

THIRD QUARTER 2009 SUMMARY OF RESULTS

SALES AND TRAFFIC

Salon/spa owners reported net positive service sales in the third quarter, according to PBA's quarterly Salon/Spa Tracking Survey. Thirty-eight percent of salon/spa owners reported an increase in same-store service sales between the third quarters of 2008 and 2009, while 36 percent reported a sales decline. Although a higher proportion of salon/spa owners reported sales growth, the average percent change in sales was -0.1 percent in the third quarter.

On the retail side, 36 percent of salon/spa owners reported higher sales between the third quarters of 2008 and 2009, while 47 percent reported a retail sales decline. On average, salon/spa owners reported a 2.0 percent decline in retail sales in the third quarter.

In contrast to the positive trend in service sales, salon/spa owners reported lower customer traffic levels in the third quarter. Only 30 percent of salon/spa owners reported an increase in customer traffic between the third quarters of 2008 and 2009, while 40 percent reported a decline in customer traffic.

OUTLOOK

Salon and spa owners are more optimistic about both service and retail sales growth in the months ahead. Seventy percent of salon/spa owners said they expect to have higher service sales in six months (compared to the same period in the previous year), up from 60 percent who reported similarly last quarter. On the retail side, 61 percent of owners said they expect to have higher retail sales in six months, up from 51 percent who reported similarly last quarter.

Salon/spa owners also remain optimistic about the direction of the overall economy. Sixty-eight percent of salon/spa owners said they expect economic conditions to improve in six months, while only five percent expect economic conditions to worsen in six months.

SALON/SPA OPENINGS

Fifteen percent of salon/spa owners have plans to open at least one new establishment in the next six months.

EMPLOYEES AND HOURS

Labor indicators remained mixed in the third quarter, with salon/spa owners reporting a net increase in staffing levels but a decline in employee hours. Twenty-six percent of salon/spa owners said they added employees between the third quarters of 2008 and 2009, while 22 percent said they cut staffing levels. In contrast, 29 percent of salon/spa owners cut employee hours in the third quarter, while 21 percent reported an increase in average employee hours.

Looking ahead, 49 percent of salon/spa owners expect to have higher staffing levels in six months (compared to the same period in the previous year), while only 2 percent expect to reduce staffing levels in six months.

BACK BAR COSTS AND SERVICE PRICING

Thirty-seven percent of salon/spa owners reported an increase in back bar costs between the third quarters of 2008 and 2009, while 20 percent reported lower costs. On average, salon/spa owners reported a 1.5 percent increase in back bar costs in the third quarter.

Sixteen percent of salon/spa owners said they increased service prices in the third quarter. Overall, 24 percent of salon/spa owners said their service prices rose between the third quarters of 2008 and 2009, while 8 percent said they cut prices. On average, salon/spa owners reported a 0.9 percent increase in service prices in the third quarter.

CAPITAL SPENDING

Twenty-eight percent of salon/spa owners said they made a capital expenditure for equipment, expansion or remodeling in the third quarter. Looking ahead, 46 percent of owners said they plan to make a capital expenditure for equipment, expansion or remodeling in the next six months.

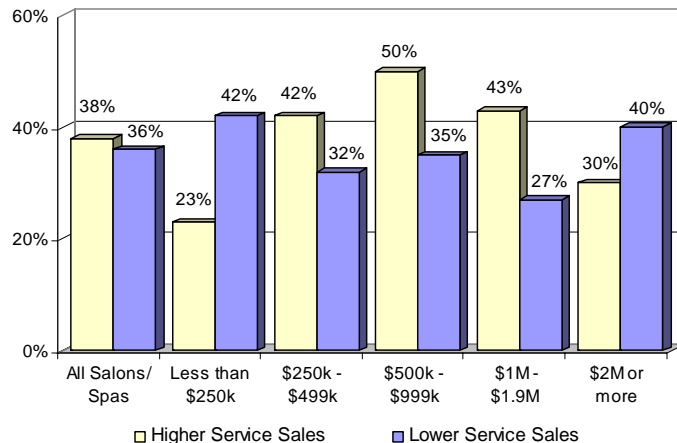
TOP CHALLENGES

Twenty-four percent of salon/spa owners said 'building-and-maintaining sales volume' is the top challenge facing their business, followed by 'the economy' (21%) and 'recruiting-and-retaining employees' (19%).

Salon and Spa Owners Reported Net Positive Service Sales in the Third Quarter

- Thirty-eight percent of salon/spa owners reported an increase in same-store service sales in the third quarter, while 36 percent reported a sales decline.
- Sales performances differed across sales categories in the third quarter. Fifty percent of salon/spa owners in the \$500,000 - \$999,999 sales category reported higher sales in the third quarter, while 35 percent reported a decline.
- In contrast, just 30 percent of salon/spa owners with sales of \$2 million or more reported higher service sales in the third quarter, while 40 percent registered a decline in service sales.
- Forty-two percent of owners with annual sales of less than \$250,000 reported lower sales in the third quarter.

