

REGIS CORP
Form DEF 14A
September 30, 2002

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SCHEDULE 14A

**Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)**

Filed by the registrant

Filed by a party other than the registrant

Check the appropriate box:

Preliminary proxy statement

Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2)).

Definitive proxy statement.

Definitive additional materials.

Soliciting material pursuant to §240.14a-12.

REGIS CORPORATION

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)

Payment of filing fee (check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held November 4, 2002

TO THE SHAREHOLDERS OF REGIS CORPORATION:

The Annual Meeting of the Shareholders of Regis Corporation (the Company) will be held at the Minneapolis Institute of Arts, 2400 Third Avenue South, Minneapolis, Minnesota, on November 4, 2002, commencing at 4:00 p.m., for the following purposes:

1. To elect seven directors to serve for a one-year term and until their successors are elected and qualified; and
2. To transact such other business, if any, as may properly come before the Annual Meeting or any adjournment or postponement thereof.

Only holders of record of the Company's Common Stock at the close of business on September 27, 2002 are entitled to notice of and to vote at the Annual Meeting or any adjournment or postponement thereof.

A list of shareholders entitled to vote at the Annual Meeting will be available for examination, for any purpose germane to the Annual Meeting, at the Company's executive offices located at 7201 Metro Boulevard, Edina, Minnesota, during ordinary business hours for at least ten days prior to the Annual Meeting and for the duration of the Annual Meeting itself.

Whether or not you plan to attend the Annual Meeting in person, please fill in, sign and date the enclosed proxy and mail it promptly. Should you nevertheless attend the Annual Meeting, you may revoke your proxy and vote in person. A return envelope, which requires no postage if mailed in the United States, is enclosed for your convenience.

Remember, if your shares are held in the name of a broker, only your broker can vote your shares and only after receiving your instructions. Please contact the person responsible for your account and instruct him/her to execute a proxy card on your behalf.

By Order of the Board of Directors

Bert M. Gross
Secretary

WHETHER OR NOT YOU EXPECT TO ATTEND THE ANNUAL MEETING, PLEASE SIGN THE PROXY AND RETURN IT IN THE ENCLOSED ENVELOPE. NO POSTAGE IS REQUIRED IF MAILED WITHIN THE UNITED STATES.

September 27, 2002

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PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS, NOVEMBER 4, 2002

This Proxy Statement is furnished to shareholders of REGIS CORPORATION, a Minnesota corporation (the Company), in connection with solicitation on behalf of the Company's Board of Directors of proxies for use at the annual meeting of shareholders to be held on November 4, 2002, and at any adjournment thereof, for the purposes set forth in the accompanying Notice of Annual Meeting of Shareholders.

The address of the principal executive office of the Company is 7201 Metro Boulevard, Edina, Minnesota 55439. This Proxy Statement and form of Proxy are being mailed to shareholders of the Company on September 27, 2002.

SOLICITATION AND REVOCATION OF PROXIES

The costs and expenses of solicitation of proxies will be paid by the Company. In addition to the use of the mails, proxies may be solicited by directors, officers and regular employees of the Company personally or by telegraph, telephone or letter without extra compensation.

Proxies in the form enclosed are solicited on behalf of the Board of Directors. Any shareholder giving a proxy in such form may revoke it at any time before it is exercised. Such proxies, if received in time for voting and not revoked, will be voted at the annual meeting in accordance with the specification indicated thereon.

VOTING RIGHTS

Only shareholders of record as of the close of business on September 27, 2002, will be entitled to execute proxies or to vote. Each share of Common Stock is entitled to one vote. A majority of the outstanding shares must be represented at the meeting, in person or by proxy, to transact business.

ELECTION OF DIRECTORS

Seven directors are to be elected at this annual meeting, each to hold office for one year until the 2003 annual meeting of shareholders. The Board of Directors has nominated the seven persons named below for election as directors. All of the nominees are presently directors of the Company.

