

Sally Beauty Holdings, Inc.
Form 424B3
May 17, 2012
Table of Contents

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-179580

PROSPECTUS

SALLY HOLDINGS LLC

SALLY CAPITAL INC.

(as Issuer)

SALLY BEAUTY HOLDINGS, INC.

SALLY INVESTMENT HOLDINGS LLC

(as Parent Guarantors)

Offer to Exchange

All Outstanding 6.875% Senior Notes due 2019

issued November 8, 2011

(\$750,000,000 aggregate principal amount outstanding)

for newly-issued, registered

6.875% Senior Notes Due 2019

This exchange offer will expire at 5:00 p.m.,

New York City time, on June 20, 2012, unless extended.

- We are offering to exchange \$750,000,000 aggregate principal amount of our 6.875% senior notes due November 15, 2019, registered under the Securities Act of 1933, as amended, or the Securities Act, and referred to in this prospectus as the new notes, for all

Edgar Filing: Sally Beauty Holdings, Inc. - Form 424B3

\$750,000,000 aggregate principal amount of outstanding unregistered 6.875% senior notes due November 15, 2019 issued on November 8, 2011, which are referred to in this prospectus as the old notes.

- Subject to the terms of this exchange offer, we will exchange the new notes for all old notes that are validly tendered and not withdrawn prior to the expiration of this exchange offer.
- The terms of the new notes will be substantially identical to the terms of the old notes, except that the new notes will be registered under the Securities Act and will generally not be subject to transfer restrictions or registration rights. The old notes were issued in reliance upon an available exemption from the registration requirements of the Securities Act.
- We will pay interest on the new notes on each May 15 and November 15, beginning November 15, 2012.
- The new notes will be fully and unconditionally guaranteed on a senior unsecured basis by Sally Beauty Holdings, Inc., Sally Investment Holdings LLC and our material domestic subsidiaries who have guaranteed our obligations with respect to our senior credit facilities and the old notes, subject to certain customary release provisions. See Description of New Notes Parent Guarantees and Description of New Notes Subsidiary Guarantees.
- The exchange of old notes for new notes pursuant to this exchange offer generally should not be a taxable event for U.S. federal income tax purposes. See Certain Material U.S. Federal Income Tax Consequences.
- We will not receive any proceeds from this exchange offer.

Investing in the new notes involves risks. You should consider carefully the risk factors beginning on page 11 of this prospectus before tendering your old notes in this exchange offer.

Neither the Securities and Exchange Commission (the SEC) nor any state securities commission has approved or disapproved of the new notes or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Each broker-dealer that receives new notes for its own account pursuant to this exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of such new notes. The letter of transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of new notes received in exchange for old notes where such old notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. We have agreed that we will make this prospectus available to any broker-dealer for use in connection with any such resale until the earlier of 180 days after the closing of this exchange offer or the date on which each such broker-dealer has resold all of the new notes acquired by it in this exchange offer. See Plan of Distribution.

The date of this prospectus is May 17, 2012

Table of Contents

TABLE OF CONTENTS

	Page
<u>Forward-Looking Statements</u>	ii
<u>Presentation of Information</u>	iii
<u>Summary</u>	1
<u>Risk Factors</u>	11
<u>Use of Proceeds</u>	19
<u>Ratio of Earnings to Fixed Charges</u>	20
<u>The Exchange Offer</u>	21
<u>Description of Certain Other Indebtedness</u>	29
<u>Description of New Notes</u>	31
<u>Certain Material U.S. Federal Income Tax Consequences</u>	80
<u>Plan of Distribution</u>	81
<u>Legal Matters</u>	81
<u>Experts</u>	81
<u>Where You Can Find More Information</u>	82
<u>Incorporation of Certain Documents by Reference</u>	83

You should rely only on the information in this prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to exchange and issue the new notes in any jurisdiction where the offer or exchange is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations, and prospects may have changed since that date.

This exchange offer is not being made to, and we will not accept surrenders for exchange from, holders of old notes in any jurisdiction in which this exchange offer or the acceptance of this exchange offer would violate the securities or blue sky laws of that jurisdiction.

This prospectus incorporates by reference business and financial information about us that is not included in or delivered with this prospectus. This information is available without charge upon written or oral request directed to: Investor Relations Department, Sally Beauty Holdings, Inc., 3001 Colorado Boulevard, Denton, Texas 76210; telephone number: (940) 297-3877. **To obtain timely delivery, you must request the information no later than June 13, 2012, which is five business days prior to the expiration of this exchange offer.**

Table of Contents

FORWARD-LOOKING STATEMENTS

Statements in this prospectus and in the documents incorporated by reference herein which are not purely historical facts or which depend upon future events may constitute forward-looking statements. Words such as anticipate, believe, estimate, expect, intend, plan, project, ta could, may, should, will, would or similar expressions may also identify such forward-looking statements.

Readers are cautioned not to place undue reliance on forward-looking statements as such statements speak only as of the date they were made. Any forward-looking statements involve risks and uncertainties that could cause actual events or results to differ materially from the events or results described in the forward-looking statements, including, but not limited to, risks and uncertainties related to:

- the highly competitive nature of, and the increasing consolidation of, the beauty products distribution industry;
- anticipating changes in consumer preferences and buying trends and managing our product lines and inventory;
- potential fluctuation in our same store sales and quarterly financial performance;
- our dependence upon manufacturers who may be unwilling or unable to continue to supply products to us;
- the possibility of material interruptions in the supply of products by our manufacturers;
- products sold by us being found to be defective in labeling or content;
- compliance with laws and regulations or becoming subject to additional or more stringent laws and regulations;
- product diversion to mass retailers or other unauthorized resellers;
- the operational and financial performance of our Armstrong McCall, L.P. franchise-based business;

Edgar Filing: Sally Beauty Holdings, Inc. - Form 424B3

- the success of our internet-based businesses;
- successfully identifying acquisition candidates and successfully completing desirable acquisitions;
- integrating businesses acquired in the future;
- opening and operating new stores profitably;
- the impact of the health of the economy upon our business;
- the success of our cost control plans;
- protecting our intellectual property rights, particularly our trademarks;
- conducting business outside the United States;
- disruption in our information technology systems;
- severe weather, natural disasters or acts of violence or terrorism;
- the preparedness of our accounting and other management systems to meet financial reporting and other requirements and the upgrade of our existing financial reporting system;
- being a holding company, with no operations of our own, and depending on our subsidiaries for cash;
- our substantial indebtedness;

- the possibility that we may incur substantial additional debt in the future;
- restrictions and limitations in the agreements and instruments governing our debt;

Table of Contents

- generating the significant amount of cash needed to service all of our debt and refinancing all or a portion of our indebtedness or obtaining additional financing;
- changes in interest rates increasing the cost of servicing our debt or increasing our interest expense due to our interest rate swap agreements;
- the potential impact on us if the financial institutions we deal with become impaired;
- the costs and effects of litigation;
- the representativeness of our historical consolidated financial information with respect to our future financial position, results of operations or cash flows;
- the voting power of our largest stockholder discouraging third party acquisitions of us at a premium; and
- the interests of our largest stockholder differing from the interests of other holders of our common stock.