Service Sales: 2009:Q3 vs. 2008:Q3
Tracking Survey Responses by Annual Sales Volume

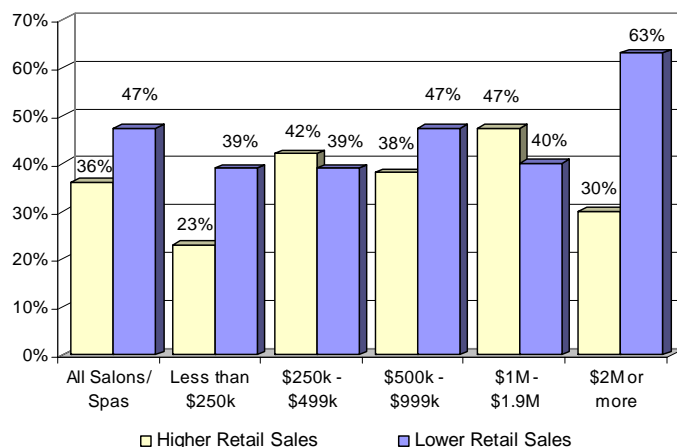


Source: Professional Beauty Association, Salon/Spa Tracking Survey – 3rd Quarter 2009

Retail Sales Remained Negative in the Third Quarter

- In contrast to the improving trend in service sales, salon/spa owners continued to report lower retail sales volume in the third quarter, with 36 percent reporting higher sales and 47 percent reporting lower retail sales.
- Salon/spa owners in the highest sales volume category reported the softest retail sales in the third quarter. In the \$2 million or higher sales category, only 30 percent of salon/spa owners reported higher retail sales in the third quarter, while 63 percent reported lower sales.
- Forty-seven percent of owners in the \$1 million - \$1.9 million sales category reported higher retail sales in the third quarter, while 40 percent reported lower sales.
- Forty-two percent of salon/spa owners in the \$250,000 - \$499,999 sales category reported higher retail sales in the third quarter, while 39 percent reported lower sales.

Retail Sales: 2009:Q3 vs. 2008:Q3
Tracking Survey Responses by Annual Sales Volume

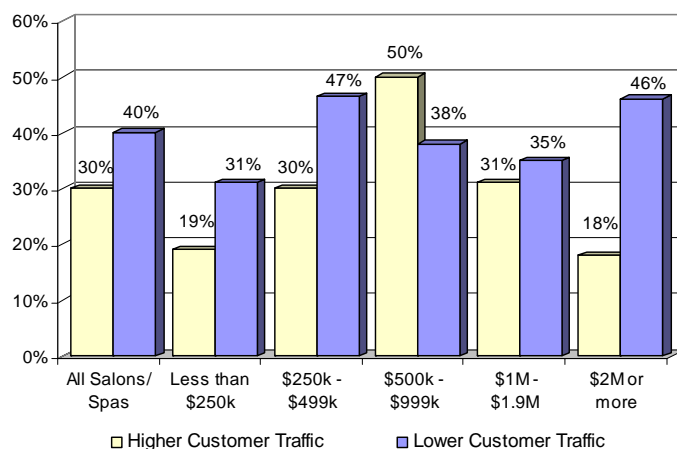


Source: Professional Beauty Association, Salon/Spa Tracking Survey – 3rd Quarter 2009

Customer Traffic Turned Negative in the Third Quarter

- Salon/spa owners reported a reduction in customer traffic levels in the third quarter. Thirty percent of salon/spa owners reported an increase in customer traffic between the third quarters of 2008 and 2009, while 40 percent reported a traffic decline.
- Salon/spa owners in the highest sales category reported the softest customer traffic results in the third quarter. Just 18 percent of salon/spa owners in the \$2 million or higher sales category reported higher customer traffic levels in the third quarter, while 46 percent reported a traffic decline.
- In contrast, 50 percent of salon/spa owners in the \$500,000 - \$999,999 sales category reported an increase in customer traffic between the third quarters of 2008 and 2009, while 38 percent reported a decline.