The enclosed proxy, unless authority to vote is withheld, will be voted for the election of the nominees named herein as directors of the Company. In the event any one or more of such nominees shall unexpectedly become unavailable for reelection, votes will be cast, pursuant to authority granted by the enclosed proxy, for

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such person or persons as may be designated by the Board of Directors. The following table contains certain information with respect to the nominees:

| Name and Age | Position |
|--|------------------------------------|
| Rolf F. Bjelland (64) | Director |
| Paul D. Finkelstein (60) President, Chief Executive Officer, and Director | |
| Thomas L. Gregory (66) | Director |
| Van Zandt Hawn (57) Director | |
| Susan S. Hoyt (58) | Director |
| David B. Kunin (43) Vice President, The Regis Foundation, and Director | |
| Myron Kunin (73) | Chairman of the Board of Directors |
| | |

Mr. Bjelland was elected a director of the Company in 1983. Since 1983, Mr. Bjelland has held various executive positions with Lutheran Brotherhood, a fraternal insurance society, and presently is Chairman of Lutheran Brotherhood Mutual Funds.

Mr. Finkelstein has served as President and Chief Executive Officer of the Company since July 1, 1996, and was Chief Operating Officer of the Company from December, 1987 until June 30, 1996. He has been a director of the Company since 1987. He is also a director of Eagle Supply Group, Inc., a distributor of roofing supplies and related products.

Mr. Gregory was elected a director of the Company in November, 1996. Mr. Gregory had been a director of Supercuts, Inc. from 1991 until Supercuts was acquired by a subsidiary of the Company on October 25, 1996. He was Chairman of the Board of Supercuts from January 4, 1996 until October 25, 1996, and served as interim Chief Executive Officer of Supercuts from January 4, 1996 until January 31, 1996. From 1980 through 1994, Mr. Gregory held various executive positions with Sizzler International, Inc. and its predecessors, including President, Chief Executive Officer, Director and Vice Chairman. He is currently a director of The Cheesecake Factory, Inc., the owner and operator of upscale, full-service, casual dining restaurants throughout the United States, and North's Restaurants, Inc., the owner and operator of buffet restaurants in California, Oregon and Utah.

Mr. Hawn was elected a director of the Company in 1991. He is a managing director and a founder of Goldner Hawn Johnson & Morrison Incorporated, a private investment firm.

Ms. Hoyt was elected a director of the Company in 1995. Since 1996, she has been Executive Vice President of Human Resources of Staples, Inc. From 1991 to 1996, she was Executive Vice President of Store Operations for the Dayton Hudson Department Stores Division of Dayton Hudson Corporation.

Mr. David Kunin was elected a director of the Company in 1997. He is Chief Executive Officer of Beautopia, LLC, a manufacturer of hair care products. He was Vice President, Marketing, of the Company from November, 1992, until February, 1997, when he became Chief Executive Officer of Beautopia LLC, and Vice President of The Regis Foundation. He is the son of Myron Kunin.

Mr. Myron Kunin is a founder of the Company and has served as a director since the Company's incorporation in

1954. He was President and Chief Executive Officer from 1965 to June 30, 1996, and has been Chairman of the Board of Directors since 1983. He is Chairman of the Board and holder of the majority voting shares of Curtis Squire, Inc., the Company's second-largest shareholder. He is also a director of Nortech Systems Incorporated, a manufacturer of wire harnesses and cable and electromechanical assemblies for commercial and defense industries.

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FUNCTIONING OF BOARD AND COMMITTEES

During the fiscal year ended June 30, 2002, the Board of Directors held four meetings. Each director attended or participated in all of the total number of meetings of the Board and committees of the Board on which he or she served during the last fiscal year.

The Company has a standing audit committee, presently composed of Messrs. Bjelland, Hawn and Gregory and Ms. Hoyt. The committee held two meetings during the fiscal year ended June 30, 2002. The committee's primary responsibilities are to recommend to the Board of Directors the engagement of the Company's independent auditors, review with the independent auditors the plan and results of the audit engagement, and review the adequacy of the Company's internal accounting controls.

