiscal years 2008 and 2007, the foreign currency impact was driven by the continued weakening of the United States dollar against the Canadian dollar, British pound, and Euro as compared to the prior fiscal year's exchange rates. During fiscal year 2006, the foreign

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

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Consolidated revenues are primarily composed of service and product revenues, as well as franchise royalties and fees. Fluctuations in these three major revenue categories were as follows:

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

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

The growth in service revenues during fiscal year 2008 was driven by acquisitions and new salon construction (a component of organic growth). Service revenue growth was driven by a consolidated same-store service sales increase of 2.0 percent during the twelve months ended June 30, 2008 as a result of price increases. Growth was negatively impacted as a result of the deconsolidation of our 51 accredited cosmetology schools to Empire Education Group, Inc. on August 31, 2007.

The growth in service revenues during fiscal year 2007 was driven primarily by acquisitions and new salon construction (a component of organic growth). Consolidated same-store service sales increased 1.0 percent during the twelve months ended June 30, 2007. Additionally, hair restoration service revenues contributed to the increase in consolidated service revenues during the twelve months ended June 30, 2007 due to strong recurring and new customer revenues and increases in hair transplant management fees. Same-store sales were negatively impacted by the sustained long-hair trend, as customer visitation patterns continued to be modest related to the fashion trend towards longer hairstyles.

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

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

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

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The growth in product revenues during fiscal year 2008 was primarily due to acquisitions, offset by same-store product sales decrease of 3.1 percent during the twelve months ended June 30, 2008. This decrease is due to the recent decline in the global economic condition and the continued trend of product diversion and increased appeal of mass hair care lines by the consumer.

The growth in product revenues during fiscal year 2007 was primarily due to acquisitions. Growth was not as robust compared to the prior fiscal year due to a same-store product sales decrease of 1.8 percent during the twelve months ended June 30, 2007, related to product diversion, reduced promotions and increased appeal of mass retail hair care lines by the consumer.

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

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

Years Ended June 30,	Revenues	Increase (Decrease) Over Prior Fiscal Year	
		Dollar	Percentage
	(Dollars in thousands)		
2008	$ 68,628	$(11,878)	(14.8)%
2007	80,506	2,612	3.4
2006	77,894	(1,644)	(2.1)

Total franchise locations open at June 30, 2008 and 2007 were 2,198 (including 35 franchise hair restoration centers) and 3,783 (including 41 franchise hair restoration centers). The decrease in consolidated franchise revenues during fiscal year 2008 was primarily due to the merger of the 1,587 European franchise salon operations with Franck Provost Salon Group on January 31, 2008. The decrease in consolidated franchise revenues during fiscal year 2008 was partially offset due to the weakening of the United States dollar against the Canadian dollar, British pound and Euro as compared to the exchange rates for fiscal year 2007.

Total franchise locations open at June 30, 2007 and 2006 were 3,783 (including 41 franchise hair restoration centers) and 3,816 (including 42 franchise hair restoration centers). We purchased 97 of our franchise salons during the twelve months ended June 30, 2007 compared to 142 during the twelve months ended June 30, 2006, which drove the overall decrease in the number of franchise salons between periods. The increase in consolidated franchise revenues during fiscal year 2007 was primarily due to the weakening of the United States dollar against the Canadian dollar, British pound and Euro as compared to the exchange rates for fiscal year 2006, partially offset by a decreased number of franchise salons, as discussed above.

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

Gross Margin (Excluding Depreciation)

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

Years Ended June 30,	Gross Margin	Margin as % of Service and Product Revenues	Increase (Decrease) Over Prior Fiscal Year		
			Dollar	Percentage	Basis Point(1)
	(Dollars in thousands)				
2008	$1,183,548	44.3%	$ 32,739	2.8%	(90)

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2007	1,150,809	45.2	97,372	9.2	40
2006	1,053,437	44.8	110,766	11.8	20

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

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

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

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

The basis point decrease in service margins as a percent of service revenues during fiscal year 2008 was primarily due to the absence of the beauty school segment service revenue from consolidated service revenues, which accounted for 40 of the total 100 basis point decrease. The decrease was also due to a change made during the first fiscal quarter as a result of refinements made to our inventory tracking systems. The refinements resulted in better tracking and accounting for retail products that our salon stylists transfer from retail shelves to the back bar for use in servicing customers. The cost of these products had historically been included as a component of our product gross margin, whereas they are now more appropriately included in our service margin. For the twelve months ended June 30, 2008, the reclassification accounted for approximately 30 basis points of the total 100 basis point decrease and had no impact on total gross margin. During fiscal year 2009, we are forecasting service margins to be in the low 42 percent range of service revenues.

The basis point improvement in service margins as a percent of service revenues during fiscal year 2007 was primarily due to a same-store service sales increase of 1.0 percent during the twelve months ended June 30, 2007 compared to 0.6 percent during the twelve months ended June 30, 2006. The improvement was also due to increased tuition in the schools segment, increased hair restoration service revenues due to strong recurring and new customer revenues and increases in hair transplant management fees and the continued focus on management of salon payroll costs.

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

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

Years Ended June 30,	Product Margin	Margin as % of Product Revenues	Increase (Decrease) Over Prior Fiscal Year		
			Dollar	Percentage	Basis Point(1)
	(Dollars in thousands)				
2008	$380,001	49.0%	$ 8,213	2.2%	(40)

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2007	371,788	49.4	23,864	6.9	100
2006	347,924	48.4	35,140	11.2	20

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

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

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

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

Site Operating Expenses

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

Years Ended June 30,	Site Operating	Expense as % of Consolidated Revenues	Increase (Decrease) Over Prior Fiscal Year		
			Dollar	Percentage	Basis Point(1)
	(Dollars in thousands)				
2008	$204,001	7.4%	$ (4,100)	(2.0)%	(50)
2007	208,101	7.9	8,499	4.3	(30)
2006	199,602	8.2	16,546	9.0	(10)

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

The basis point improvement in site operating expenses as a percent of consolidated revenues during fiscal year 2008 was primarily due to a decrease in workers' compensation expense due to a continued reduction in the frequency and severity of injury claims from our successful salon safety programs. During fiscal year 2009, we are forecasting site operating expenses be in the high seven percent range of consolidated revenue.

The basis point improvement in site operating expenses as a percent of consolidated revenues during fiscal year 2007 was primarily due to an actuarial reduction in insurance claims reserves, primarily workers' compensation, as a result of the continued improvement of our safety and return-to-work programs over the recent years, as well as changes in state laws, providing an additional benefit of $10.2 million ($6.7 million net of tax) during fiscal year 2007. The basis point improvement in site operating expenses as a percent of consolidated revenues during fiscal year 2006 was primarily due to reduced workers' compensation insurance-related costs stemming from decreased claims activity.

General and Administrative

General and administrative (G&A) includes costs associated with our field supervision, salon training and promotions, product distribution centers and corporate offices (such as salaries and

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professional fees), including costs incurred to support franchise and hair restoration center operations. G&A expenses were as follows:

Years Ended June 30,	G&A	Expense as % of Consolidated Revenues	Increase (Decrease) Over Prior Fiscal Year		
			Dollar	Percentage	Basis Point(1)
	(Dollars in thousands)				
2008	$337,160	12.3%	$ 8,516	2.6%	(20)
2007	328,644	12.5	34,552	11.7	40
2006	294,092	12.1	33,885	13.0	20

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

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

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

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

Rent

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

Years Ended June 30,	Rent	Expense as % of Consolidated Revenues	Increase Over Prior Fiscal Year		
			Dollar	Percentage	Basis Point(1)
	(Dollars in thousands)				
2008	$406,270	14.8%	$23,450	6.1%	20

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2007	382,820	14.6	31,894	9.1	20
2006	350,926	14.4	39,942	12.8	20

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

The basis point increase in rent expense as a percent of consolidated revenues during fiscal year 2008 was primarily due to rent expense increasing at a faster rate than location same-store sales and the deconsolidation of the schools and European franchise salon operations, offset by recent salon acquisitions having a lower occupancy cost. During fiscal year 2009, we are forecasting rent expense as a percent of consolidated revenues to be approximately 15 percent of consolidated revenues, excluding the impact of closing 160 stores. We expect to record an additional $15.0 million to $20.0 million of lease termination costs in fiscal year 2009 related to the 160 underperforming Company-owned salons that the Company has approved to close in fiscal year 2009.

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

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

Depreciation and Amortization

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

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

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

The basis point increase in D&A as a percent of consolidated revenues during fiscal year 2008 was primarily due to higher salon impairment charges in fiscal year 2008 related to the Company's decision to close 160 underperforming salons in fiscal year 2009, when compared to salon impairment charges in fiscal year 2007. Impairment charges of $10.5 million ($6.4 million net of tax) were recorded during fiscal 2008 related to the impairment of property and equipment at underperforming locations. The majority of closings are expected to occur in the first half of fiscal year 2009. The decision to close the underperforming stores was the result of a comprehensive review of our salon portfolio, further continuing our initiative to enhance profitability. During fiscal year 2009, we are forecasting D&A to be in the mid four percent range of consolidated revenue.

The basis point improvement in D&A for fiscal year 2007 relates primarily to lower salon impairment charges in fiscal year 2007 when compared to salon impairment charges in fiscal year 2006. Impairment charges of $6.8 million ($4.3 million net of tax) were recorded during fiscal 2007 related to the impairment of property and equipment at underperforming locations.

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

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Goodwill Impairment

Goodwill impairment was as follows:

Years Ended June 30,	Goodwill Impairment	Expense as % of Consolidated Revenues	Increase (Decrease) Over Prior Fiscal Year		
			Dollar	Percentage	Basis Point(1)
	(Dollars in thousands)				
2008	$ –	–%	$(23,000)	–%	–
2007	23,000	0.9	23,000	–	90
2006	–	–	–	–	–

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

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

Terminated Acquisition Income, net

Terminated acquisition income, net was as follows:

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

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

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

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Interest

Interest expense was as follows:

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

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

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Interest as a percent of consolidated revenues during the twelve months ended June 30, 2008 was consistent with the twelve months ended June 30, 2007. During fiscal year 2009, we expect interest expense to decrease to approximately $41 million.

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

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

Income Taxes

Our reported effective tax rate was as follows:

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

The basis point increase in our overall effective income tax rate for the fiscal year ended June 30, 2008 is primarily the result of the shift in income from low to high tax jurisdictions as a result of the merger of European franchise salon operations with the Franck Provost Salon Group. As a result of the merger with the Franck Provost Salon Group, the Company repatriated approximately $30 million cash previously considered to be indefinitely reinvested outside of the United States. In addition, certain costs related to the transaction were not deductible for tax purposes. The combined effect of these items caused an increase in the tax rate of 2.1%. In addition, Texas and other states introduced new taxes or restrictive rules. The combined effect of these new taxes, together with other adjustments, caused an increase in the tax rate of 1.9%. During fiscal year 2009, we are forecasting the effective tax rate to be approximately 37.8 percent.

The basis point improvement in our overall effective income tax rate for the fiscal year ended June 30, 2007 was primarily due to the tax benefit received during the three months ended December 31, 2006 related to the retroactive reinstatement to January 1, 2006 of the Work Opportunity and Welfare-to-Work Tax Credits. The basis point improvement was also due to increases in international income subject to tax in lower tax foreign jurisdictions, partially offset by the pre-tax, non-cash goodwill impairment charge of $23.0 million ($19.6 million net of tax) recorded during the three months ended March 31, 2007. The majority of the impairment charge was not deductible for tax purposes.

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

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2005, respectively. On May 26, 2007, President Bush signed into law the Small Business and Work Opportunity Tax Act of 2007. Whereas under the Tax Relief and Health Care Act of 2006 the Work Opportunity and Welfare-to-Work Tax Credits were to expire on December 31, 2007, this Act enhances and extends the credits to September 1, 2011.

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

Recent Accounting Pronouncements

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

Effects of Inflation

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

Constant Currency Presentation

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

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

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

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

Results of Operations by Segment

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

North American Salons

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

		Increase Over Prior Fiscal Year		
Years Ended June 30,	Revenues	Dollar	Percentage	Same-Store Sales Increase
		(Dollars in thousands)		
2008	$2,347,220	$181,790	8.4%	0.7%
2007	2,165,430	128,882	6.3	0.1
2006	2,036,548	162,337	8.7	0.7

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

	Percentage Increase (Decrease) in Revenues

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

We acquired 357 North American salons during the twelve months ended June 30, 2008, including 150 franchise buybacks. The organic growth was due primarily to the construction of 310 company-owned salons in North America during the twelve months ended June 30, 2008, and a same-store sales increase of 0.7 percent during the twelve months ended June 30, 2008. The Company experienced the largest comparable increase in same-store service sales in eight years during the third and fourth quarter of fiscal year 2008, 3.8 percent and 3.3 percent, respectively. The foreign currency impact during fiscal year 2008 was driven by the weakening of the United States dollar against the Canadian dollar as compared to the exchange rate for fiscal year 2007.

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We acquired 338 North American salons during the twelve months ended June 30, 2007, including 93 franchise buybacks. The organic growth was due primarily to the construction of 395 company-owned salons in North America during the twelve months ended June 30, 2007, partially offset by a lower same-store sales increase of 0.1 percent during the twelve months ended June 30, 2007 as compared to 0.7 percent during the twelve months ended June 30, 2006. The foreign currency impact during fiscal year 2007 was driven by the weakening of the United States dollar against the Canadian dollar as compared to the exchange rate for fiscal year 2006.

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

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

Years Ended June 30,	Operating Income	Operating Income as % of Total Revenues	Increase (Decrease) Over Prior Fiscal Year		
			Dollar	Percentage	Basis Point(1)
	(Dollars in thousands)				
2008	$286,812	12.2%	$ 4,314	1.5%	(80)
2007	282,498	13.0	25,937	10.1	40
2006	256,561	12.6	8,481	3.4	(60)

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

The basis point decrease in North American salon operating income as a percent of North American salon revenues during fiscal year 2008 was primarily due to reduced retail product margins, largely the result of recent salon acquisitions which have lower product margins and negative payroll leverage at our Trade Secret salons. Additionally, depreciation and amortization expenses increased as a percent of North American salon revenues due to impairment losses on the disposal of property and equipment stemming from salon closures. In July 2008 (fiscal year 2009), we approved a plan to close up to 160 underperforming company-owned salon locations in fiscal year 2009 prior to the lease end date in order to enhance overall profitability, which resulted in impairment charges of $10.5 million. These declines were offset by a decrease in workers' compensation expense due to a continued reduction in the frequency and severity of injury claims from our successful salon safety programs.

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

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

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during fiscal year 2006 and lower same-store sales volumes during recent fiscal years also contributed to the increase in depreciation and amortization expenses during fiscal year 2006.

International Salons

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

Years Ended June 30,	Revenues	Increase (Decrease) Over Prior Fiscal Year		Same-Store Sales (Decrease)
		Dollar	Percentage	
		(Dollars in thousands)		
2008	$256,063	$ 2,633	1.0%	(4.3)%
2007	253,430	32,768	14.8	(0.6)
2006	220,662	(6,122)	(2.7)	(3.0)

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

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

We acquired 25 international salons during the twelve months ended June 30, 2008, none of which were franchise buybacks. The decrease in organic growth was due to a decrease of same-store sales of 4.3 percent for the twelve months ended June 30, 2008 and due an additional week in the fiscal year 2007 reporting period as compared to the fiscal year 2008 reporting period. This decrease was partially

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offset by the 15 company-owned international salons constructed and the inclusion of the four United Kingdom Sassoon schools for the twelve months ended June 30, 2008. The foreign currency impact during fiscal year 2008 was driven by the weakening of the United States dollar against the British Pound and Euro as compared to the exchange rates for fiscal year 2007. Franchise revenues decreased primarily due to the merger of our continental Europe franchise salon operations with Franck Provost Salon Group on January 31, 2008.

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

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

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

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

Years Ended June 30,	Operating Income	Operating Income as % of Total Revenues	Increase (Decrease) Over Prior Fiscal Year		
			Dollar	Percentage	Basis Point(1)
	(Dollars in thousands)				
2008	$ 11,651	4.6%	$ (5,897)	(33.6)%	(230)
2007	17,548	6.9	3,986	29.4	80
2006	13,562	6.1	31,695	174.8	1,410

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

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

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

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

Hair Restoration Centers

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

Years Ended June 30,	Revenues	Increase Over Prior Fiscal Year		Same-Store Sales Increase
		Dollar	Percentage	

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

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

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

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

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

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

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

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

Years Ended June 30,	Operating Income	Operating Income as % of Total Revenues	Increase (Decrease) Over Prior Fiscal Year		
			Dollar	Percentage	Basis Point(1)
	(Dollars in thousands)				
2008	$ 28,181	20.8%	$2,620	10.3%	(10)
2007	25,561	20.9	3,988	18.5	120
2006	21,573	19.7	9,309	75.9	(100)

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

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

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

The basis point decrease in hair restoration operating income as a percent of hair restoration revenues during fiscal year 2006 was due to the write-off of approximately $0.5 million of software

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acquired as part of the original Hair Club acquisition, as it was determined that the software would no longer be used. The remaining 50 basis point fluctuation in hair restoration center operating income as a percent of hair restoration center revenues was primarily due to our integration of the recently acquired centers.

LIQUIDITY AND CAPITAL RESOURCES

Overview

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

As of June 30,	Debt to Capitalization	Basis Point (Decrease) Increase
2008	43.9%	(20)
2007	43.7	(200)
2006	41.7	130

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

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

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

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

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

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2006	1,985,324	259,348	15.0

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

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

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

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

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

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

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

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

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Cash Flows

Operating Activities

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

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

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

During fiscal year 2007, cash provided by operating activities was lower than in the twelve months ended June 30, 2006 due to accounts payable and accrued expenses generating less cash in fiscal 2007 than fiscal 2006, which is primarily related to the timing of income tax payments. Depreciation and amortization increased primarily due to the amortization of acquired intangible assets and increased fixed assets. The goodwill impairment charge of $23.0 million ($19.6 million net of tax) related to our beauty school business. Inventories increased slightly during the twelve months ended June 30, 2007 and 2006 due to growth in the number of salons, partially offset by the Company's planned initiatives to reduce inventory levels in fiscal year 2007. Receivables increased during the twelve months ended June 30, 2007 primarily due to credit card receivables and increased student enrollment in the beauty school segment as compared to June 30, 2006.

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

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Investing Activities

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

	Investing Cash Flows For the Years Ended June 30,		
	2008	2007	2006
	(Dollars in thousands)		
Business and salon acquisitions	$(132,971)	$ (68,747)	$(155,481)
Capital expenditures for remodels or other additions	(35,212)	(35,299)	(41,246)
Capital expenditures for the corporate office (including all technology-related expenditures)	(18,310)	(21,452)	(30,455)
Payment of contingent purchase price	–	–	(3,630)
Capital expenditures for new salon construction	(32,277)	(33,328)	(44,583)
Proceeds from loans and investments	10,000	5,250	–
Disbursements for loans and investments	(46,400)	(30,673)	(6,000)
Transfer of cash related to contribution of schools and European franchise salon operations	(10,906)	–	–
Net investment hedge settlement	–	(8,897)	–
Proceeds from sale of assets	47	97	730
	$(266,029)	$(193,049)	$(280,665)

Acquisitions during fiscal year 2008 were primarily funded by a combination of operating cash flows and debt. Additionally the Company completed 186 major remodeling projects were completed during fiscal year 2008, compared to 155 and 170 during fiscal years 2007 and 2006, respectively. We constructed 325 company-owned salons, three hair restoration centers and acquired 382 company-owned salons (150 of which were franchise buybacks) and six hair restoration centers, all of which were franchise buybacks, Investing activities also included a $36.4 million loan to Empire Education Group, Inc. In addition, there was $10.9 million in cash held by the schools and European salon businesses that were deconsolidated.

Acquisitions during fiscal year 2007were primarily funded by a combination of operating cash flows and debt. Additionally, 155 major remodeling projects were completed during fiscal year 2007, compared to 170 and 205 during fiscal years 2006 and 2005, respectively. We constructed 420 company-owned salons and two beauty schools and acquired 354 company-owned salons (97 of which were franchise

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buybacks), one beauty school and two hair restoration centers (one of which was a franchise buyback) during fiscal year 2007. During fiscal year 2007, loans and investments, net, included $9.9 million related to an equity investment the Company made in October 2006, $8.2 million related to a cost method investment made in April 2007, $3.1 million related to the cost method investment made in April 2007 and $4.0 million related to a note receivable issued under a credit agreement with the entity that is the majority corporate investor of an entity in which we hold a minority interest. Investing activities also included an $8.9 million cash outlay related to the settlement of our cross-currency swap (which had a notional amount of $21.3 million and hedged a portion of the Company's net investment in its foreign operations).

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

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

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

Financing Activities

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

	Financing Cash Flows For the Years Ended June 30,		
	2008	2007	2006
	(Dollars in thousands)		
Net (payments) borrowings on revolving credit facilities	$ (8,613)	$ 84,806	$ 56,250
Net borrowings (repayments) of long-term debt	46,839	(15,888)	(20,787)
Proceeds from the issuance of common stock	8,893	14,310	14,410

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Repurchase of common stock	(49,957)	(79,710)	(20,280)
Excess tax benefit from stock-based compensation plans	1,420	4,536	4,556
Dividend payments	(6,964)	(7,169)	(7,256)
Other	(2,622)	(7,310)	1,678
	$(11,004)	$ (6,425)	$ 28,571

During fiscal year 2008, 2007, and 2006, net borrowings were primarily used to fund loans and acquisitions, share repurchases, and customary income tax payments. Acquisitions funded are discussed in Note 3 to the Consolidated Financial Statements. The proceeds from the issuance of common stock were related to the exercise of stock options. The excess tax benefit from stock-based employee compensation plans was recorded in accordance with the provisions of SFAS No. 123R.

New Financing Arrangements

Fiscal Year 2008

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

Under the terms of the July 12, 2007 revolving credit agreement, our ratio of earnings before interest, taxes, depreciation, amortization, and rent expense (EBITDAR) to fixed charges (which

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includes rent and interest expenses) may not drop below 1.50 on a rolling four quarter basis. We were in compliance with all covenants and other requirements of our credit agreement and senior notes as of June 30, 2008. Additionally, the credit agreements do not include rating triggers or subjective clauses that would accelerate maturity dates.

Fiscal Year 2007

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

Fiscal Year 2006

During fiscal year 2006, we neither entered into new borrowing arrangements, nor were any significant amendments made to existing agreements. Under the terms of the April 7, 2005 amended and restated revolving credit agreement, our ratio of earnings before interest, taxes, depreciation, amortization and rent expense (EBITDAR) to fixed charges (which includes rent and interest expense) may not drop below 1.65 on a rolling four quarter basis. We were in compliance with all covenants and other requirements of our credit agreements and senior notes during fiscal year 2006.

Other Financing Arrangements

Private Shelf Agreement

At June 30, 2008 and 2007, we had $255.2 and $189.7 million, respectively, in unsecured, fixed rate, senior term notes outstanding under a Private Shelf Agreement. The notes require quarterly payments, and final maturity dates range from July 2008 through December 2017. The interest rates on the notes range from 4.65 to 8.39 percent as of June 30, 2008 and 2007. In fiscal 2008, we borrowed $125.0 million, and amended the fixed charge coverage ratio under Private Shelf Agreement.

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

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

Acquisitions

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

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Contractual Obligations and Commercial Commitments

The following table reflects a summary of obligations and commitments outstanding by payment date as of June 30, 2008:

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

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

(b) As of June 30, 2008, we have liabilities for uncertain tax positions. We are not able to reasonably estimate the amount by which the liabilities will increase or decrease over time; however, at this time, we do not expect a significant payment related to these obligations within the next fiscal year. See Note 8 to the Consolidated Financial Statements for more information on our uncertain tax positions, the amount that may be settled in chase, and the amount reasonably possible to change in the next 12 months.

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On-Balance Sheet Obligations

Our long-term obligations are composed primarily of senior term notes and a revolving credit facility. Certain senior term notes are hedged by contracts with financial institutions commonly referred to as interest rate swaps, as discussed in Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk." At June 30, 2008, $0.3 million represented a deferred gain related to the termination of certain interest rate hedge contracts. Additionally, no adjustment was necessary to mark the hedged portion of the debt obligation to fair value (a reduction to long-term debt). Interest payments on long-term debt and capital lease obligations were estimated based on our total average interest rate at June 30, 2008 and scheduled contractual repayments.

Other long-term liabilities include a total of $19.9 million related to the Executive Profit Sharing Plan and a salary deferral program, $9.7 million (including $0.6 million in interest) related to established contractual payment obligations under retirement and severance payment agreements for a small number of retired employees.

This table excludes the short-term liabilities, other than the current portion of long-term debt, disclosed on our balance sheet as the amounts recorded for these items will be paid in the next year. We have no unconditional purchase obligations, as defined by SFAS No. 47, *Disclosure of Long-Term Obligations*. Also excluded from the contractual obligations table are payment estimates associated with

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employee health and workers' compensation claims for which we are self-insured. The majority of our recorded liability for self-insured employee health and workers' compensation losses represents estimated reserves for incurred claims that have yet to be filed or settled.

The Company has unfunded deferred compensation contracts covering certain management and executive personnel. The deferred compensation contracts are offered to key executives based on their accomplishments within the Company. Because we cannot predict the timing or amount of our future payments related to these contracts, such amounts were not included in the table above. Related obligations totaled $20.2, $20.1, and $15.3 million at June 30, 2008, 2007, and 2006, respectively, and are included in other noncurrent liabilities in the Consolidated Balance Sheet. Refer to Note 9 of the Consolidated Financial Statements for additional information. The obligations are funded by insurance contracts.

Off-Balance Sheet Arrangements

Operating leases primarily represent long-term obligations for the rental of salon and hair restoration center premises, including leases for company-owned locations, as well as future salon franchisee lease payments of approximately $156.8 million, which are reimbursed to the Company by franchisees. Regarding the franchisee subleases, we generally retain the right to the related salon assets net of any outstanding obligations in the event of a default by a franchise owner. Management has not experienced and does not expect any material loss to result from these arrangements.

Other long-term obligations represent our guarantees, primarily entered into during previous fiscal years, on a limited number of equipment lease agreements between our salon franchisees and leasing companies. If the franchisee should fail to make payments in accordance with the lease, we will be held liable under such agreements and retain the right to possess the related salon operations. We believe the fair value of the salon operations exceeds the maximum potential amount of future lease payments for which we could be held liable. The existing guaranteed lease obligations, which have an aggregate undiscounted value of $0.2 million at June 30, 2008, terminate within fiscal year 2009. The Company has not experienced and does not expect any material loss to result from these arrangements.

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

We are a party to a variety of contractual agreements under which we may be obligated to indemnify the other party for certain matters, which indemnities may be secured by operation of law or otherwise, in the ordinary course of business. These contracts primarily relate to our commercial contracts, operating leases and other real estate contracts, financial agreements, agreements to provide services, and agreements to indemnify officers, directors and employees in the performance of their work. While our aggregate indemnification obligation could result in a material liability, we are not aware of any current matter that we expect to result in a material liability.

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

Under the terms of the July 12, 2007 revolving credit facility, our ratio of earnings before interest, taxes, depreciation, amortization and rent expense (EBITDAR) to fixed charges (which includes rent and interest expenses) may not drop below 1.50 on a rolling four quarter basis. We were in compliance with all covenants and other requirements of our credit agreements and senior notes during fiscal year 2008 and are currently in fiscal 2009. Additionally, the credit agreements do not include rating triggers or subjective clauses that would accelerate maturity dates.

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

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet financial arrangements or other contractually narrow or limited purposes at June 30, 2008. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Financing

Financing activities are discussed under "Liquidity and Capital Resources" in this Item 7 and in Note 4 to the Consolidated Financial Statements in Part II, Item 8. Derivative activities are discussed in Note 5 to the Consolidated Financial Statements in Part II, Item 8 and Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk."

Management believes that cash generated from operations and amounts available under existing debt facilities will be sufficient to fund its anticipated capital expenditures, acquisitions and required debt repayments for the foreseeable future. As of June 30, 2008, we have available an unused committed line of credit amount of $179.2 million under our existing revolving credit facility.

Dividends

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

Share Repurchase Program

In May 2000, the Company's Board of Directors (BOD) approved a stock repurchase program. Originally, the program authorized up to $50.0 million to be expended for the repurchase of the Company's stock. The BOD elected to increase this maximum to $100.0 million in August 2003, to $200.0 million on May 3, 2005, and to $300.0 million on April 26, 2007. The timing and amounts of any repurchases will depend on many factors, including the market price of the common stock and overall market conditions. Historically, the repurchases to date have been made primarily to eliminate the dilutive effect of shares issued in conjunction with acquisitions, restricted stock grants and stock option exercises. All repurchased shares become authorized but unissued shares of the Company. This repurchase program has no stated expiration date. As of June 30, 2008, 2007, and 2006, a total accumulated 6.8, 5.1, and 3.0 million shares have been repurchased for $226.5, $176.5, and $96.8 million, respectively. As of June 30, 2008, $73.5 million remains to be spent on share repurchases under this program.

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

This annual report, as well as information included in, or incorporated by reference from, future filings by the Company with the Securities and Exchange Commission and information contained in written material, press releases and oral statements issued by or on behalf of the Company contains or may contain "forward-looking statements" within the meaning of the federal securities laws, including statements concerning anticipated future events and expectations that are not historical facts. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The forward-looking statements in this document reflect management's best judgment at the time they are made, but all such statements are subject to numerous risks and

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uncertainties, which could cause actual results to differ materially from those expressed in or implied by the statements herein. Such forward-looking statements are often identified herein by use of words including, but not limited to, "may," "believe," "project," "forecast," "expect," "estimate," "anticipate," and "plan." In addition, the following factors could affect the Company's actual results and cause such results to differ materially from those expressed in forward-looking statements. These factors include competition within the personal hair care industry, which remains strong, both domestically and internationally, price sensitivity; changes in economic conditions; changes in consumer tastes and fashion trends; labor and benefit costs; legal claims; risk inherent to international development (including currency fluctuations); the continued ability of the Company and its franchisees to obtain suitable locations and financing for new salon development; governmental initiatives such as minimum wage rates, taxes and possible franchise legislation; the ability of the Company to successfully identify, acquire and integrate salons that support its growth objectives; the ability of the Company to maintain satisfactory relationships with suppliers; or other factors not listed above. The ability of the Company to meet its expected revenue growth is dependent on salon acquisitions, new salon construction and same-store sales increases, all of which are affected by many of the aforementioned risks. Additional information concerning potential factors that could affect future financial results is set forth under Item 1A of this Form 10-K. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. However, your attention is directed to any further disclosures made in our subsequent annual and periodic reports filed or furnished with the SEC on Forms 10-Q and 8-K and Proxy Statements on Schedule 14A.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk:

The Company has established an interest rate management policy that attempts to minimize its overall cost of debt, while taking into consideration the earnings implications associated with the volatility of short-term interest rates. As part of this policy, the Company has elected to maintain a combination of variable and fixed rate debt. A one percent change in interest rates (including the impact of existing interest rate swap contracts) could impact the Company's interest expense by approximately $1.9 million. During fiscal year 2008, the National Association of Insurance Commissioners downgraded Regis' private placement debt from investment-grade to non-investment grade. The downgrade does not have any immediate effect on the private placement debt outstanding and corresponding interest rate as of June 30, 2008. Any future non investment grade private placement debt would result in a substantially higher interest rate. The downgrade has no impact on the Company's current revolving credit facility or its ability to secure future bank borrowings. Considering the effect of interest rate swaps and including $0.3 and $0.9 million increases to long-term

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debt related to fair value swaps at June 30, 2008 and 2007, respectively, the Company had the following outstanding debt balances:

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

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

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

Interest Rate Swap Contracts:

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

Pay fixed rates, receive variable rates

During the three months ended December 31, 2005, the Company entered into interest rate swap contracts that pay fixed rates of interest and receive variable rates of interest (based on the three-month LIBOR rate) on notional amounts of indebtedness of $35.0 and $15.0 million as of June 30, 2008, and mature in March 2013 and March 2015, respectively. These swaps were designated and are effective as cash flow hedges. These cash flow hedges were recorded at fair value within other noncurrent liabilities in the Consolidated Balance Sheet, with a corresponding offset in other comprehensive income within shareholders' equity.

Pay variable rates, receive fixed rates

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

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

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Tabular Presentation:

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

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

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Pay variable/ receive fixed (U.S.$)	$ 5,000	–	–	–	–	–	$ 5,000	$ –	$ –
Average pay rate**	4.6%						4.6%		
Average receive rate**	7.1%						7.1%		
Pay fixed/receive variable (U.S.$)	–	–	–	–	35,000	$ 15,000	$ 50,000	$ 1,366	$ (1,728)
Average pay rate**					2.8%	2.8%			
Average receive rate**					4.8%	4.9%			

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

Foreign Currency Exchange Risk:

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

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

Hedge of the Net Investment in Foreign Subsidiaries:

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

During September 2006, the Company's cross-currency swap (which had a notional amount of $21.3 million and hedged a portion of the Company's net investment in its foreign operations) was settled, resulting in a cash outlay of $8.9 million. This cash outlay was recorded within investing activities within the Consolidated Statement of Cash Flows. The related cumulative tax-effected net loss of $7.9 million was recorded in accumulated other comprehensive income (AOCI) in fiscal year 2007. This amount will remain deferred within AOCI indefinitely, as the event which would trigger its release from AOCI and recognition in earnings is the sale or liquidation of the Company's international operations that the cross-currency swap hedged. The Company currently has no intent to sell or liquidate this portion of its business operations.

Forward Foreign Currency Contracts:

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

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

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

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

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

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

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

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

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Average Contractual Exchange Rate	0.8633	0.9368	0.8949

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Item 8. Financial Statements and Supplementary Data

Index to Consolidated Financial Statements:

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

Financial Statements

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

Management's Report on Internal Control over Financial Reporting

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

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

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

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

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

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

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

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

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

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

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REGIS CORPORATION

CONSOLIDATED BALANCE SHEET

(Dollars in thousands, except per share data)

	June 30,	
	2008	**2007**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 127,627	$ 184,785
Receivables, net	37,824	67,773
Inventories	212,468	196,582
Deferred income taxes	15,954	18,775
Other current assets	51,278	57,149
Total current assets	445,151	525,064
Property and equipment, net	481,851	494,085
Goodwill	870,993	812,383
Other intangibles, net	144,291	213,452
Investment in affiliates	203,706	20,213
Other assets	89,879	66,917
Total assets	$2,235,871	$2,132,114

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LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Long-term debt, current portion	$ 230,224	$ 223,352
Accounts payable	69,693	74,532
Accrued expenses	207,605	240,748
Total current liabilities	507,522	538,632
Long-term debt and capital lease obligations	534,523	485,879
Other noncurrent liabilities	217,640	194,295
Total liabilities	1,259,685	1,218,806
Commitments and contingencies (Note 6)		
Shareholders' equity:		
Common stock, $0.05 par value; issued and outstanding, 43,070,927 and 44,164,645 common shares at June 30, 2008 and 2007, respectively	2,153	2,209
Additional paid-in capital	143,265	178,029
Accumulated other comprehensive income	101,973	78,278
Retained earnings	728,795	654,792
Total shareholders' equity	976,186	913,308
Total liabilities and shareholders' equity	$2,235,871	$2,132,114

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

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REGIS CORPORATION

CONSOLIDATED STATEMENT OF OPERATIONS

(In thousands, except per share data)

	Years Ended June 30,		
	2008	**2007**	**2006**
Revenues:			
Service	$1,894,257	$1,793,802	$1,634,028
Product	775,980	752,280	718,942
Royalties and fees	68,628	80,506	77,894
	2,738,865	2,626,588	2,430,864
Operating expenses:			
Cost of service	1,090,710	1,014,781	928,515
Cost of product	395,979	380,492	371,018
Site operating expenses	204,001	208,101	199,602
General and administrative	337,160	328,644	294,092
Rent	406,270	382,820	350,926
Depreciation and amortization	130,448	124,137	115,903
Goodwill impairment	–	23,000	–
Terminated acquisition income, net	–	–	(33,683)
Total operating expenses	2,564,568	2,461,975	2,226,373

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Operating income	174,297	164,613	204,491
Other income (expense):			
Interest expense	(44,571)	(41,770)	(34,989)
Interest income and other, net	8,373	5,113	651
Income before income taxes and equity in income of affiliated companies	138,099	127,956	170,153
Income taxes	(53,744)	(44,786)	(60,575)
Equity in income of affiliated companies, net of income taxes	849	–	–
Net income	$ 85,204	$ 83,170	$ 109,578
Net income per share:			
Basic	$ 1.97	$ 1.86	$ 2.43
Diluted	$ 1.95	$ 1.82	$ 2.36
Weighted average common and common equivalent shares outstanding:			
Basic	43,157	44,723	45,168
Diluted	43,587	45,623	46,400
Cash dividends declared per common share	$ 0.16	$ 0.16	$ 0.16

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

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REGIS CORPORATION

CONSOLIDATED STATEMENT OF CHANGES
IN SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

(Dollars in thousands)

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

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Issuance of restricted stock	85,500	4	(4)			–	
Dividends					(7,256)	(7,256)	
Balance, June 30, 2006	45,303,459	2,266	232,284	58,066	578,791	871,407	121,520
Net income					83,170	83,170	83,170
Foreign currency translation adjustments				20,873		20,873	20,873
Changes in fair market value of financial instruments designated as cash flow hedges, net of taxes				(1,220)		(1,220)	(1,220)
Stock repurchase plan	(2,092,200)	(104)	(79,606)			(79,710)	
Proceeds from exercise of stock options	829,524	41	14,269			14,310	
Stock-based compensation			4,911			4,911	
Shares issued through franchise stock incentive program	6,548	–	233			233	
Tax benefit realized upon exercise of stock options			6,531			6,531	
Cumulative effect adjustment for adoption of SFAS No. 158 (Note 9)				559		559	
Taxes related to restricted stock			(587)			(587)	
Issuance of restricted stock	117,314	6	(6)			–	
Dividends					(7,169)	(7,169)	

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Balance, June 30, 2007	44,164,645	2,209	178,029	78,278	654,792	913,308	102,823
Net income					85,204	85,204	85,204
Foreign currency translation adjustments				27,120		27,120	27,120
Changes in fair market value of financial instruments designated as cash flow hedges, net of taxes				(2,557)		(2,557)	(2,557)
Stock repurchase plan	(1,701,089)	(85)	(49,872)			(49,957)	
Proceeds from exercise of stock options	525,774	26	8,867			8,893	
Stock-based compensation			6,841			6,841	
Shares issued through franchise stock incentive program	11,311	–	416			416	
Adoption of FIN No.48 (Note 8)			(237)		(4,237)	(4,474)	
Recognition of deferred compensation and other, net of taxes (Note 9)				(868)		(868)	(868)
Tax benefit realized upon exercise of stock options			2,784			2,784	
Taxes related to restricted stock	(54,914)	(2)	(663)			(665)	
Issuance of restricted stock	125,200	5	(5)			–	
Dividends					(6,964)	(6,964)	

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Payment for contingent consideration in salon acquisitions (Note 3)			(2,895)			(2,895)	
Balance, June 30, 2008	$43,070,927	$ 2,153	$143,265	$ 101,973	$728,795	$976,186	$ 108,899

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

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REGIS CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands)

	Years Ended June 30,		
	2008	**2007**	**2006**
Cash flows from operating activities:			
Net income	$ 85,204	$ 83,170	$ 109,578
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	108,673	104,915	95,660
Amortization	11,304	12,412	11,810
Equity in income of affiliated companies	(849)	–	–
Deferred income taxes	(3,789)	(6,243)	7,409
Goodwill impairment	–	23,000	–
Asset impairment	10,471	6,813	12,740
Excess tax benefits from stock-based compensation plans	(1,420)	(4,536)	(4,556)
Stock-based compensation	6,841	4,911	4,905
Other noncash items affecting earnings	(2,015)	2,831	316
Changes in operating assets and liabilities*:			
Receivables	(709)	(4,092)	(4,918)

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Inventories	(5,232)	2,709	(6,068)
Other current assets	2,554	(15,818)	(7,551)
Other assets	16,184	(9,715)	(1,027)
Accounts payable	(9,480)	11,814	151
Accrued expenses	18,729	14,622	46,773
Other noncurrent liabilities	(14,083)	15,067	16,463
Net cash provided by operating activities	222,383	241,860	281,685
Cash flows from investing activities:			
Capital expenditures	(85,799)	(90,079)	(119,914)
Proceeds from sale of assets	47	97	730
Purchases of salon, school and hair restoration center net assets, net of cash acquired	(132,971)	(68,747)	(155,481)
Proceeds from loans and investments	10,000	5,250	–
Disbursements for loans and investments	(46,400)	(30,673)	(6,000)
Transfer of cash related to contribtion of schools and European franchise salon operations	(10,906)	–	–
Net investment hedge settlement	–	(8,897)	–
Net cash used in investing activities	(266,029)	(193,049)	(280,665)
Cash flows from financing activities:			

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Borrowings on revolving credit facilities	9,079,917	7,028,556	3,054,730
Payments on revolving credit facilities	(9,088,530)	(6,943,750)	(2,998,480)
Proceeds from issuance of long-term debt	125,000	25,000	1,766
Repayments of long-term debt and capital lease obligations	(78,161)	(40,888)	(22,553)
Excess tax benefits from stock-based compensation plans	1,420	4,536	4,556
Repurchase of common stock	(49,957)	(79,710)	(20,280)
Proceeds from issuance of common stock	8,893	14,310	14,410
Dividends paid	(6,964)	(7,169)	(7,256)
Other	(2,622)	(7,310)	1,678
Net cash (used in) provided by financing activities	(11,004)	(6,425)	28,571
Effect of exchange rate changes on cash and cash equivalents	(2,508)	7,002	3,088
(Decrease) increase in cash and cash equivalents	(57,158)	49,388	32,679
Cash and cash equivalents:			
Beginning of year	184,785	135,397	102,718
End of year	127,627	$ 184,785	$ 135,397

* Changes in operating assets and liabilities exclude assets and liabilities assumed through acquisitions

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

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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, the United Kingdom (U.K.), Canada, Puerto Rico and several other countries. In addition, the Company owns and operates hair restoration centers in the United States and Canada. Substantially all of the hairstyling and hair care salons owned and operated by the Company in the United States are located in leased space in enclosed mall shopping centers, strip shopping centers or Wal-Mart Supercenters. Franchise salons throughout the United States are primarily located in strip shopping centers. The company-owned salons in the U.K. are owned and operated in malls, leading department stores, mass merchants and high-street locations. The hair restoration centers, including both company-owned and franchise locations, are typically located in leased space within office buildings. The Company maintains ownership interest in salons and beauty schools through equity-method and cost-method investments

Consolidation:

The Consolidated Financial Statements include the accounts of the Company and all of its wholly-owned subsidiaries. In consolidation, all material intercompany accounts and transactions are eliminated.

Use of Estimates:

The preparation of Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America 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.

Foreign Currency Translation:

Financial position, results of operations and cash flows of the Company's international subsidiaries 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. The different exchange rates from period to period impact the amount of reported income from the Company's international operations.

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. Checks outstanding in excess of related book cash balances totaling approximately

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

$3.9 and $6.5 million at June 30, 2008 and 2007, respectively, are included in accounts payable and accrued expenses within the Consolidated Balance Sheet.

Receivables and Allowance for Doubtful Accounts:

The receivable balance on the Company's Consolidated Balance Sheet primarily includes 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 that its 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 receivable. The Company also reserves certain receivables fully once they have reached a set age category.

The following table summarizes the activity in the allowance for doubtful accounts:

	For the Years Ended June 30,		
	2008	2007	2006
	(Dollars in thousands)		
Beginning balance	$ 6,399	$ 6,205	$ 3,464
Bad debt expense	3,900	7,347	5,238
Write-offs	(8,784)	(7,345)	(2,589)
Other (primarily the impact of foreign currency fluctuations)	–	192	92
Ending balance	$ 1,515	$ 6,399	$ 6,205

Inventories:

Inventories consist principally of hair care products held either for use in services or for sale. Cost of product used in salon services is determined by applying estimated gross profit margins to service revenues, which are based on historical factors including product pricing trends and estimated shrinkage. In addition, the estimated gross profit margin is adjusted based on the results of physical inventory counts performed at least semi-annually and the monthly monitoring of factors that could impact the Company's usage rates estimates. These factors include mix of service sales, discounting and special promotions. Cost of product sold to salon customers is determined based on the weighted average cost of product to the Company, adjusted for an estimated shrinkage factor. Product and service inventories are adjusted based on the results of physical inventory counts performed at least semi-annually.

Property and Equipment:

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Property and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation and amortization of property and equipment are computed on the straight-line method over estimated useful asset lives (30 to 39 years for buildings and improvements and three to ten years for equipment, furniture and software). Leasehold improvements are amortized over the shorter of their estimated useful lives or the related lease term, generally ten years. For leases with renewal periods at the Company's option, management may determine at the inception of the lease that renewal is reasonably assured if failure to exercise a renewal option imposes an economic penalty to

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

the Company. In such cases, the Company will include the renewal option period along with the original lease term in the determination of appropriate estimated useful lives.

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. At June 30, 2008 and 2007, the net book value of capitalized software costs was $41.0 and $35.0 million, respectively. Amortization expense related to capitalized software was $8.3, $8.8, and $8.1 million in fiscal years 2008, 2007, and 2006, respectively, which has been determined based on an estimated useful life of five or 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.

Investments:

The Company has equity investments in securities of other privately held entities. The Company accounts for these investments under the cost method or the equity method of accounting, as appropriate. The valuation of investments accounted for under the cost method considers all available financial information related to the investee. If an unrealized loss for any investment is considered to be other-than-temporary, the loss will be recognized in the Consolidated Statement of Operations in the period the determination is made. Investments accounted for under the equity method are recorded at the amount of the Company's investment and adjusted each period for the Company's share of the investee's income or loss. Investments are reviewed for changes in circumstance or the occurrence of events that suggest the Company's investment may not be recoverable.

The Company recognized an impairment loss during fiscal year 2006 of $4.3 million related to its interest in a privately held entity, which was acquired during fiscal year 2005 through the acquisition of preferred stock. This investment was accounted for under the cost method. The impairment charge was included in Other, net (other non-operating expense) in the Consolidated Statement of Operations and reduced the Company's investment balance to zero.

Goodwill:

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

During the three months ended March 31 of fiscal years 2008, 2007, and 2006, the Company performed its annual goodwill impairment analysis on its reporting units. Based on its testing, a

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

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

Long-Lived Asset Impairment Assessments, Excluding Goodwill:

The Company reviews long-lived assets for impairment at the salon level annually or if events or circumstances indicate that the carrying value of such assets may not be fully recoverable. Impairment is evaluated based on the sum of undiscounted estimated future cash flows expected to result from use of the assets compared to its carrying value. If an impairment is recognized, the carrying value of the impaired asset is reduced to its fair value, based on discounted estimated future cash flows.

During fiscal year 2008, the Company tested its long-lived assets for impairment and recognized impairment charges related primarily to the carrying value of certain salons' property and equipment of $10.5 million, related to the Company approved plan in July of 2008 to close up to 160 underperforming Company owned salons in fiscal year 2009. Of the $10.5 million in total impairment charges recognized in fiscal year 2008, $9.4 million and $1.1 million related to North America and United Kingdom salons, respectively. During fiscal year 2007, the Company tested its long-lived assets for impairment and recognized impairment charges related primarily to the carrying value of certain salons' property and equipment of $6.8 million, including $6.5 million located in North America and $0.3 million located in the United Kingdom. During fiscal year 2006, the Company recognized similar impairment charges for certain salons' property and equipment of $8.4 million, including $7.4 million located in North America and $1.0 million located in the United Kingdom. None of the impaired salon assets were held for sale. The Company also evaluated the appropriateness of the remaining useful lives of its affected property and equipment and whether a change to the depreciation charge was warranted. Impairment charges are included in depreciation related to company-owned salons in the Consolidated Statement of Operations.

Deferred Rent and Rent Expense:

The Company leases most salon and hair restoration center locations under operating leases. Accounting principles generally accepted in the United States of America require rent expense to be 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 option 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 compared to that of the straight-line basis is recorded as deferred rent within other noncurrent liabilities in the Consolidated Balance Sheet.

For purposes of recognizing incentives and minimum rental expenses on a straight-line basis over the terms of the leases, the Company uses the date that 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 intended use of the leased space.

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

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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 and related cost of sales are recognized at the time of sale, as this is when the services have been provided or, in the case of product revenues, delivery has occurred, and the salon receives the customer's payment. Revenues from purchases made with gift cards are also recorded when the customer 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. An accrual for estimated returns and credits has been recorded based on historical customer return data that management believes to be reasonable, and is less than one percent of sales.

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. The related cost of product sold to franchisees is included within cost of product in the Consolidated Statement of Operations.

Company-owned hair restoration center revenues stem primarily from servicing hair systems and surgical procedures, as well as through product and hair system sales. The Company records deferred revenue for contracts related to the servicing of hair systems and recognizes the revenue ratably over the term of the service contract. Revenues are recognized related to surgical procedures when the procedure is performed. Product revenues, including sales of hair systems, are recognized at the time of sale, as this is when delivery occurs and payment is probable.

Franchise revenues primarily include royalties, initial franchise fees and net rental income (see Note 6). Royalties are recognized as revenue in the month in which franchisee services are rendered or products are sold to franchisees. 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.

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. Promotion and advertising reimbursements are discussed under Advertising within this note.

With respect to volume rebates, the Company estimates the amount of rebate it will receive and accrues it as a reduction of 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 periodic analysis is performed, at least quarterly, in order to ensure that 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 $3.4, $2.8, and $2.4 million

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during fiscal years 2008, 2007, and 2006, respectively, and are included within general and administrative expenses. Any amounts billed to the franchisee 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. Net advertising costs expensed were $71.4, $69.2, and $61.5 million in fiscal years 2008, 2007, and 2006, respectively. The Company participates in cooperative advertising programs under which the vendor reimburses the Company for costs related to advertising for its products. The Company records such reimbursements as a reduction of advertising expense when the expense is incurred. During fiscal years 2008, 2007, and 2006, no amounts were received in excess of the Company's related expense.

Advertising Funds:

Franchisees and certain company-owned salons are required to contribute a percentage of sales to various advertising funds. The Company administers the advertising funds at the directive of or subject to input from the franchise community. Accordingly, amounts collected and spent by the advertising funds are not reflected as revenues and expenditures of the Company. Assets of the advertising funds administered by the Company, along with an offsetting obligation to spend such assets, are recorded in the Consolidated Balance Sheet.

Preopening Expenses:

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

Sales Taxes:

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

Income Taxes:

Deferred income tax assets and liabilities are recognized for the expected future tax consequences of events that have been included in the Consolidated Financial Statements or income tax returns. Deferred income tax assets and liabilities are determined based on the differences between the financial statement and tax basis of assets and liabilities using currently enacted tax rates in effect for the years in which the differences are expected to reverse. Realization of deferred tax assets is ultimately dependent upon future taxable income. 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 Income Per Share:

The Company's basic earnings per share is calculated as net 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 income divided by weighted

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

average common shares and common share equivalents outstanding, which includes shares issuable under the Company's stock option plan and long-term incentive plan, shares issuable under contingent stock agreements, 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.

Comprehensive Income:

Components of comprehensive income for the Company include net income, changes in fair value of financial instruments designated as hedges of interest rate or foreign currency exposure and foreign currency translation charged or credited to the cumulative translation account within shareholders' equity. These amounts are presented in the Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income.

Accumulated Other Comprehensive Income	2008	2007	2006
	(Dollars in thousands)		
Balance at July 1	$ 78,278	$58,066	$46,124
Cumulative translation adjustment:			
Balance at July 1	83,968	63,095	52,619
Pre-tax amount	28,804	20,873	10,476
Tax effect	(1,684)	–	–
Net of tax amount	27,120	20,873	10,476
Balance at June 30	111,088	83,968	63,095
Changes in fair market value of financial instruments designated as cash flow hedges:			
Balance at July 1	(6,249)	(5,029)	(6,495)
Pre-tax amount	(3,811)	(1,554)	2,336

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Tax effect	1,254	334	(870)
Net of tax amount	(2,557)	(1,220)	1,466
Balance at June 30	(8,806)	(6,249)	(5,029)

Recognition of deferred compensation (SFAS No. 158):

Balance at July 1	559	–	–
Pre-tax amount	(1,330)	891	–
Tax effect	462	(332)	–
Net of tax amount	(868)	559	–
Balance at June 30	(309)	559	–
Balance at June 30	$101,973	$78,278	$58,066

The Company adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and other Postretirement Plans* (SFAS No. 158) during fiscal year 2007. SFAS No. 158 requires balance sheet recognition of the funded status for all pension and postretirement benefit plans. SFAS No. 158 requires the impact of the initial adjustment of the ending balance of accumulated other comprehensive income.

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

Derivative Instruments:

The Company may manage its exposure to interest rate and foreign currency risk within the Consolidated Financial Statements through the use of derivative financial instruments, according to its hedging policy. The Company does not use derivatives with a level of complexity or with a risk higher than the exposures to be hedged and does not hold or issue derivatives for trading or speculative purposes. The Company currently has or had interest rate swaps designated as both cash flow and fair value hedges, treasury locks designated as cash flow hedges, a hedge of its net investment in its European operations and forward foreign currency contracts designated as cash flow hedges of forecasted transactions denominated in a foreign currency. Refer to Note 5 to the Consolidated Financial Statements for further discussion.

The Company follows SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133), as amended and interpreted, which requires that all derivatives be recorded on the balance sheet at fair value. SFAS No.133 also requires companies to designate all derivatives that qualify as hedging instruments as fair value hedges, cash flow hedges or hedges of net investments in foreign operations. This designation is based upon the exposure being hedged. Cash flow and fair value hedges are designated and documented at the inception of each hedge by matching the terms of the contract to the underlying transaction. At inception, as dictated by the facts and circumstances, all hedges are expected to be highly effective, as the critical terms of these instruments are generally the same as those of the underlying risks being hedged. All derivatives designated as hedging instruments are assessed for effectiveness on an on-going basis. The Company classifies the cash flows from hedging transactions in the same categories as the cash flows from the respective hedged items.

Stock-Based Employee Compensation Plans:

Stock-based compensation awards are granted under the terms of the 2004 Long Term Incentive Plan (2004 Plan) and the 2000 Stock Option Plan. Additionally, the Company has outstanding stock options under its 1991 Stock Option Plan, although the Plan terminated in 2001. Under these plans, four types of stock-based compensation awards are granted: stock options, equity-based stock appreciation rights (SARs), restricted stock awards (RSAs) and restricted stock units (RSUs). The stock-based awards, other than the RSUs, expire within ten years from the grant date. The Company utilizes an option-pricing model to estimate the fair value of options at their grant date. The Company generally recognizes compensation expense for its stock-based compensation awards on a straight-line basis over the five-year vesting period. Awards granted do not contain acceleration of vesting terms for retirement eligible recipients. The Company's primary employee stock-based compensation grant occurs during the fourth quarter.

Effective July 1, 2003, the Company adopted the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123), as amended using the prospective transition method. Under the prospective method of adoption, compensation cost is recognized on all stock-based awards granted, modified or settled subsequent to July 1, 2003.

Effective July 1, 2005, the Company adopted SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123R), using the modified prospective method of application. Under this method, compensation expense is recognized both for (i) awards granted, modified or settled subsequent to July 1, 2003 and (ii) the remaining vesting periods of awards issued prior to July 1, 2003. The impact of adopting SFAS No. 123R during fiscal years 2008, 2007, and 2006 was an increase in compensation expense of $0.4, $1.0 and $2.7 million ($0.2, $0.7 and $1.7 million after tax), respectively. This increase

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

in compensation expense did not impact basic or diluted earnings per share in fiscal year 2008. In fiscal years 2007 and 2006, the increase in compensation expense reduced both basic and diluted earnings per share by $0.01 and $0.04, respectively. Compensation expense recorded during fiscal years 2008, 2007 and 2006 includes $6.5, $3.9 and $2.3 million, respectively, related to awards issued subsequent to July 1, 2003 and $0.4, $1.0 and $2.7 million, respectively, related to unvested awards previously being accounted for on the intrinsic value method of accounting.

Total compensation cost for stock-based payment arrangements totaled $6.8, $4.9 and $4.9 million ($4.2 and $3.2 and $3.2 million after tax) for the fiscal years ended June 30, 2008, 2007 and 2006, respectively. SFAS No. 123R requires that the cash retained as a result of the tax deductibility of increases in the value of stock-based arrangements be presented as a cash inflow from financing activity in the Consolidated Statement of Cash Flows. The amount presented as a financing activity for fiscal years 2008, 2007 and 2006 was $1.4, $4.5 and $4.6 million, respectively. Prior to fiscal year 2006, and the Company's adoption of SFAS No. 123R, the tax benefit realized upon the exercise of stock options was presented as an operating activity (included within accrued expenses) and totaled $9.0 million for fiscal year 2005.

Recent Accounting Pronouncements:

In September 2006, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 157, *Fair Value Measures* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measures required under other accounting pronouncements, but does not change existing guidance as to whether or not an instrument is carried at fair value. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 (i.e., the Company's first quarter of fiscal year 2009). In February 2008, the FASB deferred SFAS No. 157's effective date for all non-financial assets and liabilities, except those items recognized or disclosed at fair value on an annual or more frequently recurring basis, until years beginning after November 15, 2008 (i.e. the Company's first quarter of fiscal year 2010). The Company is currently evaluating the impact of SFAS No. 157 on its Consolidated Financial Statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159). SFAS No. 159 permits companies to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Companies are not allowed to adopt SFAS No. 159 on a retrospective basis unless they choose early adoption. The Company does not expect it will elect to adopt the provisions of SFAS No. 159.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS No. 141(R)). SFAS No. 141(R) replaces SFAS No. 141, *Business Combinations*. SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interests in the acquiree and the goodwill acquired. Some of the key changes under SFAS No. 141(R) will change the accounting treatment for certain specific acquisition related items including: (1) accounting for acquired in process research and development as an indefinite-lived intangible asset until approved or discontinued rather than as an immediate expense; (2) expensing acquisition costs rather than adding them to the cost of an acquisition; (3) expensing restructuring costs in connection with an acquisition rather than adding

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

them to the cost of an acquisition; (4) including the fair value of contingent consideration at the date of an acquisition in the cost of an acquisition; and (5) recording at the date of an acquisition the fair value of contingent liabilities that are more than likely than not to occur. SFAS No. 141(R) also includes a substantial number of new disclosure requirements. SFAS No. 141(R) will be effective for the Company's fiscal year 2010 and must be applied prospectively to all new acquisitions closing on or after July 1, 2009. Early adoption is prohibited. SFAS No. 141(R) is expected to have a material impact on how the Company will identify, negotiate and value future acquisitions and a material impact on how the acquisition will affect the Company's Consolidated Financial Statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS No. 161). SFAS No. 161 requires enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedge items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008 (i.e. the Company's third quarter of fiscal year 2009). The Company intends to comply with the disclosure requirements upon adoption.

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2. OTHER FINANCIAL STATEMENT DATA

The following provides additional information concerning selected balance sheet accounts as of June 30, 2008 and 2007:

	2008	2007
	(Dollars in thousands)	
Accounts receivable	$ 39,339	$ 74,172
Less allowance for doubtful accounts	(1,515)	(6,399)
	$ 37,824	$ 67,773
Other current assets:		
Prepaids	$ 47,181	$ 56,240
Notes Receivable, primarily affiliates	4,097	909
	$ 51,278	$ 57,149
Property and equipment:		
Land	$ 3,864	$ 4,864
Buildings and improvements	48,110	46,769
Equipment, furniture and leasehold improvements	862,661	807,988
Internal use software	79,913	75,327
Equipment, furniture and leasehold improvements under capital leases	73,929	61,004
	1,068,477	995,952
Less accumulated depreciation and amortization	(557,459)	(481,663)
Less amortization of equipment, furniture and leasehold improvements under capital leases	(29,167)	(20,204)

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	$ 481,851	$ 494,085
Investment in affiliates:		
Equity-method investments	$ 197,917	$ 12,133
Cost-method investments	5,789	8,080
	$ 203,706	$ 20,213
Other Assets:		
Notes receivable, primarily affiliates	$ 39,661	$ 13,560
Other noncurrent assets	50,218	53,357
	$ 89,879	$ 66,917
Accounts payable:		
Book overdrafts payable	$ 2,927	$ 4,907
Trade accounts payable	66,766	69,625
	$ 69,693	$ 74,532
Accrued expenses:		
Payroll and payroll related costs	$ 94,418	$ 90,889
Insurance	52,345	54,572
Deferred revenues	10,062	34,776
Taxes payable, primarily income taxes	13,094	16,813
Other	37,686	43,698
	$ 207,605	$ 240,748

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Other noncurrent liabilities:		
Deferred income taxes	$ 55,900	$ 84,312
Deferred rent	57,751	54,701
Deferred benefits	48,732	50,740
Other	55,257	4,542
	$ 217,640	$ 194,295

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2. OTHER FINANCIAL STATEMENT DATA (Continued)

	2008			2007		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
	(Dollars in thousands)					
Amortized intangible assets:						
Brand assets and trade names	$ 81,407	$ (8,072)	$ 73,335	$112,999	$ (10,193)	$102,806
Customer lists	51,316	(17,444)	33,872	48,744	(9,970)	38,774
Franchise agreements	27,115	(6,363)	20,752	27,149	(7,538)	19,611
Lease intangibles	14,771	(2,887)	11,884	13,933	(4,818)	9,115
School-related licenses	–	–	–	25,428	(1,247)	24,181
Product license agreements	–	–	–	16,946	(2,944)	14,002
Non-compete agreements	785	(631)	154	691	(644)	47
Other	7,974	(3,680)	4,294	7,728	(2,812)	4,916
	$183,368	$ (39,077)	$144,291	$253,618	$ (40,166)	$213,452

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 one to 40 years). The cost of intangible assets is amortized to earnings in proportion to the amount of economic benefits obtained by the Company in that reporting period. The weighted average amortization periods, in total and by major intangible asset class, are as follows:

	Weighted Average Amortization

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	Period (in years)
Amortized intangible assets:	
Brand assets and trade names	39
Customer list	10
Franchise agreements	21
Lease intangibles	20
Non-compete agreements	5
Other	17
Total	26

Total amortization expense related to amortizable intangible assets during the years ended June 30, 2008, 2007, and 2006 was approximately $11.2, $11.8, and $11.2 million, respectively. As of June 30, 2008, future estimated amortization expense related to amortizable intangible assets is estimated to be:

Fiscal Year	(Dollars in thousands)
2009	$ 11,848
2010	11,577
2011	11,392
2012	11,238
2013	11,040

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2. OTHER FINANCIAL STATEMENT DATA (Continued)

The following provides supplemental disclosures of cash flow activity:

	2008	2007	2006
	(Dollars in thousands)		
Cash paid during the year for:			
Interest	$46,547	$40,805	$35,098
Income taxes, net of refunds	49,148	71,770	32,544

Significant non-cash investing and financing activities include the following:

In fiscal years 2008, 2007, and 2006, the Company financed capital expenditures totaling $10.4, $14.5, and $16.8 million, respectively, through capital leases.

In connection with various acquisitions, the Company entered into seller-financed payables and non-compete agreements in fiscal year 2006.

3. ACQUISITIONS, INVESTMENTS IN AFFILIATES AND LOANS

During fiscal years 2008, 2007, and 2006, the Company made numerous acquisitions and the purchase prices have been allocated to assets acquired and liabilities assumed based on their estimated fair values at the dates of acquisition. These acquisitions individually and in the aggregate are not material to the Company's operations. Operations of the acquired companies have been included in the operations of the Company since the date of the respective acquisition.

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3. ACQUISITIONS, INVESTMENTS IN AFFILIATES AND LOANS (Continued)

Based upon purchase price allocations, the components of the aggregate purchase prices of the acquisitions made during fiscal years 2008, 2007, and 2006 and the allocation of the purchase prices were as follows:

Total Acquisitions

	2008	2007	2006
	(Dollars in thousands)		
Components of aggregate purchase prices:			
Cash	$132,971	$68,747	$155,481
Note receivable applied to purchase price	10,000	–	–
Common stock	4	–	–
Liabilities assumed or payable	2,602	558	2,127
	$145,577	$69,305	$157,608
Allocation of the purchase prices:			
Current assets	$ 16,631	$ 3,876	$ 12,516
Property and equipment	21,398	10,086	14,422
Deferred income tax asset	1,789	1,200	–
Other noncurrent assets	473	50	4,442
Goodwill	105,252	50,844	127,337
Identifiable intangible assets	16,114	4,464	17,251
Accounts payable and accrued expenses	(15,526)	(412)	(17,121)

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Deferred income tax liability	–	(436)	(4,656)
Other noncurrent liabilities	(3,449)	(367)	(213)
Settlement of contingent purchase price(1)	2,895	–	3,630
	$145,577	$69,305	$157,608

(1) During fiscal years 2005 and 2004, the Company guaranteed that the stock issued in conjunction with one of its acquisitions during their respective fiscal years would reach a certain market price by the fourth quarter of fiscal year 2008 and 2006. The guaranteed stock price was factored into the purchase price at the acquisition date by recording an increase to additional paid-in-capital for the differential between the stock price at the date of acquisition and the guaranteed stock price. However, the stock did not reach this price during the agreed upon time frame. Therefore, the Company was obligated to issue $2.9 and $3.6 million in additional consideration to the sellers during the fourth quarter of fiscal year 2008 and 2006, respectively. The $2.9 and $3.6 million in fiscal years 2008 and 2006, respectively, represents the difference between the guaranteed stock price and the actual stock price on the last day of the agreed upon time frame, and was recorded as a reduction to additional paid-in capital.

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3. ACQUISITIONS, INVESTMENTS IN AFFILIATES AND LOANS (Continued)

The value and related weighted average amortization periods for the intangibles acquired during fiscal years 2008 and 2007 business acquisitions, in total and by major intangible asset class, are as follows:

	Purchase Price Allocation		Weighted Average Amortization Period	
	Year Ended June 30,		(in years)	
	2008	2007	2008	2007
	(Dollars in thousands)			
Amortized intangible assets:				
Brand assets and trade names	$ 2,141	$ 656	36	20
Customer lists	2,574	–	10	–
Franchise agreements	9,507	1,339	23	40
Lease intangibles	1,310	–	20	–
Non-compete agreements	193	–	3	–
School-related licenses	–	610	–	40
Other	389	1,859	19	15
Total	$16,114	$ 4,464	22	27

Based upon the actual and preliminary purchase price allocations, the change in the carrying amount of the goodwill for the years ended June 30, 2008 and 2007 is as follows:

	Salons				
	North America	International	Beauty Schools	Hair Restoration Centers	Consolidated
	(Dollars in thousands)				

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Balance at June 30, 2006	$ 520,314	$ 41,224	$ 81,886	$ 134,804	$ 778,228
Goodwill acquired	47,462	1,620	1,765	(3)	50,844
Translation rate adjustments	2,385	3,643	283	–	6,311
Impairment	–	–	(23,000)	–	(23,000)
Balance at June 30, 2007	570,161	46,487	60,934	134,801	812,383
Goodwill acquired	82,528	7,652	–	15,073	105,253
Impact of contribution of certain beauty schools(1)	13,829	13,071	(60,960)	–	(34,060)
Impact of contribution of European franchise salon operations(2)	–	(22,366)	–	–	(22,366)
Translation rate adjustments	2,281	3,617	26	–	5,924
Adjustment related to FIN No. 48(3)	–	–	–	3,859	3,859
Balance at June 30, 2008	$ 668,799	$ 48,461	$ –	$ 153,733	$ 870,993

(1) On August 1, 2007 the Company contributed its accredited cosmetology schools to Empire Education Group, Inc. The Company retained ownership of its one North American and four United Kingdom Sassoon schools. Subsequent to August 1, 2007 results of operations and assets for the Sassoon schools are included in the respective North American and international salon segments.

