

REGIS CORP  
Form 10-Q  
February 01, 2018

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

FORM 10-Q  
(Mark One)

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

For the quarterly period ended December 31, 2017

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

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

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

N/A  
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company) Emerging growth company

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

Exchange Act. "

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of January 25, 2018:

Common Stock, \$.05 par value	46,695,927
Class	Number of Shares

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REGIS CORPORATION

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

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

	December 31, 2017	June 30, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 163,300	\$ 171,044
Receivables, net	31,895	19,683
Inventories	87,347	98,392
Other current assets	47,814	48,114
Current assets held for sale (Note 1)	—	32,914
Total current assets	330,356	370,147
Property and equipment, net	109,448	123,281
Goodwill	417,709	416,987
Other intangibles, net	11,416	11,965
Other assets	52,958	61,756
Noncurrent assets held for sale (Note 1)	—	27,352
Total assets	\$ 921,887	\$ 1,011,488
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 52,738	\$ 54,501
Accrued expenses	107,198	110,435
Current liabilities related to assets held for sale (Note 1)	—	13,126
Total current liabilities	159,936	178,062
Long-term debt, net	121,096	120,599
Other noncurrent liabilities	112,284	197,374
Noncurrent liabilities related to assets held for sale (Note 1)	—	7,232
Total liabilities	393,316	503,267
Commitments and contingencies (Note 6)		
Shareholders' equity:		
Common stock, \$0.05 par value; issued and outstanding 46,688,423 and 46,400,367 common shares at December 31, 2017 and June 30, 2017, respectively	2,335	2,320
Additional paid-in capital	216,301	214,109
Accumulated other comprehensive income	11,789	3,336
Retained earnings	298,146	288,456
Total shareholders' equity	528,571	508,221
Total liabilities and shareholders' equity	\$ 921,887	\$ 1,011,488

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

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## REGIS CORPORATION

## CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)

For The Three and Six Months Ended December 31, 2017 and 2016

(Dollars and shares in thousands, except per share data amounts)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
Revenues:				
Service	\$223,214	\$235,609	\$458,773	\$478,700
Product	71,816	68,229	132,756	131,945
Royalties and fees	13,485	11,411	26,859	23,435
	308,515	315,249	618,388	634,080
Operating expenses:				
Cost of service	134,850	151,193	274,686	301,990
Cost of product	39,864	34,584	70,026	65,399
Site operating expenses	32,119	32,638	65,422	65,283
General and administrative	48,592	36,695	83,758	72,611
Rent	65,473	45,091	107,889	91,324
Depreciation and amortization	24,951	12,646	37,206	24,755
Total operating expenses	345,849	312,847	638,987	621,362
Operating (loss) income	(37,334 )	2,402	(20,599 )	12,718
Other (expense) income:				
Interest expense	(2,169 )	(2,153 )	(4,307 )	(4,316 )
Interest income and other, net	2,362	1,452	3,389	1,779
(Loss) income from continuing operations before income taxes	(37,141 )	1,701	(21,517 )	10,181
Income tax benefit (expense)	76,462	(719 )	71,630	(3,459 )
Income from continuing operations	39,321	982	50,113	6,722
Loss from discontinued operations, net of taxes (Note 1)	(6,601 )	(3,201 )	(40,368 )	(5,660 )
Net income (loss)	\$32,720	\$(2,219 )	\$9,745	\$1,062
Net income (loss) per share:				
Basic:				
Income from continuing operations	\$0.84	\$0.02	\$1.07	\$0.15
Loss from discontinued operations	(0.14 )	(0.07 )	(0.86 )	(0.12 )
Net income (loss) per share, basic (1)	\$0.70	\$(0.05 )	\$0.21	\$0.02
Diluted:				
Income from continuing operations	\$0.83	\$0.02	\$1.07	\$0.14
Loss from discontinued operations	(0.14 )	(0.07 )	(0.86 )	(0.12 )
Net income (loss) per share, diluted (1)	\$0.69	\$(0.05 )	\$0.21	\$0.02

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Weighted average common and common equivalent shares  
outstanding:

Basic	46,821	46,327	46,719	46,277
Diluted	47,314	46,774	47,053	46,751

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

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

REGIS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS) (Unaudited)

For The Three and Six Months Ended December 31, 2017 and 2016

(Dollars in thousands)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
Net income (loss)	\$32,720	\$(2,219)	\$9,745	\$1,062
Foreign currency translation adjustments	(381 )	(2,322 )	2,301	(4,838 )
Reclassification adjustments for losses included in net income (loss) (Note 1)	6,152	—	6,152	—
Comprehensive income (loss)	\$38,491	\$(4,541)	\$18,198	\$(3,776)

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



REGIS CORPORATION  
 CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)  
 For The Six Months Ended December 31, 2017 and 2016  
 (Dollars in thousands)

