

Sally Beauty Holdings, Inc.
Form 10-Q
May 05, 2016
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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, 2016

-OR-

o 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.

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(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

36-2257936
(I.R.S. Employer Identification No.)

3001 Colorado Boulevard
Denton, Texas
(Address of principal executive
offices)

76210
(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 NO

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 No

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

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

As of April 29, 2016, there were 146,314,383 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 words are used in 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:

- anticipating and effectively responding to changes in consumer and professional stylist preferences and buying trends in a timely manner;
- the success of our strategic initiatives, including our store refresh program and increased marketing efforts, to enhance the customer experience, attract new customers, drive brand awareness and improve customer loyalty;
- the highly competitive nature of, and the increasing consolidation of, the beauty products distribution industry;
- the timing and acceptance of new product introductions;
- shifts in product mix sold during any period;
- 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;
- our dependence upon manufacturers who have developed or could develop their own distribution businesses which compete directly with ours;
- the possibility of material interruptions in the supply of products by our third-party manufacturers or distributors or increases in the prices of the products we purchase from 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. franchise-based business, which we refer to as Armstrong McCall;
- successfully identifying acquisition candidates and successfully completing desirable acquisitions;
- integrating acquired businesses;
- the success of our existing stores, and our ability to increase sales at existing stores;
- opening and operating new stores profitably;
- the volume of traffic to our stores;
- the impact of the health of the economy upon our business;
- the success of our cost control plans;
- rising labor and rental costs;
- 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;
- successfully updating and integrating our information technology systems;
- disruption in our information technology systems;
- a significant data security breach, including misappropriation of our customers', employees' or suppliers' confidential information, and the potential costs related thereto;

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- 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 and to continuously upgrade our information technology security systems to address evolving cyber security threats;
- the ultimate determination of the extent or scope of the potential liabilities relating to our past data security incidents;
- 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;
- 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; 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, 2015, 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, 2016 and September 30, 2015, and the consolidated statements of earnings and consolidated statements of comprehensive income for the three and six months ended March 31, 2016 and 2015, and consolidated statements of cash flows for the six months ended March 31, 2016 and 2015 are those of Sally Beauty Holdings, Inc. and its consolidated subsidiaries.

Table of Contents**SALLY BEAUTY HOLDINGS, INC. AND SUBSIDIARIES**

Consolidated Statements of Earnings

(In thousands, except per share data)

(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
Net sales	\$ 980,067	\$ 937,755	\$ 1,978,099	\$ 1,902,222
Cost of products sold and distribution expenses	492,593	470,303	996,576	961,001
Gross profit	487,474	467,452	981,523	941,221
Selling, general and administrative expenses	341,311	317,456	681,039	654,410
Depreciation and amortization	23,705	20,989	47,091	41,567
Operating earnings	122,458	129,007	253,393	245,244
Interest expense	26,971	29,228	90,914	58,469
Earnings before provision for income taxes	95,487	99,779	162,479	186,775
Provision for income taxes	35,328	38,244	60,077	70,331
Net earnings	\$ 60,159	\$ 61,535	\$ 102,402	\$ 116,444
Earnings per share:				
Basic	\$ 0.41	\$ 0.39	\$ 0.69	\$ 0.74
Diluted	\$ 0.41	\$ 0.39	\$ 0.68	\$ 0.73
Weighted average shares:				
Basic	146,447	157,504	148,628	156,797
Diluted	148,360	159,620	150,353	158,845

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, 2015, 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,		Six Months Ended March 31,	
	2016	2015	2016	2015
Net earnings	\$ 60,159	\$ 61,535	\$ 102,402	\$ 116,444
Other comprehensive income (loss):				
Foreign currency translation adjustments	8,149	(29,858)	(2,072)	(47,159)
Total other comprehensive income (loss), before tax	8,149	(29,858)	(2,072)	(47,159)
Income taxes related to other comprehensive income				
Other comprehensive income (loss), net of tax	8,149	(29,858)	(2,072)	(47,159)
Total comprehensive income	\$ 68,308	\$ 31,677	\$ 100,330	\$ 69,285

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, 2015, are an integral part of these financial statements.

Table of Contents**SALLY BEAUTY HOLDINGS, INC. AND SUBSIDIARIES**

Consolidated Balance Sheets

(In thousands, except par value data)

	March 31, 2016 (Unaudited)	September 30, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 88,548	\$ 140,038
Trade accounts receivable, less allowance for doubtful accounts of \$1,274 at March 31, 2016 and \$1,162 at September 30, 2015	46,409	48,602
Accounts receivable, other	34,530	42,490
Inventory	901,249	885,214
Other current assets	39,885	37,049
Deferred income tax assets, net	33,772	33,709
Total current assets	1,144,393	1,187,102
Property and equipment, net of accumulated depreciation of \$454,170 at March 31, 2016 and \$428,501 at September 30, 2015	293,445	270,847
Goodwill	523,486	524,369
Intangible assets, excluding goodwill, net of accumulated amortization of \$104,803 at March 31, 2016 and \$97,897 at September 30, 2015	93,777	98,848
Other assets	14,249	13,185
Total assets	\$ 2,069,350	\$ 2,094,351
Liabilities and Stockholders Deficit		
Current liabilities:		
Current maturities of long-term debt	\$ 749	\$ 755
Accounts payable	287,040	275,917
Accrued liabilities	208,598	208,717
Income taxes payable	4,622	6,310
Total current liabilities	501,009	491,699
Long-term debt	1,782,530	1,786,839
Other liabilities	25,472	27,734
Deferred income tax liabilities, net	101,771	85,900
Total liabilities	2,410,782	2,392,172
Stockholders deficit:		
Common stock, \$0.01 par value. Authorized 500,000 shares; 146,275 and 151,898 shares issued and 145,854 and 151,452 shares outstanding at March 31, 2016 and September 30, 2015, respectively	1,458	1,515
Preferred stock, \$0.01 par value. Authorized 50,000 shares; none issued		
Additional paid-in capital		
Accumulated deficit	(263,113)	(218,670)
Treasury stock, 121 shares, at cost		(2,961)
Accumulated other comprehensive loss, net of tax	(79,777)	(77,705)
Total stockholders deficit	(341,432)	(297,821)
Total liabilities and stockholders deficit	\$ 2,069,350	\$ 2,094,351

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, 2015, are an integral part of these financial statements.

Table of Contents**SALLY BEAUTY HOLDINGS, INC. AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Six Months Ended March 31,	
	2016	2015
Cash Flows from Operating Activities:		
Net earnings	\$ 102,402	\$ 116,444
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	47,091	41,567
Share-based compensation expense	7,173	10,600
Amortization of deferred financing costs	1,679	1,897
Excess tax benefit from share-based compensation	(1,029)	(22,567)
Loss on extinguishment of debt	33,296	
Deferred income taxes	14,441	9,081
Changes in (exclusive of effects of acquisitions):		
Trade accounts receivable	2,172	3,165
Accounts receivable, other	7,769	10,578
Inventory	(17,048)	(31,541)
Other current assets	(2,856)	16,494
Other assets	(176)	(208)
Accounts payable and accrued liabilities	19,812	19,164
Income taxes payable	(352)	(615)
Other liabilities	(2,166)	393
Net cash provided by operating activities	212,208	174,452
Cash Flows from Investing Activities:		
Capital expenditures	(73,650)	(37,337)
Proceeds from disposal of property and equipment	1,740	
Acquisitions, net of cash acquired	(2,250)	(2,028)
Net cash used by investing activities	(74,160)	(39,365)
Cash Flows from Financing Activities:		
Proceeds from issuance of long-term debt	912,000	983
Repayments of long-term debt	(938,154)	(1,396)
Repurchases of common stock	(162,367)	(67,524)
Debt issuance costs	(12,748)	
Proceeds from exercises of stock options	10,731	51,765
Excess tax benefit from share-based compensation	1,029	22,567
Net cash (used) provided by financing activities	(189,509)	6,395
Effect of foreign exchange rate changes on cash and cash equivalents	(29)	(2,030)
Net (decrease) increase in cash and cash equivalents	(51,490)	139,452
Cash and cash equivalents, beginning of period	140,038	106,575
Cash and cash equivalents, end of period	\$ 88,548	\$ 246,027
Supplemental Cash Flow Information:		
Interest paid (a)	\$ 87,201	\$ 56,339
Income taxes paid	\$ 47,776	\$ 46,824

(a) For the six months ended March 31, 2016, interest paid includes \$25.8 million in call premiums paid in connection with the Company's December 2015 redemption in full of its senior notes due 2019.

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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, 2015, 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 located 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., 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. A significant number of the Company's products are also available through a number of Sally Beauty Supply and BSG-operated websites. 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, 2016 and September 30, 2015, its consolidated results of operations for the three and six months ended March 31, 2016 and 2015, and consolidated cash flows for the six months ended March 31, 2016 and 2015.

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

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included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2015. 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

The Company has not yet adopted and is currently assessing the potential effect of the following pronouncements on its consolidated financial statements:

In September 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments* (ASU 2015-16) which will eliminate the current requirement to recognize measurement-period adjustments to provisional amounts retrospectively. Instead, ASU 2015-16 requires the acquirer to recognize measurement-period adjustments, as well as the impact on earnings of changes in depreciation, amortization and similar items (if any) resulting from the change to the provisional amounts, in the period when the amount of each measurement-period adjustment is determined. For public companies, this amendment is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Income Taxes* (ASU 2015-17) which aims to simplify the classification of deferred taxes on the balance sheet. More specifically, ASU 2015-17 will require that all deferred tax assets and liabilities, and any related valuation allowance, be reported as noncurrent in a classified balance sheet. The new guidance will replace the existing practice of reporting deferred taxes for each tax jurisdiction (or taxing component of a jurisdiction) as (a) a net current asset or liability *and* (b) a net

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Sally Beauty Holdings, Inc. and Subsidiaries

Condensed Notes to Consolidated Financial Statements

(Unaudited)

noncurrent asset or liability. The new guidance does not change the existing requirement that only permits offsetting assets and liabilities within the same jurisdiction. For public companies, this amendment is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which will require lessees to report on their balance sheets a right-of-use asset and a lease liability in connection with most lease agreements classified as operating leases under the current guidance. The lease liability will be measured based on the present value of future lease payments, subject to certain conditions. The right-of-use asset will be measured based on the initial amount of the liability, plus certain initial direct costs. The new guidance will further require that leases be classified at inception as either (a) operating leases or (b) finance leases. For operating leases, periodic expense will generally be flat (straight-line) throughout the life of the lease. For finance leases, periodic expense will decline (similar to capital leases under current rules) over the life of the lease. The new standard must be adopted using a modified retrospective transition method. For public companies, this amendment is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted.

In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*, intended to simplify various aspects of how share-based payments are recorded and presented on the financial statements. For example, the new guidance will require that all the income tax effect related to share-based payments be recorded in income tax expense. The new guidance further removes the current requirement to delay recognition of a windfall tax benefit until it reduces current taxes payable. In addition, the new standard will require that excess tax benefits and shortfalls from share-based compensation awards be reported as operating activities in the statement of cash flows. For public companies, these amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted.