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3. ACQUISITIONS, INVESTMENTS IN AFFILIATES AND LOANS (Continued)

(2) On January 31, 2008 the Company merged its continental European franchise salon operations with the Franck Provost Salon Group.(2)

(3) Related to FIN No. 48, the Company recorded a $3.9 million adjustment to goodwill to account for preacquisition tax positions at the Company's hair restoration centers segment.

The majority of the purchase price in salon acquisitions is accounted for as residual goodwill rather than identifiable intangible assets. This stems from the value associated with the walk-in customer base of the acquired salons, which is not recorded as an identifiable intangible asset under current accounting guidance, as well as the limited value and customer preference associated with the acquired hair salon brand. Key factors considered by consumers of hair salon services include personal relationships with individual stylists, service quality and price point competitiveness. These attributes represent the "going concern" value of the salon.

Residual goodwill further represents the Company's opportunity to strategically combine the acquired business with the Company's existing structure to serve a greater number of customers through its expansion strategies. In the acquisitions of international salons and hair restoration centers, the residual goodwill primarily represents the growth prospects that are not captured as part of acquired tangible or identified intangible assets. Generally, the goodwill recognized in the North American salon transactions is expected to be fully deductible for tax purposes and the goodwill recognized in the international salon transactions is non-deductible for tax purposes. Goodwill generated in certain acquisitions, such as the acquisition of hair restoration centers, is not deductible for tax purposes due to the acquisition structure of the transaction.

During fiscal years 2008 and 2007, the Company purchased salon operations from its franchisees. The Company evaluated the effective settlement of the preexisting franchise contracts and associated rights afforded by those contracts in accordance with Emerging Issues Task Force (EITF) No. 04-1, *Accounting for Preexisting Relationships Between the Parties to a Business Combination.* The Company determined that the effective settlement of the preexisting franchise contracts at the date of the acquisition did not result in a gain or loss, as the agreements were neither favorable nor unfavorable when compared to similar current market transactions, and no settlement provisions exist in the preexisting contracts. Therefore, no settlement gain or loss was recognized with respect to the Company's franchise buybacks.

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3. ACQUISITIONS, INVESTMENTS IN AFFILIATES AND LOANS (Continued)

Investment in Affiliates and Loans

The table below presents the carrying amount of investments in affiliates as of June 30, 2008 and 2007:

	Provalliance	Empire Education Group, Inc.	Intelligent Nutrients, LLC	MY Style(1)	PureBeauty/ BeautyFirst(2)	Total
			(Dollars in thousands)			
Balance at June 30, 2007	$ –	$ –	$ 8,114	$ 8,080	$ 4,019	$ 20,213
Investment acquired	109,915	72,337	–	–	–	182,252
Acquisition of remaining interest	–	–	–	–	(3,883)	(3,883)
Equity in income (loss) of affiliated companies, net of income taxes	1,767	802	(1,584)	–	(136)	849
Other, primarily translation rate adjustments	7,671	(232)	(873)	(2,291)	–	4,275
Balance at June 30, 2008	$ 119,353	$ 72,907	$ 5,657	$ 5,789	$ –	$203,706
Percentage ownership at June 30, 2008	30.0%	55.1%	49.0%	14.8%		

(1) MyStyle is a cost method investment, therefore the Company does not record its portion of MY Style's earnings or losses.

(2) In February 2008, the Company acquired 100% interest in this entity and no longer accounts PureBeauty as an equity method investment.

The table below presents the summarized financial information of the equity method investees as of June 30, 2008 and 2007.

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	Equity Method Investee Greater Than 50% Owned		Equity Method Investees Less Than 50% Owned	
	2008	2007(1)	2008	2007(1)
	(Dollars in thousands)			
Summarized Balance Sheet Information:				
Current assets	$ 23,559	$ –	$ 76,360	$ 8,395
Noncurrent assets	89,964	–	222,235	2,711
Current liabilities	19,924	–	74,548	263
Noncurrent liabilities	38,457	–	47,832	–
Summarized Statement of Operations Information:				
Gross revenue	$119,076	$ –	$153,426	$ 2,269
Gross profit	105,946	–	52,538	1,279
Operating income (loss)	4,322	–	6,655	(2,818)
Net income (loss)	1,725	–	1,962	(2,671)

(1) The Company did not have ownership interest in Provalliance and Empire Education Group as of June 30, 2007.

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3. ACQUISITIONS, INVESTMENTS IN AFFILIATES AND LOANS (Continued)

As of June 30, 2006, the Company did not maintain an interest in any equity method investees.

Investment in Provalliance

On January 31, 2008, the Company merged its continental European franchise salon operations with the operations of the Franck Provost Salon Group in exchange for a 30.0 percent equity interest in the newly formed Provalliance entity (Provalliance). The merger with the operations of the Franck Provost Salon Group which are also located in continental Europe, created Europe's largest salon operator with approximately 2,300 company-owned and franchise salons as of June 30, 2008.

The carrying value of the contributed European franchise salon operations approximated the estimated fair value of the Company's interest in Provalliance. The Company's net asset value in its European franchise salon operations as of January 31, 2008 was recorded as an investment in Provalliance and no gain or loss was recognized on the date of the merger.

The merger agreement contains a right (Equity Put) to require the Company to purchase additional ownership interest in Provalliance between specified dates in 2010 to 2018. The acquisition price is determined based on the earnings before interest, taxes, depreciation and amortization of Provalliance for a trailing twelve month period which is intended to approximate fair value. The estimated fair value of this Equity Put has been included as a component of the Company's investment in Provalliance with a corresponding liability for the same amount. The merger agreement also contains an option (Equity Call) whereby the Company can acquire additional ownership interest in Provalliance between specific dates in 2018 to 2020 at an acquisition price determined consistent with the Equity Put. Any changes in the fair value of the Equity Put in future periods thereafter, will be recorded in the Company's consolidated statement of operations.

The Company's investment in Provalliance is accounted for under the equity method of accounting. During the period from the date of the merger on January 31, 2008 to June 30, 2008, the Company recorded $1.8 million of equity in income related to its investment in Provalliance. The exposure to loss related to the Company's involvement with Provalliance is the carrying value of the investment and future changes in fair value of the Equity Put. As of June 30, 2008, the identifiable intangible assets of Provalliance resulting from the merger are based on preliminary estimates of fair value which are expected to be finalized by Provalliance during the Company's 2009 fiscal year.

Investment in Empire Education Group, Inc.

On August 1, 2007, the Company contributed its 51 wholly-owned accredited cosmetology schools to Empire Education Group, Inc. (EEG) in exchange for a 49.0 percent equity interest in EEG. This transaction leverages EEG's management expertise, while enabling the Company to maintain a vested interest in the beauty school industry. Once the integration of the Regis schools is complete, the Company expects to share in significant synergies and operating improvements. EEG operates 87 accredited cosmetology schools.

The carrying value of the contributed schools approximated the estimated fair value of the Company's interest in EEG, resulting in no gain or loss on the date of contribution. The $40.5 million difference between the carrying amount and the Company's underlying equity in net assets of EEG is related to the indefinite lived license and accreditation intangible assets and goodwill. The Company's investment in EEG is accounted for under the equity method of accounting. Subsequent to August 1, 2007, the Company completed $25.0 million of loans and advances to EEG. In January 2008, the

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3. ACQUISITIONS, INVESTMENTS IN AFFILIATES AND LOANS (Continued)

Company's effective ownership interest increased to 55.1 percent related to the buyout of EEG's equity interest shareholder. In connection with the buyout, the Company advanced EEG, an additional $21.4 million. Total outstanding debt was $36.4 million at June 30, 2008. The exposure to loss related to the Company's involvement with EEG is the carrying value of the investment and the outstanding loans.

The Company will continue to account for the investment in EEG under the equity method of accounting as Empire Beauty School retains majority voting interest and has full responsibility for managing EEG. During the fiscal year ended June 30, 2008 the Company recorded $0.9 million of interest income related to the loans and advances. During the fiscal year ended June 30, 2008, the Company recorded $0.8 million of equity earnings related to its investment in EEG.

Investment in Intelligent Nutrients, LLC

The Company holds a 49.0 percent interest in Intelligent Nutrients, LLC. The Company's ownership percentage decreased from 50.0 percent to 49.0 percent during the three months ended March 31, 2008 due to the issuance of additional shares by Intelligent Nutrients, LLC to the other investor. The Company is accounting for this investment under the equity method. Intelligent Nutrients, LLC currently carries a wide variety of organic, harmonically grown™ products, including dietary supplements, coffees, teas and aromatics. Additionally, a full line of professional hair care and personal care products is in development and is expected to be available in the fall of calendar year 2008. These products will be offered at the Company's corporate and franchise salons, and eventually in other independently owned salons. During the fiscal year ended June 30, 2008 the Company recorded $1.6 million of equity losses related to its investment in Intelligent Nutrients, LLC. The exposure to loss related to the Company's involvement with Intelligent Nutrients, LLC is the carrying value of the investment. Subsequent to June 30, 2008, the Company completed $3.0 million of loans to Intelligent Nutrients, LLC.

Investment in MY Style

In April 2007, the Company purchased exchangeable notes issued by Yamano Holding Corporation and a loan obligation of a Yamano Holdings subsidiary, Beauty Plaza Co. Ltd., for an aggregate amount of 1.3 billion JPY ($11.3 million USD). A portion of the notes are exchangeable for approximately 14.8 percent of the outstanding shares of MY Style, a subsidiary of Yamano Holdings. The exchangeable portion of the notes is accounted for as a cost method investment. The notes, excluding the exchangeable portion are recorded in the condensed consolidated balance sheet as current assets and long-term assets of $3.9 and $2.0 million, respectively at June 30, 2008. The notes are due in May of fiscal years 2009 through 2013. The Company recorded $0.2 million in interest income related to the exchangeable notes and loan obligation during the fiscal year ended June 30, 2008. In connection with the purchase of the exchangeable notes and loan obligation, the parties also entered into an agreement with respect to their joint pursuit of opportunities relating to retail hair salons in Asia. The Company did not estimate the fair value of MY Style as of June 30, 2008 as there were no identified events or changes in circumstances that the Company was aware of that would have had a significant adverse affect on the fair value of MY Style.

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3. ACQUISITIONS, INVESTMENTS IN AFFILIATES AND LOANS (Continued)

Investment in Cameron Capital (PureBeauty and BeautyFirst)

On February 20, 2008, the Company acquired the capital stock of Cameron Capital I, Inc. (CCI), a wholly-owned subsidiary of Cameron Capital Investments, Inc. CCI owns and operates PureBeauty and BeautyFirst salons. CCI is now accounted for as a wholly-owned subsidiary of the Company. Prior to the acquisition, the Company held a 19.9 percent interest in the voting common stock of CCI which was accounted for under the equity method of accounting and had $10.0 million of long-term notes receivable under a credit agreement with the majority corporate investor in this privately held entity. The long-term notes receivable were incorporated as part of the purchase price of the acquisition.

Investment in Cool Cuts 4 Kids, Inc.

The Company holds an interest of less than 20 percent in the preferred stock of a privately held entity, Cool Cuts 4 Kids, Inc. This investment is accounted for under the cost method. During fiscal year 2006, the Company determined that its investment was impaired and recognized an impairment loss for the full carrying value of the investment. The Company's securities purchase agreement contains a call provision, giving the Company the right of first refusal should the privately held entity receive a bona fide offer from another company, as well as the right to purchase all of the assets of the privately held entity during the period from April 1, 2008 to January 31, 2009 for a multiple of cash flow.

4. FINANCING ARRANGEMENTS

The Company's long-term debt as of June 30, 2008 and 2007 consists of the following:

	Maturity Dates (fiscal year)	Interest rate %		Amounts outstanding	
		2008	2007	2008	2007
				(Dollars in thousands)	
Senior term notes	2009 - 2018	4.65 - 8.39%	4.03 - 8.39%	$ 580,514	$ 515,578
Revolving credit facility	2010	3.02	6.50	139,100	147,800
Equipment and leasehold notes payable	2009 - 2011	8.07 - 8.97	7.55 - 8.67	36,093	35,885
Other notes payable	2009 - 2013	6.00 - 8.00	3.90 - 8.00	9,040	9,968
				764,747	709,231
Less current portion				(230,224)	(223,352)
Long-term portion				$ 534,523	$ 485,879

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The debt agreements contain covenants, including limitations on incurrence of debt, granting of liens, investments, merger or consolidation, and transactions with affiliates. In addition, the Company must adhere to specified fixed charge coverage and leverage ratios, as well as minimum net worth levels. Additional details are included below with the discussion of the specific categories of debt.

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4. FINANCING ARRANGEMENTS (Continued)

Aggregate maturities of long-term debt, including associated fair value hedge obligations of $0.3 million and capital lease obligations of $35.4 million at June 30, 2008, are as follows:

Fiscal year	(Dollars in thousands)
2009	$ 230,224
2010	53,521
2011	91,790
2012	93,885
2013	123,898
Thereafter	171,429
	$ 764,747

Senior Term Notes

Private Shelf Agreement

At June 30, 2008 and 2007, the Company had $255.2 and $189.7 million, respectively, in unsecured, fixed rate, senior term notes outstanding under a Private Shelf Agreement. The notes require quarterly payments, and final maturity dates range from July 2008 through December 2017. The interest rates on the notes range from 4.65 to 8.39 percent as of June 30, 2008 and 2007. In fiscal year 2008, we borrowed $125.0 million, and amended the fixed charge coverage ratio under our Private Shelf Agreement.

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

As a result of the fair value hedging activities discussed in Note 5 to the Consolidated Financial Statements, an adjustment of approximately $0.3 and $0.9 million was made to increase the carrying value of the Company's long-term fixed rate debt at June 30, 2008 and 2007, respectively.

Private Placement Senior Term Notes

In fiscal year 2005, the Company issued $200.0 million of senior unsecured debt to approximately twenty purchasers via a private placement transaction pursuant to a Master Note Purchase Agreement. The placement was split into four tranches, with $100.0 million

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maturing March 31, 2013 and $100.0 million maturing March 31, 2015. Of the debt maturing in 2013, $30.0 million was issued as fixed rate debt with a rate of 4.97 percent. The remaining $70.0 million was issued as variable rate debt and is priced at 52 basis points over LIBOR. Of the $100.0 million of the debt maturing in 2015, $70.0 million was issued at a fixed rate of 5.20 percent, with the remaining $30.0 million issued as variable rate debt, priced at 55 basis points over LIBOR. All four tranches are non-amortizing and no principle payments are due until maturity. Interest payments are due semi-annually.

The Master Note Purchase Agreement includes financial covenants including debt to EBITDA ratios, fixed charge coverage ratios and minimum net equity tests (as defined within the Private Shelf

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4. FINANCING ARRANGEMENTS (Continued)

Agreement), as well as other customary terms and conditions. The maturity date for the debt may be accelerated upon the occurrence of various Events of Default, including breaches of the agreement, certain cross-default situations, certain bankruptcy related situations, and other customary events of default.

During March of fiscal year 2002, the Company completed a $125.0 million private debt placement. Of this amount, $58.0 million was issued at a fixed coupon rate of 6.73 percent with a final maturity date of March 15, 2009 and $67.0 million was issued at a fixed coupon rate of 7.20 percent with a final maturity date of March 15, 2012. This private placement debt is unsecured and payments are due on a semi-annual basis. In anticipation of the new Master Note Purchase Agreement discussed above, the Company closed on the First Amendment to Note Purchase Agreement (related to this private debt placement) in April 2005. The amendment modified certain financial covenants so that they would be more consistent with the financial covenants in the new Master Note Purchase Agreement.

Revolving Credit Facility

The Company has an unsecured $350.0 million revolving credit facility with rates tied to LIBOR plus 60.0 basis points. The revolving credit facility requires a quarterly facility fee on the average daily amount of the facility (whether used or unused) calculated at a rate of 15 basis points. 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. The facility expires in July 2012.

On July 12, 2007, the Company amended its $350.0 revolving credit agreement. Among other changes, the ratio of earnings before interest, taxes, depreciation, amortization, and rent (EBITDAR), to fixed changes covenant was modified from a ratio of 1.65 on a rolling four quarter basis to a ratio of 1.50 on a rolling four quarter basis. The Company is in compliance with all covenants and other requirements of its credit agreements and senior notes. Additionally, the credit agreements do not include rating triggers or subjective clauses that would accelerate maturity dates.

The maturity date for the revolving credit facility may be accelerated upon the occurrence of various events of default, including breaches of the credit agreement, certain cross-default situations, certain bankruptcy related situations, and other customary events of default. The interest rates under the facility vary and are based on a bank's reference rate, the federal funds rate and/or LIBOR, as applicable, and a leverage ratio for the Company determined by a formula tied to the Company's debt and its adjusted income.

As of June 30, 2008 and 2007, the Company had outstanding borrowings under this facility of $139.1 and $147.8 million, respectively. Because the credit agreement provides for possible acceleration of the maturity date of the facility based on provisions that are not objectively determinable, the outstanding borrowings as of June 30, 2008 and 2007 are classified as part of the current portion of the Company's long-term debt. Additionally, the Company had outstanding standby letters of credit under the facility of $31.7 million at June 30, 2008, primarily related to its self-insurance program. The Company had outstanding standby letters of credit under the facility of $54.6 million at June 30, 2007, primarily related to its self-insurance program and Department of Education requirements surrounding Title IV funding. Unused available credit under the facility at June 30, 2008 and 2007 was $179.2 and $147.6 million, respectively.

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4. FINANCING ARRANGEMENTS (Continued)

Equipment and Leasehold Notes Payable

The equipment and leasehold notes payable are primarily comprised of capital lease obligations which are payable in monthly installments through fiscal year 2011. The capital lease obligations are collateralized by the assets purchased under the agreement.

Other Notes Payable

Within other notes payable are mortgage notes for $4.9 and $7.2 million at June 30, 2008 and 2007, respectively, related to the Company's distribution centers in Chattanooga, Tennessee and Salt Lake City, Utah. The note for the Salt Lake City distribution center is secured by that distribution center and the note for the Chattanooga distribution center is unsecured. Additionally, the Company had $4.1 and $2.8 million in unsecured outstanding notes at June 30, 2008 and 2007, respectively, related to debt assumed in acquisitions.

5. DERIVATIVE FINANCIAL INSTRUMENTS

The primary market risk exposure of the Company relates to changes in interest rates in connection with its debt, some of which bears interest at variable rates based on LIBOR plus an applicable borrowing margin. Additionally, the Company is exposed to foreign currency translation risk related to its net investments in its foreign subsidiaries and, to a lesser extent, foreign currency denominated transactions. 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 Company has established an interest rate management policy that attempts to minimize its overall cost of debt, while taking into consideration the earnings implications associated with the volatility of short-term interest rates. As part of this policy, the Company has elected to maintain a combination of variable and fixed rate debt. As of June 30, 2008 and 2007, the Company had the following outstanding debt balances:

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

A one percent change in interest rates (including the impact of existing interest rate swap contracts) could impact the Company's interest expense by approximately $1.9 million. To reduce the volatility associated with interest rate movements, the Company has entered into certain financial instruments discussed below:

Cash Flow Hedges:

Interest Rate Swaps

During the three months ended December 31, 2005, the Company entered into interest rate swap contracts that pay fixed rates of interest and receive variable rates of interest (based on the three-

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5. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

month LIBOR rate) on notional amounts of indebtedness of $35.0 and $15.0 million as of June 30, 2008, and mature in March 2013 and March 2015, respectively. These swaps were designated and are effective as cash flow hedges. These cash flow hedges were recorded at fair value within other noncurrent liabilities in the Consolidated Balance Sheet, with a corresponding offset in other comprehensive income within shareholders' equity.

Forward Foreign Currency Contracts

On May 29, 2007, the Company entered into several forward foreign currency contracts to sell Canadian dollars and buy an aggregate of $16.9 million U.S. dollars, with maturation dates between June 2007 and May 2010. On February 1, 2006, the Company entered into several forward foreign currency contracts to sell Canadian dollars and buy an aggregate $15.8 million U.S. dollars, with maturation dates between July 2006 and May 2009. The purpose of the forward contracts is to protect against adverse movements in the Canadian dollar exchange rate. The contracts were designated and are effective as cash flow hedges of Canadian dollar denominated forecasted intercompany transactions related to monthly product shipments from the U.S. to Canadian salons. These cash flow hedges were recorded at fair value within other assets in the Consolidated Balance Sheet, with a corresponding offset in other comprehensive income within shareholders' equity.

On January 3, 2007, the Company terminated its remaining Canadian forward foreign currency contracts entered into on February 1, 2006 having a $14.5 million notional amount. The termination resulted in a deferred gain of $0.4 million which is recorded in Accumulated Other Comprehensive Income (AOCI) in the Consolidated Balance Sheet, as the contracts hedged currency risk associated with a portion of the monthly forecasted intercompany foreign-currency-denominated transactions stemming from the forecasted monthly product shipments from the Company's subsidiaries located in the Unites States to its Canadian subsidiaries. The deferred gain will be recorded into income through May 31, 2009 as the forecasted foreign currency transactions are recognized in earnings. Approximately $0.2 and $0.1 million of the deferred gain was amortized against cost of goods sold during fiscal years 2008 and 2007, respectively, resulting in a remaining deferred gain of $0.1 and $0.3 million in AOCI at June 30, 2008 and 2007.

When the inventory from the hedged forecasted transaction is sold to an external party by the salon and, therefore, impacts cost of goods sold in the Company's Consolidated Statement of Operations, amounts are transferred out of AOCI to earnings. The Company uses an inventory turnover ratio (based on historical results) to estimate the timing of sales to an external third party. Therefore, amounts will be transferred from AOCI into earnings based on this inventory turnover ratio.

Financial Statement Impact of Cash Flow Hedges

The cumulative tax-effected net loss or gain is included within shareholders' equity in the Consolidated Balance Sheet. At June 30, 2008, the cumulative tax-effected net loss recorded in AOCI related to the cash flow hedges was $2.2 million. At June 30, 2007 and 2006, the cumulative tax-effected net gain recorded in AOCI related to the cash flow hedges was, $1.7 and $1.9 million,

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5. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

respectively. The following table depicts the hedging activity in other comprehensive income related to the cash flow hedges for the years ended June 30, 2008, 2007 and 2006.

	2008	2007	2006
	(Dollars in thousands)		
Tax-effected gain (loss) on cash flow hedges recorded in other comprehensive income:			
Realized net (loss) gain transferred from other comprehensive income to earnings	$ (157)	$ (190)	$ 50
Unrealized net (loss) gain from changes in fair value of cash flow hedges	(2,400)	(1,030)	1,416
	$(2,557)	$(1,220)	$1,466

As of June 30, 2008, the Company estimates, based on current interest rates, that less than $0.6 million of tax-effected charges will be recorded in the Consolidated Statement of Operations during the next twelve months related to interest rate hedges. Additionally, based on current forward exchange rates, the Company estimates that approximately $0.1 million of tax-effected charges will be recorded in the Consolidated Statement of Operations in the next twelve months related to foreign currency hedges.

Fair Value Hedges:

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

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

The Company's outstanding fair value hedges are recorded at fair value within either other assets or other noncurrent liabilities (depending on whether the fair value adjustment is favorable or unfavorable) in the Consolidated Balance Sheet, with a corresponding cumulative adjustment to the underlying senior term note within long-term debt. This adjustment resulted in a decrease to the debt balance of less than $0.1 million for the years ended June 30, 2008, 2007, and 2006. No hedge ineffectiveness occurred during fiscal years 2008, 2007 or 2006. As a result, the fair value hedges did not have a net impact on earnings.

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5. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Hedge of Net Investments in Foreign Operations:

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

During September 2006, the Company's cross-currency swap (which had a notional amount of $21.3 million and hedged a portion of the Company's net investment in its foreign operations) was settled, resulting in a cash outlay of $8.9 million. This cash outlay was recorded within investing activities within the Consolidated Statement of Cash Flows. The related cumulative tax-effected net loss of $7.9 million was recorded in accumulated other comprehensive income (AOCI) in fiscal year 2007. This amount will remain deferred within AOCI indefinitely, as the event which would trigger its release from AOCI and recognition in earnings is the complete sale or liquidation of the Company's international operations that the cross-currency swap hedged. The Company currently has no intent to sell or liquidate its interest in this portion of its business operations.

The Company's cross-currency swap was recorded at fair value within other noncurrent liabilities in the Consolidated Balance Sheet at June 30, 2006 when the Company's net investment in this derivative financial instrument was in a $9.4 million loss position based on its estimated fair value. The corresponding tax-effected offset was charged to the cumulative translation adjustment account, which is a component of AOCI set forth under the caption shareholders' equity in the Consolidated Balance Sheet. The cumulative tax-effected net loss recorded in AOCI related to the cross-currency swap was $8.1 million at June 30, 2006. For the year ended June 30, 2006, $1.2 million of tax-effected loss related to this derivative was charged to the cumulative translation adjustment account.

6. COMMITMENTS AND CONTINGENCIES:

Operating Leases:

The Company is committed under long-term operating leases for the rental of most of its company-owned salon and hair restoration center locations. The original terms of the leases range from one to 20 years, with many leases renewable for an additional five to ten year term at the option of the Company, and certain leases include escalation provisions. For certain leases, the Company is required to pay additional rent based on a percent of sales in excess of a predetermined amount and, in most cases, real estate taxes and other expenses. Rent expense for the Company's international department store salons is based primarily on a percent of sales.

The Company also leases the premises in which the majority of its franchisees operate and has entered into corresponding sublease arrangements with the 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.

During fiscal year 2005, the Company entered into a lease agreement for a 102,448 square foot building, located in Edina, Minnesota. The Company began to recognize rent expense related to this property during the three months ended September 30, 2005, which was the date that it obtained the legal right to use and control the property. The original lease term ends in 2016 and the aggregate amount of lease payments to be made over the remaining original lease term are approximately

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6. COMMITMENTS AND CONTINGENCIES: (Continued)

$8.7 million. The lease agreement includes an option to purchase the property or extend the original term for two successive periods of five years.

Rent expense in the Consolidated Statement of Operations excludes $29.9, $27.4 and $28.9 million in fiscal years 2008, 2007 and 2006, respectively, of rent expense on premises subleased to franchisees. These amounts are netted against the related rental income on the sublease arrangements with franchisees. 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 income. However, in limited cases, the Company charges a ten percent mark-up in its sublease arrangements. The net rental income resulting from such arrangements totaled $0.4, $0.5, and $0.5 million for fiscal years 2008, 2007 and 2006, respectively, and was classified in the royalties and fees caption of the Consolidated Statement of Operations.

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

	2008	2007	2006
	(Dollars in thousands)		
Minimum rent	$301,945	$283,862	$262,166
Percentage rent based on sales	15,798	16,215	15,036
Real estate taxes and other expenses	88,527	82,743	73,724
	$406,270	$382,820	$350,926

As of June 30, 2008, 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)	
2009	$ 312,396	$ 46,208
2010	262,609	39,385
2011	205,403	30,615
2012	151,562	20,364

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2013	106,178	10,997
Thereafter	192,374	9,203
Total minimum lease payments	$1,230,522	$156,772

Salon Development Program:

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

Contingencies:

The Company is self-insured for most workers' compensation, employment practice liability, and general liability. Worker's compensation and general liability losses are subject to per occurrence and

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6. COMMITMENTS AND CONTINGENCIES: (Continued)

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.

7. LITIGATION

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

8. INCOME TAXES

The components of income before income taxes are as follows:

	2008	2007	2006
	(Dollars in thousands)		
Income before income taxes:			
United States	$126,527	$ 93,377	$142,491
International	11,572	34,579	27,662
	$138,099	$127,956	$170,153

The provision for income taxes consists of:

	2008	2007	2006
	(Dollars in thousands)		
Current:			
United States	$53,271	$45,876	$50,426
International	4,262	5,153	2,795

Deferred:

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United States	(4,689)	(3,492)	5,555
International	900	(2,751)	1,799
	$53,744	$44,786	$60,575

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8. INCOME TAXES (Continued)

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

	2008	2007	2006
U.S. statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal income tax benefit	5.7	1.8	2.7
Tax effect of goodwill impairment	–	4.2	–
Foreign income taxes at other than U.S. rates	(2.3)	(3.0)	(2.0)
Work Opportunity and Welfare-to-Work Tax Credits	(2.0)	(3.2)	(0.5)
Other, net	2.5	0.2	0.4
	38.9%	35.0%	35.6%

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

	2008	2007
	(Dollars in thousands)	
Deferred tax assets:		
Deferred rent	$ 18,225	$ 18,382
Payroll and payroll related costs	29,741	26,605
Net operating loss carryforwards	3,557	4,752
Reserve for impaired assets	8,951	5,328
Inventories	2,551	1,204

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Deferred gift card revenue	1,789	1,788
Other	15,268	5,892
Total deferred tax assets	$ 80,082	$ 63,951
Deferred tax liabilities:		
Insurance	$ –	$ (4,280)
Depreciation and amortization	(114,912)	(120,975)
Accrued property taxes	(2,553)	(2,617)
Derivatives	(2,553)	(583)
Other	(10)	(1,032)
Total deferred tax liabilities	$(120,028)	$(129,487)
Net deferred tax liabilities	$ (39,946)	$ (65,536)

At June 30, 2008, the Company had U.S. and foreign operating loss carryforwards of approximately $10.0 million. During fiscal year 2008, approximately $5.6 million of the loss carryforwards related to French, Spanish and Polish tax losses were transferred in the merger with the Franck Provost Salon Group. The $10.0 million remainder of the loss carryforwards at June 30, 2008, relate to losses in the U.S. and Canada and expire in various amounts through 2028. The company expects to fully utilize all of these loss carryforwards.

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8. INCOME TAXES (Continued)

As of June 30, 2008, undistributed earnings of international subsidiaries of approximately $49.1 million were considered to have been reinvested indefinitely and, accordingly, the Company has not provided United States income taxes on such earnings.

The Company files tax returns and pays tax primarily in the United States, Canada, the United Kingdom, and the Netherlands as well as states, cities, and provinces within these jurisdictions. In the United States, fiscal years 2005 and after remain open for federal tax audit. For state tax audits, the statute of limitations generally spans three to four years, resulting in a number of states remaining open for tax audits dating back to fiscal year 2004. However, the company is under audit in a number of states in which the statute of limitations has been extended to fiscal years 2000 and forward. Internationally (including Canada), the statute of limitations for tax audits varies by jurisdiction, but generally ranges from three to five years.

The Company adopted the provisions of FIN No. 48, *Accounting for Uncertainity in Income Taxes,* effective July 1, 2007. Immediately prior to the adoption of FIN No. 48, the Company's tax reserves were $9.0 million. As a result of the adoption of FIN No. 48, the Company recognized a $20.7 million increase in the liability for unrecognized income tax benefits, including interest and penalties, which was accounted for through the following accounts:

	(Dollars in thousands)
Deferred income taxes	$ 10,128
Goodwill	6,094
Additional paid-in capital	237
Retained earnings	4,237
Total increase	$ 20,696

A rollforward of the unrecognized tax benefits is as follows:

	(Dollars in thousands)
Balance at July 1, 2007	$ 22,500
Additions based on tax positions related to the current year	2,466
Additions based on tax positions of prior years	1,498

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Reductions on tax positions related to the expiration of the statue of limitations	(5,446)
Settlements	(618)
Balance at June 30, 2008	$ 20,400

If the Company were to prevail on all unrecognized tax benefits recorded, approximately $7.2 million of the $20.4 million reserve would benefit the effective tax rate. Interest and penalties associated with unrecognized tax benefits are recorded within income tax expense. During the year ended June 30, 2008, we recorded income expense of approximately $3.0 million for the accrual of interest and penalties. As of June 30, 2008, the Company had accrued interest and penalties related to unrecognized tax benefits of $7.2 million. This amount is not included in the gross unrecognized tax benefits noted above.

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8. INCOME TAXES (Continued)

It is reasonably possible that the amount of the unrecognized tax benefit with respect to certain of our unrecognized tax positions will increase or decrease during the next twelve months; however, we do not expect the change to have a significant effect on our results of operations or our financial position.

9. BENEFIT PLANS

Profit Sharing Plan:

Prior to March 1, 2007, the Company maintained a Profit Sharing Plan (the Profit Sharing Plan) which covered substantially all non-highly compensated field supervisors, warehouse and corporate office employees. The Profit Sharing Plan was a defined contribution plan and contributions to it were at the discretion of the Company. Contributions were invested in a broad range of securities. Effective January 1, 2007, the vesting provisions of the Profit Sharing Plan were amended to comply with the accelerated vesting requirements required by the Pension Protection Act of 2006. Under the amended Profit Sharing Plan, participants' interest in the Profit Sharing Plan become 20.0 percent vested after completing two years of service with vesting increasing 20.0 percent for each additional year of service, and with participants becoming fully vested after six full years of service.

On March 1, 2007, the Profit Sharing Plan was merged into the Company's defined contribution 401(k) plan, the Regis Retirement Savings Plan (the RRSP). The RRSP is a 401(k) plan sponsored by the Company that resulted from the merger of four separate 401(k) plans previously maintained by the Company. In conjunction with the merger of the Profit Sharing Plan into the RRSP, the Profit Sharing Plan's investments were liquidated and the proceeds were transferred and invested as directed by plan participants and are valued daily. The nature and terms of each 401(k) plan and of the Profit Sharing Plan did not change significantly in connection with the merger into the RRSP; the mergers did not affect participation in the RRSP, the account balances of plan participants in each respective plan, or the right to share in future profit sharing contributions to the plan.

Executive Profit Sharing Plan:

Prior to March 1, 2007, the Company maintained a nonqualified Profit Sharing Plan (the Executive Profit Sharing Plan) which covered company officers, field supervisors, warehouse and corporate office employees who were highly compensated. Contributions to the Executive Profit Sharing Plan were at the discretion of the Company. Prior to January 22, 2002, such contributions were invested in common stock of the Company. Subsequent to that date contributions were invested in a broad range of securities, including common stock of the Company. The investments other than Company common stock were in a pooled trust that was valued monthly. Investments in Company common stock were separately credited to participant accounts.

On March 1, 2007, the Executive Profit Sharing Plan was merged into the Company's Nonqualified Deferred Salary Plan (as combined, the Executive Plan). Amounts received attributable to participant accounts in the Executive Profit Sharing Plan and all future profit sharing contributions under the Executive Plan are invested as directed by plan participants and are valued daily. Future profit sharing contributions to the Executive Plan will not be invested in common stock of the Company. The merger did not affect participation in the profit sharing portion of the Executive Plan, the profit sharing account balances of Executive Plan participants, or the right to share in future profit sharing contributions to participants' Executive Plan accounts.

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9. BENEFIT PLANS (Continued)

Stock Purchase Plan:

The Company has an employee stock purchase plan (ESPP) available to substantially all 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 percent 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 $10.0 million. As of June 30, 2008, the Company's cumulative contributions to the ESPP totaled $6.8 million.

Franchise Stock Purchase Plan:

The Company has a franchise stock purchase plan (FSPP) available to substantially all franchisee employees. Under the terms of the plan, eligible franchisees and their employees may purchase the Company's common stock. The Company contributes an amount equal to five percent of the purchase price of the stock to be purchased on the open market and pays all expenses of the plan and its administration, not to exceed an aggregate contribution of $0.7 million. As of June 30, 2008, the Company's cumulative contributions to the FSPP totaled $0.1 million.

Deferred Compensation Contracts:

The Company has agreed to pay the Chief Executive Officer, commencing upon his retirement, an amount equal to 60 percent of his salary, adjusted for inflation, for the remainder of his life. Additionally, the Company has a survivor benefit plan payable upon his death at a rate of one half of his deferred compensation benefit, adjusted for inflation, for the remaining life of his spouse. In addition, the Company has other unfunded deferred compensation contracts covering key executives within the Company. The key executives' benefits are based on years of service and the employee's compensation prior to departure. The Company utilizes a June 30 measurement date for these deferred compensation contracts, a discount rate based on the Aa Bond index rate (6.50 and 6.25 percent at June 30, 2008 and 2007, respectively) and projected salary increases of 4.0 percent at June 30, 2008 and 2007 to estimate the obligations associated with these deferred compensation contracts. Compensation associated with these agreements is charged to expense as services are provided. Associated costs included in general and administrative expenses on the Consolidated Statement of Operations totaled $2.4, $4.0, and $2.4 million for fiscal years 2008, 2007, and 2006, respectively. Related obligations totaled $19.9 and $17.9 million at June 30, 2008 and 2007, respectively, and are included in other noncurrent liabilities in the Consolidated Balance Sheet. (The accumulated benefit obligation totaled $15.2 and $14.4 million at June 30, 2008 and 2007, respectively.) The tax-effected accumulated other comprehensive gain for the deferred compensation contracts, consisting of primarily unrecognized actuarial gains, was $0.3 million at June 30, 2008. The Company intends to fund its future obligations under these arrangements through company-owned life insurance policies on the participants. Cash values of these policies totaled $16.4 and $14.1 million at June 30, 2008 and 2007, respectively, and are included in other assets in the Consolidated Balance Sheet.

The Company also has entered into an Amended and Restated Compensation Agreement (the Restated Agreement) with the Vice Chairman of the Board of Directors (the Vice Chairman) during fiscal year 2007, that replaces the prior compensation agreement between the Company and the Vice Chairman. Under the Restated Agreement, the Vice Chairman will continue to provide services to the Company and the Company has agreed to pay the Vice Chairman an annual amount of $0.6 million, adjusted for inflation to $0.8 million in fiscal year 2008, for the remainder of his life (this amount

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9. BENEFIT PLANS (Continued)

remains unchanged from the prior agreement in place with the Vice Chairman). The Vice Chairman has agreed that during the period in which payments are made, as provided in the agreement, he will not engage in any business competitive with the business conducted by the Company. Additionally, the Company has a survivor benefit plan for the Vice Chairman's spouse, payable upon his death, at a rate of one half of his deferred compensation benefit, adjusted for inflation, for the remaining life of his spouse. Estimated associated costs included in general and administrative expenses on the Consolidated Statement of Operations totaled $0.7, $2.1 and $0.3 million for each of fiscal years 2008, 2007 and 2006, respectively. Related obligations totaled $6.5 and $6.6 million at June 30, 2008 and 2007, respectively, and are included in other noncurrent liabilities in the Consolidated Balance Sheet. The Company intends to fund all future obligations under this agreement through company-owned life insurance policies on the Vice Chairman. Cash values of these policies totaled $3.4 and $3.1 million at June 30, 2008 and 2007, respectively, and are included in other assets in the Consolidated Balance Sheet. The policy death benefits exceed the obligations under this agreement.

In September 2006, the FASB issued SFAS No. 158. SFAS No. 158 amends SFAS No. 87, *Employers' Accounting for Pensions* (SFAS No. 87), SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Plans and for Termination Benefits* (SFAS No. 88), SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* (SFAS No. 106) and SFAS No. 132(R), *Employers' Disclosures about Pensions and Other Postretirement Benefits* (SFAS No. 132(R)). SFAS No. 158 requires balance sheet recognition of the funded status for all pension and postretirement benefit plans as of the Company's fiscal year ended June 30, 2007. SFAS No. 158 requires the impact of the initial adjustment be recorded as an adjustment of the ending balance of accumulated other comprehensive income. Subsequent changes in funded status will be recognized as a component of other comprehensive income to the extent they have not yet been recognized as a component of net periodic benefit cost pursuant to SFAS No. 87, SFAS No. 88 or SFAS No. 106. The Company has unfunded deferred compensation contracts covering key executives based on their accomplishments within the Company which are subject to the provisions of SFAS No. 158. The Company adopted the provisions of SFAS No. 158 as of June 30, 2007. The adoption of SFAS No. 158 increased long-term liabilities by $0.9 million, increased deferred tax assets by $0.3 million and decreased accumulated other comprehensive income by $0.6 million on the Consolidated Balance Sheet. For the year ended June 30, 2008, an adjustment to the impact of the adoption of SFAS No. 158 decreased long-term liabilities by $1.3 million, increased deferred tax liabilities by $0.5 million and increased accumulated other comprehensive income by $0.8 million.

Compensation expense included in income before income taxes related to the aforementioned plans, excluding amounts paid for expenses and administration of the plans, for the three years ended June 30, 2008, 2007 and 2006, included the following:

	2008	2007	2006
	(Dollars in thousands)		
Profit sharing plan	$3,373	$3,305	$2,650
Executive Profit Sharing Plan	497	491	389
ESPP	711	714	689
FSPP	18	11	16
Deferred compensation contracts	3,122	6,107	2,755

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10. SHAREHOLDERS' EQUITY

Net Income Per Share:

The Company's basic earnings per share is calculated as net income divided by weighted average common shares outstanding, excluding unvested outstanding RSAs and RSUs. The Company's dilutive earnings per share is calculated as net 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, shares issuable under contingent stock agreements, 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.

The following table sets forth a reconciliation of shares used in the computation of basic and diluted earnings per share:

	2008	2007	2006
	(Shares in thousands)		
Weighted average shares for basic earnings per share	43,157	44,723	45,168
Effect of dilutive securities:			
Dilutive effect of stock-based compensation	430	844	1,076
Contingent shares issuable under contingent stock agreements	–	56	156
Weighted average shares for diluted earnings per share	43,587	45,623	46,400

The following table sets forth the awards which are excluded from the various earnings per share calculations:

	2008	2007	2006
	(Shares in thousands)		
Basic earnings per share:			
RSAs(1)	308	259	193
RSUs(1)	215	215	–
	523	474	193
Diluted earnings per share:			

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Stock options(2)	517	492	436
SARs(2)	416	405	96
RSAs(2)	183	–	–
RSUs(2)	215	–	–
	1,331	897	532

(1) Awards were not vested

(2) Awards were anti-dilutive

Stock-based Compensation Award Plans:

In May of 2004, the Company's Board of Directors approved the 2004 Long Term Incentive Plan (2004 Plan). The 2004 Plan received shareholder approval at the annual shareholders' meeting held on October 28, 2004. The 2004 Plan provides for the granting of stock options, equity-based stock appreciation rights (SARs) and restricted stock, as well as cash-based performance grants, to employees

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10. SHAREHOLDERS' EQUITY (Continued)

and directors of the Company. On March 8, 2007, the Company's Board of Directors approved an amendment to the 2004 Plan to permit the granting and issuance of restricted stock units (RSUs). The 2004 Plan expires on May 26, 2014. A maximum of 2,500,000 shares of the Company's common stock are available for issuance pursuant to grants and awards made under the 2004 Plan. Stock options, SARs and restricted stock under the 2004 Plan generally vest pro rata over five years and have a maximum term of ten years. The cash-based performance grants will be tied to the achievement of certain performance goals during a specified performance period, not less than one fiscal year in length. The RSUs cliff vest after five years and payment of the RSUs is deferred until January 31 of the year following vesting. Unvested awards are subject to forfeiture in the event of termination of employment. See Note 1 to the Consolidated Financial Statements for discussion of the Company's measure of compensation cost for its incentive stock plans, as well as an estimate of future compensation expense related to these awards.

On October 24, 2000, the shareholders of Regis Corporation adopted the Regis Corporation 2000 Stock Option Plan (2000 Plan), which allows the Company to grant both incentive and nonqualified stock options and replaced the Company's 1991 Stock Option Plan (1991 Plan). Total options covering 3,500,000 shares of common stock may be granted under the 2000 Plan to employees of the Company for a term not to exceed ten years from the date of grant. The term may not exceed five years for incentive stock options granted to employees of the Company possessing more than ten percent of the total combined voting power of all classes of stock of the Company or any subsidiary of the Company. Options may also be granted to the Company's outside directors for a term not to exceed ten years from the grant date. The 2000 Plan contains restrictions on transferability, time of exercise, exercise price and on disposition of any shares acquired through exercise of the options. Stock options are granted at not less than fair market value on the date of grant. The Board of Directors determines the 2000 Plan participants and establishes the terms and conditions of each option.

The Company also has outstanding stock options under the 1991 Plan, although the Plan terminated in 2001. The terms and conditions of the 1991 Plan are similar to the 2000 Plan. Total options covering 5,200,000 shares of common stock were available for grant under the 1991 Plan and, as of June 30, 2001, all available shares were granted.

Common shares available for grant under the following plans as of June 30 were:

	2008	2007	2006
	(Shares in thousands)		
2000 Plan	136	136	250
2004 Plan	1,459	1,748	1,971
	1,595	1,884	2,221

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10. SHAREHOLDERS' EQUITY (Continued)

Stock options outstanding, weighted average exercise prices and weighted average fair values were as follows:

	Options Outstanding	
	Shares	Weighted Average Exercise Price
	(in thousands)	
Balance, June 30, 2005	3,673	$ 19.43
Granted	135	35.33
Cancelled	(48)	26.95
Exercised	(852)	17.02
Balance, June 30, 2006	2,908	20.59
Granted	141	39.04
Cancelled	(27)	27.06
Exercised	(829)	17.22
Balance, June 30, 2007	2,193	22.97
Granted	143	28.57
Cancelled	(97)	34.17
Exercised	(526)	16.91
Balance, June 30, 2008	1,713	24.55

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Exercisable at June 30, 2008	1,344	$ 21.94

Outstanding options of 1,713,244 at June 30, 2008 had an intrinsic value of $8.9 million and a weighted average remaining contractual term of 4.3 years. Exercisable options of 1,343,744 at June 30, 2008 had an intrinsic value of $8.9 million and a weighted average remaining contractual term of 3.2 years. An additional 347,224 options are expected to vest with a $34.12 per share weighted average exercise price and a weighted average remaining contractual life of 8.6 years that have a total intrinsic value of zero.

All options granted relate to stock option plans that have been approved by the shareholders of the Company. Stock options granted in fiscal year 2008 were granted under the 2004 Plan. Stock options granted in fiscal year 2007 and 2006 were granted under the 2000 Plan.

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10. SHAREHOLDERS' EQUITY (Continued)

Grants of RSAs, RSUs and SARs outstanding under the 2004 Plan, as well as other relevant terms of the awards, were as follows:

	Nonvested		SARs Outstanding	
	Restricted Stock Outstanding Shares/ Units	Weighted Average Grant Date Fair Value	Shares	Weighted Average Exercise Price
	(in thousands)		(in thousands)	
Balance, June 30, 2005	142	$ 38.40	197	$ 39.16
Granted	86	35.33	97	35.33
Cancelled	(3)	39.59	(3)	39.98
Vested/Exercised	(32)	38.67	(5)	40.31
Balance, June 30, 2006	193	36.92	286	36.87
Granted	343	40.07	139	39.01
Cancelled	(21)	37.84	(23)	38.41
Vested/Exercised	(41)	37.33	(2)	37.92
Balance, June 30, 2007	474	38.36	400	37.53
Granted	125	28.57	138	28.57
Cancelled	(10)	37.71	(11)	38.53
Vested/Exercised	(66)	38.05	–	–

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Balance, June 30, 2008	523	36.76	527	35.70
Exercisable at June 30, 2008			182	$ 38.73

Outstanding and unvested RSAs of 308,325 at June 30, 2008 had an intrinsic value of $8.1 million and a weighted average remaining contractual term of 2.3 years. An additional 293,802 awards are expected to vest with a total intrinsic value of $7.7 million.

Outstanding SARs of 527,300 at June 30, 2008 had a total intrinsic value of zero and a weighted average remaining contractual term of 6.8 years. Exercisable SARs of 181,820 at June 30, 2008 had a total intrinsic value of zero and a weighted average contractual term of 7.0 years. An additional 332,306 rights are expected to vest with a $34.00 per share weighted average grant price, a weighted average remaining contractual life of 6.7 years and a total intrinsic value of zero.

Total cash received from the exercise of share-based instruments in fiscal years 2008 and 2007 was $8.9 and $16.8 million, respectively.

As of June 30, 2008, the total unrecognized compensation cost related to all unvested stock-based compensation arrangements was $23.9 million. The related weighted average period over which such cost is expected to be recognized was approximately 3.7 years as of June 30, 2008.

The total intrinsic value of all stock-based compensation (the amount by which the stock exceeded the exercise or grant date price) that was exercised during fiscal years 2008, 2007 and 2006 was $7.3, $17.7 and $18.4 million, respectively.

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10. SHAREHOLDERS' EQUITY (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 2008, 2007 and 2006 were as follows:

	2008	2007	2006
Stock options	$ 8.60	$12.38	$11.43
SARs	8.60	12.37	11.43
Restricted stock awards	28.57	39.01	35.33
Restricted stock units	–	40.70	–

The expense associated with the RSA and RSU grants is based on the market price of the Company's stock at the date of grant. The significant assumptions used in determining the underlying fair value on the date of grant of each stock option and SAR grant issued during the fiscal years 2008, 2007 and 2006 is presented below:

	2008	2007	2006
Risk-free interest rate	3.29%	4.55%	4.96%
Expected term (in years)	5.50	5.50	5.50
Expected volatility	28.00%	27.00%	27.00%
Expected dividend yield	0.56%	0.41%	0.45%

The risk free rate of return is determined based on the U.S. Treasury rates approximating the expected life of the 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.

Compensation expense included in income before income taxes related to stock-based compensation was $6.8, $4.9 and $4.9 million for the three years ended June 30, 2008, 2007, and 2006, respectively.

See Note 1 to the Consolidated Financial Statements for discussion of the Company's measure of compensation cost for its stock-based compensation awards.

Authorized Shares and Designation of Preferred Class:

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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 15.0 percent or more of the Company's voting stock, or following the announcement of a

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10. SHAREHOLDERS' EQUITY (Continued)

tender offer or exchange offer to acquire an interest of 15.0 percent 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 (BOD) approved a stock repurchase program. Originally, the program authorized up to $50.0 million to be expended for the repurchase of the Company's stock. The BOD elected to increase this maximum to $100.0 million in August 2003, to $200.0 million on May 3, 2005, and to $300.0 million on April 26, 2007. The timing and amounts of any repurchases will depend on many factors, including the market price of the common stock and overall market conditions. Historically, the repurchases to date have been made primarily to eliminate the dilutive effect of shares issued in conjunction with acquisitions, restricted stock grants and stock option exercises. All repurchased shares become authorized but unissued shares of the Company. This repurchase program has no stated expiration date. As of June 30, 2008, 2007, and 2006, a total accumulated 6.8, 5.1, and 3.0 million shares have been repurchased for $226.5, $176.5, and $96.8 million, respectively. As of June 30, 2008, $73.5 million remains to be spent on share repurchases under this program.

11. SEGMENT INFORMATION

As of June 30, 2008, the Company owned, franchised or held ownership interests in over 13,550 worldwide locations. The Company's locations consisted of 10,273 North American salons (located in the United States, Canada and Puerto Rico), 472 international salons, 92 hair restoration centers, and 2,714 locations in which the Company maintains an ownership interest through its investments in affiliates.

The Company operates its North American salon operations through six primary concepts: Regis Salons, MasterCuts, Trade Secret, SmartStyle and Supercuts and Promenade salons. The concepts offer similar products and services, concentrate on the mass market consumer marketplace and have consistent distribution channels. All of the company-owned and franchise salons within the North American salon concepts are located in high traffic, retail shopping locations that attract mass market consumers, and the individual salons display similar long-term economic characteristics. The salons share interdependencies and a common support base. The Company's hair restoration centers are located in the United States and Canada.

The Company operates its international salon operations, primarily in the United Kingdom, through four primary concepts: Regis, Supercuts, Trade Secret, and Sassoon salons. Consistent with the North American concepts, the international concepts offer similar products and services, concentrate on the mass market consumer marketplace and have consistent distribution channels. All of the international salon concepts are company-owned and are located in malls, leading department stores, mass market consumers, and the individual salons display similar long-term economic characteristics. The salons share interdependencies and a common support base.

The Company's hair restoration centers are located in the United States and Canada.

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11. SEGMENT INFORMATION (Continued)

The Company's equity method investments of $197.9 million and $12.1 million as of June 30, 2008 and 2007, respectively, are considered part of the unallocated corporate segment.

Based on the way the Company manages its business, it has reported its North American salons, international salons, and hair restoration centers as three separate reportable operating segments.

The accounting policies of the reportable operating segments are the same as those described in Note 1 to the Consolidated Financial Statements. Corporate assets detailed below are primarily comprised of property and equipment associated with the Company's headquarters and distribution centers, corporate cash, inventories located at corporate distribution centers, deferred income taxes, franchise receivables and other corporate assets. Intersegment sales and transfers are not significant. Summarized financial information concerning the Company's reportable operating segments is shown in the following table as of June 30, 2008, 2007, and 2006:

	For the Year Ended June 30, 2008(1)				
	Salons		Hair Restoration Centers	Unallocated Corporate	Consolidated
	North America	International			
	(Dollars in thousands)				
Revenues:					
Service	$1,667,005	$ 165,379	$ 61,873	$ –	$ 1,894,257
Product	639,603	67,078	69,299	–	775,980
Royalties and fees	40,612	23,606	4,410	–	68,628
	2,347,220	256,063	135,582	–	2,738,865
Operating expenses:					
Cost of service	967,393	89,617	33,700	–	1,090,710
Cost of product	340,293	35,702	19,984	–	395,979
Site operating expenses	184,417	14,410	5,174	–	204,001
General and administrative	136,942	37,143	30,941	132,134	337,160

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Rent	340,453	56,571	7,313	1,933	406,270
Depreciation and amortization	90,910	10,969	10,289	18,280	130,448
Total operating expenses	2,060,408	244,412	107,401	152,347	2,564,568
Operating income (loss)	286,812	11,651	28,181	(152,347)	174,297
Other income (expense):					
Interest expense	–	–	–	(44,571)	(44,571)
Interest income and other, net	–	–	–	8,373	8,373
Income (loss) before income taxes and equity in income of affiliated companies	$ 286,812	$ 11,651	$ 28,181	$(188,545)	$ 138,099
Total assets	$1,249,827	$ 120,443	$ 284,898	$ 580,703	$ 2,235,871
Long-lived assets	355,287	35,902	11,616	79,046	481,851
Capital expenditures	51,057	10,624	4,191	19,927	85,799
Purchases of salon assets	119,822	6,719	19,036	–	145,577

(1) On August 1, 2007, the Company contributed its accredited cosmetology schools to Empire Education Group, Inc. For the year ended June 30, 2008 the results of operations for the month

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11. SEGMENT INFORMATION (Continued)

ended July 31, 2007 for the accredited cosmetology schools are reported in the North American salons segment. The Company retained ownership of its one North American and four United Kingdom Sassoon schools. Subsequent to August 1, 2007 results of operations for the Sassoon schools are included in their respective North American and international salon segments.

On January 31, 2008, the Company merged its continental European franchise salon operations with the Franck Provost Salon Group. For the year ended June 30, 2008 the results of operations for the seven months ended January 31, 2008 are reported in the international salon segment.

	For the Year Ended June 30, 2007					
	Salons					
	North America	International	Beauty Schools	Hair Restoration Centers	Unallocated Corporate	Consolidated
	(Dollars in thousands)					
Revenues:						
Service	$1,512,287	$ 151,057	$ 76,556	$ 53,902	$ –	$ 1,793,802
Product	614,377	65,675	9,071	63,157	–	752,280
Royalties and fees	38,766	36,698	–	5,042	–	80,506
	2,165,430	253,430	85,627	122,101	–	2,626,588
Operating expenses:						
Cost of service	872,813	80,256	32,583	29,129	–	1,014,781
Cost of product	317,214	38,957	5,462	18,859	–	380,492
Site operating expenses	174,733	11,989	16,366	5,013	–	208,101
General and administrative	119,204	45,179	9,848	27,191	127,222	328,644
Rent	314,718	50,410	9,272	6,535	1,885	382,820

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Depreciation and amortization	84,250	9,091	3,355	9,813	17,628	124,137
Goodwill impairment	–	–	23,000	–	–	23,000
Total operating expenses	1,882,932	235,882	99,886	96,540	146,735	2,461,975
Operating income (loss)	282,498	17,548	(14,259)	25,561	(146,735)	164,613
Other income (expense):						
Interest	–	–	–	–	(41,770)	(41,770)
Other, net	–	–	–	–	5,113	5,113
Income (loss) before income taxes	$ 282,498	$ 17,548	$ (14,259)	$ 25,561	$(183,392)	$ 127,956
Total assets	$1,058,643	$ 210,629	$163,818	$ 262,295	$ 436,729	$ 2,132,114
Long-lived assets	334,568	34,569	16,664	9,461	98,823	494,085
Capital expenditures	49,294	8,057	2,493	4,590	25,645	90,079
Purchases of salon assets	64,614	2,895	(73)	1,869	–	69,305

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11. SEGMENT INFORMATION (Continued)

	For the Year Ended June 30, 2006					
	Salons					
	North America	International	Beauty Schools	Hair Restoration Centers	Unallocated Corporate	Consolidated
	(Dollars in thousands)					
Revenues:						
Service	$1,395,953	$ 133,323	$ 58,281	$ 46,471	$ –	$ 1,634,028
Product	601,332	53,796	5,671	58,143	–	718,942
Royalties and fees	39,263	33,543	–	5,088	–	77,894
	2,036,548	220,662	63,952	109,702	–	2,430,864
Operating expenses:						
Cost of service	806,024	71,110	24,757	26,624	–	928,515
Cost of product	316,980	32,168	4,278	17,592	–	371,018
Site operating expenses	175,039	9,755	10,272	4,536	–	199,602
General and administrative	108,362	41,963	8,270	23,254	112,243	294,092
Rent	293,571	42,756	6,999	6,215	1,385	350,926
Depreciation and amortization	80,011	9,348	2,610	9,908	14,026	115,903
Terminated acquisition income, net	–	–	–	–	(33,683)	(33,683)
Total operating expenses	1,779,987	207,100	57,186	88,129	93,971	2,226,373

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Operating income (loss)	256,561	13,562	6,766	21,573	(93,971)	204,491
Other income (expense):						
Interest	–	–	–	–	(34,989)	(34,989)
Other, net	–	–	–	–	651	651
Income (loss) before income taxes	$ 256,561	$ 13,562	$ 6,766	$ 21,573	$(128,309)	$ 170,153
Total assets	$1,030,720	$ 187,556	$177,295	$ 259,739	$ 330,014	$ 1,985,324
Long-lived assets	340,105	30,094	16,003	7,203	90,359	483,764
Capital expenditures	71,507	8,978	3,681	2,833	32,915	119,914
Purchases of salon assets	82,123	4,556	62,753	8,176	–	157,608

Total revenues and long-lived assets associated with business operations in the United States and all other countries in aggregate were as follows:

	Year Ended June 30,					
	2008		2007		2006	
	Total Revenues	Long-lived Assets	Total Revenues	Long-lived Assets	Total Revenues	Long-lived Assets
	(Dollars in thousands)					
United States	$2,330,525	$425,131	$2,252,491	$439,650	$2,102,063	$432,377
Other countries	408,340	56,720	374,097	54,435	328,801	51,387
Total	2,738,865	481,851	$2,626,588	$494,085	$2,430,864	$483,764

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QUARTERLY FINANCIAL DATA
(Unaudited)

	Quarter Ended				Year
	September 30	December 31	March 31	June 30	Ended
	(Dollars in thousands, except per share amounts)				
2008					
Revenues	$ 667,525	$ 682,241	$680,055	$709,044	$2,738,865
Gross profit, including site depreciation	271,172	270,820	274,969	291,267	1,108,228
Operating income(a)(c)	41,006	44,859	42,166	46,266	174,297
Net income(a)(c)	20,599	22,556	18,968	23,081	85,204
Net income per basic share	0.47	0.52	0.44	0.54	1.97
Net income per diluted share	0.46	0.51	0.44	0.54	1.95
Dividends declared per share	0.04	0.04	0.04	0.04	0.16

	Quarter Ended				Year
	September 30	December 31	March 31	June 30	Ended
	(Dollars in thousands, except per share amounts)				
2007					
Revenues	$ 639,243	$ 656,990	$655,035	$675,320	$2,626,588
Gross profit, including site depreciation	262,460	269,368	269,096	278,619	1,079,543

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Operating income(a)(b)(c)	44,016	47,260	23,267	50,070	164,613
Net income(a)(b)(c)	23,093	26,874	5,328	27,875	83,170
Net income per basic share	0.51	0.60	0.12	0.63	1.86
Net income per diluted share	0.50	0.59	0.12	0.61	1.82
Dividends declared per share	0.04	0.04	0.04	0.04	0.16

Refer to Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 6 in this Form 10-K for explanations of items which impacted fiscal year 2008 revenues, operating and net income.

(a) Operating income and net income increase as a result of $3.4 million ($2.0 million net of tax), $3.7 million ($2.3 million net of tax), $7.5 million ($4.9 million of tax), and $2.7 million ($1.8 million net of tax) was recorded in the fourth quarter ended June 30, 2008, second quarter ended December 31, 2007, fourth quarter ended June 30, 2007, and third quarter ended March 31, 2007, respectively, related to a change in estimate in the Company's self-insurance accruals, primarily, prior years' workers' compensation claims reserves, due to our safety and return-to-work programs over the recent years, as well as changes in state laws.

(b) Expense of $23.0 million ($19.6 million net of tax) was recorded in the third quarter ended March 31, 2007 related to our beauty school business, related to the Company's annual goodwill impairment analysis.

(c) Expenses of $10.5 million ($6.4 million net of tax) and $6.8 million ($4.5 million net of tax) were recorded in the fourth quarters ended June, 30, 2008 and 2007, respectively, related to the impairment of property and equipment at underperforming locations.

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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 in its Exchange Act reports 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 and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Our Disclosure Committee, consisting of certain members of management, assists in this evaluation. The Disclosure Committee meets on a quarterly basis and more often if necessary.

With the participation of management, the Company's chief executive officer and chief financial officer 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 conclusion of the period ended June 30, 2008. Based upon this evaluation, the chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures were effective.

Management's Report on Internal Control over Financial Reporting

In Part II, Item 8 above, management provided a report on internal control over financial reporting, in which management concluded that the Company's internal control over financial reporting was effective as of June 30, 2008. In addition, PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm, provided a report on the Company's effectiveness of internal control over financial reporting. The full text of management's report and PricewaterhouseCoopers' report appears on pages 67 and 68 herein.

Changes in Internal Controls

Based on management's most recent evaluation of the Company's internal control over financial reporting, management determined that there were no changes in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter.

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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 2008 Proxy, 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 2008 Proxy Statement, and is 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 / Guidelines" (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 on 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 2008 Proxy Statement, and is incorporated herein by reference.

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

Security Ownership of Certain Beneficial Owners and Management in the section titled "Security Ownership of Certain Beneficial Owners and Management" of the Company's 2008 Proxy Statement is incorporated herein by reference.

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The following table provides information about the Company's common stock that may be issued under all of the Company's stock-based compensation plans in effect as of June 30, 2008.

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the column(a)) (c)
Equity compensation plans approved by security holders(1)	2,455,544	$ 28.36	1,594,772(2)
Equity compensation plans not approved by security holders	–	–	–
Total	2,455,544	$ 28.36	1,594,772

(1) Includes stock options granted under the Regis Corporation 2000 Stock Option Plan and 1991 Stock Option Plan as well as shares granted through stock appreciation rights and restricted stock units under the 2004 Long Term Incentive Plan. Information regarding the stock-based compensation plans is included in Notes 1 and 10 to the Consolidated Financial Statements.

(2) The Company's 2004 Long Term Incentive Plan (2004 Plan) provides for the issuance of a maximum of 2,500,000 shares of the Company's common stock through stock options, stock appreciation rights, restricted stock, or restricted stock units. As of June 30, 2008, 215,000 unvested restricted stock units and shares were outstanding under the 2004 Plan, which are not reflected in this table. However, the remaining 1,459,179 common shares available for grant under the 2004 Plan (which are available for grant as restricted stock, as well as stock options or stock appreciation rights) are included in the number of securities remaining available for future issuance under equity compensation plans as disclosed in this table.

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 2008 Proxy Statement, and is incorporated herein by reference. Information regarding director independence is included in the section titled "Corporate Governance−Director Independence" of the Company's 2008 Proxy Statement, and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

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A description of the fees paid to the independent registered public accounting firm will be set forth in the section titled "Item 2−Ratification of Appointment of Independent Registered Public Accounting Firm" of the Company's 2008 Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) *(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.

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(b) Exhibits:

The exhibits listed in the accompanying index are filed as part of this report.

Exhibit Number/Description

2(a)	Contribution Agreement, dated April 18, 2007, between the Company and Empire Beauty School Inc. (Incorporated by reference to Exhibit 2.1 of the Company's Report on Form 8-K filed on April 24, 2007.)
2(b)	Purchase Agreement, dated November 13, 2004, between the Company and Hair Club Group Inc. (Incorporated by reference to Exhibit 2 of the Company's Report on Form 10-Q filed on February 9, 2005, for the quarter ended December 31, 2004.)
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. (Incorporated by reference to Exhibit 3(a) of the Company's Report on Form 10-Q filed on February 8, 2006, for the quarter ended December 31, 2005.)
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.)
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.)
10(a)(*)	Form of Employment and Deferred Compensation Agreement. (Incorporated by reference to Exhibit 10(a) to the Company's Report on Form 10-K filed on August 29, 2007, for the year ended June 30, 2007.)

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10(b)(*)	Schedule of omitted split-dollar insurance policies. (Incorporated by reference to Exhibit 10(h) to the Company's Registration Statement on Form S-1 (Reg. No. 40142).)
10(c)(*)	Regis Corporation Executive Retirement Savings Plan and Trust Agreement, dated March 1, 2007 between the Company and Fidelity Management Trust Company, as Trustee. (Incorporated by reference to Exhibit 10(c) of the Company's Report on Form 10-K filed on August 29, 2007, for the year ended June 30, 2007.)