	Six Months Ended December 31,	
	2017	2016
Cash flows from operating activities:		
Net income	\$9,745	\$1,062
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Non-cash impairment related to discontinued operations	25,095	—
Depreciation and amortization	20,492	20,369
Depreciation related to discontinued operations	3,038	7,220
Deferred income taxes	(77,055)	) 3,297
Gain on life insurance	(7,986)	) —
Gain from sale of salon assets to franchisees, net(1)	(18)	) (121 )
Salon asset impairments	16,714	4,386
Accumulated other comprehensive income reclassification adjustments (Note 1)	6,152	—
Stock-based compensation	4,618	4,400
Amortization of debt discount and financing costs	703	703
Other non-cash items affecting earnings	(104)	) 64
Changes in operating assets and liabilities, excluding the effects of asset sales	(13,647)	) (13,775 )
Net cash (used in) provided by operating activities	(12,253)	) 27,605
Cash flows from investing activities:		
Capital expenditures	(13,773)	) (15,510 )
Capital expenditures related to discontinued operations	(1,171)	) (2,893 )
Proceeds from sale of assets to franchisees(1)	2,696	335
Change in restricted cash	(542)	) 738
Proceeds from company-owned life insurance policies	18,108	—
Net cash provided by (used in) investing activities	5,318	(17,330 )
Cash flows from financing activities:		
Taxes paid for shares withheld	(2,039)	) (1,113 )
Cash settlement of equity awards	(375)	) —
Net cash used in financing activities	(2,414)	) (1,113 )
Effect of exchange rate changes on cash and cash equivalents	253	(866 )
(Decrease) increase in cash and cash equivalents	(9,096)	) 8,296
Cash and cash equivalents:		
Beginning of period	171,044	147,346
Cash and cash equivalents included in current assets held for sale	1,352	—
Beginning of period, total cash and cash equivalents	172,396	147,346
End of period	\$163,300	\$155,642

(1) Excludes transaction with The Beautiful Group.

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

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REGIS CORPORATION  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

1. BASIS OF PRESENTATION OF UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The unaudited interim Condensed Consolidated Financial Statements of Regis Corporation (the Company) as of December 31, 2017 and for the three and six months ended December 31, 2017 and 2016, reflect, in the opinion of management, all adjustments necessary to fairly state the consolidated financial position of the Company as of December 31, 2017 and its consolidated results of operations, comprehensive income (loss) and cash flows for the interim periods. Adjustments consist only of normal recurring items, except for any discussed in the notes below. The results of operations and cash flows for any interim period are not necessarily indicative of results of operations and cash flows for the full year.

The Condensed Consolidated Balance Sheet data for June 30, 2017 was derived from audited Consolidated Financial Statements, but includes unaudited adjustments for assets and liabilities held for sale and does not include all disclosures required by accounting principles generally accepted in the United States of America (GAAP). The unaudited interim Condensed Consolidated Financial Statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended June 30, 2017 and other documents filed or furnished with the Securities and Exchange Commission (SEC) during the current fiscal year.

Discontinued Operations:

In October 2017, the Company sold substantially all of its mall-based salon business in North America, representing 858 salons, and substantially all of its International segment, representing approximately 250 salons in the UK, to The Beautiful Group, an affiliate of Regent, a private equity firm based in Los Angeles, California, who will operate these locations as franchise locations. As part of the sale of the mall-based business, The Beautiful Group agreed to pay for the value of certain inventory and assumed specific liabilities, including lease liabilities. For the International segment, the Company entered into a share purchase agreement with The Beautiful Group for minimal consideration.

As of September 30, 2017, the Company classified the results of its mall-based business and its International segment as discontinued operations for all periods presented in the Condensed Consolidated Statement of Operations. Included within discontinued operations are the impairment charge, results of operations and professional fees associated with the transaction, for the three and six months ended December 31, 2017. The operations of the mall-based business and International segment, which were previously recorded in the North American Value, North American Premium and International reporting segments, have been eliminated from ongoing operations of the Company.

In connection with the sale of the mall-based business and the International segment as part of our held for sale assessment at September 30, 2017, the Company performed an impairment assessment of the asset groups. The Company recognized net impairment charges within discontinued operations during the three and six months ended December 31, 2017, based on the difference between the expected sale prices and the carrying value of the asset groups.

The following summarizes the results of our discontinued operations for the periods presented:

For the Three Months Ended December 31,		For the Six Months Ended December 31,	
2017	2016	2017	2016

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(Dollars in thousands)

Revenues	\$7,773	\$108,793	\$101,140	\$221,005
Loss from discontinued operations, before income taxes	(10,073)	(3,201 )	(43,840 )	(5,660 )
Income tax benefit on discontinued operations	3,472	—	3,472	—
Loss from discontinued operations, net of income taxes	(6,601 )	(3,201 )	(40,368 )	(5,660 )

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For the three months ended December 31, 2017, included within the \$6.6 million loss from discontinued operations are \$4.8 million of asset impairment charges, \$1.1 million of loss from operations and \$4.2 million of professional fees associated with the transaction, partly offset by a \$3.5 million income tax benefit generated due to federal tax legislation enacted during the three months ended December 31, 2017. For the six months ended December 31, 2017, included within the \$40.4 million loss from discontinued operations are \$29.1 million of asset impairment charges, \$6.2 million of cumulative foreign currency translation adjustment associated with the Company's liquidation of substantially all foreign entities with British pound denominated entities, \$2.8 million of loss from operations and \$5.8 million of professional fees associated with the transaction, partly offset by a \$3.5 million income tax benefit generated due to federal tax legislation enacted during the three months ended December 31, 2017.