Customer Traffic: 2009:Q3 vs. 2008:Q3
Tracking Survey Responses by Annual Sales Volume

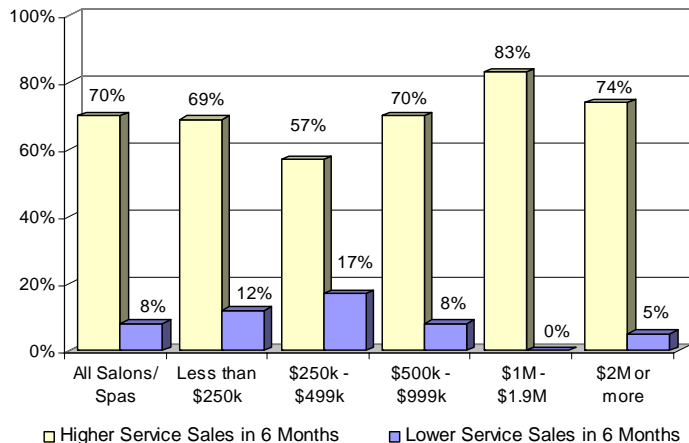


Source: Professional Beauty Association, Salon/Spa Tracking Survey – 3rd Quarter 2009

Salon/Spa Owners are More Optimistic about Service Sales Growth in Six Months

- Salon and spa owners are increasingly optimistic about sales growth in the months ahead. Seventy percent of salon/spa owners said they expect to have higher service sales in six months (compared to the same period in the previous year), up from 60 percent who reported similarly last quarter. Only 8 percent expect their service sales volume to be lower in six months.
- Salon/spa owners in the \$1 million - \$1.9 million sales category are the most optimistic about sales growth, with 83 percent expecting to have higher sales in six months and none expecting lower sales.
- Among salon and spa owners with annual sales of \$2 million or more, 74 percent expect to have higher service sales in six months, while 5 percent expect their service sales to be lower in six months.

Service Sales Expectations in 6 Months vs. Prev. Year Tracking Survey Responses by Annual Sales Volume

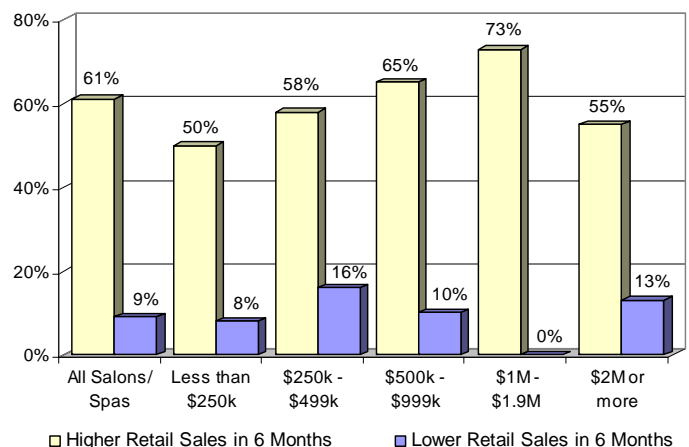


Source: Professional Beauty Association, Salon/Spa Tracking Survey – 3rd Quarter 2009

Salon/Spa Owners Expect Retail Sales to Improve in the Months Ahead

- Salon/spa owners are also much more optimistic about stronger retail sales in the months ahead. Sixty-one percent of salon/spa owners said they expect to have higher retail sales in six months (compared to the same period in the previous year), up from 51 percent who reported similarly last quarter and just 46 percent in the first quarter.
- Salon/spa owners in the \$1 million - \$1.9 million sales category are the most optimistic about retail sales growth, with 73 percent expecting to have higher sales and none expecting lower sales in six months.
- Sixty-five percent of salon/spa owners in the \$500,000 - \$999,999 sales category and 58 percent of salon/spa owners in the \$250,000 - \$499,999 sales category expect to have higher retail sales in six months.

Retail Sales Expectations in 6 Months vs. Prev. Year Tracking Survey Responses by Annual Sales Volume

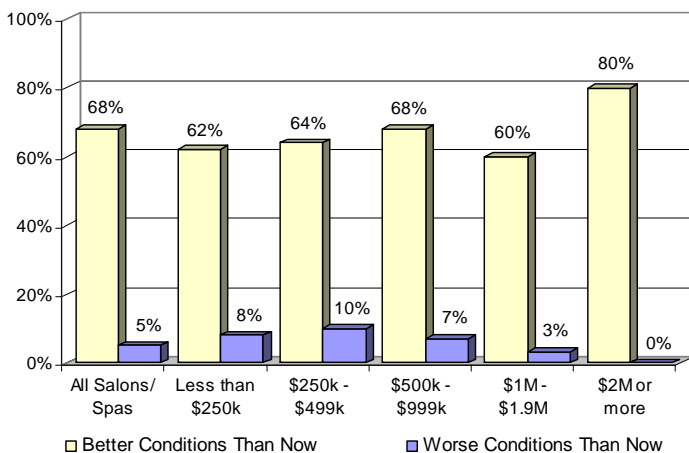


Source: Professional Beauty Association, Salon/Spa Tracking Survey – 3rd Quarter 2009

