UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED: MARCH 31, 2015

-OR-

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

Commission File No. 1-33145

SALLY BEAUTY HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**36-2257936**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3001 Colorado Boulevard Denton, Texas	**76210**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: **(940) 898-7500**

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

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

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

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) YES o NO x

As of April 29, 2015, there were 157,678,394 shares of the issuer s common stock outstanding.

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In this Quarterly Report, references to the Company, Sally Beauty, our company, we, our, ours and us refer to Sally Beauty Holdings, its consolidated subsidiaries unless otherwise indicated or the context otherwise requires.

Cautionary Notice Regarding Forward-Looking Statements

Statements in this Quarterly Report on Form 10-Q 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 within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act. Words such as anticipate, believe, estimate, expect, intend, plan, project, target, can, could, may, should, will, would or similar e 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 and effectively responding to changes in consumer preferences and buying trends in a timely manner;
- 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 third-party manufacturers or distributors;
- products sold by us being found to be defective in labeling or content;
- compliance with current laws and regulations or becoming subject to additional or more stringent laws and regulations;
- the success of our e-commerce businesses;
- product diversion to mass retailers or other unauthorized resellers;
- the operational and financial performance of our Armstrong McCall, L.P., which we refer to as Armstrong McCall, franchise-based business;
- successfully identifying acquisition candidates and successfully completing desirable acquisitions;
- integrating acquired businesses;
- 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;
- the risk that our products may infringe on the intellectual property rights of others or that we may be required to defend our intellectual property rights;
- conducting business outside the United States;
- disruption in our information technology systems;
- a significant data security breach, including misappropriation of our customers or employees confidential information, and the potential costs related thereto;
- the negative impact on our reputation and loss of confidence of our customers, suppliers and others arising from a significant data security breach;
- the costs and diversion of management s attention required to investigate and remediate a data security breach;
- the ultimate determination of the extent or scope of the potential liabilities relating to our 2014 data security incident;
- our ability to attract and retain highly skilled management and other personnel;
- 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 ability to execute and implement our share repurchase program;
- our substantial indebtedness;
- the possibility that we may incur substantial additional debt, including secured debt, in the future;
- restrictions and limitations in the agreements and instruments governing our debt;

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- 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;
- the potential impact on us if the financial institutions we deal with become impaired; and
- the costs and effects of litigation.

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 Item 1A. Risk Factors contained in Part I of our Annual Report on Form 10-K for the fiscal year ended September 30, 2014, as filed with the Securities and Exchange Commission, or SEC, and the other periodic reports that we file with the SEC. 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.

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WHERE YOU CAN FIND MORE INFORMATION

Sally Beauty s quarterly financial results and other important information are available by calling the Investor Relations Department at (940) 297-3877.

Sally Beauty maintains a website at *www.sallybeautyholdings.com* where investors and other interested parties may obtain, free of charge, press releases and other information as well as gain access to our periodic filings with the SEC. The information contained on this website should not be considered to be a part of this or any other report filed with or furnished to the SEC.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

The following consolidated balance sheets as of March 31, 2015 and September 30, 2014, the consolidated statements of earnings and consolidated statements of comprehensive income for the three and six months ended March 31, 2015 and 2014 and the consolidated statements of cash flows for the six months ended March 31, 2015 and 2014 are those of Sally Beauty Holdings, Inc. and its consolidated subsidiaries.

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SALLY BEAUTY HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Earnings
(In thousands, except per share data)

(Unaudited)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014	Six Months Ended March 31, 2015	Six Months Ended March 31, 2014
Net sales	$ 937,755	$ 919,471	$ 1,902,222	$ 1,859,935
Cost of products sold and distribution expenses	470,303	463,075	961,001	943,013
Gross profit	467,452	456,396	941,221	916,922
Selling, general and administrative expenses	317,456	312,813	654,410	632,291
Depreciation and amortization	20,989	19,495	41,567	38,750
Operating earnings	129,007	124,088	245,244	245,881
Interest expense	29,228	29,258	58,469	57,747
Earnings before provision for income taxes	99,779	94,830	186,775	188,134
Provision for income taxes	38,244	36,338	70,331	71,647
Net earnings	$ 61,535	$ 58,492	$ 116,444	$ 116,487
Earnings per share:				
Basic	$ 0.39	$ 0.36	$ 0.74	$ 0.71
Diluted	$ 0.39	$ 0.35	$ 0.73	$ 0.70
Weighted average shares:				
Basic	157,504	162,535	156,797	163,075
Diluted	159,620	166,140	158,845	166,637

The accompanying condensed notes, together with the Notes to Consolidated Financial Statements contained in the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2014, are an integral part of these financial statements.

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SALLY BEAUTY HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
(In thousands)

(Unaudited)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014	Six Months Ended March 31, 2015	Six Months Ended March 31, 2014
Net earnings	$ 61,535	$ 58,492	$ 116,444	$ 116,487
Other comprehensive loss:				
Foreign currency translation adjustments	(29,858)	(2,715)	(47,159)	(148)
Total other comprehensive loss, before tax	(29,858)	(2,715)	(47,159)	(148)
Income taxes related to other comprehensive income				
Other comprehensive loss, net of tax	(29,858)	(2,715)	(47,159)	(148)
Total comprehensive income	$ 31,677	$ 55,777	$ 69,285	$ 116,339

The accompanying condensed notes, together with the Notes to Consolidated Financial Statements contained in the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2014, are an integral part of these financial statements.

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SALLY BEAUTY HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(In thousands, except par value data)

	March 31, 2015 (Unaudited)	September 30, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 246,027	$ 106,575
Trade accounts receivable, less allowance for doubtful accounts of $1,436 at March 31, 2015 and $1,752 at September 30, 2014	46,064	51,797
Accounts receivable, other	35,261	46,703
Inventory	838,117	828,429
Other current assets	44,163	38,995
Deferred income tax assets, net	31,771	31,650
Total current assets	1,241,403	1,104,149
Property and equipment, net of accumulated depreciation and amortization of $426,957 at March 31, 2015 and $413,208 at September 30, 2014	233,761	238,111
Goodwill	521,810	536,341
Intangible assets, excluding goodwill, net of accumulated amortization of $90,470 at March 31, 2015 and $86,320 at September 30, 2014	104,208	114,744
Other assets	33,671	36,628
Total assets	$ 2,134,853	$ 2,029,973
Liabilities and Stockholders Deficit		
Current liabilities:		
Current maturities of long-term debt	$ 773	$ 974
Accounts payable	280,750	259,463
Accrued liabilities	189,486	198,769
Income taxes payable	3,495	4,331
Total current liabilities	474,504	463,537
Long-term debt	1,809,383	1,810,667
Other liabilities	27,971	27,848
Deferred income tax liabilities, net	83,999	74,974
Total liabilities	2,395,857	2,377,026
Stockholders deficit:		
Common stock, $0.01 par value. Authorized 500,000 shares; 157,650 and 155,104 shares issued and 157,083 and 154,668 shares outstanding at March 31, 2015 and September 30, 2014, respectively	1,571	1,547
Preferred stock, $0.01 par value. Authorized 50,000 shares; none issued		
Additional paid-in capital		
Accumulated deficit	(186,868)	(320,052)
Accumulated other comprehensive loss, net of tax	(75,707)	(28,548)
Total stockholders deficit	(261,004)	(347,053)
Total liabilities and stockholders deficit	$ 2,134,853	$ 2,029,973

The accompanying condensed notes, together with the Notes to Consolidated Financial Statements contained in the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2014, are an integral part of these financial statements.