In addition, the Company has not yet adopted the following recent accounting pronouncements and does not believe their adoption will have a material effect on its consolidated financial statements:

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* which will supersede Accounting Standards Codification (ASC) Topic 605, *Revenue Recognition*. In August 2015, the FASB deferred the effective date of this new standard by one year. 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, 2017. Early application is permitted, but no earlier than December 16, 2016. The Company has not yet selected a transition method.

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In April 2015, the FASB issued ASU No. 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. The new standard permits the use of either the prospective or retrospective transition method. For public companies, this amendment is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015.

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

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Sally Beauty Holdings, Inc. and Subsidiaries

Condensed Notes to Consolidated Financial Statements

(Unaudited)

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, 2016 and September 30, 2015 (in thousands):

	Total	As of March 31, 2016		
		Level 1	Level 2	Level 3
Assets				
Foreign exchange contracts (b)	\$ 39	\$	\$	39
Total assets	\$ 39	\$	\$	39
Liabilities				
Long-term debt (c)	\$ 1,899,604	\$ 1,897,063	\$ 2,541	
Foreign exchange contracts (b)	276		276	
Total liabilities	\$ 1,899,880	\$ 1,897,063	\$ 2,817	

	Total	As of September 30, 2015		
		Level 1	Level 2	Level 3
Assets				
Cash equivalents (a)	\$ 46,003	\$ 46,003	\$	
Foreign exchange contracts (b)	322		322	

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Total assets	\$	46,325	\$	46,003	\$	322
Liabilities						
Long-term debt (c)	\$	1,873,620	\$	1,870,750	\$	2,870
Foreign exchange contracts (b)		58				58
Total liabilities	\$	1,873,678	\$	1,870,750	\$	2,928

(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 observable inputs, 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 \$1,808.6 million at March 31, 2016 and \$1,809.4 million at September 30, 2015, less unamortized debt issuance costs of \$25.3 million and \$21.8 million at March 31, 2016 and September 30, 2015, respectively. 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.

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Sally Beauty Holdings, Inc. and Subsidiaries

Condensed Notes to Consolidated Financial Statements

(Unaudited)

During the six months ended March 31, 2016 and 2015, the Company repurchased and subsequently retired approximately 6.2 million and 2.1 million shares, respectively, of its common stock under the 2014 Share Repurchase Program at an aggregate cost of \$162.4 million and \$67.5 million, respectively. We funded these share repurchases with existing cash balances, cash from operations and borrowings under the ABL facility. The Company reduced common stock and additional paid-in capital, in the aggregate, by these amounts. However, as required by GAAP, to the extent that share repurchase amounts exceeded the balance of additional paid-in capital prior to us recording such repurchases, we recorded the excess in accumulated deficit.

At March 31, 2016 and September 30, 2015, accumulated other comprehensive loss consists of cumulative foreign currency translation adjustments of \$79.8 million and \$77.7 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.

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

	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2016	2015	2016	2015
Net earnings	\$ 60,159	\$ 61,535	\$ 102,402	\$ 116,444
Total weighted average basic shares	146,447	157,504	148,628	156,797
Dilutive securities:				
Stock options and stock award programs	1,913	2,116	1,725	2,048
Total weighted average diluted shares	148,360	159,620	150,353	158,845
Earnings per share:				
Basic	\$ 0.41	\$ 0.39	\$ 0.69	\$ 0.74
Diluted	\$ 0.41	\$ 0.39	\$ 0.68	\$ 0.73

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At March 31, 2016 and 2015, options to purchase 66,573 shares and 33,592 shares, respectively, of the Company's common stock were outstanding but not included in the computations of diluted earnings per share for the three months ended March 31, 2016 and 2015, respectively, since these options were anti-dilutive. At March 31, 2016 and 2015, options to purchase 1,240,603 shares and 1,096,594 shares, respectively, of the Company's common stock were outstanding but not included in the computations of diluted earnings per share for the six months ended March 31, 2016 and 2015, respectively, 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.

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7. Share-Based Payments

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				Six Months Ended			
	March 31,		March 31,		March 31,		March 31,	
	2016	2015	2016	2015	2016	2015	2016	2015
Share-based compensation expense	\$ 2,985	\$ 2,840	\$ 7,173	\$ 10,600				
Income tax benefit related to share-based compensation expense	\$ 1,118	\$ 1,077	\$ 2,707	\$ 3,995				

Performance-Based Unit Awards

The Company from time to time grants Performance-Based Unit (Performance Units) awards subject to three-year cliff-vesting provisions, pursuant to the Sally Beauty Holdings, Inc. Amended and Restated 2010 Omnibus Incentive Plan (the 2010 Plan). The Company's Performance Units represent unsecured obligations of the Company to issue shares of its common stock. The number of shares, if any, which will be issued in connection with these awards, is contingent upon both (a) employee service conditions and (b) the achievement of specified Company performance targets. The Company measures the cost of services received from officers and employees in exchange for an award of Performance Units based on the fair value of the award on the date of grant and it recognizes expense over the requisite service period (generally three years). The fair value of a Performance Unit is determined based on the closing market price of the Company's common stock on the date of grant.

During the six months ended March 31, 2016, the Company granted approximately 152,000 Performance Units (target shares) to its officers and employees. Under the terms of these awards, a grantee may earn from 0% to 200% of his or her target shares, with the ultimate settlement (and expense recognized) dependent on the Company achieving certain specified cumulative performance targets during the three-year period ending on September 30, 2018 (the Performance Period) and satisfaction of the employee service condition. Periodic expense for Performance Unit awards, which is estimated quarterly, is based on the Company's projected performance during the Performance Period compared to the performance targets contained in the award. As such, for the six months ended March 31, 2016, the Company has estimated and recognized compensation expense at 100% of the performance targets as it believes achievement of the performance targets is probable. To date, the Company has only granted Performance Units subject to the Company's achievement of two performance targets: consolidated sales growth (as defined in the award documents) and return on invested capital (as defined in the award documents), in addition to service conditions. For the awards issued during the six months ended March 31, 2016, 40% of the award is contingent on achieving the consolidated sales growth target and 60% is contingent on achieving the return on invested capital target.

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The following table presents a summary of the activity for the Company's Performance Unit awards for the six months ended March 31, 2016:

Performance Unit Awards	Number of Shares (in Thousands)	Weighted Average Fair Value Per Share	Weighted Average Remaining Vesting Term (in Years)
Unvested at September 30, 2015		\$	
Granted	152	23.45	
Vested			
Forfeited	(4)	23.45	
Unvested at March 31, 2016	148	\$ 23.45	2.5

At March 31, 2016, unrecognized compensation costs related to unvested performance unit awards are approximately \$2.8 million and are expected to be recognized over the weighted average period of 2.5 years.

Service-Based Awards

The Company measures the cost of services received from employees, directors and consultants, if any, in exchange for a service-based 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.

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The Company granted approximately 1.5 million and 1.2 million service-based stock options and approximately 40,000 and 219,000 service-based restricted share awards to its employees during the six months ended March 31, 2016 and 2015, respectively. Upon issuance of such grants, the Company recognized accelerated share-based compensation expense of \$1.3 million and \$4.8 million in the six months ended March 31, 2016 and 2015, respectively, in connection with certain retirement eligible employees who are eligible to continue vesting awards upon retirement under the provisions of the 2010 Plan. In addition, the Company granted approximately 27,000 and 20,000 service-based restricted stock units to its non-employee directors during the six months ended March 31, 2016 and 2015, respectively.

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 three or four year period and are generally subject to 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 service-based stock option awards for the six months ended March 31, 2016:

	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, 2015	5,316	\$ 21.89	6.8	\$ 19,255
Granted	1,486	23.65		
Exercised	(634)	16.93		
Forfeited or expired	(75)	26.68		
Outstanding at March 31, 2016	6,093	\$ 22.78	6.6	\$ 58,499
Exercisable at March 31, 2016	2,792	\$ 19.55	5.1	\$ 35,830

The following table summarizes additional information about service-based stock options outstanding at March 31, 2016 under the Company's share-based compensation plans:

Options Outstanding

Options Exercisable

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Range of Exercise Prices	Number of Options Outstanding (in Thousands)	Weighted Average Remaining Contractual Term (in Years)	Weighted Average Exercise Price	Number of Options Exercisable (in Thousands)	Weighted Average Exercise Price
\$5.24 - 19.99	1,404	4.1	\$ 13.38	1,404	\$ 13.38
\$20.00 - 31.58	4,689	7.3	25.59	1,388	25.79
Total	6,093	6.6	\$ 22.78	2,792	\$ 19.55

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 three or four years) of the stock options or to the date a participant becomes eligible for retirement, if earlier.

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

	Six months ended March 31,	
	2016	2015
Expected life (in years)	5.0	5.0
Expected volatility for the Company's common stock	27.2%	30.9%
Risk-free interest rate	1.5%	1.6%
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, 2016 and 2015 was \$6.32 and \$8.78 per option, respectively. The total intrinsic value of options exercised during the six months ended March 31, 2016 was \$13.0 million. The cash proceeds from these option exercises were \$10.7 million and the tax benefit realized from these option exercises was \$2.7 million.

At March 31, 2016, unrecognized compensation costs related to unvested stock option awards are approximately \$13.7 million and are expected to be recognized over the weighted average period of 2.1 years.

Restricted Stock Awards

The Company from time to time grants service-based restricted stock awards to employees and consultants, if any, 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 three 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.

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The fair value of the Company's restricted stock awards is expensed on a straight-line basis over the period (generally three 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. The fair value of a service-based 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 service-based restricted stock awards for the six months ended March 31, 2016:

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, 2015	446	\$ 25.82	2.8
Granted	40	25.35	
Vested	(61)	16.96	
Forfeited	(4)	29.58	
Unvested at March 31, 2016	421	\$ 27.03	2.3

At March 31, 2016, unrecognized compensation costs related to unvested restricted stock awards are approximately \$4.4 million and are expected to be recognized over the weighted average period of 2.3 years.

Restricted Stock Units

The Company also grants service-based RSU awards, which generally vest within one year from the date of grant, pursuant to the 2010 Plan. To date, the Company has only granted service-based 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

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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 a service-based RSU, which is determined to be the fair value of the RSU 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 service-based RSUs for the six months ended March 31, 2016:

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, 2015		\$	
Granted	27	23.99	
Vested			
Forfeited			
Unvested at March 31, 2016	27	\$ 23.99	0.5

At March 31, 2016, unrecognized compensation costs related to unvested RSUs are approximately \$0.4 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, 2016, 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, 2016, 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.

For the three months ended March 31, 2016 and 2015, amortization expense was \$3.4 million and \$3.6 million, respectively, and for the six months ended March 31, 2016 and 2015, amortization expense was \$6.8 million and \$7.1 million, respectively.

9. Commitments and Contingencies

In the fiscal year ended September 30, 2014, the Company disclosed that it had experienced a data security incident (the 2014 data security incident). In May 2015, the Company disclosed that it had experienced a second data security incident (the 2015 data security incident) and, together with the 2014 data security incident, the data security incidents). The data security incidents involved the unauthorized installation of malicious software (malware) on our information technology systems, including our point-of-sale systems that, we believe, may have placed at risk certain payment card data for some transactions. The costs that the Company has incurred to date in connection with the data security incidents primarily include professional advisory fees and legal costs and expenses relating to investigating and remediating the data security incidents.