Additional factors that could cause actual events or results to differ materially from the events or results described in the forward-looking statements can be found in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011, which is incorporated by reference into this prospectus, and under the section entitled "Risk Factors" in this prospectus. The events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than we have described. As a result, our actual results may differ materially from the results contemplated by these forward-looking statements. We assume no obligation to publicly update or revise any forward-looking statements.

PRESENTATION OF INFORMATION

In this prospectus, unless the context requires otherwise: (i) Sally Holdings the Company, we, us, our and issuer refer to Sally Holdings L its consolidated subsidiaries, including Sally Capital Inc., except as otherwise indicated or the context otherwise requires; (ii) Sally Beauty refers to Sally Beauty Holdings, Inc., our ultimate corporate parent; (iii) Sally Investment Holdings refers to our immediate parent company, Sally Investment Holdings LLC; (iv) parent guarantors refers to Sally Beauty and Sally Investment Holdings; (v) subsidiary guarantors refers to our domestic subsidiaries who are guaranteeing our obligations under the new notes and who have guaranteed obligations with respect to our senior credit facilities and the old notes; (vi) guarantors refers collectively to the parent guarantors and subsidiary guarantors; (vii) non-guarantor subsidiaries refers to those of our subsidiaries that are not guaranteeing our obligations under the notes; (viii) initial purchasers refers to the

Edgar Filing: Sally Beauty Holdings, Inc. - Form 424B3

initial purchasers of the old notes pursuant to a Purchase Agreement dated November 3, 2011 entered into with us, and the subsidiary guarantors; (ix) "old notes" refers to the 6.875% senior notes due 2019 that we issued on November 8, 2011; (x) "new notes" refers to the 6.875% senior notes due 2019 that we registered under the Securities Act and that we are offering in exchange for the old notes; and (xi) "notes" refers to the old notes and the new notes, collectively.

Table of Contents

SUMMARY

You should read the following summary together with the more detailed information appearing elsewhere in this prospectus, as well as the financial statements and related notes thereto and other information included in or incorporated by reference in this prospectus.

The Company

Sally Beauty Holdings, Inc. is an international specialty retailer and distributor of professional beauty supplies with operations primarily in North America, South America and Europe. Our two business units, Sally Beauty Supply and Beauty Systems Group, which we refer to as BSG, sell and distribute beauty products through 4,210 company-owned stores, 182 franchised stores and 1,113 professional distributor sales consultants. Sally Beauty Supply stores target retail consumers and salon professionals, while BSG exclusively targets salons and salon professionals. We have store locations in the United States (including Puerto Rico), Canada, the United Kingdom, Ireland, Belgium, France, Germany, the Netherlands, Spain, Chile and Mexico. We believe we are the largest distributor of professional beauty supplies in the U.S. based on store count. Within BSG, we also have one of the largest networks of professional distributor sales consultants in North America, with approximately 1,113 professional distributor sales consultants who sell directly to salons and salon professionals. We provide our customers with a wide variety of leading third-party branded and exclusive-label professional beauty supplies, including hair color products, hair care products, styling appliances, skin and nail care products and other beauty items. Our consolidated net sales and operating earnings were \$3,269.1 million and \$448.5 million, respectively, for the fiscal year ended September 30, 2011 and \$1,754.1 million and \$244.9 million, respectively, for the six months ended March 31, 2012.

We believe Sally Beauty Supply is the largest open-line distributor of professional beauty supplies in the U.S. based on store count. As of March 31, 2012, Sally Beauty Supply operated 3,204 company-operated retail stores, 2,543 of which are located in the U.S., with the remaining 661 located in Canada, Puerto Rico, the United Kingdom, Ireland, Belgium, France, Germany, the Netherlands, Spain, Chile and Mexico. We also supply 24 franchised stores located outside the U.S. Our U.S. and Canadian stores average 1,700 square feet and are primarily located in strip shopping centers. Our Sally Beauty Supply stores carry an extensive selection of professional beauty supplies for both retail customers and salon professionals, with between 5,000 and 8,000 SKUs (primarily in the U.S. and Canada) of beauty products across product categories including hair color, hair care, skin and nail care, beauty sundries and electrical appliances. Sally Beauty Supply stores carry leading third-party brands such as Clairol®, Revlon® and Conair®, as well as a broad selection of exclusive-label merchandise. We believe that Sally Beauty Supply has differentiated itself from its competitors through its customer value proposition, attractive pricing, extensive selection of leading third-party branded and exclusive-label products, broad ethnic product selection, knowledgeable sales associates and convenient store locations. Sally Beauty Supply's net sales and segment operating profit were \$2,012.4 million and \$381.0 million, respectively, for the fiscal year ended September 30, 2011 and \$1,090.3 million and \$212.4 million, respectively, for the six months ended March 31, 2012.

We believe BSG is the largest full-service distributor of professional beauty supplies in the U.S., exclusively targeting salons and salon professionals. As of March 31, 2012, BSG had 1,006 company-operated stores, supplied 158 franchised stores and had a sales force of approximately 1,113 professional distributor sales consultants in all states in the U.S. and in portions of Canada, Puerto Rico, Mexico and certain European countries. BSG carries leading professional beauty product brands intended for use in salons and for resale by salons to consumers. Through its large store base and sales force, BSG is able to access a significant portion of the highly fragmented U.S. professional beauty sales channel. BSG stores, which primarily operate under the CosmoProf banner, average approximately 2,700 square feet and are primarily located in secondary strip shopping centers. BSG stores provide a comprehensive selection of between 5,000 and 10,000 beauty product SKUs that include hair color and care, skin and nail care, beauty sundries and electrical appliances. Certain BSG products are sold under exclusive distribution agreements with suppliers, whereby BSG is designated as the sole distributor for a product line within certain geographic territories. BSG's net sales and segment operating profit were \$1,256.7 million and \$164.7 million, respectively, for the fiscal year ended September 30, 2011 and \$663.8 million and \$88.9 million, respectively, for the six months ended March 31, 2012.

Table of Contents

Redemption of 2014 Notes and 2016 Notes

On December 5, 2011, we redeemed approximately \$430 million aggregate principal amount of our 9.25% senior notes due 2014, and we redeemed approximately \$275 million aggregate principal amount of our 10.50% senior notes due 2016.

Corporate Information

Sally Holdings is a Delaware limited liability company. Sally Capital, a Delaware corporation, is a wholly-owned subsidiary of Sally Holdings and does not have any assets or operations of any kind. Sally Holdings is, and Sally Capital through Sally Holdings is, a wholly owned subsidiary of Sally Beauty Holdings, Inc.