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SALLY BEAUTY HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(In thousands)

(Unaudited)

	Six Months Ended March 31, 2015	Six Months Ended March 31, 2014
Cash Flows from Operating Activities:		
Net earnings	$ 116,444	$ 116,487
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	41,567	38,750
Share-based compensation expense	10,600	11,790
Amortization of deferred financing costs	1,897	1,873
Excess tax benefit from share-based compensation	(22,567)	(11,682)
Deferred income taxes	9,081	(825)
Changes in (exclusive of effects of acquisitions):		
Trade accounts receivable	3,165	7,315
Accounts receivable, other	10,578	(1,211)
Inventory	(31,541)	(11,972)
Other current assets	16,494	1,022
Other assets	(208)	314
Accounts payable and accrued liabilities	19,164	(6,242)
Income taxes payable	(615)	10,445
Other liabilities	393	2,836
Net cash provided by operating activities	174,452	158,900
Cash Flows from Investing Activities:		
Capital expenditures	(37,337)	(30,343)
Acquisitions, net of cash acquired	(2,028)	
Net cash used by investing activities	(39,365)	(30,343)
Cash Flows from Financing Activities:		
Proceeds from issuance of long-term debt	983	232,719
Repayments of long-term debt	(1,396)	(109,549)
Repurchases of common stock	(67,524)	(125,644)
Debt issuance costs		(3,893)
Proceeds from exercises of stock options	51,765	21,389
Excess tax benefit from share-based compensation	22,567	11,682
Net cash provided by financing activities	6,395	26,704
Effect of foreign exchange rate changes on cash and cash equivalents	(2,030)	75
Net increase in cash and cash equivalents	139,452	155,336
Cash and cash equivalents, beginning of period	106,575	47,115
Cash and cash equivalents, end of period	$ 246,027	$ 202,451
Supplemental Cash Flow Information:		
Interest paid	$ 56,339	$ 51,234
Income taxes paid	$ 46,824	$ 63,379

The accompanying condensed notes, together with the Notes to Consolidated Financial Statements contained in the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2014, are an integral part of these financial statements.

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Sally Beauty Holdings, Inc. and Subsidiaries

Condensed Notes to Consolidated Financial Statements

(Unaudited)

1. Description of Business and Basis of Presentation

Description of Business

Sally Beauty Holdings, Inc. and its consolidated subsidiaries (Sally Beauty or the Company) sell professional beauty supplies through its Sally Beauty Supply retail stores primarily in the U.S., Puerto Rico, Canada, Mexico, Chile, Colombia, Peru, the United Kingdom, Ireland, Belgium, France, Germany, the Netherlands and Spain. Additionally, the Company distributes professional beauty products to salons and salon professionals through its Beauty Systems Group (BSG) store operations and a commissioned direct sales force that calls on salons primarily in the U.S., Puerto Rico, Canada, the United Kingdom and certain other countries in Europe, and to franchises in the southern and southwestern regions of the U.S., and in Mexico through the operations of its subsidiary Armstrong McCall, L.P. (Armstrong McCall). Certain beauty products sold by BSG and Armstrong McCall are sold under exclusive territory agreements with the manufacturers of the products.

Basis of Presentation

The accompanying consolidated interim financial statements include the accounts of the Company and its subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation. In the opinion of management, these consolidated financial statements reflect all adjustments which are of a normal recurring nature and which are necessary to present fairly the Company s consolidated financial position as of March 31, 2015 and September 30, 2014, and its consolidated results of operations for the three and six months ended March 31, 2015 and 2014 and consolidated cash flows for the six months ended March 31, 2015 and 2014.

All references in these notes to management are to the management of Sally Beauty.

2. Significant Accounting Policies

The consolidated interim financial statements included herein are unaudited and have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. These consolidated interim financial statements should be read in conjunction with the financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2014. The Company adheres to the same accounting policies in the preparation of its interim financial statements. As permitted under GAAP, interim accounting for certain expenses, including income taxes, is based on full year assumptions. Such amounts are expensed in full in the year incurred. For interim financial reporting purposes, income taxes are recorded based upon estimated annual effective income tax rates.

The results of operations for the interim periods reported upon herein are not necessarily indicative of the results that may be expected for any future interim period or the entire fiscal year.

3. Recent Accounting Pronouncements

We have not yet adopted and are currently assessing the potential effect of the following pronouncement on our consolidated financial statements:

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09) which will supersede Accounting Standards Codification (ASC) Topic 605, *Revenue Recognition*. A core principle of the new guidance is that an entity should measure revenue in connection with its sale of goods and services to a customer based on an amount that depicts the consideration to which the entity expects to be entitled in exchange for each of those goods and services. For a contract that involves more than one performance obligation, the entity must (a) determine or, if necessary, estimate the standalone selling price at inception of the contract for the distinct goods or services underlying each performance obligation and (b) allocate the transaction price to each performance obligation on the basis of the relative standalone selling prices. In addition, under the new guidance, an entity should recognize revenue when (or as) it satisfies each performance obligation under the contract by transferring the promised good or service to the customer. A good or service is deemed transferred when (or as) the customer obtains control of that good or service. The new standard permits the use of either the retrospective or cumulative effect transition method. For public companies, this amendment is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early

Sally Beauty Holdings, Inc. and Subsidiaries

Condensed Notes to Consolidated Financial Statements

(Unaudited)

application is not permitted for public companies. The Company has not yet selected a transition method nor determined the effect of the new standard on its financial statements.

In addition, we have not yet adopted the following recent accounting pronouncements and we do not believe the adoption of these pronouncements will have a material effect on our consolidated financial statements:

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which will require that capitalized debt issuance costs be presented in the balance sheet as a direct deduction from the related debt liability. The Company currently presents capitalized debt issuance costs, net of accumulated amortization, in other assets in its consolidated balance sheets. For public companies, this amendment is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. This new guidance must be applied on a retrospective basis. Early adoption is permitted under certain circumstances.

In April 2015, the FASB issued ASU 2015-05, *Customer s Accounting for Fees Paid in Cloud Computing Arrangement*. This pronouncement provides guidance to determine whether a cloud-based computing arrangement includes a software license. If a cloud-based computing arrangement includes a software license, the customer must account for the software element of the arrangement consistent with the acquisition of other software licenses. Otherwise, the customer must account for the arrangement as a service contract. For public companies, this amendment is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted.

4. Fair Value Measurements

The Company s financial instruments consist of cash equivalents, trade and other accounts receivable, accounts payable, foreign currency derivative instruments and debt. The carrying amounts of cash equivalents, trade and other accounts receivable and accounts payable approximate their respective fair values due to the short-term nature of these financial instruments.