The Company has a standing compensation committee composed of Messrs. Bjelland and Hawn and Ms. Hoyt. The committee's primary responsibilities are to recommend levels of executive compensation to the Board of Directors and to consider and recommend the establishment of various compensation plans for the Company. The compensation committee held two meetings during the last fiscal year.

The Company does not have a standing nominating committee of the Board of Directors.

COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The Compensation Committee of the Board of Directors consists of Mr. Hawn, Mr. Bjelland and Ms. Hoyt, independent outside directors. The Compensation Committee has responsibility for administering the Company's incentive plans and setting policies that govern annual compensation and long-term incentives for the principal executive officers of the Company.

The Company's executive compensation program consists of three key components: (1) base salary, (2) short-term incentive compensation in the form of bonuses, and (3) long-term incentive through stock options.

Base Salary: Shortly before the beginning of each fiscal year, the Compensation Committee reviews annual salary recommendations for the Company's principal executives made by the Chief Executive Officer and approves, with any modifications it deems appropriate, such recommendations. The annual salary recommendations are made by the Chief Executive Officer, and approved or modified by the Compensation Committee, based upon industry practice and national surveys of compensation packages, as well as evaluations of the individual executive's responsibilities and past and expected future performance.

Short-Term Incentives: This component is designed to align executive compensation with annual performance of the Company. To accomplish this goal, the Board of Directors has adopted a structured bonus program. Each year the Board will establish an initial earnings per share target. The program provides for a full bonus if 100% of the targeted earnings per share for the year is achieved, a bonus of 25% of the full bonus amount if earnings per share reach 80% of budgeted earnings, a 50% bonus if 90% of targeted earnings is reached, with earnings performance between 80%, 90% and 100% giving rise to bonuses calculated by interpolation between those fixed points. Below 80% no bonuses would be earned. Bonuses will be limited to 40% of base salary for senior executive officers and 30% to 35% for other corporate officers.

Long-Term Incentive Stock Options: Stock options provide incentive for the creation of shareholder value and align the executive officers' interests directly with those of other shareholders in both the risks and rewards of ownership of the Company's common stock, and are a significant aid in attracting and retaining key executive officers. Executive officers are eligible for annual grants of stock options. Individual awards are

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based on the individual's responsibilities and performance, ability to impact financial performance and future potential. These factors are not assigned pre-determined relative weights. All individual stock option grants for non-executive officers are reviewed and approved by the Committee. All such grants for executive officers are awarded solely by the Committee, based on recommendations of management. As all options are granted at 100% of the market value of the Company's stock on the date of grant, executive officers receive gains from exercised stock options only to the extent that the market value of the stock has increased since the date of option grant. No stock options were granted to the executive officers in fiscal 2002.

The Compensation Committee fixes the salary of the Chief Executive Officer in the context of his employment agreement, summarized later in this proxy statement, based on a review of competitive compensation data, and the Committee's assessment of his past performance and its expectation as to his future performance in leading the Company. The base salary for Mr. Finkelstein for fiscal 2002 was \$562,500. Mr. Finkelstein participates with other senior executive officers in the Company's structured bonus program described above. For fiscal 2002, Mr. Finkelstein earned a \$225,000 bonus under this program.

The Compensation Committee does not anticipate that the compensation payable to any of the executive officers of the Company in the coming year will exceed the limits and deductibilities set forth in §162(m) of the Internal Revenue Code of 1986, as amended. The Compensation Committee has not established a policy regarding compensation in excess of these limits, but will continue to monitor this issue.