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10(d)(*)	Survivor Benefit Agreement, dated June 27, 1994, between the Company and Myron Kunin. (Incorporated by reference to Exhibit 10(t) part of the Company's Report on Form 10-K filed on September 28, 1994, for the year ended June 30, 1994.)
10(e)	Series G Senior Note, dated July 10, 1998, between the Company and Prudential Insurance Company of America. (Incorporated by reference to Exhibit 10(jj) of the Company's Report on Form 10-K filed on September 17, 1998, for the year ended June 30, 1998.)
10(f)	Amended and Restated Private Shelf Agreement, dated October 3, 2000, between the Company and Prudential Insurance Company of America. (Incorporated by reference to Exhibit 10(ff) of the Company's Report on Form 10-Q filed on November 13, 2000, for the quarter ended September 30, 2000.)
10(g)	Senior Series I Note, dated October 3, 2000, between the Company and Prudential Insurance Company of America. (Incorporated by reference to Exhibit 10(aa) of the Company's Report on Form 10-K filed on September 12, 2001, for the year ended June 30, 2001.)
10(h)	Note Purchase Agreement, dated March 1, 2002, between the Company and purchasers listed in Schedule A attached thereto. (Incorporated by reference to Exhibit 10(aa) of the Company's Report on Form 10-K filed on September 24, 2002, for the year ended June 30, 2002.)
10(i)	Form of Series A Senior Note. (Attached as Exhibit 1(a) to the Note Purchase Agreement dated March 1, 2002, and incorporated by reference to Exhibit 10(aa) of the Company's Report on Form 10-K filed on September 24, 2002, for the year ended June 30, 2002.)
10(j)	Form of Series B Senior Note. (Attached as Exhibit 1(b) to the Note Purchase Agreement dated March 1, 2002, and incorporated by reference to Exhibit 10(aa) of the Company's Report on Form 10-K filed on September 24, 2002, for the year ended June 30, 2002.)
10(k)	Series J Senior Notes, dated June 9, 2003, between the Company and Prudential Insurance Company of America. (Incorporated by reference to Exhibit 10(dd) of the Company's Report on Form 10-K filed on September 17, 2003, for the year ended June 30, 2003.)
10(l)	Promissory Note dated November 26, 2003, between the Company and Information Leasing Corporation. (Incorporated by reference to Exhibit 10(ee) of the Company's Report on Form 10-K filed on September 10, 2004, for the year ended June 30, 2004.)
10(m)(*)	2004 Long Term Incentive Plan (Draft), dated August 4, 2002. (Incorporated by reference to Exhibit 10(ff) of the Company's Report on Form 10-K filed on September 10, 2004, for the year ended June 30, 2004.)
10(n)(*)	Amendment to 2004 Long-Term Incentive Plan, effective March 8, 2007. (Incorporated by reference to Exhibit 10(p) of the Company's Report on Form 10-K filed on August 29, 2007, for the year ended June 30, 2007.)

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10(o)	Lease Agreement commencing October 1, 2005, between the Company and France Edina, Property, LLP. (Incorporated by reference to Exhibit 99 of the Company's Report on Form 8-K filed on May 6, 2005.)

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10(p)	Third Amended and Restated Credit Agreement, dated April 7, 2005, among the Company, Bank of America, N.A., as Administrative Agent, LaSalle Bank National Association, as Co-Administrative Agent and Co-Arranger and as Swing-Line Lender, J.P. Morgan Chase Bank, N.A., as Syndication Agent, Wachovia Bank, National Association, as Documentation Agent, Other Financial Institutions Party thereto, and Banc of America Securities LLC as Co-Arranger and Sole Book Manager. (Incorporated by reference to Exhibit 99.1 of the Company's Report on Form 8-K filed April 12, 2005.)
10(q)	Master Note Purchase Agreement, dated March 15, 2005, between the Company and the purchasers listed in Schedule A attached Thereto. (Incorporated by reference to Exhibit 99.2 of the Company's Report on Form 8-K filed April 12, 2005.)
10(r)	First Amendment to Note Purchase Agreement dated March 1, 2005, between the Company and the purchasers listed in Schedule I attached thereto. (Incorporated by reference to Exhibit 99.3 of the Company's Report on Form 8-K filed April 12, 2005.)
10(s)(*)	Short Term Incentive Compensation Plan, effective July 1, 2004. (Incorporated by reference to Exhibit 10(ll) of the Company's Report on Form 10-K filed on September 9, 2005, for the year ended June 30, 2005.)
10(t)(*)	Employment Agreement, dated February 8, 2007, between the Company and Paul D. Finkelstein. (Incorporated by reference to Exhibit 10 of the Company's Report on Form 10-Q filed on February 9, 2007, for the quarter ended December 31, 2006.)
10(u)(*)	Employment Agreement, dated May 9, 2007, between the Company and Randy L. Pearce. (Incorporated by reference to Exhibit 10 of the Company's Report on Form 10-Q filed on May 10, 2007, for the quarter ended March 31, 2007.)
10(v)	Consulting Agreement, dated April 18, 2007, between the Company and Empire Beauty School Inc. (Incorporated by reference to Exhibit 10.1 of the Company's Report on Form 8-K filed on April 24, 2007.)
10(w)(*)	Amended and Restated Compensation Agreement, dated June 29, 2007, between the Company and Myron Kunin. (Incorporated by reference to Exhibit 10.1 of the Company's Report on Form 8-K filed on July 5, 2007.)
10(x)(*)	Amended and Restated Senior Officer Employment and Deferred Compensation Agreement, dated June 29, 2007, between the Company and Gordon Nelson. (Incorporated by reference to Exhibit 10.2 of the Company's Report on Form 8-K filed on July 5, 2007.)
10(y)	Master Agreement, dated October 11, 2007, between Mr. Yvon Provost, Mr. Fabien Provost, Mrs. Olivia Provost, Mrs. Monique La Rizza, Artal Services N.V., Mr. Jean Mouton, RHS Netherlands Holdings BV, RHS France SAS, the Company and Artal Group S.A. (Incorporated by reference to Exhibit 10 of the Company's Report on Form 10-Q filed on February 7, 2008, for the quarter ended December 31, 2007.)
10(z)	Stock Purchase Agreement, dated January 17, 2008, between the

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	Company, Cameron Capital Investments, Inc., Stephen Powell and Mackenzie Limited Partnership.
10(aa)	Fourth Amended and Restated Credit Agreement, dated July 12, 2007, among the Company, J.P. Morgan Chase Bank, N.A., as Administrative Agent, Swing Line Lender and Issuer, Bank of America, N.A., as Syndication Agent, LaSalle Bank National Association, The Bank of Tokyo-Mitsubishi UFJ, Ltd., Chicago Brach, and Wachovia Bank, National Association, as Documentation Agents, arranged by J.P. Morgan Securities Inc., and Bank of America Securities LLC, Joint Lead Arrangers and Joint Bookrunners.

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21	List of Subsidiaries of Regis Corporation.
23	Consent of PricewaterhouseCoopers LLP.
31.1	Chairman of the Board of Directors, President and Chief Executive Officer of the Company: Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Senior Executive Vice President, Chief Financial and Administrative Officer of the Company: Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Chairman of the Board of Directors, President and Chief Executive Officer of the Company: Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Senior Executive Vice President, Chief Financial and Administrative Officer of the Company: Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

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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/ PAUL D. FINKELSTEIN
Paul D. Finkelstein,
Chairman of the Board of Directors, President and Chief Executive Officer

By /s/ RANDY L. PEARCE
Randy L. Pearce,
Senior Executive Vice President, Chief Financial and Administrative Officer (Principal Financial and Accounting Officer)

DATE: August 29, 2008

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/ PAUL D. FINKELSTEIN
Paul D. Finkelstein, Chairman of the Board of Directors — Date: August 29, 2008

/s/ MYRON KUNIN
Myron Kunin, Vice Chairman of the Board of Directors — Date: August 29, 2008

/s/ DAVID B. KUNIN
David B. Kunin, Director — Date: August 29, 2008

/s/ ROLF BJELLAND
Rolf Bjelland, Director — Date: August 29, 2008

/s/ VAN ZANDT HAWN
Van Zandt Hawn, Director — Date: August 29, 2008

/s/ SUSAN S. HOYT
Susan S. Hoyt, Director — Date: August 29, 2008

/s/ THOMAS L. GREGORY
Thomas L. Gregory, Director — Date: August 29, 2008

/s/ STEPHEN E. WATSON — Date: August 29, 2008

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Exhibit 10(z)

STOCK PURCHASE AGREEMENT

THIS STOCK PURCHASE AGREEMENT (this "*Agreement*") is made and entered into as of January 17, 2008, by and among Regis Corporation ("*Regis*"), Trade Secret, Inc., a wholly-owned subsidiary of Regis ("*Buyer*"), Cameron Capital Investments Inc. ("*Seller*"), Cameron Capital Inc. (the "*Company*"), Stephen Powell (an officer of the Company) ("*Powell*") (with respect to Articles II, V.1, VII and IX and Sections 4.1, 4.7, 4.8 and 8.2(f) only, as provided therein), Mackenzie Limited Partnership (an entity under the control and direction of Duncan Robinson, an officer of the Company) ("*Mackenzie*") (with respect to Articles II, V.2, VII and IX and Sections 4.1, 4.7, 4.8 and 8.2(f) only, as provided therein), and Cameron Capital Corporation ("*CCC*") (with respect to Articles VII and IX and Section 8.2(i) only, as provided therein).

WHEREAS, Seller owns 14,758 Class A Shares of the issued and outstanding Capital Stock of the Company, and Powell and Mackenzie each own 500 Class B non-voting Shares of the issued and outstanding Capital Stock of the Company (all of such shares representing all of the issued and outstanding Capital Stock of the Company, and collectively referred to herein as the "*Shares*");

WHEREAS, the Company owns, directly or indirectly, all of the issued and outstanding Capital Stock of Cameron Capital I Inc. ("*CC1*") (other than Capital Stock of CC1 owned by Buyer), BeautyFirst, Inc. ("*BeautyFirst*") (other than the Outside BF Interests (as defined herein)) and PureBeauty, Inc. ("*PureBeauty*"); and

WHEREAS, on the terms and subject to the conditions set forth in this Agreement, Buyer desires to purchase from Seller, Powell and Mackenzie, and Seller, Powell and Mackenzie desire to sell to Buyer, all of the Shares; and

WHEREAS, to induce Buyer to enter into this Agreement, the Seller, Powell and Mackenzie are entering into this Agreement and making their agreements as set forth herein.

NOW, THEREFORE, in consideration of the mutual covenants, agreements and understandings contained herein and intending to be legally bound, the parties hereto hereby agree as follows:

ARTICLE I
CERTAIN DEFINITIONS

1.1 *Definitions*. For the purposes of this Agreement, the following terms have the meanings set forth below:

"*Accounting Firm*" has the meaning set forth in *Section 2.4(c)*.

"*Affiliate*" of any particular Person means any other Person controlling, controlled by or under common control with such Person. For purposes of this definition, "*control*" (including the terms "*controlling*," "*controlled by*" and "*under common control with*") means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise, and such "control" will be presumed if any Person owns 10% or more of the voting capital stock or other ownership interests, directly or indirectly, of any other Person.

"*Affiliated Group*" means any affiliated group as defined in Section 1504 of the Code (or any analogous combined, consolidated or unitary group defined under state, local or foreign income Tax law) of which the Company or any of its Subsidiaries is or has been a member.

"*Applicable Rate*" means the prime rate of interest as published from time to time in *The Wall Street Journal*.

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"*Buyer Parties*" means Regis and its Affiliates (including, after the Closing, the Company and its Subsidiaries, but excluding Seller and its Affiliates) and their respective stockholders, officers, directors, employees, agents, partners, members, representatives, successors and assigns.

"*Buyout Adjustment Amount*" means the aggregate of the Buyout Payments, provided that, where the amount of any such payment or cost (or portion thereof) is deductible for Tax purposes, such amount (or portion thereof) shall be multiplied by 0.6.

"*Buyout Payments*" means the amounts paid to the holders of Outside BF Interests for the purchase or repurchase of Capital Stock of BeautyFirst and the repurchase or cancellation of Options with respect to BeautyFirst, whether before, at or after Closing, together with any Losses incurred by Buyer Parties after Closing in causing BeautyFirst to become a wholly-owned Subsidiary (including costs and expenses incurred in effecting a "squeeze-out" merger if necessary and any amounts payable under the BeautyFirst stockholders agreement).

"*Capital Stock*" means any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation and any and all ownership interests in a Person (other than a corporation), including membership interests, partnership interests, joint venture interests and beneficial interests, and any and all warrants, options or rights to purchase any of the foregoing.

"*CC Newco*" means a newly incorporated Delaware corporation that will be party to, among other things, the Consulting Agreement.

"*CERCLA*" means the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended.

"*Closing*" has the meaning set forth in *Section 2.2(a)*.

"*Closing Date*" has the meaning set forth in *Section 2.2(a)*.

"*Closing Statement*" has the meaning set forth in *Section 2.5(b)*.

"*Code*" means the Internal Revenue Code of 1986, as amended, and any reference to any particular Code section shall be interpreted to include any revision of or successor to that section regardless of how numbered or classified.

"*Company Transaction*" has the meaning set forth in *Section 4.8*.

"*Confidential Information*" means all information of a confidential or proprietary nature (whether or not specifically labeled or identified as "confidential"), in any form or medium, that relates to the business, products, services or research or development of the Company or its Subsidiaries or their respective suppliers, distributors, customers, independent contractors or other business relations. Confidential Information includes the following: (i) internal business information (including historical and projected financial information and budgets and information relating to strategic and staffing plans and practices, business, training, marketing, promotional and sales plans and practices, cost, rate and pricing structures); (ii) identities of, individual requirements of, specific contractual arrangements with, and other confidential or proprietary information about, the Company's or any of its Subsidiaries' suppliers, distributors, customers, independent contractors or other business relations and their confidential or proprietary information; (iii) trade secrets, know-how, compilations of data and analyses, techniques, systems, formulae, research, records, reports, manuals, documentation, models, data and data bases relating thereto; and (iv) inventions, innovations, improvements, developments, designs, analyses, software architectures, drawings, reports and all similar or related information (whether or not patentable and whether or not reduced to practice).

"*Consulting Agreement*" has the meaning set forth in *Section 3.1(i)*.

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"*Encumbrance*" means any lien, charge, security interest, community property interest, claim, pledge, Tax, option, warrant, right, contract, call, commitment, equity, demand, proxy, voting agreement, restriction on transfer (other than restrictions on transfer under the Securities Act and applicable state securities laws) or other encumbrance or restriction of any kind.

"*Environmental and Safety Requirements*" means all federal, state, local and foreign statutes, regulations, ordinances and other provisions having the force or effect of law, all judicial and administrative orders and determinations, all contractual obligations and all common law, in each case concerning public health and safety, worker health and safety, exposure to hazardous substances or materials, pollution or protection of the environment, including all those relating to the presence, use, production, generation, handling, transport, treatment, storage, disposal, distribution, labeling, testing, processing, discharge, release, threatened release, control or cleanup of, or exposure to, any hazardous or otherwise regulated materials, substances or wastes, chemical substances or mixtures, pesticides, pollutants, contaminants, toxic chemicals, petroleum products or byproducts, asbestos, polychlorinated biphenyls, noise, radiation or radon, each as amended and as now or hereafter in effect.

"*Escrow Agent*" means LaSalle National Bank of Chicago.

"*Escrow Agreement*" means the escrow agreement substantially in the form of *Exhibit A* attached hereto.

"*Escrow Amount*" means an amount equal to $1,000,000.

"*ERISA*" means the Employee Retirement Income Security Act of 1974, as amended.

"*Excluded Subsidiaries*" means Cameron Capital Marketing Inc. and Cameron Capital Technologies Inc.

"*GAAP*" means United States generally accepted accounting principles, as in effect from time to time.

"*Governmental Approvals*" has the meaning set forth in *Section 3.1(c)*.

"*Guaranty*" means any agreement, undertaking or arrangement by which any Person guarantees, endorses or otherwise becomes or is contingently liable upon the debt, obligation or other liability of any other Person (other than by endorsements of instruments in the ordinary course of collection), or guaranties of the payment of dividends or other distributions upon the shares of any other Person.

"*Harris Bank Agreements*" means the credit agreement dated as of June 28, 2007 among BeautyFirst, the lenders from time to time parties thereto and Harris N.A. as administrative agent, and the related security documents, in each case in the form provided to Buyer.

"*Headquarter Cost*" means the liabilities, costs and expenses of any nature relating to the closure of or cessation or reduction of operations at the Headquarter Facility, in the case of any such liabilities, costs or expenses which are deductible for Tax purposes, multiplied by 0.6. Without limiting the generality of the foregoing, Headquarter Cost shall include the cost (i) to terminate or settle obligations under the lease(s) for such facility (including any penalties, liquidated damages and repayment of forgivable loans), (ii) to terminate all contracts relating to matters or operations at the Headquarter Facility, (iii) for related legal, consulting and advisory fees, (iv) to relocate or dispose of the equipment and other assets located there (net of any net proceeds of disposition of such equipment or assets that is received after Closing and any Tax benefit (without duplication of any 40% adjustment above in this definition) from the write-down or liquidation of such equipment or assets), and (v) to operate or maintain the facility from and after the date that is 75 days after delivery of a notice pursuant to Section 2.4(a) (which operation and maintenance costs include, without limitation, rent, taxes, insurance, security and maintenance services, utilities and all other costs and expenses).

"*Headquarter Cost Statement*" has the meaning set forth in *Section 2.4(e)*.

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"*Headquarter Facility*" means the BeautyFirst corporate headquarters facility located at 10610 East 26th Circle North, Wichita, Kansas 67226.

"*Headquarter Severance*" means all liabilities, costs and expenses of any nature with respect to termination and severance to any Headquarter Staff if they are terminated at any time within one year after Closing (but in each case only in the amounts determined under the agreements, plans and programs in place as of Closing), including legal disputes raised by them with respect to such severance, in the case of any such costs or expenses which are deductible for Tax purposes, multiplied by 0.6.

"*Headquarter Staff*" means all employees or consultants of the Company or its Subsidiaries whose principal location of employment or work is the Headquarter Facility as of the Closing, including but not limited to the individuals listed on the attached *Headquarter Staff Schedule*.

"*Indebtedness*" means, with respect to any Person at any date, without duplication: (i) all obligations of such Person for borrowed money or in respect of loans or advances, including (in the case of the Company and its Subsidiaries) all notes, advances, payables and other inter-company obligations to Seller or any of its Affiliates (other than the Company and its Subsidiaries) but excluding any such obligations of the Company or its Subsidiaries to the Buyer Parties and any such obligations under forgivable loans in relation to the Headquarters Facility, (ii) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments or debt securities, excluding any such obligations of the Company or its Subsidiaries to the Buyer Parties and any such obligations under forgivable loans in relation to the Headquarters Facility, (iii) all obligations in respect of letters of credit and bankers' acceptances issued for the account of such Person, (iv) all obligations arising from cash/book overdrafts, (v) all obligations arising from deferred compensation arrangements and all obligations under severance plans, bonus plans or similar arrangements payable as a result of the consummation of the sale of the Shares to Buyer hereunder, (vi) all Guaranties of such Person in connection with any of the foregoing, (vii) all capital lease obligations, (viii) all unpaid Taxes for periods prior to the Closing Date (other than commodity or sales taxes in relation to current accounts payable and property, social security, unemployment, disability, payroll or employee or other withholding Taxes, in each case that are not in arrears (nor paid later than in past general practice) and were accrued in the ordinary course), (ix) all indebtedness for the deferred purchase price of property or services with respect to which the Person is liable, contingently or otherwise, as obligor or otherwise (other than trade payables incurred in the ordinary course of business which are not past due), (x) all trade payables that are either (A) not incurred in the ordinary course of business, or (B) past due as of the Closing (based on the due date specified in the original invoice thereof, or if no due date is specified in the invoice or no invoice exists, then based on past custom and practice), (xi) any amounts incurred by Buyer Parties as a prepayment or termination penalty under the Harris Bank Agreements in connection with the payoff and termination of such Harris Bank Agreements, and (xii) all accrued interest, prepayment premiums or penalties related to any of the foregoing.

"*Indebtedness Addback*" means, for the Company and its Subsidiaries, without duplication, the sum of: (i) the amount of cash held by the Company and its Subsidiaries as of Closing (other than cash held at the store level, which shall be maintained at customary levels); *plus* (ii) the aggregate amount, if any, of excess inventory bought by the Company and its Subsidiaries between the date of this Agreement and Closing and pre-approved in writing by Buyer to be treated as "excess inventory" for purposes hereof, less any amount of such inventory sold prior to Closing; *plus* (iii) refunds received after Closing in respect of amounts on account of federal and state income Tax for pre-Closing periods (as long as the refund is of an amount actually paid prior to Closing); *plus* (iv) any refund received after Closing of the amount deposited prior to Closing with the State of California in respect of sales tax; *plus* (v) refunds of previously paid insurance premiums, or portions thereof, received by the Buyer Parties after Closing as a result of cancellation or termination of existing insurance policies of the Company and its Subsidiaries (but the parties agree Buyer Parties have no obligation to cancel or terminate such

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policies); *plus* (vi) an amount for outside vendor costs for the Dierbergs store not to exceed $29,368.08 plus any additional amounts related thereto supported by invoices; *plus* (vii) design fees paid to Innersalon in respect of the Northern California Trade Secret Stores, not to exceed $9,300.00; *plus* (viii) an amount equal to $16,044.00 in respect of the sale of Wella color product to Regis. A schedule listing, where possible, anticipated or known amounts of the foregoing items is attached hereto as the *Indebtedness Addback Schedule*.

"*Indebtedness Excess*" means (A) $0, if the estimated amount of Indebtedness as of Closing *less* the estimated Indebtedness Addback as of Closing does not exceed $5,000,000, and (B) if the estimated amount of Indebtedness as of Closing *less* the estimated Indebtedness Addback as of Closing exceeds $5,000,000, the amount by which the estimated Indebtedness as of Closing *less* the estimated Indebtedness Addback as of Closing exceeds $5,000,000. The estimate of Indebtedness and Indebtedness Addback for the foregoing purposes shall be made in good faith by the Seller and Buyer at least two (2) days prior to Closing.

"*Indemnitee*" has the meaning set forth in *Section 8.2(d)*.

"*Indemnitor*" has the meaning set forth in *Section 8.2(d)*.

"*Insurance Policies*" has the meaning set forth in *Section 5.18*.

"*Intellectual Property Rights*" means any and all legally recognizable intellectual and industrial proprietary rights and rights in confidential information of every kind and description anywhere in the world, including without limitation (i) patents and patent applications, (ii) Internet domain names, trademarks, service marks, trade dress, trade names, slogans, logos and corporate names (and all translations, adaptations, derivations and combinations of the foregoing), and registrations and applications for registration thereof together with all of the goodwill associated therewith, (iii) copyrights (registered or unregistered) and copyrightable works, and registrations and applications for registration thereof, (iv) mask works and registrations and applications for registration thereof, (v) computer software (including source code and executable code), data, databases and all documentation related to any of the foregoing, (vi) trade secrets and other confidential information (including ideas, formulas, recipes, compositions, inventions (whether patentable or unpatentable and whether or not reduced to practice), know-how, manufacturing and production processes and techniques, methods of doing business, research and development information, software development methodologies, drawings, specifications, software architectures, designs, plans, proposals, technical data, copyrightable works, non-public data and databases, financial and marketing plans and customer and supplier lists and information, (vii) all other intellectual property rights, and (viii) copies and tangible embodiments of any of the foregoing (in whatever form of medium).

"*Investment*" as applied to any Person means (i) any direct or indirect purchase or other acquisition by such Person of any notes, obligations, instruments, stock, securities or ownership interest (including limited liability company interests, partnership interests and joint venture interests) of any other Person and (ii) any capital contribution by such Person to any other Person.

"*knowledge of the Company*" or "*Company's knowledge*" or similar phrase means the actual knowledge of Steven Hudson, Powell, Troy Biggs, Chris Parmentier and Duncan Robinson, after making reasonable inquiry with respect to the particular matter in question.

"*Latest Balance Sheet*" has the meaning set forth in *Section 5.5(c)*.

"*Leased Real Property*" and "*Leased Realty*" have the respective meanings set forth in *Section 5.10(b)*.

"*Lien*" means any mortgage, pledge, hypothecation, lien (statutory or otherwise), preference, priority, security interest, community property interest, security agreement or other encumbrance of any kind or nature whatsoever (including any conditional sale or other title retention agreement and any lease having substantially the same effect as any of the foregoing and any assignment or deposit arrangement in the nature of a security device).

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"*Losses*" means any loss, liability, demand, claim, action, cause of action, cost, damage, royalty, deficiency, penalty, Tax, fine or expense, whether or not arising out of third-party claims (including interest, penalties, reasonable attorneys' fees and expenses and all reasonable amounts paid in investigation or defense, and all amounts paid in settlement, of any of the foregoing).

"*Material Adverse Effect*" means a material and adverse effect or development upon the business, operations, assets, liabilities, financial condition, operating results, cash flow or employee, customer or supplier relations of the Company and its Subsidiaries taken as a whole.

"*Notice of Disagreement*" has the meaning set forth in *Sections 2.4(e) and 2.5(b)*, respectively.

"*Options*" shall mean all options, warrants, plans, purchase rights, subscription rights, conversion rights, exchange rights or other contracts or commitments to issue, sell or otherwise cause to become outstanding any Capital Stock, whether or not vested or exercisable in accordance with their terms and conditions.

"*Other Holder Purchase Price*" means the sum of $550,000 payable to Powell for his Shares, and $550,000 payable to Mackenzie for its Shares, pursuant to Article II.

"*Outside BF Interests*" means (i) all outstanding Options with respect to BeautyFirst, and (ii) all Capital Stock of BeautyFirst that is not owned by CC1.

"*Permitted Liens*" means (i) Liens that are set forth on the *Permitted Liens Schedule* attached hereto, (ii) Liens for Taxes not delinquent or the validity of which are being contested in good faith by appropriate proceedings and as to which adequate reserves have been established on the Company's financial statements in accordance with GAAP consistently applied, (iii) statutory landlord's, mechanic's, carrier's, workmen's, repairmen's or other similar Liens arising or incurred in the ordinary course of business for amounts which are not due and payable and which would not, individually or in the aggregate, have a Material Adverse Effect, (iv) Liens arising from zoning ordinances which are not material to the Company's or its Subsidiaries' business as currently conducted thereon, (v) Liens in favour of Regis or its Affiliates, or (vi) Liens pursuant to the Harris Bank Agreements.

"*Person*" means any individual, sole proprietorship, partnership, joint venture, trust, unincorporated association, corporation, limited liability company, entity or governmental entity (whether foreign, federal, state, county, city or otherwise and including any instrumentality, division, agency or department thereof).

"*Plan*" has the meaning set forth in *Section 5.17(a)*.

"*Pre-Closing Shutdown Liability*" means all liabilities, costs and expenses of any nature outstanding at Closing or incurred after Closing (i) with respect to stores of the Company or its Subsidiaries that have been closed at any time prior to Closing, including but not limited to the cost to terminate or settle the leases for such stores and terminate all contracts with respect to such stores, all related legal, consulting and advisory fees, and all costs to relocate or dispose of the equipment and other assets located at such stores (net of any net proceeds of disposition of such equipment or assets that is received after Closing and any Tax benefit (without duplication of any 40% adjustment below in this definition), and (ii) relating to the termination of employment of Pat Neville, Tara Denman and Daniel Greenberg, including but not limited to the cost of severance, accrued vacation and related legal disputes, in the case of both (i) and (ii) where any such liabilities, costs or expenses are deductible for Tax purposes, the amount thereof shall be multiplied by 0.6. For the avoidance of doubt, such closed stores include the stores previously located in Woodridge, IL (BeautyFirst), Aurora, IL (BeautyFirst), Algonquin, IL (PureBeauty) and Las Vegas, NV (PureBeauty).

"*Pre-Closing Straddle Taxes*" has the meaning set forth in *Section 8.9(c)*.

"*Pre-Closing Tax Period*" has the meaning set forth in *Section 8.9(a)*.

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"*Preliminary Headquarter Cost Statement*" has the meaning set forth in *Section 2.4(c)*.

"*Purchase Price*" has the meaning set forth in *Section 2.3(a)*.

"*Realty Leases*" has the meaning set forth in *Section 5.10(b)*.

"*Securities Act*" means the Securities Act of 1933, as amended, or any similar federal law then in force.

"*Seller Parties*" means (i) during the period prior to Closing, each of Seller, Powell, Mackenzie, CCC, the Company, CC1, BeautyFirst and PureBeauty, and (ii) from and after Closing, the Seller, Powell, Mackenzie and CCC.

"*Seller Group Members*" has the meaning set forth in *Section 8.2(b)*.

"*Specified Representations and Warranties*" has the meaning set forth in *Section 8.2(g)*.

"*Straddle Tax Return*" has the meaning set forth in *Section 8.9(c)*.

"*Subsidiary*" means, with respect to any Person, any corporation, partnership, limited liability company, association, joint venture or other business entity of which (i) if a corporation, at least 50% of the total voting power of shares of stock entitled (irrespective of whether, at the time, stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person or a combination thereof, or (ii) if a partnership, limited liability company, association, joint venture or other business entity, at least 25% of the partnership, joint venture or other similar ownership interest thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more Subsidiaries of that Person or a combination thereof.

"*Tax*" means any (i) federal, state, local or foreign income, gross receipts, franchise, estimated, alternative minimum, add-on minimum, sales, use, transfer, registration, value added, excise, natural resources, severance, stamp, occupation, premium, windfall profit, environmental, customs, duties, real property, personal property, capital stock, social security, unemployment, disability, payroll, license, employee or other withholding, or other tax, of any kind whatsoever, including any interest, penalties or additions to tax or additional amounts in respect of the foregoing whether disputed or not; (ii) liability of the Company or any of its Subsidiaries for the payment of any amounts of the type described in clause (i) above arising as a result of being (or ceasing to be) a member of any Affiliated Group (or being included (or required to be included) in any Tax Return relating thereto); and (iii) liability of the Company or any of its Subsidiaries for the payment of any amounts of the type described in clause (i) above as a result of any express or implied obligation to indemnify or otherwise assume or succeed to the liability of any other Person.

"*Tax Returns*" means returns, declarations, reports, claims for refund, information returns or other documents (including any related or supporting schedules, statements or information) filed or required to be filed in connection with the determination, assessment or collection of any Taxes of any party or the administration of any laws, regulations or administrative requirements relating to any Taxes.

ARTICLE II
PURCHASE AND SALE OF THE SHARES

2.1 *Basic Transaction.*

(a) On the terms and subject to the conditions set forth in this Agreement, at the Closing, Buyer shall purchase from Seller, and Seller shall sell, convey, assign, transfer and deliver to Buyer, 14,758 Shares, free and clear of all Encumbrances.

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(b) On the terms and subject to the conditions set forth in this Agreement, at the Closing, Buyer shall purchase from Powell, and Powell shall sell, convey, assign, transfer and deliver to Buyer, 500 Shares, free and clear of all Encumbrances.

(c) On the terms and subject to the conditions set forth in this Agreement, at the Closing, Buyer shall purchase from Mackenzie, and Mackenzie shall sell, convey, assign, transfer and deliver to Buyer, 500 Shares, free and clear of all Encumbrances.

2.2 *Closing Transactions.*

(a) *Closing*. The closing of the transactions contemplated by this Agreement (the "*Closing*") shall take place at the offices of Bell, Boyd & Lloyd LLP located at 70 West Madison Street, Chicago, Illinois, or at such other place as is mutually agreeable to Buyer and the Seller, at 10:00 a.m. local time on February 20, 2008 (or such other date agreed by the Seller and the Buyer), or, if any of the conditions to Closing set forth in *Article III* have not been satisfied or waived by the party entitled to the benefit thereof on or prior to such date, on the second business day following satisfaction or waiver of such conditions (the "*Closing Date*").

(b) *Closing Deliveries*. At the Closing:

(i) Buyer shall pay to Seller the Purchase Price, *less* the Escrow Amount, *less* the Other Holder Purchase Price, *less* the amount of the Indebtedness Excess, if any, by wire transfer of immediately available funds to the account designated in writing by Seller to the Buyer;

(ii) Buyer shall pay to Powell his portion of the Other Holder Purchase Price, and shall pay to Mackenzie its portion of the Other Holder Purchase Price, by wire transfer of immediately available funds to the account designated in writing by Powell and Mackenzie, as applicable, to the Buyer;

(iii) Buyer shall deliver the Escrow Amount to the Escrow Agent for deposit into an escrow account established pursuant to the terms of the Escrow Agreement. The Escrow Amount shall be available to satisfy amounts owing to the Buyer Parties pursuant to *Section 8.2* as provided therein and in the Escrow Agreement;

(iv) Buyer shall, if and as directed by the Seller, pay the Buyout Payments so directed by Seller to holders of Outside BF Interests as provided in *Section 2.6*.

(v) Each of Seller, Powell and Mackenzie shall deliver to Buyer the certificate(s) representing the Shares held by him or it, duly endorsed in blank or accompanied by duly executed stock power(s), with appropriate transfer stamps (if any) affixed thereto;

(vi) The Company and Seller shall deliver to Buyer evidence (in form and substance reasonably satisfactory to Buyer) that the Company's and its Subsidiaries' legal counsel and other professional advisors have been paid in full, and that none of the Company or any of its Subsidiaries has any liability for fees owing to any of such legal counsel, investment bankers or other professional advisors (other than amounts owing for services in the ordinary course of the business of the Company and its Subsidiaries that are not past due (nor paid later than in past general practice), in each case other than (i) those to Blake, Cassels & Graydon LLP or PricewaterhouseCoopers, or (ii) those for which Seller is responsible under *Section 8.5*);

(vii) Each party, as applicable, shall deliver the certificates and other documents and instruments required to be delivered by or on behalf of such party under Article III below; and

(viii) Seller and its Affiliates shall collect all corporate books and records and other property of the Company or any of its Subsidiaries in their possession and arrange for delivery thereof to Buyer within 5 business days after Closing.

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2.3 *Purchase Price.*

(a) The aggregate purchase price (the "*Purchase Price*") for the Shares shall equal $31,782,933.00.

(b) Following Closing, the Purchase Price shall be reduced by the sum of the following amounts:

(i) the amount (if any) by which the Pre-Closing Shutdown Liability exceeds $683,331; plus

(ii) the amount (if any) by which the Headquarter Cost exceeds $1,014,770; plus

(iii) the amount (if any) by which (A) the Indebtedness of the Company and its Subsidiaries as of Closing *less* the Indebtedness Addback, exceeds (B) $4,200,000; plus

(iv) the amount (if any) by which the Buyout Adjustment Amount exceeds $369,880; plus

(v) the amount (if any) by which the Headquarter Severance exceeds $0.

For the purposes of this Agreement and the Consulting Agreement (as defined in Section 3.1), the "*Excess Amount*" shall be equal to the sum of the amounts specified in clauses (i) to (v) above; provided, that if any amount of Indebtedness Excess is deducted at Closing (and not returned to the Seller pursuant to *Section 2.5(d)*), such amount shall be deducted from the Excess Amount. The Excess Amount, if any, may be recovered (x) from the Escrow Funds (as defined in the Escrow Agreement) in the Escrow Account (as defined in the Escrow Agreement), and/or (y) by reducing annual fee payments for Phase II Services to CC Newco under the Consulting Agreement as provided therein, which shall be the sole sources of recourse of Buyer Parties for recovery of such amounts. The components of the Excess Amount shall be determined from time to time as provided in *Section 2.4 and 2.5*, below, provided that, notwithstanding anything to the contrary in *Section 2.4 and 2.5* below, the Buyer and Seller may, from time to time, agree in writing as to the final resolution of the amount payable under one of the clauses (i) to (v) above, in which case the matters under such clause need not be included in the determinations to be made pursuant to *Section 2.4 and 2.5*.

(c) If the actual amount of any of the components of the Excess Amount specified in clauses (b)(i) to (b)(v) above, is less than the specified target amount, the difference shall be applied to reduce, on a dollar for dollar basis (but not to an amount below $0), the amount of $889,553 specified in Section 4.1(1)(a) of the Consulting Agreement.

2.4 *BeautyFirst Headquarter Facility Matters.*

(a) The Buyer agrees that it will give the Seller and CC Newco at least 75 days prior written notice of its intention to close, cease or materially reduce operations at the Headquarter Facility in a manner that would reasonably be expected to result in Headquarter Costs.

(b) If the Buyer intends to close, cease or materially reduce operations at the Headquarter Facility, the Buyer Parties will give the Seller, CC Newco, Steven Hudson and Powell the opportunity to generally manage, direct and supervise any and all material activities (including, without limitation, provision of notices, termination or transfer of employees, termination or settlement of lease or sublease obligations and related obligations and/or finding successor or replacement tenants) in relation to such closure, cessation or reduction of operations on behalf of the Buyer and BeautyFirst in a reasonable manner with a view to eliminating, reducing or mitigating any related costs and expenses (including Headquarter Costs) and minimizing negative impact on the overall business of the Buyer and BeautyFirst, all subject to the ultimate oversight, direction and approval of the Buyer. The Buyer Parties will provide reasonable cooperation in connection therewith.

(c) Within three hundred (300) days after the date of Closing, the Seller shall prepare and deliver to Buyer a preliminary statement (the "*Preliminary Headquarter Cost Statement*") setting forth the estimated Headquarter Cost (unless such costs are otherwise agreed as provided in the final sentence of *Section 2.3(c)*). The Buyer Parties and Seller Parties shall cooperate as reasonably requested in

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connection with the preparation of the Preliminary Headquarter Cost Statement. During the 30-day period immediately following Buyer's receipt of the Preliminary Headquarter Cost Statement, Buyer shall be permitted to review Seller's working papers related to the preparation of the Preliminary Headquarter Cost Statement and determination of the amounts therein. If the Buyer does not agree to any items on the Preliminary Headquarter Cost Statement, Buyer shall notify Seller within such 30-day period and specify in reasonable detail the nature and dollar amount of any disagreement so asserted. During the twenty (20) days following delivery of such a notice, Buyer and Seller shall seek in good faith to resolve in writing any differences which they may have with respect to the matters specified. If, at the end of the 20-day period referred to above, the matters in dispute have not been fully resolved, then (i) Buyer may immediately make a claim under the Escrow Agreement in an amount equal to the amount, if any, by which the Buyer's estimate of Headquarter Cost exceeds $1,014,770 (with respect to which Seller may then file an objection with respect to any portion of such excess as is then in dispute under this *Section 2.4(c)*, which shall remain in place until the final determination is made and a "Disbursement Request" is provided pursuant to *Section 2.4(d)* below), and (ii) the parties shall submit to an independent "Big 4" accounting firm agreed to by the Buyer and the Seller, acting reasonably (the "*Accounting Firm*") for review and resolution of all matters (but only such matters) which remain in dispute, and the Accounting Firm shall make a final determination of the estimated Headquarter Cost to the extent such amounts are in dispute, in accordance with the guidelines and procedures set forth in this Agreement. The parties will cooperate with the Accounting Firm during the term of its engagement. The Accounting Firm's determination will be based solely on presentations by Buyer and Seller which are in accordance with the guidelines and procedures set forth in this Agreement (i.e., not on the basis of an independent review). The Preliminary Headquarter Cost Statement and the determination of the estimated Headquarter Cost amounts in dispute shall become final and binding on the parties on the date the Accounting Firm delivers its final resolution in writing to the parties (which the Accounting Firm shall be instructed to deliver not more than forty-five (45) days following submission of such disputed matters). The fees and expenses of the Accounting Firm shall be shared equally between Buyer and Seller.

(d) If, following finalization of the Preliminary Headquarter Cost Statement, the estimated Headquarter Cost is greater than $1,014,770, the excess amount shall (i) be recoverable under the Escrow Agreement (and the Buyer and Seller shall immediately provide the Escrow Agent with a "Disbursement Request" under the Escrow Agreement with respect to such amount (or portion thereof for which there are "Escrow Funds" available thereunder)), and (ii) to the extent not recovered under the Escrow Agreement, be included in the "Excess Amount" determined pursuant to *Section 2.3* above. If, upon finalization of the Headquarter Cost Statement, the actual amount of Headquarter Cost is less than that determined in the Preliminary Headquarter Cost Statement, such final Headquarter Cost shall be used in the final determination of Excess Amount and the Buyer Parties shall promptly repay any amount (if any) previously recovered (whether from the Escrow Amount or pursuant to the Consulting Agreement) based on the estimated Headquarter Cost that is in excess of the amount actually entitled to be recovered based on the final Headquarter Cost. If, upon finalization of the Headquarter Cost Statement, the actual amount of Headquarter Cost is more than that determined in the Preliminary Headquarter Cost Statement, then (x) such final Headquarter Cost shall be used in the final determination of Excess Amount (less any amount (if any) actually recovered from the Escrow Amount based on the estimated Headquarter Cost), and (y) the Buyer may keep any amount (if any) it has recovered from the Escrow Amount based on the estimated Headquarter Cost.

(e) Within sixty (60) days after the final settlement of all obligations and liabilities comprising the Headquarter Cost, the Buyer shall prepare and deliver to Seller a statement (the "*Headquarter Cost Statement*") setting forth such costs (unless such costs are otherwise agreed as provided in the final sentence of *Section 2.3(c)*). The Seller Parties shall cooperate as reasonably requested in connection with the preparation of the Headquarter Cost Statement. During the 30-day period immediately following Seller's receipt of the Headquarter Cost Statement, Seller shall be permitted to review

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Buyer's working papers related to the preparation of the Headquarter Cost Statement and determination of the amounts therein. The Headquarter Cost Statement shall become final and binding upon the parties thirty (30) days following Seller's receipt thereof, unless Seller shall give written notice of its disagreement (a "*Notice of Disagreement*") to Buyer prior to such date. Any Notice of Disagreement shall specify in reasonable detail the nature and dollar amount of any disagreement so asserted. If a timely Notice of Disagreement is received by Buyer, then the Headquarter Cost Statement (as revised in accordance with clause (x) or (y) below) shall become final and binding upon the parties on the earliest of (x) the date the parties resolve in writing any differences they have with respect to the matters specified in the Notice of Disagreement or (y) the date all matters in dispute are finally resolved in writing by the Accounting Firm. During the twenty (20) days following delivery of a Notice of Disagreement, Buyer and Seller shall seek in good faith to resolve in writing any differences which they may have with respect to the matters specified in the Notice of Disagreement. Following delivery of a Notice of Disagreement, Buyer and its agents and representatives shall be permitted to review Seller's and its representatives' working papers relating to the Notice of Disagreement. If, at the end of the 20-day period referred to above, the matters in dispute have not been fully resolved, then the parties shall submit to the Accounting Firm for review and resolution of all matters (but only such matters) which remain in dispute, and the Accounting Firm shall make a final determination of the Headquarter Cost to the extent such amounts are in dispute, in accordance with the guidelines and procedures set forth in this Agreement. The parties will cooperate with the Accounting Firm during the term of its engagement. In resolving any matters in dispute, the Accounting Firm may not assign a value to any item in dispute greater than the greatest value for such item assigned by Buyer, on the one hand, or Seller, on the other hand, or less than the smallest value for such item assigned by Buyer, on the one hand, or Seller, on the other hand. The Accounting Firm's determination will be based solely on presentations by Buyer and Seller which are in accordance with the guidelines and procedures set forth in this Agreement (i.e., not on the basis of an independent review). The Headquarter Cost Statement and the determination of the Headquarter Cost amounts in dispute shall become final and binding on the parties on the date the Accounting Firm delivers its final resolution in writing to the parties (which the Accounting Firm shall be instructed to deliver not more than forty-five (45) days following submission of such disputed matters). The fees and expenses of the Accounting Firm shall be shared equally between Buyer and Seller.

2.5 *Other Adjustment Amounts.*

(a) The Buyer Parties will give the Seller, CC Newco, Steven Hudson and Powell the opportunity to generally manage, direct and supervise any and all material activities (including, without limitation, settlement of the terms of share or option purchases, settlement of lease obligations and related obligations and/or finding successor or replacement tenants) in relation to the Pre-Closing Shutdown Liability, the Headquarter Severance and the settlement of any liabilities, costs or expenses relating to the repurchase or cancellation of Outside BF Interests on behalf of the Buyer and BeautyFirst in a reasonable manner with a view to eliminating, reducing or mitigating any such liabilities, costs and expenses, and minimizing negative impact on the overall business of the Buyer and BeautyFirst, all subject to the ultimate oversight, direction and approval of the Buyer. The Buyer Parties will provide reasonable cooperation in connection therewith.

(b) Within three hundred (300) days following the Closing Date, Buyer shall deliver to Seller a statement (in its final and binding form as determined below, the "*Closing Statement*") setting forth the Pre-Closing Shutdown Liability, the aggregate Buyout Amount, the aggregate Headquarter Severance and the aggregate amount of Indebtedness less Indebtedness Addback as of Closing (unless such amounts are otherwise agreed as provided in the final sentence of *Section 2.3(c)*). The Seller Parties shall cooperate as reasonably requested in connection with the preparation of the Closing Statement. During the 30-day period immediately following Seller's receipt of the Closing Statement, Seller shall be permitted to review Buyer's working papers related to the preparation of the Closing Statement and

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determination of the amounts therein. The Closing Statement shall become final and binding upon the parties thirty (30) days following Seller's receipt thereof, unless Seller shall give written notice of its disagreement (a "*Notice of Disagreement*") to Buyer prior to such date. Any Notice of Disagreement shall specify in reasonable detail the nature and dollar amount of any disagreement so asserted. If a timely Notice of Disagreement is received by Buyer, then the Closing Statement (as revised in accordance with clause (x) or (y) below) shall become final and binding upon the parties on the earliest of (x) the date the parties resolve in writing any differences they have with respect to the matters specified in the Notice of Disagreement or (y) the date all matters in dispute are finally resolved in writing by the Accounting Firm. During the twenty (20) days following delivery of a Notice of Disagreement, Buyer and Seller shall seek in good faith to resolve in writing any differences which they may have with respect to the matters specified in the Notice of Disagreement. Following delivery of a Notice of Disagreement, Buyer and its agents and representatives shall be permitted to review Seller's and its representatives' working papers relating to the Notice of Disagreement. If, at the end of the 20-day period referred to above, the matters in dispute have not been fully resolved, then (i) Buyer may immediately make a claim under the Escrow Agreement in an amount equal to the amount, if any, by which the Buyer's estimate of Excess Amount (other than with respect to Headquarter Cost) exceeds $0 (with respect to which Seller may then file an objection with respect to any portion of such Excess Amount as is then in dispute under this *Section 2.5(b)*, which shall remain in place until the final determination is made and a "Disbursement Request" is provided pursuant to *Section 2.5(c)* below), and (ii) the parties shall submit to the Accounting Firm for review and resolution of all matters (but only such matters) which remain in dispute, and the Accounting Firm shall make a final determination of the amounts referred to in this *Section 2.5(b)* to the extent such amounts are in dispute, in accordance with the guidelines and procedures set forth in this Agreement. The parties will cooperate with the Accounting Firm during the term of its engagement. In resolving any matters in dispute, the Accounting Firm may not assign a value to any item in dispute greater than the greatest value for such item assigned by Buyer, on the one hand, or Seller, on the other hand, or less than the smallest value for such item assigned by Buyer, on the one hand, or Seller, on the other hand. The Accounting Firm's determination will be based solely on presentations by Buyer and Seller which are in accordance with the guidelines and procedures set forth in this Agreement (i.e., not on the basis of an independent review). The Closing Statement and the determination of the amounts referred to in this *Section 2.5(b)* shall become final and binding on the parties on the date the Accounting Firm delivers its final resolution in writing to the parties (which the Accounting Firm shall be instructed to deliver not more than forty-five (45) days following submission of such disputed matters). The fees and expenses of the Accounting Firm shall be shared equally between Buyer and Seller.

(c) If, following finalization of the Closing Statement, the Excess Amount (other than with respect to Headquarter Cost) exceeds $0, such excess amount shall (i) be recoverable under the Escrow Agreement (and the Buyer and Seller shall immediately provide the Escrow Agent with a "Disbursement Request" under the Escrow Agreement with respect to such amount (or portion thereof for which there are "Escrow Funds" available thereunder)), and (ii) to the extent not recovered under the Escrow Agreement, be included in the "Excess Amount" determined pursuant to *Section 2.3* above.

(d) If any Indebtedness Excess was deducted from the payment of Purchase Price pursuant hereto and, upon the final determination of Indebtedness and Indebtedness Addback pursuant to *Section 2.5*, the actual amount of Indebtedness *less* Indebtedness Addback is less than the estimated Indebtedness Excess used to determine the amount so deducted, the Buyer shall promptly pay to Seller the amount of such shortfall (i.e., the amount by which the deduction was greater than the actual final Indebtedness Excess).

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2.6 *Outside BF Interests.*

(a) Prior to Closing Seller Parties shall use their respective reasonable best efforts to (i) cause each Person (other than CC1) who owns any Capital Stock of BeautyFirst to enter into a stock purchase agreement with CC1 in form reasonably acceptable to Seller and Buyer (each a "*BF Purchase Agreement*") with respect to all such Capital Stock owned by such Person, and (ii) cause each Person who holds any Options with respect to BeautyFirst to enter into an option cancellation agreement in form reasonably acceptable to Seller and Buyer (each an "*Option Cancellation Agreement*") with respect to all such Options held by such Person.

(b) At Closing Seller Parties shall take all actions reasonably necessary to consummate the stock purchases under any BF Purchase Agreements entered into prior to Closing and the option cancellations under any Option Cancellation Agreements entered into prior to Closing, in each case in exchange for the payments by CC1 or BeautyFirst, as applicable, to each such Person required under such agreements; *provided*, that Seller may direct Buyer to (and Buyer shall, if so directed by the Seller, subject to *Section 2.6(c)* below) pay such amounts directly to such Persons pursuant to such agreements on behalf of CC1 and BeautyFirst, respectively. The parties agree that (i) Seller has separately and previously agreed to fund such payments to CC1 and BeautyFirst at or before Closing to facilitate such purchases and cancellations, and (ii) for convenience, Seller, CC1 and BeautyFirst have asked Buyer to make such payments.

(c) If any portion of the payments payable pursuant to *Section 2.6(b)* is required to be deducted or withheld therefrom under the Code or under any applicable provision of federal, state, local or foreign Tax law, then the Seller Parties shall so instruct Buyer to reduce the payments to such applicable Persons accordingly and to pay over to CC1 or BeautyFirst, as applicable, such amounts being withheld or deducted promptly after Closing (which amounts shall still be deemed payments paid by Buyer hereunder).

ARTICLE III
CONDITIONS TO CLOSING

3.1 *Conditions to Buyer's Obligations*. The obligation of Buyer to consummate the transactions contemplated by this Agreement is subject to the satisfaction of the following conditions on or prior to the Closing Date:

(a) (i) Subject to clause (ii), below, the representations and warranties in *Articles V*, *V.1* and *V.2* hereof that are subject to materiality qualifications shall be true and correct in all respects at and as of the Closing and the representations and warranties contained in *Articles V*, *V.1* and *V.2* hereof that are not subject to materiality qualifications shall be true and correct in all material respects at and as of the Closing, in each case as though then made and as though the Closing Date was substituted for the date of this Agreement throughout such representations and warranties (without taking into account any disclosures made to Buyer pursuant to *Section 4.7* below), and Seller and the Seller Parties shall have performed in all material respects all of the covenants and agreements required to be performed by them hereunder prior to the Closing;

(ii) If a representation and warranty in either Section 5.3(b) or Section 5.14 is not true or correct in all material respects, it shall nevertheless, for the purposes of this condition, be deemed to be true and correct unless the inaccuracy in such representation and warranty could reasonably be expected to have a Material Adverse Effect.

(b) The Seller Parties shall have received or obtained all third party consents and approvals that are necessary for the consummation of the transactions contemplated hereby (which shall be deemed not to include consents under any leases or contracts (other than (i) a contractual obligation that would prohibit the sale of the Shares or completion of the transactions contemplated hereby, and (ii) any

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required consent under the Harris Bank Agreements, which required consent may be conditioned upon the repayment (or, if Regis prefers, the guaranty by Regis) of the indebtedness under the Harris Bank Agreements within 10 days after Closing)).

(c) The parties shall have received or obtained all federal, state, local and foreign governmental and regulatory consents, approvals, licenses and authorizations that are necessary (i) for the consummation of the transactions contemplated hereby or (ii) for Buyer to own the Shares and to operate the businesses of and control the Company and its Subsidiaries following the Closing, in each case on terms and conditions satisfactory to Seller and Buyer, acting reasonably (collectively, the "*Governmental Approvals*");

(d) No suit, action or other proceeding shall be pending or threatened before any court or governmental or regulatory official, body or authority or any arbitrator wherein an unfavorable injunction, judgment, order, decree, ruling or charge could reasonably be expected to (i) prevent the performance of this Agreement or the consummation of any of the transactions contemplated hereby or declare unlawful any of the transactions contemplated hereby, (ii) cause any of the transactions contemplated by this Agreement to be rescinded following consummation, (iii) affect adversely the right of Buyer to own the Shares or operate the businesses of or control the Company and its Subsidiaries, or (iv) affect adversely the right of the Company and its Subsidiaries to own their respective assets or control their respective businesses, and no such injunction, judgment, order, decree or ruling shall have been entered or be in effect;

(e) Seller and the Escrow Agent shall have executed and delivered the Escrow Agreement, and the Escrow Agreement shall be in full force and effect as of the Closing and shall not have been amended or modified;

(f) The Seller Parties shall have terminated all agreements (if any) regarding voting, transfer or other arrangements related to the Shares or the Capital Stock of the Company or its Subsidiaries that are in effect prior to the Closing (in each case on terms and conditions satisfactory to Buyer), except that, if the efforts of the Seller Parties have not resulted in purchase or cancellation of all the Outside BF Interests, the stockholders agreement of BeautyFirst in the form provided to Buyer may remain in effect;

(g) All assets of the Excluded Subsidiaries shall have been transferred by the Excluded Subsidiaries to CC Newco and all liabilities (including but not limited to Tax liabilities) of the Excluded Subsidiaries, but excluding liabilities owed by the Excluded Subsidiaries to each other or to the Company or any of its Subsidiaries, shall have been assumed by CC Newco pursuant to the terms of an Asset Purchase Agreement in a form satisfactory to the Seller and the Buyer, acting reasonably. Such agreement shall contain full and perpetual indemnification by CC Newco, without deductibles or other limitations, for any Losses suffered by the Company or any of its Subsidiaries with respect to (A) such assigned assets and assumed liabilities, (B) any liabilities of the Excluded Subsidiaries as of Closing to be assumed as provided above that are not so assumed for any reason, and (C) Tax liabilities of the Company and its Subsidiaries relating to the foregoing assignment and assumption;

(h) Seller and each of Steven Hudson and Powell shall each have executed and delivered the Non-Competition Agreement substantially in the form of *Exhibit B* attached hereto;

(i) Regis, CC Newco, Steven Hudson and Powell shall have executed and delivered the Consulting Agreement substantially in the form of *Exhibit C* attached hereto (the "*Consulting Agreement*");

(j) At the Closing, Seller and the Company shall have delivered to Buyer (i) a certificate signed by the Company, dated the date of the Closing, stating that the conditions specified in this *Section 3.1* have been satisfied as of the Closing; (ii) copies of any third-party approvals received and Governmental Approvals; (iii) certified copies of the resolutions of the Seller's board of directors

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authorizing the execution, delivery and performance of this Agreement and the other agreements contemplated hereby and the consummation of the transactions contemplated hereby and thereby; (iv) the resignations, effective as of the Closing, of each director of the Company and its Subsidiaries and of the officers set forth on *Schedule 3.1(j)*; (v) good standing (or equivalent, if any) certificates for each of the Company and its Subsidiaries from their respective jurisdictions of organization and each jurisdiction in which the Company or its Subsidiaries is qualified to do business as a foreign entity and in which the Company or a Subsidiary does a material amount of business, in each case dated as of a recent date prior to the Closing Date; and (vi) such other documents or instruments as are required to be delivered by any Seller Party at the Closing pursuant to the terms hereof or that Buyer reasonably requests prior to the Closing Date to effect the transactions contemplated hereby; and

(k) The Company shall have reimbursed Regis for all legal costs and expenses for which Regis is entitled to reimbursement under the Credit Agreement dated May 30, 2006 (as amended) between the Company and Regis and all related agreements, including without limitation the Securities Agreement dated May 30, 2006, the Subsidiary Security Agreement dated May 30, 2006 and the Stock Pledge Agreement dated May 30, 2006, to be supported by invoices and in an amount not to exceed $13,000.

All proceedings to be taken by the Seller Parties in connection with the consummation of the transactions contemplated hereby and all certificates, instruments and other documents required to be delivered by them to effect the transactions contemplated hereby shall be satisfactory in form and substance to Buyer. Any condition specified in this *Section 3.1* may be waived by Buyer if such waiver is set forth in a writing duly executed by Buyer.

3.2 *Conditions to the Seller's Obligations*. The obligation of the Seller, Powell and Mackenzie to consummate the transactions contemplated by this Agreement is subject to the satisfaction of the following conditions at or prior to the Closing:

(a) The representations and warranties made in *Article VI* and *Article VI.1* hereof shall be true and correct in all material respects at and as of the Closing Date as though then made and as though the Closing Date was substituted for the date of this Agreement throughout such representations and warranties (without taking into account any disclosures made by Regis or Buyer pursuant to *Section 4.7* below), and Regis and Buyer shall have performed in all material respects all the covenants and agreements required to be performed by it hereunder prior to the Closing;

(b) No suit, action or other proceeding shall be pending or threatened before any court or governmental or regulatory official, body or authority or any arbitrator wherein an unfavorable injunction, judgment, order, decree, ruling or charge could reasonably be expected to (i) prevent the performance of this Agreement or the consummation of any of the transactions contemplated hereby or declare unlawful any of the transactions contemplated hereby or (ii) cause any of the transactions contemplated by this Agreement to be rescinded following consummation, and no such injunction, judgment, order, decree or ruling shall be in effect;

(c) The Seller Parties shall have received or obtained all third-party consents and approvals that are necessary for the consummation of the transactions contemplated hereby, in each case on terms and conditions satisfactory to Seller and Buyer, acting reasonably (which shall be deemed not to include consents under any leases or contracts (other than (i) a contractual obligation that would prohibit the sale of the Shares or completion of the transactions contemplated hereby, and (ii) any required consent under the Harris Bank Agreements, which required consent may be conditioned upon the repayment (or, if Regis prefers, the guaranty by Regis) of the indebtedness under the Harris Bank Agreements within 10 days after Closing));

(d) The parties shall have received or obtained all federal, state, local and foreign governmental and regulatory consents, approvals, licenses and authorizations that are necessary (i) for the

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consummation of the transactions contemplated hereby or (ii) for Buyer to own the Shares, in each case on terms and conditions satisfactory to Seller and Buyer, acting reasonably;

(e) Regis shall have executed and delivered the Consulting Agreement; and

(f) At the Closing, Regis and Buyer shall have delivered to Seller a certificate signed by Regis and Buyer, dated the date of the Closing, stating that the conditions specified in *Section 3.2* have been satisfied.

All proceedings to be taken by Regis and Buyer in connection with the consummation of the transactions contemplated hereby and all documents required to be delivered by Regis and Buyer to effect the transactions contemplated hereby shall be satisfactory in form and substance to Seller (without any separate approval requirement by Powell or Mackenzie). Any condition specified in this *Section 3.2* may be waived if such waiver is set forth in a writing duly executed by Seller (without any separate waiver required of Powell or Mackenzie).

ARTICLE IV
COVENANTS PRIOR TO CLOSING

Each of the parties agrees as follows with respect to the period between the date of this Agreement and the Closing:

4.1 *General*. Subject to the terms of this Agreement, each party shall use reasonable best efforts to take all actions and do all things necessary, proper or advisable in order to consummate and make effective the transactions contemplated by this Agreement (including satisfaction, but not waiver, of the conditions set forth in *Article III* above). Without limiting the foregoing, each of the parties shall execute and deliver all agreements and other documents required to be delivered by or on behalf of such party or any of its Subsidiaries under *Article III* above.

4.2 *Maintenance of Business*. The Company shall (and the Company shall cause its Subsidiaries to) (a) maintain their material assets in good operating condition and repair in accordance with past practices (normal wear and tear excepted), (b) maintain insurance comparable to that in effect on the date of the Latest Balance Sheet, (c) maintain inventory and supplies at customary and adequate operating levels consistent with past practice (except as otherwise agreed by Buyer and Seller in writing, including in relation to inventory that the parties anticipate can be obtained by Buyer on more favourable terms following Closing) and replace in accordance with past practice any inoperable, worn out, damaged or obsolete assets with modern assets of at least comparable quality, (d) maintain its books, accounts and records in accordance with past custom and practice as used in the preparation of the Latest Balance Sheet and the financial statements described in Section 5.5 below and provide accruals for Taxes, obsolete inventory, vacation and other items to the full extent required under GAAP, (e) make capital expenditures in a manner consistent with past practice (other than the purchase for cash of BeautyMetrix machines by BeautyFirst and/or PureBeauty from Cameron Capital Technologies Inc. prior to Closing as disclosed to and agreed by Regis) and (f) maintain in full force and effect the existence of all material Intellectual Property Rights.

4.3 *Third-Party Notices and Consents*. The Seller Parties shall use reasonable commercial efforts to (a) give all required notices to third parties and (b) obtain all third-party approvals in connection with the matters contemplated by this Agreement for any instrument, contract, lease, license or other agreement requiring any such notice or consent. Buyer shall cooperate with the Seller Parties and Buyer shall use reasonable commercial efforts to assist Seller Parties in obtaining such third-party approvals, including the provision of reasonable information to contractual counterparties.

4.4 *Governmental Notices and Consents*. Each of the parties shall give any notices to, make any filings with, and use reasonable best efforts to obtain, any material authorizations, consents and

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approvals of all federal, state, local and foreign governments and governmental agencies in connection with the matters contemplated by this Agreement.

4.5 *Operation of Business*. Except as otherwise contemplated or provided in this Agreement, the Company shall (and the Company shall cause its Subsidiaries to) operate their business only in the usual and ordinary course of business consistent with past practice and use reasonable best efforts to preserve the goodwill and organization of their business and the relationships with their customers, suppliers, employees and other Persons having business relations with the Company and its Subsidiaries. Without limiting the generality of the foregoing, prior to the Closing, except as otherwise contemplated or provided in this Agreement, neither the Seller or the Company shall (and the Company shall not permit any of its Subsidiaries to):

(a) take or omit to take any action that would require disclosure under Section 5.9 below or that would otherwise result in a breach of any of the representations, warranties or covenants made by Seller in this Agreement;

(b) take any action or omit to take any action which act or omission would reasonably be anticipated to have a Material Adverse Effect;

(c) (i) enter into any contract out of the ordinary course of business or restricting in any material respect the conduct of its business, (ii) make any loans or Investments (other than advances to the Company's or its Subsidiaries' employees in the ordinary course of business consistent with past custom and practice), (iii) increase the compensation, incentive arrangements or other benefits to any officer or employee of the Company or its Subsidiaries, except for increases or bonuses made in the ordinary course of business consistent with past custom and practice, (iv) redeem, purchase or otherwise acquire directly or indirectly any of its issued and outstanding Capital Stock, or any outstanding rights or securities exercisable or exchangeable for or convertible into its Capital Stock, or declare or pay or make any distribution or dividend to any of its shareholders or other Persons, (v) amend its certificate of incorporation or bylaws (or equivalent documents) or issue or agree to issue any Capital Stock or any rights or options to acquire, or securities convertible into or exchangeable for, any of its Capital Stock, (vi) directly or indirectly engage in any transaction, arrangement or contract with any officer, director, shareholder, trustee or beneficiary of any shareholder, member, manager or other insider or Affiliate of Seller, the Company or any of its Subsidiaries (except pursuant to existing employment agreements and existing benefit arrangements with the Company and its Subsidiaries, in each case that have been provided or disclosed to Buyer), other than in the ordinary course of business consistent with past custom and practice as disclosed on the *Affiliated Transactions Schedule* attached hereto (including, without limitation, by repaying any amounts owing from the Company or its Subsidiaries to Seller or its Affiliates), (vii) execute any guaranty, issue any debt, borrow any money or otherwise incur or create any Indebtedness or liability (other than liabilities in the ordinary course of business consistent with past practice); (viii) purchase, sell, lease or dispose of any material property or assets (other than the purchase and sale of inventory and the purchase of capital equipment in the ordinary course of business consistent with past practice); (ix) take or omit to take any action that has or would reasonably be expected to have the effect of accelerating to pre-Closing periods sales to the trade or other customers that would otherwise be expected to occur after the Closing; (x) delay or postpone the payment of any accounts payable or take or omit to take any action that has or would reasonably be expected to have the effect of deferring to post-Closing periods expenses or payments that would otherwise be expected to occur prior the Closing; (xi) accelerate the collection of or discount any accounts receivable; (xii) make any capital expenditures or commitments therefor in excess of $50,000 in the aggregate; (xiii) make any changes to its normal and customary practices regarding the solicitation, booking and fulfillment of orders or the shipment and delivery of goods; (xiv) cease from making accruals for obsolete inventory, vacation and other customary accruals; (xv) cease from maintaining adequate levels of inventory or cease from insuring that accounts payable are current consistent with past practice; (xvi) abstain from making payments on any Taxes, principal or interest on

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borrowed funds and other customary expenses as they become due; (xvii) pay any amount to or transfer any asset to the Seller or any of its Affiliates; (xviii) assume, pay or satisfy any liability or obligation of the Seller or any of its Affiliates; or (xiv) grant or take any license to any Intellectual Property Rights or transfer or encumber any Intellectual Property Rights; or

(d) enter into any transaction, arrangement or contract with any Person except on an arm's-length basis in the ordinary course of business consistent with past custom and practice.

Notwithstanding the foregoing, nothing in this *Section 4.5* shall prohibit the Company or any Seller from taking any action or omitting to take any action as required or as expressly contemplated by this Agreement.

4.6 *Access*. The Seller Parties shall afford, and cause its officers, managers, directors, employees, attorneys, accountants and other agents to afford, to Buyer and its accounting, legal and other representatives and potential lenders, as well as their respective officers, employees, affiliates and other agents, full and complete access upon request at all reasonable times and during normal business hours, upon reasonable notice, to the Company's and its Subsidiaries' personnel and to business, financial, legal, tax, compensation and other data and information concerning the Company's and its Subsidiaries' affairs and operations. The Company shall provide information to Buyer, as and when reasonably requested, concerning the status of the operations, finances and affairs of the Company and its Subsidiaries. Any requests by Buyer for such access shall be made solely to Steven Hudson or Powell unless otherwise consented to by either Steven Hudson or Powell.

4.7 *Notice of Material Developments*. Each party shall give prompt written notice to the other parties of (i) any material variances in any of its representations or warranties contained in *Articles V*, *V.1*, *V.2*, VI or *VI.1* below, as the case may be, (ii) any breach of any covenant hereunder by such party and (iii) any other material development affecting the ability of such party to consummate the transactions contemplated by this Agreement.

