Risk Factors Comparison 2023-08-23 to 2022-08-23 Form: 10-K

Legend: New Text ~~Removed Text~~ Unchanged Text Moved Text Section

Business and Industry Risks **Changes** ~~The impact of the COVID- 19 pandemic, including variants, and the measures implemented to contain the spread of the virus have had, and may continue to have, a material adverse impact on our business and results of operations. Our operations expose us to risks associated with public health crises and epidemics / pandemics, such as COVID- 19, that has spread globally. COVID- 19 has had, and may continue to have, an adverse impact on our operations. The pandemic may affect the health and welfare of our stylist community, customers, franchise partners or Salon Support personnel. As of the date of this filing, our salons across essentially all geographies are allowed to be open; however, states may again decide to require the closure of salons as the level of COVID- 19 cases continue to fluctuate. Some of our franchisees, many of whom were~~ in ~~the early stages of developing their businesses prior to the onset of the pandemic, have chosen, or may choose, not to resume operation of their salons and / or are facing challenges rehiring employees, reestablishing operations with their landlords and other vendors, and attracting customers back to their salons. As a result, many of our franchisees requested reductions or other modifications to their royalty payments or other amounts due to us, which may be critical to their ability to reestablish operations, and they may simply be unable or unwilling to make lease, royalty or other payments to us and may be unable to continue to operate or may need to close their salons. The removal or reduction of these payments, including the added expense associated with closed locations where we may have residual lease liability, has and is expected to continue to have, an adverse impact on our revenues and cash flows. Customers and employees have been cautious about returning to personal service providers. Furthermore, as a result of the pandemic, many of our customers have themselves experienced adverse financial impacts, including loss of disposable income, which may limit their spending on personal care, including purchasing of beauty products, or have identified other means for hair care. The trend of increased remote work and utilization of advanced video- conferencing technology has led to a less- formal work environment, which could impact the frequency of our hair care services. In addition, COVID- 19 may cause additional workers' compensation claims and customer claims associated with the pandemic. As a result, COVID- 19 has negatively affected, and may continue to negatively affect, our revenue, increased the cost of salon operations and potentially exposed us to additional liability, the combination of which has reduced and may continue to reduce our profitability, including the profitability of our franchisees. In addition, we retain a residual real estate lease liability of $ 501. 3 million for company- owned and franchise salons that either sublease the premises of their location from us or that require us to guarantee the franchisee' s lease. The combination of the revenue reduction, obligations we ultimately owe to landlords, and other costs both related and unrelated to COVID- 19 could significantly reduce or exhaust our available liquidity over time and limit our ability to access liquidity sources. The COVID- 19 pandemic caused disruption to the global economy and to our business, which may lead to triggering events that prevent our recovery of the carrying value of certain assets, including accounts receivables, long- lived assets, intangibles, and goodwill. Assessing goodwill for impairment can be difficult to predict because, among other things, it requires management to make assumptions and to apply judgment, including forecasting future sales and expenses, and selecting appropriate discount rates, all of which can be affected by economic conditions and other factors. Consumer~~ **consumer** shopping trends and ~~changes in~~ manufacturer choice of distribution channels may negatively affect both service and product revenues. Our salons are partly dependent on the volume of customer foot traffic around their locations to generate both service and product revenues. **Because many of our salons are located in shopping centers,** ~~Customer~~ **customer** foot traffic may be adversely affected by changing consumer shopping trends that favor internet- based shopping or alternative shopping methods or locations. In ~~recent years, we have experienced substantial declines in foot traffic in some shopping malls that changed traffic patterns at those salons that may affect our revenues and impact the health of our brands. In~~ addition, we are experiencing a proliferation of alternative channels of distribution, such as blow dry bars, booth rental facilities, discount brick- and- mortar and online professional product retailers, as well as manufacturers selling directly to consumers online, all of which may negatively affect our product and service revenue. Also, product manufacturers may decide to utilize these other distribution channels to a larger extent than in the past and they generally have the right to terminate relationships with us with little advance notice. These ~~trends~~ **changes in distribution channels** could **also** reduce the volume of foot traffic around our salons, and in turn, our revenues may be adversely affected ~~. Changes in regulatory and statutory laws, such as increases in the minimum wage and changes that make collective bargaining easier, and the costs of compliance and non- compliance with such laws, may result in increased costs to our business. With 5, 576 locations and approximately 630 employees worldwide, our financial results can be adversely impacted by regulatory or statutory changes in laws. Due to the number of people we or our franchisees employ, laws that increase minimum wage rates, employment taxes, overtime requirements or costs to provide employee benefits or administration may result in additional costs to our Company or our franchisees~~ . We are subject to laws and regulations that could require us to modify our current business practices and incur increased costs, which could have an adverse effect on our business, financial condition and revenues. In our U. S. markets, numerous laws and regulations at the federal, state and local levels can affect our business. Legal requirements are frequently changed and subject to interpretations, and we are unable to predict the ultimate cost of compliance with these requirements or their effect on our operations. If we **or our franchisees** fail to comply with any present or future laws or regulations, we **or they** could be subject to future liabilities or a prohibition on the operation of ~~our~~ salons. A number of U. S. states, Canadian provinces, and municipalities in which