Income taxes have been allocated to continuing and discontinued operations based on the methodology required by interim reporting and accounting for income taxes guidance. See Note 5 to the unaudited Condensed Consolidated Financial Statements for further discussion regarding Staff Accounting Bulletin ("SAB") 118.

Within salon asset impairments presented in the Consolidated Statement of Cash Flows for the six months ended December 31, 2016, \$1.7 million of salon asset impairments were related to discontinued operations. Other than the salon asset impairments and the other items presented in the Consolidated Statement of Cash Flows, there were no other significant non-cash operating activities or any significant non-cash investing activities related to discontinued operations for the six months ended December 31, 2017 and 2016.

#### SmartStyle® Salon Restructuring:

In December 2017 the Company committed to close 597 non-performing Company owned SmartStyle salons in January 2018.

A summary of costs associated with the SmartStyle salon restructuring for the three and six months ended December 31, 2017 is as follows:

	Dollars in thousands
Inventory reserves	\$ 585
Long-lived fixed asset impairment	5,418
Asset retirement obligation	7,462
Lease termination and other related closure costs	27,290
Deferred rent	(3,291 )
Total	\$ 37,464

As the operational restructuring plan was announced publicly on January 8, 2018, the Company expects to incur an additional \$1.0 million in related severance expense in the third quarter of fiscal 2018.

#### Stock-Based Employee Compensation:

During the three and six months ended December 31, 2017, the Company granted various equity awards including restricted stock units (RSUs) and performance-based restricted stock units (PSUs).

A summary of equity awards granted is as follows:

For the Periods  
Ended December  
31, 2017

	Three	Six
	Months	Months
Restricted stock units	38,811	297,969
Performance-based restricted stock units	153,612	153,612

Total compensation cost for stock-based payment arrangements totaled \$2.6 and \$2.5 million for the three months ended December 31, 2017 and 2016, respectively, and \$4.6 and \$4.4 million for the six months ended December 31, 2017 and 2016, respectively, recorded within general and administrative expense on the unaudited Condensed Consolidated Statement of Operations. Total compensation cost for stock-based payment arrangements for the three and six months ended December 31,

2017 includes \$1.0 and \$1.2 million, respectively, related to the termination of former executive officers. In connection with the terminations of former executive officers, the Company settled certain PSUs for cash of \$0.4 million during the three and six months ended December 31, 2017, respectively.

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

The Company assesses impairment of long-lived assets at the individual salon level, as this is the lowest level for which identifiable cash flows are largely independent of other groups of assets and liabilities, when events or changes in circumstances indicate the carrying value of the assets or the asset grouping may not be recoverable. Factors considered in deciding when to perform an impairment review include significant under-performance of an individual salon in relation to expectations, significant economic or geographic trends, and significant changes or planned changes in our use of the assets. Impairment is evaluated based on the sum of undiscounted estimated future cash flows expected to result from use of the long-lived assets. If the undiscounted estimated cash flows are less than the carrying value of the assets, the Company calculates an impairment charge based on the estimated fair value of the assets. The fair value of the long-lived assets is estimated using a discounted cash flow model based on the best information available, including salon level revenues and expenses. Long-lived asset impairment charges of \$14.4 and \$2.5 million for the three months ended December 31, 2017 and 2016, respectively, and \$16.7 and \$4.4 million for the six months ended December 31, 2017 and 2016, respectively, have been recorded within depreciation and amortization in the Consolidated Statement of Operations.

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

##### Leases

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

##### Revenue from Contracts with Customers

In May 2014, the FASB issued updated guidance for revenue recognition. The updated accounting guidance provides a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the exchange for goods or services to a customer at an amount that reflects the consideration it expects to receive for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. The guidance is effective for the Company in the first quarter of fiscal year 2019, with early adoption permitted at the beginning of fiscal year 2018. The standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements. The Company expects to adopt this guidance in fiscal year 2019 using the modified retrospective method of adoption.

The Company does not believe the standard will impact its recognition of point-of-sale revenue in company-owned salons, or royalties. The Company believes the standard will impact the recognition of initial franchise fees revenue and gift card breakage, although the impacts are not expected to be material to the Company's consolidated financial statements. The Company licenses intellectual property and trademarks to franchisees through franchise agreements. As part of these agreements, the Company receives an initial franchise fee payment which is currently recognized as revenue when the salon opens. Upon adoption of the new standard initial franchise fees will generally be recognized as revenue over the life of the contract. The Company sells gift cards to customers and records the sale as a liability. The liability is released to revenue once the card is redeemed. Historically a portion of these gift card sales have never

been redeemed by the customer (“breakage”). Currently the Company recognizes breakage when redemption is considered remote. Upon adoption of the new standard, expected breakage is anticipated to be recognized as customers redeem the gift cards rather than only when redemption is considered remote.

The Company is continuing its assessment, including the impact on internal controls, which may identify additional impacts this standard will have on its consolidated financial statements and related disclosures. The new standard is not expected to have any impact on the timing or classification of the Company’s cash flows as reported in the Consolidated Statement of Cash Flows.