The Company measures on a recurring basis and discloses the fair value of its financial instruments under the provisions of ASC Topic 820*, Fair Value Measurement,* as amended (ASC 820). The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. ASC 820 establishes a three-level hierarchy for measuring fair value and requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. This valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability on the measurement date. The three levels of that hierarchy are defined as follows:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Unadjusted quoted prices in active markets for similar assets or liabilities; or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs other than quoted prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data; and

Level 3 - Unobservable inputs for the asset or liability.

Consistent with this hierarchy, the Company categorized certain of its financial assets and liabilities as follows at March 31, 2015 and September 30, 2014 (in thousands):

	As of March 31, 2015			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets				
Cash equivalents (a)	$ 148,503	$ 148,503	$	
Foreign exchange contracts (b)	2,334		2,334	
Total assets	$ 150,837	$ 148,503	$ 2,334	
Liabilities				
Long-term debt (c)	$ 1,911,303	$ 1,908,125	$ 3,178	
Foreign exchange contracts (b)	103		103	
Total liabilities	$ 1,911,406	$ 1,908,125	$ 3,281	

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Sally Beauty Holdings, Inc. and Subsidiaries

Condensed Notes to Consolidated Financial Statements

(Unaudited)

	As of September 30, 2014			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets				
Cash equivalents (a)	$ 27,000	$ 27,000	$	
Foreign exchange contracts (b)	511		511	
Total assets	$ 27,511	$ 27,000	$ 511	
Liabilities				
Long-term debt (c)	$ 1,874,444	$ 1,870,250	$ 4,194	
Foreign exchange contracts (b)	47		47	
Total liabilities	$ 1,874,491	$ 1,870,250	$ 4,241	

(a) Cash equivalents consist of highly liquid investments which have no maturity and are valued using unadjusted quoted market prices for such securities. The Company may from time to time invest in securities with maturities of three months or less (consisting primarily of investment-grade corporate and government bonds), with the primary investment objective of minimizing the potential risk of loss of principal.

(b) Foreign exchange contracts (including foreign currency forwards and options) are valued for purposes of this disclosure using widely accepted valuation techniques, such as discounted cash flow analyses, and reasonable estimates, such as market foreign currency exchange rates. Please see Note 11 for more information about the Company s foreign exchange contracts.

(c) Long-term debt (including current maturities and borrowings under the ABL facility, if any) is carried in the Company s consolidated financial statements at amortized cost of $1,810.2 million at March 31, 2015 and $1,811.6 million at September 30, 2014. The Company s senior notes are valued for purposes of this disclosure using unadjusted quoted market prices for such debt securities. Other long-term debt (consisting primarily of borrowings under the ABL facility, if any, and capital lease obligations) is generally valued for purposes of this disclosure using widely accepted valuation techniques, such as discounted cash flow analyses, and observable inputs, such as market interest rates. Please see Note 10 for more information about the Company s debt.

5. Accumulated Stockholders Equity (Deficit)

In August 2014, we announced that our Board of Directors approved a share repurchase program authorizing us to repurchase up to $1.0 billion of our common stock over a period of approximately three years (the 2014 Share Repurchase Program). The 2014 Share Repurchase Program expires on September 30, 2017.

During the six months ended March 31, 2015, the Company repurchased and retired approximately 2.1 million shares of its common stock under the 2014 Share Repurchase Program at an aggregate cost of $67.5 million. In addition, during the six months ended March 31, 2014, the Company repurchased and retired approximately 4.5 million shares of its common stock under the 2013 Share Repurchase Program (a share repurchase program approved by our Board in March 2013 and terminated in connection with the authorization of the 2014 Share Repurchase Program) at an aggregate cost of $125.6 million. The Company reduced common stock and additional paid-in capital, in the aggregate, by these amounts. As required by GAAP, the Company recorded in accumulated deficit any amounts paid to repurchase shares in excess of the balance of additional paid-in capital.

At March 31, 2015 and September 30, 2014, accumulated other comprehensive loss consists of cumulative foreign currency translation adjustments of $75.7 million and $28.5 million, respectively, net of income taxes of $2.3 million at both dates. Comprehensive income (loss) reflects changes in accumulated stockholders equity (deficit) from sources other than transactions with stockholders and, as such, includes net earnings and certain other specified components. Currently, the Company s only component of comprehensive income, other than net earnings, is foreign currency translation adjustments, net of income tax.

6. Earnings Per Share

Basic earnings per share, is calculated by dividing net earnings by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is calculated similarly but includes the potential dilution from the exercise of all outstanding stock options and stock awards, except when the effect would be anti-dilutive.

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Condensed Notes to Consolidated Financial Statements

(Unaudited)

The following table sets forth the computations of basic and diluted earnings per share (in thousands, except per share data):

	Three Months Ended March 31,				Six Months Ended March 31,			
		2015		2014		2015		2014
Net earnings	$	61,535	$	58,492	$	116,444	$	116,487
Total weighted average basic shares		157,504		162,535		156,797		163,075
Dilutive securities:								
Stock options and stock award programs		2,116		3,605		2,048		3,562
Total weighted average diluted shares		159,620		166,140		158,845		166,637
Earnings per share:								
Basic	$	0.39	$	0.36	$	0.74	$	0.71
Diluted	$	0.39	$	0.35	$	0.73	$	0.70

For the three months ended March 31, 2015 and 2014, options to purchase 33,592 shares and 1,460,803 shares, respectively, of the Company s common stock were outstanding but not included in the computations of diluted earnings per share since these options were anti-dilutive. For the six months ended March 31, 2015 and 2014, options to purchase 1,096,594 shares and 1,460,803 shares, respectively, of the Company s common stock were outstanding but not included in the computations of diluted earnings per share since these options were anti-dilutive. Anti-dilutive options are: (a) out-of-the-money options (options the exercise price of which is greater than the average price per share of the Company s common stock during the period), and (b) in-the-money options (options the exercise price of which is less than the average price per share of the Company s common stock during the period) for which the sum of assumed proceeds, including any unrecognized compensation expense related to such options, exceeds the average price per share for the period.

7. Share-Based Payments

The Company measures the cost of services received from employees, directors and consultants in exchange for an award of equity instruments based on the fair value of the award on the date of grant, and recognizes compensation expense on a straight-line basis over the vesting period or over the period ending on the date a participant becomes eligible for retirement, if earlier.

The Company granted approximately 1.2 million and 1.5 million stock options and approximately 219,000 and 36,000 restricted share awards to its employees and consultants during the six months ended March 31, 2015 and 2014, respectively. Upon issuance of such grants, the Company recognized accelerated share-based compensation expense of $4.8 million and $5.3 million in the six months ended March 31, 2015 and 2014, respectively, in connection with certain retirement eligible employees who are eligible to continue vesting awards upon retirement under the provisions of the Sally Beauty Holdings, Inc. Amended and Restated 2010 Omnibus Incentive Plan (the 2010 Plan). In addition, the Company granted approximately 20,000 and 27,000 restricted stock units to its non-employee directors during the six months ended March 31, 2015 and 2014, respectively.