Our executive offices are located at 3001 Colorado Blvd, Denton, TX 76210, and our telephone number at that location is (940) 898-7500. Our website address is www.sallybeautyholdings.com. The information on our website is not a part of this prospectus.

Table of Contents

SUMMARY OF THE TERMS OF THE EXCHANGE OFFER

On November 8, 2011, we issued in a private offering \$750.0 million aggregate principal amount of our old notes. In connection with the issuance of the old notes, we entered into a registration rights agreement in which we agreed, among other things, to deliver this prospectus to you and to complete an exchange offer for the old notes.

*The summary below describes the principal terms of the exchange offer. Please see *The Exchange Offer* for further information regarding the exchange offer.*

Old notes	\$750.0 million aggregate principal amount of 6.875% Senior Notes due 2019.
New notes	6.875% Senior Notes due 2019. The terms of the new notes are identical in all material respects to the terms of the old notes, except that the new notes are registered under the Securities Act and generally are not subject to transfer restrictions or registration rights.
Exchange offer	<p>We are offering to exchange \$1,000 principal amount of our new notes due November 15, 2019, for each \$1,000 principal amount of our old notes due November 15, 2019. Currently, there is \$750.0 million aggregate principal amount of old notes outstanding.</p> <p>Old notes may be exchanged only in minimum denominations of \$2,000 and integral multiples of \$1,000 in excess of \$2,000. New notes will be issued only in minimum denominations of \$1,000 and integral multiples of \$1,000 in excess of \$2,000.</p> <p>Subject to the terms of this exchange offer, we will exchange new notes for all of the old notes that are validly tendered and not withdrawn prior to the expiration of this exchange offer. The new notes will be issued in exchange for corresponding old notes in this exchange offer, if consummated, promptly after the expiration of this exchange offer.</p>
Expiration Date	This exchange offer will expire at 5:00 p.m., New York City time, on June 20 2012, unless we extend it. We do not currently intend to extend the expiration date.
Withdrawal of Tenders	You may withdraw the tender of your old notes at any time prior to the expiration date.
Taxation	The exchange of old notes for new notes in this exchange offer generally should not be a taxable event for U.S. federal income tax purposes. See <i>Certain Material U.S. Federal Income Tax Consequences</i> .
Conditions to this Exchange Offer	This exchange offer is subject to customary conditions, which we may assert or waive. See <i>The Exchange Offer</i> <i>Conditions to the Exchange Offer</i> ; <i>Waivers</i> .
Procedures for Tendering	If you wish to accept this exchange offer and your old notes are held by a custodial entity such as a bank, broker, dealer, trust company or other nominee, you must instruct this custodial entity to tender your old notes

Table of Contents

on your behalf pursuant to the procedures of the custodial entity. If your old notes are registered in your name, you must complete, sign and date the accompanying letter of transmittal, or a facsimile of the letter of transmittal, according to the instructions contained in this prospectus and the letter of transmittal. You must also mail or otherwise deliver the letter of transmittal, or a facsimile of the letter of transmittal, together with the old notes and any other required documents, to the exchange agent at the address set forth on the cover page of the letter of transmittal.

Custodial entities that are participants in The Depository Trust Company, or DTC, may tender old notes through DTC's Automated Tender Offer Program, or ATOP, which enables a custodial entity, and the beneficial owner on whose behalf the custodial entity is acting, to electronically agree to be bound by the letter of transmittal. **A letter of transmittal need not accompany tenders effected through ATOP.**

By tendering your old notes in either of these manners, you will represent and agree with us that:

- you are acquiring the new notes in the ordinary course of your business;

- you have not engaged and have no intention to engage in a distribution (within the meaning of the Securities Act) of the new notes in violation of the provisions of the Securities Act and have no arrangement or understanding with any person to participate in such a distribution;

- you are not an affiliate of the issuer (within the meaning of Rule 405 under the Securities Act); and

- if you are a broker-dealer registered under the Exchange Act, you are participating in the exchange offer for your own account in exchange for old notes acquired as a result of market making activities or other trading activities and you will deliver a prospectus in connection with any resale of the new notes.

See The Exchange Offer Effect of Surrendering Old Notes.

Resale of New Notes

We believe that you can resell and transfer your new notes without registering them under the Securities Act and delivering a prospectus, if you can make the representations that appear under The Exchange Offer Effect of Surrendering Old Notes. Our belief is based on interpretations expressed in SEC no-action letters to other issuers in exchange offers like ours.

We cannot guarantee that the SEC would make a similar decision about this exchange offer. If our belief is wrong, or if you cannot truthfully make the necessary representations, and you transfer any registered note issued to you in this exchange offer without meeting the registration and prospectus delivery requirements of the Securities Act, or without an exemption from these requirements, then you could incur liability under the Securities Act. We are not indemnifying you for any liability that you may incur under the Securities Act. A broker-dealer can only resell or transfer new notes if it delivers a prospectus in connection with the resale or transfer.

Table of Contents

Consequences of Failure to Exchange	For a description of the consequences of a failure to exchange the old notes, see Risk Factors.
Use of Proceeds	We will not receive any proceeds from the exchange of notes pursuant to the exchange offer.
Exchange Agent	Wells Fargo Bank, National Association is the exchange agent for this exchange offer. The address and telephone number of the exchange agent are on page 28 of this prospectus.

Table of Contents

SUMMARY OF THE TERMS OF THE NEW NOTES

The terms of the new notes are identical in all material respects to the terms of the old notes, except that the new notes will generally not contain terms with respect to transfer restrictions or additional interest upon a failure to fulfill certain of our obligations under the registration rights agreement. The new notes will evidence the same debt as the old notes. The new notes will be governed by the same indenture under which the old notes were issued.

The summary below describes the principal terms of the new notes. Please see "Description of the New Notes" for further information regarding the new notes.