4.8 *Exclusivity*. None of the Seller Parties shall (and they shall cause their respective Affiliates, representatives, officers, managers, employees, directors and agents not to), directly or indirectly, (i) submit, solicit, initiate, encourage or discuss any proposal or offer from any Person (other than Buyer and its Affiliates in connection with the transactions contemplated hereby) or enter into any agreement or accept any offer relating to or consummate any (a) reorganization, liquidation, dissolution or recapitalization of the Company or any of its Subsidiaries, (b) merger or consolidation involving the Company or any of its Subsidiaries, (c) purchase or sale of any assets, Capital Stock (or any rights to acquire, or securities convertible into or exchangeable for, any such Capital Stock) of the Company or any of its Subsidiaries (other than the purchase and sale of inventory and the purchase of capital equipment in the ordinary course of business consistent with past custom and practice), or (d) similar transaction or business combination involving the Company or any of its Subsidiaries or their business or assets (each of the foregoing transactions described in clauses (a) through (d), a "*Company Transaction*") or (ii) furnish any information with respect to, assist or participate in or facilitate in any other manner any effort or attempt by any Person (other than Buyer and its Affiliates) to do or seek to do any of the foregoing. The Seller Parties agree to notify Buyer immediately if any Person makes any proposal, offer, inquiry or contact with respect to a Company Transaction. If any of the provisions of this *Section 4.8* are breached and the transactions contemplated hereby are not consummated for any reason, the Seller Parties shall promptly reimburse Buyer and its Affiliates for all out-of-pocket fees and expenses incurred before or after the date of this Agreement by Buyer and its Affiliates related to the transactions contemplated hereby, including fees and expenses of legal counsel, accountants and other consultants and advisors retained by Buyer and its Affiliates in connection with the transactions contemplated hereby. The foregoing provisions are in addition to, and not in derogation of, any other remedy that Buyer and its Affiliates may have for a breach of this *Section 4.8*.

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4.9 *Tax Matters*. Except as set forth on the *Tax Matters Schedule* attached hereto, without the prior written consent of the Buyer, no Seller Party shall make or change any election, change an annual accounting period, adopt or change any accounting method, file any amended Tax Return, enter into any closing agreement, settle any Tax claim or assessment relating to the Company or any of its Subsidiaries, surrender any right to claim a refund of Taxes, consent to any extension or waiver of the limitation period applicable to any Tax claim or assessment relating to the Company or any of its Subsidiaries, or take any other similar action, or omit to take any action relating to the filing of any Tax Return or the payment of any Tax, if such election, adoption, change, amendment, agreement, settlement, surrender, consent or other action or omission would have the effect of increasing the present or future Tax liability or decreasing any present or future Tax attribute of the Company or any of its Subsidiaries.

4.10 *Delivery of Interim Financial Statements*. The Company shall deliver to Buyer copies of BeautyFirst's unaudited consolidated financial statements for the period ended December 26, 2007 as soon as reasonably practicable (and in any event prior to February 15, 2008). The financial statements shall include income statements, balance sheets and cash flow statements, prepared in accordance with GAAP on a basis consistent with the Company's prior financial statements.

4.11 *Insurance*. Sellers shall have full responsibility to maintain in effect without material modification up to and including the Closing Date all existing policies or binders of insurance in existence at the date hereof.

4.12 *Outside BF Interests*. Seller, the Company and its Subsidiaries shall use reasonable best efforts to cause (a) all Capital Stock of BeautyFirst to be owned beneficially and of record by CC1 as of Closing, and (b) there to be no outstanding Options with respect to BeautyFirst as of Closing, in each case without the Company or any of its Subsidiaries having any further obligations after Closing to the former holders of the Outside BF Interests.

4.13 *Atlanta Office*. The Company shall assign the lease for its Atlanta offices to CCC or an Affiliate thereof (other than the Company or a Subsidiary of the Company) at no cost to the Buyer Parties.

ARTICLE IV.1
ADDITIONAL COVENANTS

4.1.1 *Regis Investment*. Regis hereby commits and agrees to invest $10,000,000 in an investment fund sponsored and managed by CCC or an Affiliate thereof, subject to the following terms: (i) the amount required to be funded by Regis prior to the first anniversary of Closing shall not exceed $7,500,000; (ii) such investment shall be made on customary market terms, no less favourable to Regis than to any other investor in such fund, including CCC and the principals thereof; (iii) the investment by Regis shall not exceed 35% of the aggregate investments in such fund by all investors; and (iv) at least $10,000,000 shall be invested in such fund by institutional investors.

4.1.2 *Regis Guaranty*. Regis hereby unconditionally and irrevocably guarantees to the Seller Parties the full and complete payment and performance of all obligations of the Buyer under this Agreement. Regis agrees that such obligations shall be primary obligations of Regis, shall not be subject to any counterclaim, set-off, abatement, deferment or defense based upon any claim that Regis may have against any Person, and shall remain in full force and effect without regard to, and shall not be released, discharged, limited or affected in any way by any circumstance or condition (whether or not Regis shall have any knowledge thereof), including, without limitation, any voluntary or involuntary bankruptcy, insolvency, reorganization, arrangement, readjustment, assignment for the benefit of creditors, composition, receivership, liquidation, marshalling of assets and liabilities or similar events or proceedings with respect to the Buyer or any other Person. Regis unconditionally waives, to the extent permitted by law, all notices, demands, presentment and protest, and all suretyship defenses.

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4.1.3 *Certain Company Obligations.*

(a) Prior to the end of the Phase I Term (as defined in the Consulting Agreement), the Wichita condominium lease shall either be terminated, settled or assigned by BeautyFirst to CCC or an Affiliate thereof (other than the Company or a Subsidiary of the Company), in each case at no cost to the Buyer Parties.

(b) Prior to the end of the Phase I Term (as defined in the Consulting Agreement), the three automobile leases to which BeautyFirst is a party shall either be terminated, settled or assigned by BeautyFirst to CCC or an Affiliate thereof (other than the Company or a Subsidiary of the Company), in each case at no cost to the Buyer Parties.

ARTICLE V
REPRESENTATIONS AND WARRANTIES CONCERNING THE COMPANY, ITS SUBSIDIARIES AND THE SELLER

As a material inducement to Buyer to enter into this Agreement and consummate the transactions contemplated hereby, the Seller hereby represents and warrants to Buyer that as of the date hereof and as of the Closing Date:

5.1 *Corporate Organization*. The Company is a corporation duly organized, validly existing and in good standing under the laws of its State of incorporation and is qualified to do business in every jurisdiction in which its ownership of property or conduct of business requires it to qualify, except where the failure to be so qualified could not reasonably be expected to have a Material Adverse Effect. The Company possesses all requisite corporate power and corporate authority necessary to own and operate its properties, to carry on its businesses as now conducted and to carry out the transactions contemplated by this Agreement. The copies of the articles of incorporation and bylaws for the Company which have been furnished to Buyer reflect all amendments made thereto at any time prior to the date of this Agreement and are correct and complete. The minute books (containing the records of meetings of the stockholders, the board of directors and any committees of the board of directors) and share register of the Company are correct and complete in all material respects. The Company is not in default under or in violation of any provision of its articles of incorporation or bylaws. The attached *Officers and Directors Schedule* sets forth a list all of the officers and directors of the Company.

5.2 *Capital Stock and Related Matters; Title to Shares*. The entire authorized Capital Stock of the Company consists of 25,000 shares of common stock, par value $0.0001 per share ("*Class A Shares*") and 25,000 shares of Class B non-voting common stock, par value $0.0001 per share ("*Class B Shares*"), of which 14,758 Class A Shares and 1,000 Class B Shares are issued and outstanding. 14,758 Class A Shares of the Capital Stock of the Company are held beneficially and of record by the Seller, free and clear of all Encumbrances. 500 Class B Shares of the Capital Stock of the Company are held beneficially and of record by the Powell, free and clear of all Encumbrances. 500 Class B Shares of the Capital Stock of the Company are held beneficially and of record by Mackenzie, free and clear of all Encumbrances. At the Closing, the Seller, Powell and Mackenzie shall each sell to Buyer good and valid title to its Shares, free and clear of all Encumbrances. The Company does not have outstanding any stock or securities convertible or exchangeable for any shares of its Capital Stock or containing any profit participation features, nor any rights or options to subscribe for or to purchase its capital stock or any stock or securities convertible into or exchangeable for its Capital Stock or any stock appreciation rights or phantom stock plan. The Company is not subject to any option or obligation (contingent or otherwise) to repurchase or otherwise acquire or retire any shares of its Capital Stock or any warrants, options or other rights to acquire its Capital Stock. The Company has not violated any foreign, federal or state securities laws in connection with the offer, sale or issuance of its Capital Stock. All of the outstanding shares of the Company's Capital Stock have been validly issued and are

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fully paid and nonassessable. Except for the stockholders' agreement dated as of December 21, 2007 among the Company, the Seller, Powell and Mackenzie, there are no agreements between the Company's shareholders with respect to the voting or transfer of the Company's Capital Stock or with respect to any other aspect of the Company's affairs. There are no bonds, debentures, notes or other indebtedness of the Company outstanding having the right to vote (or convertible into, or exchangeable for, securities having the right to vote) on any matters on which any shareholders of the Company may vote.

5.3 *Authorization; Noncontravention.*

(a) Except for the approval by the shareholders of the Seller (which Seller will have received prior to February 20, 2008), the execution, delivery and performance of this Agreement and all of the other agreements and instruments contemplated hereby to which any Seller Party is a party have been duly authorized by the applicable Seller Parties, and no other act (corporate or otherwise) or other proceeding on the part of any Seller Party is necessary to authorize the execution, delivery or performance of this Agreement or the other agreements contemplated hereby and the consummation of the transactions contemplated hereby or thereby. This Agreement has been duly executed and delivered by each Seller Party and constitutes a valid and binding obligation of such Seller Party enforceable in accordance with its terms (except as enforceability may be limited by laws relating to bankruptcy, insolvency, winding-up or other similar laws affecting the enforcement of creditors' rights and by general principles of equity), and each of the other agreements and instruments contemplated hereby to which any Seller Party is a party, when executed and delivered by such Seller Party in accordance with the terms hereof and thereof, shall each constitute a valid and binding obligation of such Person, enforceable in accordance with its respective terms (except as enforceability may be limited by laws relating to bankruptcy, insolvency, winding-up or other similar laws affecting the enforcement of creditors' rights and by general principles of equity). The assignments, endorsements, stock powers and other instruments of transfer delivered by Seller to Buyer at the Closing will be sufficient to transfer the Seller's entire interest, legal and beneficial, in the Shares. Except for the approval by the shareholders of the Seller (which Seller will have received prior to February 20, 2008), Seller has, and on the Closing Date will have, full power and authority to convey good and marketable title to all of its Shares, and upon transfer to Buyer of the certificates representing such Shares, Buyer will receive good and marketable title to such Shares, free and clear of all Encumbrances.

(b) Except as set forth on the attached *Restrictions Schedule*, the execution and delivery by each Seller Party of this Agreement and all of the other agreements and instruments contemplated hereby to which any Seller Party is a party and the fulfillment of and compliance with the respective terms hereof and thereof by such Seller Party do not and shall not (i) conflict with or result in a breach of the terms, conditions or provisions of, (ii) constitute a default under (whether with or without the passage of time, the giving of notice or both), (iii) result in the creation of any Lien upon the Company's or any of its Subsidiaries' Capital Stock or assets pursuant to, (iv) give any third party the right to modify, terminate or accelerate any obligation under, (v) result in a violation of, or (vi) require any authorization, consent, approval, exemption or other action of or by or notice or declaration to, or filing with, any third party or any court or administrative or governmental body or agency pursuant to the Company's or any of its Subsidiaries' charter documents, bylaws or other constituent documents, or any law, statute, rule or regulation to which the Company or any of its Subsidiaries or the Seller is subject, or any material agreement, instrument, license, permit, order, judgment or decree to which the Company or any of the Sellers are subject; provided, that Seller makes no such representation as to whether change-of-control consents are required under store leases or other contracts of the Company or its Subsidiaries (other than (i) a contractual obligation that would prohibit the sale of the Shares or completion of the transactions contemplated hereby, and (ii) any required consent under the Harris Bank Agreements). No Seller Party is a party to or bound by any written or oral agreement or understanding with respect to a Company Transaction other than this Agreement, and each such Person has terminated all discussions with third parties (other than with Buyer and its Affiliates) regarding Company Transactions.

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5.4 *Subsidiaries*. The attached *Subsidiary Schedule* correctly sets forth the name of each Subsidiary of the Company, the jurisdiction of its organization and the Persons owning the outstanding Capital Stock of such Subsidiary. Each Subsidiary is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization and possesses all requisite corporate power and corporate authority necessary to own its properties and to carry on its businesses as now being conducted and is qualified to do business in every jurisdiction in which its ownership of property or the conduct of business requires it to qualify, except where the failure to be so qualified could not reasonably be expected to have a Material Adverse Effect. All of the Capital Stock of each Subsidiary is validly issued, fully paid and nonassessable, and, except as set forth on the *Subsidiary Schedule*, all of the Capital Stock of each Subsidiary is owned by the Company or by a Subsidiary of the Company free and clear of all Encumbrances. Neither the Company nor any of its Subsidiaries owns or holds the right to acquire any Capital Stock or any other security or interest in any other Person or has any obligation to make any Investment in any Person. The attached *Officers and Directors Schedule* sets forth a list all of the officers and directors of each of the Company's Subsidiaries. The copies of each Subsidiary's articles of incorporation and bylaws (or similar governing documents or operating agreements) which have been furnished to Buyer reflect all amendments made thereto at any time prior to the date of this Agreement and are correct and complete.

5.5 *Financial Statements*. Attached hereto as the *Financial Statements Schedule* are the following financial statements:

(a) the audited consolidated balance sheet of BeautyFirst and its Subsidiaries as of June 27, 2007, and the related statements of income and cash flows (or the equivalent) for the fiscal year then ended, and the audited consolidated balance sheet of BeautyFirst and its Subsidiaries as of December 27, 2006, and the related statements of income and cash flows (or the equivalent) for the fiscal year then ended;

(b) the unaudited consolidated balance sheet of the Company and its Subsidiaries as of June 27, 2007, and the related unaudited statements of income and cash flows (or the equivalent) for the fiscal years then ended; and

(c) the unaudited consolidated balance sheet of BeautyFirst and its Subsidiaries as of November 21, 2007 (the "*Latest Balance Sheet*"), and the related unaudited statements of income and cash flows (or the equivalent) for the five-month period then ended.

Each of the financial statements referenced above (including in all cases the notes thereto, if any), is accurate and complete in all material respects, is consistent in all material respects with the books and records of BeautyFirst and its Subsidiaries or the Company and its Subsidiaries, as applicable (which, in turn, are accurate and complete in all material respects), fairly presents the financial condition of BeautyFirst and its Subsidiaries or the Company and its Subsidiaries, as applicable, as of the respective dates thereof and the operating results of BeautyFirst and its Subsidiaries or the Company and its Subsidiaries, as applicable, for the periods covered thereby and has been prepared in accordance with GAAP consistently applied throughout the periods covered thereby, subject in the case of the unaudited financial statements to the absence of footnote disclosures and changes resulting from normal year-end adjustments for recurring accruals (none of which footnote disclosures or changes would, alone or in the aggregate, be materially adverse to the business, operations, assets, liabilities, financial condition, operating results, value, cash flow or net worth of the Company and its Subsidiaries taken as a whole).

5.6 *Accounts Receivable*. Except as set forth on the attached *Accounts Receivable Schedule*, all accounts and notes receivable reflected on the Latest Balance Sheet (net of allowances for doubtful accounts as reflected thereon and as determined in accordance with GAAP) and, to the Company's knowledge, all accounts and notes receivable that arise after the date thereof through Closing, are or shall be valid receivables arising in the ordinary course of business and are or shall be current and

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collectible at the aggregate recorded amount therefor (net of allowances for doubtful accounts determined in accordance with GAAP, which, in the case of receivables reflected on the Latest Balance Sheet, are only such allowances reflected thereon). Other than the lenders under the Harris Bank Agreements, no Person has any Lien on such receivables or any part thereof, and no agreement for deduction, free goods, discount or other deferred price or quantity adjustment has been made with respect to any such receivables.

5.7 *Absence of Undisclosed Liabilities*. Except as set forth on the attached *Liabilities Schedule*, none of the Company or any of its Subsidiaries has nor, to the knowledge of the Company, will have any obligation or liability (whether accrued, absolute, contingent, unliquidated or otherwise, whether due or to become due and regardless of when or by whom asserted) arising out of any transaction entered into at or prior to the date hereof, or any action or inaction at or prior to the date hereof, or any state of facts existing at or prior to the date hereof, other than (a) liabilities reflected on the Latest Balance Sheet, (b) liabilities and obligations which have arisen after the date of the Latest Balance Sheet in the ordinary course of business (none of which is a liability for breach of contract, breach of warranty, tort, infringement, violation of law, claim or lawsuit), (c) obligations under (i) contracts and commitments described on the attached *Contracts Schedule*, (ii) contracts and commitments entered into in the ordinary course of business consistent with past practice after the date of this Agreement in compliance with Section 4.5 hereof, or (iii) contracts and commitments entered into in the ordinary course of business consistent with past practice which are not required to be disclosed on the *Contracts Schedule* pursuant to *Section 5.11* below (but not, in any case under this clause (c), liabilities for any breach of any such contract or commitment occurring on or prior to the Closing Date), and (d) other liabilities and obligations expressly disclosed in the other Schedules referred to in this *Article V*.

5.8 *[Intentionally Deleted.]*

5.9 *Absence of Certain Developments*. Except (i) as set forth on the attached *Developments Schedule,* (ii) pursuant to the Harris Bank Agreements (iii) as set forth in the financial statements delivered pursuant to Section 5.5(c) or (iv) as contemplated or provided in this Agreement, since June 27, 2007, none of the Company or any of its Subsidiaries has:

(a) issued any notes, bonds or other debt securities or any Capital Stock or other equity securities or any securities or rights convertible, exchangeable or exercisable into any Capital Stock or other equity securities;

(b) borrowed any amount or incurred or become subject to any material liabilities, except current liabilities incurred in the ordinary course of business consistent with past practice;

(c) discharged or satisfied any material Lien or paid any material obligation or liability, other than current liabilities paid in the ordinary course of business;

(d) declared, set aside or made any payment or distribution of cash or other property to any of its stockholders with respect to its Capital Stock or otherwise, or purchased, redeemed or otherwise acquired any Capital Stock or other equity securities (including any warrants, options or other rights to acquire its Capital Stock or other equity);

(e) mortgaged or pledged any of its properties or assets or subjected them to any Lien, except for Permitted Liens and Liens pursuant to the Harris Bank Agreements;

(f) sold, assigned, transferred, leased, licensed or otherwise encumbered any of its material tangible or intangible assets, except in the ordinary course of business consistent with past practice, or cancelled any material debts or claims;

(g) sold, assigned, transferred, leased, licensed or otherwise encumbered any material Intellectual Property Rights, disclosed any material proprietary confidential information to any Person (other than to Buyer and its Affiliates), or abandoned or permitted to lapse any material Intellectual Property Rights;

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(h) made or granted any bonus or any wage or salary increase to any employee or group of employees (except as required by pre-existing contracts described on the attached *Contracts Schedule* or in the ordinary course of business consistent with past practice), or made or granted any increase in any employee benefit plan or arrangement, or amended or terminated any existing employee benefit plan or arrangement or adopted any new employee benefit plan or arrangement;

(i) suffered any extraordinary losses or waived any rights of material value (whether or not in the ordinary course of business or consistent with past practice) in excess of $50,000 in the aggregate;

(j) made capital expenditures or commitments therefor that aggregate in excess of $50,000;

(k) delayed or postponed the payment of any accounts payable or commissions or any other liability or obligation or agreed or negotiated with any party to extend the payment date of any accounts payable or commissions or any other liability or obligation or accelerated the collection of (or discounted) any accounts or notes receivable;

(l) made any loans or advances to, guaranties for the benefit of, or any Investments in, any Person (other than Investments in a Subsidiary of the Company and advances to the Company's or its Subsidiaries' employees in the ordinary course of business consistent with past practice);

(m) made any charitable contributions or pledges exceeding in the aggregate $10,000 or made any political contributions;

(n) suffered any damage, destruction or casualty loss exceeding in the aggregate $50,000, whether or not covered by insurance;

(o) made any change in any method of accounting or accounting policies or made any write-down in the value of its inventory that is material or that is other than in the usual, regular and ordinary course of business consistent with past practice or reversed any accruals other than in the ordinary course of business consistent with past practice;

(p) taken any steps to incorporate or organize any Subsidiary;

(q) amended its articles of incorporation, by-laws or other organizational documents;

(r) entered into any agreement or arrangement prohibiting or restricting it from freely engaging in any business or otherwise restricting the conduct of its business anywhere in the world;

(s) taken any action or failed to take any action that has had, or could reasonably be expected to have, the effect of accelerating to pre-Closing periods sales to the trade or other customers that would otherwise be expected to occur after the Closing (including any failure to market and sell its products in normal commercial quantities and through normal commercial channels prior to the Closing);

(t) made any changes to its normal and customary practices regarding the solicitation, booking or fulfillment of orders or the shipment and delivery of goods (other than as agreed with Regis as to certain excess inventory);

(u) entered into any material contract other than in the ordinary course of business consistent with past practice, entered into any other material transaction, whether or not in the ordinary course of business or consistent with past practice, or changed in any significant respect any business practice (in anticipation of the transactions contemplated hereby or otherwise);

(v) paid any amount to or transferred any asset to the Seller or any of its Affiliates, or assumed, paid or satisfied any liability or obligation of the Seller or any of its Affiliates; or

(w) agreed, whether orally or in writing, to do any of the foregoing.

5.10 *Assets.*

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(a) Except as set forth on the attached *Assets Schedule*, the Company has good and marketable title to, or a valid leasehold interest in, all properties and assets used by it, located on its premises or

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shown on the Latest Balance Sheet or acquired after the date thereof, free and clear of all Liens (other than properties and assets disposed of for fair consideration in the ordinary course of business since the dates of such balance sheet and except for Liens disclosed on such balance sheet (including any notes thereto) and Liens for current property taxes not yet due and payable and Permitted Liens). The Company owns, has a valid leasehold interest in or has the valid and enforceable right to use all tangible assets necessary for the conduct of its business as presently conducted. Except as set forth on the attached *Assets Schedule*, all of the Company's and its Subsidiaries', properties, equipment, machinery, fixtures, improvements and other tangible assets (whether owned or leased) are in good condition and repair (ordinary wear and tear excepted) in all material respects and are fit for use in the ordinary course of the Company's and such Subsidiaries' business as presently conducted. All such assets have been installed and maintained in all material respects in accordance with all applicable laws, regulations and ordinances and in accordance with industry standards.

(b) Neither the Company nor any of its Subsidiaries owns any real property. The *Leased Real Property Schedule* attached hereto contains a complete list of all real property leased or subleased by the Company or any of its Subsidiaries (individually "*Leased Real Property*" and collectively, the "*Leased Realty*"). The Company or its Subsidiary, as applicable, has a valid leasehold interest in each Leased Real Property, subject only to Permitted Liens. The Company has previously delivered to Buyer or its special counsel complete and accurate copies of each of the leases for the Leased Realty (the "*Realty Leases*"). With respect to each Realty Lease: (i) the Realty Lease is legal, valid, binding and enforceable against the Company or its Subsidiary, as applicable (except as enforceability may be limited by laws relating to bankruptcy, insolvency, winding-up or other similar laws affecting the enforcement of creditors' rights, and by general principles of equity) and in full force and effect; (ii) except as disclosed in the *Leased Real Property Schedule*, neither the Company nor any of its Subsidiaries nor, to the knowledge of the Company, any other party to the Realty Lease is in material breach or default, and no event has occurred which, with notice or lapse of time or both, would constitute such a material breach or default or permit termination, modification or acceleration under the Realty Lease; (iii) the Realty Lease has not been modified, except to the extent that such modifications are disclosed by the documents delivered to Buyer; and (iv) neither the Company nor any of its Subsidiaries has assigned, transferred, conveyed, mortgaged, deeded in trust or encumbered any interest in the Realty Lease, other than pursuant to Permitted Liens.

5.11 *Contracts and Commitments.*

(a) Except as expressly contemplated by this Agreement or as set forth on the attached *Contracts Schedule* or, in the case of paragraph (iv), below, the *Employees Schedule*, neither the Company nor any of its Subsidiaries is a party to or bound by any written or oral:

(i) Contract with any vendor involving annual consideration in the aggregate in excess of $50,000.

(ii) Contract with any customer involving annual consideration in the aggregate in excess of $50,000.

(iii) pension, profit sharing, stock option, employee stock purchase or other plan or arrangement providing for compensation (including any bonuses or other remuneration and whether in cash or otherwise), to employees, former employees or consultants, or any other employee benefit plan or arrangement, or any collective bargaining agreement or any other contract with any labor union, or severance agreements, programs, policies or arrangements;

(iv) contract relating to (A) loans to officers, directors or Affiliates (other than inter-company debt among the Company and a Subsidiary or between Subsidiaries of the Company), or (B) employment of (or consulting arrangement with) any executive officer, Headquarter Staff or any other employee or consultant earning more than $50,000 per year;

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(v) contract under which the Company or any of its Subsidiaries has advanced or loaned any other Person amounts in the aggregate exceeding $25,000;

(vi) agreement or indenture relating to borrowed money or other Indebtedness or the mortgaging, pledging or otherwise placing a Lien on any material asset or group of assets of the Company or any of its Subsidiaries;

(vii) Guaranty;

(viii) lease or agreement under which the Company or any of its Subsidiaries is lessee of or holds or operates any property, real or personal, owned by any other party, except for any lease of real or personal property under which the aggregate annual rental payments do not exceed $50,000 (it being agreed that any such lease disclosed on the *Leased Real Property Schedule* shall also be deemed disclosed herein);

(ix) lease or agreement under which the Company or any of its Subsidiaries is lessor of or permits any third party to hold or operate any property, real or personal, owned or controlled by the Company or any of its Subsidiaries;

(x) contract or group of related contracts with the same party or group of affiliated parties the performance of which involves consideration in the aggregate in excess of $50,000;

(xi) assignment, license, indemnification or agreement with respect to any intangible property (including any Intellectual Property Rights) granted or made to the Company or any of its Subsidiaries, or granted or made by the Company or any of its Subsidiaries to third parties, except licenses to the Company or any of its Subsidiaries of commercially available, unmodified, "off the shelf" software used solely for the Company's and its Subsidiaries' own internal use for an aggregate fee, royalty or other consideration for any such software or group of related software licenses of no more than $50,000 annually;

(xii) sales, distribution, manufacturing, supply or franchise agreement (A) which involves consideration in the aggregate in excess of $50,000 annually (other than royalties from franchisees) or (B) other than franchise agreements, which involves any exclusivity, requirements clauses or similar right or obligation of any party thereto (including without limitation territorial exclusivity);

(xiii) agreement with a term of more than six months which is not terminable by the Company or any of its Subsidiaries upon less than thirty (30) days' notice without penalty and involves a consideration in excess of $50,000 annually;

(xiv) contract regarding voting, transfer or other arrangements related to the Company's or any Subsidiary's Capital Stock or warrants, options or other rights to acquire any of the Company's or any Subsidiary's Capital Stock;

(xv) contract or agreement regarding any material indemnification provided to or by the Company and any if its Subsidiaries, including any contract regarding any indemnification provided with respect to Environmental and Safety Requirements;

(xvi) other than franchise agreements, contract or agreement prohibiting it from freely engaging in any business or competing anywhere in the world; or

(xvii) any other agreement which is material to its operations and business prospects or involves a consideration in excess of $50,000 annually.

To the extent applicable, the contracts, leases, agreements and instruments identified on the *Contracts Schedule* are separately identified by type of agreement. The description of all contracts, leases, agreements and instruments identified on the *Contracts Schedule* clearly identify all amendments, waivers and other modifications to such agreements.

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(b) All of the contracts, leases, agreements and instruments set forth or required to be set forth on the *Contracts Schedule* are valid, binding and enforceable in accordance with their respective terms against the Company or Subsidiary party thereto and, to the knowledge of the Company, the other parties thereto (except as enforceability may be limited by laws relating to bankruptcy, insolvency, winding-up or other similar laws affecting the enforcement of creditors' rights, and by general principles of equity). Except as set forth on the *Contracts Schedule*, (i) each of the Company and its Subsidiaries has performed all obligations required to be performed by it in all material respects and is not in material default under or in material breach of nor in receipt of any claim of default or breach under any contract, lease, agreement or instrument to which the Company or any of its Subsidiaries is subject; (ii) no event has occurred which with the passage of time or the giving of notice or both would result in a material default, material breach or event of material noncompliance by the Company or any of its Subsidiaries under any contract, lease, agreement or instrument to which the Company or any of its Subsidiaries is subject; (iii) neither the Company nor any of its Subsidiaries has any present expectation or intention of not performing, in all material respects, all such obligations; and (iv) the Company does not have knowledge of any material breach or anticipated material breach by the other parties to any contract, lease, agreement, instrument or commitment to which they are parties. Except as set forth on the *Contracts Schedule*, there are no renegotiations of, attempts or requests to renegotiate or outstanding rights to renegotiate, any terms of any of the agreements and instruments set forth or required to be set forth on the *Contracts Schedule*.

(c) Buyer or its special counsel has been supplied with a true and correct copy of each of the written instruments, plans, contracts and agreements and an accurate description of each of the oral arrangements, contracts and agreements which are referred to on the attached *Contracts Schedule*, together with all amendments, waivers or other changes thereto.

5.12 *Intellectual Property Rights.*

(a) The attached *Intellectual Property Schedule* contains a complete and accurate list, in all material respects, of all (i) patented or registered Intellectual Property Rights owned or, to the Company's knowledge, used by the Company or any of its Subsidiaries, and (ii) pending patent applications and applications for other registrations of Intellectual Property Rights filed by or on behalf of the Company or any of its Subsidiaries. The Company or one of its Subsidiaries owns and possesses all right, title and interest to, or has the right to use pursuant to a license that is, to the knowledge of the Company, valid and enforceable, all material Intellectual Property Rights necessary for the operation of the businesses of the Company and its Subsidiaries as presently conducted, free and clear of all Liens other than Permitted Liens. Without limiting the generality of the foregoing, the Company or one of its Subsidiaries owns and possesses all right, title and interest in and to all material Intellectual Property Rights necessary for the operation of the businesses of the Company and its Subsidiaries (x) created or developed by the Company's and its Subsidiaries' employees, consultants or contractors or under the direction or supervision of the Company's and its Subsidiaries' employees, consultants or contractors relating to the businesses of the Company and its Subsidiaries or to the research or development conducted by or for the Company and its Subsidiaries or (y) embodied in any of the Company's or its Subsidiaries past or present products or services, and no current or former employee, consultant or contractor has any valid claim of ownership, in whole or part, to any such Intellectual Property Rights, or any valid right to use any such Intellectual Property Rights or derivative works thereof. For purposes of this *Section 5.13(a)*, the term "derivative work" shall have the same meaning as provided in 17 U.S.C. § 101. The Company and each of its Subsidiaries has taken all necessary steps to maintain the existing registrations and applications for the Intellectual Property Rights which it owns.

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(b) Except as set forth on the attached *Intellectual Property Schedule*, (i) there have been no claims made against the Company or any of its Subsidiaries asserting the invalidity, misuse or unenforceability of any of the Intellectual Property Rights owned or used by the Company or any of its Subsidiaries and, to the Company's knowledge, there is no basis for any such claim, (ii) neither the Company nor any Subsidiary has received any notices of, and the Company has no knowledge of any facts which indicate a likelihood of, any infringement or misappropriation by, or conflict with, any third party with respect to any Intellectual Property Rights (including any demand or request that the Company or any of its Subsidiaries license any rights from a third party), (iii) the conduct of the Company's and its Subsidiaries' businesses has not infringed, misappropriated or conflicted with and does not infringe, misappropriate or conflict with any Intellectual Property Rights of other Persons in any material respect, and (iv) to the Company's knowledge, the Intellectual Property Rights owned by the Company or its Subsidiaries have not been infringed, misappropriated or conflicted by other Persons. The transactions contemplated by this Agreement will not have a material adverse effect on the Company's or any of its Subsidiaries' right, title or interest in and to the Intellectual Property Rights listed on the *Intellectual Property Schedule* and all of such Intellectual Property Rights shall be owned or available for use by the Company and its Subsidiaries on identical terms and conditions immediately after the Closing other than Intellectual Property Rights relating to the name "Cameron Capital" which, subject to Section 9.12, the Company and CC1 shall cease to use from and after Closing.

(c) Neither the Company nor its Subsidiaries, nor to the Company's knowledge any of their current or former employees is in violation of any term of any employment contract, patent disclosure agreement, non-competition agreement or any restrictive covenant relating to the employment of such person or to the use of trade secrets or the non-disclosure of proprietary information of others.

(d) The *Intellectual Property Schedule* sets forth a true, correct and complete list of all software owned by a Seller Party that was developed by or for a Seller Party and used in the business of the Company or its Subsidiaries. The *Intellectual Property Schedule* sets forth a true, correct and complete list of the material software owned by a third party that is licensed by any Seller Party and used in the business of the Company or its Subsidiaries.

(e) For the purposes of this Section 5.12, references to the Company and its Subsidiaries shall exclude the Excluded Subsidiaries.

5.13 *Litigation*. Except as set forth on the attached *Litigation Schedule*, there are no (and, during the nineteen (19) months preceding the date hereof, there have not been any material) actions, suits, proceedings (including any arbitration proceedings), orders, investigations or claims pending or, to the knowledge of the Company, threatened against or affecting the Company or any of its Subsidiaries (or to the Company's knowledge, pending or threatened against or affecting any of the officers, directors or employees of the Company or any of its Subsidiaries with respect to their business activities on behalf of the Company or its Subsidiaries), or pending or threatened by the Company or any of its Subsidiaries against any Person, at law or in equity, or before or by any governmental department, commission, board, bureau, agency or instrumentality (including any actions, suits, proceedings or investigations with respect to the transactions contemplated by this Agreement). Neither the Company nor any of its Subsidiaries is subject to any arbitration proceedings under collective bargaining agreements or otherwise or any governmental investigations or inquiries; and, to the Company's knowledge, there is no reasonable basis for any of the foregoing. The foregoing includes actions pending or threatened involving the prior employment of any of the Company's or its Subsidiaries' employees, their use in connection with the Company's or its Subsidiaries' businesses of any information or techniques allegedly proprietary to any of their former employers or their obligations under any agreements with prior employers. Neither the Company nor any of its Subsidiaries is subject to any judgment, order or decree of any court or other governmental agency. There are no actions, suits, proceedings (including any arbitration proceedings), orders, investigations or claims pending or, to Company's knowledge, threatened against or affecting Seller or the Company or any of its Subsidiaries

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in which it is sought to restrain or prohibit or to obtain damages or other relief in connection with the transactions contemplated hereby.

5.14 *Compliance with Laws*. Except as set forth on the attached *Compliance Schedule*:

(a) Each of the Company and its Subsidiaries has materially complied and is in material compliance with all applicable laws, ordinances, codes, rules, requirements and regulations of foreign, federal, state and local governments and all agencies thereof relating to the operation of its business and the maintenance and operation of its properties and assets. No written notices have been received by and no claims have been filed against the Company or any of its Subsidiaries alleging a violation of any such laws, ordinances, codes, rules, requirements or regulations, and, to the knowledge of the Company, in the past nineteen (19) months none of the Company or any of its Subsidiaries have been subject to any material adverse inspection, finding, investigation, penalty assessment, audit or other compliance or enforcement action. Neither the Company nor any of its Subsidiaries has made any political contributions, bribes, kickback payments or other similar payments of cash or other consideration, including payments to customers or clients or employees of customers or clients for purposes of doing business with such Persons; provided, that Seller makes no representation as to whether the Company or its Subsidiaries made any such payments prior to June 1, 2006.

(b) Each of the Company and its Subsidiaries holds and is in material compliance with all material permits, licenses, bonds, approvals, certificates, registrations, accreditations and other authorizations of all foreign, federal, state and local governmental agencies required for the conduct of its business and the ownership of its properties, and the attached *Permits Schedule* sets forth a list of all of such material permits, licenses, bonds, approvals, certificates, registrations, accreditations and other authorizations. No written notices have been received by the Company or any of its Subsidiaries alleging the failure to hold any of the foregoing. All of such material permits, licenses, bonds, approvals, accreditations, certificates, registrations and authorizations will be available for use by the Company and its Subsidiaries immediately after the Closing.

5.15 *Environmental and Safety Matters*. Except as set forth on the attached *Environmental and Safety Matters Schedule*:

(a) Each of the Company and its Subsidiaries has complied and is in compliance with all Environmental and Safety Requirements in all material respects.

(b) Without limiting the generality of the foregoing, each of the Company and its Subsidiaries has obtained and complied in all material respects with, and is in material compliance with, all material permits, licenses and other authorizations that are required pursuant to Environmental and Safety Requirements for the occupation of its facilities and the operation of its business.

(c) Since June 1, 2006 and, to the Company's knowledge, prior thereto, neither the Company nor any of its Subsidiaries has received any written or oral notice, report or other information regarding any actual or alleged violation of Environmental and Safety Requirements, or any material liabilities or potential material liabilities (whether accrued, absolute, contingent, unliquidated or otherwise), including any investigatory, remedial or corrective obligations, relating to any of them or its facilities arising under Environmental and Safety Requirements.

(d) To the Company's knowledge, none of the following exists at any property or facility owned or operated by the Company or its Subsidiaries: (i) underground storage tanks, (ii) asbestos containing material in any form or condition, (iii) materials or equipment containing polychlorinated biphenyls, or (iv) landfills, surface impoundments, or disposal areas.

(e) None of the Company, its Subsidiaries, or, to the knowledge of the Company, their respective predecessors or Affiliates, has treated, stored, disposed of, arranged for or permitted the disposal of, transported, handled, or released any hazardous substance, or, to the knowledge of the Company,

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owned or operated any property or facility (and, to the knowledge of the Company, no such property or facility is contaminated by any such substance) in a manner that has given or would give rise to material liabilities, including any material liability for response costs, corrective action costs, personal injury, property damage, natural resources damages or attorney fees, or any investigatory, corrective or remedial obligations, pursuant to CERCLA, the Solid Waste Disposal Act, as amended or any other Environmental and Safety Requirements.

(f) Neither the Company nor any of its Subsidiaries, or, to the knowledge of the Company, any predecessors or Affiliates of the Company or its Subsidiaries, has manufactured, sold, marketed, installed or distributed products containing asbestos, and with respect to such entities, to the knowledge of the Company no basis in law or fact exists to support an assertion of any claim, action or obligation with respect to any adverse consequences arising from, relating to, or based on the presence or alleged presence of asbestos or asbestos-containing materials in any product or item manufactured, sold, marketed, installed, stored, transported, handled or distributed at any time by the Company, its Subsidiaries or, to the knowledge of the Company, any of their respective predecessors or Affiliates, or based on the presence or alleged presence of asbestos or asbestos-containing materials at any property or facility owned, leased or operated by the Company, its Subsidiaries or any of their respective predecessors or Affiliates.

(g) The Seller Parties have furnished to the Buyer all environmental audits, reports and other material environmental documents relating to the current and former operations and facilities of the Company and its Subsidiaries, which are in their possession, custody or control.

5.16 *Employees*. The attached *Employees Schedule* correctly sets forth the name and current annual salary (or hourly wages, as the case may be) of each of the Company's and any of its Subsidiaries' executive officers, Headquarter Staff and any other employee earning more than $50,000 per year, and whether any such employees are absent from active employment, including leave of absence or disability. Except as set forth on the attached *Employees Schedule*, (a) the Company and each of its Subsidiaries have complied in all material respects with all laws relating to the employment of labor (including provisions thereof relating to wages, hours, equal opportunity, collective bargaining and the payment of social security and other Taxes), and the Company does not have any knowledge that the Company or of any of its Subsidiaries has any material labor relations problems (including any union organization activities, threatened or actual strikes or work stoppages or material grievances); and (b) neither the Company nor any of its Subsidiaries nor, to the Company's knowledge, any of their respective employees are subject to any noncompete, nondisclosure, confidentiality, employment, consulting or similar agreements relating to, or in conflict with the present business activities of the Company or any of its Subsidiaries, except for agreements between the Company or its Subsidiaries and their present and former employees. The *Employees Schedule* sets forth the aggregate amount of bonuses anticipated to be paid to the Company's and its Subsidiaries' officers required to be set out therein in respect of the twelve months ended December 28, 2007 that have not yet been paid, and the categories of persons eligible for such bonuses.

5.17 *Employee Benefit Plans.*

(a) The attached *Employee Benefits Schedule* sets forth an accurate and complete list of each "employee benefit plan" (as such term is defined in Section 3(3) of ERISA) and each other employee benefit plan, program or arrangement providing benefits to current or former employees (including any bonus plan, plan for deferred compensation, retirement, severance, employee health or other welfare benefit plan or other arrangement), currently maintained, sponsored, or contributed to by the Company or a Subsidiary, or with respect to which the Company or any of its Subsidiaries has any liability or potential liability. Each such item listed on the attached *Employee Benefits Schedule* is referred to herein as a "*Plan*." For purposes of this *Section 5.17*, the term "Company" includes all entities treated as a single employer with the Company pursuant to Section 414 of the Code.

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(b) Neither the Company nor any of its Subsidiaries has any obligation to contribute to (or any other liability, including current or potential withdrawal liability, with respect to) any "multiemployer plan" (as defined in Section 3(37) of ERISA) or any employee benefit plan which is a "defined benefit plan" (as defined in Section 3(35) of ERISA), whether or not terminated.

(c) Except as set forth on the *Employee Benefits Schedule* under the heading "Terminated Employee Benefits," neither the Company nor any of its Subsidiaries has any obligation under any Plan or otherwise to provide medical, health, life insurance or other welfare-type benefits to current or future retired or terminated employees (except for limited continued medical benefit coverage required to be provided under Section 4980B of the Code or as required under applicable state law).

(d) Except as set forth on the *Employee Benefits Schedule* under the heading "Profit Sharing Plans," neither the Company nor any of its Subsidiaries maintains, contributes to or has any liability or potential liability under (or with respect to) any employee benefit plan which is a "defined contribution plan" (as defined in Section 3(34) of ERISA), whether or not terminated.

(e) With respect to the Plans, all required payments, premiums, contributions, reimbursements or accruals for all periods ending prior to or as of the Closing shall have been made on a timely basis or properly accrued on the Latest Balance Sheet. None of the Plans has any unfunded liabilities which are not reflected on the Latest Balance Sheet.

(f) The Plans and all related trusts, insurance contracts and funds have been maintained, funded and administered in compliance in all material respects with their terms and with the applicable provisions of ERISA, the Code and other applicable laws. Neither the Company, any of its Subsidiaries, nor, to the Company's knowledge, any trustee or administrator of any Plan has engaged in any transaction with respect to the Plans which would subject the Company, any Subsidiary or any trustee or administrator of the Plans, or any party dealing with any such Plan, nor do the transactions contemplated by this Agreement constitute transactions which would subject any such party, to either a civil penalty assessed pursuant to Section 502(i) of ERISA or the tax or penalty on prohibited transactions imposed by Section 4975 of the Code. No actions, suits, audits, investigations or claims with respect to the assets of the Plans (other than routine claims for benefits) are pending or threatened which could result in or subject the Company or any of its Subsidiaries to any material liability and there are no circumstances which would give rise to or be expected to give rise to any such actions, suits or claims. No liability to the Pension Benefit Guaranty Corporation or otherwise under Title IV of ERISA has been, or could reasonably be expected to be, incurred by the Company or any of its Subsidiaries.

(g) Each of the Plans which is intended to be qualified under Section 401(a) of the Code has received a favorable determination from the Internal Revenue Service that such plan is qualified under Section 401(a) of the Code or is entitled to rely upon an opinion or notification letter issued to the sponsor of an IRS-approved M&P or volume submitter plan document, and, to the knowledge of the Company, there are no circumstances which would adversely affect the qualified status of any such Plan.

(h) The Company has provided Buyer with true and complete copies of all documents pursuant to which the Plans are maintained, funded and administered.

5.18 *Insurance*. The attached *Insurance Schedule* contains a true and complete list of all insurance policies to which the Company or any of its Subsidiaries is a party or which provide coverage to or for the benefit of or with respect to the Company, its Subsidiaries or any director or employee of the Company or its Subsidiaries in his or her capacity as such (the "*Insurance Policies*"), indicating in each case the type of coverage, name of the insured, the insurer, the premium, the expiration date of each policy and the amount of coverage. The attached *Insurance Schedule* also describes any self-insurance or co-insurance arrangements by or affecting the Company or its Subsidiaries, including

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any reserves established thereunder. Each Insurance Policy is in full force and effect and, other than the Directors and Officers' Insurance Policy of the Seller which currently applies to the Company and its Subsidiaries, shall, unless otherwise elected by Buyer, remain in full force and effect in accordance with its terms immediately following the Closing. Neither the Company nor any of its Subsidiaries is in default in any material respect with respect to its obligations under any insurance policy maintained by it. The Company and its Subsidiaries are current in all premiums or other payments due under the Insurance Policies and have otherwise complied in all material respects with all of their obligations under each Insurance Policy. The Company has given timely notice to the insurer of all material claims that may be insured thereby. Except as disclosed in the *Insurance Schedule*, to the knowledge of the Company, no Insurance Policy provides for any retrospective premium adjustment or other experience-based liability on the part of the Company or any of its Subsidiaries.

5.19 *Tax Matters.*

(a) The Company and each Subsidiary and each Affiliated Group has timely filed all Tax Returns required to be filed by it, each such Tax Return has been prepared in compliance with all applicable laws and regulations, and all such Tax Returns are true and accurate in all material respects. All Taxes due and payable by the Company and its Subsidiaries have been paid, and the Company and its Subsidiaries have withheld and paid over to the appropriate taxing authority all Taxes which they are required to withhold from amounts paid or owing to any employee, stockholder, creditor or other third party.

(b) Except as set forth on the attached *Taxes Schedule*:

(i) none of the Company or any of its Subsidiaries has requested or been granted an extension of the time for filing any Tax Return which has not yet been filed;

(ii) none of the Company or any of its Subsidiaries has consented to waive the relevant statute of limitations or extend the time in which any material Tax may be assessed or collected by any taxing authority;

(iii) no deficiency or proposed adjustment which has not been settled or otherwise resolved for any amount of Tax has been proposed, asserted or assessed by any taxing authority against the Company or any Subsidiary;

(iv) there is no action, suit, taxing authority proceeding or audit now in progress, or to the Company's knowledge, pending or threatened against or with respect to the Company or any Subsidiary;

(v) to the knowledge of the Company, no claim has ever been made by a taxing authority in a jurisdiction where the Company or any Subsidiary does not file Tax Returns that the Company or any such Subsidiary, respectively, is or may be subject to taxation by that jurisdiction;

(vi) none of the Company or any Subsidiary has made any election under Section 341(f) of the Code (or any corresponding provision of state, local or foreign income Tax law);

(vii) none of the Company or any of its Subsidiaries will be required to include any item of income in, or exclude any item of deduction from, taxable income for any taxable period (or portion thereof) ending after the Closing Date as a result of any (A) change in method of accounting for a taxable period ending on or prior to the Closing Date; (B) "closing agreement" as described in Section 7121 of the Code (or any corresponding or similar provision of state, local or foreign income Tax law) executed on or prior to the Closing Date; (C) intercompany transactions or any excess loss account described in Treasury Regulations under Code § 1502 (or any corresponding or similar provision of state, local or foreign income Tax law); (D) installment sale or open transaction disposition made on or prior to the Closing Date; or (E) prepaid amount received on or prior to the Closing Date;

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(viii) none of the Company or any of its Subsidiaries is a party to or bound by any Tax allocation or Tax sharing agreement;

(ix) none of Company or any of its Subsidiaries has been a U.S. real property holding corporation within the meaning of Section 897(c)(2) of the Code during the applicable period specified in Section 897(c)(1)(A)(ii) of the Code;

(x) none of the Company or its Subsidiaries (A) has been a member of an Affiliated Group filing a consolidated federal income Tax Return (other than one of which the Company is the common parent) or (B) has any liability for the Taxes of any Person (other than the Company and its Subsidiaries) under Treasury Regulation § 1.1502-6 (or any similar provision of state, local, or foreign law), as a transferee or successor, by contract, or otherwise;

(xi) neither the Company nor any of its Subsidiaries is a party to any agreement, contract, arrangement or plan that has resulted or could result, separately or in the aggregate, in the payment of any "excess parachute payment" within the meaning of Code § 280G (or any corresponding provision of state, local or foreign Tax law); and

(xii) No Person (other than the Company or its Subsidiaries) has any right to or interest in any Tax refunds that may be payable at any time to the Company or its Subsidiaries. Without limiting the generality of the foregoing, Seller confirms that no prior owner of the Company or any Subsidiary (or any of their respective assets or businesses) has any right to receive (or to be paid with respect to receipt by the Company and its Subsidiaries of) any Tax refund that is allocated to prior periods, including those that result from net operating losses being carried back to prior periods.

5.20 *Brokerage and Transaction Bonuses*. Except as set forth on the attached *Brokerage Schedule*, there are no claims for brokerage commissions, finders' fees or similar compensation in connection with the transactions contemplated by this Agreement based on any arrangement or agreement binding upon Seller, the Company or any of its Subsidiaries and any fees, costs or other expenses of any such Person set forth on the *Brokerage Schedule* will be borne solely by Seller. There are no bonuses, severance or other similar compensation (discretionary or otherwise) payable to any employee of the Company or any of its Subsidiaries in connection with or arising out of the transactions contemplated hereby. The consummation of the transaction contemplated by this agreement will not accelerate the time of payment or vesting of, or increase the amount of, or result in the forfeiture of compensation or benefits under any Plan.

5.21 *Bank Accounts; Locations*. The *Bank Account Schedule* to be delivered to Buyer at least 5 days prior to Closing will list, as of Closing, all of the Company's and its Subsidiaries' bank accounts (designating each authorized signatory and the level of each signatory's authorization). All of the tangible assets and properties of the Company and its Subsidiaries are located at the locations set forth on the attached *Locations Schedule.*

5.22 *Affiliate Transactions*. Except as set forth on the attached *Affiliated Transactions Schedule*, no officer, director, shareholder, employee, or Affiliate of the Company or any of its Subsidiaries or, to the Company's knowledge, any individual related by blood, marriage or adoption to any such individual or any entity in which any such Person or individual owns any beneficial interest, is a party to any agreement (not including employment agreements and benefit arrangements with the Company or its Subsidiaries, which need not be disclosed in the *Affiliated Transactions Schedule*), contract, commitment or transaction with the Company or any of its Subsidiaries or any of the Company's material suppliers or has any interest in any assets or property used by the Company or any of its Subsidiaries (including any Intellectual Property Rights). The attached *Affiliated Transactions Schedule* contains a description of all intercompany services provided to or on behalf of the Company or any of its Subsidiaries by Seller or its Affiliates (other than the Company and its Subsidiaries) and the costs associated therewith.

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Except as set forth and described on the attached *Affiliated Transactions Schedule*, none of the assets, tangible or intangible, or properties that are used by the Company or any of its Subsidiaries are owned by Seller or its Affiliates (other than the Company and its Subsidiaries).

5.23 *Certain Indebtedness Matters*. Since the date of the Latest Balance Sheet and through the Closing, the Company and its Subsidiaries have operated in the ordinary course with respect to gift cards and gift certificates. The total amount of personnel bonuses due from the Company and its Subsidiaries as of the Closing will not exceed $335,000, of which none shall be due to Steven Hudson.

5.24 *Disclosure*. Neither this Article V or any of the Exhibits or Schedules attached hereto nor any of the certificates or other items prepared and supplied to Buyer or its Affiliates by or on behalf of the Company, its Subsidiaries or Seller pursuant to this Agreement contain any untrue statement of a material fact or, to the knowledge of the Company, omit a material fact necessary to make each statement contained herein or therein, in light of the circumstances in which they were made, not misleading.

ARTICLE V.1
REPRESENTATIONS AND WARRANTIES OF STEPHEN POWELL

As a material inducement to Buyer to enter into this Agreement and consummate the transactions contemplated hereby, Powell hereby represents and warrants to Buyer that as of the date hereof and as of the Closing Date:

5.1.1 *Title to Shares*. 500 Class B Shares of the Capital Stock of the Company are held beneficially and of record by the Powell, free and clear of all Encumbrances. At the Closing, Powell shall sell to Buyer good and valid title to all of such 500 Shares, free and clear of all Encumbrances.

5.1.2 *Authorization*. This Agreement has been duly executed and delivered by Powell and constitutes a valid and binding obligation of Powell enforceable against him in accordance with its terms (except as enforceability may be limited by laws relating to bankruptcy, insolvency, winding-up or other similar laws affecting the enforcement of creditors' rights and by general principles of equity). The assignments, endorsements, stock powers and other instruments of transfer delivered by Powell to Buyer at the Closing will be sufficient to transfer his entire interest, legal and beneficial, in the 500 Shares held by him. Powell has, and on the Closing Date will have, full power and authority to convey good and marketable title to all of the 500 Shares held by him, and upon transfer to Buyer of the certificates representing such Shares, Buyer will receive good and marketable title to such 500 Shares, free and clear of all Encumbrances.

Powell agrees to and shall indemnify the Buyer Parties and save and hold each of them harmless against and pay on behalf of or reimburse such Buyer Parties for any Losses which any such Buyer Party suffers, sustains or becomes subject to, as a result of, in connection with, relating or incidental to or by virtue of any breach of any representation or warranty in this Article V.1 to an aggregate maximum amount of $550,000.

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ARTICLE V.2
REPRESENTATIONS AND WARRANTIES OF MACKENZIE LIMITED PARTNERSHIP

As a material inducement to Buyer to enter into this Agreement and consummate the transactions contemplated hereby, Mackenzie hereby represents and warrants to Buyer that as of the date hereof and as of the Closing Date:

5.2.1 *Formation and Organization*. Mackenzie is a limited partnership duly formed, organized, validly existing and in good standing under the laws of its State of formation.

5.2.2 *Title to Shares*. 500 Class B Shares of the Capital Stock of the Company are held beneficially and of record by Mackenzie, free and clear of all Encumbrances. At the Closing, Mackenzie shall sell to Buyer good and valid title to all of such 500 Shares, free and clear of all Encumbrances.

5.2.3 *Authorization*. The execution, delivery and performance of this Agreement has been duly authorized by the general partner of Mackenzie, and no other act (partnership or otherwise) or other proceeding is necessary to authorize the execution, delivery or performance of this Agreement and the consummation of the transactions contemplated hereby by Mackenzie. This Agreement has been duly executed and delivered by Mackenzie and constitutes a valid and binding obligation of Mackenzie enforceable against it in accordance with its terms (except as enforceability may be limited by laws relating to bankruptcy, insolvency, winding-up or other similar laws affecting the enforcement of creditors' rights and by general principles of equity). The assignments, endorsements, stock powers and other instruments of transfer delivered by Mackenzie to Buyer at the Closing will be sufficient to transfer its entire interest, legal and beneficial, in the 500 Shares held by it. Mackenzie has, and on the Closing Date will have, full power and authority to convey good and marketable title to all of the 500 Shares held by it, and upon transfer to Buyer of the certificates representing such Shares, Buyer will receive good and marketable title to such 500 Shares, free and clear of all Encumbrances.

Mackenzie agrees to and shall indemnify the Buyer Parties and save and hold each of them harmless against and pay on behalf of or reimburse such Buyer Parties for any Losses which any such Buyer Party suffers, sustains or becomes subject to, as a result of, in connection with, relating or incidental to or by virtue of any breach of any representation or warranty in this Article V.2 to an aggregate maximum amount of $550,000.

ARTICLE VI
REPRESENTATIONS AND WARRANTIES OF REGIS

As an inducement to Seller to enter into this Agreement and consummate the transactions contemplated hereby, Regis hereby represents and warrants to Seller that as of the date hereof and as of the Closing Date:

6.1 *Organization and Power*. Regis is a corporation duly organized, validly existing and in good standing under the laws of the State of Minnesota. Regis has all requisite corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder.

6.2 *Authorization*. The execution, delivery and performance by Regis of this Agreement and all of the other agreements and instruments contemplated hereby to which Regis is a party and the consummation of the transactions contemplated hereby have been duly and validly authorized by Regis, and no other corporate act or proceeding on the part of Regis, its board of directors or stockholders is necessary to authorize the execution, delivery or performance of this Agreement and all of the other agreements and instruments contemplated hereby to which Regis is a party and the consummation of the transactions contemplated hereby. This Agreement has been duly executed and delivered by Regis and constitutes a valid and binding obligation of Regis, enforceable in accordance with its terms (except

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as enforceability may be limited by laws relating to bankruptcy, insolvency, winding-up or other similar laws affecting the enforcement of creditors' rights and by general principles of equity) and each of the other agreements and instruments contemplated hereby to which Regis is a party, when executed and delivered by Regis, in accordance with the terms hereof, shall each constitute a valid and binding obligation of Regis, as applicable, enforceable with its respective terms (except as enforceability may be limited by laws relating to bankruptcy, insolvency, winding-up or other similar laws affecting the enforcement of creditors' rights and by general principles of equity).

6.3 *No Violation*. Regis is not subject to nor obligated under its articles of incorporation or by-laws, or any applicable law, rule or regulation of any governmental authority, or any agreement, instrument, license or permit, or subject to any order, writ, injunction or decree, which would be breached or violated by its execution, delivery or performance of this Agreement or the consummation of the transactions contemplated hereby.

6.4 *Governmental Authorities and Consents*. No permit, consent, approval or authorization of, or declaration to or filing with, any governmental or regulatory authority or any other Person is required in connection with the execution, delivery or performance of this Agreement by Regis or the consummation by Regis of the transactions contemplated hereby.

6.5 *Litigation*. There are no actions, suits, proceedings, orders or investigations pending or, to Regis's knowledge, threatened against or affecting Regis, at law or in equity, or before or by any foreign, federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, which would adversely affect Regis's performance under this Agreement or the consummation of the transactions contemplated hereby.

6.6 *Brokerage*. There are no claims for brokerage commissions, finders' fees or similar compensation in connection with the transactions contemplated by this Agreement based on any arrangement or agreement made by or on behalf of Regis for which Seller would be liable.

ARTICLE VI.1
REPRESENTATIONS AND WARRANTIES RELATING TO THE BUYER

As an inducement to Seller to enter into this Agreement and consummate the transactions contemplated hereby, Regis and the Buyer hereby represent and warrant to Seller that as of the date hereof and as of the Closing Date:

6.1.1 *Organization and Power*. Buyer is a corporation duly organized, validly existing and in good standing under the laws of the State of Colorado. Buyer has all requisite corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder.

6.1.2 *Authorization*. The execution, delivery and performance by Buyer of this Agreement and all of the other agreements and instruments contemplated hereby to which Buyer is a party and the consummation of the transactions contemplated hereby have been duly and validly authorized by Buyer, and no other corporate act or proceeding on the part of Buyer, its board of directors or stockholders is necessary to authorize the execution, delivery or performance of this Agreement and all of the other agreements and instruments contemplated hereby to which Buyer is a party and the consummation of the transactions contemplated hereby. This Agreement has been duly executed and delivered by Buyer and constitutes a valid and binding obligation of Buyer, enforceable in accordance with its terms (except as enforceability may be limited by laws relating to bankruptcy, insolvency, winding-up or other similar laws affecting the enforcement of creditors' rights and by general principles of equity) and each of the other agreements and instruments contemplated hereby to which Buyer is a party, when executed and delivered by Buyer, in accordance with the terms hereof, shall each constitute a valid and binding obligation of Buyer, as applicable, enforceable with its respective terms (except as enforceability

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may be limited by laws relating to bankruptcy, insolvency, winding-up or other similar laws affecting the enforcement of creditors' rights and by general principles of equity).

6.1.3 *No Violation*. Buyer is not subject to nor obligated under its articles of incorporation or by-laws, or any applicable law, rule or regulation of any governmental authority, or any agreement, instrument, license or permit, or subject to any order, writ, injunction or decree, which would be breached or violated by its execution, delivery or performance of this Agreement or the consummation of the transactions contemplated hereby.

6.1.4 *Governmental Authorities and Consents*. No permit, consent, approval or authorization of, or declaration to or filing with, any governmental or regulatory authority or any other Person is required in connection with the execution, delivery or performance of this Agreement by Buyer or the consummation by Buyer of the transactions contemplated hereby.

6.1.5 *Litigation*. There are no actions, suits, proceedings, orders or investigations pending or, to Buyer's knowledge, threatened against or affecting Buyer, at law or in equity, or before or by any foreign, federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, which would adversely affect Buyer's performance under this Agreement or the consummation of the transactions contemplated hereby.

6.1.6 *Brokerage*. There are no claims for brokerage commissions, finders' fees or similar compensation in connection with the transactions contemplated by this Agreement based on any arrangement or agreement made by or on behalf of Buyer for which Seller would be liable.

ARTICLE VII
TERMINATION

7.1 *Termination*. This Agreement may be terminated at any time prior to the Closing only as follows:

(a) by the mutual written consent of Buyer and Seller;

(b) by Buyer if there has been a material misrepresentation or a material breach of warranty or a material breach of a covenant by any Seller Party in the representations and warranties or covenants set forth in this Agreement or the Schedules attached hereto, which in the case of any material misrepresentation or material breach of warranty or covenant has not been cured or waived in writing within fifteen (15) days after written notification thereof by Buyer to Seller. For the avoidance of doubt, the parties agree that disclosure after the date of this Agreement of an exception to a representation shall not be deemed to cure a misrepresentation;

(c) by Seller if there has been a material misrepresentation or a material breach of warranty or a material breach of a covenant by Regis or Buyer in the representations and warranties or covenants set forth in this Agreement or the Schedules hereto, which in the case of any material misrepresentation or material breach of warranty or covenant has not been cured or waived in writing within fifteen (15) days after written notification thereof by Seller to Regis and Buyer. For the avoidance of doubt, the parties agree that disclosure after the date of this Agreement of an exception to a representation shall not be deemed to cure a misrepresentation; or

(d) by either Buyer or Seller if the transactions contemplated hereby have not been consummated by March 31, 2008;

provided that the party electing termination pursuant to clause (b), (c) or (d) of this *Section 7.1* is not in material breach of any of its representations, warranties, covenants or agreements contained in this Agreement (which, in the case of Seller, shall include any such breach by Powell and Mackenzie as well). In the event of termination by Buyer or Seller pursuant to this *Section 7.1*, written notice thereof (describing in reasonable detail the basis therefor) shall forthwith be delivered to the other parties.

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7.2 *Effect of Termination*. In the event of termination of this Agreement by Buyer or Seller as provided above, this Agreement shall forthwith terminate and have no further force and effect, except that (a) the covenants and agreements set forth in this *Section 7.2* and *Sections 8.5* (Expenses), *8.6* (Specific Performance) and *8.9* (Confidentiality) and *Article IX* (Miscellaneous) shall survive such termination indefinitely and (b) nothing in *Section 7.1* or this *Section 7.2* shall be deemed to release any party from any liability for any breach by such party of the terms and provisions of this Agreement or to impair the right of any party to compel specific performance by another party of its obligations under this Agreement.

ARTICLE VIII
ADDITIONAL AGREEMENTS; COVENANTS AFTER CLOSING

8.1 *Survival of Representations and Warranties*. The representations and warranties in this Agreement and the Schedules and Exhibits attached hereto shall survive the Closing as follows:

(a) the representations and warranties in *Section 5.19* (Tax Matters) shall terminate when the applicable statutes of limitations with respect to the liabilities in question expire (after giving effect to any extensions or waivers thereof), plus thirty (30) days;

(b) the representations and warranties in *Section 5.15* (Environmental and Safety Requirements) and *Section 5.17* (Employee Benefit Plans) shall terminate on the seventh anniversary of the Closing Date;

(c) the representations and warranties in *Section 5.1* (Corporate Organization), *Section 5.2* (Capital Stock and Related Matters; Title to Shares), *Section 5.3(a)* (Authorization), *Section 5.4* (Subsidiaries), *Section 5.20* (Brokerage and Transaction Bonuses), *Section 5.22* (Affiliate Transactions), *Section 6.1* (Organization and Power) and *Section 6.2* (Authorization), shall not terminate; and

(d) all other representations and warranties in this Agreement shall terminate on the first anniversary of the Closing Date;

provided that any representation or warranty in respect of which indemnity may be sought under *Section 8.2* below, and the indemnity with respect thereto, shall survive the time at which it would otherwise terminate pursuant to this *Section 8.1* if notice of the inaccuracy or breach or potential inaccuracy or breach thereof giving rise to such right or potential right of indemnity shall have been given to the party against whom such indemnity may be sought prior to such time (regardless of when the Losses in respect thereof may actually be incurred). The representations and warranties in this Agreement and the Schedules and Exhibits attached hereto or in any writing delivered by any party to another party in connection with this Agreement shall survive for the periods set forth in this *Section 8.1*.

8.2 *Indemnification.*

(a) *Indemnification by Seller*. Seller agrees to and shall indemnify the Buyer Parties and save and hold each of them harmless against and pay on behalf of or reimburse such Buyer Parties for any Losses which any such Buyer Party suffers, sustains or becomes subject to, as a result of, in connection with, relating or incidental to or by virtue of: (i) any breach by Seller of any representation or warranty made by Seller in this Agreement or any of the Schedules attached hereto, or in any of the certificates furnished by the Seller pursuant to this Agreement; (ii) any breach of any covenant or agreement by any Seller Party under this Agreement or any of the Schedules attached hereto, or in any of the certificates furnished by the Seller pursuant to this Agreement; or (iii) the Excluded Subsidiaries and the transactions pursuant to which their assets and liabilities were transferred to and/or assumed by CC Newco (including but not limited to Tax liabilities).

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(b) *Indemnification by Buyer*. Buyer agrees to and shall indemnify Seller and its Affiliates, employees, agents, partners, representatives, successors and permitted assigns ("*Seller Group Members*") and hold them harmless against any Losses which any such Seller Group Member suffers, sustains or becomes subject to, as the result of, in connection with, relating or incidental to or by virtue of the breach by Buyer or Regis of any representation, warranty, covenant or agreement made by Buyer or Regis in this Agreement, any of the Schedules attached hereto or any of the certificates furnished by Buyer or Regis pursuant to this Agreement.

(c) *Manner of Payment*. Any indemnification of the Seller Group Members pursuant to this *Section 8.2* shall be effected by wire transfer of immediately available funds from Buyer to an account designated by the applicable Seller Group Member, as the case may be, within ten (10) days after the determination thereof. Any indemnification of the Buyer Parties pursuant to this *Section 8.2* shall be made solely as provided in *Section 8.2(g)*; *provided*, that in connection with any such indemnification (i) with respect to any Specified Representation and Warranty, or (ii) under *Sections 8.2(a)(ii)* or *8.2(a)(iii)*, the Buyer may require such payment to be made by wire transfer of immediately available funds from Seller to an account designated by the applicable Buyer Party, as the case may be, within ten (10) days after the determination thereof Any such indemnification payments shall include interest at the Applicable Rate calculated on the basis of the actual number of days elapsed over 360, from the date any such Loss is suffered or sustained to the date of payment.