The Company expects to incur additional costs and expenses related to the data security incidents in the future. These costs may result from liabilities related to claims by 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, and further investigatory and remediation costs. For the six months ended March 31, 2016 and 2015, selling, general and administrative expenses reflect expenses of \$1.2 million and \$1.8 million, respectively, relating to the data security incidents. In addition, at March 31, 2016 the Company had an accrued liability of approximately \$2.9 million related to loss contingencies associated with the 2014 data security incident. As of March 31, 2016, the scope of these additional costs, or a range thereof, cannot be reasonably estimated. While we do not anticipate these additional costs or liabilities would have a material adverse impact on our business, financial condition and operating results, these additional costs could be significant.

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10. Short-term Borrowings and Long-term Debt

Details of long-term debt as of March 31, 2016 and September 30, 2015 are as follows (dollars in thousands):

	March 31, 2016	September 30, 2015	Interest Rates(a)
ABL facility(b)	\$	\$	(i) Prime plus (0.50% to 0.75)% or; (ii) LIBOR(b) plus (1.50% to 1.75)%
Senior notes due Nov. 2019		750,000	6.875%
Senior notes due Jun. 2022	850,000	850,000	5.750%
Senior notes due Nov. 2023	200,000	200,000	5.500%
Senior notes due Dec. 2025	750,000		5.625%
Total	\$ 1,800,000	\$ 1,800,000	
Plus: capital lease obligations	2,541	2,870	
Less: unamortized debt issuance costs and premium, net(c)	19,262	15,276	
Total debt	\$ 1,783,279	\$ 1,787,594	
Less: current maturities	749	755	
Total long-term debt	\$ 1,782,530	\$ 1,786,839	

- (a) Interest rates shown represent the coupon or contractual rate or rates related to each debt instrument listed.
- (b) When used in this Quarterly Report, LIBOR means the London Interbank Offered Rate. At March 31, 2016 and September 30, 2015, unamortized debt issuance costs of \$2.0 million and \$2.4 million, respectively, related to the ABL facility are reported in other assets in the Company's consolidated balance sheets.
- (c) Amounts are net of unamortized premium of \$6.0 million and \$6.5 million as of March 31, 2016 and September 30, 2015, respectively, related to certain notes with an aggregate principal amount of \$150.0 million.

In 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.

In the fiscal year 2011, Sally Holdings entered into a five-year asset-based senior secured loan facility (the ABL facility). The availability of funds under the ABL facility is subject to a customary borrowing base comprised of: (i) a specified percentage of our eligible credit card and

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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 the fiscal year 2013, the Company, Sally Holdings and other parties to the ABL facility entered into an 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, 2016, there were no borrowings outstanding under the ABL facility and 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 2012, Sally Holdings and Sally Capital Inc. (collectively, the Issuers), both indirectly 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 \$150.0 million of the aggregate principal amount of the senior notes due 2022 issued at par plus a

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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. As further discussed below, in December 2015, the Company redeemed in full the senior notes due 2019 at a redemption premium equal to 103.438% primarily with the net proceeds from the issuance of the 5.625% Senior Notes due 2025 (the senior notes due 2025), as discussed below.

In the fiscal year 2014, the Issuers issued \$200.0 million aggregate principal amount of their 5.5% Senior Notes due 2023 (the senior notes due 2023) 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.

On December 3, 2015, the Issuers issued \$750.0 million aggregate principal amount of their senior notes due 2025 at par. The Company used the net proceeds from this debt issuance (approximately \$737.3 million) as well as cash from operations and borrowings under the ABL facility, to redeem in full the senior notes due 2019 at a total redemption cost of \$775.8 million, including the redemption premium but excluding accrued interest paid upon redemption of such notes. In connection with our redemption of the senior notes due 2019, we recorded a loss on extinguishment of debt in the amount of approximately \$33.3 million, including a redemption premium in the amount of approximately \$25.8 million and unamortized deferred financing costs of approximately \$7.5 million. In connection with the issuance of the senior notes due 2025, the Company incurred and capitalized financing costs of approximately \$12.7 million. This amount is reported as a deduction from the senior notes due 2025 on the Company's consolidated balance sheets and is being amortized over the term of the senior notes due 2025 using the effective interest method.

The senior notes due 2022, the senior notes due 2023 and the senior notes due 2025, which we refer to collectively as the Senior Notes or the senior notes due 2022, 2023 and 2025, 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 2022, 2023 and 2025 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, the Issuers, the guarantor subsidiaries and the non-guarantor subsidiaries.

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.

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 may be redeemed, in whole or in part, at a

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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.

The senior notes due 2025 carry optional redemption features whereby the Company has the option to redeem the notes, in whole or in part, on or after December 1, 2023 at par, plus accrued and unpaid interest, if any, and on or after December 1, 2020 at par plus a premium declining ratably to par, plus accrued and unpaid interest, if any. Prior to December 1, 2020, 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 December 1, 2018, 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.

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Maturities of the Company's long-term debt are as follows as of March 31, 2016 (in thousands):

Twelve months ending March 31:	
2017-2021	\$
Thereafter	1,800,000
	\$ 1,800,000
Plus: capital lease obligations	2,541
Less: unamortized debt issuance costs and premium, net	19,262
Less: current maturities	749
Total long-term debt	\$ 1,782,530

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, 2016, 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 2022, 2023 and 2025 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, 2016, the Company's Consolidated Coverage Ratio was approximately 6.1 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.

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The indentures governing the senior notes due 2022, 2023 and 2025 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 (for the senior notes due 2022 the senior notes due and 2023) or since October 1, 2015 (for the senior notes due 2025), 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 plus (v) \$350 million (for the senior notes due 2025). 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, 2016, 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 or exceed the lesser of \$75.0 million or 15% of the borrowing base for 45 days prior to such Restricted Payment. For Restricted

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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, 2016, the Consolidated Fixed Charge Coverage Ratio was approximately 3.1 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 2022, 2023 and 2025, 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 2022, 2023 and 2025 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, 2016, 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.

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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, 2016, 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, 2016, 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, 2016.

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Sally Beauty Holdings, Inc. and Subsidiaries

Condensed Notes to Consolidated Financial Statements

(Unaudited)

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 Sinelco Group subsidiaries purchases of merchandise from third-party suppliers. Sinelco's functional currency is the Euro. As such, at March 31, 2016, we hold foreign currency forwards which enable us to sell approximately 6.4 million (\$7.3 million, at the March 31, 2016 exchange rate) at the weighted average contractual exchange rate of 1.1274. The foreign currency forwards discussed in this paragraph are with a single counterparty and expire ratably through September 15, 2016.

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, 2016, we hold: (a) a foreign currency forward which enables us to sell approximately 22.6 million (\$25.8 million, at the March 31, 2016 exchange rate) at the contractual exchange rate of 1.1330, (b) a foreign currency forward which enables us to sell approximately \$6.8 million Canadian dollars (\$5.2 million, at the March 31, 2016 exchange rate) at the contractual exchange rate of 1.2978, (c) foreign currency forwards which enable us to buy approximately \$8.3 million Canadian dollars (\$6.4 million, at the March 31, 2016 exchange rate) at the weighted average contractual exchange rate of 1.3053, (d) a foreign currency forward which enables us to sell approximately 19.2 million Mexican pesos (\$1.1 million, at the March 31, 2016 exchange rate) at the contractual exchange rate of 17.2905, (e) a foreign currency forward which enables us to buy approximately £9.7 million (\$13.9 million, at the March 31, 2016 exchange rate) at the contractual exchange rate of 1.4391 and (f) a foreign currency forward which enables us to sell approximately £1.0 million (\$1.4 million, at the March 31, 2016 exchange rate) at the contractual exchange rate of 1.4393. All the foreign currency forwards discussed in this paragraph are with a single counterparty (not the same counterparty as that on the forwards discussed in the preceding paragraph) and expire on or before June 30, 2016.

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 a net loss of \$1.6 million and a net gain of \$3.4 million for the three months ended March 31, 2016 and 2015, respectively, and, for the six months ended March 31, 2016 and 2015, a net loss of \$0.6 million and a net gain of \$5.0 million, respectively, in connection with all of the Company's foreign currency derivative instruments, including marked-to-market adjustments.

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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, 2016 and September 30, 2015 (in thousands):

		Asset Derivatives		Liability Derivatives		
Classification		March 31, 2016	September 30, 2015	Classification	March 31, 2016	September 30, 2015
Derivatives designated as hedging instruments:						
None						
Derivatives not designated as hedging instruments:						
Foreign exchange contracts	Other current assets	\$ 39	\$ 322	Accrued liabilities	\$ 276	\$ 58
		\$ 39	\$ 322		\$ 276	\$ 58

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Sally Beauty Holdings, Inc. and Subsidiaries

Condensed Notes to Consolidated Financial Statements

(Unaudited)

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, 2016 and 2015 (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, 2016 2015
Foreign exchange contracts	Selling, general and administrative expenses	\$ (1,640) \$ 3,447

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, 2016 and 2015 (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, 2016 2015
Foreign exchange contracts	Selling, general and administrative expenses	\$ (599) \$ 4,952

Credit-risk-related Contingent Features

At March 31, 2016, the aggregate fair value of all foreign exchange contracts held which consisted of derivative instruments in a liability position was \$0.3 million. The Company was under no obligation to post and had not posted any collateral related to the agreements in a liability position.

The counterparties to our derivative instruments are 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 a 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 a 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 and parts of Europe.

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Sally Beauty Holdings, Inc. and Subsidiaries

Condensed Notes to Consolidated Financial Statements

(Unaudited)

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 Supplementary Data contained in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015. Sales between segments, which were eliminated in consolidation, were not material during the three and six months ended March 31, 2016 and 2015.

Segment data for the three and six months ended March 31, 2016 and 2015 is as follows (in thousands):

	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2016	2015	2016	2015
Net sales:				
Sally Beauty Supply	\$ 587,622	\$ 572,110	\$ 1,183,588	\$ 1,158,629
BSG	392,445	365,645	794,511	743,593
Total	\$ 980,067	\$ 937,755	\$ 1,978,099	\$ 1,902,222
Earnings before provision for income taxes:				
Segment operating profit:				
Sally Beauty Supply	\$ 101,975	\$ 106,089	\$ 208,052	\$ 207,268
BSG	61,404	55,607	127,284	112,197
Segment operating profit	163,379	161,696	335,336	319,465
Unallocated expenses (a)	(37,936)	(29,849)	(74,770)	(63,621)
Share-based compensation expense	(2,985)	(2,840)	(7,173)	(10,600)
Interest expense (b)	(26,971)	(29,228)	(90,914)	(58,469)
Earnings before provision for income taxes	\$ 95,487	\$ 99,779	\$ 162,479	\$ 186,775

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

(b) For the six months ended March 31, 2016, interest expense includes a loss on extinguishment of debt of \$33.3 million in connection with the Company's December 2015 redemption of its senior notes due 2019.