Salon/Spa Owners Expect Economic Conditions to Improve

- Salon/spa owners remain optimistic about the direction of the overall economy. Sixty-eight percent of salon/spa owners said they expect economic conditions to improve in six months, while only five percent expect economic conditions to worsen in six months. This level of optimism was generally on par with the previous two quarters.
- Salon and spa owners in the \$2 million or more sales category are the most optimistic about the economy, with 80 percent expecting that economic conditions will improve in six months.
- Sixty-eight percent of salon and spa owners in the \$500,000 - \$999,999 sales category expect economic conditions to improve in the next six months.

Outlook for General Business Conditions in 6 Months Tracking Survey Responses by Annual Sales Volume

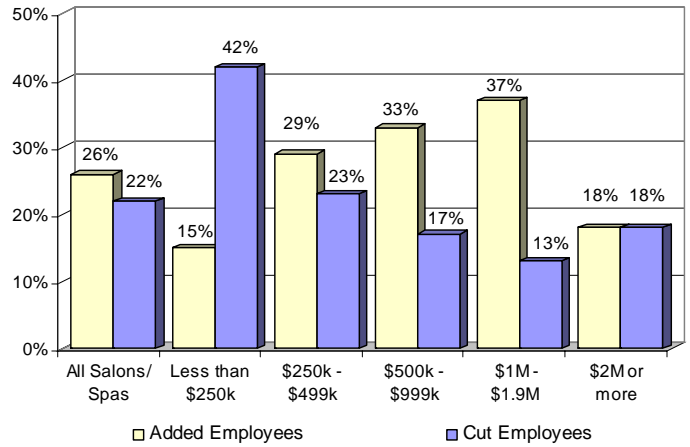


Source: Professional Beauty Association, Salon/Spa Tracking Survey – 3rd Quarter 2009

Salon/Spa Owners Reported Higher Staffing Levels in the Third Quarter

- Salon/spa owners reported slightly higher staffing levels for the second consecutive quarter. Twenty-six percent of salon/spa owners said they added employees between the third quarters of 2008 and 2009, while 22 percent said they cut staffing levels. In the second quarter, 28 percent reported adding employees, while 23 percent reduced staffing levels.
- Within the five sales categories, salon/spa owners in the \$500,000 - \$999,999 category and the \$1 million - \$1.9 million category reported the strongest net increase in staffing levels in the third quarter.
- In the less than \$250,000 sales category, only 15 percent of salon/spa owners added employees in the third quarter, while 42 percent reported a decline in staffing levels.

Number of Employees: 2009:Q3 vs. 2008:Q3
Tracking Survey Responses by Annual Sales Volume

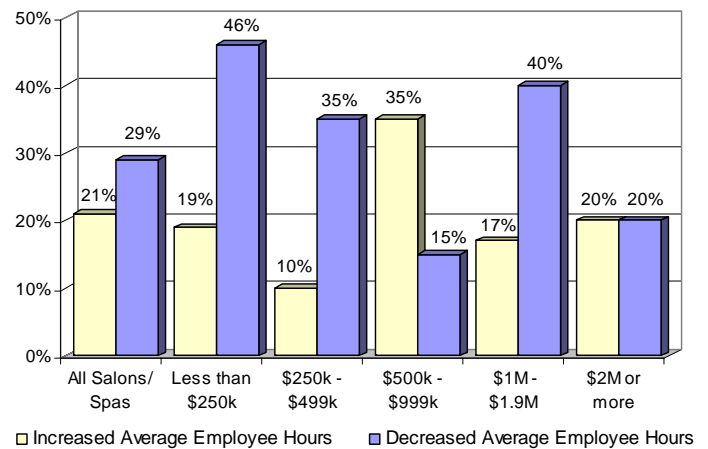


Source: Professional Beauty Association, Salon/Spa Tracking Survey – 3rd Quarter 2009

Salon/Spa Owners Reported a Drop in Employee Hours in the Third Quarter

- Although salon/spa owners reported a slight increase in staffing levels in the third quarter, they reported a decline in the average workweek of their employees. Twenty-nine percent of salon/spa owners said they cut employee hours between the third quarters of 2008 and 2009, while only 21 percent increased employee hours.
- Salon/spa owners in three out of the five sales categories reported a net reduction in average employee hours in the third quarter. In the \$1 million - \$1.9 million sales category, 40 percent of salon/spa owners reduced average employee hours, while only 17 percent expanded their employees' average workweek.
- In contrast, 35 percent of salon/spa owners in the \$500,000 - \$999,999 sales category increased employee hours, while 15 percent reduced employee hours.