### Intra-Entity Transfers Other Than Inventory

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

### Restricted Cash

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

### Statement of Cash Flows

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

## 2. INVESTMENT IN AFFILIATES:

### Empire Education Group, Inc. (EEG)

As of December 31, 2017, the Company had a 54.6% ownership interest in EEG and no remaining investment value as the Company fully impaired its investment in EEG as of December 31, 2015. The Company has not recorded any equity income or losses related to its investment in EEG subsequent to the impairment. The Company will record equity income related to the Company's investment in EEG once EEG's cumulative income exceeds its cumulative losses, measured from the date of impairment.

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

The table below presents the summarized Statement of Operations information for EEG:

	For the Three Months Ended December 31, 2017		For the Six Months Ended December 31, 2016	
(Unaudited)	(Dollars in thousands)			
Gross revenues	\$32,962	\$31,019	\$65,599	\$61,055
Gross profit	9,720	9,168	19,398	17,278
Operating income (loss)	1,053	488	861	(219 )
Net income (loss)	1,034	357	690	(472 )

3.EARNINGS PER SHARE:

The Company's basic earnings per share is calculated as net income (loss) divided by weighted average common shares outstanding, excluding unvested outstanding restricted stock awards, RSUs and PSUs. The Company's diluted earnings per share is calculated as net income divided by weighted average common shares and common share equivalents outstanding, which includes shares issued under the Company's stock-based compensation plans. Stock-based awards with exercise prices greater than the average market price of the Company's common stock are excluded from the computation of diluted earnings per share.

For the three months ended December 31, 2017 and 2016, 492,889 and 446,877, respectively, and for the six months ended December 31, 2017 and 2016, 334,062 and 474,616, respectively, common stock equivalents of dilutive common stock were included in the diluted earnings per share calculations due to the net income from continuing operations.

The computation of weighted average shares outstanding, assuming dilution, excluded 2,373,110 and 2,361,971 of stock-based awards during the three months ended December 31, 2017 and 2016, respectively, and 1,199,042 and 2,411,047 of stock-based award during the six months ended December 31, 2017 and 2016, respectively, as they were not dilutive under the treasury stock method.

#### 4. SHAREHOLDERS' EQUITY:

##### Additional Paid-In Capital:

The \$2.2 million increase in additional paid-in capital during the six months ended December 31, 2017 was primarily due to \$4.6 million of stock-based compensation, partly offset by other stock-based compensation activity of \$2.4 million, primarily shares forfeited for withholdings on vestings.

#### 5. INCOME TAXES:

A summary of income tax benefit (expense) and corresponding effective tax rates is as follows:

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2017	2016	2017	2016
	(Dollars in thousands)			
Income tax benefit (expense)	\$76,462	\$(719)	\$71,630	\$(3,459)
Effective tax rate	205.9 %	42.3 %	332.9 %	34.0 %

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code including, but not limited to, (1) reducing the U.S. federal corporate tax rate from 35 percent to 21 percent; (2) changing rules related to net operating losses ("NOL") carryforwards and carrybacks; (3) eliminating the corporate alternative minimum tax ("AMT") and changing how existing AMT credits can be realized; (4) requiring companies to pay a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries; (5) generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries; (6) allowing full expensing of qualified property; (7) creating a new base erosion anti-abuse minimum tax ("BEAT") and provisions designed to tax global intangible low-taxed income ("GILTI"); (8) adding rules that limit the deductibility of interest expense; and (9) adding new provisions that further restrict the deductibility of certain executive compensation.

Due to our fiscal year end, different provisions of the Tax Act will become applicable at varying dates. Nonetheless, the Company is required to recognize the effects of the rate change and enacted legislation on its deferred tax assets and liabilities in the period of enactment.

The SEC staff issued Staff Accounting Bulletin ("SAB") 118, which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under Accounting Standards Codification (ASC) 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which

the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

In connection with our initial analysis of the impact of the Tax Act, we have recorded a provisional estimated net tax benefit of \$68.9 million in continuing operations for the periods ended December 31, 2017. The net tax benefit is primarily attributable to the impact of the corporate rate reduction on our deferred tax assets and liabilities along with a partial release of the U.S. valuation allowance ("VA"). The VA release is solely attributable to tax reform and the law change that allows for the indefinite carryforward of NOLs arising in tax years ending after December 31, 2017. Prior law limited the carryforward period to 20 years. As a result of the change, the Company is able to release its VA on deferred tax assets that it expects to reverse in future periods. The Company continues to maintain a VA on the historical balance of its finite lived federal NOLs, tax credits and various state tax attributes. We are still analyzing certain aspects of the Tax Act and refining our calculations, which could

potentially affect the measurement of our deferred tax balances and ultimately cause us to revise our provisional estimate in future periods in accordance with SAB 118. In addition, changes in interpretations, assumptions, and guidance regarding the new tax legislation, as well as the potential for technical corrections to the Tax Act, could have a material impact to the Company's effective tax rate in future periods.

The recorded tax provision and effective tax rates for the three and six months ended December 31, 2017 and three and six months ended December 31, 2016 were different than what would normally be expected primarily due to the impact of the Tax Act and the deferred tax VA. Additionally, the majority of the tax provision in periods ended prior to December 31, 2017 related to non-cash tax expense for tax benefits on certain indefinite-lived assets the Company could not recognize for reporting purposes. Due to the Tax Act and the resulting partial release of the Company's VA, the Company recorded \$7.6 million of tax benefit in continuing operations during the three months ended December 31, 2017, exclusive of the \$68.9 million benefit mentioned above. Furthermore, the non-cash tax expense is not expected to be material in future periods.