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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, 2016 and September 30, 2015, and the related condensed consolidating statements of earnings and condensed consolidating statements of comprehensive income for the three and six months ended March 31, 2016 and 2015, and condensed consolidating statements of cash flows for the six months ended March 31, 2016 and 2015: (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 subsidiary guarantors 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, 2016

(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	\$	\$	\$ 55,215	\$ 33,333	\$	\$ 88,548
Trade and other accounts receivable, less allowance for doubtful accounts	5		53,439	27,495		80,939
Due from affiliates			1,861,024	22	(1,861,046)	
Inventory			693,603	207,646		901,249
Other current assets	2,877	165	18,016	18,827		39,885
Deferred income tax assets		11	30,565	3,196		33,772
Property and equipment, net	3		217,973	75,469		293,445
Investment in subsidiaries	766,785	3,258,559	364,153		(4,389,497)	
Goodwill and other intangible assets, net			464,679	152,584		617,263
Other assets	1,463	2,516	(6,701)	16,971		14,249
Total assets	\$ 771,133	\$ 3,261,251	\$ 3,751,966	\$ 535,543	\$ (6,250,543)	\$ 2,069,350
Liabilities and Stockholders (Deficit) Equity						
Accounts payable	\$	\$	\$ 229,080	\$ 57,960	\$	\$ 287,040
Due to affiliates	1,108,798	676,804	22	75,422	(1,861,046)	
Accrued liabilities	769	35,249	144,302	28,278		208,598
Income taxes payable	2,998	1,476		148		4,622
Long-term debt		1,780,738	63	2,478		1,783,279
Other liabilities			22,539	2,933		25,472
Deferred income tax liabilities		199	97,401	4,171		101,771
Total liabilities	1,112,565	2,494,466	493,407	171,390	(1,861,046)	2,410,782
Total stockholders (deficit) equity	(341,432)	766,785	3,258,559	364,153	(4,389,497)	(341,432)
Total liabilities and stockholders (deficit) equity	\$ 771,133	\$ 3,261,251	\$ 3,751,966	\$ 535,543	\$ (6,250,543)	\$ 2,069,350

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Sally Beauty Holdings, Inc. and Subsidiaries

Condensed Notes to Consolidated Financial Statements

(Unaudited)

Condensed Consolidating Balance Sheet

September 30, 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	\$	\$ 46,003	\$ 58,851	\$ 35,184	\$	\$ 140,038
Trade and other accounts receivable, less allowance for doubtful accounts			60,744	30,348		91,092
Due from affiliates			1,687,325	35	(1,687,360)	
Inventory			687,884	197,330		885,214
Other current assets	2,308	27	17,803	16,911		37,049
Deferred income tax assets		11	30,565	3,133		33,709
Property and equipment, net	2		195,271	75,574		270,847
Investment in subsidiaries	663,045	3,099,141	360,416		(4,122,602)	
Goodwill and other intangible assets, net			468,342	154,875		623,217
Other assets	1,384	2,894	(6,949)	15,856		13,185
Total assets	\$ 666,739	\$ 3,148,076	\$ 3,560,252	\$ 529,246	\$ (5,809,962)	\$ 2,094,351
Liabilities and Stockholders (Deficit) Equity						
Accounts payable	\$	\$	\$ 217,964	\$ 57,953	\$	\$ 275,917
Due to affiliates	962,264	658,106	35	66,955	(1,687,360)	
Accrued liabilities	771	40,768	136,688	30,490		208,717
Income taxes payable	1,525	1,337		3,448		6,310
Long-term debt		1,784,724	109	2,761		1,787,594
Other liabilities			24,686	3,048		27,734
Deferred income tax liabilities		96	81,629	4,175		85,900
Total liabilities	964,560	2,485,031	461,111	168,830	(1,687,360)	2,392,172
Total stockholders (deficit) equity	(297,821)	663,045	3,099,141	360,416	(4,122,602)	(297,821)
Total liabilities and stockholders (deficit) equity	\$ 666,739	\$ 3,148,076	\$ 3,560,252	\$ 529,246	\$ (5,809,962)	\$ 2,094,351

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Sally Beauty Holdings, Inc. and Subsidiaries

Condensed Notes to Consolidated Financial Statements

(Unaudited)

Condensed Consolidating Statement of Earnings and Comprehensive Income
Three Months Ended March 31, 2016

(In thousands)

	Parent	Sally Holdings LLC and Sally Capital Inc.	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Sally Beauty Holdings, Inc. and Subsidiaries
Net sales	\$	\$	\$ 809,735	\$ 170,332	\$	\$ 980,067
Related party sales			615		(615)	
Cost of products sold and distribution expenses			401,517	91,691	(615)	492,593
Gross profit			408,833	78,641		487,474
Selling, general and administrative expenses	2,849	103	268,880	69,479		341,311
Depreciation and amortization	1		18,003	5,701		23,705
Operating earnings (loss)	(2,850)	(103)	121,950	3,461		122,458
Interest expense		26,947	2	22		26,971
Earnings (loss) before provision for income taxes	(2,850)	(27,050)	121,948	3,439		95,487
Provision (benefit) for income taxes	(1,107)	(10,506)	45,059	1,882		35,328
Equity in earnings of subsidiaries, net of tax	61,902	78,446	1,557		(141,905)	
Net earnings	60,159	61,902	78,446	1,557	(141,905)	60,159
Other comprehensive income (loss), net of tax				8,149		8,149
Total comprehensive income (loss)	\$ 60,159	\$ 61,902	\$ 78,446	\$ 9,706	\$ (141,905)	\$ 68,308

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Sally Beauty Holdings, Inc. and Subsidiaries

Condensed Notes to Consolidated Financial Statements

(Unaudited)

Condensed Consolidating Statement of Earnings and Comprehensive Income
Three Months Ended 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
Net sales	\$	\$	\$ 772,833	\$ 164,922	\$	\$ 937,755
Related party sales			634		(634)	
Cost of products sold and distribution expenses			383,916	87,021	(634)	470,303
Gross profit			389,551	77,901		467,452
Selling, general and administrative expenses	2,344	89	246,441	68,582		317,456
Depreciation and amortization			15,300	5,689		20,989
Operating earnings (loss)	(2,344)	(89)	127,810	3,630		129,007
Interest expense		29,185	1	42		29,228
Earnings (loss) before provision for income taxes	(2,344)	(29,274)	127,809	3,588		99,779
Provision (benefit) for income taxes	(1,109)	(11,321)	48,592	2,082		38,244
Equity in earnings of subsidiaries, net of tax	62,770	80,723	1,506		(144,999)	
Net earnings	61,535	62,770	80,723	1,506	(144,999)	61,535
Other comprehensive income (loss), net of tax				(29,858)		(29,858)
Total comprehensive income (loss)	\$ 61,535	\$ 62,770	\$ 80,723	\$ (28,352)	\$ (144,999)	\$ 31,677

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Sally Beauty Holdings, Inc. and Subsidiaries

Condensed Notes to Consolidated Financial Statements

(Unaudited)

Condensed Consolidating Statement of Earnings and Comprehensive Income
Six Months Ended March 31, 2016

(In thousands)

	Parent	Sally Holdings LLC and Sally Capital Inc.	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Sally Beauty Holdings, Inc. and Subsidiaries
Net sales	\$	\$	\$ 1,615,928	\$ 362,171	\$	\$ 1,978,099
Related party sales			1,382		(1,382)	
Cost of products sold and distribution expenses			801,959	195,999	(1,382)	996,576
Gross profit			815,351	166,172		981,523
Selling, general and administrative expenses	5,576	170	536,067	139,226		681,039
Depreciation and amortization	1		35,651	11,439		47,091
Operating earnings (loss)	(5,577)	(170)	243,633	15,507		253,393
Interest expense		90,866	4	44		90,914
Earnings (loss) before provision for income taxes	(5,577)	(91,036)	243,629	15,463		162,479
Provision (benefit) for income taxes	(2,166)	(35,359)	91,823	5,779		60,077
Equity in earnings of subsidiaries, net of tax	105,813	161,490	9,684		(276,987)	
Net earnings	102,402	105,813	161,490	9,684	(276,987)	102,402
Other comprehensive income (loss), net of tax				(2,072)		(2,072)
Total comprehensive income (loss)	\$ 102,402	\$ 105,813	\$ 161,490	\$ 7,612	\$ (276,987)	\$ 100,330

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Sally Beauty Holdings, Inc. and Subsidiaries

Condensed Notes to Consolidated Financial Statements

(Unaudited)

Condensed Consolidating Statement of Earnings and Comprehensive Income
Six Months Ended 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
Net sales	\$	\$	\$ 1,540,756	\$ 361,466	\$	\$ 1,902,222
Related party sales			1,401		(1,401)	
Cost of products sold and distribution expenses			770,732	191,670	(1,401)	961,001
Gross profit			771,425	169,796		941,221
Selling, general and administrative expenses	4,720	193	504,227	145,270		654,410
Depreciation and amortization			30,153	11,414		41,567
Operating earnings (loss)	(4,720)	(193)	237,045	13,112		245,244
Interest expense		58,378	3	88		58,469
Earnings (loss) before provision for income taxes	(4,720)	(58,571)	237,042	13,024		186,775
Provision (benefit) for income taxes	(1,833)	(22,700)	89,465	5,399		70,331
Equity in earnings of subsidiaries, net of tax	119,331	155,202	7,625		(282,158)	
Net earnings	116,444	119,331	155,202	7,625	(282,158)	116,444
Other comprehensive income (loss), net of tax				(47,159)		(47,159)
Total comprehensive income (loss)	\$ 116,444	\$ 119,331	\$ 155,202	\$ (39,534)	\$ (282,158)	\$ 69,285

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Sally Beauty Holdings, Inc. and Subsidiaries

Condensed Notes to Consolidated Financial Statements

(Unaudited)

Condensed Consolidating Statement of Cash Flows

Six months ended March 31, 2016

(In thousands)

	Parent	Sally Holdings LLC and Sally Capital Inc.	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Sally Beauty Holdings, Inc. and Subsidiaries
Net cash provided (used) by operating activities	\$ 150,609	\$ (7,470)	\$ 59,202	\$ 9,867	\$	\$ 212,208
Cash Flows from Investing Activities:						
Capital expenditures, net of proceeds from sale of property and equipment	(2)		(60,542)	(11,366)		(71,910)
Acquisitions, net of cash acquired			(2,250)			(2,250)
Net cash used by investing activities	(2)		(62,792)	(11,366)		(74,160)
Cash Flows from Financing Activities:						
Proceeds from issuance of long-term debt		912,000				912,000
Repayments of long-term debt		(937,785)	(46)	(323)		(938,154)
Repurchases of common stock	(162,367)					(162,367)
Debt issuance costs		(12,748)				(12,748)
Proceeds from exercises of stock options	10,731					10,731
Excess tax benefit from share-based compensation	1,029					1,029
Net cash used by financing activities	(150,607)	(38,533)	(46)	(323)		(189,509)
Effect of foreign exchange rate changes on cash and cash equivalents				(29)		(29)
Net (decrease) increase in cash and cash equivalents		(46,003)	(3,636)	(1,851)		(51,490)
Cash and cash equivalents, beginning of period		46,003	58,851	35,184		140,038
Cash and cash equivalents, end of period	\$	\$	\$ 55,215	\$ 33,333	\$	\$ 88,548