Average Employee Hours: 2009:Q3 vs. 2008:Q3
Tracking Survey Responses by Annual Sales Volume

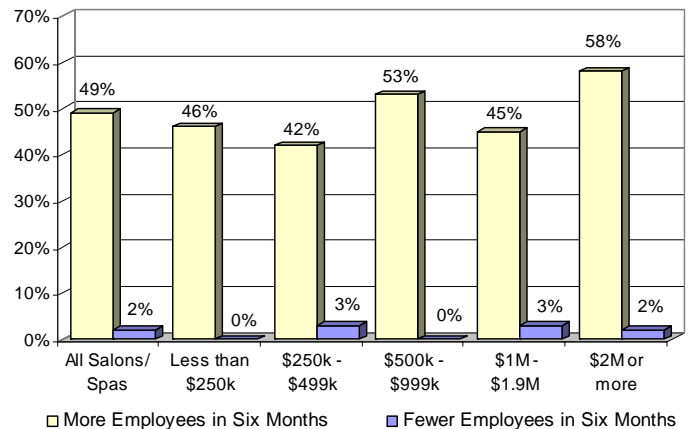


Source: Professional Beauty Association, Salon/Spa Tracking Survey – 3rd Quarter 2009

Salon/Spa Owners Expect to Add Employees in the Next Six Months

- Looking forward, salon/spa owners are planning to expand staffing levels in the months ahead. Forty-nine percent of salon/spa owners expect to have higher staffing levels in six months (compared to the same period in the previous year), while just 2 percent expect to employ fewer individuals in six months. Forty-nine percent of salon/spa owners expect staffing levels to remain unchanged.
- Salon/spa owners in each of the five sales categories expect to add employees in the next six months.
- In the \$2 million or higher sales category, 58 percent of salon/spa owners expect to add employees in the next six months, while just 2 percent plan to cut staffing levels.

Staffing Expectations in 6 Months vs. Previous Year
Tracking Survey Responses by Annual Sales Volume

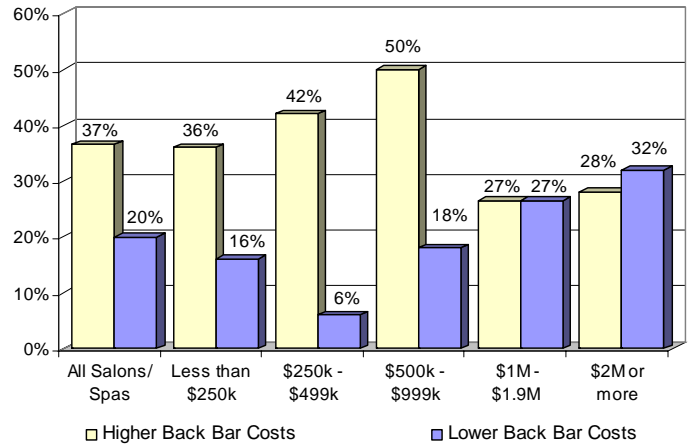


Source: Professional Beauty Association, Salon/Spa Tracking Survey – 3rd Quarter 2009

Salon/Spa Owners Reported Higher Back Bar Costs in the Third Quarter

- Salon and spa owners reported a net increase in average back bar costs between the third quarters of 2008 and 2009. Thirty-seven percent of salon/spa owners said their back bar costs increased, while 20 percent reported a decline in back bar costs.
- Salon/spa owners with annual sales of less than \$1 million reported higher back bar costs in the third quarter. In the \$500,000 - \$999,999 sales category, 50 percent of salon/spa owners reported higher back bar costs, while 18 percent reported a decline.
- In contrast, 32 percent of salon/spa owners in the \$2 million or higher sales category reported a decline in back bar costs, while 28 percent reported an increase in back bar costs in the third quarter.

Average Back Bar Costs: 2009:Q3 vs. 2008:Q3
Tracking Survey Responses by Annual Sales Volume

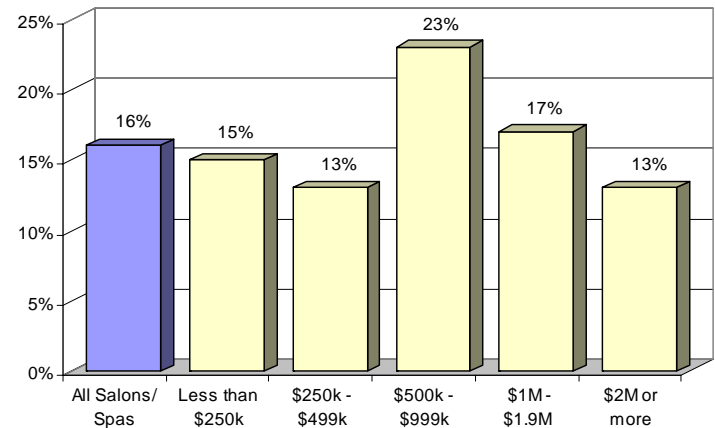


Source: Professional Beauty Association, Salon/Spa Tracking Survey – 3rd Quarter 2009