Van Zandt Hawn, Chair
Rolf F. Bjelland
Susan Hoyt
Members of the Compensation Committee

Table of Contents**SUMMARY COMPENSATION TABLE**

| Name and Principal Position | Fiscal Year | Annual Compensation | | Long-Term Compensation Awards | All Other Compensation |
|---|-------------|---------------------|---------------|-------------------------------|------------------------|
| | | Salary (\$) | Bonus (\$)(1) | Options (#) | (\$)(2)(3)(4) |
| Paul D. Finkelstein | 2002 | 562,500 | 225,000 | | 110,418(2)(3)(4) |
| <i>President and Chief Executive Officer</i> | 2001 | 540,800 | 117,570 | 300,000 | 96,030 |
| | 2000 | 520,000 | 208,000 | 345,000 | 80,221 |
| Myron Kunin | 2002 | 680,094 | 48,491(2) | | |
| <i>Chairman of the Board</i> | 2001 | 659,006 | 32,222 | 2000 636,721 | 30,000 29,289 |
| Christopher A. Fox | 2002 | 292,800 | 117,120 | 78,817(2)(3)(4) | |
| <i>Executive Vice President, Real Estate</i> | 2001 | 281,500 | 61,198 | 125,000 | 66,527 |
| | 2000 | 270,500 | 108,200 | 59,000 | 37,443 |
| Gordon B. Nelson | 2002 | 270,500 | 108,200 | 70,803(2)(3)(4) | |
| <i>Senior Vice President, Education and Fashion</i> | 2001 | 260,000 | 56,524 | 100,000 | 53,013 |
| | 2000 | 250,000 | 100,000 | 59,000 | 25,500 |
| Randy L. Pearce | 2002 | 260,000 | 104,000 | 69,204(2)(3)(4) | |
| <i>Executive Vice President, Chief Financial and Administrative Officer</i> | 2001 | 250,000 | 54,350 | 125,000 | 61,363 |
| | 2000 | 212,500 | 85,000 | 75,000 | 34,775 |
| Mark Kartarik | 2002 | 260,000 | 104,000 | 68,904(2)(3)(4) | |
| <i>Senior Vice President, President Franchise Division</i> | 2001 | 250,000 | 54,350 | 100,000 | 50,412 |
| | 2000 | 225,000 | 90,000 | 59,000 | 21,850 |

(1) Portions of the bonuses reflected in the Summary Compensation Table were not actually received as receipt of such amounts was deferred pursuant to the Company's Compensation Deferral Plan. Participants may elect to defer a portion of their compensation to be paid out at a future date specified by the participants. Amounts deferred are subject to the same bankruptcy rules as are the Company's general debt obligations.

(2) Includes \$40,106 for Mr. Finkelstein; \$48,491 for Mr. Kunin; \$20,877 for Mr. Fox; \$19,287 for Mr. Nelson; \$18,538 for Mr. Pearce and Mr. Kartarik; which is the dollar value of shares of the Company and cash allocated to such officers pursuant to the Company's Executive Stock Award Plan.

- (3) Includes \$42,712 for Mr. Finkelstein; \$27,240 for Mr. Fox; \$23,666 for Mr. Nelson; \$23,666 for Mr. Pearce; and \$23,735 for Mr. Kartarik; which is the dollar value of the benefit to the named executive officers of that portion of the premiums paid by the Company on their behalf on split-dollar life insurance policies.
- (4) Includes matching contributions by the Company under the Company's Compensation Deferral Plan of \$25,000 for each of Messrs. Finkelstein, Fox, Nelson, Pearce and Kartarik.

STOCK OPTION GRANTS

Option Grants in Last Fiscal Year

There were no stock options or stock appreciation rights granted to the named executives in fiscal 2002.

Table of Contents**STOCK OPTION EXERCISES AND OPTION VALUES****Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values**

The following table sets forth for each of the named executive officers the value realized from stock options exercised during fiscal 2002 and the number and value of exercisable and unexercisable stock options held at June 30, 2002.