(d) *Defense of Third-Party Claims*. Any Person making a claim for indemnification under this *Section 8.2* (an "*Indemnitee*") shall notify the indemnifying party (an "*Indemnitor*") of the claim in writing promptly after receiving written notice of any action, lawsuit, proceeding, investigation or other claim against it (if by a third party), describing the claim, the amount thereof (if known and quantifiable) and the basis thereof; *provided*, that the failure to so notify an Indemnitor shall not relieve the Indemnitor of its obligations hereunder except to the extent that (and only to the extent that) the Indemnitor has been materially prejudiced thereby. Any Indemnitor shall be entitled to participate in the defense of such action, lawsuit, proceeding, investigation or other claim giving rise to an Indemnitee's claim for indemnification at such Indemnitor's expense, and at its option (subject to the limitations set forth below) shall be entitled to assume the defense thereof by appointing a nationally recognized and reputable counsel reasonably acceptable to the Indemnitee to be the lead counsel in connection with such defense; *provided*, that, prior to the Indemnitor assuming control of such defense it shall first (i) verify to the Indemnitee in writing that such Indemnitor shall be fully responsible (with no reservation of any rights) for all liabilities and obligations relating to such claim for indemnification and that (without regard to any dollar or source limitations otherwise set forth herein) it shall provide full indemnification (whether or not otherwise required hereunder) to the Indemnitee with respect to such action, lawsuit, proceeding, investigation or other claim giving rise to such claim for indemnification hereunder and (ii) enter into an agreement with the Indemnitee in form and substance satisfactory to the Indemnitee which agreement unconditionally guarantees the payment and performance of any liability or obligation which may arise with respect to such action, lawsuit, proceeding, investigation or facts giving rise to such claim for indemnification hereunder; and *provided*, *further*, that:

(i) the Indemnitee shall be entitled to participate in the defense of such claim and to employ counsel of its choice for such purpose; *provided*, that the fees and expenses of such separate counsel shall be borne by the Indemnitee (other than any fees and expenses of such separate counsel that are incurred prior to the date the Indemnitor effectively assumes control of such defense which, notwithstanding the foregoing, shall be borne by the Indemnitor, and except that the Indemnitor shall pay all of the fees and expenses of such separate counsel if the Indemnitee

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has been advised by counsel that a reasonable likelihood exists of a conflict of interest between the Indemnitor and the Indemnitee);

(ii) the Indemnitor shall not be entitled to assume control of such defense (unless otherwise agreed to in writing by the Indemnitee) and shall pay the fees and expenses of counsel retained by the Indemnitee if (1) the claim for indemnification relates to or arises in connection with any criminal or quasi-criminal proceeding, action, indictment, allegation or investigation; (2) the Indemnitee reasonably believes an adverse determination with respect to the action, lawsuit, investigation, proceeding or other claim giving rise to such claim for indemnification would be detrimental to or injure the Indemnitee's reputation or future business prospects; (3) the claim seeks an injunction or equitable relief against the Indemnitee; (4) the Indemnitee has been advised by counsel that a reasonable likelihood exists of a conflict of interest between the Indemnitor and the Indemnitee; (5) upon petition by the Indemnitee, the appropriate court rules that the Indemnitor failed or is failing to vigorously prosecute or defend such claim or (6) the Indemnitee reasonably believes that the Loss relating to the claim could exceed the maximum amount that such Indemnitee could then be entitled and expected to recover under the applicable provisions of *Section 8.2*; and

(iii) if the Indemnitor shall control the defense of any such claim, the Indemnitor shall obtain the prior written consent of the Indemnitee before entering into any settlement of a claim or ceasing to defend such claim if, pursuant to or as a result of such settlement or cessation, injunctive or other equitable relief will be imposed against the Indemnitee or if such settlement does not expressly and unconditionally release the Indemnitee from all liabilities and obligations with respect to such claim, without prejudice.

(e) *Direct Claims*. Notwithstanding anything herein to the contrary, any claim by an Indemnitee for indemnification not involving a third party claim may be asserted by giving the Indemnitor written notice thereof. If the Indemnitor does not notify the Indemnitee within thirty (30) calendar days following its receipt of such notice that the Indemnitor disputes its liability to the Indemnitee, such claim specified by the Indemnitee in such notice shall be conclusively deemed an obligation of the Indemnitor hereunder, and the Indemnitor will pay the amount of such Losses to the Indemnitee on demand. Any disputes with respect to any claim under this *Section 8.2(e)* shall be resolved by arbitration in the manner provided in *Section 9.11* below.

(f) *Certain Waivers; etc*. Each of Seller, Powell and Mackenzie hereby agrees that it shall not (and shall cause its Affiliates not to) make any claim for indemnification against Buyer, the Company, its Subsidiaries or any of their respective Affiliates by reason of the fact that Seller, Powell or Mackenzie or any Affiliate of them is or was a shareholder, member, director, manager, officer, employee or agent of the Company or its Subsidiaries or is or was serving at the request of the Company, its Subsidiaries or any of its Affiliates as a partner, manager, trustee, director, officer, employee or agent of another entity (whether such claim is for judgments, damages, penalties, fines, costs, amounts paid in settlement, losses, expenses or otherwise and whether such claim is pursuant to any statute, charter document, bylaw, agreement or otherwise) with respect to any action, suit, proceeding, complaint, claim or demand brought by any of the Buyer Parties pursuant to this Agreement or applicable law or otherwise, and each of Seller, Powell and Mackenzie (on its own behalf and on behalf of its Affiliates) hereby acknowledges and agrees that it shall not have any claim or right to contribution or indemnity from the Company or its Subsidiaries with respect to any amounts paid by it pursuant to this Agreement or otherwise. Effective upon the Closing, each of Seller, Powell and Mackenzie (on its own behalf and on behalf of its Affiliates) hereby irrevocably waives, releases and discharges the Company and its Subsidiaries from any and all liabilities and obligations to it of any kind or nature whatsoever, whether in its capacity as a shareholder, manager, member, officer or director of the Company or its Subsidiaries or otherwise (including in respect of any rights of contribution or indemnification),

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in each case whether absolute or contingent, liquidated or unliquidated, known or unknown, and whether arising under any agreement or understanding (but not any claims, liabilities or obligations arising under this Agreement or any of the other agreements executed and delivered by Buyer in connection herewith) or otherwise at law or equity, and each of Seller, Powell and Mackenzie agrees that it shall not (and that it shall cause its Affiliates not to) seek to recover any amounts in connection therewith or thereunder from the Company or its Subsidiaries. In no event shall the Company or its Subsidiaries have any liability whatsoever to Seller, Powell or Mackenzie (or any of their Affiliates) for breaches of the representations, warranties, agreements or covenants of any Seller Party hereunder, and no Seller Party shall (and shall cause its Affiliates not to) in any event seek contribution from the Company or its Subsidiaries in respect of any payments required to be made by Seller pursuant to this Agreement.

(g) *Certain Limits on Indemnification for Seller Representations*. Seller shall not have any liability (or Buyer any recourse) under *Section 8.2(a)(i)* above (other than with respect to the representations and warranties contained in *Section 5.1* (Corporate Organization), *Section 5.2* (Capital Stock and Related Matters; Title to Shares), *Section 5.3(a)* (Authorization), *Section 5.4* (Subsidiaries), *Section 5.20* (Brokerage and Transaction Bonuses), and *Section 5.22* (Affiliate Transactions) (collectively, the "*Specified Representations and Warranties*")), in each case other than (A) as Buyer may obtain from the Escrow Funds (as defined in the Escrow Agreement) in the Escrow Account (as defined in the Escrow Agreement), and (B) as may be recovered by reducing amounts payable to CC Newco under the Consulting Agreement as contemplated by the Consulting Agreement. Notwithstanding the foregoing, nothing in this Agreement (including this *Section 8.2(g)*) shall limit or restrict any of the Buyer Parties' right to maintain or recover any amounts in connection with any action or claim based upon fraud.

(h) *Treatment of Indemnification Payments.* All indemnification payments under this *Section 8.2* (including those recovered by offset against amounts payable by Buyer under the Consulting Agreement) shall be deemed adjustments to the Purchase Price set forth in *Section 2.3(a)* above. Notwithstanding anything herein to the contrary, no investigation or knowledge of any party, whenever undertaken or however obtained, shall limit such party's right to indemnification hereunder in any manner.

(i) *Guaranty.* CCC hereby unconditionally and irrevocably guarantees to Buyer the full and complete payment when due of all amounts payable by Seller to Buyer or any Buyer Party under (A) *Section 8.2(a)(i)* but only with respect to the Specified Representations and Warranties, and (B) *Section 8.2(a)(iii)*. CCC agrees that this guaranty is a present and continuing guaranty of payment and not of collectibility. CCC agrees that such obligations shall be primary obligations of CCC, shall not be subject to any counterclaim, set-off, abatement, deferment or defense based upon any claim that CCC may have against any Person, and shall remain in full force and effect without regard to, and shall not be released, discharged, limited or affected in any way by any circumstance or condition (whether or not CCC shall have any knowledge thereof), including, without limitation, any voluntary or involuntary bankruptcy, insolvency, reorganization, arrangement, readjustment, assignment for the benefit of creditors, composition, receivership, liquidation, marshalling of assets and liabilities or similar events or proceedings with respect to Seller or any other Person. CCC unconditionally waives, to the extent permitted by law, all notices, demands, presentment and protest, and all suretyship defenses.

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8.3 *Mutual Assistance.* Buyer and the Seller Parties agree that they will mutually cooperate in the expeditious filing of all notices, reports and other filings with any federal, state, local or foreign governmental authority required to be submitted jointly by such Persons in connection with the execution and delivery of this Agreement and/or the other agreements contemplated hereby and the consummation of the transactions contemplated hereby or thereby.

8.4 *Press Release and Announcements.* Unless required by law (in which case each of the Buyer and Seller agree to use reasonable efforts to consult with the other party prior to any such disclosure as to the form and content of such disclosure), after the date hereof and through and including the Closing Date, no press releases, announcements to the employees, customers or suppliers of the Company or any of its Subsidiaries or other releases of information related to this Agreement or the transactions contemplated hereby will be issued or released without the consent of Buyer and Seller; provided, that (i) the Buyer or Regis may issue a press release announcing this transaction following the execution of this Agreement in substantially the form previously provided by Buyer to Seller (the "*Initial Release*"), and may thereafter discuss and distribute the contents of such Initial Release and other information about the transactions contemplated herein as it deems reasonably necessary in the course of its business, and (ii) following the issuance of the Initial Release the Seller, the Company and/or BeautyFirst may issue its own press release announcing this transaction, in form agreed by the Buyer and the Seller, acting reasonably, and may thereafter discuss and distribute the contents of such press release and other information about the transactions contemplated herein reasonably necessary in the course of their relations with shareholders, employees, customers and suppliers. After the Closing, Buyer may issue any such releases of information without the consent of any other party hereto.

8.5 *Expenses.* Except as otherwise provided herein, Regis and Buyer shall pay all of their own and all of their Affiliates' fees, costs and expenses (including fees, costs and expenses of legal counsel, accountants, investment bankers, brokers or other representatives and consultants and appraisal fees, costs and expenses) incurred in connection with the negotiation of this Agreement, the performance of its obligations hereunder and the consummation of the transactions contemplated hereby. The Seller (and/or the Company if paid prior to Closing) shall pay all of its own and all of their Affiliates and all of the Company's and its Subsidiaries' fees, costs and expenses (including fees, costs and expenses of legal counsel, accountants, investment bankers, brokers or other representatives and consultants and appraisal fees, costs and expenses) incurred in connection with the negotiation of this Agreement, the performance of their respective obligations hereunder and the consummation of the transactions contemplated hereby.

8.6 *Specific Performance.* Each party acknowledges and agrees that the other parties would be damaged irreparably in the event any of the provisions of this Agreement is not performed in accordance with its specific terms or is otherwise breached. Accordingly, each party agrees that the other parties shall be entitled to an injunction or injunctions to prevent breaches of the provisions of this Agreement and to enforce specifically this Agreement and the terms and provisions hereof in any action instituted in any court in the United States or in any state having jurisdiction over the parties and the matter in addition to any other remedy to which they may be entitled pursuant hereto.

8.7 *Further Assurances.* In the event that at any time after the Closing any further action is necessary or desirable to carry out the purposes of this Agreement, each of the parties hereto will take such further action (including the execution and delivery of such further instruments and documents) as any other party hereto reasonably may request. Seller Parties acknowledge and agree that, from and after the Closing, Buyer will be entitled to possession of, and Seller Parties shall deliver to Buyer, all documents, books, records (including Tax records), agreements and financial data of any sort relating to the Company and its Subsidiaries.

8.8 *Confidentiality.* Each Seller Party agrees not to disclose or use at any time (and shall cause each of its Affiliates not to use or disclose at any time) any Confidential Information. Each Seller Party

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further agrees to take all commercially reasonable steps (and to cause each of its Affiliates to take all commercially reasonable steps) to safeguard such Confidential Information and to protect it against disclosure, misuse, espionage, loss and theft. In the event any Seller Party or any of its respective Affiliates is required by law to disclose any Confidential Information, such Seller Party shall promptly notify Buyer in writing, which notification shall include the nature of the legal requirement and the extent of the required disclosure, and all Seller Parties shall cooperate with Buyer and the Company to preserve the confidentiality of such information consistent with applicable law.

8.9 *Tax Matters.* The following provisions shall govern the allocation of responsibility as between Buyer and the Seller Parties for certain tax matters following the Closing Date:

(a) *Tax Indemnification.* The Seller Parties shall jointly and severally indemnify the Company, its Subsidiaries, and Buyer and hold them harmless from and against (without duplication), any loss, claim, liability, expense, or other damage attributable to (i) all Taxes (or the non-payment thereof) of the Company and its Subsidiaries for all taxable periods ending on or before the Closing Date and the portion through the end of the Closing Date for any taxable period that includes (but does not end on) the Closing Date ("*Pre-Closing Tax Period*"), (ii) all Taxes of any member of an affiliated, consolidated, combined or unitary group of which the Company or any of its Subsidiaries (or any predecessor of any of the foregoing) is or was a member on or prior to the Closing Date, including pursuant to Treasury Regulation § 1.1502-6 or any analogous or similar state, local, or foreign law or regulation, and (iii) any and all Taxes of any person (other than the Company and its Subsidiaries) imposed on the Company or any of its Subsidiaries as a transferee or successor, by contract or pursuant to any law, rule, or regulation, which Taxes relate to an event or transaction occurring before the Closing (other than, in each case, commodity or sales taxes in relation to current accounts payable and property, social security, unemployment, disability, payroll or employee or other withholding Taxes, in each case that are not in arrears (nor paid later than in past general practice) and were accrued in the ordinary course).

(b) *Tax Periods Ending on or Before the Closing Date.* Buyer shall prepare or cause to be prepared and file or cause to be filed all Tax Returns for the Company and its Subsidiaries for all periods ending on or prior to the Closing Date which are filed after the Closing Date. All such Tax Returns shall be prepared in accordance with past practice to the extent allowable by law insofar as they relate to the Company. Buyer shall provide Seller reasonable time to review and comment on each such Tax Return prior to filing. Buyer shall consider any such comments from Seller and shall discuss any disagreements with Seller in good faith. If Buyer then files the Tax Return without accepting one or more comments from Seller, Seller shall have up to 30 days after it becomes aware of such filing to submit a formal objection and request for arbitration under Section 9.11 below (in which case the arbitration shall address only the disputed Tax position and its impact on the obligations of the parties under this Agreement, as neither the Seller nor the arbitrator shall have the right to dictate any revision or amendment to any Tax Return). The Seller Parties shall reimburse Buyer and the Company for Taxes of Sellers and the Company with respect to such periods within fifteen (15) days prior to any payment by Buyer or the Company of such Taxes.

(c) *Tax Periods Beginning Before and Ending After the Closing Date.* Buyer shall prepare or cause to be prepared and file or cause to be filed any Tax Returns of the Company and its Subsidiaries for Tax periods which begin before the Closing Date and end after the Closing Date ("*Straddle Tax Returns*"). Buyer shall provide Seller reasonable time to review and comment on each such Tax Return prior to filing. Buyer shall consider any such comments from Seller and shall discuss any disagreements with Seller in good faith. If Buyer then files the Tax Return without accepting one or more comments from Seller, Seller shall have up to 30 days after it becomes aware of such filing to submit a formal objection and request for arbitration under Section 9.11 below (in which case the arbitration shall address only the disputed Tax position and its impact on the obligations of the parties under this Agreement, as neither the Seller nor the arbitrator shall

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have the right to dictate any revision or amendment to any Tax Return). Any portion of any Tax (other than commodity or sales taxes in relation to current trade payables and social security, unemployment, disability, payroll or employee or other withholding Taxes, in each case that are not in arrears (nor paid later than in past general practice) and were accrued in the ordinary course) which must be paid in connection with the filing of a Straddle Tax Return, to the extent attributable to the portion of the period ending on or before the Closing Date, shall be referred to herein as "*Pre-Closing Straddle Taxes*." The Seller Parties shall pay to Buyer an amount equal to the Pre-Closing Straddle Taxes due with any Straddle Tax Returns at least ten (10) days before Buyer is required to cause to be paid the related Tax liability. Pre-Closing Straddle Taxes shall be calculated as though the taxable year of the Company terminated as of the close of business on the Closing Date; *provided*, *however*, that in the case of a tax not based on income, receipts, proceeds, profits or similar items, Pre-Closing Straddle Taxes shall be equal to the amount of tax for the taxable period multiplied by a fraction, the numerator of which shall be the number of days from the beginning of the taxable period through the Closing Date and the denominator of which shall be the number of days in the taxable period. All determinations necessary to give effect to the foregoing allocations shall be made in a manner consistent with prior practice of the Company.

(d) *Cooperation on Tax Matters.* The parties shall cooperate fully, as and to the extent reasonably requested by the other party, in connection with the filing of Tax Returns pursuant to this *Section 8.9* and any audit, litigation or other proceeding with respect to Taxes. Such cooperation shall include signing any Tax Return, amended Tax Returns, claims or other documents necessary to settle any Tax controversy, the retention and (upon the other party's request) the provision of records and information which are reasonably relevant to any such audit, litigation or other proceeding and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. Buyer and Seller Parties further agree, upon request, to provide the other party with all information that either Party may be required to report pursuant to Code § 6043 and all Treasury Regulations promulgated thereunder. The Buyer shall control (and have the right to settle and resolve) all tax audits occurring after Closing with respect to the Company and its Subsidiaries, regardless of the periods under audit.

(e) *Certain Taxes and Fees.* All transfer, documentary, sales, use, stamp, registration and other such Taxes, and all conveyance fees, recording charges and other fees and charges (including any penalties and interest) incurred in connection with consummation of the transactions contemplated by this Agreement shall be paid by Seller when due, and Seller will, at its own expense, file all necessary Tax Returns and other documentation with respect to all such Taxes, fees and charges.

(f) *Tax-Sharing Agreements.* All tax-sharing agreements or similar agreements with respect to or involving the Company and its Subsidiaries, if any, shall be terminated as of the Closing Date and, after the Closing Date, the Company and its Subsidiaries shall not be bound thereby or have any liability thereunder.

(g) *Source of Payments.* In any case where the Seller or Seller Parties are required to pay any amount under this Section 8.9, such amounts shall be paid (and Buyer Parties shall have recourse) only (A) from the Escrow Funds (as defined in the Escrow Agreement) in the Escrow Account (as defined in the Escrow Agreement), and (B) by reducing amounts payable to CC Newco under the Consulting Agreement as contemplated by the Consulting Agreement.

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ARTICLE IX
MISCELLANEOUS

9.1 *Amendment and Waiver.* This Agreement may be amended only by a writing executed by all parties hereto. Any provision of this Agreement may be waived (i) in the case of a waiver by any Seller Party, only if such waiver is set forth in a writing executed by Seller, and (ii) in the case of a waiver by Buyer, only if such waiver is set forth in a writing executed by Buyer. No course of dealing between or among any Persons having any interest in this Agreement shall be deemed effective to modify, amend or discharge any part of this Agreement or any rights or obligations of any Person under or by reason of this Agreement. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions, whether or not similar, nor shall any waiver constitute a continuing waiver.

9.2 *Notices.* All notices, demands and other communications to be given or delivered under or by reason of the provisions of this Agreement shall be in writing and shall be deemed to have been given (i) when personally delivered or sent by telecopy (with hard copy to follow), (ii) one business day following the day when deposited with a reputable and established overnight express courier (charges prepaid), or (iii) five days following mailing by certified or registered mail, postage prepaid and return receipt requested. Unless another address is specified in writing, notices, demands and communications to any Seller Party and Buyer shall be sent to the addresses indicated below:

Notices to any Seller Party:

Cameron Capital Investments Inc.
330 Bay Street, Suite 312
Toronto, ON M5H 2S2

Telephone: (416) 304-0771
Telecopy: (416) 868-9256

with a copy to (which shall not constitute notice to any Seller Party):

Blake, Cassels & Graydon LLP
Box 25, Commerce Court West
199 Bay Street
Toronto, ON M5L 1A9
Attention: David Toswell
Telephone: (416) 863-4246
Telecopy: (416) 863-2653

Notices to Regis or Buyer:

c/o Regis Corporation
7201 Metro Boulevard
Minneapolis, MN 55439
Attention: Paul D. Finkelstein
Telephone: (952) 947-7777
Telecopy: (952) 947-7901

with a copy to (which shall not constitute notice to Regis or Buyer):

Regis Corporation
7201 Metro Boulevard
Minneapolis, MN 55439
Attention: Eric A. Bakken

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Telephone: (952) 918-4755
Telecopy: (952) 918-4770

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9.3 *Successors and Assigns.* This Agreement and all of the covenants and agreements contained herein and rights, interests or obligations hereunder, by or on behalf of any of the parties hereto, shall bind and inure to the benefit of the respective heirs, successors and assigns of the parties hereto whether so expressed or not; *provided*, that neither this Agreement nor any of the covenants and agreements herein or rights, interests or obligations hereunder may be assigned or delegated by any Seller Party prior to or after the Closing without the prior written consent of Buyer. Buyer may assign its rights and obligations pursuant to this Agreement, in whole or in part, in connection with any disposition or transfer of all or any portion of the Company or any of its Subsidiaries or their respective businesses or assets in any form of transaction without the consent of any of the other parties hereto. Buyer and, following the Closing, the Company and its Subsidiaries may assign any or all of its rights pursuant to this Agreement, including its rights to indemnification, to any of their respective lenders as collateral security.

9.4 *Severability.* Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

9.5 *Interpretation.* The headings and captions used in this Agreement, in any Schedule or Exhibit hereto, in the table of contents or in any index hereto are for convenience of reference only and do not constitute a part of this Agreement and shall not be deemed to limit, characterize or in any way affect any provision of this Agreement or any Schedule or Exhibit hereto, and all provisions of this Agreement and the Schedules and Exhibits hereto shall be enforced and construed as if no caption or heading had been used herein or therein. Any capitalized terms used in any Schedule or Exhibit attached hereto and not otherwise defined therein shall have the meanings set forth in this Agreement. Each defined term used in this Agreement shall have a comparable meaning when used in its plural or singular form. The use of the word "including" (or definitions thereof) herein shall mean "including without limitation" and, unless the context otherwise required, "neither," "nor," "any," "either" and "or" shall not be exclusive. The parties hereto intend that each representation, warranty and covenant contained herein shall have independent significance. If any party has breached any representation, warranty or covenant contained herein in any respect, the fact that there exists another representation, warranty or covenant relating to the same subject matter (regardless of the relative levels of specificity) which such party has not breached shall not detract from or mitigate the fact that such party is in breach of the first representation, warranty or covenant. The parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any of the provisions of this Agreement.

9.6 *No Third-Party Beneficiaries.* Nothing herein expressed or implied is intended or shall be construed to confer upon or give to any Person other than the parties hereto and their respective permitted successors and assigns, any rights or remedies under or by reason of this Agreement, such third parties specifically including employees and creditors of the Company and its Subsidiaries.

9.7 *Complete Agreement.* This Agreement and the agreements and documents referred to herein contain the entire agreement and understanding among the parties with respect to the subject matter hereof and supersede all prior agreements and understandings whether written or oral, relating to such subject matter in any way.

9.8 *Counterparts.* This Agreement may be executed in one or more counterparts (including by means of telecopied or electronically transmitted signature pages), all of which taken together shall constitute one and the same instrument.

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9.9 *Delivery by Facsimile.* This Agreement and any signed agreement or instrument entered into in connection with this Agreement, and any amendments hereto or thereto, to the extent signed and delivered by means of a facsimile machine, shall be treated in all manner and respects as an original agreement or instrument and shall be considered to have the same binding legal effect as if it were the original signed version thereof delivered in person.

9.10 *Governing Law.* All questions concerning the construction, validity, enforcement and interpretation of this Agreement shall be governed by the internal law of the State of Minnesota without giving effect to any choice of law or conflict of law provision or rule (whether of the State of Minnesota or any other jurisdictions) that would cause the application of the laws of any jurisdictions other than the State of Minnesota.

9.11 *Arbitration.* All disputes between the parties relating to (i) this Agreement; (ii) the transaction contemplated thereby; or (iii) negotiations leading up to execution of this Agreement shall be resolved by arbitration in Minneapolis, Minnesota, pursuant to the rules of the American Arbitration Association then in effect. The arbitrators shall have the power to award costs, including reasonable attorneys' fees, as they deem appropriate. Notwithstanding the foregoing, Buyer shall have the right to seek injunctive relief in a court of competent jurisdiction with respect to the Non-Competition Agreement.

9.12 *Name of the Company and CC1.* Within 15 days of the Closing, Buyer shall cause the Company and CC1 to change their name to a name that does not include the words "Cameron Capital" and shall cease use of the Cameron Capital name.

9.13 *Certain Existing Agreements.* The parties agree that, upon the consummation of the Closing, all of the following agreements shall be deemed terminated and of no further force or effect: Stockholders' Agreement dated as of May 19, 2006 between CC1, the Company and the Buyer; Put/Call Agreement dated as of May 19, 2006 between the Company, CC1 and the Buyer; and letter agreement dated May 19, 2006 among Buyer, Hair Club Group, Inc. and Cameron Capital Corporation regarding hair therapy arrangements (collectively, the "*Existing Agreements*"). Furthermore, the parties hereto hereby consent to the sale and purchase of the Shares pursuant to the terms and conditions of this Agreement pursuant to any provisions of the Existing Agreements that require any such consent.

9.14 *Schedules.* Nothing in any schedule attached hereto shall be adequate to disclose an exception to a representation or warranty made in this Agreement unless such schedule identifies the exception with particularity and describes the relevant facts in reasonable detail. Without limiting the generality of the foregoing, the mere listing (or inclusion of a copy) of a document or other item shall not be adequate to disclose an exception to a representation or warranty made in this Agreement, unless the representation or warranty has to do with the existence of the document or other item itself. No exceptions to any representations or warranties disclosed on one schedule shall constitute an exception to any other representations or warranties made in this Agreement unless (i) the exception is disclosed as provided herein on each such other applicable schedule, or (ii) the applicability of such exception to such other schedule(s) is reasonably apparent on its face.

IN WITNESS WHEREOF, the parties hereto have executed this Stock Purchase Agreement on the date first written above.

REGIS

REGIS CORPORATION

By: /s/ Paul D. Finkelstein

Name: Paul D. Finkelstein

Title: *Chairman of the Board of Directors, President and Chief Executive Officer*

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BUYER

TRADE SECRET, INC.

By: /s/ Paul D. Finkelstein

Name: Paul D. Finkelstein
Title: *Chairman of the Board of Directors, President and Chief Executive Officer*

CAMERON CAPITAL INVESTMENTS INC.

By: /s/ Steven K. Hudson

Name: Steven K. Hudson
Title: *Chairman and Secretary*

CAMERON CAPITAL INC.

By: /s/ Steven K. Hudson

Name: Steven K. Hudson
Title: *Chairman and Secretary*

/s/ Stephen W. Powell
Stephen W. Powell

MACKENZIE LIMITED PARTNERSHIP

By: /s/ Duncan Robinson

Name: Duncan Robinson
Title: *Executive Vice President*

CAMERON CAPITAL CORPORATION

By: /s/ Steven K. Hudson

Name: Steven K. Hudson
Title: *Chairman and Secretary*

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QuickLinks

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Exhibit 10(aa)

FOURTH AMENDED AND RESTATED CREDIT AGREEMENT

Dated as of July 12, 2007

among

REGIS CORPORATION,

VARIOUS FINANCIAL INSTITUTIONS,

JPMORGAN CHASE BANK, N.A.
as Administrative Agent, Swing Line Lender and Issuer,

BANK OF AMERICA, N.A.,
as Syndication Agent,

and

LASALLE BANK NATIONAL ASSOCIATION,
THE BANK OF TOKYO-MITSUBISHI UFJ, LTD., CHICAGO BRANCH,
and
WACHOVIA BANK, NATIONAL ASSOCIATION,
as Documentation Agents

Arranged by
J.P. MORGAN SECURITIES INC.
and
BANC OF AMERICA SECURITIES LLC
Joint Lead Arrangers and Joint Bookrunners

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ARTICLE XI
MISCELLANEOUS

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Regis Corporation

SCHEDULES

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EXHIBITS

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FOURTH AMENDED AND RESTATED CREDIT AGREEMENT

This FOURTH AMENDED AND RESTATED CREDIT AGREEMENT (this "*Agreement*") is entered into as of July 12, 2007 among Regis Corporation, a Minnesota corporation (the "*Company*"), the several financial institutions from time to time party to this Agreement (collectively, the "*Lenders*", and individually each a "*Lender*") and JPMorgan Chase Bank, N.A. ("*JPMorgan*"), as administrative agent for the Lenders (together with any successor thereto in such capacity, the "*Administrative Agent*").

WHEREAS, the Lenders are willing to extend commitments to make loans to, and issue or participate in letters of credit for the account of, the Company on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the mutual agreements contained herein and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

1.01 *Certain Defined Terms.* The following terms have the following meanings:

"*Acquired Person*"−see the definition of "EBITDA".

"*Acquisition*" means any transaction or series of related transactions for the purpose of or resulting, directly or indirectly, in (a) the acquisition of all or substantially all of the assets of a Person, or of any business or division of a Person, (b) the acquisition of in excess of 50% of the capital stock, partnership interests, membership interests or equity of any Person, or otherwise causing any Person to become a Subsidiary, or (c) a merger or consolidation or any other combination with another Person (other than a Person that is a Subsidiary) *provided* that the Company or the Subsidiary is the surviving entity.

"*Additional Default*" means any provision contained in any document or instrument creating or evidencing Indebtedness of the Company or any Subsidiary that permits the holder or holders of Indebtedness to accelerate (with the passage of time or giving of notice or both) the maturity thereof or otherwise requires the Company or any Subsidiary to purchase such Indebtedness prior to the stated maturity thereof and that either (i) is similar to Defaults and Events of Default hereunder (or the related definitions in this *Article I*), but contains one or more percentages, amounts or formulas that is more restrictive or has a shorter grace period than those set forth herein or is more beneficial to the holders of such other Indebtedness (and such provision shall be deemed an Additional Default only to the extent that it is more restrictive, has a shorter period or is more beneficial) or (ii) is different from the subject matter of the Defaults and Events of Default hereunder (or the related definitions in this *Article I*).

"*Additional Financial Covenant*" means any financial covenant applicable to the Company or any Subsidiary (regardless of whether such provision is labeled or otherwise characterized as a financial covenant), the subject matter of which either (i) is similar to that of the covenants in *Sections 8.14* through *8.16* (or the related definitions in this *Article I*), but contains one or more percentages, amounts or formulas that is more restrictive, or more favorable to the Persons entitled to the benefits thereof, than those set forth herein or more beneficial to the holder or holders of the Indebtedness created or evidenced by the document in which such covenant or similar restriction is contained (and such covenant or similar restriction shall be deemed an Additional Financial Covenant only to the extent that it is more restrictive or more beneficial) or (ii) is a financial covenant that is different from the subject matter of the covenants in *Sections 8.14* through *8.16*.

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"*Administrative Agent*"−see the preamble.

"*Administrative Agent's Payment Office*" means (a) in respect of payments in Dollars, the address for payments set forth on *Schedule 11.02* or such other address as the Administrative Agent may from time to time specify, and (b) in the case of payments in any Offshore Currency, such address as the Administrative Agent may from time to time specify in accordance with *Section 11.02*.

"*Administrative Questionnaire*" means an administrative questionnaire in a form supplied by the Administrative Agent.

"*Additional Lender*" has the meaning specified in *Section 2.17*.

"*Additional Offshore Currency*" has the meaning specified in *subsection 2.06(b)*.

"*Affiliate*" means, as to any Person, any other Person which, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. A Person shall be deemed to control another Person if the controlling Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of the other Person, whether through the ownership of voting securities, membership interests, by contract, or otherwise.

"*Agent Fee Letter*" has the meaning specified in *subsection 2.11(a)*.

"*Aggregate Commitment*" means the aggregate Commitments of the Lenders.

"*Agreement*"−see the preamble.

"*Applicable Currency*" means, as to any particular payment or Loan, Dollars or the Offshore Currency in which it is denominated or payable.

"*Applicable Facility Fee Percentage*"−see *Schedule 1.01(a)*.

"*Applicable Margin*"−see *Schedule 1.01(a)*.

"*Approved Fund*" means any Person (other than a natural person) that is engaged in making, purchasing, holding or investing in bank loans and similar extensions of credit in the ordinary course of its business and that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

"*Arranger*" means each of JPMSI and Banc of America Securities LLC in its capacity as a joint lead arranger and joint bookrunner hereunder, and "*Arrangers*" means both of them.

"*Asset Disposition*" has the meaning specified in *Section 8.02*.

"*Assignee*" has the meaning specified in *subsection 11.08(a)*.

"*Associated Costs Rate*" means, for any Offshore Currency Loan for any Interest Period, a percentage rate per annum as determined on the first day of such Interest Period by the Administrative Agent or the Swing Line Lender as reflecting the cost, loss or difference in return which would be suffered or incurred by a Lender as a result of (a) funding (at the Offshore Rate and on a match funded basis) any special deposit or cash ratio deposit required to be placed with the Bank of England and/or the Financial Services Authority (or any other authority which replaces any of their respective functions) and/or (b) any charge imposed by the Bank of England and/or the Financial Services Authority (or any other authority which replaces any of their respective functions).

"*Attorney Costs*" means and includes all reasonable fees and disbursements of any law firm or other external counsel, the allocated cost of internal legal services and all disbursements of internal counsel.

"*Bankruptcy Code*" means the United States Bankruptcy Code (11 U.S.C. §101, *et seq*.).

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"*Base Rate*" means, for any day, a rate per annum equal to the greater of (a) the Prime Rate in effect on such day and (b) the Federal Funds Effective Rate in effect on such day plus $^{1}/_{2}$ of 1%. Any change in the Base Rate due to a change in the Prime Rate or the Federal Funds Effective Rate shall be effective from and including the effective date of such change in the Prime Rate or the Federal Funds Effective Rate, respectively.

"*Base Rate Loan*" means a Loan or an L/C Advance that bears interest based on the Base Rate.

"*Borrowing*" means a borrowing hereunder consisting of Revolving Loans of the same Type made to the Company on the same day by the Lenders under *Article II* and, in the case of Offshore Rate Loans, having the same Interest Period. The making of a Swing Line Loan shall not constitute a Borrowing.

"*Borrowing Date*" means any date on which a Borrowing occurs under *Section 2.03*.

"*Business Day*" means any day other than a Saturday, Sunday or other day on which commercial banks in Chicago, Illinois or New York, New York are authorized or required by law to close, and (a) with respect to disbursements and payments in Dollars, a day on which dealings are carried on in the applicable offshore Dollar interbank market and (b) with respect to disbursements and payments in and calculations pertaining to any Offshore Currency Loan, a day on which commercial banks in London are open and dealings in the relevant Offshore Currency are carried on in the applicable offshore foreign exchange interbank market in which disbursement of or payment in such Offshore Currency will be made or received hereunder.

"*Capital Adequacy Regulation*" means any guideline, request or directive of any central bank or other Governmental Authority, or any other law, rule or regulation, whether or not having the force of law, in each case, regarding capital adequacy of any bank or of any corporation controlling a bank.

"*Capital Lease*" has the meaning specified in the definition of "Capital Lease Obligations".

"*Capital Lease Obligations*" means all monetary obligations of the Company or any of its Subsidiaries under any leasing or similar arrangement which, in accordance with GAAP, is classified as a capital lease (a "*Capital Lease*").

"*Capital Stock*" means (a) in the case of a corporation, corporate stock, (b) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock, (c) in the case of a partnership or limited liability company, partnership or membership interests (whether general or limited) and (d) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

"*Cash Collateralize*" means to pledge and deposit with or deliver to the Administrative Agent, for the benefit of the Administrative Agent, the applicable Issuer and the Lenders, as additional collateral for the L/C Obligations, cash or deposit account balances pursuant to documentation in form and substance satisfactory to the Administrative Agent and such Issuer (which documents are hereby consented to by the Lenders). Derivatives of such term shall have corresponding meanings. The Company hereby grants the Administrative Agent, for the benefit of the Administrative Agent, the Issuers and the Lenders, a security interest in all such cash and deposit account balances. Cash collateral shall be maintained in blocked deposit accounts at JPMorgan. The Administrative Agent shall invest any and all available funds deposited in such deposit accounts, within 10 Business Days after the date the relevant funds become available, in securities issued or fully guaranteed or insured by the United States Government or any agency thereof backed by the full faith and credit of the United States having maturities of three months from the date of acquisition thereof (collectively, "*Governmental Obligations*"). The Company hereby acknowledges and agrees that the Administrative Agent shall not have any liability with respect to, and the Company hereby indemnifies the

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Administrative Agent against, any loss resulting from the acquisition of Governmental Obligations, and the Administrative Agent shall not have any obligation to monitor the trading activity of any Governmental Obligation on and after the acquisition thereof for the purpose of obtaining the highest possible return with respect thereto, the Administrative Agent's responsibility being limited to acquiring Governmental Obligations.

"*Cash Equivalents*" means:

(a) securities issued or fully guaranteed or insured by the United States Government or any agency thereof and (i) backed by the full faith and credit of the United States or such other countries where the Company or its Subsidiaries have operations, (ii) purchased in the ordinary course of business consistent with past practices and (iii) having maturities of not more than twelve months from the date of acquisition;

(b) certificates of deposit, time deposits, Eurodollar time deposits, repurchase agreements, reverse repurchase agreements and bankers' acceptances, having in each case a term of not more than twelve months, issued by any Lender, or by any U.S. commercial bank or non-U.S. commercial bank in the ordinary course of business consistent with past practices having combined capital and surplus of not less than $100,000,000 whose short term securities are rated at least A-1 by Standard & Poor's Ratings Group, a division of The McGraw Hill Companies, Inc. ("*S&P*") and P-1 by Moody's Investors Service, Inc. ("*Moody's*"); and

(c) commercial paper of an issuer rated at least A-1 by S&P or P-1 by Moody's and in either case having a tenor of not more than three months.

"*CERCLA*" has the meaning specified in the definition of "Environmental Laws."

"*Change of Control*" means (a) any Person or any two or more Persons acting in concert acquiring beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Exchange Act), directly or indirectly, of capital stock of the Company (or other securities convertible into such capital stock) representing 20% or more of the combined voting power of all capital stock of the Company entitled to vote in the election of directors, other than capital stock having such power only by reason of the happening of a contingency; or (b) during any period of twelve consecutive calendar months, individuals who at the beginning of such period constituted the Company's board of directors (together with any new directors whose election by the Company's board of directors or whose nomination for election by the Company's stockholders was approved by a vote of at least a majority of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reasons other than death or disability to constitute a majority of the directors then in office.

"*Code*" means the Internal Revenue Code of 1986.

"*Commitment*" has the meaning specified in *Section 2.01*.

"*Commitment Increase*" has the meaning specified in *Section 2.17*.

"*Company*"−see the preamble.

"*Compliance Certificate*" means a certificate substantially in the form of *Exhibit B*.

"*Computation Date*" has the meaning specified in *subsection 2.06(a)*.

"*Contingent Obligation*" means, as to any Person, any direct or indirect liability of that Person, whether or not contingent, with or without recourse, (a) with respect to any Indebtedness, lease, dividend, letter of credit or other obligation (the "*primary obligations*") of another Person (the "*primary obligor*"), including any obligation of that Person (i) to purchase, repurchase or otherwise acquire such primary obligations or any security therefor, (ii) to advance or provide funds for the payment or

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discharge of any such primary obligation, or to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency or any balance sheet item, level of income or financial condition of the primary obligor, (iii) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation, or (iv) otherwise to assure or hold harmless the holder of any such primary obligation against loss in respect thereof (each, a "*Guaranty Obligation*"); (b) with respect to any Surety Instrument issued for the account of that Person or as to which that Person is otherwise liable for reimbursement of drawings or payments; (c) to purchase any materials, supplies or other property from, or to obtain the services of, another Person if the relevant contract or other related document or obligation requires that payment for such materials, supplies or other property, or for such services, shall be made regardless of whether delivery of such materials, supplies or other property is ever made or tendered, or such services are ever performed or tendered; or (d) in respect of any Swap Contract. The amount of any Contingent Obligation, (x) in the case of Guaranty Obligations, shall be deemed equal to the stated or determinable amount of the primary obligation in respect of which such Guaranty Obligation is made or, if not stated or if indeterminable, the maximum reasonably anticipated liability in respect thereof, (y) in the case of Contingent Obligations in respect of Swap Contracts, shall be deemed equal to the aggregate Swap Termination Value of such Swap Contracts, and (z) in the case of other Contingent Obligations shall be deemed equal to the maximum reasonably anticipated liability in respect thereof.

"*Contractual Obligation*" means, as to any Person, any provision of any security issued by such Person or of any agreement, undertaking, contract, indenture, mortgage, deed of trust or other instrument, document or agreement to which such Person is a party or by which it or any of its property is bound.

"*Conversion/Continuation Date*" means any date on which, under *Section 2.04*, the Company (a) converts Loans of one Type to another Type, or (b) continues as Loans of the same Type, but with a new Interest Period, Loans having Interest Periods expiring on such date.

"*Credit Extension*" means (a) the making of any Loan and (b) the Issuance of any Letter of Credit.

"*Default*" means any event or circumstance which, with the giving of notice, the lapse of time, or both, would (if not cured or otherwise remedied during such time) constitute an Event of Default.

"*Default Rate*"−see *Section 2.10*.

"*Designated Offshore Currency*" means Euros, pounds sterling and Canadian Dollars.

"*Dollar Equivalent*" means, at any time, (a) as to any amount denominated in Dollars, the amount thereof at such time, and (b) as to any amount denominated in an Offshore Currency, the equivalent amount in Dollars as determined by the Administrative Agent at such time on the basis of the Spot Rate for the purchase of Dollars with such Offshore Currency on the most recent Computation Date provided for in *subsection 2.06(a)*.

"*Dollars*", "*dollars*" and "*$*" each mean lawful money of the United States.

"*Domestic Subsidiary*" means any Subsidiary of the Company that is organized under the laws of the United States or any state thereof.

"*EBITDA*" means, for any period, for the Company and its Subsidiaries on a consolidated basis, determined in accordance with GAAP, the sum of (a) net income (or net loss) for such period, excluding any extraordinary non-cash gains or losses during such period (*provided* that the net income of any Person that is not a Subsidiary of the Company shall be included in the consolidated net income of the Company only to the extent of the amount of cash dividends or distributions paid by such Person to the Company or to a consolidated Subsidiary of the Company), *plus* (b) to the extent included in the determination of such net income (or net loss), (i) all amounts treated as expenses for depreciation

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(including, without duplication, non-cash gains and losses upon the closing and abandonment of any non-franchised store locations) and interest and the amortization of intangibles of any kind, *plus* (ii) all taxes paid or accrued and unpaid on or measured by income, *plus* (iii) non-cash impairment charges arising in connection with any Joint Venture *plus* (c) without duplication, the amount of any other charge in respect of non-recurring expenses arising in connection with Acquisitions, to the extent approved by the Administrative Agent and the Required Lenders; *provided* that if the Company or any Subsidiary acquires a Person (an "*Acquired Person*") in an Acquisition in such period, then all of the Acquired Person's EBITDA (calculated for such Person as set forth above without giving effect to *clause (c)*) for the four fiscal quarters then ended shall be added to EBITDA, and if the Company or any Subsidiary sells all or substantially all of the stock or assets of any Subsidiary in any such period, then the EBITDA of such Subsidiary (calculated for such Person as set forth above without giving effect to *clause (c)*) shall be deducted from EBITDA.

"*EBITDAR*" means, for any period, for the Company and its Subsidiaries on a consolidated basis, determined in accordance with GAAP, the sum of (a) EBITDA for such period, *minus* (b) any Acquired Person's EBITDA added to the determination of EBITDA for the four fiscal quarters then ended pursuant to the proviso set forth in the definition of EBITDA, *plus* (c) the EBITDA of any Subsidiary deducted from the determination of EBITDA for the four fiscal quarters then ended pursuant to the proviso set forth in the definition of EBITDA, *plus* (d) all Rental Expense for such period.

"*Effective Amount*" means (a) with respect to any Loan on any date, the aggregate outstanding principal Dollar Equivalent amount thereof after giving effect to any Borrowing, prepayment or repayment of Loans occurring on such date and any Swing Line Loan made on such date; and (b) with respect to any outstanding L/C Obligations on any date, the Dollar Equivalent amount of such L/C Obligations on such date after giving effect to any Issuance occurring on such date and any other change in the aggregate amount of the L/C Obligations as of such date, including as a result of any reimbursements of outstanding unpaid drawings under any Letter of Credit or any reduction in the maximum amount available for drawing under any Letter of Credit taking effect on such date.

"*Effective Date*" means the date on which all conditions precedent set forth in *Section 5.01* are satisfied or waived by all Lenders (or, in the case of *subsection 5.01(e)*, waived by the Person entitled to receive such payment).

"*Eligible Assignee*" means (a) a commercial bank organized under the laws of the United States, or any state thereof, and having a combined capital and surplus of at least $100,000,000; (b) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development (the "*OECD*"), or a political subdivision of any such country, and having a combined capital and surplus of at least $100,000,000, *provided* that such bank is acting through a branch or agency located in the United States; (c) a Person that is primarily engaged in the business of commercial banking and that is (i) a Subsidiary of a Lender, (ii) a Subsidiary of a Person of which a Lender is a Subsidiary, or (iii) a Person of which a Lender is a Subsidiary, (d) an Approved Fund and (e) any other Person that has been approved in writing as an Eligible Assignee by the Company (prior to the occurrence and continuance of an Event of Default) and the Administrative Agent.

"*Empire Joint Venture*" means the Joint Venture between the Company and Empire Beauty School Inc. known as "Empire Education Group, Inc."

"*Environmental Claims*" means all claims, however asserted, by any Governmental Authority or other Person alleging potential liability or responsibility for violation of any Environmental Law, or for release or injury to the environment or threat to public health, personal injury (including sickness, disease or death), property damage, natural resources damage, or otherwise alleging liability or responsibility for damages (punitive or otherwise), investigation, cleanup, removal, remedial or response

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costs, restitution, civil or criminal penalties, injunctive relief, or other type of relief, resulting from or based upon the presence, placement, discharge, emission or release (including intentional and unintentional, negligent and non-negligent, sudden or non-sudden, accidental or non-accidental, placements, spills, leaks, discharges, emissions or releases) of any Hazardous Material at, in, or from any property, whether or not owned by the Company or any Subsidiary or taken as collateral, or in connection with any operations of the Company.

"*Environmental Laws*" means all federal, state or local laws, statutes, common law duties, rules, regulations, ordinances and codes, together with all administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any Governmental Authority, in each case relating to environmental, health, safety and land use matters, including the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("*CERCLA*"), the Clean Air Act, the Federal Water Pollution Control Act of 1972, the Solid Waste Disposal Act, the Federal Resource Conservation and Recovery Act, the Toxic Substances Control Act, and the Emergency Planning and Community Right-to-Know Act.

"*Environmental Permits*" has the meaning specified in *subsection 6.12(b)*.

"*ERISA*" means the Employee Retirement Income Security Act of 1974.

"*ERISA Affiliate*" means any trade or business (whether or not incorporated) under common control with the Company within the meaning of Section 414(b) or (c) of the Code (and Sections 414(m) and (o) of the Code for purposes of provisions relating to Section 412 of the Code).

"*ERISA Event*" means (a) a Reportable Event with respect to a Pension Plan; (b) a withdrawal by the Company or any ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a plan year in which the Company or such ERISA Affiliate was a substantial employer (as defined in Section 4001(a)(2) of ERISA) or a cessation of operations which is treated as such a withdrawal under Section 4062(e) of ERISA; (c) a complete or partial withdrawal by the Company or any ERISA Affiliate from a Multiemployer Plan or notification that a Multiemployer Plan is in reorganization; (d) the filing of a notice of intent to terminate, the treatment of a Plan amendment as a termination under Section 4041 or 4041A of ERISA, or the commencement of proceedings by the PBGC to terminate a Pension Plan or Multiemployer Plan; (e) an event or condition which might reasonably be expected to constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan or Multiemployer Plan; or (f) the imposition of any liability to the PBGC under Title IV of ERISA, other than PBGC premiums due but not delinquent under Section 4007 of ERISA, upon the Company or any ERISA Affiliate.

"*Euro*" means the single currency of participating member states of the European Monetary Union.

"*Eurodollar Reserve Percentage*" has the meaning specified in the definition of "Offshore Rate".

"*Event of Default*" means any event or circumstance specified in *Section 9.01*.

"*Exchange Act*" means the Securities Exchange Act of 1934.

"*Existing Credit Agreement*" means the Third Amended and Restated Credit Agreement dated as of April 7, 2005 among the Company, various financial institutions and Bank of America, N.A., as administrative agent.

"*Existing Letters of Credit*" means the outstanding letters of credit previously issued under the Existing Credit Agreement and set forth on *Schedule 1.01(b)*.

"*Federal Funds Rate*" means, for any day, the weighted average (rounded upwards, if necessary, to the next 1/100 of 1%) of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day

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by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average (rounded upwards, if necessary, to the next 1/100 of 1%) of the quotations for such day for such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

"*Fixed Charges*" means, with respect to the Company and its Subsidiaries on a consolidated basis, as of any date of determination, (a) interest expense paid or accrued on outstanding Indebtedness for the period of four fiscal quarters ending on the date of determination, and (b) Rental Expense paid or accrued in such period.

"*Foreign Subsidiary*" means any Subsidiary of the Company other than a Domestic Subsidiary

"*FRB*" means the Board of Governors of the Federal Reserve System, and any Governmental Authority succeeding to any of its principal functions.

"*Funded Debt*" of any Person means, without duplication, all Indebtedness of such Person.

"*Further Taxes*" means any and all present or future taxes, levies, assessments, imposts, duties, deductions, fees, withholdings or similar charges (including net income taxes and franchise taxes), and all liabilities with respect thereto, imposed by any jurisdiction on account of amounts payable or paid pursuant to *Section 4.01*.

"*FX Trading Office*" means the Chicago office of JPMorgan, or such other office of JPMorgan as the Administrative Agent may designate from time to time.

"*GAAP*" means generally accepted accounting principles set forth from time to time in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board (or agencies with similar functions of comparable stature and authority within the U.S. accounting profession), which are applicable to the circumstances as of the date of determination.

"*Governmental Authority*" means any nation or government, any state or other political subdivision thereof, any central bank (or similar monetary or regulatory authority) thereof, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, and any corporation or other entity owned or controlled, through stock or capital ownership or otherwise, by any of the foregoing.

"*Guarantor*" means any Subsidiary of the Company from time to time party to the Subsidiary Guaranty in accordance with *Section 7.14*.

"*Guaranty Obligation*" has the meaning specified in the definition of "Contingent Obligation."

"*Hazardous Materials*" means all those substances that are regulated by, or which may form the basis of liability or a standard of conduct under, any Environmental Law, including any substance identified under any Environmental Law as a pollutant, contaminant, hazardous waste, hazardous constituent, special waste, hazardous substance, hazardous material, or toxic substance, or petroleum or petroleum-derived substance or waste.

"*Honor Date*" has the meaning specified in *subsection 3.03(b)*.

"*Indebtedness*" of any Person means, without duplication, (a) all indebtedness for borrowed money; (b) all obligations issued, undertaken or assumed as the deferred purchase price of property or services (other than trade payables entered into in the ordinary course of business on ordinary terms); (c) all reimbursement or payment obligations with respect to Surety Instruments and all L/C Obligations; (d) all obligations evidenced by notes, bonds, debentures or similar instruments, including obligations so evidenced incurred in connection with the acquisition of property, assets or businesses; (e) all indebtedness created or arising under any conditional sale or other title retention agreement, or

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incurred as financing, in either case with respect to property acquired by such Person (even though the rights and remedies of the seller or bank under such agreement in the event of default are limited to repossession or sale of such property); (f) all Capital Lease Obligations; (g) the principal balance outstanding under any synthetic lease, tax retention operating lease, off-balance sheet loan or similar off-balance sheet financing product to which such Person is a party, where such transaction is considered borrowed money indebtedness for tax purposes but is classified as an operating lease in accordance with GAAP; (h) all indebtedness referred to in *clauses (a)* through *(g)* above secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien upon or in property (including accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness; and (i) all Guaranty Obligations in respect of indebtedness or obligations of others of the kinds referred to in *clauses (a)* through *(h)* above. For all purposes of this Agreement, the Indebtedness of any Person shall include all recourse Indebtedness of any partnership or joint venture or limited liability company in which such Person is a general partner or a joint venturer or a member and as to which such Person is or may become directly liable.

"*Indemnified Liabilities*" has the meaning specified in *Section 11.05*.

"*Indemnified Person*" has the meaning specified in *Section 11.05*.

"*Independent Auditor*" has the meaning specified in *subsection 7.01(a)*.

"*Insolvency Proceeding*" means, with respect to any Person, (a) any case, action or proceeding with respect to such Person before any court or other Governmental Authority relating to bankruptcy, reorganization, insolvency, liquidation, receivership, dissolution, winding-up or relief of debtors, or (b) any general assignment for the benefit of creditors, composition, marshalling of assets for creditors, or similar arrangement in respect of its creditors generally or any substantial portion of its creditors, in each case undertaken under U.S. Federal, state or foreign law, including the Bankruptcy Code.

"*Interest Payment Date*" means (a) as to any Offshore Rate Loan, the last day of each Interest Period applicable to such Loan and the date of any payment (including any prepayment) in full of such Loan under *Section 2.08*, (b) as to any Base Rate Loan, the last day of each calendar quarter and the date of any payment (including any prepayment) in full of all Loans hereunder, and (c) as to any Swing Line Loan denominated in an Offshore Currency, on the date of any payment (including any prepayment) of such Loan; *provided* that if any Interest Period for an Offshore Rate Loan exceeds three months, the date that falls three months after the beginning of such Interest Period and after each Interest Payment Date thereafter is also an Interest Payment Date.

"*Interest Period*" means, as to any Offshore Rate Loan, the period commencing on the Borrowing Date of such Loan or on the Conversion/Continuation Date on which the Loan is converted into or continued as an Offshore Rate Loan, and ending on the date seven days or one, two, three or six months thereafter as selected by the Company in its Notice of Borrowing;

provided that:

(a) if any Interest Period would otherwise end on a day that is not a Business Day, that Interest Period shall be extended to the following Business Day unless the result of such extension would be to carry such Interest Period into another calendar month, in which event such Interest Period shall end on the preceding Business Day;

(b) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period; and

(c) no Interest Period for any Loan shall extend beyond the Termination Date.

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"*Investments*" has the meaning specified in *Section 8.04*.

"*IRS*" means the Internal Revenue Service, and any Governmental Authority succeeding to any of its principal functions under the Code.

"*Issuance Date*" has the meaning specified in *subsection 3.01(a)*.

"*Issue*" means, with respect to any Letter of Credit, to issue or to extend the expiry of, or to renew or increase the amount of, such Letter of Credit; and the terms "*Issued*," "*Issuing*" and "*Issuance*" have corresponding meanings.

"*Issuer*" means (a) LaSalle, with respect to the Existing Letters of Credit and (b) JPMorgan, in its capacity as issuer of each other Letter of Credit, together with any replacement letter of credit issuer arising under *subsection 10.01(b)*.

"*Joint Venture*" means the Empire Joint Venture and any other single-purpose corporation, partnership, limited liability company, joint venture or other similar legal arrangement (whether created by contract or conducted through a separate legal entity) now or hereafter formed by the Company or any of its Subsidiaries with another Person in order to conduct a common venture or enterprise with such Person.

"*JPMorgan*"−see the preamble.

"*JPMSI*" means J.P. Morgan Securities Inc.

"*Judgment Currency*" has the meaning specified in *Section 11.18*.

"*LaSalle*" means LaSalle Bank National Association.

"*L/C Advance*" means each Lender's participation in any L/C Borrowing in accordance with its Pro Rata Share.

"*L/C Amendment Application*" means an application form for amendment of outstanding letters of credit as shall at any time be in use by the applicable Issuer, as such Issuer shall request.

"*L/C Application*" means an application form for issuances of letters of credit as shall at any time be in use by the applicable Issuer, as such Issuer shall request.

"*L/C Borrowing*" means an extension of credit resulting from a drawing under any Letter of Credit which shall not have been reimbursed on the date when made or converted into a Borrowing of Loans pursuant to *subsection 3.03(d)*.

"*L/C Commitment*" means the commitment of the Issuers to Issue and/or maintain, and the commitment of the Lenders severally to participate in, Letters of Credit from time to time Issued or outstanding under *Article III*, in an aggregate amount not to exceed $150,000,000 on any date; *provided* that the L/C Commitment is a part of the Aggregate Commitment, rather than a separate, independent commitment.

"*L/C Obligations*" means at any time the sum of (a) the aggregate undrawn amount of all Letters of Credit then outstanding, *plus* (b) the amount of all unreimbursed drawings under all Letters of Credit, including all outstanding L/C Borrowings.

"*L/C-Related Documents*" means the Letters of Credit, the L/C Applications, the L/C Amendment Applications and any other document relating to any Letter of Credit, including any standard form documents used by the applicable Issuer for letter of credit issuances.

"*Lead Agents*" means, collectively, the Administrative Agent, the Syndication Agent and the Arrangers, and "*Lead Agent*" means any of them.

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"*Lender*" has the meaning specified in the introductory clause hereto. References to the "Lenders" shall include each financial institution acting as an Issuer and the Swing Line Lender; for purposes of clarification only, to the extent such Person may have any rights or obligations in addition to those of the Lenders due to its status as an Issuer or as Swing Line Lender, respectively, its status as such will be specifically referenced.

"*Lending Office*" means, as to any Lender, the office or offices, branches, subsidiaries or affiliates of such Lender specified as its applicable lending office in such Lender's Administrative Questionnaire, or such other office or offices, branches, subsidiaries or affiliates as such Lender may from time to time notify the Company and the Administrative Agent.

"*Letters of Credit*" means (a) each Existing Letter of Credit, and (b) any standby or commercial letter of credit Issued by JPMorgan pursuant to *Article III* on or after the date of this Agreement.

"*Leverage Ratio*" means, as of any date of determination, the ratio of (a) all Funded Debt of the Company and its Subsidiaries determined on a consolidated basis as of such date to (b) EBITDA for the period of four fiscal quarters ending on such date.

"*Lien*" means any security interest, mortgage, deed of trust, pledge, hypothecation, assignment, charge or deposit arrangement, encumbrance, lien (statutory or other) or preferential arrangement of any kind or nature whatsoever in respect of any property (including those created by, arising under or evidenced by any conditional sale or other title retention agreement, the interest of a lessor under a capital lease, any financing lease having substantially the same economic effect as any of the foregoing, or the filing of any financing statement naming the owner of the asset to which such lien relates as debtor, under the Uniform Commercial Code or any comparable law) and any contingent or other agreement to provide any of the foregoing, but not including the interest of a lessor under an operating lease.

"*Loan*" means an extension of credit by a Lender to the Company under *Article II* or *Article III* in the form of a Revolving Loan, Swing Line Loan or L/C Advance.

"*Loan Documents*" means this Agreement, each Note, the Agent Fee Letter, the L/C-Related Documents, the Subsidiary Guaranty, the Rate Swap Documents and all other documents delivered to the Administrative Agent or any Lender in connection herewith.

"*Loan Parties*" means, collectively, the Company and each Guarantor, and "*Loan Party*" means any of them.

"*Margin Stock*" means "margin stock" as such term is defined in Regulation T, U or X of the FRB.

"*Material Adverse Effect*" means (a) a material adverse change in, or a material adverse effect upon, the operations, business, assets, liabilities (actual or contingent), condition (financial or otherwise) or prospects of the Company or the Company and its Subsidiaries taken as a whole; (b) a material impairment of the ability of the Company or any Subsidiary to perform under any Loan Document to which it is a party; or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against the Company or any Subsidiary of any Loan Document to which it is a party.

"*Multiemployer Plan*" means a "multiemployer plan", within the meaning of Section 4001(a)(3) of ERISA, to which the Company or any ERISA Affiliate makes, is making or is obligated to make contributions or, during the preceding three calendar years, has made, or has been obligated to make, contributions.

"*Net Worth*" means the consolidated shareholders' equity of the Company and its Subsidiaries as determined in accordance with GAAP.

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"*Note*" means a promissory note executed by the Company in favor of a Lender pursuant to *subsection 2.02(b)*.

"*Note Agreements*" means, collectively, (a) the Amended and Restated Private Shelf Agreement dated as of October 3, 2000 between the Company and the purchasers named therein, (b) the Note Purchase Agreement dated as of March 1, 2002 between the Company and the purchasers named therein and (c) the Master Note Purchase Agreement dated as of March 15, 2005 between the Company and the purchasers named therein.

"*Notice of Borrowing*" means a Notice of Borrowing/Conversion/Continuation in substantially the form of *Exhibit A*.

"*Obligations*" means all advances, debts, liabilities, obligations, covenants and duties arising under any Loan Document owing by the Company or any Subsidiary to any Lender, the Administrative Agent or any Indemnified Person, whether direct or indirect (including those acquired by assignment), absolute or contingent, due or to become due or now existing or hereafter arising.

"*Offshore Currency*" means at any time any Additional Offshore Currency and any Designated Offshore Currency.

"*Offshore Currency Loan*" means any Offshore Rate Loan denominated in an Offshore Currency.

"*Offshore Currency Loan Sublimit*" means $25,000,000.

"*Offshore Rate*" means, for any Interest Period, with respect to Offshore Rate Loans comprising part of the same Borrowing, the rate of interest per annum (rounded upward to the next 1/100th of 1%) determined by the Administrative Agent as follows:

$$\text{Offshore Rate} = \frac{\text{LIBO Rate}}{1.00 - \text{Eurodollar Reserve Percentage}}$$

Where,

"*Eurodollar Reserve Percentage*" means for any day during any Interest Period, the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the FRB to which any Lender is subject for eurocurrency funding (currently referred to as "Eurocurrency Liabilities" in Regulation D of the FRB), which reserve percentages shall include those imposed pursuant to such Regulation D; *provided* that (i) Offshore Rate Loans shall be deemed to constitute eurocurrency funding and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under such Regulation D or any comparable regulation and (ii) the Eurodollar Reserve Percentage shall be adjusted automatically on and as of the effective date of any change in any such reserve percentage; and

"*LIBO Rate*" means, with respect to any Offshore Rate Loan for any Interest Period, the rate appearing on the Reuters BBA LIBOR Rates page 3750 (or on any successor or substitute page of such service, or any successor to or substitute for such service, providing rate quotations comparable to those currently provided on such page of such service, as determined by the Administrative Agent from time to time for purposes of providing quotations of interest rates applicable to dollar deposits in the London interbank market) at approximately 11:00 a.m. (London time), two Business Days prior to the commencement of such Interest Period (or, in the case of an Offshore Rate Loan denominated in pounds sterling, on the first day of such Interest Period), as the rate for dollar deposits with a maturity comparable to such Interest Period. In the event that such rate is not available at such time for any reason, then the "LIBO Rate" with respect to such Offshore Rate Loan for such Interest Period shall be the rate at which dollar deposits of $5,000,000 and for a maturity comparable to such Interest Period are offered by the

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principal London office of the Administrative Agent in immediately available funds in the London interbank market at approximately 11:00 a.m. (London time) two Business Days prior to the commencement of such Interest Period (or, in the case of an Offshore Rate Loan denominated in pounds sterling, on the first day of such Interest Period).

The Offshore Rate shall be adjusted automatically as to all Offshore Rate Loans then outstanding as of the effective date of any change in the Eurodollar Reserve Percentage.

"*Offshore Rate Loan*" means a Revolving Loan that bears interest based on the Offshore Rate and may be an Offshore Currency Loan or a Loan denominated in Dollars.

"*Organization Documents*" means, for any Person, the certificate or articles of formation and the bylaws or similar governing documents of such Person, any certificate of determination or instrument relating to the rights of preferred equityholders of such Person, any rights or similar agreement with respect to the equityholders of such Person, and all applicable resolutions of the board of directors or similar governing body (or any committee thereof) of such Person.

"*Other Taxes*" means any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies which arise from any payment made hereunder or from the execution, delivery, performance, enforcement or registration of, or otherwise with respect to, this Agreement or any other Loan Documents.

"*Overnight Rate*" means, for any day, the rate of interest per annum at which overnight deposits in the relevant Applicable Currency, in the amount approximately equal to the amount with respect to which such rate is being determined, would be offered for such day by JPMorgan's London Branch to major banks in the London or other applicable offshore interbank market.

"*Participant*" has the meaning specified in *subsection 11.08(e)*.

"*PBGC*" means the Pension Benefit Guaranty Corporation, or any Governmental Authority succeeding to any of its principal functions under ERISA.

"*Pension Plan*" means a pension plan (as defined in Section 3(2) of ERISA) subject to Title IV of ERISA which the Company or any ERISA Affiliate sponsors, maintains, or to which it makes, is making or is obligated to make contributions, or otherwise has any liability, or in the case of a multiple employer plan (as described in Section 4064(a) of ERISA) has made contributions at any time during the immediately preceding five plan years.

"*Permitted Acquisitions*" has the meaning specified in *Section 8.04*.

"*Permitted Liens*" has the meaning specified in *Section 8.01*.

"*Permitted Swap Obligations*" means all obligations (contingent or otherwise) of the Company existing or arising under Swap Contracts, provided that each of the following criteria is satisfied: (a) such obligations are (or were) entered into by the Company in the ordinary course of business for the purpose of directly mitigating risks associated with liabilities, commitments or assets held or reasonably anticipated by such Person, or changes in the value of securities issued by the Company in conjunction with a securities repurchase program not otherwise prohibited hereunder, and not for purposes of speculation or taking a "market view", and (b) such Swap Contracts do not contain any provision exonerating the non-defaulting party from its obligation to make payments on outstanding transactions to the defaulting party (i.e; such Swap Contracts do not elect the "first method" of calculating a termination payment) under the 1992 Master ISDA Agreement.

"*Person*" means an individual, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture or Governmental Authority.