Sixteen Percent of Salons/Spas Increased Service Prices in the Third Quarter

- Sixteen percent of salon and spa owners said they increased service prices in the third quarter, roughly on par with 15 percent who increased service prices in the second quarter.
- Pricing trends varies across the five sales categories in the third quarter. In the \$500,000 - \$999,999 sales category, 23 percent of salon/spa owners increased service prices in the third quarter, tops among the five sales categories.
- Seventeen percent of salon/spa owners in the \$1 million - \$1.9 million sales category increased service prices in the third quarter.
- On the low end, 13 percent of salon and spa owners in the \$250,000 - \$499,999 sales category said they increased service prices in the third quarter.

% of Salons/Spas that Increased Service Prices in Q3
Tracking Survey Responses by Annual Sales Volume

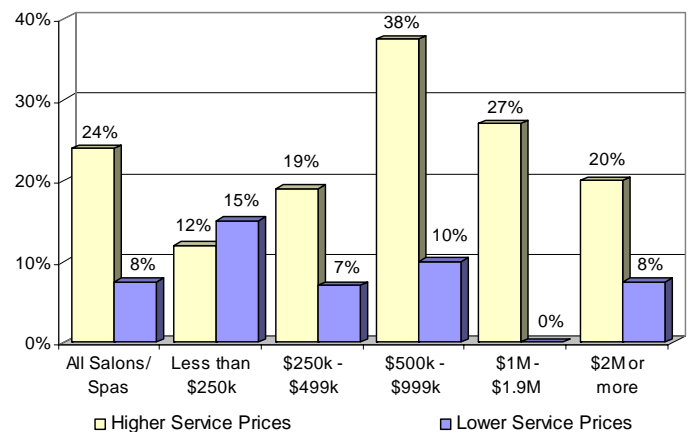


Source: Professional Beauty Association, Salon/Spa Tracking Survey – 3rd Quarter 2009

Salon/Spa Owners Reported a Net Increase in Service Prices over the Last Four Quarters

- Twenty-four percent of salon/spa owners said their service prices were higher in the third quarter than they were in the third quarter of 2008, while 8 percent reported lower service prices. Sixty-eight percent of salon/spa owners said their average service prices were unchanged over the four-quarter period.
- Thirty-eight percent of salon/spa owners in the \$500,000 - \$999,999 sales category said their average service prices rose between the third quarters of 2008 and 2009, tops among the five sales categories.
- Twenty percent of salon/spa owners with sales of \$2 million or higher said their average service prices increased between the third quarters of 2008 and 2009, while 8 percent said they cut prices.

Average Service Prices: 2009:Q3 vs. 2008:Q3
Tracking Survey Responses by Annual Sales Volume

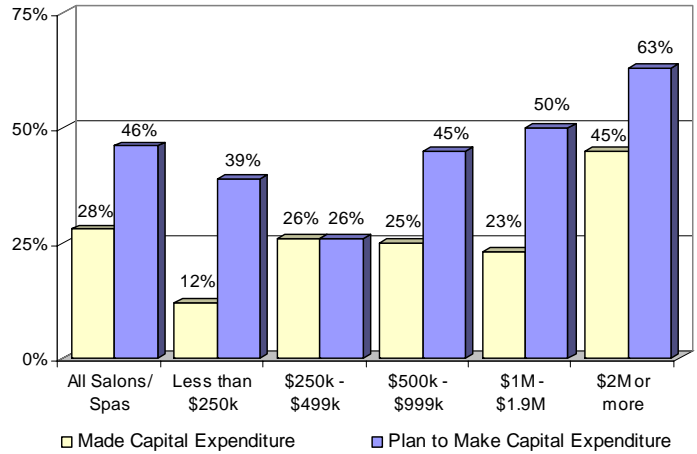


Source: Professional Beauty Association, Salon/Spa Tracking Survey – 3rd Quarter 2009

Capital Spending Levels Dropped Off Slightly in the Third Quarter

- Twenty-eight percent of salon/spa owners said they made a capital expenditure for equipment, expansion or remodeling in the third quarter, down slightly from 34 percent who made expenditures in the second quarter.
- Forty-five percent of salon/spa owners with sales of \$2 million or higher made a capital expenditure in the third quarter, the highest spending activity among the five sales categories.
- Forty-six percent of salon/spa owners plan to make a capital expenditure for equipment, expansion or remodeling in the next six months, up from 42 percent who reported similarly last quarter.
- Sixty-three percent of salon/spa owners with sales of \$2 million or higher said they plan to make a capital expenditure in the next six months.