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Sally Beauty Holdings, Inc. and Subsidiaries

Condensed Notes to Consolidated Financial Statements

(Unaudited)

Condensed Consolidating Statement of Cash Flows

Six months ended 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
Net cash (used) provided by operating activities	\$ (6,807)	\$ 121,503	\$ 54,036	\$ 5,720	\$	\$ 174,452
Cash Flows from Investing Activities:						
Capital expenditures, net of proceeds from sale of property and equipment	(1)		(25,027)	(12,309)		(37,337)
Acquisitions, net of cash acquired			(2,028)			(2,028)
Net cash used by investing activities	(1)		(27,055)	(12,309)		(39,365)
Cash Flows from Financing Activities:						
Proceeds from issuance of long-term debt			14	969		983
Repayments of long-term debt			(89)	(1,307)		(1,396)
Repurchases of common stock	(67,524)					(67,524)
Proceeds from exercises of stock options	51,765					51,765
Excess tax benefit from share-based compensation	22,567					22,567
Net cash provided (used) by financing activities	6,808		(75)	(338)		6,395
Effect of foreign exchange rate changes on cash and cash equivalents				(2,030)		(2,030)
Net increase (decrease) in cash and cash equivalents		121,503	26,906	(8,957)		139,452
Cash and cash equivalents, beginning of period		27,000	40,042	39,533		106,575
Cash and cash equivalents, end of period	\$	\$ 148,503	\$ 66,948	\$ 30,576	\$	\$ 246,027

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This section discusses management's view of the financial condition, results of operations and cash flows of Sally Beauty and its consolidated subsidiaries. This section should be read in conjunction with the audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015, as well as the Risk Factors section contained in that Annual Report and information contained elsewhere in this Quarterly Report, including the consolidated interim financial statements and condensed notes to those financial statements. This Management's Discussion and Analysis of Financial Condition and Results of Operations section may contain forward-looking statements. Please see Cautionary Notice Regarding Forward-Looking Statements, included at the beginning of this Quarterly Report for a discussion of the uncertainties, risks and assumptions associated with these forward-looking statements that could cause results to differ materially from those reflected in such forward-looking statements.

Highlights of the Six Months ended March 31, 2016:

- Our consolidated net sales from company-operated stores that have been open for 14 months or longer, which we refer to as same store sales, increased 3.9% for the six months ended March 31, 2016, compared to 2.5% for the six months ended March 31, 2015;
- Our consolidated net sales for the six months ended March 31, 2016, increased by \$75.9 million, or 4.0%, to \$1,978.1 million compared to \$1,902.2 million for the six months ended March 31, 2015;
- Our consolidated gross profit for the six months ended March 31, 2016, increased by \$40.3 million, or 4.3%, to \$981.5 million compared to \$941.2 million for the six months ended March 31, 2015. As a percentage of net sales, gross profit was 49.6% for the six months ended March 31, 2016, compared to 49.5% for the six months ended March 31, 2015;
- Our consolidated operating earnings for the six months ended March 31, 2016, increased by \$8.1 million, or 3.3%, to \$253.4 million compared to \$245.2 million for the six months ended March 31, 2015. As a percentage of net sales, operating earnings decreased by 10 basis points to 12.8% for the six months ended March 31, 2016, compared to 12.9% for the six months ended March 31, 2015;
- Our consolidated net earnings decreased by \$14.0 million, or 12.1%, to \$102.4 million for the six months ended March 31, 2016, compared to \$116.4 million for the six months ended March 31, 2015. As a percentage of net sales, net earnings decreased by 90 basis points to 5.2% for the six months ended March 31, 2016, compared to 6.1% for the six months ended March 31, 2015;

- Cash provided by operations was \$212.2 million for the six months ended March 31, 2016, compared to \$174.5 million for the six months ended March 31, 2015;
- During the six months ended March 31, 2016, the Company redeemed in full its 6.875% senior notes due 2019 primarily with the net proceeds from its December 2015 issuance of \$750.0 principal amount of its 5.625% senior notes due 2025. For the six months ended March 31, 2016, the Company recorded a loss on extinguishment of debt of \$33.3 million in connection therewith; and
- During the six months ended March 31, 2016, we repurchased and subsequently retired approximately 6.2 million shares of our common stock under the share repurchase program approved by our Board of Directors in August 2014, at an aggregate cost of approximately \$162.4 million.

Overview

Description of Business

At March 31, 2016, we operated primarily through two business units, Sally Beauty Supply and Beauty Systems Group, or BSG. We believe the Company is the largest open-line distributor of professional beauty supplies in the U.S. based on store count. As of March 31, 2016, through Sally Beauty Supply and BSG, we had a multi-channel platform of 4,862 company-operated stores and supplied 182 franchised stores primarily in North America and selected South American and European countries. Within BSG, we also have one of the largest networks of professional distributor sales consultants in North America. 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. Sally Beauty Supply stores target retail consumers and salon professionals, while BSG exclusively targets salons and salon professionals. For the six months ended March 31, 2016, our consolidated net sales and operating earnings were \$1,978.1 million and \$253.4 million, respectively.

As of March 31, 2016, Sally Beauty Supply operated 3,714 company-operated retail stores, 2,897 of which are located in the U.S., with the remaining 817 company-operated stores located in Canada, Mexico, Chile, Colombia, Peru, the United Kingdom, Ireland, Belgium, France, Germany, the Netherlands and Spain. Sally Beauty Supply also supplied 18 franchised stores located in the United Kingdom, Belgium and certain other European countries. In the U.S. and Canada, our Sally Beauty Supply stores average approximately 1,700 square feet in size and are located primarily in strip shopping centers. Our Sally Beauty Supply stores carry an extensive selection of professional beauty supplies for both retail customers and salon professionals, featuring an

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average of 8,000 SKUs 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®, CHI®, China Glaze®, OPI® and Conair®, as well as an extensive selection of exclusive-label merchandise. Store formats, including average size and product selection, for Sally Beauty Supply outside the U.S. and Canada vary by marketplace. For the six months ended March 31, 2016, Sally Beauty Supply's net sales and segment operating profit were \$1,183.6 million and \$208.1 million, respectively, representing 60% and 62% of our consolidated net sales and consolidated operating profit before unallocated corporate expenses and share-based compensation expenses.

We believe BSG is the largest full-service distributor of professional beauty supplies in North America, exclusively targeting salons and salon professionals. As of March 31, 2016, BSG had 1,148 company-operated stores, supplied 164 franchised stores and had a sales force of approximately 944 professional distributor sales consultants selling exclusively to salons and salon professionals in the U.S., and in Canada, Mexico and certain European countries. Company-operated BSG stores, which primarily operate under the CosmoProf banner, average approximately 2,600 square feet in size and are primarily located in secondary strip shopping centers. BSG stores provide a comprehensive selection of beauty products featuring an average of 9,000 SKUs that include hair color and care, skin and nail care, beauty sundries and electrical appliances. Through BSG's large store base and sales force, BSG is able to access a significant portion of the highly fragmented U.S. salon industry. BSG stores carry leading third-party brands such as Paul Mitchell®, Wella®, Sebastian®, Goldwell®, Joico® and Aquage®, intended for use in salons and for resale by the salons to consumers. BSG is also the exclusive source for certain well-known third-party branded products pursuant to exclusive distribution agreements with certain suppliers within specified geographic territories. For the six months ended March 31, 2016, BSG's net sales and segment operating profit were \$794.5 million and \$127.3 million, respectively, representing 40% and 38% of our consolidated net sales and consolidated operating profit before unallocated corporate expenses and share-based compensation expenses.

Key Industry and Business Trends

We operate primarily within the large and growing U.S. beauty supply industry. We believe that a number of key industry and business trends and characteristics will influence our business and our financial results going forward. These key trends and characteristics are discussed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015. Please see "Key Industry and Business Trends" in Item 1 of such Annual Report.

Share Repurchase Program

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, 2016 and 2015, the Company repurchased and subsequently retired approximately 6.2 million and 2.1 million shares, respectively, of its common stock under the 2014 Share Repurchase Program at an aggregate cost of \$162.4 million and \$67.5 million, respectively. We funded these share repurchases with existing cash balances, cash from operations and borrowings under the ABL

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facility. The Company reduced common stock and additional paid-in capital, in the aggregate, by these amounts. However, as required by GAAP, to the extent that share repurchase amounts exceeded the balance of additional paid-in capital prior to us recording such repurchases, we recorded the excess in accumulated deficit.

As of March 31, 2016, we had approximately \$610.1 million of additional share repurchase authorization remaining under the 2014 Share Repurchase Program. Please see Item 2. Unregistered Sales of Equity Securities and Use of Proceeds (c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers in Part II Other Information, of this Quarterly Report for additional information about the Company's share repurchases.

Data Security Incidents

In the fiscal year ended September 30, 2014, we disclosed that we had experienced a data security incident (the 2014 data security incident). In May 2015, we disclosed that we had experienced a second data security incident (the 2015 data security incident) and, together with the 2014 data security incident, the data security incidents). The data security incidents involved the unauthorized installation of malicious software (malware) on our information technology systems, including our point-of-sale systems that, we believe, may have placed at risk certain payment card data for some transactions. The costs that the Company has incurred to date in connection with the data security incidents primarily include professional advisory fees and legal costs and expenses relating to investigating and remediating the data security incidents. For the six months ended March 31, 2016 and 2015, selling, general and administrative expenses reflect expenses of \$1.2 million and \$1.8 million, respectively, relating to the data security incidents.

We expect to incur additional costs and expenses related to the data security incidents in future periods. These costs may result from liabilities related to claims by payment card networks, governmental or third party investigations, proceedings or litigation

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and legal and other fees necessary to defend against any potential liabilities or claims, and further investigatory and remediation costs. As of March 31, 2016, the scope of these additional costs, or a range thereof, cannot be reasonably estimated and, while we do not anticipate these additional costs or liabilities would have a material adverse impact on our business, financial condition and operating results, these additional costs could be significant. Please see Risk Factors *We may be adversely affected by any disruption in our information technology systems, Unauthorized access to confidential information and data on our information technology systems and security and data breaches could materially adversely affect our business, financial condition and operating results* and *We have experienced data security incidents and are not yet able to determine the full extent or scope of the potential liabilities relating to these data security incidents* in Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2015.

Other Significant Items

Derivative Instruments

As a multinational corporation, we are subject to certain market risks including changes in market interest rates and foreign currency fluctuations. We may consider a variety of practices in the ordinary course of business to manage these market risks, including, when deemed appropriate, the use of derivative instruments such as interest rate swaps, and foreign currency options, collars and forwards, hereafter, foreign exchange contracts. Currently, we do not purchase or hold any derivative instruments for speculative or trading purposes.