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"*Plan*" means an employee benefit plan (as defined in Section 3(3) of ERISA) which the Company or any ERISA Affiliate sponsors or maintains or to which the Company or any ERISA Affiliate makes, is making or is obligated to make contributions or otherwise has any liability and includes any Pension Plan.

"*Prime Rate*" means the rate of interest per annum publicly announced from time to time by JPMorgan Chase Bank as its prime rate in effect at its office located at 270 Park Avenue, New York, New York; each change in the Prime Rate shall be effective from and including the date such change is publicly announced as being effective.

"*Pro Rata Share*" means, as to any Lender, (a) at any time at which the Aggregate Commitment remains outstanding, the percentage equivalent (expressed as a decimal, rounded to the ninth decimal place) at such time of such Lender's Commitment divided by the Aggregate Commitment, and (b) after the termination of the Aggregate Commitment, the percentage equivalent (expressed as a decimal, rounded to the ninth decimal place) at such time of the Effective Amount of such Lender's outstanding Loans (including such Lender's ratable share of outstanding Swing Line Loans and L/C Obligations) divided by the aggregate Effective Amount of the outstanding Loans and L/C Obligations of all of the Lenders.

"*Rate Swap Documents*" means, collectively, all Swap Contracts entered into between the Company and any Lender or any Affiliate of a Lender in respect of any portion of the Obligations.

"*Related Parties*" means, with respect to any specified Person, such Person's Affiliates and the respective directors, officers, employees, agents and advisors of such Person and such Person's Affiliates.

"*Rental Expense*" means, for any period, the sum of (a) all store rental payments, (b) all common area maintenance payments and (c) all real estate taxes paid by the Company and its Subsidiaries, in each case, with respect to non-franchised store locations.

"*Reportable Event*" means any of the events set forth in Section 4043(c) of ERISA or the regulations thereunder, other than any such event for which the 30-day notice requirement under ERISA has been waived in regulations issued by the PBGC.

"*Required Lenders*" means at any time Lenders then holding more than 50% of the Aggregate Commitment (or if the Aggregate Commitment has been terminated, then the Effective Amount of outstanding Revolving Loans and Swing Line Loans, plus the Effective Amount of L/C Obligations).

"*Requirement of Law*" means, as to any Person, any law (statutory or common), treaty, rule or regulation or determination of an arbitrator or of a Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which the Person or any of its property is subject.

"*Responsible Officer*" means the chief financial officer of the Company or any other officer having substantially the same authority and responsibility.

"*Revolving Loan*" has the meaning specified in *Section 2.01*.

"*Same Day Funds*" means (a) with respect to disbursements and payments in Dollars, immediately available funds, and (b) with respect to disbursements and payments in an Offshore Currency, same day or other funds as may be determined by the Administrative Agent to be customary in the place of disbursement or payment for the settlement of international banking transactions in the relevant Offshore Currency.

"*SEC*" means the Securities and Exchange Commission, or any Governmental Authority succeeding to any of its principal functions.

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"*Solvent*" means, when used with respect to a Person, that (a) the fair saleable value of the assets of such Person is in excess of the total amount of the present value of its liabilities (including for purposes of this definition all liabilities (including loss reserves as determined by such Person), whether or not reflected on a balance sheet prepared in accordance with GAAP and whether direct or indirect, fixed or contingent, secured or unsecured, disputed or undisputed), (b) such Person is able to pay its debts or obligations in the ordinary course as they mature and (c) such Person does not have unreasonably small capital to carry out its business as conducted and as proposed to be conducted. "*Solvency*" shall have a correlative meaning.

"*Specified Acquisition Debt*" means Indebtedness of a Person that was the subject of an Acquisition by the Company or any Subsidiary in an aggregate amount not to exceed $10,000,000 at any one time outstanding that (a) remains outstanding no more than 90 days after the date on which such Acquisition was consummated, (b) is the subject of a default under the terms thereof solely as a result of the consummation of such Acquisition, and (c) has not been accelerated or otherwise become immediately repayable and in respect of which the lenders thereof have not exercised any available remedies.

"*Spot Rate*" for a currency means the rate quoted by JPMorgan as the spot rate for the purchase by JPMorgan of such currency with another currency through its FX Trading Office at approximately 11:00 a.m. (London time) on the date two Business Days prior to the date as of which the foreign exchange computation is made.

"*Subsidiary*" of a Person means any corporation, association, partnership, limited liability company, joint venture (excluding, in the case of the Company or a Subsidiary, any Joint Venture) or other business entity the accounts of which would be consolidated with those of such Person in such Person's consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date. Unless the context otherwise clearly requires, references herein to a "Subsidiary" refer to a Subsidiary of the Company.

"*Subsidiary Guaranty*" means the Guaranty dated as of the Effective Date by certain of the Subsidiaries in favor of the Administrative Agent and the Lenders, substantially in the form attached hereto as *Exhibit D*.

"*Surety Instruments*" means all letters of credit (including standby and commercial), banker's acceptances, bank guaranties, shipside bonds, performance bonds, surety bonds and similar instruments.

"*Swap Contract*" means any agreement, whether or not in writing, relating to any transaction that is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap or option, bond, note or bill option, interest rate option, forward foreign exchange transaction, cap, collar or floor transaction, currency swap, cross-currency rate swap, swaption, currency option or any other, similar transaction (including any option to enter into any of the foregoing) or any combination of the foregoing, and, unless the context otherwise clearly requires, any master agreement relating to or governing any or all of the foregoing.

"*Swap Termination Value*" means, in respect of any one or more Swap Contracts, after taking into account the effect of any legally enforceable netting agreement relating to such Swap Contracts, (a) for any date on or after the date such Swap Contracts have been closed out and termination value(s) determined in accordance therewith, such termination value(s), and (b) for any date prior to the date referenced in *clause (a)* the amount(s) determined as the mark-to-market value(s) for such Swap Contracts, as determined by the Company based upon one or more mid-market or other readily available quotations provided by any recognized dealer in such Swap Contracts (which may include any Lender).

"*Swing Line Commitment*" means at any time, the obligation of the Swing Line Lender to make Swing Line Loans pursuant to *Section 2.05*.

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"*Swing Line Lender*" means JPMorgan, in its capacity as the provider of Swing Line Loans.

"*Swing Line Loan*" means a Loan made by the Swing Line Lender.

"*Syndication Agent*" means Bank of America, N.A. in its capacity as syndication agent for the Lenders hereunder.

"*Taxes*" means any and all present or future taxes, levies, assessments, imposts, duties, deductions, fees, withholdings or similar charges, and all liabilities with respect thereto, excluding, in the case of each Lender and the Administrative Agent, respectively, taxes imposed on or measured by its net income by the jurisdiction (or any political subdivision thereof) under the laws of which such Lender or the Administrative Agent, as the case may be, is organized or maintains a Lending Office.

"*Termination Date*" means the earlier to occur of:

(a) July 12, 2012; and

(b) the date on which the Aggregate Commitment terminates in accordance with the provisions of this Agreement.

A "*Type*" of Loan means its status as either a Base Rate Loan or an Offshore Rate Loan.

"*Unfunded Pension Liability*" means the excess of a Plan's benefit liabilities under Section 4001(a)(16) of ERISA, over the current value of that Plan's assets, determined in accordance with the assumptions used for funding the Pension Plan pursuant to Section 412 of the Code for the applicable plan year.

"*United States*" and "*U.S.*" each means the United States of America.

"*Wholly-Owned*" means any corporation, association, partnership, limited liability company, joint venture or other business entity in which (other than directors' qualifying shares or other immaterial local ownership required by law) 100% of the equity interests of each class having ordinary voting power, and 100% of the equity interests of every other class, in each case, at the time as of which any determination is being made, is owned, beneficially and of record, by the Company, or by one or more of the other Wholly-Owned Subsidiaries, or both.

1.02 *Other Interpretive Provisions.* (a) The meanings of defined terms are equally applicable to the singular and plural forms of the defined terms.

(b) The words "hereof", "herein", "hereunder" and similar words refer to this Agreement as a whole and not to any particular provision of this Agreement; and subsection, Section, Schedule and Exhibit references are to this Agreement unless otherwise specified.

(c) (i) The term "documents" includes any and all instruments, documents, agreements, certificates, indentures, notices and other writings, however evidenced.

(ii) The term "including" is not limiting and means "including without limitation."

(iii) In the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including"; the words "to" and "until" each mean "to but excluding", and the word "through" means "to and including."

(iv) The term "property" includes any kind of property or asset, real, personal or mixed, tangible or intangible.

(d) Unless otherwise expressly provided herein, (i) references to agreements (including this Agreement) and other contractual instruments shall be deemed to include all subsequent amendments and other modifications thereto, but only to the extent such amendments and other modifications are not prohibited by the terms of any Loan Document, (ii) references to any statute or regulation are to

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be construed as including all statutory and regulatory provisions consolidating, amending, replacing, supplementing or interpreting such statute or regulation and (iii) any reference to a particular time means such time in Chicago, Illinois.

(e) The captions and headings of this Agreement are for convenience of reference only and shall not affect the interpretation of this Agreement.

(f) This Agreement and other Loan Documents may use several different limitations, tests or measurements to regulate the same or similar matters. All such limitations, tests and measurements are cumulative and shall each be performed in accordance with their terms. Unless otherwise expressly provided, any reference to any act of the Administrative Agent or the Lenders by way of consent, approval or waiver shall be deemed modified by the phrase "in its/their sole discretion".

(g) This Agreement and the other Loan Documents are the result of negotiations among and have been reviewed by counsel to the Administrative Agent, the Company and the other parties, and are the products of all parties. Accordingly, they shall not be construed against the Lenders or the Administrative Agent merely because of the Lenders' or the Administrative Agent's involvement in their preparation.

1.03 *Accounting Principles.* (a) Unless the context otherwise clearly requires, all accounting terms not expressly defined herein shall be construed, and all financial computations required under this Agreement shall be made, in accordance with GAAP, consistently applied.

(b) References herein to "fiscal year" and "fiscal quarter" refer to such fiscal periods of the Company.

(c) If any change in GAAP occurs after the date of this Agreement and such change results in a material variation in the method of calculation of financial covenants or other terms of this Agreement, then the Company, the Administrative Agent and the Lenders agree to amend such provisions of this Agreement so as to equitably reflect such change so that the criteria for evaluating the Company's financial condition will be the same after such change as if such change had not occurred.

1.04 *Currency Equivalents Generally.* For all purposes of this Agreement (but not for purposes of the preparation of any financial statements delivered pursuant hereto), the equivalent in any Offshore Currency or other currency of an amount in Dollars, and the equivalent in Dollars of an amount in any Offshore Currency or other currency, shall be determined at the Spot Rate.

ARTICLE II

THE CREDITS

2.01 *Amounts and Terms of Commitments.* Each Lender severally agrees, on the terms and conditions set forth herein, to make loans to the Company denominated in Dollars or in an Offshore Currency (each such loan, a "*Revolving Loan*") from time to time on any Business Day during the period from the Effective Date to the Termination Date, in an aggregate principal Dollar Equivalent amount not to exceed at any time outstanding the amount set forth opposite such Lender's name on *Schedule 2.01* (such amount, as the same may be reduced under *Section 2.07* or as a result of one or more assignments under *Section 11.08*, such Lender's "*Commitment*"); *provided* that, after giving effect to any Borrowing of Revolving Loans, the Effective Amount of all outstanding Loans and of all L/C Obligations, shall not at any time exceed the Aggregate Commitment; *provided further*, that the Effective Amount of the Revolving Loans of any Lender plus the participation of such Lender in the Dollar Equivalent of the Effective Amount of all L/C Obligations and such Lender's Pro Rata Share of the Effective Amount of any outstanding Swing Line Loans shall not at any time exceed such Lender's Commitment; and *provided further*, that after giving effect to any Borrowing of Offshore Currency Loans, the sum of the Effective Amount of all outstanding Offshore Currency Loans plus the Effective

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Amount of all outstanding Swing Line Loans denominated in Additional Offshore Currencies shall not exceed the Offshore Currency Loan Sublimit. Within the limits of each Revolving Lender's Commitment, and subject to the other terms and conditions hereof, the Company may borrow under this *Section 2.01*, prepay under *Section 2.08* and reborrow under this *Section 2.01*.

2.02 *Loan Accounts.* (a) The Loans made by each Lender and the Letters of Credit Issued by the Issuers shall be evidenced by one or more accounts or records maintained by such Lender or Issuer, as the case may be, in the ordinary course of business. The accounts or records maintained by the Administrative Agent, each Issuer and each Lender shall be conclusive absent manifest error of the amount of the Loans made by the Lenders to the Company and the Letters of Credit Issued for the account of the Company, and the interest and payments thereon. Any failure so to record or any error in doing so shall not, however, limit or otherwise affect the obligation of the Company hereunder to pay any amount owing with respect to the Loans or any Letter of Credit.

(b) Upon the request of any Lender made through the Administrative Agent, the Loans made by such Lender may be evidenced by a Note, instead of or in addition to loan accounts. Each such Lender shall record on the schedule annexed to its Note the date, amount and maturity of each Loan made by it and the amount and Applicable Currency of each payment of principal made by the Company with respect thereto. Each such Lender is irrevocably authorized by the Company to make such recordation on its Note, and each Lender's record shall be conclusive absent manifest error; *provided* that the failure of a Lender to make, or an error in making, a notation thereon with respect to any Loan shall not limit or otherwise affect the obligations of the Company hereunder or under such Lender's Note.

2.03 *Procedure for Borrowing.* (a) Each Borrowing (other than an L/C Advance) shall be made upon the Company's irrevocable notice delivered to the Administrative Agent in the form of a Notice of Borrowing (which notice must be received by the Administrative Agent prior to 12:00 noon (i) three Business Days prior to the requested Borrowing Date, in the case of Offshore Rate Loans denominated in Dollars, (ii) four Business Days prior to the requested Borrowing Date, in the case of Offshore Currency Loans, and (iii) on the requested Borrowing Date, in the case of Base Rate Loans), specifying:

(A) the amount of such Borrowing, which shall be in an aggregate minimum amount of (1) in the case of a Borrowing of Base Rate Loans, $500,000 or any multiple of $100,000 in excess thereof, (2) in the case of a Borrowing of Offshore Rate Loans denominated in Dollars, $1,000,000 or any multiple of $500,000, and (3) in the case of Offshore Currency Loans, $1,000,000 or any multiple of 500,000 units of the Applicable Currency in excess thereof;

(B) the requested Borrowing Date, which shall be a Business Day;

(C) the Type of Loans comprising such Borrowing and in the case of an Offshore Rate Loan, the Applicable Currency;

(D) with respect to Offshore Rate Loans, the duration of the Interest Period applicable to such Loans included in such notice; *provided* that if such Notice of Borrowing fails to specify the duration of the Interest Period for any Borrowing comprised of Offshore Rate Loans, such Interest Period shall be one month; and

(E) wire instructions pursuant to which the proceeds of such Borrowing are to be disbursed.

(b) The Administrative Agent will promptly notify each Lender of its receipt of any Notice of Borrowing and of the amount of such Lender's Pro Rata Share of that Borrowing.

(c) Each Lender will make the amount of its Pro Rata Share of each Borrowing available to the Administrative Agent for the account of the Company at the Administrative Agent's Payment Office on the Borrowing Date requested by the Company in Same Day Funds and in the requested currency (i) in the case of a Borrowing comprised of Loans in Dollars, by 2:00 p.m., and (ii) in the case of a

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Borrowing comprised of Offshore Currency Loans, by such time as the Administrative Agent may specify. The aggregate of the amounts made available to the Administrative Agent by the Lenders will promptly thereafter be made available to the Company pursuant to the wire instructions set forth in the applicable Notice of Borrowing in like funds as received by the Administrative Agent.

(d) After giving effect to any Borrowing or any conversion or continuation of Loans pursuant to *Section 2.04*, unless the Administrative Agent shall otherwise consent, there may not be more than 10 different Interest Periods in effect.

(e) The Company hereby authorizes the Lenders and the Administrative Agent to accept Notices of Borrowing based on telephonic notices made by any Person that the Administrative Agent or any Lender in good faith believes to be acting on behalf of the Company. The Company agrees to deliver promptly to the Administrative Agent a written confirmation of each telephonic notice, signed by a Responsible Officer or an authorized designee. If the written confirmation differs in any material respect from the action taken by the Administrative Agent and the Lenders, the records of the Administrative Agent and the Lenders shall govern absent manifest error.

2.04 *Conversion and Continuation Elections.* (a) The Company may, upon irrevocable notice to the Administrative Agent in accordance with *subsection 2.04(b)*:

(i) elect, as of any Business Day, in the case of Base Rate Loans, or as of the last day of the applicable Interest Period, in the case of Offshore Rate Loans, to convert Loans (or any part thereof in an amount not less than $500,000 or that is in an integral multiple of $100,000 in excess thereof) into Loans of any other Type; or

(ii) elect as of the last day of the applicable Interest Period, to continue Offshore Rate Loans having Interest Periods expiring on such day (or any part thereof in an amount not less than $500,000, or that is in an integral multiple of $100,000 in excess thereof);

provided that if at any time the aggregate amount of Offshore Rate Loans denominated in Dollars in respect of any Borrowing is reduced, by payment, prepayment, or conversion of part thereof to be less than $500,000, such Offshore Rate Loans denominated in Dollars shall automatically convert into Base Rate Loans, and on and after such date the right of the Company to continue such Loans as, and convert such Loans into, Offshore Rate Loans shall terminate.

(b) The Company shall deliver a Notice of Borrowing to be received by the Administrative Agent not later than 12:00 noon at least (i) three Business Days in advance of the applicable Conversion/Continuation Date, if the relevant Loans are to be converted into or continued as Offshore Rate Loans in Dollars, (ii) four Business Days in advance of the Conversion/Continuation Date, if the relevant Loans are to be converted into or continued as Offshore Currency Loans, and (iii) on the Conversion/Continuation Date, if the relevant Loans are to be converted into Base Rate Loans, specifying:

(A) the proposed Conversion/Continuation Date;

(B) the aggregate amount of Loans to be converted or continued;

(C) the Type of Loans resulting from the proposed conversion or continuation and in the case of an Offshore Rate Loan, the Applicable Currency; and

(D) other than in the case of conversions into Base Rate Loans, the duration of the requested Interest Period.

(c) If upon the expiration of any Interest Period applicable to Offshore Rate Loans denominated in Dollars, the Company has failed to timely select a new Interest Period to be applicable to such Offshore Rate Loans, or if any Default or Event of Default then exists, the Company shall be deemed to have elected to convert such Offshore Rate Loans into Base Rate Loans effective as of the expiration date of such Interest Period. If the Company has failed to select a new Interest Period to be

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applicable to Offshore Currency Loans prior to the fourth Business Day in advance of the expiration date of the current Interest Period applicable thereto as provided in *subsection 2.04(b)*, or if any Default or Event of Default shall then exist, subject to the provisions of *subsection 2.06(d)*, the Company shall be deemed to have elected to continue such Offshore Currency Loans for a one-month Interest Period.

(d) The Administrative Agent will promptly notify each Lender of its receipt of a Notice of Borrowing, or, if no timely notice is provided by the Company, the Administrative Agent will promptly notify each Lender of the details of any automatic conversion. All conversions and continuations shall be made ratably according to the respective outstanding principal amounts of the Loans, with respect to which the notice was given, held by each Lender.

(e) Unless the Required Lenders otherwise consent, during the existence of a Default or Event of Default, the Company may not elect to have a Loan in Dollars converted into or continued as an Offshore Rate Loan in Dollars, or an Offshore Currency Loan continued on the basis of an Interest Period exceeding one month.

(f) The Company hereby authorizes the Lenders and the Administrative Agent to accept Notices of Conversion/Continuation based on telephonic notices made by any Person the Administrative Agent or any Lender in good faith believes to be acting on behalf of the Company. The Company agrees to deliver promptly to the Administrative Agent a written confirmation of each telephonic notice, signed by a Responsible Officer. If the written confirmation differs in any material respect from the action taken by the Administrative Agent and the Lenders, the records of the Administrative Agent and the Lenders shall govern absent manifest error.

2.05 *The Swing Line Loans*. (a) Subject to the terms and conditions hereof, the Swing Line Lender agrees to make Swing Line Loans to the Company denominated in Dollars or in an Offshore Currency from time to time prior to the Termination Date in an aggregate principal amount at any one time outstanding not to exceed a Dollar Equivalent of $20,000,000; *provided* that (i) after giving effect to any Swing Line Loan, the Effective Amount of all Revolving Loans, Swing Line Loans and L/C Obligations at such time shall not exceed the Aggregate Commitment at such time, (ii) the Swing Line Lender shall not be required to make a Swing Line Loan to refinance an outstanding Swing Line Loan, (iii) the Effective Amount of all outstanding Offshore Currency Loans plus the Effective Amount of all outstanding Swing Line Loans denominated in Offshore Currencies shall not exceed the Offshore Currency Loan Sublimit and (iv) notwithstanding *Section 2.01*, the aggregate amount of the Revolving Loans and Swing Line Loans of the Swing Line Lender, plus the participation of the Swing Line Lender in the Dollar Equivalent of the Effective Amount of all L/C Obligations, may exceed JPMorgan's Commitment so long as the condition set forth in the previous proviso is satisfied. Prior to the Termination Date, the Company may use the Swing Line Commitment by borrowing, prepaying the Swing Line Loans in whole or in part, and reborrowing, all in accordance with the terms and conditions hereof. All Swing Line Loans denominated in Dollars shall bear interest at the Base Rate and shall not be entitled to be converted into Loans that bear interest at any other rate. Each Swing Line Loan denominated in an Offshore Currency shall bear interest at a rate separately agreed to by the Company and the Swing Line Lender; *provided* that upon the purchase by the Lenders of participating interests in such Swing Line Loan pursuant to *clause (e)* below, such Swing Line Loan shall be redenominated in Dollars on the basis of the Spot Rate and shall thereafter bear interest at the Base Rate.

(b) The Company may borrow under the Swing Line Commitment on any Business Day until the Termination Date; *provided* that the Company shall give the Swing Line Lender irrevocable written notice signed by a Responsible Officer or an authorized designee (which notice must be received by the Swing Line Lender prior to (i) 2:00 p.m. on the requested borrowing date, in the case of a Swing Line Loan denominated in Dollars, or (ii) 10:30 a.m. three Business Days prior to the requested borrowing date, in the case of a Swing Line Loan denominated in an Offshore Currency (or, in each case, such

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other time as the Swing Line Lender and the Company may agree)) with a copy to the Administrative Agent specifying the amount of the requested Swing Line Loan, which shall be in a minimum amount of $250,000 and an integral multiple of (x) if denominated in Dollars, $250,000, or (y) if denominated in an Offshore Currency, 250,000 units of such currency. The proceeds of the Swing Line Loan will be made available by the Swing Line Lender to the Company in immediately available funds at the office of the Swing Line Lender by 4:00 p.m. on the requested date of borrowing. The Company may, at any time and from time to time on any Business Day, prepay the Swing Line Loans, in whole or in part, without premium or penalty, by notifying the Swing Line Lender, prior to 3:00 p.m. (A) in the case of a Swing Line Loan denominated in Dollars, on the date of prepayment, and (B) in the case of a Swing Line Loan denominated in an Offshore Currency, three Business Days prior to the date of prepayment, of the date, amount and currency of prepayment, with a copy to the Administrative Agent. If any such notice is given, the amount specified in such notice shall be due and payable on the date specified therein. Partial prepayments shall be in a minimum amount of $250,000 and an integral multiple of (1) if denominated in Dollars, $250,000, and (2) if denominated in an Offshore Currency, 250,000 units of such currency.

(c) If any Swing Line Loan shall remain outstanding at 11:00 a.m. on the earlier of (i) the 15th day following the date of such Swing Line Loan and (ii) the last day of a calendar month following the date of such Swing Line Loan (so long as such day is at least two Business Days after such Swingline Loan is made), and if by such time on such earlier day the Administrative Agent shall have received neither (x) a Notice of Borrowing delivered by the Company pursuant to *Section 2.03* requesting that Revolving Loans be made pursuant to *Section 2.01* on the immediately succeeding Business Day in an amount at least equal to the principal amount of such Swing Line Loan nor (y) any other notice satisfactory to the Administrative Agent indicating the Company's intent to repay such Swing Line Loan on or before the immediately succeeding Business Day with funds obtained from other sources, then on such Business Day the Swing Line Lender shall (and on any Business Day the Swing Line Lender in its sole discretion may), on behalf of the Company (which hereby irrevocably directs the Swing Line Lender to act on its behalf) request the Administrative Agent to notify each Lender to make a Revolving Loan that is (A) in an amount equal to such Lender's Pro Rata Share of the amount of such Swing Line Loan and (B) denominated in the Applicable Currency of such Swing Line Loan; *provided* that, if such Swing Line Loan is denominated in an Additional Offshore Currency for which a Borrowing of Revolving Loans would be unavailable pursuant to *Section 2.06(c)*, such Swing Line Loan shall be redenominated in Dollars on the basis of the Spot Rate prior to the making of such Revolving Loans by the Lenders. Unless any of the events described in *subsection 9.01(f)* or *(g)* shall have occurred with respect to the Company (in which event the procedures of *clause (e)* of this *Section 2.05* shall apply) each Lender shall make the proceeds of its Revolving Loan available to the Administrative Agent for the account of the Swing Line Lender at the Administrative Agent's Payment Office in immediately available funds prior to 1:00 p.m. on the Business Day next succeeding the date such notice is given. The proceeds of such Revolving Loans shall be immediately applied to repay the outstanding Swing Line Loans. Effective on the day such Revolving Loans are made, the portion of the Swing Line Loans so paid shall no longer be outstanding as Swing Line Loans. The Company shall pay to the Swing Line Lender in the Applicable Currency, promptly following the Swing Line Lender's demand, the amount of its outstanding Swing Line Loans to the extent amounts received from the Lenders are not sufficient to repay in full such outstanding Swing Line Loans.

(d) Notwithstanding anything herein to the contrary, the Swing Line Lender (i) shall not be obligated to make any Swing Line Loan if the conditions set forth in *Article V* have not been satisfied and (ii) shall not make any requested Swing Line Loan if, prior to 3:00 p.m. on the date of such requested Swing Line Loan, it has received a written notice from the Administrative Agent or any Lender directing it not to make further Swing Line Loans because one or more of the conditions specified in *Article V* are not then satisfied.

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(e) If prior to the making of a Revolving Loan required to be made pursuant to *subsection 2.05(c)* an Event of Default described in *subsection 9.01(f)* or *9.01(g)* shall have occurred and be continuing with respect to the Company, each Lender will, on the date such Revolving Loan was to have been made pursuant to the notice described in *subsection 2.05(b)*, purchase a participating interest in each outstanding Swing Line Loans in an amount equal to its Pro Rata Share of the Effective Amount of such Swing Line Loan; *provided* that, if such Swing Line Loan is denominated in an Additional Offshore Currency that would be unavailable for a Borrowing of Revolving Loans pursuant to *Section 2.06(c)*, such Swing Line Loan shall be redenominated in Dollars on the basis of the Spot Rate immediately prior to such purchase. Each Lender will immediately transfer to the Administrative Agent for the benefit of the Swing Line Lender the amount of its participation in immediately available funds in the Applicable Currency.

(f) Whenever, at any time after a Lender has purchased a participating interest in a Swing Line Loan, the Swing Line Lender receives any payment on account thereof, the Swing Line Lender will distribute to the Administrative Agent for delivery to each Lender its participating interest in such amount (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's participating interest was outstanding and funded) and in the Applicable Currency; *provided* that in the event that such payment received by the Swing Line Lender is required to be returned, such Lender will return to the Administrative Agent for delivery to the Swing Line Lender any portion thereof previously distributed by the Swing Line Lender to it.

(g) Each Lender's obligation to make the Revolving Loans referred to in *subsection 2.05(c)* and to purchase participating interests pursuant to *subsection 2.05(e)* shall be absolute and unconditional and shall not be affected by any circumstance, including (i) any set-off, counterclaim, recoupment, defense or other right which such Lender or the Company may have against the Swing Line Lender, the Company or any other Person for any reason whatsoever, (ii) the occurrence or continuance of a Default or an Event of Default, (iii) any adverse change in the condition (financial or otherwise) of the Company, (iv) any breach of this Agreement or any other Loan Document by the Company, any Subsidiary or any other Lender or (v) any other circumstance, happening or event whatsoever, whether or not similar to any of the foregoing.

2.06 *Utilization of Commitments in Offshore Currencies.*

(a) The Administrative Agent will determine the Dollar Equivalent amount with respect to any (i) Borrowing comprised of Offshore Currency Loans as of the requested Borrowing Date, (ii) Swing Line Loan denominated in an Offshore Currency, (iii) outstanding Offshore Currency Loans and outstanding Swing Line Loans denominated in Offshore Currencies as of the last Business Day of each calendar quarter and (iv) outstanding Offshore Currency Loans and outstanding Swing Line Loans denominated in Offshore Currencies as of any redenomination date pursuant to this *Section 2.06* or *Section 4.05* (each such date under *clauses (i)* through *(iv)*, a "*Computation Date*"). Upon receipt of any Notice of Borrowing, the Administrative Agent will promptly notify each Revolving Lender thereof and of the amount of such Lender's Pro Rata Share of the applicable Borrowing. In the case of a Borrowing comprised of Offshore Currency Loans, the related Notice of Borrowing will provide the approximate amount of each Lender's Pro Rata Share of such Borrowing, and the Administrative Agent will, upon the determination of the Dollar Equivalent amount of the Borrowing as specified in such Notice of Borrowing, promptly notify each Lender of the exact amount of such Lender's Pro Rata Share of such Borrowing.

(b) The Company shall be entitled to request that Revolving Loans hereunder also be permitted to be made in any other lawful currency constituting a eurocurrency (excluding Dollars), in addition to the eurocurrencies specified in the definition of "Designated Offshore Currency", that in the opinion of the Required Lenders is at such time freely traded in the offshore interbank foreign exchange markets and is freely transferable and freely convertible into Dollars (an "*Additional Offshore Currency*"). The

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Company shall deliver to the Administrative Agent any request for designation of an Additional Offshore Currency in accordance with *Section 11.02*, to be received by the Administrative Agent not later than 11:00 a.m. at least ten Business Days in advance of the date of any Borrowing hereunder proposed to be made in such Additional Offshore Currency. Upon receipt of any such request the Administrative Agent will promptly notify the Lenders thereof, and each Lender will use its best efforts to respond to such request within two Business Days of receipt thereof and any failure to respond in such time period shall be deemed to be a rejection thereof. Each Lender may grant or accept such request in its sole discretion. The Administrative Agent will promptly notify the Company of the acceptance or rejection of any such request.

(c) In the case of a proposed Borrowing comprised of Loans denominated in an Additional Offshore Currency, the Lenders shall be under no obligation to make Offshore Currency Loans in the requested Additional Offshore Currency as part of such Borrowing if the Administrative Agent has received notice from any Lender by 2:00 p.m. four Business Days prior to the day of such Borrowing that such Lender cannot provide Loans in the requested Additional Offshore Currency, in which event the Administrative Agent will give notice to the Company and the Lenders no later than 9:30 a.m. on the third Business Day prior to the requested date of such Borrowing that the Borrowing in the requested Additional Offshore Currency is not then available to all Lenders. If the Administrative Agent shall have so notified the Company that any such Borrowing in a requested Additional Offshore Currency is not then available, the Company may, by notice to the Administrative Agent not later than 10:30 a.m. three Business Days prior to the requested date of such Borrowing, withdraw the Notice of Borrowing relating to such requested Borrowing. If, prior to such time, the Company withdraws such Notice of Borrowing, the Borrowing requested therein shall not occur and the Administrative Agent will promptly so notify each Lender. If, prior to such time, the Company does not withdraw such Notice of Borrowing and does not request the making of a Swing Line Loan in such Additional Offshore Currency, the Administrative Agent will promptly so notify each Lender and such Notice of Borrowing shall be deemed to be a Notice of Borrowing that requests a Borrowing comprised of Base Rate Loans in an aggregate amount equal to the amount of the originally requested Borrowing as expressed in Dollars in such Notice of Borrowing, and in such notice by the Administrative Agent to each Lender the Administrative Agent will state such aggregate amount of such Borrowing in Dollars and such Lender's Pro Rata Share thereof.

(d) In the case of a proposed continuation of Offshore Currency Loans for an additional Interest Period pursuant to *Section 2.04*, the Lenders shall be under no obligation to continue such Offshore Currency Loans if the Administrative Agent has received notice from any of the Lenders by 4:00 p.m. three Business Days prior to the day of such continuation that such Lender cannot continue to provide Loans in the Offshore Currency, in which event the Administrative Agent will give notice to the Company not later than 9:00 a.m. on the second Business Day prior to the requested date of such continuation that the continuation of such Offshore Currency Loans in the Offshore Currency is not then available, and notice thereof also will be given promptly by the Administrative Agent to the Lenders. If the Administrative Agent shall have so notified the Company that any such continuation of Offshore Currency Loans is not then available, any Notice of Borrowing with respect thereto shall be deemed withdrawn and such Offshore Currency Loans shall be redenominated into Base Rate Loans in Dollars with effect from the last day of the Interest Period with respect to any such Offshore Currency Loans. The Administrative Agent will promptly notify the Company and the Lenders of any such redenomination and in such notice by the Administrative Agent to each Lender the Administrative Agent will state the aggregate Dollar Equivalent amount of the redenominated Offshore Currency Loans as of the Computation Date with respect thereto and such Lender's Pro Rata Share thereof.

(e) Notwithstanding anything herein to the contrary, during the existence of a Default or an Event of Default, upon the request of the Required Lenders, all or any part of any outstanding Offshore Currency Loans shall be redenominated and converted into Base Rate Loans in Dollars with

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effect from the last day of the Interest Period with respect to any such Offshore Currency Loans. The Administrative Agent will promptly notify the Company of any such redenomination and conversion request.

2.07 *Voluntary Termination or Reduction of Revolving Loan Commitments.* (a) The Company may, upon not less than five Business Days' prior notice to the Administrative Agent, terminate the Commitments, or permanently reduce the Commitments by an aggregate minimum amount of $5,000,000 or any multiple of $1,000,000 in excess thereof; *unless*, after giving effect thereto and to any prepayments of Loans made on the effective date thereof, (a) the then outstanding Dollar Equivalent Effective Amount of all Revolving Loans, Swing Line Loans and L/C Obligations together would exceed the amount of the Aggregate Commitment then in effect, (b) the Effective Amount of all L/C Obligations then outstanding would exceed the L/C Commitment or (c) the sum of the Effective Amount of all outstanding Offshore Currency Loans and the Effective Amount of all outstanding Swing Line Loans would exceed the Offshore Currency Loan Sublimit. Once reduced in accordance with this Section, the Commitments may not be increased. Any reduction of the Commitments shall be applied to each Lender according to its Pro Rata Share. If and to the extent specified by the Company in the notice to the Administrative Agent, some or all of the reduction in the Aggregate Commitment shall be applied to reduce the L/C Commitment and/or the Offshore Currency Loan Sublimit. All accrued commitment fees and letter of credit fees to, but not including, the effective date of any reduction or termination of Commitments, shall be paid on the effective date of such reduction or termination.

(b) At no time shall the Swing Line Commitment exceed the Aggregate Commitment, and any reduction of the Aggregate Commitment which reduces the Aggregate Commitment below the then-current amount of the Swing Line Commitment shall result in an automatic corresponding reduction of the Swing Line Commitment to the amount of the Aggregate Commitment, as so reduced, without any action on the part of the Swing Line Lender. At no time shall the Swing Line Commitment exceed the Commitment of the Swing Line Lender, and any reduction of the Aggregate Commitment which reduces the Commitment of the Swing Line Lender below the then-current amount of the Swing Line Commitment shall result in an automatic corresponding reduction of the Swing Line Commitment to the amount of the Commitment of the Swing Line Lender, as so reduced, without any action on the part of the Swing Line Lender.

2.08 *Prepayments.* (a) Subject to *Section 4.04*, the Company may, at any time or from time to time, upon not less than four Business Days' irrevocable notice to the Administrative Agent in the case of Offshore Rate Loans, and not later than 12:00 noon on the prepayment date, in the case of Base Rate Loans, prepay Revolving Loans ratably among the Lenders in whole or in part, in minimum Dollar Equivalent amounts of $500,000 or any Dollar Equivalent multiple of $100,000 in excess thereof. Such notice of prepayment shall specify the date and amount of such prepayment and whether such prepayment is of Base Rate Loans or Offshore Rate Loans, or any combination thereof, and the Applicable Currency. Such notice shall not thereafter be revocable by the Company and the Administrative Agent will promptly notify each Lender of its receipt of any such notice, and of such Lender's Pro Rata Share of such prepayment. If such notice is given by the Company, the Company shall make such prepayment and the payment amount specified in such notice shall be due and payable on the date specified therein, together, in the case of Offshore Rate Loans, with accrued interest to each such date on the amount prepaid and any amounts required pursuant to *Section 4.04*.

(b) Subject to *Section 4.04*, if on any Computation Date the Administrative Agent shall have determined that the Dollar Equivalent Effective Amount of all Loans then outstanding exceeds the combined Commitments of the Lenders by more than $250,000 due to a change in applicable rates of exchange between Dollars and the Offshore Currency, then the Administrative Agent may and at the direction of the Required Lenders shall give notice to the Company that a prepayment is required under this Section, and the Company agrees thereupon to promptly (but in no event later than three

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Business Days following receipt of such notice) make prepayments of Loans such that, after giving effect to all such prepayments, the Effective Amount of all Loans plus the Effective Amount of L/C Obligations does not exceed the combined Commitments.

(c) Subject to *Section 4.04*, if on any date the Effective Amount of all Revolving Loans and Swing Line Loans then outstanding plus the Effective Amount of all L/C Obligations exceeds the Aggregate Commitment, the Company shall immediately, and without notice or demand, prepay the outstanding principal amount of the Revolving Loans and L/C Advances by an amount equal to the applicable excess.

2.09 *Repayment*. The Company shall repay to the Lenders on the Termination Date the aggregate principal amount of Loans outstanding on such date.

2.10 *Interest.* (a) Each Revolving Loan shall bear interest on the outstanding principal amount thereof from the applicable Borrowing Date at a rate per annum equal to (i) the Offshore Rate or the Base Rate, as the case may be (and subject to the Company's right to convert to other Types of Loans under *Section 2.04*), *plus* (ii) in the case of Offshore Rate Loans, (x) the Applicable Margin and (y) if such Loans are Offshore Currency Loans, the Associated Costs Rate, if applicable.

(b) Interest on each Loan shall be paid in arrears on each Interest Payment Date. During the existence of any Event of Default, interest on all Loans shall be paid on demand of the Administrative Agent (or the Administrative Agent at the request or with the consent of the Required Lenders).

(c) Notwithstanding *subsection 2.10(a)*, while any Event of Default under *subsection 9.01(a)* exists, after acceleration or, upon request of the Required Lenders during the existence of any other Event of Default, the Company shall pay interest (after as well as before entry of judgment thereon to the extent permitted by law) on the amount of all outstanding Obligations, at a rate per annum (the "*Default Rate*") which is determined by adding 2% per annum to the applicable interest rate otherwise then in effect for such Obligations; *provided* that on and after the expiration of any Interest Period applicable to any Offshore Rate Loan outstanding on the date of occurrence of such Event of Default or acceleration, the principal amount of such Loan shall, during the continuation of such Event of Default or after acceleration, bear interest at a rate per annum equal to the Base Rate plus the Applicable Margin plus 2%. The Administrative Agent will use reasonable efforts to give the Company notice of the imposition of the Default Rate; *provided* that the failure of the Administrative Agent to give such notice shall not affect the Company's obligations to pay the Default Rate.

(d) Anything herein to the contrary notwithstanding, the obligations of the Company to any Lender hereunder shall be subject to the limitation that payments of interest shall not be required for any period for which interest is computed hereunder, to the extent (but only to the extent) that contracting for or receiving such payment by such Lender would be contrary to the provisions of any law applicable to such Lender limiting the highest rate of interest that may be lawfully contracted for, charged or received by such Lender, and in such event the Company shall pay such Lender interest at the highest rate permitted by applicable law.

2.11 *Fees*. In addition to certain fees described in *Section 3.08*:

(a) *Agent's and JPMSI's Fees*. The Company shall pay such fees to the Administrative Agent and JPMSI as are required by the letter agreement between the Company, the Administrative Agent and JPMSI dated June 6, 2007 (the "*Agent Fee Letter*").

(b) *Facility Fees*. The Company shall pay to the Administrative Agent for the account of each Lender a facility fee on the average daily amount of such Lender's Commitment (regardless of usage), computed on a quarterly basis in arrears on the last Business Day of each calendar quarter, equal to the Applicable Facility Fee Percentage. For purposes of calculating utilization under this subsection, the Commitments shall be deemed used to the extent of the Effective Amount of Revolving Loans then

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outstanding *plus* the Effective Amount of L/C Obligations then outstanding, and shall not be deemed used by a Lender's Pro Rata Share of Swing Line Loans. Such facility fee shall accrue from the Effective Date to the Termination Date and shall be due and payable quarterly in arrears on the last Business Day of each calendar quarter, commencing on September 30, 2007, through the Termination Date, with the final payment to be made on the Termination Date; *provided* that, in connection with any reduction or termination of Commitments under *Section 2.07* or an increase of Commitments under *Section 2.17*, the accrued facility fee calculated for the period ending on such date shall also be paid on the date of such reduction or termination, with the following quarterly payment being calculated on the basis of the period from such reduction or termination date to such quarterly payment date. The facility fees provided in this subsection shall accrue at all times after the above-mentioned commencement date, including at any time during which one or more conditions in *Article V* are not met.

2.12 *Computation of Fees and Interest.* (a) All computations of interest for Base Rate Loans when the Base Rate is determined by the Prime Rate shall be made on the basis of a year of 365 or 366 days, as the case may be, and actual days elapsed. All other computations of fees and interest shall be made on the basis of a 360-day year and actual days elapsed (which results in more interest being paid than if computed on the basis of a 365/366-day year); *provided* that computations of interest for Offshore Currency Loans will be made on the basis of a year of 365 or 366 days, as the case may be, and actual days elapsed if that is the market standard for the applicable Offshore Currency. Interest and fees shall accrue during each period during which interest or such fees are computed from the first day thereof to the last day thereof.

(b) For purposes of determining utilization of each Lender's Commitment in order to calculate the facility fees due under *subsection 2.11(b)* and whether or not utilization-based additions to the Base Rate and the Applicable Margin are applicable, the amount of any outstanding Revolving Loan which is an Offshore Currency Loan on any date shall be determined based upon the Dollar Equivalent amount as of the most recent Computation Date with respect to such Offshore Currency Loan.

(c) Each determination of an interest rate or a Dollar Equivalent amount by the Administrative Agent shall be conclusive and binding on the Company and the Lenders in the absence of manifest error. The Administrative Agent will, at the request of the Company or any Lender, deliver to the Company or such Lender, as the case may be, a statement showing the quotations used by the Administrative Agent in determining any interest rate or Dollar Equivalent amount.

2.13 *Payments by the Company.*

(a) All payments to be made by the Company shall be made without set-off, recoupment or counterclaim. Except as otherwise expressly provided herein, all payments by the Company shall be made to the Administrative Agent for the account of the Lenders at the Administrative Agent's Payment Office, and, with respect to principal of, interest on, and any other amounts relating to, any Offshore Currency Loan, shall be made in the Offshore Currency in which such Loan is denominated or payable, and, with respect to all other amounts payable hereunder, shall be made in Dollars. Such payments shall be made in Same Day Funds, and (i) in the case of Offshore Currency payments, no later than such time on the dates specified herein as may be determined by the Administrative Agent to be necessary for such payment to be credited on such date in accordance with normal banking procedures in the place of payment, and (ii) in the case of any Dollar payments, no later than 11:00 a.m. on the date specified herein. The Administrative Agent will promptly distribute to each Lender its Pro Rata Share (or other applicable share as expressly provided herein) of such principal, interest, fees or other amounts, in like funds as received. Any payment which is received by the Administrative Agent later than 11:00 a.m. or later than the time specified by the Administrative Agent as provided in *clause (i)* above (in the case of Offshore Currency payments), shall be deemed to have been received on the following Business Day and any applicable interest or fee shall continue to accrue.

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(b) Subject to the provisions set forth in the definition of "Interest Period" herein, whenever any payment is due on a day other than a Business Day, such payment shall be made on the following Business Day, and such extension of time shall in such case be included in the computation of interest or fees, as the case may be.

(c) Unless the Administrative Agent receives notice from the Company prior to the date on which any payment is due to the Lenders that the Company will not make such payment in full as and when required, the Administrative Agent may assume that the Company has made such payment in full to the Administrative Agent on such date in Same Day Funds and the Administrative Agent may (but shall not be so required), in reliance upon such assumption, distribute to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent the Company has not made such payment in full to the Administrative Agent, each Lender shall repay to the Administrative Agent on demand such amount distributed to such Lender, together with interest thereon at the Federal Funds Rate or, in the case of a payment in an Offshore Currency, the Overnight Rate, for each day from the date such amount is distributed to such Lender until the date repaid.

2.14 *Payments by the Lenders to the Administrative Agent.* (a) Unless the Administrative Agent receives notice from a Lender on or prior to the Effective Date or, with respect to any Borrowing after the Effective Date, at least one Business Day prior to the date of such Borrowing, that such Lender will not make available as and when required hereunder to the Administrative Agent for the account of the Company the amount of that Lender's Pro Rata Share of the Borrowing, the Administrative Agent may assume that each Lender has made such amount available to the Administrative Agent in Same Day Funds on the Borrowing Date and the Administrative Agent may (but shall not be so required), in reliance upon such assumption, make available to the Company on such date a corresponding amount. If and to the extent any Lender shall not have made its full amount available to the Administrative Agent in Same Day Funds and the Administrative Agent in such circumstance has made available to the Company such amount, that Lender shall on the Business Day following such Borrowing Date make such amount available to the Administrative Agent, together with interest at the Federal Funds Rate, or, in the case of a payment in an Offshore Currency, the Overnight Rate, for each day during such period, together with any overdraft or similar costs incurred by the Administrative Agent as the result of the failure of such Lender to make such funds available to the Administrative Agent. A notice of the Administrative Agent submitted to any Lender with respect to amounts owing under this *subsection (a)* shall be conclusive absent manifest error. If such amount is so made available, such payment to the Administrative Agent shall constitute such Lender's Revolving Loan on the date of Borrowing for all purposes of this Agreement. If such amount is not made available to the Administrative Agent on the Business Day following the Borrowing Date, the Administrative Agent will notify the Company of such failure to fund and, upon demand by the Administrative Agent, the Company shall pay such amount to the Administrative Agent for the Administrative Agent's account, together with interest thereon for each day elapsed since the date of such Borrowing, at a rate per annum equal to the interest rate applicable at the time to the Loans comprising such Borrowing.

(b) The failure of any Lender to make any Loan on any Borrowing Date shall not relieve any other Lender of any obligation hereunder to make a Loan on such Borrowing Date, but no Lender shall be responsible for the failure of any other Lender to make the Loan to be made by such other Lender on any Borrowing Date.

2.15 *Sharing of Payments, Etc.* If, other than as expressly provided elsewhere herein, any Lender shall obtain on account of the Revolving Loans made by it any payment (whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise) in excess of its ratable share (or other share contemplated hereunder), such Lender shall immediately (a) notify the Administrative Agent of such fact and (b) purchase from the other Lenders such participations in the Revolving Loans made by them as shall be necessary to cause such purchasing Lender to share the excess payment pro rata with each of them; *provided* that if all or any portion of such excess payment is thereafter

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recovered from the purchasing Lender, such purchase shall to that extent be rescinded and each other Lender shall repay to the purchasing Lender the purchase price paid therefor, together with an amount equal to such paying Lender's ratable share (according to the proportion of (i) the amount of such paying Lender's required repayment to (ii) the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered. The Company agrees that any Lender so purchasing a participation from another Lender may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off, but subject to *Section 11.10*) with respect to such participation as fully as if such Lender were the direct creditor of the Company in the amount of such participation. The Administrative Agent will keep records (which shall be conclusive and binding in the absence of manifest error) of participations purchased under this Section and will in each case notify the Lenders following any such purchases or repayments.

2.16 *Subsidiary Guaranty.* All obligations of the Company under this Agreement and all other Loan Documents shall be unconditionally guaranteed by the Guarantors pursuant to the Subsidiary Guaranty.

2.17 *Increase in Commitments; Additional Lenders.* (a) The Company may, upon at least 10 Business Days' notice to the Administrative Agent (of which notice the Administrative Agent shall promptly provide a copy to the Lenders); *provided* that the Company has not previously terminated all or any portion of the Commitments pursuant to *Section 2.07* hereof; and *provided*, *further*, that before and after giving effect to the Commitment Increase (as defined below) no Event of Default has occurred and is continuing or would result therefrom, propose to increase the Commitments (the aggregate amount of any such increase, the "*Commitment Increase*"), to be allocated among the Lenders in a manner mutually acceptable to the Company and the Administrative Agent. Each requested Commitment Increase shall be in an aggregate minimum amount of $25,000,000 or any multiple of $1,000,000 in excess thereof; *provided* that (i) the Company shall not be permitted to make more than one request for a Commitment Increase during any fiscal year of the Company and (ii) the aggregate amount of all such increases shall not exceed $150,000,000.

(b) The Company, with the consent of the Administrative Agent (which shall not be unreasonably withheld or delayed prior to the occurrence and continuance of an Event of Default or a Default), but without the consent of any other Lenders, may designate one or more other banks or other financial institutions (which may be, but need not be, one or more of the existing Lenders; and for greater certainty, no existing Lender shall have any obligation to increase its Commitment) which at the time agree in the case of any such bank or financial institution that is an existing Lender to increase its applicable Commitment and, in the case of any other such bank or financial institution (each an "*Additional Lender*"), to become a party to this Agreement. The sum of the increases in the Commitments of the existing Lenders pursuant to this *subsection (b)* plus the Commitments of the Additional Lenders shall not in the aggregate exceed the amount of the Commitment Increase.

(c) An increase in the Commitments pursuant to this *Section 2.17* shall become effective upon the receipt by the Administrative Agent of an agreement in form and substance satisfactory to the Administrative Agent signed by the Company, by each Additional Lender and by each other Lender whose Commitment is to be increased, setting forth the new Commitments of such Lenders and setting forth the agreement of each Additional Lender to become a party to this Agreement and to be bound by all the terms and provisions hereof, together with such evidence of appropriate corporate authorization on the part of the Company with respect to the Commitment Increase as the Administrative Agent may reasonably request, if any.

(d) Upon the effectiveness of a Commitment Increase pursuant to this *Section 2.17*, the Commitment amounts set forth on *Schedule 2.01* shall be deemed amended, reflecting the increases of the Commitments of existing Lenders and the addition of the new Commitments of the Additional

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Lenders, if any. Concurrently with the effectiveness of such increase and any additional extension of credit in connection therewith, each Lender shall fund its Pro Rata Share of the outstanding Revolving Loans, Swing Loans and overdue L/C Obligations relating to L/C Advances, if any, to the Administrative Agent, so that after giving effect thereto each Lender, including the Additional Lenders, if any, holds its Pro Rata Share of the outstanding Revolving Loans, Swing Loans and L/C Obligations relating to each Loan to which it is a party, and the Company shall pay to each Lender all amounts due under *Article IV* hereof as a result of any prepayment of any outstanding Offshore Rate Loans resulting from any Lender's funding of Loans previously funded by other Lenders.

ARTICLE III

THE LETTERS OF CREDIT

3.01 *The Letter of Credit Subfacility.* (a) On the terms and conditions set forth herein (i) each Issuer agrees, (A) from time to time on any Business Day, during the period from the Effective Date to the day which is five days prior to the Termination Date, to issue Letters of Credit for the account of the Company and to amend or renew Letters of Credit previously issued by it, in accordance with *subsections 3.02(c)* and *3.02(d)*, and (B) to honor drafts under the Letters of Credit; and (ii) the Lenders severally agree to participate in Letters of Credit Issued for the account of the Company; *provided* that (x) no Issuer shall be obligated to Issue, and no Lender shall be obligated to participate in, any Letter of Credit if as of the date of Issuance of such Letter of Credit (the "*Issuance Date*") (1) the Effective Amount of all L/C Obligations plus the Effective Amount of all Revolving Loans and of all Swing Line Loans exceeds the Aggregate Commitment, (2) the participation of any Lender in the Effective Amount of all L/C Obligations plus the Effective Amount of the Revolving Loans of such Lender and such Lender's Pro Rata Share of any outstanding Swing Line Loans exceeds such Lender's Commitment or (3) the Effective Amount of L/C Obligations exceeds the L/C Commitment and (y) no Existing Letter of Credit may be renewed past the expiry date thereof in effect on the Effective Date. Within the foregoing limits, and subject to the other terms and conditions hereof, the Company's ability to obtain Letters of Credit shall be fully revolving, and, accordingly, the Company may, during the foregoing period, obtain Letters of Credit to replace Letters of Credit which have expired or which have been drawn upon and reimbursed.

(b) No Issuer is under any obligation to, and no Issuer shall, Issue any Letter of Credit if:

(i) any order, judgment or decree of any Governmental Authority or arbitrator shall by its terms purport to enjoin or restrain such Issuer from Issuing such Letter of Credit, or any Requirement of Law applicable to such Issuer or any request or directive (whether or not having the force of law) from any Governmental Authority with jurisdiction over such Issuer shall prohibit, or request that such Issuer refrain from, the Issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon such Issuer with respect to such Letter of Credit any restriction, reserve or capital requirement (for which such Issuer is not otherwise compensated hereunder) not in effect on the Effective Date, or shall impose upon such Issuer any unreimbursed loss, cost or expense which was not applicable on the Effective Date and which such Issuer in good faith deems material to it;

(ii) such Issuer has received written notice from any Revolving Lender, the Administrative Agent or the Company, on or prior to the Business Day prior to the requested date of Issuance of such Letter of Credit, that one or more of the applicable conditions contained in *Article V* is not then satisfied;

(iii) the expiry date of any requested Letter of Credit is (A) subject to *subsection 3.02(d)*, more than one year after the date of Issuance, unless the Required Lenders have approved such expiry date in writing, or (B) after the date which is five days prior to the Termination Date, unless all of the Lenders have approved such expiry date in writing;

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(iv) any requested Letter of Credit does not provide for drafts, or is not otherwise in form and substance acceptable to such Issuer, or the Issuance of a Letter of Credit shall violate any applicable policies of such Issuer; or

(v) such Letter of Credit is in a face amount less than $25,000, unless such amount is approved by the Administrative Agent and such Issuer, or is to be denominated in a currency other than Dollars.

3.02 *Issuance, Amendment and Renewal of Letters of Credit.* (a) Each Letter of Credit shall be issued upon the irrevocable written request of the Company received by the applicable Issuer (with a copy sent by the Company to the Administrative Agent) at least three days (or such shorter time as such Issuer may agree in a particular instance in its sole discretion) prior to the proposed date of issuance. Each such request for issuance of a Letter of Credit shall be by facsimile, confirmed immediately in an original writing, in the form of an L/C Application (or such other form as shall be acceptable to the applicable Issuer), and shall specify in form and detail satisfactory to such Issuer: (i) the proposed date of issuance of the Letter of Credit (which shall be a Business Day); (ii) the face amount of the Letter of Credit; (iii) the expiry date of the Letter of Credit; (iv) the name and address of the beneficiary thereof; (v) the documents to be presented by the beneficiary of the Letter of Credit in case of any drawing thereunder; (vi) the full text of any certificate to be presented by the beneficiary in case of any drawing thereunder; and (vii) such other matters as such Issuer may require.

(b) At least two Business Days prior to the Issuance of any Letter of Credit (or such shorter time as the Administrative Agent may agree in a particular instance in its sole discretion), the applicable Issuer will confirm with the Administrative Agent (by telephone or in writing) that the Administrative Agent has received a copy of the L/C Application or L/C Amendment Application from the Company and, if not, such Issuer will provide the Administrative Agent with a copy thereof. Unless the applicable Issuer has received notice on or before the Business Day immediately preceding the date such Issuer is to issue a requested Letter of Credit from the Administrative Agent (A) directing such Issuer not to issue such Letter of Credit because such issuance is not then permitted under *subsection 3.01(a)* as a result of the limitations set forth in *clauses (1)* through *(3)* thereof or *subsection 3.01(b)(ii)*; or (B) that one or more conditions specified in *Article V* are not then satisfied; then, subject to the terms and conditions hereof, such Issuer shall, on the requested date, Issue a Letter of Credit for the account of the Company in accordance with such Issuer's usual and customary business practices.

(c) From time to time while a Letter of Credit is outstanding and prior to the Termination Date, the applicable Issuer will, upon the written request of the Company received by such Issuer (with a copy sent by the Company to the Administrative Agent) at least three days (or such shorter time as such Issuer may agree in a particular instance in its sole discretion) prior to the proposed date of amendment, amend any Letter of Credit issued by it. Each such request for amendment of a Letter of Credit shall be made by facsimile, confirmed immediately in an original writing, made in the form of an L/C Amendment Application and shall specify in form and detail satisfactory to the applicable Issuer: (i) the Letter of Credit to be amended; (ii) the proposed date of amendment of the Letter of Credit (which shall be a Business Day); (iii) the nature of the proposed amendment; and (iv) such other matters as such Issuer may require. No Issuer shall be under any obligation to amend any Letter of Credit if: (A) such Issuer would have no obligation at such time to issue such Letter of Credit in its amended form under the terms of this Agreement; or (B) the beneficiary of any such Letter of Credit does not accept the proposed amendment to the Letter of Credit. The Administrative Agent will promptly notify the Lenders of the receipt by it of any L/C Application or L/C Amendment Application.

(d) The Issuers and the Lenders agree that, while a Letter of Credit is outstanding and prior to the Termination Date, at the option of the Company and upon the written request of the Company received by the applicable Issuer (with a copy sent by the Company to the Administrative Agent) at

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least five days (or such shorter time as such Issuer may agree in a particular instance in its sole discretion) prior to the proposed date of notification of renewal, such Issuer shall be entitled to authorize the automatic renewal of any Letter of Credit issued by it; *provided* that any such automatic renewal Letter of Credit must permit the Issuer to prevent any such extension at least once in each 12-month period (commencing with the date of issuance of such Letter of Credit) by giving prior notice to the beneficiary thereof not later than a day in each such 12-month period to be agreed upon at the time such Letter of Credit is issued. Each such request for renewal of a Letter of Credit shall be made by facsimile, confirmed immediately in an original writing, in the form of an L/C Amendment Application, and shall specify in form and detail satisfactory to the applicable Issuer: (i) the Letter of Credit to be renewed; (ii) the proposed date of notification of renewal of such Letter of Credit (which shall be a Business Day); (iii) the revised expiry date of such Letter of Credit; and (iv) such other matters as such Issuer may require. No Issuer shall be under any obligation so to renew any Letter of Credit if: (A) such Issuer would have no obligation at such time to issue or amend such Letter of Credit in its renewed form under the terms of this Agreement; or (B) the beneficiary of any such Letter of Credit does not accept the proposed renewal of the Letter of Credit. If any outstanding Letter of Credit shall provide that it shall be automatically renewed unless the beneficiary thereof receives notice from the applicable Issuer that such Letter of Credit shall not be renewed, and if at the time of renewal such Issuer would be entitled to authorize the automatic renewal of such Letter of Credit in accordance with this *subsection 3.02(d)* upon the request of the Company but such Issuer shall not have received any L/C Amendment Application from the Company with respect to such renewal or other written direction by the Company with respect thereto, such Issuer shall nonetheless be permitted to allow such Letter of Credit to renew, and the Company and the Lenders hereby authorize such renewal, and, accordingly, such Issuer shall be deemed to have received an L/C Amendment Application from the Company requesting such renewal.

(e) Each Issuer may, at its election (or as required by the Administrative Agent (or the Administrative Agent at the direction of the Required Lenders)), deliver any notices of termination or other communications to any applicable Letter of Credit beneficiary or transferee, and take any other action as necessary or appropriate, at any time and from time to time, in order to cause the expiry date of such Letter of Credit to be a date not later than the date which is five days prior to the Termination Date.

(f) This Agreement shall control in the event of any conflict with any L/C-Related Document (other than any Letter of Credit).

(g) Each Issuer will also deliver to the Administrative Agent, concurrently or promptly following its delivery of a Letter of Credit, or amendment to or renewal of a Letter of Credit, to an advising bank or a beneficiary, a true and complete copy of each such Letter of Credit or amendment to or renewal of a Letter of Credit.

3.03 *Risk Participations, Drawings and Reimbursements.* (a) Immediately upon the Issuance of each Letter of Credit (or, in the case of an Existing Letter of Credit, on the Effective Date), each Lender shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from the applicable Issuer a participation in such Letter of Credit and each drawing thereunder in an amount equal to the product of (i) the Pro Rata Share of such Lender, times (ii) the maximum amount available to be drawn under such Letter of Credit and the amount of such drawing, respectively. For purposes of *Section 2.01*, each Issuance of a Letter of Credit shall be deemed to utilize the Commitment of each Lender by an amount equal to the amount of such participation.

(b) In the event of any request for a drawing under a Letter of Credit by the beneficiary or transferee thereof, the applicable Issuer will promptly notify the Company. The Company shall reimburse the applicable Issuer prior to 11:00 a.m. on each date that any amount is paid by such Issuer under any Letter of Credit (each such date, an "*Honor Date*"), in an amount equal to the amount so

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paid by such Issuer. In the event the Company fails to reimburse the applicable Issuer the full amount of any drawing under any Letter of Credit by 11:00 a.m. on the Honor Date, such Issuer will promptly notify the Administrative Agent, and the Administrative Agent will promptly notify each Lender thereof, and the Company shall be deemed to have requested that Base Rate Loans in an amount equal to such unreimbursed amount be made by the Revolving Lenders to be disbursed on the Honor Date under such Letter of Credit, subject to the amount of the unutilized portion of the Aggregate Commitment and subject to the conditions set forth in *Section 5.02*. Any notice given by an Issuer or the Administrative Agent pursuant to this *subsection 3.03(b)* may be oral if immediately confirmed in writing (including by facsimile); *provided* that the lack of such an immediate confirmation shall not affect the conclusiveness or binding effect of such notice.

(c) Each Revolving Lender shall upon any notice pursuant to *subsection 3.03(b)* make available to the Administrative Agent for the account of the relevant Issuer an amount in Dollars and in immediately available funds equal to its Pro Rata Share of the amount of the drawing, whereupon the participating Lenders shall (subject to *subsection 3.03(d)*) each be deemed to have made a Revolving Loan consisting of a Base Rate Loan to the Company in that amount. If any Lender so notified fails to make available to the Administrative Agent for the account of the applicable Issuer the amount of such Lender's Pro Rata Share of the amount of the drawing by no later than 12:00 noon on the Honor Date, then interest shall accrue on such Lender's obligation to make such payment, from the Honor Date to the date such Lender makes such payment, at a rate per annum equal to the Federal Funds Rate in effect from time to time during such period. The Administrative Agent will promptly give notice of the occurrence of the Honor Date, but failure of the Administrative Agent to give any such notice on the Honor Date or in sufficient time to enable any Lender to effect such payment on such date shall not relieve such Lender from its obligations under this *Section 3.03* once notice has been provided.

(d) With respect to any unreimbursed drawing that is not converted into Revolving Loans consisting of Base Rate Loans to the Company in whole or in part, because of the Company's failure to satisfy the conditions set forth in *Section 5.02* or for any other reason, the Company shall be deemed to have incurred from the applicable Issuer an L/C Borrowing in the Dollar Equivalent of the amount of such drawing, which L/C Borrowing shall be due and payable on demand (together with interest) and shall bear interest at a rate per annum equal to the Base Rate plus 2.0% per annum, and each Lender's payment to such Issuer pursuant to *subsection 3.03(c)* shall be deemed payment in respect of its participation in such L/C Borrowing and shall constitute an L/C Advance from such Lender in satisfaction of its participation obligation under this *Section 3.03*.

(e) Each Lender's obligation in accordance with this Agreement to make the Revolving Loans or L/C Advances, as contemplated by this *Section 3.03*, as a result of a drawing under a Letter of Credit, shall be absolute and unconditional and without recourse to the applicable Issuer and shall not be affected by any circumstance, including (i) any set-off, counterclaim, recoupment, defense or other right which such Lender may have against such Issuer, the Company or any other Person for any reason whatsoever; (ii) the occurrence or continuance of a Default, an Event of Default or a Material Adverse Effect; or (iii) any other circumstance, happening or event whatsoever, whether or not similar to any of the foregoing; *provided* that each Lender's obligation to make Revolving Loans under this *Section 3.03* is subject to the conditions set forth in *Section 5.02*.

3.04 *Repayment of Participations.* (a) Upon (and only upon) receipt by the Administrative Agent for the account of an Issuer of immediately available funds from the Company (i) in reimbursement of any payment made by such Issuer under the Letter of Credit with respect to which any Lender has paid the Administrative Agent for the account of such Issuer for such Lender's participation in the Letter of Credit pursuant to *Section 3.03* or (ii) in payment of interest thereon, the Administrative Agent will promptly pay to each Lender, in the same funds as those received by the Administrative Agent for the account of such Issuer, the amount of such Lender's Pro Rata Share of such funds, and

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such Issuer shall receive the amount of the Pro Rata Share of such funds of any Lender that did not so pay the Administrative Agent for the account of such Issuer.

(b) If the Administrative Agent or an Issuer is required at any time to return to the Company, or to a trustee, receiver, liquidator, custodian, or any official in any Insolvency Proceeding, any portion of the payments made by the Company to the Administrative Agent for the account of such Issuer pursuant to *subsection 3.04(a)* in reimbursement of a payment made under the Letter of Credit or interest or fee thereon, each Lender shall, on demand of the Administrative Agent, forthwith return to the Administrative Agent or such Issuer the amount of its Pro Rata Share of any amounts so returned by the Administrative Agent or such Issuer plus interest thereon from the date such demand is made to the date such amounts are returned by such Lender to the Administrative Agent or such Issuer, at a rate per annum equal to the Federal Funds Rate in effect from time to time.

3.05 *Role of the Issuers.* (a) Each Lender and the Company agree that, in paying any drawing under a Letter of Credit, the applicable Issuer shall not have any responsibility to obtain any document (other than any documents expressly required by the Letter of Credit) or to ascertain or inquire as to the validity or accuracy of any such document or the authority of the Person executing or delivering any such document.

(b) None of the Administrative Agent, any Related Party thereof, or any of the respective correspondents, participants or assignees of an Issuer shall be liable to any Lender for: (i) any action taken or omitted in connection herewith at the request or with the approval of the Lenders or the Required Lenders, as applicable; (ii) any action taken or omitted in the absence of gross negligence or willful misconduct; or (iii) the due execution, effectiveness, validity or enforceability of any L/C-Related Document.