Capital Expenditures: In 3rd Quarter & Next 6 Months Tracking Survey Responses by Annual Sales Volume



Source: Professional Beauty Association, Salon/Spa Tracking Survey – 3rd Quarter 2009

Sales Volume and the Economy are the Top Challenges for Salon/Spa Owners

- Twenty-four percent of salon/spa owners said building-and-maintaining sales volume is the number-one challenge currently facing their business, followed by the economy (21%) and recruiting-and-retaining employees (19%).
- Thirty-two percent of salon/spa owners in the \$2 million or higher sales category said building-and-maintaining sales volume is the top challenge facing their business, while 27 percent identified the economy.
- Twenty-seven percent of salon/spa owners in the \$1 million - \$1.9 million sales category said recruiting-and-retaining employees is the number-one challenge currently facing their business, tops among the five sales volume categories.

Top Challenges Facing Respondents' Businesses Tracking Survey Responses by Annual Sales Volume

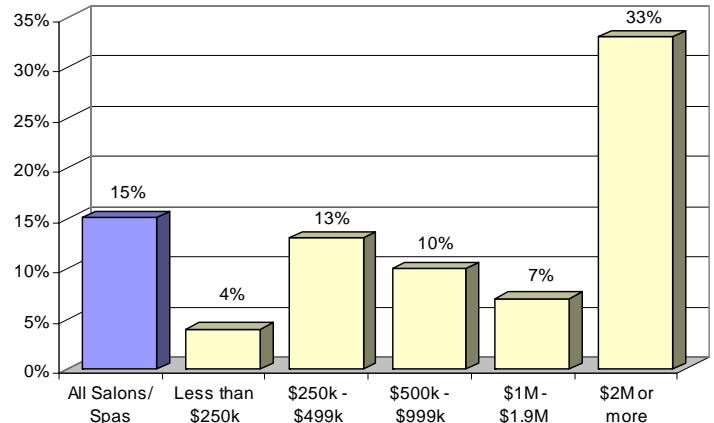


Source: Professional Beauty Association, Salon/Spa Tracking Survey – 3rd Quarter 2009

Fifteen Percent of Salon/Spa Owners Plan to Open New Establishment in Six Months

- Fifteen percent of salon and spa owners said they plan to open a new establishment in the next six months, up slightly from 11 percent who responded similarly last quarter.
- Thirty-three percent of salon/spa owners in the \$2 million or higher sales category plan to open a new establishment in the next six months – tops among the five sales volume categories.
- Thirteen percent of salon/spa owners with annual sales between \$250,000 and \$499,999 said they plan to open a new establishment in the next six months.
- Among salon/spa owners with annual sales of less than \$250,000, just 4 percent reported that they plan to open a new establishment in the next six months.

Salons/Spas That Plan to Open New Location in 6 Mo. Tracking Survey Responses by Annual Sales Volume



Source: Professional Beauty Association, Salon/Spa Tracking Survey – 3rd Quarter 2009