we do business ~~with~~ have recently increased, or are considering increasing, the minimum wage, with increases generally phased over several years depending upon the size of the employer. Increases in minimum wages **, employment taxes** and overtime pay result in an increase in ~~our~~ **salon operating** costs, and ~~our~~ **the salons'** ability to offset these increases through price increases may be limited. In fact, increases in minimum wages have increased ~~our~~ **salon operating** costs over the last five years. In addition, a growing number of states, provinces and municipalities have passed, or are considering passing, requirements for paid sick leave, family leave, predictive scheduling (which imposes penalties for changing an employee' s shift as it nears), and other requirements that increase the administrative complexity **and cost** of managing ~~our~~ **a** workforce **. Increases in costs for our franchisees could lead to reduced profitability of salons, which may lead to salon closures** . Finally, changes in labor laws designed to facilitate union organizing, could increase the likelihood of **stylists** ~~some of our employees~~ being subjected to greater organized labor influence. If a significant portion of **stylists** ~~our employees~~ were to become unionized, it would have an adverse effect on **salon operations which adversely impacts** our business and financial results. **If** ~~Increases in minimum wages, administrative requirements and unionization could also have an adverse effect on the performance of our franchisees, especially if~~ the National Labor Relations Board (NLRB) **were to decide to** ~~treats~~ - **treat** our franchisees as" joint employers" with us or if our franchisees are classified as large employers under minimum wage statutes because of their affiliations with us **, this could have an adverse impact on our business** . In addition, we **and our franchisees** must comply with state employment laws, including the California Labor Code, which has stringent requirements and penalties for non- compliance. Various state and federal laws govern our relationships with our franchisees and our potential sale of a franchise. If we fail to comply with these laws, we may subject the Company and our personnel to claims lodged by our franchisees, as well as federal and state government agencies, and those claims may include, among others, fraud, misrepresentation, unfair business practices and wrongful terminations. As a result of those claims, we could be liable for fines, damages, stop orders or other penalties. A franchisee or government agency may bring legal action against us based on the franchisee / franchisor relationship. Also, under the franchise business model, we may face claims and liabilities based on vicarious liability, joint- employer liability or other theories or liabilities. All such legal actions could not only result in changes to laws and interpretations, which could make it more difficult to appropriately support our franchisees and, consequently, impact our performance, but could also result in expensive litigation with our franchisees, third parties or government agencies, which could adversely affect both our profits and our important relationships with our franchisees. In addition, other regulatory or legal developments may result in changes to laws or to the franchisee / franchisor relationship that could negatively impact the franchise business model and, accordingly, our profits. We are also subject to federal statutes and regulations, including the rules promulgated by the U. S. Federal Trade Commission, as well as certain state laws governing the offer and sale of franchises. Many state franchise laws impose substantive requirements on franchise agreements, including limitations on non- competition provisions and on provisions concerning the termination or non- renewal of a franchise. Some states require that certain materials be filed for a franchisor to be registered and approved before franchises can be offered or sold in that state. The failure to obtain or retain licenses or approvals to sell franchises could have a material adverse effect on our business, financial condition, results of operations and prospects. In addition to employment and franchise laws, we are also subject to a wide range of federal, state, provincial and local laws and regulations in the jurisdictions in which we operate, including those affecting public companies, product manufacturing and sale and those governing the franchisee / franchisor relationship. Compliance with new, complex, and changing laws may cause our expenses to increase. In addition, any non-compliance with laws or regulations could result in penalties, fines, product recalls and enforcement actions or otherwise restrict our ability to market certain products or attract or retain employees, which could adversely affect our business, financial condition and results of operations. **We may be responsible for Empire Education Group, Inc.' s liabilities. We have a majority ownership interest in Empire Education Group, Inc. (EEG), an operator of accredited cosmetology schools. EEG students receive significant federal financial aid through the U. S. Department of Education. The Department of Education has released proposed rules related to gainful employment that could be detrimental to EEG' s business model. If EEG were to become insolvent, the Department of Education could hold the Company responsible for EEG' s liabilities.** Changes in the general economic environment may impact our business and results of operations. Changes to the U. S., Canada and U. K.' s economies have an impact on our business. General economic factors that are beyond our control, such as recession, inflation, deflation, tax rates and policy, energy costs, unemployment trends, extreme weather patterns, viruses, pandemics, stay- at- home orders **,** and other casualty events that influence consumer confidence and spending, may impact our business and results of operations. In particular, visitation patterns to our salons can be adversely impacted by increases in unemployment rates and decreases in discretionary income levels. Changes in consumer tastes, hair product innovation, fashion trends and consumer spending patterns may impact our revenue. Our success depends, in part, on our ability to anticipate, gauge and react in a timely manner to changes in consumer tastes, hair product innovation, fashion trends and consumer spending patterns. If we do not timely identify and properly respond to evolving trends and changing consumer demands for hair care or services, ~~our~~ **salon** sales may decline. **Remote** ~~The recent trend to~~ work ~~remotely~~ **arrangements** ~~reduces~~ - **reduce** foot traffic in downtowns, city centers, and other business districts where our salons are located, causing a reduction in our revenue. **We currently are** ~~As of June 30, 2022, we were~~ not in compliance with New York Stock Exchange listing requirements. In June 2022, we received written notice from the New York Stock Exchange (~~"~~ NYSE ~~"~~) that we did not meet certain NYSE continued listing standards. Under the NYSE continued listing standards, the Company is required to maintain (a) a minimum average closing price of $ 1. 