| Name | Shares Acquired on Exercise | Value Realized \$ | Number of Securities Underlying Unexercised Options at Fiscal Year- End(#) | Value of Unexercised In-the-Money Options at Fiscal Year- End\$(1) |
|---------------------|--------------------------------------|-------------------------|--|---|
| | | | Exercisable/ Unexercisable | Exercisable/ Unexercisable |
| Myron Kunin | 55,000 | 1,057,850 | 170,000/30,000 | 3,610,800/315,600 |
| Paul D. Finkelstein | 0 | 0 | 233,998/681,002 | 4,433,057/7,983,794 |
| Christopher A. Fox | 0 | 0 | 82,050/195,701 | 1,509,526/2,363,825 |
| Randy L. Pearce | 0 | 0 | 18,450/201,800 | 224,454/2,198,061 |
| Gordon B. Nelson | 15,435 | 197,503 | 10,365/157,201 | 91,886/1,769,180 |
| Mark Kartarik | 8,000 | 148,426 | 35,350/157,201 | 480,946/1,769,180 |

- (1) Value of unexercised in-the-money-options is determined by multiplying the difference between the exercise price per share and \$27.02, the closing price per share on June 30, 2002, by the number of shares subject to such options.

DIRECTOR COMPENSATION

Messrs. Bjelland, Gregory, Hawn, David Kunin and Ms. Hoyt, who are not employees of the Company, received director fees of \$25,000 during the last fiscal year.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the officers and directors of the Company, and persons who own more than 10% of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the Commission. Such officers, directors and shareholders are required by the Commission's regulations to furnish the Company with copies of all such reports.

To the knowledge of the Company, based solely on a review of copies of reports filed with the Commission during the fiscal year ended June 30, 2002, all applicable Section 16(a) filing requirements were complied with.

COMPARATIVE STOCK PERFORMANCE

The graph below 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. The comparison assumes

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the initial investment of \$100 in the Company's common stock, the S&P 500 Index, and the Peer Group on June 30, 1997 and that dividends, if any, were reinvested.

[Performance Graph]

| | <u>REGIS</u> | <u>S&P 500</u> | <u>PEER GROUP</u> | | | | | |
|----------------------|--------------|--------------------|-------------------|----------|----------|----------|------|------|
| | | | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
| 1997 | 100.00 | 100.00 | | | | | | |
| 1998 | 125.56 | 130.16 | | | | | | |
| 1999 | 122.77 | 159.78 | | | | | | |
| 2000 | 80.58 | 171.37 | | | | | | |
| 2001 | 136.30 | 145.95 | | | | | | |
| 2002 | 176.32 | 119.71 | | | | | | |
| REGIS | | | | | | | | |
| | \$100.00 | \$125.56 | \$122.77 | \$80.58 | \$136.30 | \$176.32 | | |
| S & P 500 | | | | | | | | |
| | \$100.00 | \$130.16 | \$159.78 | \$171.37 | \$145.95 | \$119.71 | | |
| PEER GROUP | | | | | | | | |
| | \$100.00 | \$190.58 | \$288.26 | \$200.99 | \$181.18 | \$147.37 | | |

The Peer Group includes the following companies in the retail specialty business based upon total weighted market capitalization: American Greetings Corp., Ann Taylor Stores Corporation, Bombay Company, Inc., Christopher & Banks Inc., Deb Shops, Inc., E Com Ventures, The Gap, Inc., The Limited, Inc., Nordstrom, Inc., and Williams-Sonoma, Inc. The members of the Peer Group were selected by the Company because they operate in a similar retail environment and are primarily located in shopping malls with operations which extend over a wide geographic area.

EMPLOYMENT ARRANGEMENTS

The Company's unfunded deferred compensation agreements with its senior executive officers provide that upon such executive's retirement after 20 years' service with the Company or after reaching age 65, or upon such executive's death while disabled or employed by the Company, such executive officer or his or her designated beneficiary will receive 240 monthly payments equal to the greater of (i) 40% (60% in the case of Mr. Finkelstein) of such executive's average monthly base salary for the 60 months immediately preceding the executive's retirement, disability or death, or (ii) \$5,000. The agreements also provide for payment of a graduated percentage of such compensation if an executive terminates his or her employment with the

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Company prior to completing 20 years service or reaching age 65, with payments to commence when such executive attains age 55. Further, if such executive becomes disabled while employed by the Company, the Company will pay such executive the specified monthly benefit during the period of such disability or until attaining age 65. Payments are conditioned upon the officers not rendering services for any competitor of the Company during the period of the payments. The Company carries insurance on the lives of each of the persons covered by deferred compensation agreements, is entitled to the cash values and the death proceeds from these policies, and may, but is not required to, use cash values or death proceeds from these policies to pay deferred compensation.