Salon/Spa Tracking Survey Results – Third Quarter 2009

	----- Annual Sales Volume -----					
	All Salons & Spas	Less than \$250,000	\$250,000 to \$499,999	\$500,000 to \$999,999	\$1 million to \$1,999,999	\$2 million or Higher
Service Sales: 2009:Q3 vs. 2008:Q3						
Higher Sales	38%	23%	42%	50%	43%	30%
Lower Sales	36	42	32	35	27	40
About the Same	26	35	26	15	30	30
Median Sales Increase	9%	5%	15%	10%	9%	8%
Median Sales Decrease	-10	-10	-14	-10	-10	-9
Overall Average Percent Change	-0.1%	-2.4%	2.0%	0.8%	0.9%	-2.2%
Retail Sales: 2009:Q3 vs. 2008:Q3						
Higher Sales	36%	23%	42%	38%	47%	30%
Lower Sales	47	39	39	47	40	63
About the Same	17	39	19	15	13	7
Median Sales Increase	8%	8%	14%	5%	7%	7%
Median Sales Decrease	-10	-12	-10	-10	-10	-10
Overall Average Percent Change	-2.0%	-2.4%	-0.7%	-3.0%	1.4%	-4.1%
Customer Traffic: 2009:Q3 vs. 2008:Q3						
Higher Traffic	30%	19%	30%	50%	31%	18%
Lower Traffic	40	31	47	38	35	46
About the Same	30	50	23	12	35	36
Median Traffic Increase	10%	25%	13%	10%	7%	7%
Median Traffic Decrease	-10	-10	-13	-9	-8	-10
Overall Average Percent Change	-1.2%	-0.6%	-1.4%	-0.9%	-0.3%	-2.6%
Service Sales: Expectations in 6 Months vs. Same Period in Previous Year						
Higher Sales	70%	69%	57%	70%	83%	74%
Lower Sales	8	12	17	8	0	5
About the Same	22	19	27	22	17	20
Retail Sales: Expectations in 6 Months vs. Same Period in Previous Year						
Higher Sales	61%	50%	58%	65%	73%	55%
Lower Sales	9	8	16	10	0	13
About the Same	30	42	26	35	27	33
Expectations for General Business Conditions in 6 Months						
Better Conditions	68%	62%	64%	68%	60%	80%
Worse Conditions	5	8	10	7	3	0
About the Same	27	31	26	25	37	20
Number of Employees: 2009:Q3 vs. 2008:Q3						
Added Employees	26%	15%	29%	33%	37%	18%
Cut Employees	22	42	23	17	13	18
About the Same	52	42	48	50	50	65
Average Employee Hours: 2009:Q3 vs. 2008:Q3						
More Hours	21%	19%	10%	35%	17%	20%
Fewer Hours	29	46	35	15	40	20
About the Same	50	35	55	50	43	60
Number of Employees: Expectations in 6 Months vs. Same Period in Previous Year						
More Employees	49%	46%	42%	53%	45%	58%
Fewer Employees	2	0	3	0	3	2
About the Same	49	54	55	47	52	40

Notes: Figures may not add to 100% due to rounding; Figures are based on 171 survey responses.

Salon/Spa Tracking Survey Results – Third Quarter 2009 (cont.)

	----- Annual Sales Volume -----					
	All Salons & Spas	Less than \$250,000	\$250,000 to \$499,999	\$500,000 to \$999,999	\$1 million to \$1,999,999	\$2 million or Higher
Back Bar Costs: 2009:Q3 vs. 2008:Q3						
Higher Costs	37%	36%	42%	50%	27%	28%
Lower Costs	20	16	6	18	27	32
About the Same	43	48	52	32	47	40
Median Cost Increase	5%	10%	7%	5%	5%	5%
Median Cost Decrease	-5	-10	-	-4	-5	-6
Overall Average Percent Change	1.5%	1.6%	5.0%	3.4%	-0.3%	-0.2%
Increased Service Prices in Third Quarter	16%	15%	13%	23%	17%	13%
Average Service Prices: 2009:Q3 vs. 2008:Q3						
Higher Prices	24%	12%	19%	38%	27%	20%
Lower Prices	8	15	7	10	0	8
About the Same	68	73	74	52	73	72
Median Price Increase	8%	10%	10%	5%	5%	8%
Median Price Decrease	-10	-	-9	-10	-	-2
Overall Average Percent Change	0.9%	-2.0%	1.3%	1.4%	1.8%	1.3%
Made Capital Expenditure in Third Quarter	28%	12%	26%	25%	23%	45%
Plan to Make Capital Expenditure in Next 6 Months	46%	39%	26%	45%	50%	63%
Openings and Closings of Salon/Spa Establishments						
Opened Establishment in Third Quarter	8%	4%	7%	5%	7%	15%
Closed Establishment in Third Quarter	4	4	7	0	0	8
Plan to Open Establishment(s) in 6 Months	15	4	13	10	7	33
Rented Chairs or Space in Last 12 Months	5%	12%	10%	5%	4%	0%
Top Challenge Facing Respondent's Business						
Building & Maintaining Sales Volume	24%	24%	30%	11%	23%	32%
The Economy	21	24	17	30	7	27
Recruiting & Retaining Employees	19	24	10	24	27	11
Providing Quality Service & Value	8	4	7	8	7	11
Operating Costs	5	4	3	5	10	3
Marketing	4	8	7	5	0	3
Building Retail Sales	4	4	3	0	10	3
Access to Capital	4	8	10	0	3	8
Taxes	3	0	0	5	0	0
Booth Rental Competition	3	0	7	0	3	3

Notes: Figures may not add to 100% due to rounding; Figures are based on 171 survey responses.



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PBA and the PBA Foundation partnered with renowned research firm McMillan Doolittle to complete this year-long study focusing on the core of what drives retail sales in our industry; competition among outlets, the role of the stylist in selling, where consumers are shopping, what they're buying and why. The findings in this report help to define the future of the salon retail environment and key strategies and priorities to drive sales and profits. Available at the PBA Bookstore at probeauty.org/bookstore or call 800.468.2274

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