Issuers	Sally Holdings LLC and Sally Capital Inc.
Guarantors	Sally Beauty Holdings, Inc., Sally Investment Holdings LLC and certain of our domestic subsidiaries who have guaranteed our obligations in respect of our senior credit facilities and the old notes.
Notes Offered	\$750.0 million aggregate principal amount of 6.875% Senior Notes due 2019.
Maturity	November 15, 2019.
Interest	Interest on the notes will accrue at a rate of 6.875% per annum, payable semi-annually in arrears in cash on May 15 and November 15 of each year, commencing November 15, 2012. Interest began to accrue on May 15, 2012.
Optional Redemption	<p>We may redeem the new notes, in whole or in part, at any time on or after November 15, 2015 at the redemption prices described under "Description of New Notes Optional Redemption," together with accrued and unpaid interest to, but not including, the redemption date.</p> <p>At any time prior to November 15, 2015, we may redeem the new notes, in whole or in part, at a redemption price equal to 100% of their principal amount plus a make-whole premium described in "Description of New Notes Optional Redemption," together with accrued and unpaid interest to the redemption date.</p> <p>In addition, prior to November 15, 2014, we may redeem up to 35% of the aggregate principal amount of outstanding notes with the proceeds of certain equity offerings at a redemption price equal to 106.875% of their principal amount, plus accrued and unpaid interest to the redemption date. We may make such redemption only if, after any such redemption, at least 65% of the aggregate principal amount of notes originally issued under the indenture (including any additional notes) remains outstanding. See "Description of New Notes Optional Redemption."</p>
Change of Control	In the event of a change of control under the terms of the indenture, each holder of the new notes will have the right to require us to purchase such holder's new notes at a price of 101% of their principal amount plus accrued interest, if any, to the date of purchase. See "Description of New Notes Change of Control."
Ranking	The new notes will be our general unsecured obligations and will rank:

Table of Contents

- equal in right of payment to all of our existing and future unsecured indebtedness and other obligations that are not, by their terms, expressly subordinated in right of payment to the notes;
- senior in right of payment to any of our future indebtedness and other obligations that are, by their terms, expressly subordinated in right of payment to the notes;
- effectively subordinated to all of our secured indebtedness and other secured obligations to the extent of the value of the assets securing such indebtedness and other obligations; and
- structurally subordinated to all indebtedness and other liabilities (including trade payables) of our subsidiaries that do not guarantee the notes.

The note guarantee of each guarantor will be a general unsecured senior obligation of that guarantor and will rank:

- equal in right of payment to all existing and future unsecured indebtedness and other obligations of that guarantor that are not, by their terms, expressly subordinated in right of payment to the note guarantee;
- senior in right of payment to any future indebtedness and other obligations of that guarantor that are, by their terms, expressly subordinated in right of payment to the note guarantee; and
- effectively subordinated to all secured indebtedness and other secured obligations of that guarantor to the extent of the value of the assets securing such indebtedness and other obligations.

As of March 31, 2012, we had consolidated total indebtedness of approximately \$1,356.2 million, of which approximately \$606.2 million was secured and effectively senior to the notes offered hereby. In addition, as of March 31, 2012, our non-guarantor subsidiaries had liabilities of approximately \$158.7 million, all of which was structurally senior to the notes.

As of March 31, 2012, we had additional availability under the revolving portion of our senior credit facilities of up to \$378.9 million, all of which would be secured and would be effectively senior to the notes.

Certain Covenants

We will issue the new notes under an indenture with Wells Fargo Bank, National Association, as trustee (the "Trustee"). The indenture, among other things, limits our ability and the ability of our restricted subsidiaries to:

- incur more debt;
- pay dividends, redeem stock or make other distributions;
- make certain investments;
- create liens;
- transfer or sell assets;

Table of Contents

- merge or consolidate; and
- enter into transactions with our affiliates.

These covenants are subject to important exceptions and qualifications, which are described under [Description of New Notes Certain Covenants](#) and [Description of New Notes Merger and Consolidation](#).

Transfer restrictions; Absence of a Public Market

The new notes will generally be freely transferable but will be a new issue of securities for which there will not initially be a market. Accordingly, there can be no assurance as to the development or liquidity of any market for the new notes. We do not intend to apply for a listing of the new notes on any securities exchange or automated dealer quotation system.

Use of Proceeds

We will not receive any cash proceeds from the issuance of the new notes in the exchange offer. See [Use of Proceeds](#).

You should carefully consider all of the information in this prospectus, or incorporated by reference herein, including the discussion under the caption [Risk Factors](#) beginning on page 11 before investing in the new notes.

Table of Contents**SELECTED FINANCIAL DATA**

The following summary consolidated financial data of Sally Beauty Holdings, Inc., the ultimate parent company of Sally Holdings, for each of the fiscal years in the five-year period ended September 30, 2011, have been derived from Sally Beauty's audited consolidated financial statements incorporated by reference into this prospectus. The following summary consolidated financial data of Sally Beauty Holdings, Inc for the six months ended March 31, 2012 and 2011 have been derived from Sally Beauty's unaudited consolidated financial statements incorporated by reference into this prospectus and are not necessarily indicative of the results for the remainder of the fiscal year or any future period. The following summary consolidated financial data should be read together with the Management's Discussion and Analysis of Financial Condition and Results of Operations section contained in Sally Beauty's 2011 10-K and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 and the historical financial statements and notes thereto incorporated by reference into this prospectus.

	Fiscal Year Ended September 30, (Unaudited)				Six Months Ended March 31,		
	2011	2010	2009	2008	2007	2012	2011
Results of operations information:							
Net sales	\$ 3,269,131	\$ 2,916,090	\$ 2,636,600	\$ 2,648,191	\$ 2,513,772	\$ 1,754,096	\$ 1,595,369
Cost of products sold and distribution expenses	1,674,526	1,511,716	1,393,283	1,413,597	1,360,025	895,453	824,164
Gross profit	1,594,605	1,404,374	1,243,317	1,234,594	1,153,747	858,643	771,205
Selling, general and administrative expenses(a)	1,086,414	1,012,321	899,415	903,146	857,276	582,203	544,289
Depreciation and amortization	59,722	51,123	47,066	48,533	42,605	31,493	28,888
Sales-based service fee charged by Alberto-Culver					3,779		
Transaction expenses(b)					21,502		
Operating earnings	448,469	340,930	296,836	282,915	228,585	244,947	198,028
Interest expense(c)	112,530	112,982	132,022	159,116	145,972	86,316	57,316
Earnings before provision for income taxes	335,939	227,948	164,814	123,799	82,613	158,631	140,712
Provision for income taxes	122,214	84,120	65,697	46,222	38,121	60,684	50,485
Net earnings	\$ 213,725	\$ 143,828	\$ 99,117	\$ 77,577	\$ 44,492	\$ 97,947	\$ 90,227
Earnings per share(d)							
Basic	\$ 1.17	\$ 0.79	\$ 0.55	\$ 0.43	\$ 0.25	\$ 0.53	\$ 0.49
Diluted	\$ 1.14	\$ 0.78	\$ 0.54	\$ 0.42	\$ 0.24	\$ 0.51	\$ 0.48
Weighted average shares, basic	183,020	181,985	181,691	181,189	180,392	185,514	182,644
Weighted average shares, diluted	188,093	184,088	183,306	182,704	182,375	190,662	187,431
Operating data:							
Number of stores (at end of period):							
Sally Beauty Supply	3,158	3,032	2,923	2,844	2,694	3,228	3,083
Beauty Systems Group	1,151	1,027	991	929	874	1,164	1,124
Consolidated	4,309	4,059	3,914	3,773	3,568	4,392	4,207