00 per share over a period of 30 consecutive trading days, and (b) an average market capitalization of at least $ 50. 0 million over a period of 30 consecutive trading days, and at the same time, total stockholders' equity equal to or greater than $ 50. 0 million. ~~If~~ **On September 1, 2022,** we ~~are unable to improve our stock~~ **were notified we cured the minimum average closing** price **of** ~~to over~~ $ 1. 00 **per share** ~~by December 13~~ , **but** ~~2022 and~~ our **average** market capitalization ~~to~~ **was still non- compliant. If our average market capitalization is not** greater than $ 50. 0 million ~~by~~ **on** December 13, 2023, we will be subject to the NYSE' s suspension and delisting procedures. We are closely monitoring the closing share price of our common stock and are considering all available options ~~. We intend to regain compliance with the NYSE listing standards by pursuing measures that are in the best interest of the Company and our shareholders~~ . A delisting of our common stock could negatively impact us by, among other things, reducing the liquidity and market price of our common stock; reducing the number of investors willing to hold or acquire our common stock, which could negatively impact our ability to raise equity financing; limiting our ability to issue additional securities or obtain additional financing in the future; decreasing the amount of news and analyst coverage of us; and causing us reputational harm with investors, our employees, and parties conducting business with us. Operating Risks We are ~~now~~ substantially dependent on franchise royalties and the overall success of our franchisees' salons. ~~We are now~~ **Our success is** substantially dependent on franchise royalties and the overall success of our franchisees' salons. **Many** ~~It customarily takes new~~ franchisees ~~time~~ **have seen a decline in revenues in recent years which reduces their profitability. As a result, franchise salon closures have increased, which reduces our royalty income. In addition, franchisees may be unable** to ~~develop~~ **pay their royalties which could decrease cash collections. Some franchisees have stopped paying rents as they come due, reduced operating hours, or closed before the lease end date, which are violations of the lease agreements and may result in penalties depending on the lease, which may increase our cash outflows when the franchisee subleases from us, or we guarantee the lease. Franchisees who decide to close** their salons ~~and increase~~ **when there is not another franchisee willing to take over** their **business decreases the size** ~~sales. Further, a number~~ of our **fleet** ~~historically successful~~ and ~~more experienced franchisees are onboarding new salon operations. This could adversely impact~~ our **royalty** ~~revenue~~ **revenues** ~~and profitability during this next stage of our transformation~~ . To support and enhance our franchisees' businesses, we may need to invest in certain unanticipated new capabilities and / or services and we will need to determine the appropriate amount of investment to optimize the success of our franchisees, while ensuring that the level of investment supports our expected return on those investments. If we are not able to identify the right level of support and effectively deliver those resources to our franchisees, our results of operations and business may be adversely affected. Furthermore, **as** ~~our transition to~~ a fully- franchised ~~model~~ **business, we** may **be** ~~expose~~ **exposed** ~~us~~ to additional legal, compliance and operational risks specific to this ~~different~~ business model, including the business failure of unproven new salon owners. **Our salons are dependent on a third** ~~Sales at franchise locations may not return to pre - pandemic levels. Sales at most of our franchise locations have not returned to their pre- pandemic levels causing our franchisees to earn less profits or incur losses. Franchisees may be unable to pay~~ **party** ~~their royalties or rents as they come due, which could decrease cash collections and increase our cash outflows if the franchisee subleases from us or we guarantee the lease. Franchisees may decide to close their salons and there may not be another franchisee willing to take over the business, which would decrease the size of our fleet and our revenues. We have exited our wholesale distribution business and entered into a~~ preferred supplier agreement **for merchandise** ~~with a third party~~ . **In fiscal year 2023, we** ~~We exited our wholesale distribution business and~~ entered into a preferred supplier agreement with a supplier. This change has and will continue to reduce our future revenue. If our new supplier is unable to source the products at the prices expected by our franchisees, our franchisees' profitability and our profitability may be adversely impacted. Further, **events or circumstances beyond our control, including** economic instability and other impactful events and circumstances in the regions in which our supplier and ~~their~~ **its** manufacturers are located, the financial instability of our supplier, our supplier' s failure to meet our terms and conditions or our supplier standards, product safety and quality issues, disruption or delay in the transportation of products from our supplier and ~~their~~ **its** manufacturers to our salons, transport availability and cost, transport security, inflation and other factors relating to the ~~suppliers~~ - **supplier** and the areas in which ~~they are located are beyond~~ **it operates, may adversely impact** our ~~control~~ **and our franchisees' profitability** . It is important for us and our franchisees to attract, train and retain talented stylists and salon leaders. Guest loyalty is strongly dependent upon the stylists who serve our guests and the customer experience in our salons. Qualified, trained stylists are key to a memorable guest experience that creates loyal customers. In order to profitably grow our business, it is important for our salons to attract, train and retain talented stylists and salon leaders and to adequately staff our salons. **Regulations proposed by the Department of Education, if passed, could reduce access to Federal financial aid for beauty schools which could reduce the number of qualified stylists to recruit if licensing requirements are not adjusted.