The following table presents the total compensation cost charged against income and included in selling, general and administrative expenses for all share-based compensation arrangements and the related tax benefits recognized in our consolidated statements of earnings (in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	**2014**	**2015**	**2014**
Share-based compensation expense	$ 2,840	$ 3,268	$ 10,600	$ 11,790
Income tax benefit related to share-based compensation expense	$ 1,077	$ 1,166	$ 3,995	$ 4,347

Stock Option Awards

Each option has an exercise price equal to the closing market price of the Company s common stock on the date of grant and generally has a maximum term of 10 years. Options generally vest ratably over a four year period and are generally subject to

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Sally Beauty Holdings, Inc. and Subsidiaries

Condensed Notes to Consolidated Financial Statements

(Unaudited)

forfeiture until the vesting period is complete, subject to certain retirement provisions contained in the 2010 Plan and certain predecessor share-based compensation plans such as the Sally Beauty Holdings, Inc. 2007 Omnibus Incentive Plan.

The following table presents a summary of the activity for the Company s stock option awards for the six months ended March 31, 2015:

	Number of Outstanding Options (in Thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value (in Thousands)
Outstanding at September 30, 2014	8,983	$ 15.93	6.2	$ 102,751
Granted	1,166	29.23		
Exercised	(4,426)	11.73		
Forfeited or expired	(207)	25.41		
Outstanding at March 31, 2015	5,516	$ 21.75	7.2	$ 69,586
Exercisable at March 31, 2015	2,244	$ 15.83	5.6	$ 41,606

The following table summarizes additional information about stock options outstanding under the Company s share-based compensation plans:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at March 31, 2015 (in Thousands)	Weighted Average Remaining Contractual Term (in Years)	Weighted Average Exercise Price	Number Exercisable at March 31, 2015 (in Thousands)	Weighted Average Exercise Price
$2.00 19.99	1,983	5.0	$ 13.55	1,595	$ 12.17
$20.00 30.07	3,533	8.5	26.36	649	24.82
Total	5,516	7.2	$ 21.75	2,244	$ 15.83

The Company uses the Black-Scholes option pricing model to value the Company s stock options for each stock option award. Using this option pricing model, the fair value of each stock option award is estimated on the date of grant. The fair value of the Company s stock option awards is expensed on a straight-line basis over the vesting period (generally four years) of the stock options or to the date a participant becomes eligible for retirement, if earlier.

The weighted average assumptions relating to the valuation of the Company s stock options are as follows:

	Six months ended March 31, 2015	Six months ended March 31, 2014
Expected life (in years)	5.0	5.0
Expected volatility for the Company s stock	30.9%	48.4%
Risk-free interest rate	1.6%	1.3%
Dividend yield	0.0%	0.0%

The expected life of options represents the period of time that the options granted are expected to be outstanding and is based on historical experience of employees of the Company who have been granted stock options. The risk-free interest rate is based on the zero-coupon U.S. Treasury notes with a comparable term as of the date of the grant. Since the Company does not currently expect to pay dividends, the dividend yield used is 0%.

The weighted average fair value at the date of grant of the stock options issued by the Company in the six months ended March 31, 2015 and 2014 was $8.78 and $11.32 per option, respectively. The total intrinsic value of options exercised during the six months ended March 31, 2015 was $84.6 million. The cash proceeds from these option exercises were $51.8 million and the tax benefit realized from these option exercises was $31.4 million.

At March 31, 2015, unrecognized compensation costs related to unvested stock option awards are approximately $14.6 million and are expected to be recognized over the weighted average period of 2.4 years.

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Stock Awards

Restricted Stock Awards

The Company from time to time grants restricted stock awards to employees and consultants under the 2010 Plan. A restricted stock award is an award of shares of the Company s common stock (which have full voting and dividend rights but are restricted with regard to sale or transfer) the restrictions over which lapse ratably over a specified period of time (generally four to five years). Restricted stock awards are independent of stock option grants and are generally subject to forfeiture if employment terminates prior to these restrictions lapsing, subject to certain retirement provisions of the 2010 Plan.

The fair value of the Company s restricted stock awards is expensed on a straight-line basis over the period (generally four to five years) in which the restrictions on these stock awards lapse (vesting) or over the period ending on the date a participant becomes eligible for retirement, if earlier. For these purposes, the fair value of the restricted stock award is determined based on the closing market price of the Company s common stock on the date of grant.

The following table presents a summary of the activity for the Company s restricted stock awards for the six months ended March 31, 2015:

Restricted Stock Awards	Number of Shares (in Thousands)		Weighted Average Fair Value Per Share	Weighted Average Remaining Vesting Term (in Years)
Unvested at September 30, 2014	436	$	22.42	3.4
Granted	219		29.22	
Vested	(83)		14.30	
Forfeited	(5)		25.16	
Unvested at March 31, 2015	567	$	26.21	3.0

At March 31, 2015, unrecognized compensation costs related to unvested restricted stock awards are approximately $6.1 million and are expected to be recognized over the weighted average period of 3.0 years.

Restricted Stock Units

The Company currently grants Restricted Stock Unit (RSU or RSUs) awards, which generally vest within one year from the date of grant, pursuant to the 2010 Plan. To date, the Company has only granted RSU awards to its non-employee directors. RSUs represent an unsecured promise of the Company to issue shares of the Company s common stock. Unless forfeited prior to the vesting date, RSUs are converted into shares of the Company s common stock generally on the vesting date. An independent director who receives an RSU award may elect, upon receipt of such award, to defer until a later date delivery of the shares of common stock of the Company that would otherwise be issued to such director on the vesting date. RSUs granted prior to the fiscal year 2012, are generally retained by the Company as deferred stock units that are not distributed until six months after the independent director s service as a director terminates. RSUs are independent of stock option grants and are generally subject to forfeiture if service terminates prior to the vesting of the units. Participants have no voting rights with respect to unvested RSUs. Under the 2010 Plan, the Company may settle the vested deferred stock units with shares of the Company s common stock or in cash.

The Company expenses the cost of the RSUs, which is determined to be the fair value of the RSUs at the date of grant, on a straight-line basis over the vesting period (generally one year). For these purposes, the fair value of the RSU is determined based on the closing market price of the Company s common stock on the date of grant.

The following table presents a summary of the activity for the Company s RSUs for the six months ended March 31, 2015:

Restricted Stock Units	**Number of Shares (in Thousands)**		**Weighted Average Fair Value Per Share**	**Weighted Average Remaining Vesting Term (in Years)**
Unvested at September 30, 2014		$		
Granted	20		29.20	
Vested				
Forfeited				
Unvested at March 31, 2015	20	$	29.20	0.5

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At March 31, 2015, unrecognized compensation costs related to unvested RSUs are approximately $0.3 million and are expected to be recognized over the weighted average period of 0.5 years.

8. Goodwill and Intangible Assets

During the three months ended March 31, 2015, the Company completed its annual assessment for impairment of goodwill and no impairment losses were recognized in the current or prior periods presented in connection with the Company s goodwill.

During the three months ended March 31, 2015, the Company also completed its annual assessment for impairment of intangible assets, other than goodwill, including indefinite-lived intangible assets. There were no material impairment losses recognized in the current or prior periods presented in connection with the Company s intangible assets.