Edgar Filing: Sally Beauty Holdings, Inc. - Form 424B3

Professional distributor sales consultants (at end of period)	1,116	1,051	1,022	984	1,002	1,113	1,119
Same store sales growth(e):							
Sally Beauty Supply	6.3%	4.1%	2.1%	1.2%	2.7%	8.7%	6.3%
Beauty Systems Group	5.5%	6.2%	1.0%	6.9%	10.1%	6.9%	6.7%
Consolidated	6.1%	4.6%	1.8%	2.6%	4.5%	8.1%	6.4%
Financial condition information (at end of period):							
Working capital	\$ 419,142	\$ 387,123	\$ 341,733	\$ 367,198	\$ 354,185	\$ 478,840	\$ 418,459
Cash, cash equivalents and short-term investments	63,481	59,494	54,447	99,788	38,272	64,810	59,102
Property, plant and equipment, net	182,489	168,119	151,252	156,260	154,068	187,393	180,549
Total assets	1,728,600	1,589,412	1,490,732	1,527,023	1,404,503	1,789,932	1,707,024
Long-term debt, excluding current maturities(c)	1,410,111	1,559,591	1,653,013	1,724,684	1,758,594	1,354,068	1,542,235
Stockholders deficit	\$ (218,982)	\$ (461,272)	\$ (615,451)	\$ (702,960)	\$ (767,710)	\$ (69,213)	\$ (341,328)

Table of Contents

(a) Selling, general and administrative expenses for the fiscal years 2011, 2010, 2009, 2008 and 2007 include share-based compensation expenses of \$15.6 million, \$12.8 million, \$8.6 million, \$10.2 million and \$13.1 million, respectively. In the fiscal year 2011, selling, general and administrative expenses reflect a one-time net favorable impact of \$21.3 million, including a \$27.0 million credit from a litigation settlement and certain non-recurring charges of \$5.7 million.

(b) The fiscal year 2007 includes one-time charges associated with the Separation Transactions. Please see Note 1 of the Notes to Consolidated Financial Statements in Item 8 Financial Statements and Supplementary Data for additional information about the Separation Transactions.

(c) Long-term debt primarily represents debt incurred in connection with the Separation Transactions and interest expense is related mainly to such indebtedness. For the six months ended March 31, 2012, interest expense includes a loss on extinguishment of debt of \$34.6 million resulting from the Company's redemption of certain notes.

(d) Weighted average shares for the fiscal year 2007 were calculated from November 17, 2006 through September 30, 2007, which represents the actual number of days that shares of the Company's common stock were publicly traded.

(e) Same stores are defined as company-operated stores that have been open for at least 14 months as of the last day of a month. Our same store sales calculation includes internet-based sales (beginning in fiscal year 2009) and store expansions, if applicable, but does not generally include the sales from stores relocated until at least 14 months after the relocation. The sales from stores acquired are excluded from our same store sales calculation until at least 14 months after the acquisition.

Table of Contents

RISK FACTORS

You should consider carefully all of the information set forth or incorporated by reference in this prospectus, including the risk factors set forth in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011, and, in particular, the following risks before you decide to tender your old notes. If any of the following uncertainties or risks actually occurs, our business, financial condition or results of operations could be materially adversely affected. The risks described below are not the only ones that may affect your investment. Additional risks and uncertainties not currently known to us or that we currently view as immaterial may also materially and adversely affect our business, financial condition or results of operations.

Risks Related to the Exchange Offer

If you fail to exchange your old notes for new notes, you will continue to hold notes subject to transfer restrictions.

We will only issue new notes in exchange for old notes that you timely and properly tender. Therefore, you should allow sufficient time to ensure timely delivery of the old notes, and you should carefully follow the instructions on how to tender your old notes set forth under "The Exchange Offer Procedures for Tendering" and in the letter of transmittal that accompanies this prospectus. Neither we nor the exchange agent are required to notify you of any defects or irregularities relating to your tender of old notes.

If you do not exchange your old notes for new notes in this exchange offer, the old notes you hold will continue to be subject to the existing transfer restrictions. In general, you may not offer or sell the old notes except under an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. We do not plan to register the old notes for resale under the Securities Act. If you continue to hold any old notes after this exchange offer is completed, you may have trouble selling them because of these restrictions on transfer.

Because we anticipate that most holders of old notes will elect to participate in this exchange offer, we expect that the liquidity of the market for the old notes after the completion of this exchange offer may be substantially limited. Any old notes tendered and exchanged in the exchange offer will reduce the aggregate principal amount at maturity of the old notes not exchanged. Following this exchange offer, if you did not tender your old notes, you generally will not have any further registration rights, except in limited circumstances, and the old notes will continue to be subject to transfer restrictions.

If an active trading market does not develop for the new notes, you may be unable to sell the new notes or to sell them at a price you deem sufficient.

The new notes will be securities for which there is no established trading market. We do not intend to list the new notes on any exchange or maintain a trading market for them. We give no assurance as to:

Edgar Filing: Sally Beauty Holdings, Inc. - Form 424B3

- the liquidity of any trading market that may develop;
- the ability of holders to sell their new notes; or
- the price at which holders would be able to sell their new notes.

Even if a trading market develops, the new notes may trade at higher or lower prices than their principal amount or purchase price, depending on many factors, including:

- prevailing interest rates;
- the number of holders of the new notes;
- the interest of securities dealers in making a market for the new notes;
- the market for similar debt securities; and

Table of Contents

- our financial performance.

Risks Related to the New Notes

We have substantial debt and may incur substantial additional debt, which could adversely affect our financial health, our ability to obtain financing in the future, our ability to react to changes in our business and our ability to fulfill our obligations under the new notes.

In connection with our separation from our former parent company, Alberto-Culver Company, in November 2006, which we refer to as the Separation Transaction, together with certain of our subsidiaries, we incurred approximately \$1,850.0 million in debt. As of March 31, 2012, we had an aggregate principal amount of outstanding indebtedness of approximately \$1,356.2 million, including capital lease obligations and the notes offered hereby. In addition, as of March 31, 2012, we would have had additional availability of approximately \$378.9 million under the revolving portion of our senior credit facilities.

Our substantial debt could have important consequences for holders of the new notes. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to the new notes and our other indebtedness, resulting in possible defaults on and acceleration of such indebtedness;
- limit our ability to obtain additional financing or raise even a small amount of equity capital for working capital, capital expenditures, acquisitions, debt service requirements or general corporate purposes;
- require us to dedicate a substantial portion of our cash flow from operations to the payment of principal and interest on our indebtedness, thereby reducing the availability of such cash flows to fund working capital, capital expenditures and other general corporate purposes;
- restrict the ability of our subsidiaries to pay dividends or otherwise transfer assets to us, which could limit our ability to make required payments on our debt;
- increase our vulnerability to general adverse economic and industry conditions, including interest rate fluctuations (because a portion of our borrowings are at variable rates of interest), including borrowings under our senior secured term loan facilities and our asset-backed senior secured loan facility, which we refer to collectively as the senior secured credit facilities;

Edgar Filing: Sally Beauty Holdings, Inc. - Form 424B3

- place us at a competitive disadvantage compared to our competitors with proportionately less debt or comparable debt at more favorable interest rates and that, as a result, may be better positioned to withstand economic downturns;
- limit our ability to refinance indebtedness or cause the associated costs of such refinancing to increase; and
- limit our flexibility to adjust to changing market conditions and ability to withstand competitive pressures, or prevent us from carrying out capital spending that is necessary or important to our growth strategy and efforts to improve operating margins or our business.