Foreign Currency Derivative Instruments

We are exposed to potential gains or losses from foreign currency fluctuations affecting net investments in subsidiaries (including intercompany balances not permanently invested) and earnings denominated in foreign currencies, as well as exposure resulting from the purchase of merchandise by certain of our subsidiaries in a currency other than their functional currency and from the sale of products and services among the parent company and subsidiaries with a functional currency different from the parent or among subsidiaries with different functional currencies. Our primary exposures are to changes in exchange rates for the U.S. dollar versus the Euro, the British pound sterling, the Canadian dollar, the Chilean peso, and the Mexican peso. In addition, from time to time we may have exposure to changes in the exchange rate for the British pound sterling versus the Euro in connection with the sale of products and services among certain European subsidiaries of the Company. Our various foreign currency exposures at times offset each other, sometimes providing a natural hedge against foreign currency risk. In connection with the remaining foreign currency risk, the Company from time to time 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 resulting from foreign currency market movements.

The Company uses foreign exchange contracts to manage the exposure to the U.S. dollar resulting from certain of its Sinelco Group subsidiaries purchases of merchandise from third-party suppliers. Sinelco's functional currency is the Euro. As such, at March 31, 2016, we hold foreign currency forwards which enable us to sell approximately 6.4 million (\$7.3 million, at the March 31, 2016 exchange rate) at the weighted average contractual exchange rate of 1.1274. The foreign currency forwards discussed in this paragraph are with a single counterparty and expire ratably through September 15, 2016.

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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, 2016, we hold: (a) a foreign currency forward which enables us to sell approximately 22.6 million (\$25.8 million, at the March 31, 2016 exchange rate) at the contractual exchange rate of 1.1330, (b) a foreign currency forward which enables us to sell approximately \$6.8 million Canadian dollars (\$5.2 million, at the March 31, 2016 exchange rate) at the contractual exchange rate of 1.2978, (c) foreign currency forwards which enable us to buy approximately \$8.3 million Canadian dollars (\$6.4 million, at the March 31, 2016 exchange rate) at the weighted average contractual exchange rate of 1.3053, (d) a foreign currency forward which enables us to sell approximately 19.2 million Mexican pesos (\$1.1 million, at the March 31, 2016 exchange rate) at the contractual exchange rate of 17.2905, (e) a foreign currency forward which enables us to buy approximately £9.7 million (\$13.9 million, at the March 31, 2016 exchange rate) at the contractual exchange rate of 1.4391 and (f) a foreign currency forward which enables us to sell approximately £1.0 million (\$1.4 million, at the March 31, 2016 exchange rate) at the contractual exchange rate of 1.4393. All the foreign currency forwards discussed in this paragraph are with a single counterparty (not the same counterparty as that on the forwards discussed in the preceding paragraph) and expire on or before June 30, 2016.

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. During the six months ended March 31, 2016 and 2015, selling, general and administrative expenses include a net loss of \$0.6 million and a net gain of \$5.0 million, respectively, in connection with all of the Company's foreign currency derivative instruments, including marked-to-market adjustments. Please see Item 3 Quantitative and Qualitative Disclosures about

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Market Risk Foreign currency exchange rate risk contained in this Quarterly Report on Form 10-Q and Note 14 of the Notes to Consolidated Financial Statements in Item 8 - Financial Statements and Supplementary Data contained in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015 for additional information about the Company's foreign currency derivative instruments.

Share-Based Compensation Awards

The Company granted approximately 1.5 million and 1.2 million service-based stock options and approximately 40,000 and 219,000 service-based restricted share awards to its employees during the six months ended March 31, 2016 and 2015, respectively. Upon issuance of such grants, the Company recognized accelerated share-based compensation expense of \$1.3 million and \$4.8 million in the six months ended March 31, 2016 and 2015, 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). The Company also granted approximately 27,000 and 20,000 service-based restricted stock units to its non-employee directors during the six months ended March 31, 2016 and 2015, respectively.

In addition, during the six months ended March 31, 2016 the Company granted approximately 152,000 Performance-Based Units (Performance Unit or Performance Units) to its officers and employees under the 2010 Plan. Under the terms of the Performance Unit award, a grantee may earn from 0% to 200% of his or her target shares, with the ultimate settlement (and the expense recognized) dependent on the Company achieving certain specified cumulative performance targets during the three-year period ending on September 30, 2018 (the Performance Period) and satisfaction of the employee service condition. Periodic expense for Performance Unit awards, which is estimated quarterly, is based on the Company's projected performance during the Performance Period compared to the performance targets contained in the award. Please see Note 7 of the Condensed Notes to Consolidated Financial Statements included in Item 1 of this Quarterly Report for more information about the Company's Performance Unit awards.

For the six months ended March 31, 2016 and 2015, share-based compensation costs charged against earnings and included in selling, general and administrative expenses for all share-based compensation arrangements were \$7.2 million and \$10.6 million, respectively.

Non-recurring Items

During the six months ended March 31, 2016, the Company redeemed in full its 6.875% senior notes due 2019 primarily with the net proceeds from its December 2015 issuance of \$750.0 principal amount of its 5.625% senior notes due 2025. For the six months ended March 31, 2016, the Company recorded a loss on extinguishment of debt of \$33.3 million, including a call premium of \$25.8 million and unamortized debt issuance costs of \$7.5 million expensed, in connection therewith.

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The following table shows the condensed results of operations of our business for the three and six months ended March 31, 2016 and 2015 (dollars in thousands):

	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2016	2015	2016	2015
Net sales	\$ 980,067	\$ 937,755	\$ 1,978,099	\$ 1,902,222
Cost of products sold and distribution expenses	492,593	470,303	996,576	961,001
Gross profit	487,474	467,452	981,523	941,221
Total other operating costs and expenses	365,016	338,445	728,130	695,977
Operating earnings	122,458	129,007	253,393	245,244
Interest expense	26,971	29,228	90,914	58,469
Earnings before provision for income taxes	95,487	99,779	162,479	186,775
Provision for income taxes	35,328	38,244	60,077	70,331
Net earnings	\$ 60,159	\$ 61,535	\$ 102,402	\$ 116,444

The following table shows the condensed results of operations of our business for the three and six months ended March 31, 2016 and 2015, expressed as a percentage of net sales for each respective period shown:

	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2016	2015	2016	2015
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of products sold and distribution expenses	50.3%	50.2%	50.4%	50.5%
Gross profit	49.7%	49.8%	49.6%	49.5%
Total other operating costs and expenses	37.2%	36.0%	36.8%	36.6%
Operating earnings	12.5%	13.8%	12.8%	12.9%
Interest expense	2.8%	3.2%	4.6%	3.1%
Earnings before provision for income taxes	9.7%	10.6%	8.2%	9.8%
Provision for income taxes	3.6%	4.0%	3.0%	3.7%
Net earnings	6.1%	6.6%	5.2%	6.1%

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The following table sets forth, for the periods indicated, information concerning key measures we rely on to gauge our operating performance (dollars in thousands):

	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2016	2015	2016	2015
Net sales:				
Sally Beauty Supply	\$ 587,622	\$ 572,110	\$ 1,183,588	\$ 1,158,629
BSG	392,445	365,645	794,511	743,593
Consolidated	\$ 980,067	\$ 937,755	\$ 1,978,099	\$ 1,902,222
Gross profit	\$ 487,474	\$ 467,452	\$ 981,523	\$ 941,221
Gross profit margin	49.7%	49.8%	49.6%	49.5%
Selling, general and administrative expenses	\$ 341,311	\$ 317,456	\$ 681,039	\$ 654,410
Depreciation and amortization	\$ 23,705	\$ 20,989	\$ 47,091	\$ 41,567
Earnings before provision for income taxes:				
Segment operating profit:				
Sally Beauty Supply	\$ 101,975	\$ 106,089	\$ 208,052	\$ 207,268
BSG	61,404	55,607	127,284	112,197
Segment operating profit	163,379	161,696	335,336	319,465
Unallocated expenses (a)	(37,936)	(29,849)	(74,770)	(63,621)
Share-based compensation expense	(2,985)	(2,840)	(7,173)	(10,600)
Operating earnings	122,458	129,007	253,393	245,244
Interest expense (b)	(26,971)	(29,228)	(90,914)	(58,469)
Earnings before provision for income taxes	\$ 95,487	\$ 99,779	\$ 162,479	\$ 186,775
Segment operating profit margin:				
Sally Beauty Supply	17.4%	18.5%	17.6%	17.9%
BSG	15.6%	15.2%	16.0%	15.1%
Consolidated operating profit margin	12.5%	13.8%	12.8%	12.9%
Number of stores at end-of-period (including franchises):				
Sally Beauty Supply			3,732	3,631
BSG			1,312	1,278
Consolidated			5,044	4,909
Same store sales growth (c)				
Sally Beauty Supply	2.3%	1.4%	2.4%	1.5%
BSG	7.7%	5.9%	7.4%	4.9%
Consolidated	4.0%	2.8%	3.9%	2.5%

(a) Unallocated expenses consist of corporate and shared costs and are included in selling, general and administrative expenses in our consolidated statements of earnings.

(b) For the six months ended March 31, 2016, interest expense includes a loss on extinguishment of debt of \$33.3 million in connection with the Company's December 2015 redemption of its senior notes due 2019.

(c) For the purpose of calculating our same store sales metrics, we compare the current period sales for stores open for 14 months or longer as of the last day of a month with the sales for these stores for the comparable period in the

prior fiscal year. Our same store sales are calculated in constant dollars and include internet-based sales (which are not separately material for each of the periods presented herein) and the effect of store expansions, if applicable, but do not generally include the sales from stores relocated until 14 months after the relocation. The sales from stores acquired are excluded from our same store sales calculation until 14 months after the acquisition.

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The table below presents net sales, gross profit and gross profit margin data for each reportable segment (dollars in thousands):

	Three Months Ended March 31,			
	2016	2015	Increase (Decrease)	
Net sales:				
Sally Beauty Supply	\$ 587,622	\$ 572,110	\$ 15,512	2.7%
BSG	392,445	365,645	26,800	7.3%
Consolidated net sales	\$ 980,067	\$ 937,755	\$ 42,312	4.5%
Gross profit:				
Sally Beauty Supply	\$ 325,104	\$ 316,501	\$ 8,603	2.7%
BSG	162,370	150,951	11,419	7.6%
Consolidated gross profit	\$ 487,474	\$ 467,452	\$ 20,022	4.3%
Gross profit margin:				
Sally Beauty Supply	55.3%	55.3%	0.0%	
BSG	41.4%	41.3%	0.1%	
Consolidated gross profit margin	49.7%	49.8%	(0.1)%	

Net Sales

Consolidated net sales increased by \$42.3 million, or 4.5%, for the three months ended March 31, 2016, compared to the three months ended March 31, 2015. Company-operated Sally Beauty Supply and BSG stores that have been open for 14 months or longer contributed an increase in consolidated net sales of approximately \$38.6 million, or 4.1%, and sales through our BSG distributor sales consultants contributed an increase in segment net sales of approximately \$6.0 million, or 0.6% compared to the three months ended March 31, 2015. Other sales channels (including sales from stores that have been open for less than 14 months, sales through our BSG franchise-based businesses, incremental sales from businesses acquired in the preceding 12 months and sales from our Sally Beauty Supply non-store sales channels) in the aggregate experienced a net decrease in sales of approximately \$2.3 million, or 0.2%, compared to the three months ended March 31, 2015. Consolidated net sales for the three months ended March 31, 2016, are inclusive of a net negative impact from changes in foreign currency exchange rates of \$12.3 million, including the impact of a stronger U.S. dollar in the three months ended March 31, 2016.