The deferred compensation agreements provide that the executive officers shall be entitled to immediate payment of their aggregate monthly benefits in one lump sum, without any reduction based on years of service, early retirement or present value, if their employment terminates following a Change in Control, which is defined for purposes of the agreements as occurring when a party other than Curtis Squire, Inc. becomes the beneficial owner of 20% or more of the Company's stock, or in the event of a consolidation or merger of the Company in which the Company is not the continuing corporation, or in which the shareholders of the Company do not continue to hold at least a majority of the common stock of the continuing or surviving corporation, or any sale or other transfer of substantially all of the assets of the Company, or in the event of certain changes to the composition of the Company's Board of Directors. These agreements also provide that the executive officers shall be paid an amount equal to three times their annual compensation, plus all income and excise taxes payable with respect to such payment, immediately upon a change of control. Further, all unvested stock options immediately vest upon a change of control.

The Company has entered into an employment agreement with Mr. Finkelstein, its Chief Executive Officer, effective for fiscal year 1999 and subsequent years, providing (a) for a base salary of \$500,000 per year, increasing annually by the greater of 4% or the percentage increase in the Consumer Price Index, (b) that he will participate in the Company's bonus and stock option programs with other senior executives, and (c) that the Company and Mr. Finkelstein will participate in a split-dollar insurance program whereby a trust established by Mr. Finkelstein has acquired a \$5 million combined whole-life/term policy insuring the joint lives of Mr. Finkelstein and his wife. Under this insurance program, the Company will pay a portion of the annual premiums approximately equal to the annual increases in the cash value of the policy and Mr. Finkelstein will transfer funds to the trust for the balance of the premiums. Upon the death of Mr. Finkelstein and his wife or upon surrender of the policy, the Company will receive the amount of the premiums paid by the Company and the trust will receive the remaining proceeds.

Mr. Finkelstein's agreement also provides for deferred compensation benefits. Upon his retirement after reaching age 65 he will receive lifetime monthly payments equal to 60% of his average base salary for the 60 months immediately preceding his retirement, such payments to be adjusted annually in proportion to any increases in the Consumer Price Index. Upon his death, his wife, if she survives him, will receive during her life one-half of the benefits to which Mr. Finkelstein was entitled during his life. If Mr. Finkelstein voluntarily terminates his employment before reaching age 65, his deferred compensation benefits will be determined on the same basis as those afforded the other executive officers. The Company has funded its future obligations under this agreement through insurance policies on Mr. Finkelstein's life.

The Company has entered into an agreement with Myron Kunin, its Chairman, providing that Mr. Kunin will continue to render services to the Company until at least May, 2007, and for such further period as may be mutually agreed upon between Mr. Kunin and the Company. The Company has agreed to pay Mr. Kunin an annual amount of \$600,000, to be increased annually in proportion to any increase in the Consumer Price Index from July 1, 1996, for the remainder of his life. Mr. Kunin has agreed that during the period for which

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payments to him are made as provided in the Agreement, he will not engage in any business competitive with the business conducted by the Company.

The Company has also entered into a survivor benefit agreement with Mr. Kunin, providing that upon his death the Company shall pay to his wife, if she survives him, \$300,000 annually for the remainder of her life, subject to annual adjustment based on any increases in the Consumer Price Index from July 1, 1995. The Company intends to fund its future obligations under this agreement through insurance policies on Mr. Kunin's life.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During fiscal 2001, Randy L. Pearce received a loan from the Company in the amount of \$289,232, the proceeds of which were used by Mr. Pearce to exercise Company stock options. The principal balance, including interest at the rate of 8% per year, was payable on November 30, 2001. The loan was repaid in full, with interest, on November 30, 2001.