The Company's U.S. federal income tax returns for the fiscal years 2010 through 2013 have been examined by the Internal Revenue Service (IRS) and were moved to the IRS Appeals Division. The Company believes its income tax positions and deductions will be sustained and will continue to vigorously defend such positions. All earlier tax years are closed to examination. With limited exceptions, the Company is no longer subject to state and international income tax examinations by tax authorities for years before 2012.

#### 6. COMMITMENTS AND CONTINGENCIES:

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

See Note 5 to the unaudited Condensed Consolidated Financial Statements for discussion regarding certain issues that have resulted from the IRS' examination of fiscal 2010 through 2013 federal income tax returns. Final resolution of these issues is not expected to have a material impact on the Company's financial position.

#### 7. GOODWILL AND OTHER INTANGIBLES:

During the first quarter of fiscal year 2018, the Company experienced a triggering event due to the redefining of its operating segments as a result of the sale of the mall-based business and the International segment. See Note 10 to the unaudited Condensed Consolidated Financial Statements. The Company utilized the Step 0 goodwill impairment assessment during the first quarter. As part of this assessment, the Company evaluated qualitative factors to determine whether it was more likely than not that the fair value of the reporting units was less than its carrying value. The Company determined it was "more-likely-than-not" that the carrying values of the reporting units were less than the fair values. The Company now reports its operations in two reportable segments: Company-owned salons and Franchise salons. The Company considered whether any goodwill associated with the MasterCuts salons should be allocated as part of the sale of the mall-based business and considered for impairment. The Company determined no goodwill should be allocated to the mall-based business because the salons sold were projected to produce operating losses in the future and had minimal fair value. All goodwill associated with the North American Premium and International segments was previously impaired. Pursuant to the change in operating segments, the Company compared the fair value of the remaining salons in the Company-owned reporting unit to its carrying value and concluded the fair value exceeded its carrying value by a substantial margin, resulting in no goodwill impairment.



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

	Company-owned	Franchise	Consolidated
	(Dollars in thousands)		
Goodwill, net at June 30, 2017	\$188,888	\$228,099	\$416,987
Translation rate adjustments	573	690	1,263
Derecognition related to sale of salon assets to franchisees (1)	(541)	—	(541)
Goodwill, net at December 31, 2017	\$188,920	\$228,789	\$417,709

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

The table below presents other intangible assets:

	December 31, 2017			June 30, 2017		
	Cost (1)	Accumulated Amortization (1)	Net	Cost (1)	Accumulated Amortization (1)	Net
	(Dollars in thousands)					
Amortized intangible assets:						
Brand assets and trade names	\$8,356	\$(4,229)	\$4,127	\$8,187	\$(4,013)	\$4,174
Franchise agreements	10,026	(7,744)	2,282	9,832	(7,433)	2,399
Lease intangibles	14,036	(9,449)	4,587	14,007	(9,077)	4,930
Other	2,030	(1,610)	420	1,994	(1,532)	462
	\$34,448	\$(23,032)	\$11,416	\$34,020	\$(22,055)	\$11,965

(1) The change in the gross carrying value and accumulated amortization of other intangible assets is impacted by foreign currency.

## 8. FINANCING ARRANGEMENTS:

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

	Maturity Dates	Interest Rate	December 31, 2017	June 30, 2017
	(fiscal year)		(Dollars in thousands)	
Senior Term Notes, net	2020	5.50%	\$121,096	\$120,599
Revolving credit facility	2018	—	—	—
			\$121,096	\$120,599

### Senior Term Notes

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





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

	December 31, 2017	June 30, 2017
	(Dollars in thousands)	
Principal amount on the Senior Term Notes	\$ 123,000	\$ 123,000
Unamortized debt discount	(1,439 )	(1,815 )
Unamortized debt issuance costs	(465 )	(586 )
Senior Term Notes, net	\$ 121,096	\$ 120,599

#### Revolving Credit Facility

The Company has a \$200 million five-year unsecured revolving credit facility that expires in June 2018. The revolving credit facility has interest rates tied to LIBOR credit spread. As of December 31, 2017 and June 30, 2017, the Company had no outstanding borrowings under this credit facility. The Company had outstanding standby letters of credit under the facility of \$1.5 million at December 31, 2017 and June 30, 2017, primarily related to the Company's self-insurance program, therefore, unused available credit under the facility at December 31, 2017 and June 30, 2017 was \$198.5 million.

The Company was in compliance with all covenants and requirements of its financing arrangements as of and during the three months ended December 31, 2017.

#### 9. FAIR VALUE MEASUREMENTS:

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

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

As of December 31, 2017 and June 30, 2017, the estimated fair value of the Company's cash, cash equivalents, restricted cash, receivables and accounts payable approximated their carrying values. As of December 31, 2017, the estimated fair value of the Company's debt was \$125.4 million and the carrying value was \$123.0 million, excluding the \$1.4 million unamortized debt discount and \$0.5 million unamortized debt issuance costs. As of June 30, 2017, the estimated fair value of the Company's debt was \$125.9 million and the carrying value was \$123.0 million, excluding the \$1.8 million unamortized debt discount and \$0.6 million unamortized debt issuance costs. The estimated fair value of the Company's debt is based on Level 2 inputs.