Amortization expense was $3.6 million for each of the three-month periods ended March 31, 2015 and 2014, and $7.1 million for each of the six-month periods ended March 31, 2015 and 2014.

9. Commitments and Contingencies

In March 2014, the Company disclosed that it had experienced a data security incident. The costs that the Company has incurred to date in connection with the data security incident primarily include professional advisory fees and legal costs and expenses. In addition, during the three months ended March 31, 2015, the Company recorded a contingent liability related to potential litigation costs and expenses of approximately $1.5 million associated with the data security incident. As such, for the six months ended March 31, 2015 and 2014, selling, general and administrative expenses reflect charges of $1.8 million and $1.1 million, respectively, relating to the data security incident. While we do not anticipate that any costs, expenses or liabilities resulting from the data security incident would have a material adverse impact on our business, financial condition or operating results, the Company may incur additional costs and expenses related to the data security incident in future periods. These costs may also result from potential liabilities to payment card networks, governmental or third party investigations, proceedings or litigation and legal and other fees necessary to defend against any potential liabilities or claims.

10. Short-term Borrowings and Long-term Debt

Details of long-term debt as of March 31, 2015 are as follows (dollars in thousands):

	Amount		Interest Rates
ABL facility	$		(i) Prime plus (0.50% to 0.75%) or; (ii) LIBOR(a) plus (1.50% to 1.75%)
Senior notes due Nov. 2019		750,000	6.875%
Senior notes due Jun. 2022(b)		856,978	5.750%(b)
Senior notes due Nov. 2023		200,000	5.500%
Other, due Jun. 2015(c)		23	5.790%
Total	$	1,807,001	
Capital lease obligations		3,155	
Less: current portion		773	
Total long-term debt	$	1,809,383	

(a) London Interbank Offered Rate (LIBOR).

(b) Amounts include unamortized premium of $7.0 million related to notes with an aggregate principal amount of $150.0 million. The 5.75% interest rate relates to notes in the aggregate principal amount of $850.0 million.

(c) Represents pre-acquisition debt of Sinelco Group BVBA (Sinelco).

In November 2006, the Company, through its subsidiaries (Sally Investment Holdings LLC and Sally Holdings LLC, which we refer to as Sally Investment and Sally Holdings, respectively) incurred $1,850.0 million of indebtedness in connection with the Company s separation from its former parent, The Alberto-Culver Company, which we refer to as Alberto-Culver.

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In the fiscal year ended September 30, 2011, Sally Holdings entered into a $400 million, five-year asset-based senior secured loan facility (the ABL facility). The availability of funds under the ABL facility, as amended in June 2012, is subject to a customary borrowing base comprised of: (i) a specified percentage of our eligible credit card and trade accounts receivable (as defined therein) and (ii) a specified percentage of our eligible inventory (as defined therein), and reduced by (iii) certain customary reserves and adjustments and by certain outstanding letters of credit. The ABL facility includes a $25.0 million Canadian sub-facility for our Canadian operations. In July 2013, the Company, Sally Holdings and other parties to the ABL facility entered into a second amendment to the ABL facility which, among other things, increased the maximum availability under the ABL facility to $500.0 million (subject to borrowing base limitations), reduced pricing, relaxed the restrictions regarding the making of Restricted Payments, extended the maturity to July 2018 and improved certain other covenant terms.

At March 31, 2015, the Company had $478.4 million available for borrowing under the ABL facility, including the Canadian sub-facility. Borrowings under the ABL facility are secured by the accounts, inventory and credit card receivables of our domestic subsidiaries and Canadian subsidiaries (in the case of borrowings under the Canadian sub-facility), together with general intangibles and certain other personal property of our domestic subsidiaries and Canadian subsidiaries (in the case of borrowings under the Canadian sub-facility) relating to the accounts and inventory, as well as deposit accounts of our domestic subsidiaries and Canadian subsidiaries (in the case of borrowings under the Canadian sub-facility) and, solely with respect to borrowings by SBH Finance B.V., intercompany notes owed to SBH Finance B.V. by our foreign subsidiaries. In addition, the terms of the ABL facility contain a commitment fee of 0.25% on the unused portion of the facility.

In the fiscal year ended September 30, 2012, Sally Holdings and Sally Capital Inc. (collectively, the Issuers), both indirect wholly-owned subsidiaries of the Company, issued $750.0 million aggregate principal amount of their 6.875% Senior Notes due 2019 (the senior notes due 2019) and $850.0 million aggregate principal amount of their 5.75% Senior Notes due 2022 (the senior notes due 2022), including notes in the aggregate principal amount of $150.0 million which were issued at par plus a premium. Such premium is being amortized over the term of the notes using the effective interest method. The net proceeds from these debt issuances were used to retire outstanding indebtedness in the aggregate principal amount of approximately $1,391.9 million (substantially all of which was incurred in 2006 in connection with our separation from Alberto-Culver) and for general corporate purposes.

On October 29, 2013, the Issuers issued $200.0 million aggregate principal amount of their 5.5% Senior Notes due 2023 (the senior notes due 2023). The senior notes due 2023 bear interest at an annual rate of 5.5% and were issued at par. The Company used the net proceeds from this debt issuance, approximately $196.3 million, to repay borrowings outstanding under the ABL facility of $88.5 million (which borrowings were primarily used to fund share repurchases) and for general corporate purposes, including share repurchases.

The senior notes due 2019, the senior notes due 2022 and the senior notes due 2023, which we refer to collectively as the Notes or the senior notes due 2019, 2022 and 2023, are unsecured obligations of the Issuers and are jointly and severally guaranteed by the Company and Sally Investment, and by each material domestic subsidiary of the Company. Interest on the senior notes due 2019, 2022 and 2023 is payable semi-annually, during the Company s first and third fiscal quarters. Please see Note 13 for certain condensed financial statement data pertaining to Sally Beauty Holdings, Inc., the Issuers, the guarantor subsidiaries and the non-guarantor subsidiaries.

The senior notes due 2019 carry optional redemption features whereby the Company has the option to redeem the notes, in whole or in part, on or after November 15, 2017 at par, plus accrued and unpaid interest, if any, and on or after November 15, 2015 at par plus a premium declining ratably to par, plus accrued and unpaid interest, if any. Prior to November 15, 2015, the notes may be redeemed, in whole or in part, at a redemption price equal to par plus a make-whole premium as provided in the indenture, plus accrued and unpaid interest, if any.

The senior notes due 2022 carry optional redemption features whereby the Company has the option to redeem the notes, in whole or in part, on or after June 1, 2020 at par, plus accrued and unpaid interest, if any, and on or after June 1, 2017 at par plus a premium declining ratably to par, plus accrued and unpaid interest, if any. Prior to June 1, 2017, the notes may be redeemed, in whole or in part, at a redemption price equal to par plus a make-whole premium as provided in the indenture, plus accrued and unpaid interest, if any. In addition, on or prior to June 1, 2015, the Company has the right to redeem at par plus a specified premium, plus accrued and unpaid interest, if any, up to 35% of the aggregate principal amount of notes originally issued, subject to certain limitations, with the proceeds from certain kinds of equity offerings, as defined in the indenture.