Curtis Squire, Inc. (CSI), a majority of whose voting stock is owned by Myron Kunin, rents certain artworks to the Company in return for which the Company compensates certain Company employees who devote time to CSI business and furnishes office space and equipment for use by CSI. The parties have agreed that the reasonable value of this arrangement to each party is \$200,000 per year.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth as of September 1, 2002, the ownership of Common Stock of the Company by each shareholder who is known by the Company to own beneficially more than 5% of the outstanding shares of the Company, by each director, by each executive officer identified in the Summary Compensation Table, and by all executive officers and directors as a group. The parties listed in the table have the sole voting and investment powers with respect to the shares indicated.

| Name of Beneficial Owner or Identity of Group | Number of Shares Beneficially Owned(2) | Percent of Class |
|--|---|---------------------|
| Fidelity Management & Research One Federal Street Boston, MA 02110 | 3,073,390 | 7.1% |
| Myron Kunin (1) 2,014,865 4.6% | | |
| Paul D. Finkelstein 544,188 1.3% | | |
| Christopher A. Fox 133,767 * | | |
| Rolf F. Bjelland 44,999 * | | |
| Van Zandt Hawn 34,875 * | | |
| Susan S. Hoyt 26,750 * | | |
| Thomas L. Gregory 24,213 * | | |
| Mark H. Kartarik 56,754 * | | |

David B. Kunin
11,262 *
Gordon B. Nelson
31,807 *

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| Name of Beneficial Owner or Identity of Group | Number of Shares Beneficially Owned(2) | Percent of Class |
|---|---|---------------------|
| Randy L. Pearce All executive officers and directors as a group (twenty-one persons)(3) 3,080,793 7.1% | 30,989 | * |

* less than 1%

- (1) Includes 1,844,865 shares owned by Curtis Squire, Inc. Myron Kunin owns a majority of the voting stock of Curtis Squire, Inc. and thereby has sole voting and investment powers over all Company shares owned by Curtis Squire, Inc.
- (2) Includes the following shares not currently outstanding but deemed beneficially owned because of the right to acquire them pursuant to options exercisable within 60 days: 170,000 shares by Mr. Myron Kunin; 242,998 by Mr. Finkelstein; 83,850 shares by Mr. Fox; 26,436 shares by Mr. Bjelland; 20,250 shares by Mr. Hawn; 24,750 shares by Ms. Hoyt; 22,613 shares by Mr. Gregory; 37,150 shares by Mr. Kartarik; 1,687 shares by Mr. David Kunin; 12,165 shares by Mr. Nelson; 18,450 shares by Mr. Pearce; and 872,792 shares by all directors and executive officers as a group.
- (3) Includes shares held by Curtis Squire, Inc.

INDEPENDENT ACCOUNTANTS

Upon the recommendation of the Audit Committee, the Board of Directors has selected the firm of PricewaterhouseCoopers LLP as the Company's independent accountants for the year ended June 30, 2002 and for the current year ending June 30, 2003.

Representatives of PricewaterhouseCoopers LLP are expected to be present at the Annual Meeting, will have an opportunity to make a statement if they desire to do so, and are expected to respond to appropriate questions.

Audit Fees

Aggregate fees for professional services rendered by PricewaterhouseCoopers LLP in connection with its audit of the Company's consolidated financial statements as of and for the year ended June 30, 2002 and its limited reviews of the Company's unaudited condensed consolidated interim financial statements were \$670,000, of which \$405,000 was billed through June 30, 2002.

Financial Information Systems Design and Implementation Fees

During the year ended June 30, 2002, PricewaterhouseCoopers LLP rendered no professional services to the Company in connection with the design and implementation of financial information systems.