Any of the foregoing impacts of our substantial indebtedness could have a material adverse effect on our business, financial condition and results of operations. In addition, our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition and operating performance, our lenders' financial stability, which are subject to prevailing global economic and market conditions, and certain financial, business and other factors, many of which are beyond our control. Even if we were able to refinance or obtain additional financing, the costs of new indebtedness could be substantially higher than the costs of our existing indebtedness.

Table of Contents

The parent guarantors of the new notes are holding companies with no significant independent operations and no significant assets except capital stock of their respective subsidiaries. As a result, the parent guarantors of the notes would be unable to meet their obligations if we fail to make payment of interest or principal on the new notes.

Sally Beauty is a holding company with no independent operations and no significant assets other than the capital stock of Sally Investment Holdings. Sally Beauty, therefore, is dependent upon the receipt of dividends or other distributions from Sally Investment Holdings to fund any obligations that it incurs, including obligations under its guarantee of the new notes. Sally Investment Holdings is also a holding company with no independent operations and no significant assets other than our capital stock. Sally Investment Holdings, therefore, is dependent upon the receipt of dividends or other distributions from us to fund any obligations that it incurs, including obligations under its guarantee of the new notes. The indenture governing the notes does not, however, permit distributions from us to Sally Beauty or Sally Investment Holdings, other than for certain specified purposes as described under Description of New Notes Certain Covenants Limitation on Restricted Payments. Our credit agreements contain similar or more restrictive provisions. Accordingly, if we should at any time be unable to pay interest on or principal of the new notes, it is highly unlikely that Sally Beauty or Sally Investment Holdings have the financial resources necessary to enable Sally Beauty and Sally Investment Holdings to meet their obligations under their parent guarantees.

Despite our current indebtedness levels, we and our subsidiaries may be able to incur substantially more debt, including secured debt, which could further exacerbate the risks associated with our substantial indebtedness.

We and our subsidiaries may incur substantial additional indebtedness in the future. The terms of the instruments governing our indebtedness, including the indenture governing the notes, do not fully prohibit us or our subsidiaries from doing so. As of March 31, 2012, our senior credit facilities provided us commitments for additional borrowings of up to approximately \$378.9 million under the asset-backed senior secured loan (or ABL) facility, subject to borrowing base limitations. In addition, the indenture governing the notes offered hereby allows us to incur substantial additional secured debt, which, along with any additional borrowings under the ABL Facility, would rank senior to the notes if incurred. If new debt is added to our current debt levels, the related risks that we face would increase, and we may not be able to meet all our debt obligations. In addition, the agreements governing our senior credit facilities as well as the indentures governing our outstanding old notes and the new notes offered hereby, do not prevent us from incurring obligations that do not constitute indebtedness.

The agreements and instruments governing our debt contain restrictions and limitations that could significantly impact our ability to operate our business.

The senior secured term loan facilities, which we refer to as the Term Loans, contain covenants that, among other things, restrict our and our subsidiaries' ability to:

- dispose of assets;
- incur additional indebtedness (including guarantees of additional indebtedness);

Edgar Filing: Sally Beauty Holdings, Inc. - Form 424B3

- pay dividends, repurchase stock or make other distributions;
- make voluntary prepayments on the notes or make amendments to the terms thereof;
- prepay certain other debt or amend specific debt agreements;
- create liens on assets;
- make investments (including joint ventures);
- make acquisitions of all of the business or assets of, or stock representing beneficial ownership of, any person;
- engage in mergers, consolidations or sales of all or substantially all of our assets;
- engage in certain transactions with affiliates; and

Table of Contents

- permit restrictions on our subsidiaries' ability to pay dividends to us.

The ABL credit facility contains covenants that, among other things, restrict our and our subsidiaries' ability to:

- change their line of business;
- engage in certain mergers, consolidations and transfers of all or substantially all of our assets;
- make certain dividends, stock repurchases and other distributions;
- make acquisitions of all of the business or assets of, or stock representing beneficial ownership of, any person;
- dispose of certain assets;
- make voluntary prepayments on the notes or make amendments to the terms thereof;
- prepay certain other debt or amend specific debt agreements;
- change our fiscal year; and
- create or incur negative pledges.

The Term Loans contain a requirement that we not exceed a maximum ratio of net senior secured debt to consolidated EBITDA (as those terms are defined in the relevant credit agreement). In addition, if we fail to maintain a specified minimum level of borrowing capacity under the ABL credit facility, we will then be obligated to maintain a specified fixed-charge coverage ratio. Our ability to comply with these covenants in future periods will depend on our ongoing financial and operating performance, which in turn will be subject to economic conditions and to financial, market and competitive factors, many of which are beyond our control. Our ability to comply with these covenants in future periods will also

Edgar Filing: Sally Beauty Holdings, Inc. - Form 424B3

depend substantially on the pricing of our products, our success at implementing cost reduction initiatives and our ability to successfully implement our overall business strategy.

The indenture governing the notes also contains restrictive covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to:

- dispose of assets;
- incur additional indebtedness (including guarantees of additional indebtedness);
- pay dividends, repurchase stock or make other distributions;
- prepay subordinated debt;
- create liens on assets;
- make investments (including joint ventures);
- engage in mergers, consolidations or sales of all or substantially all of our assets;
- engage in certain transactions with affiliates; and
- permit restrictions on our subsidiaries' ability to pay dividends to us.

The restrictions in the indenture governing the notes and the terms of our senior credit facilities may prevent us from taking actions that we believe would be in the best interest of our business and may make it difficult for us to successfully execute our business strategy or effectively compete with companies that are not similarly restricted. We may also incur future debt obligations that might subject us to additional restrictive covenants that could affect our financial and operational flexibility. We cannot assure you that we will be granted waivers or amendments to these agreements if we are unable to comply with these agreements, or that we will be able to refinance our debt on terms acceptable to us, or at all.