The senior notes due 2023 carry optional redemption features whereby the Company has the option to redeem the notes, in whole or in part, on or after November 1, 2021 at par, plus accrued and unpaid interest, if any, and on or after November 1, 2018 at par plus a premium declining ratably to par, plus accrued and unpaid interest, if any. Prior to November 1, 2018, the notes

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may be redeemed, in whole or in part, at a redemption price equal to par plus a make-whole premium as provided in the indenture, plus accrued and unpaid interest, if any. In addition, on or prior to November 1, 2016, the Company has the right to redeem at par plus a specified premium, plus accrued and unpaid interest, if any, up to 35% of the aggregate principal amount of notes originally issued, subject to certain limitations, with the proceeds from certain kinds of equity offerings, as defined in the indenture.

Maturities of the Company s long-term debt are as follows as of March 31, 2015 (in thousands):

Twelve months ending March 31:		
2016	$	23
2017-2019		
2020		750,000
Thereafter		1,056,978
	$	1,807,001
Capital lease obligations		3,155
Less: current portion		773
Total	$	1,809,383

We are a holding company and do not have any material assets or operations other than ownership of equity interests of our subsidiaries. The agreements and instruments governing the debt of Sally Holdings and its subsidiaries contain material limitations on their ability to pay dividends and other restricted payments to us which, in turn, constitute material limitations on our ability to pay dividends and other payments to our stockholders.

The ABL facility does not contain any restriction against the incurrence of unsecured indebtedness. However, the ABL facility restricts the incurrence of secured indebtedness if, after giving effect to the incurrence of such secured indebtedness, the Company s Secured Leverage Ratio exceeds 4.0 *to* 1.0. At March 31, 2015, the Company s Secured Leverage Ratio was less than 0.1 *to* 1.0. Secured Leverage Ratio is defined as the ratio of (i) Secured Funded Indebtedness (as defined in the ABL facility) *to* (ii) Consolidated EBITDA (as defined in the ABL facility) for the most recently completed twelve fiscal months.

The ABL facility is pre-payable and the commitments thereunder may be terminated, in whole or in part, at any time without penalty or premium.

The indentures governing the senior notes due 2019, 2022 and 2023 contain terms which restrict the ability of Sally Beauty s subsidiaries to incur additional indebtedness. However, in addition to certain other material exceptions, the Company may incur additional indebtedness under the indentures if its Consolidated Coverage Ratio, after giving pro forma effect to the incurrence of such indebtedness, exceeds 2.0 *to* 1.0

(Incurrence Test). At March 31, 2015, the Company s Consolidated Coverage Ratio was approximately 5.6 *to* 1.0. Consolidated Coverage Ratio is defined as the ratio of (i) Consolidated EBITDA (as defined in the indentures) for the period containing the most recent four consecutive fiscal quarters, *to* (ii) Consolidated Interest Expense (as defined in the indentures) for such period.

The indentures governing the senior notes due 2019, 2022 and 2023 restrict Sally Holdings and its subsidiaries from making certain dividends and distributions to equity holders and certain other restricted payments (hereafter, a Restricted Payment or Restricted Payments) to us. However, the indentures permit the making of such Restricted Payments if, at the time of the making of such Restricted Payment, the Company satisfies the Incurrence Test as described above and the cumulative amount of all Restricted Payments made since the issue date of the applicable senior notes does not exceed the sum of: (i) 50% of Sally Holdings and its subsidiaries cumulative consolidated net earnings since July 1, 2006, *plus* (ii) the proceeds from the issuance of certain equity securities or conversions of indebtedness to equity, in each case, since the issue date of the applicable senior notes *plus* (iii) the net reduction in investments in unrestricted subsidiaries since the issue date of the applicable senior notes *plus* (iv) the return of capital with respect to any sales or dispositions of certain minority investments since the issue date of the applicable senior notes. Further, in addition to certain other baskets, the indentures permit the Company to make additional Restricted Payments in an unlimited amount if, after giving pro forma effect to the incurrence of any indebtedness to make such Restricted Payment, the Company s Consolidated Total Leverage Ratio (as defined in the indentures) is less than 3.25 *to* 1.00. At March 31, 2015, the Company s Consolidated Total Leverage Ratio was approximately 2.7 *to* 1.0. Consolidated Total Leverage Ratio is defined as the ratio of (i) Consolidated Total Indebtedness (as defined in the indentures) *minus* cash and cash equivalents on-hand up to $100.0 million, in each case, as of the end of the most recently-ended fiscal quarter *to* (ii) Consolidated EBITDA (as defined in the indentures) for the period containing the most recent four consecutive fiscal quarters.

The ABL facility also restricts the making of Restricted Payments. More specifically, under the ABL facility, Sally Holdings may make Restricted Payments if availability under the ABL facility equals or exceeds certain thresholds, and no default then exists under the facility. For Restricted Payments up to $30.0 million during each fiscal year, borrowing availability must equal

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or exceed the lesser of $75.0 million or 15% of the borrowing base for 45 days prior to such Restricted Payment. For Restricted Payments in excess of that amount, borrowing availability must equal or exceed the lesser of $100.0 million or 20% of the borrowing base for 45 days prior to such Restricted Payment and the Consolidated Fixed Charge Coverage Ratio (as defined below) must equal or exceed 1.1 *to* 1.0. Further, if borrowing availability equals or exceeds the lesser of $150.0 million or 30% of the borrowing base, Restricted Payments are not limited by the Consolidated Fixed Charge Coverage Ratio test. The Consolidated Fixed Charge Coverage Ratio is defined as the ratio of (i) Consolidated EBITDA (as defined in the ABL facility) during the trailing twelve-month period preceding such proposed Restricted Payment *minus* certain unfinanced capital expenditures made during such period and income tax payments paid in cash during such period *to* (ii) fixed charges (as defined in the ABL facility). In addition, during any period that borrowing availability under the ABL facility is less than the greater of $40.0 million or 10% of the borrowing base, the level of the Consolidated Fixed Charge Coverage Ratio that the Company must satisfy is 1.0 *to* 1.0. As of March 31, 2015, the Consolidated Fixed Charge Coverage Ratio was approximately 3.6 *to* 1.0.

When used in this Quarterly Report, the phrase Consolidated EBITDA is intended to have the meaning ascribed to such phrase in the ABL facility or the indentures governing the senior notes due 2019, 2022 and 2023, as appropriate. EBITDA is not a recognized measurement under GAAP and should not be considered a substitute for financial performance and liquidity measures determined in accordance with GAAP, such as net earnings, operating earnings and operating cash flows.

The ABL facility and the indentures governing the senior notes due 2019, 2022 and 2023 contain other covenants regarding restrictions on the disposition of assets, the granting of liens and security interests, the prepayment of certain indebtedness, and other matters and customary events of default, including customary cross-default and/or cross-acceleration provisions. As of March 31, 2015, all the net assets of our consolidated subsidiaries were unrestricted from transfer under our credit arrangements.