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

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

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

For the Three Months Ended December 31,	For the Six Months Ended December 31,

	2017	2016	2017	2016
	(Dollars in thousands)			
Long-lived assets (1)	\$(14,434)	\$(2,477)	\$(16,714)	\$(4,386)

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

#### 10. SEGMENT INFORMATION:

Segment information is prepared on the same basis the chief operating decision maker reviews financial information for operational decision-making purposes. During the first quarter of fiscal year 2018, the Company redefined its operating segments to reflect how the chief operating decision maker now evaluates the business as a result of the Company's Board of Directors' approval of the mall-based business and International segment sale. See Note 1 to the unaudited Condensed

Consolidated Financial Statements. The Company now reports its operations in two operating segments: Company-owned salons and Franchise salons. The Company's operating segments are its reportable operating segments. Prior to this change, the Company had four operating segments: North American Value, North American Premium, North American Franchise, and International. The Company did not operate under the realigned operating segment structure prior to the first quarter of fiscal year 2018.

The Company's reportable operating segments consisted of the following salons:

	December 31, 2017	June 30, 2017
<b>COMPANY-OWNED SALONS:</b>		
SmartStyle/Cost Cutters in Walmart Stores (1)	2,497	2,652
Supercuts	954	980
Signature Style	1,414	1,468
Mall locations (Regis and MasterCuts)	—	898
Total North American Salons	4,865	5,998
Total International Salons (2)	—	275
Total Company-owned Salons	4,865	6,273
as a percent of total Company-owned and Franchise salons	55.3 %	70.3 %

**FRANCHISE SALONS:**

SmartStyle in Walmart Stores	210	62
Cost Cutters in Walmart Stores	116	114
Supercuts	1,730	1,687
Signature Style	754	770
Total non-mall franchise locations	2,810	2,633
Mall franchise locations (Regis and MasterCuts)	849	—
Total North American Salons	3,659	2,633
Total International Salons (2)	270	13
Total Franchise Salons	3,929	2,646
as a percent of total Company-owned and Franchise salons	44.7 %	29.7 %

**OWNERSHIP INTEREST LOCATIONS:**

Equity ownership interest locations	89	89
Grand Total, System-wide	8,883	9,008

(1) In January 2018, the Company closed 597 non-performing Company owned SmartStyle salons.

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

As of December 31, 2017, the Company-owned operating segment is comprised primarily of SmartStyle®, Supercuts®, Cost Cutters®, and other regional trade names and the Franchise operating segment is comprised primarily of Supercuts, Regis®, MasterCuts®, SmartStyle®, Cost Cutters®, First Choice Haircutters®, Roosters® and Magicuts® concepts. The Corporate segment represents home office and other unallocated costs.



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

For the Three Months Ended December 31,  
2017

Company-~~owned~~ Franchise Corporate Consolidated  
(Dollars in thousands)

Revenues:				
Service	\$223,214	\$ —	\$—	\$ 223,214
Product	56,748	15,068	—	71,816
Royalties and fees	—	13,485	—	13,485
	279,962	28,553	—	308,515
Operating expenses:				
Cost of service	134,850	—	—	134,850
Cost of product	28,044	11,820	—	39,864
Site operating expenses	32,119	—	—	32,119
General and administrative	17,947	6,869	23,776	48,592
Rent	65,159	70	244	65,473
Depreciation and amortization	22,054	91	2,806	24,951
Total operating expenses	300,173	18,850	26,826	345,849
Operating (loss) income	(20,211 )	9,703	(26,826 )	(37,334 )
Other (expense) income:				
Interest expense	—	—	(2,169 )	(2,169 )
Interest income and other, net	—	—	2,362	2,362
(Loss) income from continuing operations before income taxes	\$(20,211 )	\$ 9,703	\$(26,633)	\$(37,141 )

For the Three Months Ended December 31,  
2016

Company-~~owned~~ Franchise Corporate Consolidated  
(Dollars in thousands)

Revenues:				
Service	\$235,609	\$ —	\$—	\$ 235,609
Product	60,636	7,593	—	68,229
Royalties and fees	—	11,411	—	11,411
	296,245	19,004	—	315,249
Operating expenses:				
Cost of service	151,193	—	—	151,193
Cost of product	28,783	5,801	—	34,584
Site operating expenses	32,638	—	—	32,638
General and administrative	11,889	4,968	19,838	36,695
Rent	44,881	41	169	45,091
Depreciation and amortization	10,203	89	2,354	12,646
Total operating expenses	279,587	10,899	22,361	312,847
Operating income (loss)	16,658	8,105	(22,361 )	2,402
Other (expense) income:				
Interest expense	—	—	(2,153 )	(2,153 )
Interest income and other, net	—	—	1,452	1,452
Income (loss) from continuing operations before income taxes	\$16,658	\$ 8,105	\$(23,062)	\$ 1,701



For the Six Months Ended December 31,  
2017Company-~~Franchise~~ Corporate Consolidated  
(Dollars in thousands)