Table of Contents

Our ability to comply with the covenants and restrictions contained in the senior credit facilities and the indenture for the notes may be affected by economic, financial and industry conditions beyond our control. The breach of any of these covenants and restrictions could result in a default under either the senior credit facilities or the indenture that would permit the applicable lenders or note holders, as the case may be, to declare all amounts outstanding thereunder to be due and payable, together with accrued and unpaid interest. If we are unable to repay our outstanding indebtedness, lenders having secured obligations, such as the lenders under the senior credit facilities, could proceed against the collateral securing the debt. In any such case, we may be unable to borrow under the senior credit facilities and may not be able to repay the amounts due under the term loans and the notes. This could have serious consequences to our financial condition and results of operations and could cause us to become bankrupt or insolvent.

Our ability to generate the significant amount of cash needed to service all of our debt and our ability to refinance all or a portion of our indebtedness or obtain additional financing depends on many factors beyond our control.

Our ability to make scheduled payments on, or to refinance our obligations under, our debt will depend on our financial and operating performance, which, in turn, will be subject to prevailing economic and competitive conditions and to the financial and business factors, many of which may be beyond our control, described under **Risks Relating to Our Business** below.

If our cash flow and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell assets, seek to obtain additional equity capital or restructure our debt. In the future, our cash flow and capital resources may not be sufficient for payments of interest on and principal of our debt, and such alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations.

We cannot assure you that we will be able to refinance any of our indebtedness or obtain additional financing, particularly because of our high levels of debt and the debt incurrence restrictions imposed by the agreements governing our debt, as well as prevailing market conditions. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. Our senior credit facilities and the indentures governing our outstanding notes restrict our ability to dispose of assets and use the proceeds from any such dispositions. We cannot assure you we will be able to consummate any asset sales, or if we do, what the timing of the sales will be or whether the proceeds that we realize will be adequate to meet debt service obligations when due.

If we default on our obligations to pay our other indebtedness, we may not be able to make payments on the notes.

Any default under the agreements governing our indebtedness, including a default under our senior credit facilities, which is not waived by the required holders of such indebtedness, could leave us unable to pay principal, premium, if any, or interest on the notes and could substantially decrease the market value of the notes. If we are unable to generate sufficient cash flow and are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, or interest on such indebtedness, or if we otherwise fail to comply with the various covenants, including financial and operating covenants, in the instruments governing our indebtedness, including our senior credit facilities, we could be in default under the terms of the agreements governing such indebtedness. In the event of such default, the holders of such indebtedness could elect to declare all the funds borrowed thereunder to be due and payable, together with any accrued and unpaid interest, the lenders under our secured senior credit facilities could elect to terminate their commitments, cease making further loans and institute foreclosure proceedings against the assets securing such facilities and we could be forced into bankruptcy or liquidation. If our operating performance declines, we may in the future need to seek waivers from the required lenders under our senior credit facilities to avoid being in default. If we breach our covenants under our senior credit facilities and seek waivers, we may not be able to obtain waivers from the required lenders thereunder.

Table of Contents

You should not expect Sally Capital Inc. to participate in making payments on the new notes.

Sally Capital Inc. is our wholly-owned subsidiary, which acts as a co-issuer solely to facilitate the issuance of the new notes. Sally Capital Inc. does not have any operations or assets of any kind and will not receive any proceeds from the issuance of the new notes. You should not expect Sally Capital Inc. to participate in servicing any of our obligations in the new notes.

An increase in interest rates would increase the cost of servicing our debt and could reduce our profitability.

A significant portion of our outstanding debt, including under our senior credit facilities, bears interest at variable rates. As a result, an increase in interest rates, whether because of an increase in market interest rates or a decrease in our creditworthiness, would increase the cost of servicing our debt and could materially reduce our profitability and cash flows. The impact of such an increase would be more significant for us than it would be for some other companies because of our substantial debt.

The notes will be effectively subordinated to our and our guarantors' secured indebtedness to the extent of the value of the collateral securing such indebtedness.

The notes and the related guarantees will not be secured. However, as of March 31, 2012, we had \$1,356.2 million of total indebtedness outstanding, of which approximately \$606.2 million constituted senior secured debt, and we would have had availability of approximately \$378.9 million under our senior credit facility, all of which would be secured. In addition, the indenture governing the notes allows us to incur substantial additional secured debt, which would rank senior to the new notes if incurred. The notes will be effectively subordinated in right of payment to any of our secured indebtedness to the extent of the value of the collateral securing such indebtedness. The effect of this subordination is that upon a default in payment on, or the acceleration of, any of our secured indebtedness, or in the event of a bankruptcy, insolvency, liquidation, dissolution, reorganization or similar proceeding involving us or any of the guarantors, the proceeds from the sale of assets securing our secured indebtedness will be available to pay obligations on the new notes only after all of our secured indebtedness has been paid in full.

The notes are structurally subordinated to all indebtedness of those of our existing or future subsidiaries that are not, or do not become, guarantors of the notes, including all of our foreign subsidiaries.

The notes are not guaranteed by certain of our current and future subsidiaries, including our non-U.S. subsidiaries. Accordingly, claims of holders of the notes are structurally subordinated to all indebtedness and the claims of creditors of any non-guarantor subsidiaries, including trade creditors. All indebtedness and obligations of any non-guarantor subsidiaries will have to be satisfied before any of the assets of such subsidiaries would be available for distribution upon liquidation or otherwise, to us or a guarantor of the notes. The indenture governing the notes permits these non-guarantor subsidiaries to incur certain additional debt, including secured debt, and will not limit their ability to incur other liabilities that are not considered indebtedness under the indenture. For the twelve months ended March 31, 2012, our non-guarantor subsidiaries represented approximately 19.4% of Sally Beauty's consolidated net sales and 7.5% of Sally Beauty's consolidated operating income. In addition, as of March 31, 2012, our non-guarantor subsidiaries held approximately 28.0% of Sally Beauty's consolidated assets and had approximately \$158.7 million of liabilities (including trade payables), to which the notes and the guarantees would have been structurally subordinated.

We may not have the ability to raise the funds necessary to finance the change of control offer or the asset sale offer required by the indenture governing the notes.

Upon the occurrence of a change of control, as defined in the indenture governing the notes, we must offer to buy back the notes at a price equal to 101% of the principal amount, together with accrued and unpaid interest, if any, to the date of the repurchase. Similarly, we must offer to buy back the notes (or repay other indebtedness in certain circumstances) at a price equal to 100% of the principal amount of the notes (or other debt) purchased, together with accrued and unpaid interest, if any, to the date of repurchase, with the proceeds of certain asset sales (as defined in the indenture). Our failure to purchase, or give notice of purchase of, the notes would be a default under the indenture governing the notes, which would also trigger a cross default under our other outstanding indebtedness.