(c) The Company hereby assumes all risks of the acts or omissions of any beneficiary or transferee with respect to its use of any Letter of Credit; *provided* that this assumption is not intended to, and shall not, preclude the Company's pursuing such rights and remedies as it may have against the beneficiary or transferee at law or under any other agreement. Neither the Administrative Agent nor any Related Party thereof, nor any of the respective correspondents, participants or assignees of an Issuer, shall be liable or responsible for any of the matters described in *clauses (i)* through *(vii)* of *Section 3.06*; *provided* that, anything in such clauses to the contrary notwithstanding, that the Company may have a claim against an Issuer, and such Issuer may be liable to the Company, to the extent, but only to the extent, of any direct, as opposed to consequential or exemplary, damages suffered by the Company which the Company proves were caused by such Issuer's willful misconduct or gross negligence or such Issuer's willful failure to pay under any Letter of Credit after the presentation to it by the beneficiary of a document strictly complying with the terms and conditions of a Letter of Credit. In furtherance and not in limitation of the foregoing: (i) an Issuer may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary; and (ii) no Issuer shall not be responsible for the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign a Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason.

3.06 *Obligations Absolute.* The obligations of the Company under this Agreement and any L/C-Related Document to reimburse the applicable Issuer for a drawing under a Letter of Credit, and to repay any L/C Borrowing and any drawing under a Letter of Credit converted into Revolving Loans, shall be unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement and each such other L/C-Related Document under all circumstances, including the following:

(i) any lack of validity or enforceability of this Agreement or any L/C-Related Document;

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(ii) any change in the time, manner or place of payment of, or in any other term of, all or any of the obligations of the Company in respect of any Letter of Credit or any other amendment or waiver of or any consent to departure from any L/C-Related Document;

(iii) the existence of any claim, recoupment, set-off, defense or other right that the Company may have at any time against any beneficiary or any transferee of any Letter of Credit (or any Person for whom any such beneficiary or any such transferee may be acting), such Issuer or any other Person, whether in connection with this Agreement, the transactions contemplated hereby or by the L/C-Related Documents or any unrelated transaction;

(iv) any draft, demand, certificate or other document presented under any Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect; or any error, omission, interruption, loss or delay in the transmission or otherwise of any document required in order to make a drawing under any Letter of Credit;

(v) any error in interpretation of technical terms or any consequence arising from causes beyond the control of such Issuer;

(vi) any payment by such Issuer under any Letter of Credit against presentation of a document that does not strictly comply with the terms of any Letter of Credit; or any payment made by such Issuer under any Letter of Credit to any Person purporting to be a trustee in bankruptcy, debtor-in-possession, assignee for the benefit of creditors, liquidator, receiver or other representative of or successor to any beneficiary or any transferee of any Letter of Credit, including any arising in connection with any Insolvency Proceeding;

(vii) any exchange, release or non-perfection of any collateral, or any release or amendment or waiver of or consent to departure from any other guarantee, for all or any of the obligations of the Company in respect of any Letter of Credit; or

(viii) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing, including any other circumstance that might otherwise constitute a defense available to, or a discharge of, the Company or a guarantor.

3.07 *Cash Collateral Pledge.* Upon (i) the request of the Administrative Agent or the Required Lenders, (A) if any Event of Default has occurred and is continuing, or (B) if, as of the Termination Date, any Letters of Credit may for any reason remain outstanding and partially or wholly undrawn, or (ii) the termination of the Aggregate Commitment, then the Company shall immediately Cash Collateralize the L/C Obligations in an amount equal to such L/C Obligations.

3.08 *Letter of Credit Fees.* (a) The Company shall pay to the Administrative Agent for the account of each of the Lenders a letter of credit fee with respect to the Letters of Credit equal to the Applicable Margin times the average daily maximum amount available to be drawn of the outstanding Letters of Credit, computed on a quarterly basis in arrears on the last Business Day of each calendar quarter based upon Letters of Credit outstanding for that quarter as calculated by the Administrative Agent. Such letter of credit fees shall be due and payable quarterly in arrears on the last Business Day of each calendar quarter during which Letters of Credit are outstanding, commencing on the first such quarterly date to occur after the Effective Date, through the Termination Date (or such later date upon which the outstanding Letters of Credit shall expire), with the final payment to be made on the Termination Date (or such later expiration date).

(b) The Company shall pay to the applicable Issuer, for its sole account, a letter of credit fronting fee for each Letter of Credit Issued by such Issuer equal to 0.125% per annum of the face amount (or increased or decreased face amount, as the case may be) of such Letter of Credit. Such Letter of Credit fronting fee shall be due and payable quarterly in arrears on the last Business Day of each

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calendar quarter during which such Letter of Credit is outstanding, commencing on the first such quarterly date to occur after such Letter of Credit is Issued, through the Termination Date (or such later date upon which such Letter of Credit shall expire), with the final payment to be made on the Termination Date (or such later expiration date).

(c) The Company shall pay to the applicable Issuer, for its sole account, from time to time on demand the normal issuance, presentation, amendment and other processing fees, and other standard costs and charges, of such Issuer relating to letters of credit as from time to time in effect.

3.09 *UCP; ISP.* The Uniform Customs and Practice for Documentary Credits as published by the International Chamber of Commerce most recently at the time of issuance of any commercial Letter of Credit shall (unless otherwise expressly provided in such Letter of Credit) apply to such Letter of Credit, and the International Standby Practices as published by the International Chamber of Commerce most recently at the time of issuance of any standby Letter of Credit shall (unless otherwise expressly provided in such Letter of Credit) apply to such Letter of Credit.

ARTICLE IV

TAXES, YIELD PROTECTION AND ILLEGALITY

4.01 *Taxes.* (a) Any and all payments by the Company to each Lender or the Administrative Agent under this Agreement and any other Loan Document shall be made free and clear of, and without deduction or withholding for, any Taxes. In addition, the Company shall pay all Further Taxes and Other Taxes.

(b) If the Company shall be required by law to deduct or withhold any Taxes, Other Taxes or Further Taxes from or in respect of any sum payable hereunder to any Lender or the Administrative Agent, then:

(i) the sum payable shall be increased as necessary so that, after making all required deductions and withholdings (including deductions and withholdings applicable to additional sums payable under this Section), such Lender or the Administrative Agent, as the case may be, receives and retains an amount equal to the sum it would have received and retained had no such deductions or withholdings been made;

(ii) the Company shall make such deductions and withholdings;

(iii) the Company shall pay the full amount deducted or withheld to the relevant taxing authority or other authority in accordance with applicable law; and

(iv) the Company shall also pay to each Lender (or the Administrative Agent for the account of such Lender) or the Administrative Agent, at the time interest is paid, Further Taxes in the amount that the respective Lender specifies as necessary to preserve the after-tax yield such Lender would have received if such Taxes, Other Taxes or Further Taxes had not been imposed.

(c) The Company agrees to indemnify and hold harmless each Lender and the Administrative Agent for the full amount of (i) Taxes, (ii) Other Taxes and (iii) Further Taxes in the amount that Lender or the Administrative Agent specifies as necessary to preserve the after-tax yield such Lender or Administrative Agent would have received if such Taxes, Other Taxes or Further Taxes had not been imposed, and any liability (including penalties, interest, additions to tax and expenses) arising therefrom or with respect thereto, whether or not such Taxes, Other Taxes or Further Taxes were correctly or legally asserted. Payment under this indemnification shall be made within 30 days after the date the applicable Lender or the Administrative Agent makes written demand therefor.

(d) Within 30 days after the date of any payment by the Company of Taxes, Other Taxes or Further Taxes, the Company shall furnish to each Lender or the Administrative Agent the original or a

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certified copy of a receipt evidencing payment thereof, or other evidence of payment satisfactory to such Lender or the Administrative Agent.

(e) If the Company is required to pay any amount to any Lender pursuant to *subsection (b)* or *(c)* of this Section, then such Lender shall use reasonable efforts (consistent with legal and regulatory restrictions) to change the jurisdiction of its Lending Office so as to eliminate any such additional payment by the Company which may thereafter accrue, if such change in the sole judgment of such Lender is not otherwise disadvantageous to such Lender.

(f) Any Lender that is organized under the laws of a jurisdiction other than that in which the Company is located and that is entitled to an exemption from or reduction of withholding tax under the law of the jurisdiction in which the Company is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement shall deliver to the Company (with a copy to the Administrative Agent), at the time or times prescribed by applicable law, such properly completed and executed documentation prescribed by applicable law or reasonably requested by the Company as will permit such payments to be made without withholding or at a reduced rate.

4.02 *Illegality.* (a) If any Lender determines that the introduction of any Requirement of Law, or any change in any Requirement of Law, or in the interpretation or administration of any Requirement of Law, has made it unlawful, or that any central bank or other Governmental Authority has asserted that it is unlawful, for any Lender or its applicable Lending Office to make Offshore Rate Loans, then, on notice thereof by such Lender to the Company through the Administrative Agent, any obligation of such Lender to make Offshore Rate Loans shall be suspended until such Lender notifies the Administrative Agent and the Company that the circumstances giving rise to such determination no longer exist.

(b) If a Lender determines that it is unlawful to maintain any Offshore Rate Loan, the Company shall, upon its receipt of notice of such fact and demand from such Lender (with a copy to the Administrative Agent), prepay in full such Offshore Rate Loans of such Lender then outstanding, together with interest accrued thereon and amounts required under *Section 4.04*, either on the last day of the Interest Period thereof, if such Lender may lawfully continue to maintain such Offshore Rate Loans to such day, or immediately, if such Lender may not lawfully continue to maintain such Offshore Rate Loan. If the Company is required to so prepay any Offshore Rate Loan, then concurrently with such prepayment, the Company shall borrow from the affected Lender, in the amount of such repayment, a Base Rate Loan.

(c) If the obligation of any Lender to make or maintain Offshore Rate Loans has been so terminated or suspended, the Company may elect, by giving notice to such Lender through the Administrative Agent that all Loans which would otherwise be made by such Lender as Offshore Rate Loans shall be instead Base Rate Loans.

(d) Before giving any notice to the Administrative Agent under this Section, the affected Lender shall designate a different Lending Office with respect to its Offshore Rate Loans if such designation will avoid the need for giving such notice or making such demand and will not, in the judgment of such Lender, be illegal or otherwise disadvantageous to such Lender.

4.03 *Increased Costs and Reduction of Return.* (a) If any Lender determines that, due to either (i) the introduction of or any change in or in the interpretation of any law or regulation after the Effective Date or (ii) the compliance by such Lender with any guideline or request from any central bank or other Governmental Authority (whether or not having the force of law), there shall be any increase in the cost to such Lender of agreeing to make or making, funding or maintaining any Offshore Rate Loans or participating in Letters of Credit, or, in the case of an Issuer, any increase in the cost to such Issuer of agreeing to issue, issuing or maintaining any Letter of Credit or of agreeing to make or making, funding or maintaining any unpaid drawing under any Letter of Credit, then the

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Company shall be liable for, and shall from time to time, upon demand (with a copy of such demand to be sent to the Administrative Agent), pay to the Administrative Agent for the account of such Lender, additional amounts as are sufficient to compensate such Lender for such increased costs.

(b) If any Lender shall have determined that (i) the introduction of any Capital Adequacy Regulation after the Effective Date, (ii) any change in any Capital Adequacy Regulation after the Effective Date, (iii) any change in the interpretation or administration of any Capital Adequacy Regulation after the Effective Date by any central bank or other Governmental Authority charged with the interpretation or administration thereof or (iv) compliance by such Lender (or its Lending Office) or any corporation controlling such Lender with any Capital Adequacy Regulation, affects or would affect the amount of capital required or expected to be maintained by such Lender or any corporation controlling such Lender and (taking into consideration such Lender's or such corporation's policies with respect to capital adequacy and such Lender's desired return on capital) determines that the amount of such capital is increased as a consequence of its Commitment, loans, credits or obligations under this Agreement, then, upon demand of such Lender to the Company through the Administrative Agent, the Company shall pay to such Lender, from time to time as specified by such Lender, additional amounts sufficient to compensate such Lender for such increase.

4.04 *Funding Losses.* The Company shall reimburse each Lender and hold each Lender harmless from any loss or expense which such Lender may sustain or incur as a consequence of:

(a) the failure of the Company to make on a timely basis any payment of principal of any Offshore Rate Loan;

(b) the failure of the Company to borrow, continue or convert a Loan after the Company has given (or is deemed to have given) a Notice of Borrowing or a similar notice;

(c) the failure of the Company to make any prepayment in accordance with any notice delivered under *Section 2.08*;

(d) any payment (including after acceleration thereof) of an Offshore Rate Loan on a day that is not the last day of the relevant Interest Period (including in connection with the syndication of the Commitments); and

(e) the automatic conversion under *Section 2.04* of any Offshore Rate Loan to a Base Rate Loan on a day that is not the last day of the relevant Interest Period;

including any such loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain its Offshore Rate Loans or from fees payable to terminate the deposits from which such funds were obtained. For purposes of calculating amounts payable by the Company to the Lenders under this Section and under *subsection 4.03(a)*, each Offshore Rate Loan made by a Lender (and each related reserve, special deposit or similar requirement) shall be conclusively deemed to have been funded at the LIBO Rate used in determining the Offshore Rate for such Offshore Rate Loan by a matching deposit or other borrowing in the interbank eurodollar market for a comparable amount and for a comparable period, whether or not such Offshore Rate Loan is in fact so funded.

4.05 *Inability to Determine Rates.* If the Administrative Agent determines that for any reason adequate and reasonable means do not exist for determining the Offshore Rate for any requested Interest Period with respect to a proposed Offshore Rate Loan, or that the Offshore Rate applicable pursuant to *subsection 2.11(a)* for any requested Interest Period with respect to a proposed Offshore Rate Loan does not adequately and fairly reflect the cost to the Lenders of funding such Loan, the Administrative Agent will promptly so notify the Company and each Lender. Thereafter, the obligation of the Lenders to make or maintain Offshore Rate Loans hereunder shall be suspended until the Administrative Agent revokes such notice in writing. Upon receipt of such notice, the Company may revoke any Notice of Borrowing then submitted by it. If the Company does not revoke such notice, the

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Lenders shall make, convert or continue the Loans, as requested by the Company, in the amount specified in the applicable notice submitted by the Company, but such Loans shall be made as, converted into or continued as, as the case may be, Base Rate Loans instead of Offshore Rate Loans.

4.06 *Reserves on Offshore Rate Loans.* The Company shall pay to each Lender, as long as such Lender shall be required under regulations of the FRB to maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency funds or deposits (currently known as "*Eurocurrency liabilities*"), other than reserve requirements included in the calculation of the Offshore Rate, additional costs on the unpaid principal amount of each Offshore Rate Loan to the Company equal to the actual costs of such reserves allocated to such Loan by such Lender (as determined by such Lender in good faith, which determination shall be conclusive), payable on each date on which interest is payable on such Loan, provided the Company shall have received at least 15 days' prior written notice (with a copy to the Administrative Agent) of such additional interest from such Lender. If a Lender fails to give notice 15 days prior to the relevant Interest Payment Date, such additional interest shall be payable 15 days from receipt of such notice.

4.07 *Certificates of Lenders.* Any Lender claiming reimbursement or compensation under this *Article IV* shall deliver to the Company (with a copy to the Administrative Agent) a certificate setting forth in reasonable detail the amount payable to such Lender hereunder, and such certificate shall be conclusive and binding on the Company in the absence of manifest error.

4.08 *Substitution of Lenders.* Upon the receipt by the Company from any Lender (an "*Affected Lender*") of a claim for compensation under *Section 4.03* or *Section 4.06*, of notice that it cannot make Offshore Rate Loans under *Section 4.02*, or of a claim for Taxes or Further Taxes under *Section 4.01*, then the Administrative Agent, at the Company's direction, shall: (i) request the Affected Lender to use good faith efforts to obtain a replacement bank or financial institution satisfactory to the Company to acquire and assume all or a ratable part of all of such Affected Lender's Loans and Commitment at the face amount thereof (a "*Replacement Lender*"); (ii) request one more of the other Lenders to acquire and assume all or part of such Affected Lender's Loans and Commitment; or (iii) designate a Replacement Lender. Any such designation of a Replacement Lender under *clause (i)* or *(iii)* shall be subject to the prior written consent of the Administrative Agent (which consent shall not be unreasonably withheld). Any transfer of Loans and Commitments shall be accompanied by the payment of any amounts due to the Affected Lender under *Sections 4.01*, *4.03*, *4.04* (calculated as if the assigned Loans were prepaid on the date of assignment) and *4.06* and shall be made in accordance with *Section 11.08*; *provided* that the processing fee referenced in *Section 11.08(a)* shall not be required to be paid.

4.09 *Survival.* The agreements and obligations of the Company in this *Article IV* shall survive the payment of all other Obligations, and the Company will have no obligation to pay any amount hereunder unless a demand is made within 180 days after the date upon which the Administrative Agent's or the applicable Lender's right to reimbursement arises.

ARTICLE V

CONDITIONS PRECEDENT

5.01 *Conditions to Effectiveness.* The effectiveness of this Agreement is subject to the condition that the Administrative Agent shall have received all of the following, in form and substance

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satisfactory to the Administrative Agent and each Lender, and (in the case of any document listed below) in sufficient copies for each Lender:

(a) *Credit Agreement.* This Agreement executed by each party thereto;

(b) *Resolutions; Incumbency.*

(i) Copies of the resolutions of the board of directors of each Loan Party authorizing the transactions contemplated hereby, certified as of the Effective Date by the Secretary or an Assistant Secretary of such Loan Party; and

(ii) A certificate of the Secretary or Assistant Secretary of each Loan Party certifying the names and true signatures of the officers of such Loan Party authorized to execute, deliver and perform, as applicable, this Agreement and all other Loan Documents to be delivered by it hereunder;

(c) *Organization Documents; Good Standing.* Each of the following documents:

(i) the articles or certificate of incorporation and the bylaws of each Loan Party as in effect on the Effective Date, certified as of the Effective Date by the Secretary or Assistant Secretary of such Loan Party; and

(ii) a good standing certificate or certificate of status for each Loan Party from the Secretary of State (or similar, applicable Governmental Authority) of its state of incorporation and each other state where it is qualified to do business and the failure to be so qualified could reasonably be expected to have a material adverse effect on the business or financial condition of such Loan Party;

(d) *Legal Opinion.* An opinion of Bell, Boyd & Lloyd LLP, counsel to the Company and the Guarantors, addressed to the Administrative Agent and the Lenders.

(e) *Payment of Fees.* Evidence of payment by the Company of all accrued and unpaid fees, costs and expenses to the extent then due and payable on the Effective Date, together with Attorney Costs of JPMorgan to the extent invoiced prior to or on the Effective Date, plus such additional amounts of Attorney Costs as shall constitute JPMorgan's reasonable estimate of Attorney Costs incurred or to be incurred by it through the closing proceedings (provided that such estimate shall not thereafter preclude final settling of accounts between the Company and JPMorgan); including any such costs, fees and expenses arising under or referenced in *Sections 2.11* and *11.04;*

(f) *Certificate.* A certificate signed by a Responsible Officer, dated as of the Effective Date, stating that:

(i) the representations and warranties contained in *Article VI* are true and correct on and as of such date, as though made on and as of such date;

(ii) no Default or Event of Default exists or would result from the Credit Extension; and

(iii) there has not occurred since June 30, 2006 any event or circumstance that has resulted or could reasonably be expected to result in a Material Adverse Effect;

(g) *Subsidiary Guaranty.* A Subsidiary Guaranty executed by each Guarantor as of the Effective Date;

(h) *Repayment of Prior Indebtedness.* All outstanding Indebtedness of the Company or any Subsidiary not specified on *Schedule 8.05* or otherwise permitted by *Section 8.05* shall have been paid in full and all commitments to create such Indebtedness, all guaranties supporting such Indebtedness and all Liens securing such Indebtedness shall have been terminated; and

(i) *Other Documents.* Such other approvals, opinions, documents or materials as the Administrative Agent or any Lender may request.

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5.02 *Conditions to All Credit Extensions.* The obligation of each Lender to make any Revolving Loan to be made by it (including its initial Revolving Loan) and the obligation of each Issuer to Issue any Letter of Credit (including the initial Letter of Credit) is subject to the satisfaction of the following conditions precedent on the relevant Borrowing Date or Issuance Date:

(a) *Notice, Application.* The Administrative Agent shall have received a Notice of Borrowing or in the case of any Issuance of any Letter of Credit, the applicable Issuer and the Administrative Agent shall have received an L/C Application or L/C Amendment Application, as required under *Section 3.02;*

(b) *Continuation of Representations and Warranties.* The representations and warranties in *Article VI* shall be true and correct on and as of such Borrowing Date or Issuance Date with the same effect as if made on and as of such Borrowing Date or Issuance Date (except to the extent such representations and warranties expressly refer to an earlier date, in which case they shall be true and correct as of such earlier date); and

(c) *No Existing Default.* No Default or Event of Default shall exist or shall result from such Borrowing or Issuance.

Each Notice of Borrowing, L/C Application or L/C Amendment Application submitted by the Company hereunder shall constitute a representation and warranty by the Company hereunder, as of the date of each such notice and as of each Borrowing Date or Issuance Date, as applicable, that the conditions in this *Section 5.02* are satisfied.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES

The Company represents and warrants to the Administrative Agent and each Lender that:

6.01 *Existence and Power.* The Company and each of its Subsidiaries:

(a) is duly organized, validly existing and in good standing under the laws of the jurisdiction of its formation;

(b) has the power and authority and all governmental licenses, authorizations, consents and approvals to own its assets, to carry on its business and to execute, deliver, and perform its obligations under the Loan Documents to which it is a party;

(c) is duly qualified as a foreign corporation and is licensed and in good standing under the laws of each jurisdiction where its ownership, lease or operation of property or the conduct of its business requires such qualification or license; and

(d) is in compliance with all Requirements of Law; except, in each case referred to in *clause (c)* or *clause (d)*, to the extent that the failure to do so could not reasonably be expected to have a Material Adverse Effect.

6.02 *Authorization; No Contravention.* The execution, delivery and performance by each Loan Party of each Loan Document to which such Person is party, have been duly authorized by all necessary organizational action, and do not and will not:

(a) contravene the terms of any of such Person's Organization Documents;

(b) conflict with or result in any breach or contravention of, or the creation of any Lien under, any document evidencing any Contractual Obligation to which such Person is a party or any order, injunction, writ or decree of any Governmental Authority to which such Person or its property is subject; or

(c) violate any Requirement of Law.

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6.03 *Governmental Authorization.* No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority is necessary or required in connection with the execution, delivery or performance by, or enforcement against, any Loan Party of the Agreement or any other Loan Document.

6.04 *Binding Effect.* Each Loan Document to which a Loan Party is a party constitutes the legal, valid and binding obligation of such Person, enforceable against such Person in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, or similar laws affecting the enforcement of creditors' rights generally or by equitable principles relating to enforceability.

6.05 *Litigation.* There are no actions, suits, investigations, proceedings, claims or disputes pending, or to the best knowledge of the Company, threatened or contemplated, at law, in equity, in arbitration or before any Governmental Authority, against the Company or its Subsidiaries or any of their respective properties:

(a) which purport to affect or pertain to this Agreement or any other Loan Document, or any of the transactions contemplated hereby or thereby; or

(b) as to which there exists a substantial likelihood of an adverse determination, which determination could reasonably be expected to have a Material Adverse Effect. No injunction, writ, temporary restraining order or any order of any nature has been issued by any court or other Governmental Authority purporting to enjoin or restrain the execution, delivery or performance of this Agreement or any other Loan Document, or directing that the transactions provided for herein or therein not be consummated as herein or therein provided.

6.06 *No Default.* No Default or Event of Default exists or would result from the incurring of any Obligations by the Company. As of the Effective Date, neither the Company nor any Subsidiary is in default under or with respect to any Contractual Obligation in any respect which, individually or together with all such defaults, could reasonably be expected to have a Material Adverse Effect, or that would, if such default had occurred after the Effective Date, create an Event of Default under *subsection 9.01(e).*

6.07 *ERISA Compliance.*

(a) Each Plan is in compliance in all material respects with the applicable provisions of ERISA, the Code and other federal or state law. Each Plan which is intended to qualify under Section 401(a) of the Code has received a favorable determination letter from the IRS and to the best knowledge of the Company, nothing has occurred which would cause the loss of such qualification. The Company and each ERISA Affiliate has made all required contributions to any Plan subject to Section 412 of the Code, and no application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the Code has been made with respect to any Plan.

(b) There are no pending or, to the best knowledge of the Company, threatened claims, actions or lawsuits, or action by any Governmental Authority, with respect to any Plan which has resulted or could reasonably be expected to result in a Material Adverse Effect. There has been no prohibited transaction or violation of the fiduciary responsibility rules with respect to any Plan which has resulted or could reasonably be expected to result in a Material Adverse Effect.

(c) (i) No ERISA Event has occurred or is reasonably expected to occur; (ii) no Pension Plan has any Unfunded Pension Liability; (iii) neither the Company nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability to the PBGC under Title IV of ERISA with respect to any Pension Plan (other than premiums due and not delinquent under Section 4007 of ERISA); (iv) neither the Company nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in

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such liability) under Section 4201 or 4243 of ERISA with respect to a Multiemployer Plan; and (v) neither the Company nor any ERISA Affiliate has engaged in a transaction that could be subject to Section 4069 or 4212(c) of ERISA.

6.08 *Use of Proceeds; Margin Regulations.* The proceeds of the Loans are to be used solely for the purposes set forth in and permitted by *Section 7.12*. Neither the Company nor any Subsidiary is generally engaged in the business of purchasing or selling Margin Stock or extending credit for the purpose of purchasing or carrying Margin Stock.

6.09 *Title to Properties.* The Company and each Subsidiary have good record and marketable title in fee simple to, or valid leasehold interests in, all real property necessary or used in the ordinary conduct of their respective businesses, except for such defects in title as could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. As of the Effective Date, the property of the Company and its Subsidiaries is subject to no Liens, other than Permitted Liens.

6.10 *Taxes.* The Company and its Subsidiaries have filed all Federal and other material tax returns and reports required to be filed, and have paid all Federal and other material taxes, assessments, fees and other governmental charges levied or imposed upon them or their properties, income or assets otherwise due and payable, except those which are being contested in good faith by appropriate proceedings and for which adequate reserves have been provided in accordance with GAAP. There is no proposed tax assessment against the Company or any Subsidiary that would, if made, have a Material Adverse Effect.

6.11 *Financial Condition.* (a) The audited consolidated financial statements of the Company and its Subsidiaries dated June 30, 2006, and the related consolidated statements of income or operations, shareholders' equity and cash flows for the fiscal year ended on that date:

(x) were prepared in accordance with GAAP consistently applied throughout the period covered thereby;

(y) fairly present the financial condition of the Company and its Subsidiaries as of the date thereof and results of operations for the period covered thereby; and

(z) except as specifically disclosed in *Schedule 6.11*, show all material indebtedness and other liabilities, direct or contingent, of the Company and its Subsidiaries as of the date thereof.

(b) Since June 30, 2006 there has been no Material Adverse Effect.

6.12 *Environmental Matters.* Except as specifically disclosed in *Schedule 6.12:*

(a) The on-going operations of the Company and each of its Subsidiaries comply in all respects with all Environmental Laws, except such non-compliance which would not (if enforced in accordance with applicable law) result in liability in excess of $5,000,000 in the aggregate (exclusive of amounts payable under insurance policies and indemnity agreements which the Company or such Subsidiary reasonably expects to receive).

(b) The Company and each of its Subsidiaries have obtained all licenses, permits, authorizations and registrations required under any Environmental Law ("*Environmental Permits*") and necessary for their respective ordinary course operations, all such Environmental Permits are in good standing, and the Company and each of its Subsidiaries are in compliance with all material terms and conditions of such Environmental Permits.

(c) None of the Company, any of its Subsidiaries or any of their respective present property or operations is subject to any outstanding written order from or agreement with any Governmental Authority, nor subject to (i) any judicial or docketed administrative proceeding, respecting any Environmental Law, Environmental Claim or Hazardous Material or (ii) to the extent that it could

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reasonably be expected to have a Material Adverse Effect, any claim, proceeding or written notice from any Person regarding any Environmental Law, Environmental Claim or Hazardous Material.

(d) There are no Hazardous Materials or other conditions or circumstances existing with respect to any property of the Company or any Subsidiary, or arising from operations prior to the Effective Date, of the Company or any of its Subsidiaries that would reasonably be expected to give rise to Environmental Claims with a potential liability of the Company and its Subsidiaries in excess of $5,000,000 in the aggregate for all such conditions, circumstances and properties. In addition, (i) neither the Company nor any Subsidiary has any underground storage tanks (x) that are not properly registered or permitted under applicable Environmental Laws or (y) that are leaking or disposing of Hazardous Materials off-site, and (ii) the Company and its Subsidiaries have met all material notification requirements under applicable Environmental Laws.

6.13 *Labor Relations.* There are no strikes, lockouts or other labor disputes against the Company or any of its Subsidiaries, or, to the best of the Company's knowledge, threatened against or affecting the Company or any of its Subsidiaries, and no significant unfair labor practice complaint is pending against the Company or any of its Subsidiaries or, to the best knowledge of the Company, threatened against any of them before any Governmental Authority.

6.14 *Regulated Entities.* None of the Company, any Person controlling the Company, or any Subsidiary, is an "Investment Company" within the meaning of the Investment Company Act of 1940. Neither the Company nor any Subsidiary is subject to regulation under the Federal Power Act, the Interstate Commerce Act, any state public utilities code, or any other Federal or state statute or regulation limiting its ability to incur Indebtedness.

6.15 *No Burdensome Restrictions.* Neither the Company nor any Subsidiary is a party to or bound by any Contractual Obligation, or subject to any restriction in any Organization Document, or any Requirement of Law, which could reasonably be expected to have a Material Adverse Effect.

6.16 *Copyrights, Patents, Trademarks and Licenses, etc.* The Company and its Subsidiaries own or are licensed or otherwise have the right to use all of the patents, trademarks, service marks, trade names, copyrights, contractual franchises, authorizations and other rights that are reasonably necessary for the operation of their respective businesses, without conflict with the rights of any other Person. To the best knowledge of the Company, no slogan or other advertising device, product, process, method, substance, part or other material now employed, or now contemplated to be employed, by the Company or any Subsidiary infringes upon any rights held by any other Person. No claim or litigation regarding any of the foregoing is pending or threatened, and no patent, invention, device, application, principle or any statute, law, rule, regulation, standard or code is pending or, to the knowledge of the Company, proposed, which, in either case, could reasonably be expected to have a Material Adverse Effect.

6.17 *Subsidiaries.* As of the Effective Date, the Company has no Subsidiaries other than those specifically disclosed in part (a) of *Schedule 6.17* and has no equity investments in any other corporation or entity other than those specifically disclosed in part (b) of *Schedule 6.17*.

6.18 *Insurance.* The properties of the Company and its Subsidiaries are insured with financially sound and reputable insurance companies not Affiliates of the Company in such amounts, with such deductibles and covering such risks as are customarily carried by companies engaged in similar businesses and are similarly situated.

6.19 *Swap Obligations.* Neither the Company nor any of its Subsidiaries has incurred any outstanding obligations under any Swap Contract, other than Permitted Swap Obligations. The Company has undertaken its own independent assessment of its consolidated assets, liabilities and commitments and has considered appropriate means of mitigating and managing risks associated with

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such matters and has not relied on any swap counterparty or any Affiliate of any swap counterparty in determining whether to enter into any Swap Contract.

6.20 *Solvency.* The Company and each of its Subsidiaries are Solvent.

6.21 *Full Disclosure.* None of the representations or warranties made by the Company or any Subsidiary in the Loan Documents as of the date such representations and warranties are made or deemed made, and none of the statements contained in any exhibit, report, statement or certificate furnished by or on behalf of the Company or any Subsidiary in connection with the Loan Documents (including the offering and disclosure materials delivered by or on behalf of the Company or its Subsidiaries to the Lenders prior to the Effective Date), contains any untrue statement of a material fact or omits any material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they are made, not misleading as of the time when made or delivered.

ARTICLE VII

AFFIRMATIVE COVENANTS

So long as any Lender shall have any Commitment hereunder, or any Loan or other Obligation shall remain unpaid or unsatisfied, or any Letter of Credit shall remain outstanding, unless the Required Lenders waive compliance in writing:

7.01 *Financial Statements.* The Company shall deliver to the Administrative Agent, in form and detail satisfactory to the Administrative Agent and the Required Lenders, with sufficient copies to be provided by the Administrative Agent to each Lender:

(a) as soon as available, but not later than the earlier of (i) the date of filing thereof with the SEC and (ii) 90 days after the end of each fiscal year (commencing with the fiscal year ending June 30, 2007), a copy of the audited consolidated balance sheet of the Company and its Subsidiaries as at the end of such year and the related consolidated statements of income, shareholders' equity and cash flows for such year, setting forth in each case in comparative form the figures for the previous fiscal year, and accompanied by the opinion of PriceWaterhouseCoopers LLP or another nationally-recognized independent public accounting firm ("*Independent Auditor*") which report shall state that such consolidated financial statements present fairly the financial position for the periods indicated in conformity with GAAP applied on a basis consistent with prior years. Such opinion shall not be qualified or limited because of a restricted or limited examination by the Independent Auditor of any material portion of the Company's or any Subsidiary's records or because of a "going concern" exception; and

(b) as soon as available, but not later than the earlier of (i) the date of filing thereof with the SEC and (ii) 45 days after the end of each of the first three fiscal quarters of each fiscal year (commencing with the fiscal quarter ending September 30, 2007), a copy of the unaudited consolidated and consolidating balance sheet of the Company and its Subsidiaries as of the end of such fiscal quarter and the related consolidated and consolidating statements of income, shareholders' equity and cash flows for the period commencing on the first day and ending on the last day of such fiscal quarter, and certified by a Responsible Officer as fairly presenting, in accordance with GAAP (subject to ordinary, good faith year-end audit adjustments), the financial position and the results of operations of the Company and the Subsidiaries.

7.02 *Certificates; Other Information.* The Company shall furnish to the Administrative Agent, with sufficient copies to be provided by the Administrative Agent to each Lender:

(a) concurrently with the delivery of the financial statements referred to in *subsections 7.01(a)* and *(b)*, a Compliance Certificate executed by a Responsible Officer;

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(b) concurrently with the delivery of the financial statements referred to in *subsection 7.01(a)*, (i) a consolidating balance sheet and income statement for such year (which need not be audited) and setting forth in comparative form the figures for the previous fiscal year, and (ii) a budget for the next succeeding fiscal year;

(c) promptly, copies of all financial statements and reports that the Company sends to its shareholders, and copies of all financial statements and regular, periodic or special reports (including Forms 10K, 10Q and 8K) that the Company or any Subsidiary may make to, or file with, the SEC; and

(d) promptly, such additional information regarding the business, financial or corporate or other organizational affairs of the Company or any Subsidiary as the Administrative Agent (or the Administrative Agent, at the request of any Lender) may from time to time reasonably request.

The Company hereby acknowledges that (a) the Administrative Agent will make available to the Lenders and the Issuers materials and/or information provided by or on behalf of Company hereunder (collectively, "*Company Materials*") by posting Company Materials on IntraLinks or another similar electronic system (the "*Platform*") and (b) certain of the Lenders may be "public-side" Lenders (*i.e.*, Lenders that do not wish to receive material non-public information with respect to Company or its securities) (each, a "*Public Lender*"). The Company hereby agrees that (w) all Company Materials that are to be made available to Public Lenders shall be clearly and conspicuously marked "PUBLIC" which, at a minimum, shall mean that the word "PUBLIC" shall appear prominently on the first page thereof; (x) by marking Company Materials "PUBLIC," the Company shall be deemed to have authorized the Administrative Agent, the Issuers and the Lenders to treat such Company Materials as either publicly available information or not material information (although it may be sensitive and proprietary) with respect to the Company or its securities for purposes of United States Federal and state securities laws; (y) all Company Materials marked "PUBLIC" are permitted to be made available through a portion of the Platform designated "Public Investor;" and (z) the Administrative Agent shall be entitled to treat any Company Materials that are not marked "PUBLIC" as being suitable only for posting on a portion of the Platform not designated "Public Investor.

7.03 *Notices.* The Company shall promptly notify the Administrative Agent and each Lender:

(a) of the occurrence of any Default or Event of Default, and of the occurrence or existence of any event or circumstance that foreseeably will become a Default or Event of Default;

(b) of any matter that has resulted or could reasonably be expected to result in a Material Adverse Effect, including, to the extent so applicable, (i) any breach or non-performance of, or any default under, a Contractual Obligation of the Company or any Subsidiary; (ii) any dispute, litigation, investigation, proceeding or suspension between the Company or any Subsidiary and any Governmental Authority; (iii) the commencement of, or any material development in, any litigation or proceeding affecting the Company or any Subsidiary, including pursuant to any applicable Environmental Laws; or (iv) any other Environmental Claim;

(c) of the occurrence of any of the following events affecting the Company or any ERISA Affiliate (but in no event more than 10 days after such event), and deliver to the Administrative Agent and each Lender a copy of any notice with respect to such event that is filed with a Governmental Authority and any notice delivered by a Governmental Authority to the Company or any ERISA Affiliate with respect to such event:

(i) an ERISA Event;

(ii) a material increase in the Unfunded Pension Liability of any Pension Plan;

(iii) the adoption of, or the commencement of contributions to, any Plan subject to Section 412 of the Code by the Company or any ERISA Affiliate; or

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(iv) the adoption of any amendment to a Plan subject to Section 412 of the Code, if such amendment results in a material increase in contributions or Unfunded Pension Liability;

(d) of any material change in accounting policies or financial reporting practices by the Company or any of its consolidated Subsidiaries;

(e) upon, but in no event later than 15 days after, any officer of the Company or any Subsidiary becoming aware of (i) any and all enforcement, investigation, cleanup, removal or other governmental or regulatory actions instituted, completed or threatened against the Company or any Subsidiary or any of their respective properties pursuant to any applicable Environmental Laws which could reasonably be expected to have a Material Adverse Effect, (ii) all other material Environmental Claims, and (iii) any environmental or similar condition on any real property adjoining or in the vicinity of the property of the Company or any Subsidiary that could reasonably be anticipated to cause such property of the Company or such Subsidiary or any part thereof to be subject to any material restrictions on the ownership, occupancy, transferability or use of such property under any Environmental Laws; and

(f) upon the reasonable request from time to time of the Administrative Agent, the Swap Termination Values, together with a description of the method by which such values were determined, relating to any then-outstanding Swap Contract to which the Company or any of its Subsidiaries is party.

Each notice under this Section shall be accompanied by a written statement by a Responsible Officer setting forth details of the occurrence referred to therein, and stating what action the Company or any affected Subsidiary proposes to take with respect thereto and at what time. Each notice under *subsection 7.03(a)* shall describe with particularity any and all clauses or provisions of this Agreement or other Loan Document that have been (or foreseeably will be) breached or violated.

7.04 *Preservation of Existence, Etc.* The Company shall, and shall cause each Subsidiary to:

(a) preserve and maintain in full force and effect its existence and good standing under the laws of its state or jurisdiction of formation;

(b) preserve and maintain in full force and effect all governmental rights, privileges, qualifications, permits, licenses and franchises necessary or desirable in the normal conduct of its business except in connection with transactions permitted by *Section 8.03* and sales of assets permitted by *Section 8.02*;

(c) use reasonable efforts, in the ordinary course of business, to preserve its business organization and goodwill; and

(d) preserve or renew all of its registered patents, trademarks, trade names and service marks, the non-preservation of which could reasonably be expected to have a Material Adverse Effect.

7.05 *Maintenance of Property.* The Company shall maintain and preserve, and shall cause each Subsidiary to maintain and preserve, all its property which is used or useful in its business in good working order and condition, ordinary wear and tear excepted, and make all necessary repairs thereto and renewals and replacements thereof.

7.06 *Insurance.* The Company shall maintain, and shall cause each Subsidiary to maintain, with financially sound and reputable independent insurers, insurance with respect to its properties and business against loss or damage of the kinds customarily insured against by Persons engaged in the same or similar business, of such types and in such amounts as are customarily carried under similar circumstances by such other Persons, including workers' compensation insurance, public liability insurance and property and casualty insurance.

7.07 *Payment of Obligations*. The Company shall, and shall cause each Subsidiary to, pay and discharge as the same shall become due and payable, all their respective obligations and liabilities, including:

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(a) all tax liabilities, assessments and governmental charges or levies upon it or its properties or assets, unless the same are being contested in good faith by appropriate proceedings and adequate reserves in accordance with GAAP are being maintained by the Company or such Subsidiary; and

(b) all material lawful claims which, if unpaid, would by law become a Lien upon its property in violation of *Section 8.01*.

7.08 *Compliance with Laws*. The Company shall comply, and shall cause each Subsidiary to comply, in all material respects with all Requirements of Law of any Governmental Authority having jurisdiction over it or its business (including the Federal Fair Labor Standards Act), except such as may be contested in good faith or as to which a bona fide dispute may exist. In addition, the Company shall (a) ensure, and cause each Subsidiary to ensure, that no Person that owns a controlling interest in or otherwise controls the Company or any Subsidiary is or shall be listed on the Specially Designated Nationals and Blocked Person List or other similar list maintained by the Office of Foreign Assets Control ("OFAC"), the Department of the Treasury, or included in any Executive Orders, (b) not use or permit the use of the proceeds of the Loans to violate any of the foreign asset control regulations of OFAC or any enabling statute or Executive Order relating thereto, and (c) comply, and cause each Subsidiary to comply, with all applicable Bank Secrecy Act ("BSA") laws and regulations.

7.09 *Compliance with ERISA*. The Company shall, and shall cause each of its ERISA Affiliates to: (a) maintain each Plan in compliance in all material respects with the applicable provisions of ERISA, the Code and other federal or state law; (b) cause each Plan which is qualified under Section 401(a) of the Code to maintain such qualification; and (c) make all required contributions to any Plan subject to Section 412 of the Code.

7.10 *Inspection of Property and Books and Records*. The Company shall maintain and shall cause each Subsidiary to maintain proper books of record and account, in which full, true and correct entries in conformity with GAAP consistently applied shall be made of all financial transactions and matters involving the assets and business of the Company and such Subsidiary. The Company shall permit, and shall cause each Subsidiary to permit, representatives and independent contractors of the Administrative Agent or any Lender to visit and inspect any of their respective properties, to examine their respective company, financial and operating records, and make copies thereof or abstracts therefrom, and to discuss their respective affairs, finances and accounts with their respective directors, officers, and independent public accountants, all at the expense of the Company and at such reasonable times during normal business hours and as often as may be reasonably desired, upon reasonable advance notice to the Company; provided that when an Event of Default exists the Administrative Agent or any Lender may do any of the foregoing at the expense of the Company at any time during normal business hours and without advance notice; *provided*, *further*, that neither the Administrative Agent nor any Lender shall conduct any environmental testing of any owned or leased facility of the Company or any Subsidiary without the prior written consent of the Company, which shall not unreasonably be withheld.

7.11 *Environmental Laws*. (a) The Company shall, and shall cause each Subsidiary to, conduct its operations and keep and maintain its property in compliance with all Environmental Laws, the violation of which could reasonably be expected to result in liability to the Company and its Subsidiaries in excess of $5,000,000 in the aggregate (net of any payments under insurance policies or indemnity agreements which the Company or such Subsidiary reasonably expects to receive).

(b) Upon the written request of the Administrative Agent or any Lender, the Company shall submit and cause each of its Subsidiaries to submit, to the Administrative Agent with sufficient copies for each Lender, at the Company's sole cost and expense, at reasonable intervals, a report providing an update of the status of any environmental, health or safety compliance, hazard or liability issue identified in any notice or report required pursuant to *subsection 7.03(e)*, that could, individually or in

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the aggregate, result in liability in excess of $5,000,000 (net of any payments under insurance policies or indemnity agreements which the Company or such Subsidiary reasonably expects to receive).

7.12 *Use of Proceeds*. The Company shall use the proceeds of the Loans (a) to finance Permitted Acquisitions and to pay certain fees and expenses related thereto, (b) for working capital, capital expenditures, stock repurchases and dividends and other general corporate purposes not in contravention of any Requirement of Law or of any Loan Document; *provided* that any stock of the Borrower that is repurchased by the Borrower shall be immediately retired and (c) to refinance the Existing Credit Agreement and other existing Indebtedness.

7.13 *Further Assurances*. (a) The Company shall ensure that all written information, exhibits and reports furnished to the Administrative Agent or the Lenders do not and will not contain any untrue statement of a material fact and do not and will not omit to state any material fact or any fact necessary to make the statements contained therein not misleading in light of the circumstances in which made, and will promptly disclose to the Administrative Agent and the Lenders and correct any defect or error that may be discovered therein or in any Loan Document or in the execution, acknowledgment or recordation thereof.

(b) Promptly upon request by the Administrative Agent or the Required Lenders, the Company shall (and shall cause any of its Subsidiaries to) do, execute, acknowledge, deliver, record, re-record, file, re-file, register and re-register, any and all such further acts, certificates, assurances and other instruments the Administrative Agent or such Lenders, as the case may be, may reasonably require from time to time in order (i) to carry out more effectively the purposes of this Agreement or any other Loan Document, and (ii) to better assure, convey, grant, assign, transfer, preserve, protect and confirm to the Administrative Agent and the Lenders the rights granted or now or hereafter intended to be granted to the Lenders under any Loan Document or under any other document executed in connection therewith.

7.14 *Guaranties*. The Company shall (a) cause each Domestic Subsidiary that accounted for more than 5% of the consolidated (gross) revenues of the Company and its Subsidiaries during the most recent 12-month period for which financial statements are available pursuant to *Section 7.01* (the "*Test Period*"), calculated (i) on an actual and a pro forma basis for any Subsidiary created or acquired after the beginning of such Test Period and (ii) giving effect to any material intercompany transactions after the beginning of such Test Period, to be a party to the Subsidiary Guaranty; and (b) if all Domestic Subsidiaries that are not parties to the Subsidiary Guaranty accounted for 10% or more of the consolidated (gross) revenues of the Company and its Subsidiaries for the most recent Test Period (calculated as set forth above, but excluding from such calculation for the Test Periods ending March 31, 2007 and June 30, 2007 the Subsidiaries listed on *Schedule 7.14*; *provided* that if the Empire Joint Venture is not consummated prior to September 30, 2007, such Subsidiaries shall be included in such calculation for the Test Period ending September 30, 2007), cause one or more of such Domestic Subsidiaries to promptly execute the Subsidiary Guaranty so that, upon such execution, such 10% threshold is no longer exceeded. The Company shall promptly notify the Administrative Agent at any time at which, in accordance with this *Section 7.14*, any Subsidiary is required to become a party to the Subsidiary Guaranty.

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ARTICLE VIII

NEGATIVE COVENANTS

So long as any Lender shall have any Commitment hereunder, or any Loan or other Obligation shall remain unpaid or unsatisfied, or any Letter of Credit shall remain outstanding, unless the Required Lenders waive compliance in writing:

8.01 *Limitation on Liens*. The Company shall not, and shall not permit any Subsidiary to, directly or indirectly, make, create, incur, assume or permit to exist any Lien upon or with respect to any part of its property, whether now owned or hereafter acquired, other than the following ("*Permitted Liens*"):

(a) any Lien existing on property of the Company or any Subsidiary on the Effective Date and set forth in *Schedule 8.01* securing Indebtedness outstanding on such date;

(b) any Lien created under any Loan Document;

(c) Liens for taxes, fees, assessments or other governmental charges which are not delinquent or remain payable without penalty, or to the extent that non-payment thereof is permitted by *Section 7.07*, provided that no notice of lien has been filed or recorded under the Code;

(d) carriers', warehousemen's, mechanics', landlords', materialmen's, repairmen's or other similar Liens arising in the ordinary course of business which are not delinquent or remain payable without penalty or which are being contested in good faith and by appropriate proceedings, which proceedings have the effect of preventing the forfeiture or sale of the property subject thereto;

(e) Liens (other than any Lien imposed by ERISA) consisting of pledges or deposits required in the ordinary course of business in connection with workers' compensation, unemployment insurance and other social security legislation;

(f) Liens on the property of the Company or its Subsidiaries securing (i) the non-delinquent performance of bids, trade contracts (other than for borrowed money), leases or statutory obligations, (ii) Contingent Obligations in connection with performance bonds, surety bonds and appeal bonds and (iii) other non-delinquent obligations of a like nature, in each case, incurred in the ordinary course of business; *provided* that all such Liens in the aggregate could not reasonably be expected to cause a Material Adverse Effect;

(g) easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business which, in the aggregate, are not substantial in amount, and which do not in any case materially detract from the value of the property subject thereto or interfere with the ordinary conduct of the businesses of the Company and its Subsidiaries;

(h) Liens securing obligations in respect of Capital Leases on assets subject to such leases, provided that such Capital Leases are otherwise permitted hereunder; and

(i) other Liens securing Indebtedness that does not exceed in the aggregate at any one time outstanding the lesser of (x) five percent (5%) of Net Worth as set forth in the most recently delivered Compliance Certificate pursuant to *Section 7.02(a)* and (y) the maximum amount of such secured Indebtedness that, when aggregated with all other outstanding Priority Debt (within the meaning of the applicable Note Agreement), would be permitted under each Note Agreement.

8.02 *Disposition of Assets*. The Company shall not, and shall not permit any Subsidiary to, directly or indirectly, (x) issue any equity interests of any Subsidiary to any Person (other than a Joint Venture) which is not the Company or a Subsidiary or (y) sell, assign, lease, convey, transfer or otherwise dispose of (whether in one or a series of transactions) any property, including accounts and

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notes receivable, with or without recourse (each, an "*Asset Disposition*"), or enter into any agreement to do any of the foregoing, except:

(a) dispositions of inventory, or used, worn-out or surplus equipment, all in the ordinary course of business;

(b) the sale of equipment to the extent that such equipment is exchanged for credit against the purchase price of similar replacement equipment, or the proceeds of such sale are reasonably promptly applied to the purchase price of such replacement equipment;

(c) dispositions made by the Company or any Subsidiary to any Wholly-Owned Subsidiary which is a Guarantor, or dispositions made by any Subsidiary to the Company;

(d) dispositions made in connection with Investments permitted under *Section 8.04*; and

(e) dispositions not otherwise permitted hereunder which are made for fair market value; *provided* that (i) at the time of any disposition, no Default or Event of Default shall exist or shall result from such disposition, (ii) with respect to any disposition (or series of related dispositions) for which total consideration exceeds $5,000,000, at least 75% of the aggregate sales price from such disposition(s) shall be paid in cash, and (iii) the aggregate value of all assets so sold by the Company and its Subsidiaries after the Effective Date, together, shall not (x) represent more than 10% of the total assets of the Company and its Subsidiaries as of the last day of the fiscal quarter most recently ended for which the Company has delivered financial statements pursuant to *Section 7.01* or (y) be responsible for more than 10% of the consolidated net income of the Company and its Subsidiaries for the 12-month period ending as of the end of the fiscal quarter next preceding the date of determination;

provided that no Asset Disposition with respect to the equity interests or Indebtedness of any Subsidiary or any note or account receivable may be made if such Asset Disposition would be prohibited by the terms of any Note Agreement.

8.03 *Consolidations and Mergers*. The Company shall not, and shall not permit any Subsidiary to, merge, consolidate with or into, or convey, transfer, lease or otherwise dispose of (whether in one transaction or in a series of transactions) all or substantially all of its assets (whether now owned or hereafter acquired) to or in favor of any Person, except that, so long as no Default or Event of Default exists immediately before and after giving effect to such transaction:

(a) any Subsidiary may merge with the Company or another Subsidiary; *provided* that (i) in the case of any transaction between a Subsidiary and the Company, the Company shall be the continuing or surviving corporation, (ii) in the case of any transaction between a Subsidiary and a Wholly-Owned Subsidiary, such Wholly-Owned Subsidiary shall be the continuing or surviving corporation or entity, and (iii) in the case of any transaction between a Domestic Subsidiary and a Foreign Subsidiary, such Domestic Subsidiary shall be the continuing or surviving corporation or entity;

(b) any Subsidiary may sell all or substantially all of its assets (upon voluntary liquidation or otherwise) to the Company or another Wholly-Owned Subsidiary;

(c) any Subsidiary may merge or consolidate with another Person in order to effect a Permitted Acquisition;

(d) so long as it is the surviving entity, the Company may merge or consolidate with another Person in order to effect a Permitted Acquisition; and

(e) the Company and Subsidiaries may make Investments permitted under *Section 8.04*.

8.04 *Loans and Investments*. The Company shall not purchase or acquire, or permit any Subsidiary to purchase or acquire, or make any commitment therefor, any capital stock, equity interest, or any obligation or other security of, or any interest in, any Person, or make or commit to make any

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Acquisition, or make or commit to make any advance, loan, extension of credit or capital contribution to or any other investment in, any Person including any Affiliate of the Company (together, "*Investments*"), except for:

(a) Investments held by the Company or Subsidiary in the form of Cash Equivalents;

(b) extensions of credit in the nature of accounts receivable or notes receivable arising from the sale or lease of goods or services in the ordinary course of business;

(c) Investments by the Company or any Subsidiary in Wholly-Owned Subsidiaries or in the form of unsecured loans made by any Subsidiary to the Company;

(d) Investments incurred in order to consummate Acquisitions otherwise permitted herein ("*Permitted Acquisitions*"), *provided* that (i) such Acquisitions are undertaken in accordance with all applicable Requirements of Law, (ii) the prior, effective written consent or approval to such Acquisition of the board of directors or equivalent governing body of the Person to be acquired (and its stockholders or equivalent equity holders, if necessary) is obtained, (iii) the Company provides the Administrative Agent, for the benefit of the Lenders, prior to consummating any such Acquisition (or series of related Acquisitions) for which the total consideration (other than stock of the Company) exceeds $100,000,000, a Compliance Certificate executed by a Responsible Officer evidencing that, after giving effect to such Acquisition, no Default or Event of Default shall have occurred and be continuing (including in respect of *Sections 8.14*, *8.15* and *8.16* on a pro forma basis as of the last day of the preceding fiscal quarter), and (iv) the Person or business which is the subject of such Acquisition is in the same or similar line of business as the Company and its Subsidiaries;

(e) other Investments (excluding Permitted Acquisitions but including Investments in Joint Ventures (including the Empire Joint Venture)) in addition to the foregoing Investments permitted by this *Section 8.04*; *provided* that (i) the total amount of Investments permitted under this *Section 8.04(e)* do not exceed in the aggregate at any one time outstanding thirty percent (30%) of Net Worth as set forth in the most recently delivered Compliance Certificate pursuant to *Section 7.02(a)* and (ii) the aggregate amount of such Investments made in or to Persons that are not in the same or similar line of business in which the Company and its Subsidiaries are engaged as of the Effective Date shall not exceed ten percent (10%) of Net Worth as set forth in the most recently delivered Compliance Certificate pursuant to *Section 7.02(a)*;

(f) Investments of a nature not contemplated by the foregoing clauses hereof that are outstanding as of the Effective Date and set forth in *Schedule 8.04* hereto; and

(g) Investments in the form of repurchase of the Company's or any Subsidiary's capital stock or Indebtedness approved by the Company's board of directors (or the Subsidiary's equivalent managers or directors) that would not otherwise result in a Default or an Event of Default.

For the avoidance of doubt, contributions made by the Company or any ERISA Affiliate to any Pension Plan or other employee benefit plan (including qualified plans) of the Company or such ERISA Affiliate shall not constitute an Investment by the Company or such ERISA Affiliate under this *Section 8.04*.

8.05 *Limitation on Indebtedness*. The Company shall not, and shall not permit any Subsidiary to, create, incur, assume, permit to exist, or otherwise become or remain directly or indirectly liable with respect to, any Indebtedness, except:

(a) Indebtedness incurred pursuant to this Agreement;

(b) Indebtedness consisting of Contingent Obligations permitted pursuant to *Section 8.08*;

(c) Indebtedness existing on the Effective Date and set forth in *Schedule 8.05*;

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(d) Indebtedness incurred in connection with Capital Leases permitted pursuant to *Section 8.01(h)*;

(e) unsecured intercompany Indebtedness so long as the related Investment is permitted by *Section 8.04*;

(f) Indebtedness under the Existing Credit Agreement, so long as such Indebtedness is repaid concurrently with the making of the initial Credit Extensions hereunder; and

(g) other Indebtedness incurred by the Company or any Subsidiary from time to time; *provided* that after giving effect to such Indebtedness, (i) *Section 8.14* would not be violated (as determined on a pro forma basis as of the last day of the previous fiscal quarter) and (ii) the aggregate outstanding amount of such Indebtedness of Subsidiaries that are not Guarantors shall not at any time exceed 10% of Net Worth.

8.06 *Transactions with Affiliates*. Except for intercompany Indebtedness otherwise permitted hereunder, the Company shall not, and shall not permit any Subsidiary to, enter into any transaction with any Affiliate of the Company, except upon fair and reasonable terms no less favorable to the Company or such Subsidiary than would obtain in a comparable arm's-length transaction with a Person not an Affiliate of the Company or such Subsidiary.

8.07 *Margin Regulations*. The Company shall not permit Margin Stock to constitute 25% or more of the value of the assets of the Company and its Subsidiaries which are subject to any limitation on sale or pledge, or any similar restriction, hereunder.

8.08 *Contingent Obligations*. The Company shall not, and shall not permit any Subsidiary to, create, incur, assume or permit to exist any Contingent Obligation except:

(a) endorsements for collection or deposit in the ordinary course of business;

(b) Permitted Swap Obligations;

(c) L/C Obligations;

(d) Contingent Obligations constituting Investments permitted under *Section 8.04*; and

(e) other Contingent Obligations (other than L/C Obligations) of the Company and its Subsidiaries not to exceed in the aggregate at any one time outstanding 7.5% of Net Worth as set forth in the most recently delivered Compliance Certificate pursuant to *Section 7.02(a)*.

8.09 *Restrictive Agreements*. The Company shall not, nor shall it permit any of its Subsidiaries to, enter into any indenture, agreement, instrument or other arrangement which directly or indirectly prohibits or restrains, or has the effect of prohibiting or restraining, or imposes materially adverse conditions upon, the ability of any Subsidiary to (a) pay dividends or make other distributions (i) on its Capital Stock or (ii) with respect to any other interest or participation in, or measured by, its profits, (b) make loans or advances to the Company or any Subsidiary, (c) repay loans or advances from the Company or any Subsidiary or (d) transfer any of its properties or assets to the Company or any Subsidiary.

8.10 *ERISA*. The Company shall not, and shall not permit any of its Subsidiaries to, (i) terminate any Plan subject to Title IV of ERISA so as to result in any material (in the opinion of the Required Lenders) liability to the Company or any ERISA Affiliate, (ii) permit to exist any ERISA Event or any other event or condition, which presents the risk of a material (in the opinion of the Required Lenders) liability to the Company or any ERISA Affiliate, (iii) make a complete or partial withdrawal (within the meaning of ERISA Section 4201) from any Multiemployer Plan so as to result in any material (in the opinion of the Required Lenders) liability to the Company or any ERISA Affiliate or (iv) enter into any new Plan or modify any existing Plan in a manner that (a) increases its

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obligations thereunder and (b) could result in any material (in the opinion of the Required Lenders) liability to the Company or any ERISA Affiliate.

8.11 *Change in Business*. The Company shall not, and shall not permit any Subsidiary to, engage in any material line of business substantially different from those lines of business carried on by the Company and its Subsidiaries on the Effective Date.

8.12 *Accounting Changes*. The Company shall not, and shall not permit any Subsidiary to, (a) make any significant change in accounting treatment or reporting practices, except as required by GAAP, or (b) change the fiscal year of the Company or of any Subsidiary; *provided* that the fiscal year of the Company and its Subsidiaries may be changed to a year ending December 31.

8.13 *Amendments to Charter*. The Company shall not, and shall not permit any Subsidiary to, (a) amend or modify any term or provision of its certificate or articles of formation or bylaws (or similar organizational document) which is materially adverse to the Administrative Agent or the Lenders without the prior written consent of the Required Lenders or (b) issue any preferred stock or other preferred equity interest.

8.14 *Leverage Ratio*. The Company shall not, as of the last day of any fiscal quarter, permit its Leverage Ratio to be greater than 3.00 to 1.0.

8.15 *Fixed Charge Coverage Ratio*. The Company shall not, as of the last day of any fiscal quarter, permit its ratio of (a) EBITDAR for the period of four fiscal quarters then ending to (b) Fixed Charges for such four fiscal quarter period to be less than 1.50 to 1.0.

8.16 *Minimum Net Worth.* The Company shall not, as of the last day of any fiscal quarter, permit its Net Worth to be less than the sum of (a) $675,000,000 *plus* (b) on a cumulative basis, 25% of the positive net income earned during each fiscal quarter commencing on or after March 31, 2007, *plus* (c) on a cumulative basis, 50% of the net cash proceeds received from the issuance of equity securities of the Company, if any, after the Effective Date.

8.17 *Most Favored Lender Status.* The Company shall not, and shall not permit any Subsidiary, to enter into, assume or otherwise be bound or obligated under any agreement creating or evidencing Indebtedness in excess of $15,000,000 containing one or more Additional Financial Covenants or Additional Defaults, without the prior written consent of the Required Lenders; *provided* that if the Company or any Subsidiary shall enter into, assume or otherwise become bound by or obligated under any such agreement without the prior written consent of the Required Lenders, the terms of this Agreement shall, without any further action on the part of the Company, the Administrative Agent or any Lender, be deemed to be amended automatically to include each Additional Financial Covenant and each Additional Default contained in such agreement, but only for so long as such Additional Financial Covenants and Additional Defaults remain in effect with respect to such other agreement. The Company shall promptly execute and deliver at its expense (including Attorney Costs) an amendment to this Agreement in form and substance satisfactory to the Required Lenders evidencing the amendment of this Agreement to include such Additional Financial Covenants and Additional Defaults; *provided* that the execution and delivery of such amendment shall not be a precondition to the effectiveness of such amendment as provided for in this *Section 8.17*.

ARTICLE IX

EVENTS OF DEFAULT

9.01 *Event of Default.* Any of the following shall constitute an "Event of Default":

(a) *Non-Payment.* The Company fails to pay, (i) when and as required to be paid herein, any amount of principal of any Loan or of any L/C Obligation, or (ii) within five days after the same

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becomes due, any interest, fee or any other amount payable hereunder or under any other Loan Document; or

(b) *Representation or Warranty.* Any representation or warranty by the Company or any Subsidiary made or deemed made herein or in any other Loan Document, or contained in any certificate, document or financial or other statement by the Company, any Subsidiary or any Responsible Officer, furnished at any time under this Agreement, or in or under any other Loan Document, is incorrect in any material respect on or as of the date made or deemed made; or

(c) *Specific Defaults.* The Company fails to perform or observe any term, covenant or agreement contained in *Section 7.03* or in *Article VIII*; or

(d) *Other Defaults.* Any Loan Party fails to perform or observe any other term or covenant contained in this Agreement or any other Loan Document, and such default shall continue unremedied for a period of 30 days after the earlier of (i) the date upon which any senior officer of the Company knew or reasonably should have known of such failure or (ii) the date upon which written notice thereof is given to the Company by the Administrative Agent or any Lender; or

(e) *Cross-Default.* (i) The Company or any Subsidiary (A) fails to make any payment in respect of any Indebtedness (other than Specified Acquisition Debt) or Contingent Obligation (other than in respect of Swap Contracts), having an aggregate principal amount (including undrawn committed or available amounts and including amounts owing to all creditors under any combined or syndicated credit arrangement) of more than $10,000,000 when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise) and such failure continues after the applicable grace or notice period, if any, specified in the relevant document on the date of such failure; or (B) fails to perform or observe any other condition or covenant, or any other event shall occur or condition exist, under any agreement or instrument relating to any such Indebtedness (other than Specified Acquisition Debt) or Contingent Obligation, and such failure continues after the applicable grace or notice period, if any, specified in the relevant document on the date of such failure if the effect of such failure, event or condition is to cause, or to permit the holder or holders of such Indebtedness or beneficiary or beneficiaries of such Indebtedness (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause such Indebtedness to be declared to be due and payable, or to be required to be repurchased, prior to its stated maturity, or such Contingent Obligation to become payable or cash collateral in respect thereof to be demanded; or (ii) there occurs under any Swap Contract an Early Termination Date (as defined in such Swap Contract) resulting from (1) any event of default under such Swap Contract as to which the Company or any Subsidiary is the Defaulting Party (as defined in such Swap Contract) or (2) any Termination Event (as so defined) as to which the Company or any Subsidiary is an Affected Party (as so defined) and, in either event, the Swap Termination Value owed by the Company or such Subsidiary as a result thereof is greater than $10,000,000; *provided* that any Event of Default arising under *clause (i)(B)* in respect of Indebtedness evidenced or governed by a Note Agreement shall be determined without regard to any amendment to or waiver of any provision of such Note Agreement or any related document or instrument entered into by the parties thereto in anticipation of, concurrent with or subsequent to the occurrence of any such event or circumstance; or

(f) *Insolvency; Voluntary Proceedings.* The Company or any Subsidiary (i) ceases or fails to be solvent, or generally fails to pay, or admits in writing its inability to pay, its debts as they become due, subject to applicable grace periods, if any, whether at stated maturity or otherwise; (ii) voluntarily ceases to conduct its business in the ordinary course; (iii) commences any Insolvency Proceeding with respect to itself; or (iv) takes any action to effectuate or authorize any of the foregoing; or

(g) *Involuntary Proceedings.* (i) Any involuntary Insolvency Proceeding is commenced or filed against the Company or any Subsidiary, or any writ, judgment, warrant of attachment, execution or similar process, is issued or levied against a substantial part of the Company's or any Subsidiary's

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properties, and any such proceeding or petition shall not be dismissed, or such writ, judgment, warrant of attachment, execution or similar process shall not be released, vacated or fully bonded within 60 days after commencement, filing or levy; (ii) the Company or any Subsidiary admits the material allegations of a petition against it in any Insolvency Proceeding, or an order for relief (or similar order under non-U.S. law) is ordered in any Insolvency Proceeding; or (iii) the Company or any Subsidiary acquiesces in the appointment of a receiver, trustee, custodian, conservator, liquidator, mortgagee in possession (or agent therefor), or other similar Person for itself or a substantial portion of its property or business; or

(h) *ERISA.* (i) An ERISA Event shall occur with respect to a Pension Plan or Multiemployer Plan which has resulted or could reasonably be expected to result in liability of the Company or any ERISA Affiliate under Title IV of ERISA to such Pension Plan or Multiemployer Plan or to the PBGC in an aggregate amount for all such Pension Plans and Multiemployer Plans in excess of $1,000,000, less any outstanding amounts under *clauses (ii)* and *(iii)*; (ii) the aggregate amount of Unfunded Pension Liability among all Pension Plans and Multiemployer Plans at any time exceeds $1,000,000, less any outstanding amounts under *clauses (i)* and *(iii)* (determined, in respect of Multiemployer Plans, by reference to the Unfunded Pension Liability for which the Company or any ERISA Affiliate may be liable); or (iii) the Company or any ERISA Affiliate shall fail to pay when due, after the expiration of any applicable grace period, any installment payment with respect to its withdrawal liability under Section 4201 of ERISA under a Multiemployer Plan in an aggregate amount in excess of $1,000,000, less any outstanding amounts under *clauses (i)* and *(ii)*; or

(i) *Monetary Judgments.* One or more non-interlocutory judgments, non-interlocutory orders, decrees or arbitration awards is entered against the Company or any Subsidiary involving in the aggregate a liability (to the extent not covered by independent third-party insurance as to which the insurer does not dispute coverage) as to any single or related series of transactions, incidents or conditions, of $5,000,000 (or, if less, the applicable threshold set forth in the corresponding provision of any Note Agreement) or more, and the same shall remain unsatisfied, unvacated and unstayed pending appeal for a period of 10 days after the entry thereof; or

(j) *Non-Monetary Judgments.* Any non-monetary judgment, order or decree is entered against the Company or any Subsidiary which does or would reasonably be expected to have a Material Adverse Effect, and there shall be any period of 20 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

(k) *Change of Control.* There occurs any Change of Control; or

(l) *Loss of Licenses.* Any Governmental Authority revokes or fails to renew any license, permit or franchise of the Company or any Subsidiary, or the Company or any Subsidiary for any reason loses any license, permit or franchise, or the Company or any Subsidiary suffers the imposition of any restraining order, escrow, suspension or impound of funds in connection with any proceeding (judicial or administrative) with respect to any license, permit or franchise, in each case to the extent that the same individually, collectively or cumulatively, does or would reasonably be expected to have a Material Adverse Effect; or

(m) *Guarantor Defaults.* Any Guarantor fails in any material respect to perform or observe any term, covenant or agreement in the Subsidiary Guaranty; or the Subsidiary Guaranty is for any reason partially (including with respect to future advances) or wholly revoked or invalidated, or otherwise ceases to be in full force and effect, or any Guarantor or any other Person contests in any manner the validity or enforceability thereof or denies that it has any further liability or obligation thereunder; or any event described at *subsections (f)* or *(g)* of this Section occurs with respect to any Guarantor.