11. Derivative Instruments and Hedging Activities

Risk Management Objectives of Using Derivative Instruments

The Company is exposed to a wide variety of risks, including risks arising from changing economic conditions. The Company manages its exposure to certain economic risks (including liquidity, credit risk, and changes in foreign currency exchange rates and in interest rates) primarily: (a) by closely managing its cash flows from operating and investing activities and the amounts and sources of its debt obligations; (b) by assessing periodically the creditworthiness of its business partners; and (c) through the use of derivative instruments from time to time (including, foreign exchange contracts and interest rate swaps) by Sally Holdings.

The Company from time to time uses foreign exchange contracts (including foreign currency forwards and options), as part of its overall economic risk management strategy, to fix the amount of certain foreign assets and obligations relative to its functional and reporting currency (the U.S. dollar) or relative to the functional currency of certain of its consolidated subsidiaries, or to add stability to cash flows resulting from its net investments (including intercompany notes not permanently invested) and earnings denominated in foreign currencies. The Company s foreign currency exposures at times offset each other, sometimes providing a natural hedge against its foreign currency risk. In connection with the remaining foreign currency risk, the Company uses foreign exchange contracts to effectively fix the foreign currency exchange rate applicable to specific anticipated foreign currency-denominated cash flows, thus limiting the potential fluctuations in such cash flows as a result of foreign currency market movements.

The Company from time to time has used interest rate swaps, as part of its overall economic risk management strategy, to add stability to the interest payments due in connection with its debt obligations. At March 31, 2015, our exposure to interest rate fluctuations relates to interest payments under the ABL facility, if any, and the Company held no derivative instruments in connection therewith.

As of March 31, 2015, the Company did not purchase or hold any derivative instruments for trading or speculative purposes.

Designated Cash Flow Hedges

The Company may use from time to time derivative instruments designated as hedges to manage its exposure to interest rate or foreign currency exchange rate movements, as appropriate. The Company did not purchase or hold any such derivatives at March 31, 2015.

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Non-designated Cash Flow Hedges

The Company may use from time to time derivative instruments (such as foreign exchange contracts and interest rate swaps) not designated as hedges or that do not meet the requirements for hedge accounting, to manage its exposure to interest rate or foreign currency exchange rate movements, as appropriate.

The Company uses foreign exchange contracts to manage the exposure to the U.S. dollar resulting from certain of its international subsidiaries purchases of merchandise from third-party suppliers. These subsidiaries currently have a functional currency other than the U.S. dollar - their functional currency is either the British pound sterling or the Euro. As such, at March 31, 2015, we hold: (a) foreign currency forwards which enable us to sell approximately £3.3 million ($4.8 million, at the March 31, 2015 exchange rate) at the weighted average contractual exchange rate of 1.6258 and (b) foreign currency forwards which enable us to sell approximately 6.0 million ($6.5 million, at the March 31, 2015 exchange rate) at the weighted average contractual exchange rate of 1.2913. These foreign currency forwards expire ratably through September 21, 2015.

The Company also uses foreign exchange contracts to mitigate its exposure to changes in foreign currency exchange rates in connection with certain intercompany balances not permanently invested. As such, at March 31, 2015, we hold: (a) a foreign currency forward which enables us to sell approximately 26.0 million ($28.0 million, at the March 31, 2015 exchange rate) at the contractual exchange rate of 1.0908, (b) a foreign currency forward which enables us to sell approximately $6.3 million Canadian dollars ($5.0 million, at the March 31, 2015 exchange rate) at the contractual exchange rate of 1.2681, (c) a foreign currency forward which enables us to buy approximately $22.3 million Canadian dollars ($17.6 million, at the March 31, 2015 exchange rate) at the contractual exchange rate of 1.2625, (d) a foreign currency forward which enables us to sell approximately 27.4 million Mexican pesos ($1.8 million, at the March 31, 2015 exchange rate) at the contractual exchange rate of 15.2895 and (e) a foreign currency forward which enables us to buy approximately £3.7 million ($5.5 million, at the March 31, 2015 exchange rate) at the contractual exchange rate of 1.4880. All the foreign currency forwards discussed in this paragraph expire on or before June 30, 2015.

In addition, the Company uses foreign exchange contracts including, at March 31, 2015, foreign currency forwards with an aggregate notional amount of £1.5 million ($2.2 million, at the March 31, 2015 exchange rate) to mitigate the exposure to the British pound sterling resulting from the sale of products and services among certain European subsidiaries of the Company. The foreign currency forwards discussed in this paragraph enable the Company to buy British pound sterling in exchange for Euro currency at the weighted average contractual exchange rate of 0.7993 and expire ratably through September 30, 2015.

At March 31, 2015, all of the Company s foreign exchange contracts are with a single counterparty. The Company s foreign exchange contracts are not designated as hedges and do not currently meet the requirements for hedge accounting. Accordingly, the changes in the fair value (i.e., marked-to-market adjustments) of these derivative instruments, which are adjusted quarterly, are recorded in selling, general and administrative expenses in our consolidated statements of earnings. Selling, general and administrative expenses reflect net gains of $3.4 million and net losses of $0.4 million for the three months ended March 31, 2015 and 2014, respectively, and, for the six months ended March 31, 2015 and 2014, net gains of $5.0 million and net losses of $1.3 million, respectively, in connection with all of the Company s foreign currency derivative instruments, including marked-to-market adjustments.

The table below presents the fair value of the Company s derivative financial instruments as well as their classification on the Company s consolidated balance sheets as of March 31, 2015 and September 30, 2014 (in thousands):

		Asset Derivatives			Liability Derivatives	
	Classification	March 31, 2015	September 30, 2014	Classification	March 31, 2015	September 30, 2014
Derivatives designated as hedging instruments:						
None						
Derivatives not designated as hedging instruments:						
Foreign exchange contracts	Other current assets	$ 2,334	$ 511	Accrued liabilities	$ 103	$ 47
		$ 2,334	$ 511		$ 103	$ 47

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The table below presents the effect of the Company s derivative financial instruments on the Company s consolidated statements of earnings for the three months ended March 31, 2015 and 2014 (in thousands):

Derivatives Designated as Hedging Instruments	**Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion), net of tax**	**Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)**
None		

Derivatives Not Designated as Hedging Instruments	**Classification of Gain or (Loss) Recognized into Income**	**Amount of Gain or (Loss) Recognized in Income on Derivatives Three Months Ended March 31, 2015**	**2014**
Foreign exchange contracts	Selling, general and administrative expenses	$ 3,447	$ (438)

The table below presents the effect of the Company s derivative financial instruments on the Company s consolidated statements of earnings for the six months ended March 31, 2015 and 2014 (in thousands):

Derivatives Designated as Hedging Instruments	**Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion), net of tax**	**Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)**
None		

Derivatives Not Designated as Hedging Instruments	**Classification of Gain or (Loss) Recognized into Income**	**Amount of Gain or (Loss) Recognized in Income on Derivatives Six Months Ended March 31, 2015**	**2014**
Foreign exchange contracts	Selling, general and administrative expenses	$ 4,952	$ (1,296)

Credit-risk-related Contingent Features

At March 31, 2015, the aggregate fair value of all foreign exchange contracts held which consisted of derivative instruments in a liability position was approximately $0.1 million. The Company was under no obligation to post and had not posted any collateral related to the agreements in a liability position.