** Because the salon industry is highly fragmented and comprised of many independent operators, the market for stylists is ~~typically~~ highly competitive. In addition, labor shortages and increases in minimum wage requirements may impact the number of stylists considering careers outside the beauty industry. In most markets, we and our franchisees have experienced a shortage of qualified stylists or a reduction in the hours ~~stylist~~ **stylists** will work. Offering competitive wages, benefits, education, and training programs are important elements to attracting and retaining qualified stylists. In addition, due to challenges facing the for- profit education industry, cosmetology schools have experienced declines in enrollment, revenues, and profitability in recent years. If the cosmetology school industry sustains further declines in enrollment or some schools close entirely, or if stylists leave the beauty industry, we expect that we and our franchisees would have increased difficulty staffing our salons in some markets. We are making significant investments in programs to attract and retain stylists. If our strategies are not successful in attracting, training **,** and retaining stylists or in staffing salons, our ~~same~~ **system** - ~~store~~ **wide** sales or the performance of our ~~franchise~~ business could experience periods of volatility or sales could decline and our results of operations could be adversely affected. Our continued success depends, in part, on the success of our franchisees, which operate independently. As of June 30, ~~2022~~ **2023** , 98. ~~1~~ **6** % of our salons were franchised locations. We derive revenues associated with our franchised locations primarily from royalties and fees. Our financial results are therefore substantially dependent upon the operational and financial success of our franchisees. As a franchise business, we are dependent on our franchisees. We have limited control over how our franchisees' businesses are operated. Though we have established operational standards and guidelines, franchisees own, operate, and oversee the daily operations of their salon, including employee- related matters and pricing. If franchisees do not successfully operate their salons in compliance with our standards, our brand reputation and image could be harmed, and our financial results could be affected. Additionally, if franchisees do not price their goods and services competitively, the franchisee may fail to maximize the financial performance of their salon. We could experience greater risks as the scale of our franchised salons increases ~~. Further, some franchise owners may not successfully execute the rebranding and / or turnaround of~~

~~under- performing salons that we have transferred to them~~ . In addition, our franchisees are subject to the same general economic risks as our Company, and their results are influenced by competition for both guests and stylists, market trends, price competition and disruptions in their markets and business operations due to public health issues, including pandemics, severe weather and other external events. Like us, they rely on external vendors for some critical functions and to protect their company data. They may also be limited in their ability to open new locations by an inability to secure adequate financing, especially because many of them are small businesses with much more limited access to financing than our Company or by the limited supply of favorable real estate for new salon locations. They may also experience financial distress because of over- leveraging, which could negatively affect our operating results due to delayed or non- payments to us. The bankruptcy, default, abandonment, or breach by or of a franchisee could also expose us to lease liability due to our lease guarantees or subleases as explained previously. A deterioration in the financial results of our franchisees, a failure of our franchisees to renew their franchise agreements or closure of locations ~~could~~ adversely ~~affect~~ **affects** our operating results through decreased royalty payments and fees. We also must continue to attract qualified franchisees and work with them to make their businesses successful. In addition, challenges in supporting our ~~expanding~~ franchise system could cause our operating results to suffer. If we are unable to effectively select and train new franchisees and support our growing franchisee base, it could affect our brand standards, cause disputes between us and our franchisees, and potentially lead to material liabilities. Our business is dependent on franchisees continuing to operate. ~~If~~ **When** a franchisee exits the franchise system, **and** we ~~need~~ **are unable** to recruit an existing or new franchisee to run that salon location ~~or~~ **,** our salon count ~~would decline~~ and ~~our~~ revenues ~~would~~ decline. A decline in salon count could also reduce the value of our brands. Additionally, we are dependent on our franchisees to grow their business in order for our business to grow. However, franchisees may not have access to capital, labor, etc., to support their growth. Data security and data privacy compliance requirements could increase our costs, and cybersecurity incidents could result in the compromise of potentially sensitive information about our guests, franchisees, employees, vendors **,** or Company and expose us to business disruption, negative publicity, costly government enforcement actions or private litigation and our reputation could suffer. The normal operations of our business and our investments in technology involve processing, transmitting and storing potentially sensitive personal information about our guests, employees, franchisees, vendors and our Company, all of which require the appropriate and secure utilization of such information and subjects us to increased focus regarding our data security compliance. Cyber- attacks, including ransomware, designed to gain access to sensitive information by breaching mission critical systems of large organizations (and their third- party vendors) are constantly evolving and high- profile electronic security breaches leading to unauthorized release of sensitive information have occurred at a number of large U. S. companies in recent years. Furthermore, there has been heightened legislative and regulatory focus on data security in the U. S. and abroad, including requirements for varying levels of customer notification in the event of a data breach. These laws are changing rapidly and vary among jurisdictions. We will continue our efforts to meet any applicable privacy and data security obligations; however, it is possible that certain new obligations may be difficult to meet and could increase our costs. We rely on commercially available systems, software, and tools to provide security for processing, transmitting, and storing of sensitive information. As this risk of cyber- attacks increases, our related insurance premiums may also increase. Despite the security measures and processes we have in place, our efforts (and those of our third- party vendors) to protect sensitive guest, employee, franchisee, vendor, and