9.02 *Remedies.* If any Event of Default occurs, the Administrative Agent shall, at the request of, or may, with the consent of, the Required Lenders,

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(a) declare the Commitment of each Lender to make Loans and any obligation of each Issuer to Issue Letters of Credit to be terminated, whereupon such Commitments and obligations shall be terminated;

(b) declare an amount equal to the maximum aggregate amount that is or at any time thereafter may become available for drawing under any outstanding Letters of Credit (whether or not any beneficiary shall have presented, or shall be entitled at such time to present, the drafts or other documents required to draw under such Letters of Credit) to be immediately due and payable, and declare the unpaid principal amount of all outstanding Loans, all interest accrued and unpaid thereon, and all other amounts owing or payable hereunder or under any other Loan Document to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Company; and

(c) exercise on behalf of itself and the Lenders all rights and remedies available to it and the Lenders under the Loan Documents or applicable law;

provided that upon the occurrence of any event specified in *subsection (f)* or *(g)* of *Section 9.01* (in the case of *clause (i)* of *subsection (g)* upon the expiration of the 60-day period mentioned therein), the obligation of each Lender to make Loans and any obligation of an Issuer to Issue Letters of Credit shall automatically terminate and the unpaid principal amount of all outstanding Loans and all interest and other amounts as aforesaid shall automatically become due and payable without further act of the Administrative Agent, either Issuer or any Lender.

9.03 *Rights Not Exclusive.* The rights provided for in this Agreement and the other Loan Documents are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law or in equity, or under any other instrument, document or agreement now existing or hereafter arising.

ARTICLE X

THE ADMINISTRATIVE AGENT

10.01 *Appointment and Authorization.* (a) Each of the Lenders and the Issuers hereby irrevocably appoints the Administrative Agent as its agent and authorizes the Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms hereof, together with such actions and powers as are reasonably incidental thereto. The bank serving as the Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent, and such bank and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Company or any Subsidiary or other Affiliate thereof as if it were not the Administrative Agent hereunder. The Lenders and the Issuers acknowledge that, pursuant to such activities, JPMorgan or its Affiliates may receive information regarding the Company or its Affiliates (including information that may be subject to confidentiality obligations in favor of the Company or such Subsidiary) and acknowledge that the Administrative Agent shall not be under any obligation to provide such information to them. With respect to its Loans and Letters of Credit, JPMorgan shall have the same rights and powers under this Agreement as any other Lender and Issuer and may exercise the same as though it were not the Administrative Agent.

(b) Each Issuer shall act on behalf of the Lenders with respect to any Letter of Credit Issued by it and the documents associated therewith until such time and except for so long as the Administrative Agent may agree at the request of the Required Lenders to act for such Issuer with respect thereto; *provided* that such Issuer shall have all of the benefits and immunities (i) provided to the Administrative Agent in this *Article X* with respect to any acts taken or omissions suffered by such Issuer in connection with Letters of Credit Issued by it or proposed to be Issued by it and the application and agreements for letters of credit pertaining to the Letters of Credit as fully as if the

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term "Administrative Agent", as used in this *Article X*, included such Issuer with respect to such acts or omissions, and (ii) as additionally provided in this Agreement with respect to such Issuer.

10.02 *Liability.* The Administrative Agent shall not have any duties or obligations except those expressly set forth herein. Without limiting the generality of the foregoing, (a) none of the Administrative Agent or any Related Party thereof shall not be subject to any fiduciary or other implied duties, regardless of whether a Default or an Event of Default has occurred and is continuing, (b) the Administrative Agent shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby that the Administrative Agent is required to exercise in writing as directed by the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in *Section 11.01*), and (c) except as expressly set forth herein, none of the Administrative Agent or any Related Party thereof shall have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Company or any of its Subsidiaries that is communicated to or obtained by such Person or any Affiliate thereof in any capacity. The Administrative Agent shall not be liable for any action taken or not taken by it with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in *Section 11.01*) or in the absence of its own gross negligence or willful misconduct. The Administrative Agent shall be deemed not to have knowledge of any Default or Event of Default unless and until written notice thereof is given to the Administrative Agent by the Company or a Lender, and the Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with this Agreement, (ii) the contents of any certificate, report or other document delivered hereunder or in connection herewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein, (iv) the validity, enforceability, effectiveness or genuineness of this Agreement or any other agreement, instrument or document or (v) the satisfaction of any condition set forth in *Article V* or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

10.03 *Reliance by Administrative Agent.* (a) The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing believed by it to be genuine and to have been signed or sent by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to be made by the proper Person, and shall not incur any liability for relying thereon. The Administrative Agent may consult with legal counsel (who may be counsel for the Company), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

(b) For purposes of determining compliance with the conditions specified in *Section 5.01*, each Lender that has executed this Agreement shall be deemed to have consented to, approved or accepted or to be satisfied with, each document or other matter either sent by the Administrative Agent to such Lender for consent, approval, acceptance or satisfaction, or required thereunder to be consented to or approved by or acceptable or satisfactory to such Lender.

10.04 *Delegation of Duties.* The Administrative Agent may perform any and all its duties and exercise its rights and powers by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all its duties and exercise its rights and powers through their respective Related Parties. The exculpatory provisions of the preceding paragraphs shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

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10.05 *Resignation by Administrative Agent.* Subject to the appointment and acceptance of a successor Administrative Agent as provided in this paragraph, the Administrative Agent may resign at any time by notifying the Lenders, the Issuers and the Company. Upon any such resignation, the Required Lenders shall have the right, in consultation with the Company, to appoint a successor. If no successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may, on behalf of the Lenders and the Issuers, appoint a successor Administrative Agent which shall be a bank with an office in New York, New York, or an Affiliate of any such bank. Upon the acceptance of its appointment as Administrative Agent hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. The fees payable by the Company to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Company and such successor. After the Administrative Agent's resignation hereunder, the provisions of this Article and *Section 11.03* shall continue in effect for the benefit of such retiring Administrative Agent, its sub agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while it was acting as Administrative Agent.

10.06 *Independent Credit Decision.* Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any related agreement or any document furnished hereunder or thereunder.

10.07 *Notice of Default.* The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default, except with respect to defaults in the payment of principal, interest and fees required to be paid to the Administrative Agent (or the Administrative Agent for the account of the Lenders), unless the Administrative Agent shall have received written notice from a Lender or the Company referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default". The Administrative Agent will notify the Lenders of their receipt of any such notice. The Administrative Agent shall take such action with respect to such Default or Event of Default as may be requested by the Required Lenders in accordance with *Article IX*; *provided* that unless and until the Administrative Agent has received any such request, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable or in the best interest of the Lenders.

10.08 *Indemnification of Administrative Agent.* Whether or not the transactions contemplated hereby are consummated, the Lenders shall indemnify upon demand the Administrative Agent and its Related Parties (to the extent not reimbursed by or on behalf of the Company and without limiting the obligation of the Company to do so), in accordance with such Lender's Pro Rata Share of all Loans and Commitments, from and against any and all Indemnified Liabilities; *provided* that no Lender shall be liable for the payment to the Administrative Agent or any Related Party thereof of any portion of such Indemnified Liabilities resulting from such Person's gross negligence or willful misconduct. Without limitation of the foregoing, each Lender shall reimburse the Administrative Agent upon demand for its ratable share of any costs or out-of-pocket expenses (including Attorney Costs) incurred by the Administrative Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, any other Loan Document, or any document contemplated by or referred to herein, to the extent that the

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Administrative Agent is not reimbursed for such expenses by or on behalf of the Company. The undertaking in this Section shall survive the payment of all Obligations hereunder and the resignation or replacement of the Administrative Agent.

10.09 *Guaranty Matters.* The Administrative Agent shall, and the Lenders irrevocably authorize the Administrative Agent to, upon the written request of the Company so long as no Default or Event of Default exists, release any Guarantor from its obligations under the Subsidiary Guaranty if, after giving effect to such release, the Company is in compliance with *Section 7.14*. Upon request by the Administrative Agent at any time, the Lenders will confirm in writing the Administrative Agent's authority to release any Guarantor from its obligations under the Subsidiary Guaranty pursuant to this *Section 10.09*.

10.10 *Co-Agents.* None of the Lenders identified on the facing page or signature pages of this Agreement as a "syndication agent" or a "documentation agent" shall have any right, power, obligation, liability, responsibility or duty under this Agreement other than those applicable to all Lenders as such. Without limiting the foregoing, none of the Lenders so identified as a "syndication agent" or a "documentation agent" shall have or be deemed to have any fiduciary relationship with any Lender. Each Lender acknowledges that it has not relied, and will not rely, on any of the Lenders so identified in deciding to enter into this Agreement or in taking or not taking action hereunder.

ARTICLE XI

MISCELLANEOUS

11.01 *Amendments and Waivers.* No amendment or waiver of any provision of this Agreement or any other Loan Document, and no consent to any departure by any Loan Party therefrom, shall be effective unless in writing signed by the Required Lenders and the Company and acknowledged by the Administrative Agent, and each such amendment, waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; *provided* that no such amendment, waiver or consent shall:

(a) waive any condition set forth in *Section 5.01* without the written consent of each Lender;

(b) extend or increase the Commitment of any Lender (or reinstate any Commitment terminated pursuant to *Section 9.02*) without the written consent of such Lender;

(c) postpone any date fixed by this Agreement or any other Loan Document for any payment (excluding mandatory prepayments, if any) of principal, interest, fees or other amounts due to the Lenders (or any of them) hereunder or under any other Loan Document without the written consent of each Lender directly affected thereby;

(d) reduce the principal of, or the rate of interest specified herein on, any Loan or L/C Borrowing, or (subject to *clause (iv)* of the proviso below) any fee or other amount payable hereunder or under any other Loan Document without the written consent of each Lender directly affected thereby; *provided* that only the consent of the Required Lenders shall be necessary to amend the definition of "Default Rate" or to waive any obligation of the Company to pay interest at the Default Rate;

(e) change any provision of this Section or the definition of "Required Lenders" or any other provision hereof specifying the number or percentage of Lenders required to amend, waive or otherwise modify any rights hereunder or make any determination or grant any consent hereunder, without the written consent of each Lender;

(f) amend *Section 2.15* in a manner that would alter the pro rata sharing of payments required thereby without the written consent of each Lender; or

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(g) release all or substantially all of the Guarantors from the Subsidiary Guaranty without the written consent of each Lender;

and, *provided further*, that (i) no amendment, waiver or consent shall, unless in writing and signed by the applicable Issuer in addition to the Required Lenders and/or each directly-affected Lender, as the case may be, affect the rights or duties of such Issuer under this Agreement or any Letter of Credit Application relating to any Letter of Credit issued or to be issued by it; (ii) no amendment, waiver or consent shall, unless in writing and signed by the Swing Line Lender in addition to the Required Lenders and/or each directly-affected Lender, as the case may be, affect the rights or duties of the Swing Line Lender under this Agreement; (iii) no amendment, waiver or consent shall, unless in writing and signed by the Administrative Agent in addition to the Required Lenders and/or each directly-affected Lender, as the case may be, affect the rights or duties of the Administrative Agent under this Agreement or any other Loan Document; and (iv) the Agent Fee Letter may be amended, or rights or privileges thereunder waived, in a writing executed only by the respective parties thereto.

11.02 *Notices*. (a) All notices, requests, consents, approvals, waivers and other communications shall be in writing (including, unless the context expressly otherwise provides, by facsimile transmission, *provided* that any matter transmitted by the Company by facsimile (i) shall be immediately confirmed by a telephone call to the recipient at the number specified on *Schedule 11.02* or, in the case of a Lender, in such Lender's Administrative Questionnaire), and (ii) shall be followed promptly by delivery of a hard copy original thereof) and mailed, faxed or delivered, to the address or facsimile number specified for notices on *Schedule 11.02* (or, in the case of a Lender, in such Lender's Administrative Questionnaire); or, as directed to the Company or the Administrative Agent, to such other address as shall be designated by such party in a written notice to the other parties, and as directed to any other party, at such other address as shall be designated by such party in a written notice to the Company and the Administrative Agent.

(b) All such notices, requests and communications shall, when transmitted by overnight delivery, or faxed, be effective when delivered for overnight (next-day) delivery, or transmitted in legible form by facsimile machine, respectively, or if mailed, upon the third Business Day after the date deposited into the U.S. mail, or if delivered, upon delivery; except that notices pursuant to *Article II*, *III* or *X* to the Administrative Agent shall not be effective until actually received by the Administrative Agent, and notices pursuant to *Article III* to an Issuer shall not be effective until actually received by such Issuer at the address specified on *Schedule 11.02*.

(c) Any agreement of the Administrative Agent and the Lenders herein to receive certain notices by telephone or facsimile is solely for the convenience and at the request of the Company. The Administrative Agent and the Lenders shall be entitled to rely on the authority of any Person purporting to be a Person authorized by the Company to give such notice, and the Administrative Agent and the Lenders shall not have any liability to the Company or other Person on account of any action taken or not taken by the Administrative Agent or the Lenders in reliance upon such telephonic or facsimile notice. The obligation of the Company to repay the Loans and L/C Obligations shall not be affected in any way or to any extent by any failure by the Administrative Agent and the Lenders to receive written confirmation of any telephonic or facsimile notice or the receipt by the Administrative Agent and the Lenders of a confirmation which is at variance with the terms understood by the Administrative Agent and the Lenders to be contained in the telephonic or facsimile notice.

11.03 *No Waiver; Cumulative Remedies*. No failure to exercise and no delay in exercising, on the part of the Administrative Agent or any Lender, any right, remedy, power or privilege hereunder, shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege.

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11.04 *Costs and Expenses*. The Company shall:

(a) whether or not the transactions contemplated hereby are consummated, pay or reimburse each Lead Agent within five Business Days after demand (subject to *subsection 5.01(e)*) for all reasonable out-of-pocket costs and expenses incurred by such Lead Agent in connection with the development, preparation, delivery, administration, syndication and execution of, and any amendment, supplement, waiver or modification to (in each case, whether or not consummated), this Agreement, any Loan Document and any other document prepared in connection herewith or therewith, and the consummation of the transactions contemplated hereby and thereby, including reasonable Attorney Costs of a single counsel to the Lead Agents (except to the extent that any Lead Agent or such counsel determines that separate counsel is necessary to avoid a conflict of interest);

(b) pay or reimburse each Lead Agent and each Lender within five Business Days after demand (subject to *subsection 5.01(e)*) for all reasonable out-of-pocket costs and expenses (including Attorney Costs of a single counsel, except to the extent that any Lead Agent, any Lender or such counsel determines that separate counsel is necessary to avoid a conflict of interest) incurred by them in connection with the enforcement, attempted enforcement, or preservation of any right or remedy under this Agreement or any other Loan Document during the existence of an Event of Default or after acceleration of the Loans (including in connection with any "workout" or restructuring regarding the Loans, and including in any Insolvency Proceeding or appellate proceeding); and

(c) pay or reimburse JPMorgan (including in its capacity as the Administrative Agent) within five Business Days after demand (subject to *subsection 5.01(e)*) for all reasonable appraisal (including the allocated cost of internal appraisal services), audit, environmental inspection and review (including the allocated cost of such internal services), search and filing costs, fees and expenses, incurred or sustained by JPMorgan (including in its capacity as the Administrative Agent) in connection with the matters referred to under *subsections (a)* and *(b)* of this Section.

11.05 *Company Indemnification*. Whether or not the transactions contemplated hereby are consummated, the Company shall indemnify, defend and hold each Lead Agent, its Related Parties and each Lender and each of its respective Affiliates, officers, directors, employees, counsel, agents and attorneys-in-fact (each, an "*Indemnified Person*") harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, charges, expenses and disbursements (including Attorney Costs) of any kind or nature whatsoever which may at any time (including at any time following repayment of the Loans, the termination of the Letters of Credit and the termination, resignation or replacement of the Administrative Agent or replacement of any Lender or assignment by any Lender of its Loans or Commitments) be imposed on, incurred by or asserted against any Indemnified Person in any way relating to or arising out of this Agreement or any document contemplated by or referred to herein, or the transactions contemplated hereby, or any action taken or omitted by any such Person under or in connection with any of the foregoing, including with respect to any investigation, litigation or proceeding (including any Insolvency Proceeding or appellate proceeding) related to or arising out of this Agreement or the Loans or Letters of Credit or the use of the proceeds thereof, whether or not any Indemnified Person is a party thereto (all the foregoing, collectively, the "*Indemnified Liabilities*"); *provided* that the Company shall have no obligation hereunder to any Indemnified Person with respect to Indemnified Liabilities to the extent resulting from the gross negligence or willful misconduct of such Indemnified Person. The agreements in this Section shall survive payment of all other Obligations.

11.06 *Marshalling; Payments Set Aside*. Neither the Administrative Agent nor any Lender shall be under any obligation to marshall any assets in favor of the Company or any other Person or against or in payment of any or all of the Obligations. To the extent that the Company makes a payment to the Administrative Agent or any Lender, or the Administrative Agent or any Lender exercises its right of set-off, and such payment or the proceeds of such set-off or any part thereof are subsequently

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invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by the Administrative Agent or such Lender in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any Insolvency Proceeding or otherwise, then (a) to the extent of such recovery the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such set-off had not occurred, and (b) each Lender severally agrees to pay to the Administrative Agent upon demand its pro rata share of any amount so recovered from or repaid by the Administrative Agent.

11.07 *Successors and Assigns*. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Company may not assign or transfer any of its rights or obligations under this Agreement without the prior written consent of each Lead Agent and each Lender.

11.08 *Assignments, Participations, etc.* (a) Any Lender may, with the written consent of the Company at all times other than during the existence of an Event of Default and the Administrative Agent, the Swing Line Lender and the Issuers, which consents shall not be unreasonably withheld or delayed, at any time assign and delegate to one or more Eligible Assignees (each an "*Assignee*") all, or any part of all, of the Loans, the Commitments, the L/C Obligations and the other rights and obligations of such Lender hereunder, in a minimum amount (other than with respect to an assignment to an Eligible Assignee that is a Lender or an Affiliate or an Approved Fund of such assigning Lender) of $5,000,000 or, if less, the total amount of such Lender's outstanding Loans and/or Commitments (provided that no written consent of the Company, the Administrative Agent, the Swing Line Lender or either Issuer shall be required in connection with any assignment and delegation by a Lender to an Eligible Assignee that is a Lender or an Affiliate or Approved Fund of such assigning Lender); *provided* that the Company and the Administrative Agent may continue to deal solely and directly with such Lender in connection with the interest so assigned to an Assignee until (i) written notice of such assignment, together with payment instructions, addresses and related information with respect to the Assignee, shall have been given to the Company and the Administrative Agent by such Lender and the Assignee; (ii) such Lender and its Assignee shall have delivered to the Company and the Administrative Agent an Assignment and Acceptance in the form of *Exhibit C* ("*Assignment and Acceptance*") and (iii) the assignor Lender or Assignee has paid to the Administrative Agent a processing fee in the amount of $3,500. Each Assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire in which the assignee designates one or more credit contacts to whom all syndicate-level information (which may contain material non-public information about the Company, the other Loan Parties and their related parties or their respective securities) will be made available and who may receive such information in accordance with such Assignee's compliance procedures and applicable laws, including federal and state securities laws.

(b) From and after the date that the Administrative Agent notifies the assignor Lender that it has received (and, if required, provided its consent with respect to) an executed Assignment and Acceptance and payment of the above-referenced processing fee, (i) the Assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder (including any obligation under *Section 10.10*) have been assigned to it pursuant to such Assignment and Acceptance, shall have the rights and obligations of a Lender under the Loan Documents, and (ii) the assignor Lender shall, to the extent that rights and obligations hereunder and under the other Loan Documents have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights and be released from its obligations under the Loan Documents.

(c) Within five Business Days after its receipt of notice by the Administrative Agent that it has received an executed Assignment and Acceptance and payment of the processing fee (and, if required, provided that it consents to such assignment in accordance with *subsection 11.08(a)*), the Company shall execute and deliver to the Administrative Agent, to the extent requested by the applicable Assignee, a Note evidencing such Assignee's purchased Loans and Commitment. Immediately upon each Assignee's

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making its processing fee payment under the Assignment and Acceptance, this Agreement shall be deemed to be amended to the extent, but only to the extent, necessary to reflect the addition of the Assignee and the resulting adjustment of the Commitments arising therefrom. The Commitment allocated to each Assignee shall reduce such Commitments of the assigning Lender *pro tanto*.

(d) Any Lender may at any time sell to one or more commercial banks or other Persons not Affiliates of the Company (a "*Participant*") participating interests in any Loans, the Commitment of that Lender and the other interests of that Lender (the "*originating Lender*") hereunder and under the other Loan Documents; *provided* that (i) the originating Lender's obligations under this Agreement shall remain unchanged, (ii) the originating Lender shall remain solely responsible for the performance of such obligations, (iii) the Company, each Issuer and the Administrative Agent shall continue to deal solely and directly with the originating Lender in connection with the originating Lender's rights and obligations under this Agreement and the other Loan Documents and (iv) no Lender shall transfer or grant any participating interest under which the Participant has rights to approve any amendment to, or any consent or waiver with respect to, this Agreement or any other Loan Document, except to the extent such amendment, consent or waiver would require unanimous consent of the Lenders as described in *clause (a)* (but only in respect of any increase of any Commitment of any originating Lender), *(b)* or *(e)* of the *first proviso* to *Section 11.01*. In the case of any such participation, the Participant shall be entitled to the benefit of *Sections 4.01*, *4.03* and *11.05* as though it were also a Lender hereunder, and if amounts outstanding under this Agreement are due and unpaid, or shall have been declared or shall have become due and payable upon the occurrence of an Event of Default, each Participant shall be deemed to have the right of set-off in respect of its participating interest in amounts owing under this Agreement to the same extent as if the amount of its participating interest were owing directly to it as a Lender under this Agreement.

(e) Notwithstanding any other provision in this Agreement, any Lender may at any time create a security interest in, or pledge, all or any portion of its rights under and interest in this Agreement and the Note held by it in favor of any Federal Reserve Bank in accordance with Regulation A of the FRB or U.S. Treasury Regulation 31 CFR §203.14, and such Federal Reserve Bank may enforce such pledge or security interest in any manner permitted under applicable law.

11.09 *Confidentiality*. (a) Each Lender agrees to take and to cause its Affiliates to take normal and reasonable precautions and exercise due care to maintain the confidentiality of all information identified as "confidential" by the Company and provided to it by the Company or any Subsidiary, or by the Administrative Agent on the Company's or such Subsidiary's behalf, under this Agreement or any other Loan Document ("*Information*"), and neither it nor any of its Affiliates shall use any Information other than in connection with or in enforcement of this Agreement and the other Loan Documents or in connection with other business now or hereafter existing or contemplated with the Company or any Subsidiary, except to the extent such Information (i) was or becomes generally available to the public other than as a result of disclosure by any Lender; or (ii) was or becomes available on a non-confidential basis from a source other than the Company, provided that such source is not bound by a confidentiality agreement with the Company known to any Lender; *provided* that any Lender may disclose such Information (A) at the request or pursuant to any requirement of any Governmental Authority to which the Lender is subject or in connection with an examination of such Lender by any such authority; (B) pursuant to subpoena or other court process; (C) when required to do so in accordance with the provisions of any applicable Requirement of Law; (D) to the extent reasonably required in connection with any litigation or proceeding to which the Administrative Agent, any Lender or their respective Affiliates may be party; (E) to the extent reasonably required in connection with the exercise of any remedy hereunder or under any other Loan Document; (F) to such Lender's independent auditors and other professional advisors; (G) to any Participant or Assignee, actual or potential, provided that such Person agrees to keep such Information confidential to the same extent required of the Lenders hereunder; (H) as to any Lender or its Affiliate, as expressly permitted

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under the terms of any other document or agreement regarding confidentiality to which the Company or any Subsidiary is party or is deemed party with such Lender or such Affiliate; (I) to its Affiliates; and (J) to the National Association of Insurance Commissioners or any similar organization or any nationally recognized rating agency that requires access to information about such Lender's investment portfolio in connection with ratings issued with respect to such Lender.

(b) EACH LENDER ACKNOWLEDGES THAT INFORMATION AS DEFINED IN *SECTION 11.09(a)* FURNISHED TO IT PURSUANT TO THIS AGREEMENT MAY INCLUDE MATERIAL NON-PUBLIC INFORMATION CONCERNING THE COMPANY AND ITS RELATED PARTIES OR THEIR RESPECTIVE SECURITIES, AND CONFIRMS THAT IT HAS DEVELOPED COMPLIANCE PROCEDURES REGARDING THE USE OF MATERIAL NON-PUBLIC INFORMATION AND THAT IT WILL HANDLE SUCH MATERIAL NON-PUBLIC INFORMATION IN ACCORDANCE WITH THOSE PROCEDURES AND APPLICABLE LAW, INCLUDING FEDERAL AND STATE SECURITIES LAWS.

(c) ALL INFORMATION, INCLUDING REQUESTS FOR WAIVERS AND AMENDMENTS, FURNISHED BY THE COMPANY OR THE ADMINISTRATIVE AGENT PURSUANT TO, OR IN THE COURSE OF ADMINISTERING, THIS AGREEMENT WILL BE SYNDICATE-LEVEL INFORMATION, WHICH MAY CONTAIN MATERIAL NON-PUBLIC INFORMATION ABOUT THE LOAN PARTIES AND THEIR RELATED PARTIES OR THEIR RESPECTIVE SECURITIES. ACCORDINGLY, EACH LENDER REPRESENTS TO THE COMPANY AND THE ADMINISTRATIVE AGENT THAT IT HAS IDENTIFIED IN ITS ADMINISTRATIVE QUESTIONNAIRE A CREDIT CONTACT WHO MAY RECEIVE INFORMATION THAT MAY CONTAIN MATERIAL NON-PUBLIC INFORMATION IN ACCORDANCE WITH ITS COMPLIANCE PROCEDURES AND APPLICABLE LAW.

11.10 *Set-off*. In addition to any rights and remedies of the Lenders provided by law, if an Event of Default exists or the Loans have been accelerated, each Lender is authorized at any time and from time to time, without prior notice to the Company, any such notice being waived by the Company to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held by, and other indebtedness at any time owing by, such Lender to or for the credit or the account of the Company against any and all Obligations owing to such Lender, now or hereafter existing, irrespective of whether or not the Administrative Agent or such Lender shall have made demand under this Agreement or any Loan Document and although such Obligations may be contingent or unmatured. Each Lender agrees promptly to notify the Company and the Administrative Agent after any such set-off and application made by such Lender; *provided* that the failure to give such notice shall not affect the validity of such set-off and application.

11.11 *Automatic Debits of Fees*. With respect to any principal or interest due on the Loans, unreimbursed L/C Obligation, facility fee, arrangement fee, letter of credit fee or other fee, or any other cost or expense (including Attorney Costs) due and payable to the Administrative Agent or JPMSI under the Loan Documents, the Company hereby irrevocably authorizes JPMorgan to debit any deposit account of the Company with JPMorgan or any of its Affiliates in an amount such that the aggregate amount debited from all such deposit accounts does not exceed such fee or other cost or expense. If there are insufficient funds in such deposit accounts to cover the amount of the fee or other cost or expense then due, such debits will be reversed (in whole or in part, in JPMorgan's sole discretion) and such amount not debited shall be deemed to be unpaid. No such debit under this Section shall be deemed a set-off.

11.12 *Notification of Addresses, Lending Offices, Etc.* Each Lender shall notify the Administrative Agent in writing of any changes in the address to which notices to such Lender should be directed, of addresses of any Lending Office, of payment instructions in respect of all payments to be made to it

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hereunder and of such other administrative information as the Administrative Agent shall reasonably request.

11.13 *Counterparts*. This Agreement may be executed in any number of separate counterparts, each of which, when so executed, shall be deemed an original, and all of said counterparts taken together shall be deemed to constitute but one and the same instrument. Delivery of an executed counterpart hereof by facsimile shall be effective as delivery of a manually executed counterpart hereof.

11.14 *Severability*. The illegality or unenforceability of any provision of this Agreement or any instrument or agreement required hereunder shall not in any way affect or impair the legality or enforceability of the remaining provisions of this Agreement or any instrument or agreement required hereunder.

11.15 *No Third Parties Benefited*. This Agreement is made and entered into for the sole protection and legal benefit of the Company, the Lenders and the Lead Agents and their respective Related Parties, and their permitted successors and assigns, and no other Person shall be a direct or indirect legal beneficiary of, or have any direct or indirect cause of action or claim in connection with, this Agreement or any of the other Loan Documents.

11.16 *GOVERNING LAW AND JURISDICTION*. (A) THIS AGREEMENT AND EACH OTHER LOAN DOCUMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAW OF THE STATE OF ILLINOIS (WITHOUT REGARD TO CONFLICTS OF LAW PROVISIONS THEREOF); PROVIDED THAT THE COMPANY, THE ADMINISTRATIVE AGENT AND THE LENDERS SHALL RETAIN ALL RIGHTS ARISING UNDER FEDERAL LAW.

(B) ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT MAY BE BROUGHT IN THE COURTS OF THE STATE OF ILLINOIS OR OF THE UNITED STATES FOR THE NORTHERN DISTRICT OF ILLINOIS, AND BY EXECUTION AND DELIVERY OF THIS AGREEMENT, EACH OF THE COMPANY, THE ADMINISTRATIVE AGENT AND THE LENDERS CONSENTS, FOR ITSELF AND IN RESPECT OF ITS PROPERTY, TO THE NON-EXCLUSIVE JURISDICTION OF THOSE COURTS. EACH OF THE COMPANY, THE ADMINISTRATIVE AGENT AND THE LENDERS IRREVOCABLY WAIVES ANY OBJECTION, INCLUDING ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON THE GROUNDS OF *FORUM NON CONVENIENS*, WHICH IT MAY NOW OR HEREAFTER HAVE TO THE BRINGING OF ANY ACTION OR PROCEEDING IN SUCH JURISDICTION IN RESPECT OF THIS AGREEMENT OR ANY DOCUMENT RELATED HERETO. THE COMPANY, THE ADMINISTRATIVE AGENT AND THE LENDERS EACH WAIVE PERSONAL SERVICE OF ANY SUMMONS, COMPLAINT OR OTHER PROCESS, WHICH MAY BE MADE BY ANY OTHER MEANS PERMITTED BY ILLINOIS LAW.

11.17 *WAIVER OF JURY TRIAL*. THE COMPANY, THE LENDERS AND THE ADMINISTRATIVE AGENT EACH WAIVE THEIR RESPECTIVE RIGHTS TO A TRIAL BY JURY OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF OR RELATED TO THIS AGREEMENT, THE OTHER LOAN DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY, IN ANY ACTION, PROCEEDING OR OTHER LITIGATION OF ANY TYPE BROUGHT BY ANY OF THE PARTIES AGAINST ANY OTHER PARTY, ANY RELATED PARTY OF THE ADMINISTRATIVE AGENT, PARTICIPANT OR ASSIGNEE, WHETHER WITH RESPECT TO CONTRACT CLAIMS, TORT CLAIMS, OR OTHERWISE. THE COMPANY, THE LENDERS AND THE ADMINISTRATIVE AGENT EACH AGREE THAT ANY SUCH CLAIM OR CAUSE OF ACTION SHALL BE TRIED BY A COURT TRIAL WITHOUT A JURY. WITHOUT LIMITING THE FOREGOING, THE PARTIES FURTHER AGREE THAT THEIR RESPECTIVE RIGHT TO A TRIAL BY JURY IS WAIVED BY OPERATION OF THIS SECTION AS TO ANY ACTION, COUNTERCLAIM OR

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OTHER PROCEEDING WHICH SEEKS, IN WHOLE OR IN PART, TO CHALLENGE THE VALIDITY OR ENFORCEABILITY OF THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS OR ANY PROVISION HEREOF OR THEREOF. THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENT, RENEWAL, SUPPLEMENT OR MODIFICATION TO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS.

11.18 *Judgment*. If, for the purposes of obtaining judgment in any court, it is necessary to convert a sum due hereunder or under any other Loan Document in one currency into another currency, the rate of exchange used shall be that at which in accordance with normal banking procedures the Administrative Agent could purchase the first currency with such other currency on the Business Day preceding that on which final judgment is given. The obligation of the Company in respect of any such sum due from it to the Administrative Agent or any Lender hereunder or under the other Loan Documents shall, notwithstanding any judgment in a currency (the "*Judgment Currency*") other than that in which such sum is denominated in accordance with the applicable provisions of this Agreement (the "*Agreement Currency*"), be discharged only to the extent that on the Business Day following receipt by the Administrative Agent or such Lender of any sum adjudged to be so due in the Judgment Currency, the Administrative Agent or such Lender may in accordance with normal banking procedures purchase the Agreement Currency with the Judgment Currency. If the amount of the Agreement Currency so purchased is less than the sum originally due to the Administrative Agent or such Lender in the Agreement Currency, the Company agrees, as a separate obligation and notwithstanding any such judgment, to indemnify the Administrative Agent or such Lender or the Person to whom such obligation was owing against such loss. If the amount of the Agreement Currency so purchased is greater than the sum originally due to the Administrative Agent or such Lender in such currency, the Administrative Agent or such Lender agrees to return the amount of any excess to the Company (or to any other Person who may be entitled thereto under applicable law).

11.19 *Entire Agreement*. This Agreement, together with the other Loan Documents, embodies the entire agreement and understanding among the Company, the Lenders and the Administrative Agent, and supersedes all prior or contemporaneous agreements and understandings of such Persons, verbal or written, relating to the subject matter hereof and thereof.

11.20 *Euro Currency*. (a) If at any time that an Offshore Currency Loan is outstanding, the relevant Offshore Currency is replaced as the lawful currency of the country that issued such Offshore Currency (the "*Issuing Country*") by the Euro then such Offshore Currency Loan shall be automatically converted into a Loan denominated in Euros in a principal amount equal to the amount of Euros into which the principal amount of such Offshore Currency Loan would be converted pursuant to the laws of the Issuing Country and thereafter (i) no further Loans will be available in such Offshore Currency and (ii) all references in the Loan Documents to such Offshore Currency shall be deemed to be the Euro.

(b) The Company agrees, at the request of any Lender, to compensate each Lender for any loss, cost, expense or reduction in return that such Lender shall reasonably determine shall be incurred or sustained by such Lender as a result of the implementation of the European Monetary Union and the Euro and that would not have been incurred or sustained by such Lender but for the transactions provided for herein. A certificate of any such Lender setting forth such Lender's determination of the amount or amounts necessary to compensate such Lender shall be delivered to the Administrative Agent for delivery to the Company and shall be conclusive absent manifest error so long as such determination is made by such Lender on a reasonable basis. The Company shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof. The agreements and obligations of the Company in this *Section 11.20* shall survive the payment of all obligations.

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11.21 *Effect of Amendment and Restatement*. The Company, the Lenders that are parties to the Existing Credit Agreement (which constitute "Required Lenders" under and as defined in the Existing Credit Agreement), Bank of America, as administrative agent under the Existing Credit Agreement, LaSalle, as co-administrative agent under the Existing Credit Agreement, and the Administrative Agent agree that upon the effectiveness of this Agreement, (a) the Existing Credit Agreement shall be amended and restated in the form hereof (and, except for any provision of the Existing Credit Agreement that by its terms survives any termination thereof, the Existing Credit Agreement shall have no further force or effect); (b) the "Commitments" under the Existing Credit Agreement shall be superseded and replaced by the Commitments hereunder (and, except in its capacity as an Issuer or the Swing Line Lender, no "Lender" under the Existing Credit Agreement shall have any obligation to make loans or other credit extensions to the Company, or to buy participations therein, in excess of its Commitment, if any, hereunder), without regard to any notice requirement set forth in Section 2.07 of the Existing Credit Agreement; (c) the outstanding "Revolving Loans" and participation interests in other credit extensions under the Existing Credit Agreement shall be reallocated among the Lenders so that, after giving effect to such reallocation, each Lender has the proper principal amount of outstanding Loans and participation interests in other credit extensions hereunder (giving effect to any fronting arrangements) based upon its reallocated Commitment; (d) after receiving and distributing funds as provided in *clause (f)(i)* below, Bank of America shall cease to have any obligations in its capacity as administrative agent, and LaSalle shall cease to have any obligations in its capacity as co-administrative agent, under the Existing Credit Agreement; (e) JPMorgan, in its capacity as Administrative Agent, shall assume all responsibilities for administration of this Agreement as amended and restated; and (f) for convenience in making the reallocations described in *clauses (b)* and *(c)* above given the change in Persons acting as administrative agent, (i) the Company shall pay all amounts outstanding under the Existing Credit Agreement (other than amounts payable under Section 4.04 of the Existing Credit Agreement, which shall be (A) calculated as if all outstanding Loans under the Existing Credit Agreement were prepaid on the Effective Date rather than reallocated pursuant hereto and (B) paid by the Company to the Persons, if any, entitled thereto) to LaSalle, in its capacity as co-administrative agent under the Existing Credit Agreement (and, acting in such capacity, LaSalle shall distribute such amounts to the "Lenders" under the Existing Credit Agreement) and (ii) each Lender shall deliver to the Administrative Agent immediately available funds as if it were making new Loans on the Effective Date in the amount required to give effect to the reallocation described in *clause (c)* above.

11.22 *Amendment to Private Shelf Agreement*. Not later than 30 days after the Effective Date, the Company shall cause to be effective an amendment to the Amended and Restated Private Shelf Agreement referred to in the definition of "Note Agreements" that amends Section 6C thereof (Investments) in a manner that results in such Section 6C being no more restrictive on the Company and its Subsidiaries than *Section 8.04*; *provided* that if the Company fails to enter into such amendment, then this Agreement shall be automatically amended on such 30th day to conform *Section 8.04* to such Section 6C, and the Company agrees to take all actions reasonably requested by the Administrative Agent to evidence such amendments to this Agreement.

11.23 *USA PATRIOT Act Notice*. Each Lender that is subject to the Act (as hereinafter defined) and the Administrative Agent (each for itself and not on behalf of any Lender) hereby notifies the Company that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act"), it is required to obtain, verify and record information that identifies the Company, which information includes the name and address of the Company and other information that will allow such Lender or the Administrative Agent, as applicable, to identify the Company in accordance with the Act.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered in Chicago, Illinois by their proper and duly authorized officers as of the day and year first above written.

REGIS CORPORATION

By: /s/ Randy Pearce

Title: Senior Executive VP and CFO

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JPMORGAN CHASE BANK, N.A.,
as Administrative Agent, as Issuer, as Swing Line Lender and as a Lender

By: /s/ Krys Szremski
Title: Vice President

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BANK OF AMERICA, N.A.,
as Syndication Agent and as a Lender

By: /s/ Steven Kessler
Title: Senior Vice President

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LASALLE BANK NATIONAL ASSOCIATION, as Documentation Agent, as an Issuer and as a Lender

By: /s/ Peg Laughlin

Title: SVP

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THE BANK OF TOKYO-MITSUBISHI UFJ, LTD., CHICAGO BRANCH, as Documentation Agent and as a Lender

By: /s/ Matthew Ross

Title: Vice President and Manager

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WACHOVIA BANK, NATIONAL
ASSOCIATION, as Documentation Agent
and
as a Lender

By: /s/ Thomas Harper
Title: Senior Vice President

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SUNTRUST BANK

By: /s/ Michael Vegh

Title: Vice President

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U.S. BANK NATIONAL ASSOCIATION

By: /s/ Peter I. Bystol

Title: AVP

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WELLS FARGO BANK, NATIONAL ASSOCIATION

By: /s/ Mark H. Halldorson

Title: Vice President

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ROYAL BANK OF CANADA

By: /s/ Dustin Craven

Title: Attorney-in-Fact

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SCHEDULE 1.01(a)

PRICING SCHEDULE

The Applicable Margin and Applicable Facility Fee Percentage shall be determined in accordance with the foregoing table based on the applicable Leverage Ratio (as determined in accordance with the most recent annual audited or quarterly unaudited financial statements delivered pursuant to *Section 7.1* and the corresponding compliance certificate delivered pursuant to *subsection 7.2(a)*. (the "*Financials*")). Adjustments, if any, to the Applicable Margin or the Applicable Facility Fee Percentage shall be effective five Business Days after the earlier of (a) the date on which the Company is required to file its Financials with the SEC and (b)(i) in the case of the annual audited Financials, 90 days after the end of each fiscal year of the Company, and (ii) in the case of the quarterly unaudited Financials, 45 days after the end of each of the first three quarters of each fiscal year of the Company; *provided* that if the Company fails to file any Financials on a timely basis, Level V shall apply until such Financials are filed. Initially, Pricing shall be based on Level III.

Level	Level I	Level II	Level III	Level IV	Level V
Leverage Ratio	≤1.25 to 1.0	>1.25 to 1.0 and ≤1.75 to 1.0	>1.75 to 1.0 and ≤2.25 to 1.0	>2.25 to 1.0 and ≤2.75 to 1.0	>2.75 to 1.0
Applicable Margin (bps)	32.0	41.0	50.0	60.0	82.5
Applicable Facility Fee Percentage (bps)	8.0	9.0	12.5	15.0	17.5

If, as a result of any restatement of or other adjustment to Financials or for any other reason, the Lenders determine that (a) the Leverage Ratio as calculated by the Company as of any applicable date was inaccurate and (b) a proper calculation of the Leverage Ratio would have resulted in different pricing for any period, then (i) if the proper calculation of the Leverage Ratio would have resulted in higher pricing for such period, the Company shall automatically and retroactively be obligated to pay to the Administrative Agent for the benefit of the Lenders, promptly following demand by the Administrative Agent (accompanied by supporting materials (which may be in the form of Financials prepared by the Company or the Company's independent auditors)), an amount equal to the excess of the amount of interest and fees that should have been paid for such period over the amount of interest and fees actually paid for such period; and (ii) if the proper calculation of the Leverage Ratio would have resulted in lower pricing for such period, the Lenders shall have no obligation to repay any interest or fees to the Company; *provided* that if, as a result of any restatement or other event a proper calculation of the Leverage Ratio would have resulted in higher pricing for one or more periods and lower pricing for one or more other periods (due to the shifting of income or expenses from one period to another period or any similar reason), then the amount payable by the Company pursuant to *clause (i)* above shall be based upon the excess, if any, of the amount of interest and fees that should have been paid for all applicable periods over the amount of interest and fees paid for all such periods.

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SCHEDULE 1.01(b)

EXISTING LETTERS OF CREDIT

LASALLE BANK L/C #	BENEFICIARY	AMOUNT
S587106	US Dept. of Education (DOE)	$23,000,000
S532292	Standard Bank of South Africa LTD	30,000
S541357	Atlantic Mutual	2,579,321
S541344	Hartford Fire Insurance Company	28,200,000
S583667	Accredited School of Cosmetology	8,004
S582243	Progress Energy	33,000
S552682	Lexington Building Co. LP	123,750

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SCHEDULE 2.01

COMMITMENTS AND PRO RATA SHARES

Lenders	Commitment	Pro Rata Share
JPMorgan Chase Bank, N.A.	$ 52,500,000	15.000000001%
Bank of America, N.A.	$ 52,500,000	15.000000001%
LaSalle Bank National Association	$ 45,000,000	12.857142857%
The Bank of Tokyo-Mitsubishi UFJ, Ltd., Chicago Branch	$ 45,000,000	12.857142857%
Wachovia Bank, N.A.	$ 45,000,000	12.857142857%
SunTrust Bank	$ 30,000,000	8.571428571%
U.S. Bank National Association	$ 30,000,000	8.571428571%
Wells Fargo Bank, National Association	$ 30,000,000	8.571428571%
Royal Bank of Canada	$ 20,000,000	5.714285714%
TOTAL	$350,000,000	100.000000000%

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SCHEDULE 6.11

FINANCIAL CONDITION

None.

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SCHEDULE 6.12

ENVIRONMENTAL MATTERS

None.

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SCHEDULE 6.17

SUBSIDIARIES

	Subsidiaries of Regis Corporation	Jurisdiction	% Ownership Structure
1.	**The Barbers, Hairstyling for Men & Women, Inc**.	Minnesota	100.00% Regis Corporation
	A. WCH, Inc.*	Minnesota	100.00% The Barbers, Hairstyling for Men & Women, Inc.
	1. We Care Hair Realty, Inc.*	Delaware	100.00% WCH, Inc.
2.	**Supercuts, Inc**.	Delaware	100% Regis Corporation
	A. Supercuts Corporate Shops, Inc.	Delaware	100% Supercuts, Inc.
	B. Super Rico, Inc.	Puerto Rico	100% Supercuts, Inc.
	C. Tulsa's Best Haircut LLC	Oklahoma	50% Supercuts, Inc.
3.	**RPC Acquisition Corp**.	Minnesota	100.00% Regis Corporation
4.	**Regis Corp**.	Minnesota	100.00% Regis Corporation
5.	**Regis Insurance Group, Inc**.	Vermont	100.00% Regis Corporation
6.	**Trade Secret, Inc**.	Colorado	100.00% Regis Corporation
7.	**Regis, Inc**.	Minnesota	100.00% Regis Corporation
8.	**First Choice Haircutters International Corp**.	Delaware	100.00% Regis Corporation
9.	**Cutco Acquisition Corp**.	Minnesota	100.00% Regis Corporation
	A. 2 Inactive Subsidiaries *		100.00% Cutco Acquisition Corp.
10.	**Regis International Ltd**.	Minnesota	100.00% Regis Corporation
	A. Regis Europe, Ltd *	United Kingdom	100.00% Regis International Ltd
	1. Essanelle Ltd *	United Kingdom	100.00% Regis Europe Ltd.
	B. Blinkers Group, Ltd	United Kingdom	100.00% Regis International Ltd
	1. Blinkers Property, Ltd	United Kingdom	100.00% Blinkers Group, Ltd
11.	**N.A.H.C. Acquisition LLC***	Minnesota	100.00% Regis Corporation
12.	**Regis Hairstylists, Ltd**	Yukon	100.00% Regis Corporation
	A. First Choice Haircutters, Ltd	Yukon	100.00% Regis Hairstylists, Ltd
	1. First Choice Haircutters Realty, Inc. *	Canada Federal	100.00% First Choice Haircutters, Ltd.
	B. Magicuts Zee, Inc.	Yukon	100.00% Regis Hairstylists, Ltd
13.	**Regis Cuts Acquisition Corp**.	Nova Scotia	100.00% Regis Corporation

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14.	**Mary Lentine School of Hair Design, Inc**.	Massachusetts	100.00% Regis Corporation
15.	**Melrose Beauty Academy, Inc**.	Massachusetts	100.00% Regis Corporation
16.	**Blaine The Beauty Career School of Hyannis, Inc.***	Massachusetts	100.00% Regis Corporation
17.	**Bernett-Anthony Beauty Corporation**	New Jersey	100.00% Regis Corporation
18.	**Concorde School of Hair Design, Inc**.	New Jersey	100.00% Regis Corporation
19.	**European Academy of Cosmetology, Inc**.	New Jersey	100.00% Regis Corporation
20.	**Accredited School of Cosmetology, Inc**.	Minnesota	100.00% Regis Corporation
21.	**Scot-Lewis School–Crystal, Inc**.	Minnesota	100.00% Regis Corporation
22.	**Martin's School of Hair Design of Oshkosh, Ltd**.	Wisconsin	100.00% Regis Corporation
23.	**Martin's School of Hair Design of Manitowoc, Ltd**.	Wisconsin	100.00% Regis Corporation
24.	**Martin's Management Associates, Inc**.	Wisconsin	100.00% Regis Corporation
25.	**Hair Design, Inc**.	Kentucky	100.00% Regis Corporation
26.	**School of Hair Design, Inc**.	Kentucky	100.00% Regis Corporation
27.	**Radcliff Hair Design School, Inc**.	Kentucky	100.00% Regis Corporation
28.	**Pierre's School of Cosmetology, Inc**.	Maine	100.00% Regis Corporation

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	Subsidiaries of Regis Corporation	Jurisdiction	% Ownership Structure
29.	**Chic Schools, Inc**.	Michigan	100.00% Regis Corporation
30.	**Artistic Enterprises, Inc**.	Arizona	100.00% Regis Corporation
31.	**Wheat Ridge Beauty College, Inc**.	Colorado	100.00% Regis Corporation
32.	**First Par Management Corp**.	Rhode Island	100.00% Regis Corporation
A.	Arthur Angelo School of Cosmetology and HairDesign, Inc.	Rhode Island	100.00% First Par Management Corp.
33.	**Lee Grubbs, Inc. (d/b/a A Cut Above Beauty College)**	Indiana	100.00% Regis Corporation
34.	**HC (USA), Inc**.	Delaware	100.00% Regis Corporation
1.	HCM Industries, Inc.	Florida	100.00% HC (USA), Inc.
2.	Hair Club for Men, Ltd., Inc.	Florida	100.00% HC (USA), Inc.
a.	Hair Club for Men, LLC	Delaware	100.00% Hair Club for Men, Ltd., Inc.
b.	HCA Advertising Services, Inc.	New York	100.00% Hair Club for Men, Ltd., Inc.
c.	Hair Club for Men, Ltd.	Delaware	100.00% Hair Club for Men, Ltd., Inc.
d.	3115038 Canada, Inc.	Canada Federal	100.00% Hair Club for Men, Ltd., Inc.
e.	Hair Club for Men, Ltd.	Illinois	50.00% Hair Club for Men, Ltd., Inc.
f.	Hair Club for Men of Milwaukee, Ltd.	Wisconsin	50.00% Hair Club for Men, Ltd., Inc.
g.	TTEM, LLC	Delaware	100.00% Hair Club for Men, Ltd., Inc.
35.	**Mark Anthony, Inc**.	North Carolina	100.00% Regis Corporation
36.	**Warwick Academy of Beauty Culture, Inc**.	Rhode Island	100.00% Regis Corporation
37.	**Salon Management Corporation**	California	100.00% Regis Corporation
A.	Salon Management Corporation of New York*	New York	100.00% Salon Management Corporation
38.	**Regis Netherlands, Inc**.	Minnesota	100.00% Regis Corporation
39.	**RHS Netherlands CV**	Netherlands	1.00% Regis Corporation 89.00% Regis Netherlands, Inc. 10.00% Regis International Ltd
A.	RHS Netherlands Finance B.V.	Netherlands	100.00% RHS Netherlands CV
B.	RHS Netherlands Holdings B.V.	Netherlands	100.00% RHS Netherlands CV
1.	RHS France SAS	France	100.00% RHS Netherlands Holdings BV
a.	Jean Louis David France SAS	France	100.00% RHS France SAS

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	b. Saint Algue France SAS	France	100.00% RHS France SAS
	i. GIE Regis France	France	100.00% Saint Algue France SAS
	ii. Regis France Salons SAS	France	100.00% Saint Algue France SAS
	c. RHS Switzerland	Switzerland	100.00% RHS France SAS
	2. RHS UK Holdings Ltd	United Kingdom	100.00% RHS Netherlands Holdings BV
	a. Haircare Ltd	United Kingdom	100.00% RHS UK Holdings Ltd
	i. Haircare Gmbh	Germany	100.00% Haircare Ltd
	ii. York Ave Beauty Salons	Canada	50.00% Haircare Ltd
	iii. Sagestyle Ltd*	United Kingdom	100.00% Haircare Ltd
	iv. Haircare UK Ltd*	United Kingdom	100.00% Haircare Ltd
	v. Supercuts UK Limited	United Kingdom	100.00% Haircare Ltd
	A. 9 Inactive Subsidiaries*	United Kingdom	100.00% Supercuts UK Limited
	3. Regis International Shared Services SAS	France	100.00% RHS Netherlands Holdings BV
C.	Gameo International Ltd	Cayman Islands	100.00% RHS Netherlands CV
	1. Cleo International SARL	Luxembourg	100.00% Gameo International Ltd
	2. Regis International Franchising SARL	Luxembourg	100.00% Gameo International Ltd
	a. Bram Franchising	Brazil	100.00% Regis International Franchising SARL
	b. Jean Louis David Poland Spzoo	Poland	100.00% Regis International Franchising SARL
	c. Regis Holding Spain SL	Spain	100.00% Regis International Franchising SARL
	i. Regis Hair Salons SL	Spain	100.00% Regis Holding Spain SL
	ii. Regis Spain SL	Spain	100.00% Regis Holding Spain SL
40.	**Intelligent Nutrients, LLC**	Delaware	50.00% Regis Corporation

* Inactive Entities

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SCHEDULE 8.01

PERMITTED LIENS

Regis Corporation

Regis Corporation and certain Subsidiaries have granted numerous liens in favor of Information Leasing Corporation ("*ILC*") and National City Commercial Capital Corporation ("*National City*"). ILC and National City are now one and the same company, National City. Such liens are attached to various salon and warehouse equipment and the Salt Lake Distribution Center. The combined amount outstanding secured by such liens is approximately $42.5 million.

In addition, the following UCC financing statements have been filed with the Minnesota Secretary of State's office with respect to Regis Corporation:

Number 2211705 in favor of Steelcase Financial Services Inc.

Number 2298738 in favor of Pitney Bowes Credit Corp.

Number 20025242846 in favor of Equilease Financial Services Inc.

Number 20036264225 in favor of The Huntington National Bank (as assignee of ILC)

Number 20037146639 in favor of IOS Capital LLC.

Number 200410755149 in favor of Weingarten Nostat Inc.

Number 200413100402 in favor of Canon Financial Services, Inc.

Number 200414190427 in favor of Canon Financial Services, Inc.

Number 200514714925 in favor of Canon Financial Services, Inc.

Number 200515509296 in favor of Canon Financial Services, Inc.

Number 200516194224 in favor of Canon Financial Services, Inc.

Number 200612959103 in favor of Canon Financial Services.

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Number 200613340480 in favor of WRI Flamingo Pines LLC.

Number 200717214325 in favor of Trimarc Financial, Inc.

The collateral for the Weingarten filing is essentially all assets located at one location, and we believe it secures the obligations under the lease for such premises.

The collateral for the WRI Flamingo Pines LLC filing is essentially all assets located at one location, and we believe it secures the obligations under the lease for such premises.

The Huntington filing is as assignee of ILC.

The collateral for all of the other filings are specific equipment provided by such parties, and the aggregate amount owing to all such parties is less than $1 million.

The Barbers, Hairstyling for Men and Women

The following UCC financing statements have been filed with the Minnesota Secretary of State's office with respect to this entity:

Number 20024755905 in favor of Avent Ferry Associates Ltd: all property located in leased premises at 3223 Avent Ferry Road, Raleigh, NC

Number 200413993508 in favor of Hippo Partners 04, Ltd.: all property located at Hanson Corner Shopping Center, 612 Hwy 79, Hutto, TX and real estate on a tract of land in Williamson County, Texas

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Supercuts, Inc.

The following UCC financing statements have been filed with the Delaware Secretary of State's office with respect to this entity:

Number 22177664 in favor of Vestar California XXIII, L.L.C.: all property located within or upon premises known as Pad A, Suite 3434, College Grove, 3434 College Ave., San Diego, CA and real estate on Parcel B of Parcel Map 18131, San Diego, CA

Number 32325234 in favor of Washington Place, LP: all property located at 10117 East Washington St., Indianapolis, IN

Number 41569765 in favor of Vestar Arizona XXXI, L.L.C.: all property located within or upon the premises known as Shops J, Suite 103 Happy Valley Town Center, Phoenix, AZ and real estate located in Meridian, Maricopa County, AZ

Number 42955617 in favor of Vestar California XXII, L.L.C.: all property located within or upon the premises known as Shops A, Suite 9, Las Tiendas Village, Chandler, AZ and real estate located in Meridian, Maricopa County, AZ

The collateral for each of the foregoing four financing statements we believe secures the obligations of Supercuts, Inc. under the lease for such premises.

Liens in favor of the Myerson Companies, Inc.: two financing statements which secure two Equipment Leases, which include appliances, speakers, chairs, menu board, TV/VCR, Phone/FAC, microwave, shelves and other such items.

Trade Secret, Inc.

The following UCC financing statement has been filed with the Colorado Secretary of State's office with respect to this entity:

Number 20042051284 in favor of Vestar CTC Phase I, L.L.C..: all property located within or upon premises known as 3855 South Gilbert Road, Suite 109, Crossroads Towne Center−Phase I, Gilbert, AZ and real estate of Shopping Center located in the Town of Gilbert, Maricopa County, AZ, Lots 1 through 11.

Number 20062051868 in favor of CBL & Associates Properties: Landlord has a security interest in any furnishings, equipment, fixtures, inventory, accounts receivable, chattel paper, documents, instruments and goods which are or are to become fixtures, together with all items now or hereafter affixed thereto.

Supercuts Corporate Shops, Inc.

The following UCC financing statement has been filed with the Delaware Secretary of State's office with respect to this entity:

Number 23111535 in favor of La Carina Supercuts, Inc.: all assets located in Palm Harbor, FL; Sarasota, FL; Tampa, FL; and Valrico, FL

The collateral for the foregoing filing is essentially all assets located at six Supercuts locations, and secures the payment obligation to the franchisee from whom the locations were repurchased.

Regis Corp.

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The following UCC financing statement has been filed with the Minnesota Secretary of State's office with respect to this entity:

Number 20051831746 in favor of Iskum II, LLC.

The collateral for this filing is essentially all assets located at one location, and we believe it secures the obligations under the lease for such premises.

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SCHEDULE 8.04

INVESTMENTS

None.

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SCHEDULE 8.05

EXISTING DEBT

Senior Notes

Amount	Rate	Due
$14,000,000	7.14%	07/02/08
$25,000,000	8.39%	10/03/10
$30,000,000	4.69%	06/09/13
$40,000,000	4.03%	11/30/07
$30,000,000	4.65%	11/30/09
$30,000,000	4.86%	11/30/10
$25,000,000	6.01%	07/06/10
$58,000,000	6.73%	03/15/09
$67,000,000	7.20%	03/15/12
$30,000,000	4.97%	03/31/13
$70,000,000	5.20%	03/31/15
$70,000,000	LIBOR + 0.52%	03/31/13
$30,000,000	LIBOR + 0.55%	03/31/15

Syndicated Revolving Credit Facilities

Amount	Rate	Due

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$173,000,000(1)	LIBOR + 0.875%	04/07/10

(1) To be repaid concurrently with the effectiveness of this Agreement. Number represents borrowings under the revolving credit facility as of 7/5/07 and does not include letter of credit usage

Other Debt

National City Leases	$35,737,668
Salt Lake City Lake City Mortgage	$ 6,630,572
Other (including acquired)	$ 5,342,131

Other Contingent Obligations

Guarantees for leases on behalf of Franchisees (NPV) $2,045,263

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SCHEDULE 11.02

ADMINISTRATIVE AGENT'S PAYMENT OFFICE; CERTAIN ADDRESSES FOR NOTICES

ADMINISTRATIVE AGENT:

For Borrowing Notices and Payments in U.S. Dollars:

JPMorgan Chase Bank, N.A.
Loan and Agency Services
10 South Dearborn Street, 7th Floor
Chicago, Illinois 60603
Mail Code IL1-0010
Attention: Nida G. Mischke
Facsimile: (312) 385-7096

with a copy to

JPMorgan Chase Bank, N.A.
10 South Dearborn Street
Chicago, Illinois 60603
Mail Code IL1-0364
Attention: Krys Szremski
Facsimile: (312) 325-3239

For Borrowing Notices and Payments in Offshore Currencies:

JP Morgan Europe Limited
Loan & Agency Services
125 London Wall, London EC2Y 5AJ
Attention: Maxine Graves
Facsimile: 44 (0) 207 777 2360
E-mail: maxine.graves@jpmorgan.com

COMPANY:

Regis Corporation
7201 Metro Boulevard
Edina, Minnesota 55349
Attention: Director of Treasury
Facsimile: (952) 995-3094 and (952) 995-3222

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Exhibit 21

Regis Corporation
List of Subsidiaries

Company Name	Country or State of Incorporation/Formation
The Barbers, Hairstyling for Men & Women, Inc.	Minnesota
WCH, Inc.	Minnesota
We Care Hair Realty, Inc.	Delaware
Supercuts, Inc.	Delaware
Supercuts Corporate Shops, Inc.	Delaware
Super Rico, Inc.	Puerto Rico
Tulsa's Best Haircut LLC (50.0 percent Supercuts, Inc.)	Oklahoma
RPC Acquisition Corp.	Minnesota
Regis Corp.	Minnesota
Regis Insurance Group, Inc.	Vermont
Trade Secret, Inc.	Colorado
Cameron Capital, Inc.	Delaware
Cameron Capital 1, Inc.	Delaware
BeautyFirst, Inc	Kansas

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PureBeauty, Inc	Virginia
Regis, Inc.	Minnesota
First Choice Haircutters International Corp.	Delaware
Cutco Acquisition Corp.	Minnesota
Regis International Ltd.	Minnesota
Regis Europe, Ltd *	United Kingdom
Essanelle Ltd *	United Kingdom
Blinkers Group, Ltd	United Kingdom
Blinkers Property, Ltd	United Kingdom
N.A.H.C. Acquisition LLC*	Minnesota
Regis Hairstylists, Ltd	Yukon
First Choice Haircutters, Ltd	Yukon
First Choice Haircutters Realty, Inc. *	Canada Federal
Magicuts Zee, Inc.	Yukon
Regis Cuts Acquisition Corp.	Nova Scotia
EEG, Inc. (55.1 percent Regis Corporation)	Delaware
HC (USA), Inc.	Delaware

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HCM Industries, Inc.	Florida
Hair Club for Men, Ltd., Inc.	Florida
Hair Club for Men, LLC	Delaware
HCA Advertising Services, Inc.	New York
Hair Club for Men, Ltd.	Delaware
3115038 Canada, Inc.	Canada Federal
Hair Club for Men, Ltd. (50.0 percent Hair Club for Men, Ltd., Inc.)	Illinois
Hair Club for Men of Milwaukee, Ltd. (50.0 percent Hair Club for Men, Ltd., Inc.)	Wisconsin
TTEM, LLC*	Delaware
HCMA Staffing, LLC	Delaware
Salon Management Corporation	California
Salon Management Corporation of New York*	New York
Regis Netherlands, Inc	Minnesota
RHS Netherlands CV (1.0 percent Regis Corporation; 89.0 percent Regis Netherlands, Inc.; 10.0 percent Regis International Ltd)	Netherlands

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Company Name	Country or State of Incorporation/Formation
RHS Netherlands Finance B.V.	Netherlands
RHS Netherlands Holdings B.V.	Netherlands
RHS UK Holdings Ltd	United Kingdom
Haircare Ltd	United Kingdom
Haircare Gmbh	Germany
York Ave Beauty Salons (50.0 percent Haircare Ltd)	Canada
Sagestyle Ltd*	United Kingdom
Haircare UK Ltd*	United Kingdom
Supercuts UK Limited	United Kingdom
HCUK Hair, Ltd	United Kingdom
Regis Netherlands Merger BV	Netherlands
Provalliance, SAS (30.0 percent Regis Netherlands Merger BV)	France
Intelligent Nutrients, LLC (49.0 percent Regis Corporation)	Delaware
Mark Anthony, Inc.	North Carolina

* Inactive Entities

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Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (File Nos. 333-125631, 333-100327, 333-102858, 333-116170, 333-87482, 333-51094, 333-28511, 333-78793, 333-49165, 333-89279, 333-90809, 333-31874, 333-57092 and 333-72200), and Form S-8 (Nos. 333-123737, 333-88938, 33-44867 and 33-89882) of Regis Corporation of our report dated August 29, 2008 relating to the consolidated financial statements and the effectiveness of internal control over financial reporting, which appears in the 2008 Annual Report on Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Minneapolis, Minnesota
August 29, 2008

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Exhibit 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Paul D. Finkelstein certify that:

1. I have reviewed this annual report on Form 10-K of Regis Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's Board of Directors:

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(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

August 29, 2008

/s/ PAUL D. FINKELSTEIN

Paul D. Finkelstein,

Chairman of the Board of Directors,

President and Chief Executive Officer

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Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Randy L. Pearce certify that:

1. I have reviewed this annual report on Form 10-K of Regis Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's Board of Directors:

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(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

August 29, 2008

/s/ RANDY L. PEARCE

Randy L. Pearce,
Senior Executive Vice President,
Chief Financial and Administrative
Officer

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Exhibit 32.1

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Regis Corporation (the Registrant) on Form 10-K for the fiscal year ending June 30, 2008 as filed with the Securities and Exchange Commission on the date hereof, I, Paul D. Finkelstein, Chairman of the Board of Directors, President and Chief Executive Officer of the Registrant, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Annual Report on Form 10-K fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

August 29, 2008

/s/ PAUL D. FINKELSTEIN

Paul D. Finkelstein,
Chairman of the Board of Directors,
President and Chief Executive Officer

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Exhibit 32.2

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Regis Corporation (the Registrant) on Form 10-K for the fiscal year ending June 30, 2008 as filed with the Securities and Exchange Commission on the date hereof, I, Randy L. Pearce, Senior Executive Vice President, Chief Financial and Administrative Officer of the Registrant, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Annual Report on Form 10-K fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

August 29, 2008

/s/ RANDY L. PEARCE

Randy L. Pearce,
Senior Executive Vice President,
Chief Financial and Administrative Officer

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