Table of Contents

If a change of control or asset sale occurs that would require us to repurchase the notes, it is possible that we may not have sufficient assets to make the required repurchase of notes or to satisfy all obligations under our senior credit facilities and the indenture governing the notes offered hereby. A change of control would also trigger a default under our senior credit facilities. In order to satisfy our obligations, we could seek to refinance the indebtedness under our senior credit facilities and the indenture governing the notes or obtain a waiver from the lenders or you as a holder of the notes. We cannot assure you that we would be able to obtain a waiver or refinance our indebtedness on terms acceptable to us, if at all. Any failure to make the required change of control offer or asset sale offer would result in an event of default under the indenture governing the new notes.

Federal and state statutes allow courts, under specific circumstances, to void notes and guarantees and require holders of the notes to return payments received.

If we or any guarantor become a debtor in a case under the U.S. Bankruptcy Code or encounter other financial difficulty, under federal or state fraudulent transfer law, a court may void, subordinate or otherwise decline to enforce the notes or the guarantees. A court might do so if it found that when we issued the notes or the guarantor entered into its guarantee, or in some states when payments became due under the notes or the guarantees, we or the guarantor received less than reasonably equivalent value or fair consideration and either:

- was insolvent or rendered insolvent by reason of such incurrence; or
- was left with inadequate capital to conduct its business; or
- believed or reasonably should have believed that it would incur debts beyond its ability to pay.

The court might also void an issuance of notes or a guarantee without regard to the above factors, if the court found that we issued the notes or the applicable guarantor entered into its guarantee with actual intent to hinder, delay or defraud its creditors.

A court would likely find that we or a guarantor did not receive reasonably equivalent value or fair consideration for the notes or its guarantee, if we or a guarantor did not substantially benefit directly or indirectly from the issuance of the notes. If a court were to void the issuance of the notes or guarantees you would no longer have any claim against us or the applicable guarantor. Sufficient funds to repay the notes may not be available from other sources, including the remaining obligors, if any. In addition, the court might direct you to repay any amounts that you already received from us or a guarantor.

There is no established trading market for the new notes. If an actual trading market does not develop for the new notes, you may not be able to resell them quickly, for the price that you paid or at all.

Edgar Filing: Sally Beauty Holdings, Inc. - Form 424B3

The new notes will constitute new issues of securities and there is no established trading market for the new notes. We do not intend to apply for the new notes to be listed on any securities exchange or to arrange for quotation on any automated dealer quotation systems. As a result, we cannot assure you as to the liquidity of any trading market for the new notes or your ability to sell the new notes at a particular time or at a favorable price.

We also cannot assure you that you will be able to sell your new notes at a particular time or at all, or that the prices that you receive when you sell them will be favorable. If no active trading market develops, you may not be able to resell your new notes at their fair market value, or at all. The liquidity of, and trading market for, the new notes may also be adversely affected by, among other things:

- the number of holders of the new notes;
- prevailing interest rates;
- our operating performance and financial condition;
- the prospects for companies in our industry, generally;
- the interest of securities dealers in making a market; and

Table of Contents

- the market for similar securities.

Historically, the market for non-investment grade debt has been subject to disruptions that have caused volatility in prices of securities similar to the notes. It is possible that the market for the new notes will be subject to disruptions. Any disruptions may have a negative effect on holders, regardless of our prospects and financial performance.

Foreign Currency Risk

We do not have any foreign currency denominated assets or liabilities or purchase commitments and have not entered into any foreign currency contracts. Accordingly, we are not exposed to fluctuations in foreign currency exchange rates.

Item 4. Controls and Procedures

- Evaluation of disclosure controls and procedures.** The Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934 (the Exchange Act)) are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.
- Changes in internal controls.** There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II. OTHER INFORMATION**Item 1. Legal Proceedings**

In July 2003, our Merriman Curhan Ford & Co. subsidiary answered a complaint filed in the Supreme Court of New York, New York County by CRT Capital Group, LLC, or CRT. (Index No. 600712/03) Our subsidiary is named as a defendant in an action seeking declaratory relief from the court. Plaintiff CRT seeks the court's declaration regarding the method for settling an equity trade involving the common stock of NTL, Inc. Our subsidiary filed a counterclaim against CRT seeking monetary damages in the approximate amount of \$135,000 for losses as a result of our having to purchase NTL, Inc. stock to complete a trade on behalf of one of our Merriman Curhan Ford & Co. trading clients.

In January 2003, NTL, Inc. emerged from bankruptcy. As part of its reorganization plan, the NTL, Inc. was to issue 200 million new shares of common stock. A when-issued trading market had developed and one of our subsidiary's trading clients had participated in that market. Just prior to emergence from bankruptcy, the reorganization plan was amended to provide for only 50 million new shares of NTL, Inc. to be issued. This amendment created chaos in the trading market once the when-issued trades were to be settled.

The court has set a briefing schedule on motions for summary judgment, with the motions to be heard in early October 2003. We do not anticipate any financial loss as a result of this lawsuit.

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

The annual meeting of our stockholders was held on June 20, 2003. At the annual meeting, our stockholders voted on the following matters:

	Votes For	Votes Against	Votes Abstained
1. Election of Directors:			
D. Jonathan Merriman	18,302,944		17,943
Patrick Arbor	18,302,944		17,943
Donald H. Sledge	18,172,944	130,000	17,943
Ronald E. Spears	18,302,944		17,943
Steven W. Town	18,302,944		17,943
2. Approval of 2003 Stock Option and Incentive Plan	5,008,568	21,700	13,290,619
3. Amendment to change the Company's Name to MCF Corporation	18,306,944	2,550	11,393
4. Approval of Offer to Exchange Current Promissory Note Holder's Debentures for Ratexchange Corporation Series C Convertible Preferred Stock	5,018,843	12,500	13,289,544

Broker non-votes are classified as votes abstained in the table presented above. Abstentions and broker non-votes are counted as present for purposes of establishing a quorum. Broker non-votes, however, were not considered as part of the voting power present or represented at the annual meeting for purposes of any matter voted on at the meeting.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 31.1 Certification of Principal Executive Officer Pursuant To Section 302 of The Sarbanes-Oxley Act of 2002
- 31.2 Certification of Principal Financial Officer Pursuant To Section 302 of The Sarbanes-Oxley Act of 2002
- 32.1 Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

Form 8-K (Item 5 reported) filed on April 9, 2003

Form 8-K (Item 5 reported) filed on April 9, 2003

Form 8-K (Item 5 and 7 reported) filed on July 7, 2003

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RATEXCHANGE CORPORATION

September 9, 2003

By:

/s/ D. JONATHAN MERRIMAN

D. Jonathan Merriman,

Chairman of the Board and

Chief Executive Officer

(Principal Executive Officer)

September 9, 2003

By:

/s/ GREGORY S. CURHAN

Gregory S. Curhan

Executive Vice President and

Chief Financial Officer

(Principal Financial Officer)

EXHIBIT INDEX

Exhibit No.	Description
31.1	Certification of Principal Executive Officer Pursuant To Section 302 of The Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer Pursuant To Section 302 of The Sarbanes-Oxley Act of 2002
32.1	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.