Company information may not be successful in preventing a breach in our systems or detecting and responding to a breach on a timely basis **. We have, from time to time, experienced threats to, and incidents involving, our systems and information, none of which have been material to date** . As a result of a security incident or breach in our systems, our systems could be interrupted or damaged, and / or sensitive information could be accessed by third parties. If that occurred, our guests could lose confidence in our ability to protect their information, which could cause them to stop visiting our salons altogether or our franchisees could exit the system due to lack of confidence. Such events could also lead to lost future sales and adversely affect our results of operations. In addition, as the regulatory environment relating to retailers and other companies' obligations to protect sensitive data becomes stricter, a material failure on our part to comply with applicable regulations could potentially subject us to fines, penalties, other regulatory sanctions, or lawsuits with the possibility of substantial damages. The costs to remediate security incidents or breaches that may occur could be material. Also, as cyber- attacks become more frequent, intense, and sophisticated, the costs of proactive defensive measures may increase. Furthermore, while our franchisees are independently responsible for data security at their franchised salon locations, a security incident or breach at a franchised salon location could negatively affect public perception of our brands. More broadly, our incident response preparedness and disaster recovery planning efforts may be inadequate or ill- suited for a security incident and we could suffer disruption of operations or adverse effects to our operating results. Our SmartStyle salon operations are dependent on our relationship with Walmart. As of June 30, ~~2022~~ **2023** , we had 1, ~~695~~ **436** SmartStyle or Cost Cutters salons within Walmart locations. Walmart is our largest landlord. ~~Our business~~ **Business** within each of those 1, ~~695~~ **436** salons relies primarily on the traffic of visitors to the Walmart location, so our success is tied to Walmart' s success in bringing shoppers into their stores. We have limited control over the locations and markets in which we open new SmartStyle locations, as we only have potential opportunities in locations offered to us by Walmart. Furthermore, Walmart has the right to (a) close up to 100 ~~of our~~ salons per year for any reason, upon payment of certain buyout fees; (b) terminate lease agreements for breach, such as if we failed to conform with required operating hours, subject to a notice and cure period; (c) non- renew the lease agreements if ~~our~~ salons fail to reach certain sales thresholds; ~~and~~ (d) **impose penalties for failing** to **meet required operation hours; and (e)** terminate the lease if the Walmart store is closed. Future franchising activity is dependent upon a continued relationship between us and Walmart, as well as Walmart' s approval of our proposed franchisee on a location- by- location basis. Further, Walmart may attempt to impose changes to the terms and conditions of our agreements, which may be contrary to our economic interests. Operating SmartStyle salons adds complexity in overseeing franchise compliance and coordination with Walmart. Additionally, there are various remodel requirements of our franchisees, whether it be upon lease expiration or the remodeling of a Walmart location. To the extent Walmart accelerates the pace of their own store remodels, our ~~stores~~ **salons** in remodeled Walmart locations would be held to the same standard. The cost of these remodels may be prohibitive to our franchisees and could lead to the Company bearing a portion of the cost, or closures if the remodel requirement is not satisfied. Our future growth and profitability may depend, in part, on our ability to build awareness and drive traffic with advertising and marketing efforts and on delivering a quality guest experience to drive repeat visits to our salons. Our future growth and profitability may depend on the effectiveness, efficiency and spending levels of our marketing and advertising efforts to drive awareness and traffic to our salons. In addition, delivering a quality guest experience is crucial to drive repeat visits to our salons. We are ~~developing our marketing and advertising strategies, which might include national and local campaigns, to build awareness, drive interest, consideration and traffic to our salons. We are also~~ focusing on improving guest experiences to provide brand differentiation and preference as well as ensure our guests' needs are met. If our marketing, advertising, and improved guest experience efforts do not generate sufficient customer traffic and repeat visits to our ~~company- owned and franchise- owned~~ salons, our business, financial condition, and results of operations may be adversely affected. Our future growth and profitability may depend on the effectiveness, efficiency and spending levels of our marketing and advertising efforts to drive awareness and traffic to our salons. Additionally, we plan to increase our digital marketing efforts, and the success of those efforts ~~are~~ **is** dependent upon our franchisee' s migration to the Zenoti salon technology platform and customers opting- in to receive marketing messages from us. Our success depends substantially on the migration of our ~~Franchisees~~ **franchisees** to the Zenoti salon technology platform. The success of our digital marketing efforts discussed previously, as well as **our ability to** ~~providing~~ **provide** franchisees with back- office and salon management **support** , including walk- in or advanced appointments, is dependent upon our franchisees' adoption of the Zenoti point- of- sale ~~software. We previously developed a mobile application, platform and salon management system called Opensalon Pro, which we sold to Soham, Inc. (" Zenoti"), in fiscal year 2022. That agreement requires us to receive certain payments based upon the migration of our salons to the Zenoti~~ software. Additionally, some of our technology capabilities will require development by Zenoti, and thus if not developed, may adversely affect our digital marketing efforts ~~as well as~~ **and our ability to** ~~providing~~ **provide** our franchisees with critical functionality and information. Our success depends substantially on the value of our brands. Our success depends, in large part, on our ability to maintain and enhance the value of our brands, our customers' connection to our brands and a positive relationship with our franchisees. Declining franchisee revenue reduces the advertising funds available to invest in the brands and a decline in the Company' s investment in its brands could reduce brand awareness and the overall value of our brands. Brand value can be severely