For the three months ended March 31, 2016, consolidated net sales reflect a 4.0% same store sales growth rate compared to 2.8% for the three months ended March 31, 2015. For the three months ended March 31, 2016, our consolidated same store sales growth rate was positively impacted by increases in average unit prices in both operating segments, as well as improved customer traffic in our BSG segment in the U.S., as more fully discussed below.

The \$42.3 million increase in consolidated net sales reflects, in our Sally Beauty Supply segment, increases in average unit prices resulting primarily from selective price increases in certain geographical areas of the U.S. and, in our BSG segment, increases in unit volume (including increases in sales at existing stores and the incremental sales from 36 BSG company-operated stores opened or acquired during the last twelve months) and increases in average unit prices (resulting from changes in product mix), as more fully discussed

below.

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Sally Beauty Supply. Net sales for Sally Beauty Supply increased by \$15.5 million, or 2.7%, for the three months ended March 31, 2016, compared to the three months ended March 31, 2015. In the Sally Beauty Supply segment, company-operated stores that have been open for 14 months or longer contributed an increase in segment net sales of approximately \$20.5 million, or 3.6%. Other sales channels (including sales from stores that have been open for less than 14 months and sales from our non-store sales channels, which include the catalog and internet sales of our Sinelco Group subsidiaries) in the aggregate experienced a net decrease in sales of approximately \$5.0 million, or 0.9%, compared to the three months ended March 31, 2015. Net sales for Sally Beauty Supply for the three months ended March 31, 2016, are inclusive of a net negative impact from changes in foreign currency exchange rates of approximately \$9.5 million.

For the three months ended March 31, 2016, the Sally Beauty Supply segment's net sales reflect a 2.3% same store sales growth rate compared to 1.4% for the three months ended March 31, 2015. For the three months ended March 31, 2016, the Sally Beauty Supply segment's same store sales growth rate was positively impacted by selective price increases in certain geographical areas of the U.S. and by changes in product mix resulting from a shift in customer preferences.

The \$15.5 million increase in the Sally Beauty Supply segment's net sales reflects increases in average unit prices resulting from selective price increases in certain geographical areas of the U.S. and a change in product mix primarily resulting from the introduction of certain products with higher average unit prices in the preceding 12 months.

Beauty Systems Group. Net sales for BSG increased by \$26.8 million, or 7.3%, for the three months ended March 31, 2016, compared to the three months ended March 31, 2015. In the BSG segment, company-operated stores that have been open for 14 months or longer contributed an increase in segment net sales of approximately \$18.1 million, or 5.0%, and sales through our distributor sales consultants contributed an increase in segment net sales of approximately \$6.0 million, or 1.6% compared to the three months ended March 31, 2015. Other sales channels (including sales from stores that have been open for less than 14 months, sales through our franchise-based businesses and incremental sales from businesses acquired in the preceding 12 months) in the aggregate contributed a net increase in sales of approximately \$2.7 million, or 0.7%, compared to the three months ended March 31, 2015. Net sales for BSG for the three months ended March 31, 2016, are inclusive of a net negative impact from changes in foreign currency exchange rates of approximately \$2.9 million.

For the three months ended March 31, 2016, the BSG segment's net sales reflect a 7.7% same store sales growth rate compared to 5.9% for the three months ended March 31, 2015. BSG's segment's same store sales growth rate was positively impacted by improved customer traffic in the U.S., compared to the three months ended March 31, 2015.

The \$26.8 million increase in the BSG segment's net sales is primarily the result of an increase in both unit volume (including increases in sales at existing stores and the incremental sales from 36 company-operated stores opened or acquired during the last twelve months) and average unit prices (resulting from changes in product mix, including as a result of the introduction of certain third-party brands with higher average unit prices in the preceding 12 months).

Gross Profit

Consolidated gross profit increased by \$20.0 million, or 4.3%, for the three months ended March 31, 2016, compared to the three months ended March 31, 2015, principally due to higher sales volume in both business segments and improved gross profit margins in our BSG segment, as more fully described below. Consolidated gross profit as a percentage of net sales, or consolidated gross profit margin, was 49.7% for the three months ended March 31, 2016, compared to 49.8% for the three months ended March 31, 2015.

Sally Beauty Supply. Sally Beauty Supply's gross profit increased by \$8.6 million, or 2.7%, for the three months ended March 31, 2016, compared to the three months ended March 31, 2015, principally as a result of higher sales volume. Sally Beauty Supply's gross profit as a percentage of net sales was 55.3% for both the three months ended March 31, 2016 and 2015.

Beauty Systems Group. BSG's gross profit increased by \$11.4 million, or 7.6%, for the three months ended March 31, 2016, compared to the three months ended March 31, 2015, principally as a result of higher sales volume and improved gross profit margin. BSG's gross profit as a percentage of net sales increased to 41.4% for the three months ended March 31, 2016, compared to 41.3% for the three months ended March 31, 2015 primarily as a result of a shift in product mix (to higher margin product) resulting from a shift in customer preferences and in sales channel mix (to higher margin store-based product sales).

Table of Contents***Selling, General and Administrative Expenses***

Consolidated selling, general and administrative expenses increased by \$23.9 million, or 7.5%, for the three months ended March 31, 2016, compared to the three months ended March 31, 2015. This increase was attributable in part to incremental expenses (including employee compensation, rent and other occupancy-related expenses) resulting from stores opened or acquired in the preceding 12 months (approximately 138 net additional company-operated stores added since March 31, 2015, which represents a 2.9% increase in the number of stores). In addition, the increase reflects higher expenses related to on-going upgrades to our information technology systems (approximately \$4.6 million), higher recruitment and compensation-related expenses primarily in connection with our ongoing management transition plans (approximately \$0.4 million) and higher credit card fees (approximately \$0.9 million). Selling, general and administrative expenses, as a percentage of net sales, increased to 34.8% for the three months ended March 31, 2016, compared to 33.9% for the three months ended March 31, 2015.

Depreciation and Amortization

Consolidated depreciation and amortization was \$23.7 million for the three months ended March 31, 2016, compared to \$21.0 million for the three months ended March 31, 2015. This increase reflects the incremental depreciation and amortization expenses associated with capital expenditures made in the preceding 12 months (mainly in connection with store openings in both operating segments and with ongoing information technology upgrades), partially offset by the impact of assets that became fully depreciated in the preceding 12 months.

Operating Earnings

The following table sets forth, for the periods indicated, information concerning our operating earnings for each reportable segment (dollars in thousands):

	2016		Three Months Ended March 31, 2015		Increase (Decrease)	
Operating Earnings:						
Segment operating profit:						
Sally Beauty Supply	\$	101,975	\$	106,089	\$	(4,114) (3.9)%
BSG		61,404		55,607		5,797 10.4%
Segment operating profit		163,379		161,696		1,683 1.0%
Unallocated expenses		(37,936)		(29,849)		8,087 27.1%
Share-based compensation expense		(2,985)		(2,840)		145 5.1%
Operating earnings	\$	122,458	\$	129,007	\$	(6,549) (5.1)%

Consolidated operating earnings decreased by \$6.5 million, or 5.1%, for the three months ended March 31, 2016, compared to the three months ended March 31, 2015, primarily as a result of higher unallocated expenses and a decrease in our Sally Beauty Supply segment's operating profit, partially offset by an increase in our BSG segment's operating profit, as more fully discussed below. Operating earnings, as a percentage of net sales, decreased to 12.5% for the three months ended March 31, 2016, compared to 13.8% for the three months ended March 31, 2015. This decrease reflects higher consolidated operating expenses as a percentage of consolidated net sales, as more fully discussed below, as well as the slight decrease in consolidated gross profit margin described above.

Sally Beauty Supply. Sally Beauty Supply's segment operating earnings decreased by \$4.1 million, or 3.9%, for the three months ended March 31, 2016, compared to the three months ended March 31, 2015, primarily a result of higher operating expenses, partially offset by the increase in the segment's net sales described above. This decrease reflects the incremental costs related to 102 net additional company-operated stores (stores opened during the past twelve months, which represents a 2.8% increase in the number of stores) operating during the three months ended March 31, 2016, compared to the three months ended March 31, 2015, higher depreciation expense principally associated with recent store openings and remodels (approximately \$2.2 million) and higher expenses related to on-going upgrades to our information technology systems (approximately \$1.7 million). Segment operating earnings, as a percentage of net sales, decreased by 110 basis points to 17.4% for the three months ended March 31, 2016, compared to 18.5% for the three months ended March 31, 2015. This decrease reflects higher segment operating expenses as a percentage of the segment's net sales, including the expense increases discussed in this paragraph.

Beauty Systems Group. BSG's segment operating earnings increased by \$5.8 million, or 10.4%, for the three months ended March 31, 2016, compared to the three months ended March 31, 2015, primarily a result of the increase in the segment's net sales and the improved gross profit margin described above. This increase was partially offset by the incremental costs related to 36 net additional company-operated stores (stores opened or acquired during the past twelve months, which represents a 3.2% increase in the number of stores) operating during the three months ended March 31, 2016, compared to the three months ended March 31, 2015. Segment operating earnings, as a percentage of net sales, increased by 40 basis points to 15.6% for the three months ended March 31, 2016, compared to 15.2% for the three months ended March 31, 2015. This increase reflects the slight increase in the segment's gross profit margin described above, as well as a decrease in segment operating expenses as a percentage of the segment's net sales.

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Unallocated Expenses. Unallocated expenses, which represent certain corporate costs (such as payroll, employee benefits and travel expenses for corporate staff, certain professional fees, certain new business development expenses and corporate governance expenses) that have not been charged to our operating segments, increased by \$8.1 million, or 27.1%, for the three months ended March 31, 2016, compared to the three months ended March 31, 2015. This increase was due primarily to higher corporate expenses related to on-going upgrades to our information technology systems (approximately \$2.6 million), higher employee recruitment and compensation-related expenses (approximately \$2.6 million), higher employee compensation-related expenses in connection with our ongoing management transition plans (approximately \$0.4 million), professional fees mainly in connection with certain corporate initiatives (approximately \$1.4 million) and a loss associated with impairment of an intangible asset (approximately \$0.6 million).

Share-based Compensation Expense. Total compensation costs charged against income for share-based compensation arrangements increased by \$0.1 million to \$3.0 million for the three months ended March 31, 2016, compared to \$2.8 million for the three months ended March 31, 2015. This increase was mainly due to the impact of awards during the six months ended March 31, 2016, partially offset by the impact of awards that became fully vested after March 31, 2015.

Interest Expense

Interest expense decreased to \$27.0 million for the three months ended March 31, 2016, compared to \$29.2 million for the three months ended March 31, 2015 principally due to the impact of our debt refinancing in December 2015. Please see Liquidity and Capital Resources below for additional information about the Company's debt and recent debt refinancing activities.

Provision for Income Taxes

The provision for income taxes was \$35.3 million and \$38.2 million, and the effective income tax rate was 37.0% and 38.3%, for the three months ended March 31, 2016 and 2015, respectively. The lower effective income tax rate for the three months ended March 31, 2016, compared to the three months ended March 31, 2015, was primarily due to an adjustment to non-deductible expenses in the current interim period.