The counterparty to our derivative instruments is deemed by the Company to be of substantial resources and strong creditworthiness. However, these transactions result in exposure to credit risk in the event of default by the counterparty. The financial crisis that has affected the banking systems and financial markets in recent years resulted in many well-known financial institutions becoming less creditworthy or having diminished liquidity which could expose us to an increased level of counterparty credit risk. In the event that the counterparty defaults in its obligation under our derivative instruments, we could incur substantial financial losses. However, at the present time, no such losses are deemed probable.

12. Business Segments

The Company s business is organized into two separate segments: (i) Sally Beauty Supply, a domestic and international chain of cash and carry retail stores which offers professional beauty supplies to both salon professionals and retail customers primarily in North America, Puerto Rico, and parts of Europe and South America and (ii) BSG, including its franchise-based business Armstrong McCall, a full service beauty supply distributor which offers professional brands of beauty products directly to salons and salon professionals through its own sales force and professional-only stores (including franchise stores) in partially exclusive geographical territories in North America, Puerto Rico and parts of Europe.

The accounting policies of both of our business segments are the same as described in the summary of significant accounting policies contained in Note 2 of the Notes to Consolidated Financial Statements in Item 8 - Financial Statements and

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Supplementary Data contained in our Annual Report on Form 10-K for the fiscal year ended September 30, 2014. Sales between segments, which were eliminated in consolidation, were not material during the three and six months ended March 31, 2015 and 2014.

Segment data for the three and six months ended March 31, 2015 and 2014 is as follows (in thousands):

	Three Months Ended March 31,		**Six Months Ended March 31,**	
	2015	**2014**	**2015**	**2014**
Net sales:				
Sally Beauty Supply	$ 572,110	$ 569,618	$ 1,158,629	$ 1,142,973
BSG	365,645	349,853	743,593	716,962
Total	$ 937,755	$ 919,471	$ 1,902,222	$ 1,859,935
Earnings before provision for income taxes:				
Segment operating profit:				
Sally Beauty Supply	$ 106,089	$ 105,474	$ 207,268	$ 209,017
BSG	55,607	50,882	112,197	105,717
Segment operating profit	161,696	156,356	319,465	314,734
Unallocated expenses (a)	(29,849)	(29,000)	(63,621)	(57,063)
Share-based compensation expense	(2,840)	(3,268)	(10,600)	(11,790)
Interest expense	(29,228)	(29,258)	(58,469)	(57,747)
Earnings before provision for income taxes	$ 99,779	$ 94,830	$ 186,775	$ 188,134

(a) Unallocated expenses consist of corporate and shared costs.

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Sally Beauty Holdings, Inc. and Subsidiaries

Condensed Notes to Consolidated Financial Statements

(Unaudited)

13. Parent, Issuers, Guarantor and Non-Guarantor Condensed Consolidated Financial Statements

The following consolidating financial information presents the condensed consolidating balance sheets as of March 31, 2015 and September 30, 2014, and the related condensed consolidating statements of earnings and condensed consolidating statements of comprehensive income for the three and six months ended March 31, 2015 and 2014, and condensed consolidating statements of cash flows for the six months ended March 31, 2015 and 2014: (i) Sally Beauty Holdings, Inc., or the Parent; (ii) Sally Holdings LLC and Sally Capital Inc., or the Issuers; (iii) the guarantor subsidiaries; (iv) the non-guarantor subsidiaries; (v) elimination entries necessary for consolidation purposes; and (vi) Sally Beauty on a consolidated basis.

Investments in subsidiaries are accounted for using the equity method for purposes of the consolidating presentation. The principal elimination entries relate to investments in subsidiaries and intercompany balances and transactions. Separate financial statements and other disclosures with respect to the guarantor subsidiaries have not been provided as management believes the following information is sufficient, as guarantor subsidiaries are 100% indirectly owned by the Parent and all guarantees are full and unconditional. Additionally, the accounts, inventory, credit card receivables, deposit accounts, certain intercompany notes and certain other personal property of the guarantor subsidiaries relating to the inventory and accounts are pledged under the ABL facility and consequently may not be available to satisfy the claims of general creditors.

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Sally Beauty Holdings, Inc. and Subsidiaries

Condensed Notes to Consolidated Financial Statements

(Unaudited)

Condensed Consolidating Balance Sheet

March 31, 2015

(In thousands)

	Parent	Sally Holdings LLC and Sally Capital Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Sally Beauty Holdings, Inc. and Subsidiaries
Assets						
Cash and cash equivalents	$	$ 148,503	$ 66,948	$ 30,576	$	$ 246,027
Trade and other accounts receivable, less allowance for doubtful accounts	173		54,718	26,434		81,325
Due from affiliates			1,615,125	27	(1,615,152)	
Inventory			642,721	195,396		838,117
Other current assets	11,084	2,114	12,553	18,412		44,163
Deferred income tax assets, net	(213)	1	30,527	1,456		31,771
Property and equipment, net	2		161,029	72,730		233,761
Investment in subsidiaries	543,491	2,943,764	352,435		(3,839,690)	
Goodwill and other intangible assets, net			471,788	154,230		626,018
Other assets		26,570	1,569	5,532		33,671
Total assets	$ 554,537	$ 3,120,952	$ 3,409,413	$ 504,793	$ (5,454,842)	$ 2,134,853
Liabilities and Stockholders (Deficit) Equity						
Accounts payable	$ 6	$	$ 225,838	$ 54,906	$	$ 280,750
Due to affiliates	816,588	728,827	27	69,710	(1,615,152)	
Accrued liabilities	433	40,730	125,292	23,031		189,486
Income taxes payable		1,217		2,278		3,495
Long-term debt		1,806,978	192	2,986		1,810,156
Other liabilities			25,203	2,768		27,971
Deferred income tax liabilities, net	(1,486)	(291)	89,097	(3,321)		83,999
Total liabilities	815,541	2,577,461	465,649	152,358	(1,615,152)	2,395,857
Total stockholders (deficit) equity	(261,004)	543,491	2,943,764	352,435	(3,839,690)	(261,004)
Total liabilities and stockholders (deficit) equity	$ 554,537	$ 3,120,952	$ 3,409,413	$ 504,793	$ (5,454,842)	$ 2,134,853

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Sally Beauty Holdings, Inc. and Subsidiaries

Condensed Notes to Consolidated Financial Statements

(Unaudited)

Condensed Consolidating Balance Sheet

September 30, 2014

(In thousands)

	Parent	Sally Holdings LLC and Sally Capital Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Sally Beauty Holdings, Inc. and Subsidiaries
Assets						
Cash and cash equivalents	$	$ 27,000	$ 40,042	$ 39,533	$	$ 106,575
Trade and other accounts receivable, less allowance for doubtful accounts	2		63,009	35,489		98,500
Due from affiliates			1,464,752	27	(1,464,779)	
Inventory			631,786	196,643		828,429
Other current assets	7,935	452	15,016	15,592		