Revenues:				
Service	\$458,773	\$—	\$—	\$ 458,773
Product	109,966	22,790	—	132,756
Royalties and fees	—	26,859	—	26,859
	568,739	49,649	—	618,388
Operating expenses:				
Cost of service	274,686	—	—	274,686
Cost of product	52,491	17,535	—	70,026
Site operating expenses	65,422	—	—	65,422
General and administrative	33,771	12,415	37,572	83,758
Rent	107,282	117	490	107,889
Depreciation and amortization	31,948	183	5,075	37,206
Total operating expenses	565,600	30,250	43,137	638,987
Operating income (loss)	3,139	19,399	(43,137 )	(20,599 )
Other (expense) income:				
Interest expense	—	—	(4,307 )	(4,307 )
Interest income and other, net	—	—	3,389	3,389
Income (loss) from continuing operations before income taxes	\$3,139	\$ 19,399	\$(44,055)	\$(21,517 )

For the Six Months Ended December 31,  
2016Company-~~Franchise~~ Corporate Consolidated  
(Dollars in thousands)

Revenues:				
Service	\$478,700	\$—	\$—	\$ 478,700
Product	116,949	14,996	—	131,945
Royalties and fees	—	23,435	—	23,435
	595,649	38,431	—	634,080
Operating expenses:				
Cost of service	301,990	—	—	301,990
Cost of product	54,130	11,269	—	65,399
Site operating expenses	65,283	—	—	65,283
General and administrative	23,431	10,365	38,815	72,611
Rent	90,893	83	348	91,324
Depreciation and amortization	19,798	179	4,778	24,755
Total operating expenses	555,525	21,896	43,941	621,362
Operating income (loss)	40,124	16,535	(43,941 )	12,718
Other (expense) income:				
Interest expense	—	—	(4,316 )	(4,316 )
Interest income and other, net	—	—	1,779	1,779
Income (loss) from continuing operations before income taxes	\$40,124	\$ 16,535	\$(46,478)	\$ 10,181

## Item 2. 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. This MD&A should be read in conjunction with the MD&A included in our June 30, 2017 Annual Report on Form 10-K and other documents filed or furnished with the Securities and Exchange Commission (SEC) during the current fiscal year.

### MANAGEMENT'S OVERVIEW

Regis Corporation (RGS) owns, franchises and operates beauty salons. As of December 31, 2017, the Company owned, franchised or held ownership interests in 8,883 worldwide locations. Our locations consisted of 8,794 system-wide North American and International salons, and in 89 locations we maintain a non-controlling ownership interest less than 100 percent. Each of the Company's salon concepts generally offer similar salon products and services and serve the mass market. As of December 31, 2017, we had approximately 30,000 corporate employees worldwide.

In October 2017, the Company sold substantially all of its mall-based salon business in North America, representing 858 company-owned salons, and substantially all of its International segment, representing approximately 250 company-owned salons, to The Beautiful Group, who will operate these locations as franchise locations. See Note 1 to the unaudited Condensed Consolidated Financial Statements as the results of operations for the mall-based business and International segment are accounted for as discontinued operations for all periods presented. Discontinued operations are discussed at the end of this section.

In December 2017 the Company committed to close 597 non-performing Company owned SmartStyle salons in January 2018. The 597 non-performing salons generated negative cash flow of approximately \$15 million during the twelve months ended September 30, 2017. The action delivers on the Company's commitment to restructure its salon portfolio to improve shareholder value and position the Company for long-term growth. The Company anticipates this action will allow the Company to reallocate capital and human resources to strategically grow its remaining SmartStyle salons with creative new offerings. A summary of costs associated with the SmartStyle salon restructuring for the three and six months ended December 31, 2017 is as follows:

	Dollars in thousands
Inventory reserves	\$ 585
Long-lived fixed asset impairment	5,418
Asset retirement obligation	7,462
Lease termination and other related closure costs	27,290
Deferred rent	(3,291 )
Total	\$ 37,464

See Note 1 to the unaudited Condensed Consolidated Financial statements for additional information.

### CRITICAL ACCOUNTING POLICIES

The interim unaudited Condensed Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the interim unaudited Condensed 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 interim unaudited Condensed Consolidated Financial



Statements. We base these estimates on historical experience and other assumptions believed to be reasonable under the circumstances. Estimates are considered to be critical if they meet both of the following criteria: (1) the estimate requires assumptions about material matters that are uncertain at the time the accounting estimates are made, and (2) other materially different estimates could have been reasonably made or material changes in the estimates are reasonably likely to occur from period to period. Changes in these estimates could have a material effect on our interim unaudited Condensed 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 the June 30, 2017 Annual Report on Form 10-K, as well as Note 1 to the unaudited Condensed Consolidated Financial Statements contained within this Quarterly Report on Form 10-Q. We believe the accounting policies related to investment in affiliates, the valuation of goodwill, the valuation and estimated useful lives of long-lived assets, estimates used in relation to tax liabilities and deferred taxes and legal contingencies are most critical to aid in fully understanding and evaluating our reported financial condition and results of operations. Discussion of each of these policies is contained under “Critical Accounting Policies” in Part II, Item 7 of our June 30, 2017 Annual Report on Form 10-K.