damaged even by isolated incidents, particularly if the incidents receive considerable negative publicity, including via social media or if they result in litigation. Some of these incidents may relate to the way we manage our relationships with our franchisees, our growth strategies, our development efforts **,** or the ordinary course of our ~~,~~ or our franchisees' business. Other incidents may arise from events that may be beyond our control and may damage our brands, such as actions taken (or not taken) by one or more franchisees or their employees relating to health, safety, welfare **, social issues** or otherwise, litigation and claims, security breaches or other fraudulent activities associated with our back- office management or payment systems, and illegal activity targeted at us or others. Consumer demand for our products and services and our brands' value could diminish significantly if any such incidents or other matters erode consumer confidence in us or our products or services. This could result in lower sales and, ultimately, lower royalty income, which could materially and adversely affect our business and operating results. We rely heavily on our information technology systems for our key business processes. If we experience an interruption in their operation, our results of operations may be affected. The efficient operation of our business is dependent on our management information systems. We rely heavily on our management information systems to collect daily sales information and guest demographics, **monitor salon performance,** generate payroll information ~~, monitor salon performance, manage salon staffing and payroll costs~~ , and other functions. Such systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, hacker attempts, security breaches and natural disasters. Certain capabilities or entire systems may ~~be~~ **become** outdated ~~or have~~ **which could** ~~limited~~ -- **limit** functionality. These management information systems may require upgrades or replacements periodically, which involve implementation and other operational risks. In addition, our management information systems are developed and maintained by external vendors **,** and we are transitioning our franchisees onto the Zenoti salon technology platform ~~beginning in fiscal year 2023~~ . The failure of our management information systems to perform as we anticipate, to meet the continuously evolving needs of our business, or to provide an affordable long- term solution, could disrupt our business operations and result in other negative consequences, including remediation costs, loss of revenue and reputational damage. Further, if our external vendors fail to adequately provide technical support for any one of our key existing management information systems or if new or updated components are not integrated smoothly, we could experience service disruptions that could result in the loss of important data, increase our expenses, decrease our revenues and generally harm our business, reputation and brands. **Any** ~~Also, any~~ such conduct with respect to our franchisees could also result in litigation. We rely on external vendors for products and services critical to our operations. We **, along with our franchisees,** rely on external vendors for the manufacture, supply and distribution of our owned brand products, other retail products we sell, and products we use during salon services, such as color and chemical treatments. We also rely on external vendors for various services critical to our operations and the security of certain Company data. Our dependence upon vendors exposes us to operational, reputational, financial and compliance risk. If ~~our~~ **salon** product offerings do not meet ~~our~~ guests' expectations regarding safety and quality, we could experience lost sales, increased costs, and exposure to legal and reputational risk. All ~~of~~ our vendors must comply with applicable product safety laws, and we are dependent on them to ensure that the products and packages we buy, for either use on a guest during a service or resale to the public, comply with all safety and quality standards. Events that give rise to actual, potential **,** or perceived product safety concerns or mislabeling could expose us to government enforcement action and / or private litigation and result in costly product recalls and other liabilities. Our vendors are also responsible for the security of certain Company data, as discussed above. If one of our key vendors becomes unable to continue to provide products and services, or their systems fail, or are compromised or the quality of their systems deteriorate, we may suffer operational difficulties and financial loss. The use of social media may have an adverse effect on our reputation. Our reputation is critical to our ability to compete and succeed. However, our reputation may be damaged by negative publicity on social media or other channels regarding the quality of products or services we provide. There has been a substantial increase in the use of social media platforms, which allow individuals to be heard by a broad audience of consumers and other interested persons. Negative or false commentary regarding ~~us~~ **our brands** or the products or services we offer may be posted on social media platforms at any time. Customers value readily available information and may act on information without further investigation or regard to its accuracy. The harm to our reputation may be immediate, without affording us an opportunity for redress or correction. Our reputation may also be damaged by factors that are mostly or entirely out of our control, including actions by a franchisee or a franchisee' s employee. We also use social media platforms as marketing tools. As laws and regulations rapidly evolve to govern the use of these platforms, the failure by us, our employees **, franchisees** or third parties acting at our direction, to abide by applicable laws and regulations in the use of these platforms could adversely affect our business, financial condition and revenues ~~. Failure to simplify and standardize our operating processes across our brands could have a negative impact on our financial results. We expect standardization of operating processes across our brands, marketing and products to enable us to simplify our operating model and decrease our costs and believe failure to do so could adversely impact our ability to grow revenue and realize further efficiencies within our results of operations~~ . Our enterprise risk management program may leave us exposed to unidentified or unanticipated risks. We maintain an enterprise risk management program that is designed to identify, assess, mitigate and monitor the risks that we face. There can be no assurance that our frameworks or models for assessing and managing known risks, compliance with applicable laws and related controls will effectively mitigate risk and limit losses in all market