All Other Fees

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In addition to the fees described above, aggregate fees of \$3,369,000 were billed by PricewaterhouseCoopers LLP during the year ended June 30, 2002, primarily for the following professional services:

| | |
|--|--|
| Audit-related services (a) | |
| \$609,000 | |
| Income tax compliance and related services | |
| \$794,000 | |
| Other (b) | |
| \$1,966,000 | |

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- (a) Audit-related fees consist principally of fees associated with consultation on various accounting and reporting matters, subsidiary audits or review services necessitated by franchising requirements and audits of employee benefit plans.
- (b) Other fees consist principally of fees associated with non-financial statement services such as acquisition due diligence procedures and risk management advisory services.

AUDIT COMMITTEE REPORT

The Audit Committee reports to and acts on behalf of the Board of Directors by providing oversight of the financial management, independent auditors and financial reporting procedures of the Company. Each member of the Audit Committee is independent within the meaning of applicable National Association of Securities Dealers listing standards. The Audit Committee has adopted a written charter describing its functions, which has been approved by the Board of Directors.

The Company's management is responsible for preparing the Company's financial statements and the overall reporting process, including the Company's system of internal controls. The Company's independent auditors, PricewaterhouseCoopers LLP, are responsible for auditing the financial statements and expressing an opinion on the conformity of the audited financial statements with generally accepted accounting principles.

In this context, the Committee has met and held discussions with management and the independent auditors. Management represented to the Committee that the Company's consolidated financial statements were prepared in accordance with generally accepted accounting principles, and the Committee has reviewed and discussed the consolidated financial statements with management and the independent auditors. The Committee discussed with the independent auditors matters required to be discussed by Statement on Auditing Standards No. 61 (Communication With Audit Committees), as modified or supplemented.

In addition, the Committee has discussed with the independent auditors the auditors' independence from the Company and its management, including the matters in the written disclosures required by the Independence Standards Board Standard No. 1 (Independence Discussions With Audit Committees) as modified or supplemented. The Committee has also considered whether the independent auditors' provision of non-audit services to the Company is compatible with the auditors' independence.

The Committee discussed with the Company's independent auditors the overall scope and plans for their audit. The Committee meets with the independent auditors, with and without management present, to discuss the results of their examinations, the evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended June 30, 2002, for filing with the Securities and Exchange Commission. The Committee

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also has recommended to the Board the selection of PricewaterhouseCoopers LLP as the Company's independent auditors.

Rolf F. Bjelland, Chair
Van Zandt Hawn
Susan Hoyt
Thomas Gregory

Members of the Audit Committee
PROPOSALS OF SHAREHOLDERS

Shareholders who intend to present proposals at the 2003 Annual Meeting, and who wish to have such proposals included in the Company's Proxy Statement for the 2003 Annual Meeting, must be certain that such proposals are received by the Secretary of the Company, 7201 Metro Boulevard, Minneapolis, Minnesota 55439, not later than June 1, 2003. Such proposals must meet the requirements set forth in the rules and regulations of the Securities and Exchange Commission in order to be eligible for inclusion in the Proxy Statement for the Company's 2003 Annual Meeting.

The proxies solicited on behalf of the Board of Directors confer discretionary authority upon the holders of such proxies to vote on any matter presented at the annual meeting if notice of such matter has not been received by the Company by August 8, 2002. No such notice has been received.

ANNUAL REPORT

The Company's Annual Report for the fiscal year ended June 30, 2002 is being mailed to the shareholders with this proxy statement.

The Company will furnish without charge to any shareholder submitting a request a copy of the Company's Form 10-K Annual Report for the year ended June 30, 2002 to the Securities and Exchange Commission, including the financial statements and schedules thereto. Such request should be directed to Bert M. Gross, Secretary of the Company, at its address stated herein.

GENERAL

The Board of Directors knows of no other matter to be acted upon at the meeting. However, if any other matter is properly brought before the meeting, the shares covered by your proxy will be voted thereon in accordance with the best judgment of the persons acting under such proxy.

In order that your shares may be represented if you do not plan to attend the meeting, please sign, date and return your proxy promptly. In the event you are able to attend, at your request we will cancel the proxy.

By Order of The Board of Directors

Bert M. Gross
Secretary

September 27, 2002

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