#### Recent Accounting Pronouncements

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

#### RESULTS OF OPERATIONS

Beginning in the first quarter of fiscal year 2018, the Company redefined its operating segments to reflect how the chief operating decision maker evaluates the business as a result of the sale of the mall-based business (primarily comprised of MasterCuts and Regis branded salons) and International segment. The Company now reports its operations in two operating segments: Company-owned salons and Franchise salons. The Company's operating segments are its reportable operating segments. Prior to this change, the Company had four operating segments: North American Value, North American Premium, North American Franchise, and International.

Beginning with the period ended September 30, 2017, the mall-based business and International segment were accounted for as discontinued operations for all periods presented. Discontinued operations are discussed at the end of this section. See Note 1 to the unaudited Condensed Consolidated Financial Statements for further discussion on this transaction.

Beginning in the first quarter of fiscal year 2018, costs associated with field leaders that were previously recorded within Cost of Service and Site Operating expense are now categorized within General and Administrative expense as a result of the field reorganization that took place in the first quarter of fiscal year 2018. The estimated impact of the field reorganization (decreased) increased Cost of Service, Site Operating expense and General and Administrative expense by (\$7.2), (\$1.7) and \$8.9 million, respectively, for the three months ended December 31, 2017 and (\$12.3), (\$2.8) and \$15.1 million, respectively, for the six months ended December 31, 2017. This expense classification does not have a financial impact on the Company's reported operating (loss) income, reported net income (loss) or cash flows from operations.

In the past field leaders were responsible for a geographical area that included a variety of brands, with different business models, services, pay plans and guest expectations. They also served as salon managers with a home salon that they spent a large portion of their time serving guests rather than field leadership. Post-reorganization, each field leader is dedicated to a specific brand/concept, as well as geography, and are focused solely on field leadership.

The results of operations for the three and six months ended December 31, 2017 were impacted by Hurricanes Harvey, Irma and Maria. A total of 3,697 salon days were lost as 768 salons were closed at least one day during the year. The Company estimates revenues and expenses in the three and six months ended December 31, 2017 were (reduced) increased by (\$0.2) and \$0.1 million, respectively, and (\$2.6) and \$0.8 million, respectively.



## Condensed Consolidated Results of Operations (Unaudited)

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

	For the Periods Ended December 31,											
	Three Months				Six Months							
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	(\$ in millions)		% of Total Revenues (1)		Basis Point (Decrease) Increase		(\$ in millions)		% of Total Revenues (1)		Basis Point (Decrease) Increase	
Service revenues	\$223.2	\$235.6	72.3 %	74.7 %	(240 )	(160)	\$458.8	\$478.7	74.2 %	75.5 %	(130)	30
Product revenues	71.8	68.2	23.3	21.7	160	170	132.8	131.9	21.5	20.8	70	(30 )
Franchise royalties and fees	13.5	11.4	4.4	3.6	80	(10 )	26.9	23.4	4.3	3.7	60	—
Cost of service (2)	134.9	151.2	60.4	64.2	(380 )	110	274.7	302.0	59.9	63.1	(320)	60
Cost of product (2)	39.9	34.6	55.5	50.7	480	40	70.0	65.4	52.7	49.6	310	40
Site operating expenses	32.1	32.6	10.4	10.4	—	(50 )	65.4	65.3	10.6	10.3	30	(60 )
General and administrative	48.6	36.7	15.8	11.6	420	(150)	83.8	72.6	13.5	11.5	200	(110)
Rent	65.5	45.1	21.2	14.3	690	10	107.9	91.3	17.4	14.4	300	10
Depreciation and amortization	25.0	12.6	8.1	4.0	410	(10 )	37.2	24.8	6.0	3.9	210	(30 )
Operating (loss) income	(37.3 )	2.4	(12.1)	0.8	(1,290)	100	(20.6 )	12.7	(3.3 )	2.0	(530)	150
Interest expense	2.2	2.2	0.7	0.7	—	—	4.3	4.3	0.7	0.7	—	—
Interest income and other, net	2.4	1.5	0.8	0.5	30	20	3.4	1.8	0.5	0.3	20	—
Income tax benefit (expense) (3)	76.5	(0.7 )	205.9	42.3	N/A	N/A	71.6	(3.5 )	332.9	34.0	N/A	N/A
Loss from discontinued operations, net of taxes	(6.6 )	(3.2 )	(2.1 )	(1.0)	(110 )	(160)	(40.4 )	(5.7 )	(6.5 )	(0.9)	(560)	(60 )

(1) Cost of service is computed as a percent of service revenues. Cost of product is computed as a percent of product revenues.

(2) Excludes depreciation and amortization expense.

(3) Computed as a percent of (loss) income from continuing operations before income taxes. The income taxes basis point change is noted as not applicable (N/A) as the discussion within MD&A is related to the effective

income tax rate.

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## Consolidated Revenues

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

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2017	2016	2017	2016
	(Dollars in thousands)			
Company-owned salons:				
SmartStyle	\$ 122,497	\$ 130,992	\$ 248,699	\$ 259,942
Supercuts	71,034	72,273	142,466	145,914
Signature Style	86,431	92,980	177,574	189,793
Total Company-owned salons	279,962	296,245	568,739	595,649
Franchise salons:				
Product	15,068	7,593	22,790	14,996
Royalties and fees	13,485	11,411	26,859	23,435
Total Franchise salons	28,553	19,004	49,649	