environments or against all types of risk in our business. If conditions or circumstances arise that expose flaws or gaps in our risk management or compliance programs, the performance and value of our business could be adversely affected. Insurance and other traditional risk- shifting tools may be held by, or made available to, us in order to manage certain types of risks, but they are subject to terms such as deductibles, retentions, limits and policy exclusions, as well as risk of denial of coverage, default or insolvency. If we suffer unexpected or uncovered losses, or if any of our insurance policies or programs are terminated for any reason or are not effective in mitigating our risks, we may incur losses that are not covered or that exceed our coverage limits and could adversely impact our results of operations, cash flows and financial position. ~~The~~ **Our** franchise agreements require each franchisee to maintain specified insurance coverages and levels. Certain extraordinary hazards, however, may not be covered, and insurance may not be available (or may be available only at prohibitively expensive rates) with respect to many other risks. Moreover, any loss incurred could exceed policy limits and policy payments made to franchisees may not be made on a timely basis. Any such loss or delay in payment could have a material and adverse effect on a franchisee' s ability to satisfy its obligations under its franchise agreement, including its ability to make royalty payments. Financial and Economic Risks **We may be unable to generate sufficient cash flow to satisfy our debt service obligations, which would materially adversely affect our financial condition and results of operations. Our ability to make interest payments and comply with debt covenants associated with our indebtedness depends on our ability to generate cash in the future, which, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory, and other factors that are beyond our control. Specifically, our interest payments are based on the secured overnight financing rate (SOFR), such that an increase in the SOFR will have a negative impact on our cash flows.** If we fail to comply with any of the covenants in our existing financing arrangement, we may not be able to access our existing revolving credit facility, and we may face an accelerated obligation to repay our indebtedness. If we fail to comply with **the terms in** our existing financing arrangements, such a failure may cause a default under our financing arrangement, which could limit our ability to obtain new replacement financing or additional financing under our existing credit facility, require us to pay higher levels of interest or accelerate our obligation to repay our indebtedness. The impacts of significant business disruptions could ultimately impair our ability to comply with our covenants, which could preclude our ability to access our credit facility or accelerate our debt repayment obligation, which is secured by a lien on substantially all of the Company' s assets. ~~If~~ **We have limited resources to invest in** our **business and execute on our strategic plans. Under our current operating and financial model, we use the cash we generate and borrow to cover the operating costs of our business as it is currently conducted and to pay interest expense on outstanding debt. We have limited** capital ~~investments~~ **resources available to invest** in ~~developing new and improving current technology infrastructure~~ **further execution of our strategy to grow our business. While management' s projections demonstrate our ability to continue funding our business in this manner through the maturity of our revolving credit facility in August 2025, we** do not ~~achieve appropriate returns~~ **expect to have access to additional cash to make further investments in the business. In order for the Company to be able to repay its debt in full upon maturity** , ~~our~~ **or** ~~financial condition~~ **restructure the debt prior to August 2025, the Company will likely need to explore options for refinancing the indebtedness,** and ~~results~~ **the availability** of **such options depends on the ability of the Company to continue to improve its cash from** operations ~~may be adversely affected. We are currently making,~~ and ~~expect to continue to make, strategic investments in technology to increase traffic to salons and improve guest experiences, including without limitation, our mobile applications. These investments may not provide the anticipated benefits or desired return and could expose us to additional legal and compliance risks. Furthermore, some of our technology capabilities and developments involve third- party partnerships that we are dependent on. If these partnerships are unsuccessful, the technology- enabled capabilities may not fully achieve their~~ **other** ~~anticipated returns~~ **market conditions** . Premature termination of franchise agreements can cause losses. Our franchise agreements may be subject to premature termination in certain circumstances, such as failure of a franchisee to cure a default, monetary or otherwise, a franchisee bankruptcy, voluntary termination, or abandonment of the franchise. If terminations occur for these or other reasons, we may need to enforce our right to damages for breach of contract and related claims, which could cause us to incur significant legal fees and expenses and / or to take back and operate such salons as company- owned salons. Any damages we ultimately collect could be less than the projected future value of the fees and other amounts we would have otherwise collected under the franchise agreement. In addition, with many of our brands, we remain liable under the lease and, therefore, will be obligated to pay rent or enter ~~into~~ a settlement with the landlord, and we may not be made whole by the franchisee. A significant loss of franchisee agreements due to premature terminations could hurt our financial performance or our ability to grow our business. Empire Education Group, Inc. may be unsuccessful, which could adversely affect our financial results. In 2020, we entered into an agreement to sell to the other owner our 55. 1 % ownership stake in ~~Empire Education Group, Inc. (~~ EEG ~~), an operator of accredited cosmetology schools~~ . The transaction is subject to regulatory approval before it can close, and there is no guarantee that the regulatory approval will occur ~~, which has been delayed, in part, due to COVID- 19~~ . Due to poor financial performance of EEG, we fully impaired the investment in prior years. If the transaction does not close as anticipated and EEG is unsuccessful in executing its business plan, or if economic, regulatory and other factors, including declines in enrollment, revenue and profitability **,** continue for the for- profit secondary education market, our financial results may be affected by certain potential liabilities related to this investment. Failure to control costs may adversely affect our operating results. We must continue to control our expense structure. Failure to manage our ~~cost of product,~~ labor and benefit rates, advertising and marketing expenses **, professional fees** , operating lease costs, other ~~store~~ expenses, or indirect spending could delay or prevent us from achieving increased profitability or otherwise adversely affect our operating results. If we are not able to successfully compete in our business markets, our financial results may be affected. Competition on a market- by- market basis remains challenging as many smaller chain competitors are franchise systems with local operating strength in certain markets and the hair salon industry, as a whole, is fragmented and highly competitive for customers, stylists and prime locations. Therefore, our ability to attract guests, raise prices and secure suitable locations in certain markets can be adversely impacted by this competition. Our strategies for competing are complicated by the fact that we have multiple brands in multiple segments, which compete on different factors. We also face significant competition for prime real estate, particularly in strip malls. We compete for lease locations not only with other hair salons, but with a wide variety of businesses looking for similar square footage and high- quality locations. If we are unable to successfully compete, we may lose market share and our ability to grow same- store sales and increase our revenue and earnings may be impaired. Corporate Structure and Governance Risks We rely on our management team and other key personnel. We depend on the skills, working relationships and continued services of key personnel, including our management team and others throughout our Company. We are also dependent on our ability to attract and retain qualified personnel, for whom we compete with other companies both inside and outside our industry. We may be required to increase wages and / or benefits to attract and retain qualified personnel or risk considerable turnover. Our business, financial condition or results of operations may be adversely impacted by the unexpected loss of any of our management team or other key personnel, or more generally if we fail to identify, recruit, train and / or retain talented personnel. In addition, our business may be harmed if we lose too many individuals with institutional knowledge. If we fail to maintain an effective system of internal controls over financial reporting, we may not be able to accurately report our financial results and prevent or detect material ~~misstatement~~ **misstatements** due to fraud, which could reduce investor confidence and adversely affect the value of our common stock. Effective internal controls over financial reporting ~~are~~ **is** necessary for us to provide reliable financial reports and effectively prevent and detect material fraud. If we cannot provide reliable financial reports or prevent or detect material fraud, our operating results could be materially misstated. There can be no assurances that we will be able to prevent control deficiencies from occurring, which could cause us to incur unforeseen costs, reduce investor confidence, cause the market price of our common stock to decline or have other potential adverse consequences **. Commencing with our fiscal 2023 audit, and as a result of our smaller reporting company status, we are not required to obtain, nor did we obtain, an audit of our system of internal controls over financial reporting** . We could be subject to changes in tax rates, the adoption of new U. S. or international tax legislation or exposure to additional tax liabilities. We are subject to income taxes in the U. S. and other foreign jurisdictions. Significant judgment is required in determining our tax provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We are subject to the examination of our income tax returns, payroll taxes and other tax matters by the Internal Revenue Service and other tax authorities and governmental bodies. We regularly assess the likelihood of an adverse outcome resulting from these examinations to determine the adequacy of our provision for income taxes and payroll tax accruals. There can be no assurances as to the outcome of these examinations. Although we believe our tax estimates are reasonable, the final determination of tax audits, and any related litigation, could be materially different from our historical tax provisions and employment taxes. The results of an audit or litigation could have a material effect on our Consolidated Financial Statements in the period or periods where that determination is made. Also, in the future, our effective income tax rate could be adversely affected by a number of factors, including changes in the mix of earnings in countries with different statutory tax rates, changes in tax laws or the outcome of income examinations. Our ability to use our U. S. net operating loss carryforwards to offset future taxable income may be subject to certain limitations. Utilization of the net operating loss carryforwards may be subject to an annual limitation if an ownership change **occurs** under Section 382 of the Internal Revenue Code of 1986 ~~occurs~~ . An ownership change could be triggered by subsequent sales of securities by us ~~or~~ **,** ~~our~~ - **or** ~~stockholders~~ **our shareholders** and such a change of ownership may limit our utilization of net operating losses. Litigation and other legal or regulatory proceedings or claims and the outcome of such litigation, proceedings or claims, including possible fines and penalties, could have an adverse effect on our business and any loss contingency accruals may be inadequate to cover actual losses. From time- to- time in the ordinary course of our business operations, we are subject to litigation, including potential class action and single- plaintiff litigation, arbitration and other legal or regulatory proceedings or claims. Litigation to defend ourselves against claims by third parties, or to enforce any rights that we may have against third parties, may be necessary, which could require significant time commitments from our management team and result in substantial costs and diversion of our resources, which may cause an adverse effect on our business, financial condition and revenues. We establish accruals for potential liabilities arising from litigation and other legal or regulatory proceedings or claims when potential liabilities are probable **,** and the amount of the loss can be reasonably estimated based on currently available information. We may still incur legal costs for a matter even if we have not accrued a liability. In addition, actual losses may be higher than the amount accrued for a certain matter or in the aggregate. Any resolution of litigation or other legal or regulatory proceedings as well as claims could adversely affect our business, financial condition or revenues.