The annual effective tax rate for the full fiscal year 2016 is currently expected to be in the range of 37.5% to 38.5%, versus a comparable actual tax rate for the full fiscal year 2015 of 37.9%.

Net Earnings

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As a result of the foregoing, consolidated net earnings decreased by \$1.4 million, or 2.2%, to \$60.2 million for the three months ended March 31, 2016, compared to \$61.5 million for the three months ended March 31, 2015. Net earnings, as a percentage of net sales, were 6.1% for the three months ended March 31, 2016, compared to 6.6% for the three months ended March 31, 2015.

Table of Contents*The Six Months Ended March 31, 2016 compared to the Six Months Ended March 31, 2015*

The table below presents net sales, gross profit and gross profit margin data for each reportable segment (dollars in thousands):

	2016	Six Months Ended March 31,		Increase	
		2015			
Net sales:					
Sally Beauty Supply	\$ 1,183,588	\$ 1,158,629	\$	24,959	2.2%
BSG	794,511	743,593		50,918	6.8%
Consolidated net sales	\$ 1,978,099	\$ 1,902,222	\$	75,877	4.0%
Gross profit:					
Sally Beauty Supply	\$ 653,007	\$ 635,510	\$	17,497	2.8%
BSG	328,516	305,711		22,805	7.5%
Consolidated gross profit	\$ 981,523	\$ 941,221	\$	40,302	4.3%
Gross profit margin:					
Sally Beauty Supply	55.2%	54.9%		0.3%	
BSG	41.3%	41.1%		0.2%	
Consolidated gross profit margin	49.6%	49.5%		0.1%	

Net Sales

Consolidated net sales increased by \$75.9 million, or 4.0%, for the six months ended March 31, 2016, compared to the six months ended March 31, 2015. Company-operated Sally Beauty Supply and BSG stores that have been open for 14 months or longer contributed an increase in consolidated net sales of approximately \$70.9 million, or 3.7%, and sales through our BSG distributor sales consultants contributed an increase in segment net sales of approximately \$11.9 million, or 0.6% compared to the six months ended March 31, 2015. Other sales channels (including sales from stores that have been open for less than 14 months, sales through our BSG franchise-based businesses, incremental sales from businesses acquired in the preceding 12 months and sales from our Sally Beauty Supply non-store sales channels) in the aggregate experienced a net decrease in sales of approximately \$7.0 million, or 0.4%, compared to the six months ended March 31, 2015. Consolidated net sales for the six months ended March 31, 2016, are inclusive of a net negative impact from changes in foreign currency exchange rates of \$34.5 million, including the impact of a stronger U.S. dollar in the six months ended March 31, 2016.

For the six months ended March 31, 2016, consolidated net sales reflect a 3.9% same store sales growth rate compared to 2.5% for the six months ended March 31, 2015. For the six months ended March 31, 2016, our consolidated same store sales growth rate was positively impacted by increases in average unit prices in both operating segments, as well as improved customer traffic in our BSG segment in the U.S., as more fully discussed below.

The \$75.9 million increase in consolidated net sales reflects, in our Sally Beauty Supply segment, increases in average unit prices resulting primarily from selective price increases in certain geographical areas of the U.S. and, in our BSG segment, increases in unit volume (including increases in sales at existing stores and the incremental sales from 36 BSG company-operated stores opened or acquired during the last twelve months) and increases in average unit prices (resulting from changes in product mix), as more fully discussed

below.

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Sally Beauty Supply. Net sales for Sally Beauty Supply increased by \$25.0 million, or 2.2%, for the six months ended March 31, 2016, compared to the six months ended March 31, 2015. In the Sally Beauty Supply segment, company-operated stores that have been open for 14 months or longer contributed an increase in segment net sales of approximately \$36.0 million, or 3.1%. Other sales channels (including sales from stores that have been open for less than 14 months and sales from our non-store sales channels, which include the catalog and internet sales of our Sinelco Group subsidiaries) in the aggregate experienced a net decrease in sales of approximately \$11.0 million, or 1.0%, compared to the six months ended March 31, 2015. Net sales for Sally Beauty Supply for the six months ended March 31, 2016, are inclusive of a net negative impact from changes in foreign currency exchange rates of approximately \$26.5 million.

For the six months ended March 31, 2016, the Sally Beauty Supply segment's net sales reflect a 2.4% same store sales growth rate compared to 1.5% for the six months ended March 31, 2015. For the six months ended March 31, 2016, the Sally Beauty Supply segment's same store sales growth rate was positively impacted by selective price increases in certain geographical areas of the U.S. and by changes in product mix resulting from a shift in customer preferences.

The \$25.0 million increase in the Sally Beauty Supply segment's net sales reflects increases in average unit prices resulting from selective price increases in certain geographical areas of the U.S. and a change in product mix primarily resulting from the introduction of certain products with higher average unit prices in the preceding 12 months.

Beauty Systems Group. Net sales for BSG increased by \$50.9 million, or 6.8%, for the six months ended March 31, 2016, compared to the six months ended March 31, 2015. In the BSG segment, company-operated stores that have been open for 14 months or longer contributed an increase in segment net sales of approximately \$35.0 million, or 4.7%, and sales through our distributor sales consultants contributed an increase in segment net sales of approximately \$11.9 million, or 1.6% compared to the six months ended March 31, 2015. Other sales channels (including sales from stores that have been open for less than 14 months, sales through our franchise-based businesses and incremental sales from businesses acquired in the preceding 12 months) in the aggregate contributed a net increase in sales of approximately \$4.0 million, or 0.5%, compared to the six months ended March 31, 2015. Net sales for BSG for the six months ended March 31, 2016, are inclusive of a net negative impact from changes in foreign currency exchange rates of approximately \$8.0 million.

For the six months ended March 31, 2016, the BSG segment's net sales reflect a 7.4% same store sales growth rate compared to 4.9% for the six months ended March 31, 2015. BSG's segment's same store sales growth rate was positively impacted by improved customer traffic in the U.S., compared to the six months ended March 31, 2015.

The \$50.9 million increase in the BSG segment's net sales is primarily the result of an increase in both unit volume (including increases in sales at existing stores and the incremental sales from 36 company-operated stores opened or acquired during the last twelve months) and increases in average unit prices (resulting from changes in product mix, including as a result of the introduction of certain third-party brands with higher average unit prices in the preceding 12 months).

Gross Profit

Consolidated gross profit increased by \$40.3 million, or 4.3%, for the six months ended March 31, 2016, compared to the six months ended March 31, 2015, principally due to higher sales volume and improved gross profit margins in both business segments, as more fully described below. Consolidated gross profit as a percentage of net sales, or consolidated gross profit margin, was 49.6% for the six months ended March 31, 2016, compared to 49.5% for the six months ended March 31, 2015.

Sally Beauty Supply. Sally Beauty Supply's gross profit increased by \$17.5 million, or 2.8%, for the six months ended March 31, 2016, compared to the six months ended March 31, 2015, principally as a result of higher sales volume and improved gross profit margin. Sally Beauty Supply's gross profit as a percentage of net sales increased to 55.2% for the six months ended March 31, 2016, compared to 54.9% for the six months ended March 31, 2015. This increase was primarily the result of selective price increases in certain geographical areas of the U.S., fewer promotions and a shift in product mix (to higher margin product) resulting from a shift in customer preferences.

Beauty Systems Group. BSG's gross profit increased by \$22.8 million, or 7.5%, for the six months ended March 31, 2016, compared to the six months ended March 31, 2015, principally as a result of higher sales volume and improved gross profit margin. BSG's gross profit as a percentage of net sales increased to 41.3% for the six months ended March 31, 2016, compared to 41.1% for the six months ended March 31, 2015 primarily as a result of a shift in product mix (to higher margin product) resulting from a shift in customer preferences and sales channel mix (to higher margin store-based product sales).

Table of Contents***Selling, General and Administrative Expenses***

Consolidated selling, general and administrative expenses increased by \$26.6 million, or 4.1%, for the six months ended March 31, 2016, compared to the six months ended March 31, 2015. This increase was attributable in part to incremental expenses (including employee compensation, rent and other occupancy-related expenses) resulting from stores opened or acquired in the preceding 12 months (approximately 138 net additional company-operated stores added since March 31, 2015, which represents a 2.9% increase in the number of stores). In addition, the increase reflects higher expenses related to on-going upgrades to our information technology systems (approximately \$7.5 million), higher recruitment and compensation-related expenses primarily in connection with our ongoing management transition plans (approximately \$1.3 million) and higher credit card fees (approximately \$1.7 million). The increase in selling, general and administrative expenses was partially offset by a decrease in share-based compensation expense of \$3.4 million, as discussed below. Selling, general and administrative expenses, as a percentage of net sales, were 34.4% for both the six months ended March 31, 2016 and 2015.

Depreciation and Amortization

Consolidated depreciation and amortization was \$47.1 million for the six months ended March 31, 2016, compared to \$41.6 million for the six months ended March 31, 2015. This increase reflects the incremental depreciation and amortization expenses associated with capital expenditures made in the preceding 12 months (mainly in connection with store openings in both operating segments and with ongoing information technology upgrades), partially offset by the impact of assets that became fully depreciated in the preceding 12 months.

Operating Earnings

The following table sets forth, for the periods indicated, information concerning our operating earnings for each reportable segment (dollars in thousands):

	Six Months Ended March 31,				
	2016	2015	Increase (Decrease)		
Operating Earnings:					
Segment operating profit:					
Sally Beauty Supply	\$ 208,052	\$ 207,268	\$ 784	0.4%	
BSG	127,284	112,197	15,087	13.4%	
Segment operating profit	335,336	319,465	15,871	5.0%	
Unallocated expenses	(74,770)	(63,621)	11,149	17.5%	
Share-based compensation expense	(7,173)	(10,600)	(3,427)	(32.3)%	
Operating earnings	\$ 253,393	\$ 245,244	\$ 8,149	3.3%	

Consolidated operating earnings increased by \$8.1 million, or 3.3%, for the six months ended March 31, 2016, compared to the six months ended March 31, 2015, primarily as a result of increased net sales and improved gross profit margin in both operating segments, and lower share-based compensation expense, partially offset by higher unallocated expenses, as more fully discussed below. Operating earnings, as a percentage of net sales, decreased to 12.8% for the six months ended March 31, 2016, compared to 12.9% for the six months ended March 31, 2015. This decrease reflects higher consolidated operating expenses as a percentage of consolidated net sales, as more fully discussed below, partially offset by the slight improvement in consolidated gross profit margin described above.

Sally Beauty Supply. Sally Beauty Supply's segment operating earnings increased by \$0.8 million, or 0.4%, for the six months ended March 31, 2016, compared to the six months ended March 31, 2015, primarily a result of the increase in the segment's net sales and the improved gross profit margin described above. This increase was partially offset by the incremental costs related to 102 net additional company-operated stores (stores opened during the past twelve months, which represents a 2.8% increase in the number of stores) operating during the six months ended March 31, 2016, compared to the six months ended March 31, 2015, and higher depreciation expense principally associated with recent store openings and remodels (approximately \$4.3 million) and higher expenses related to on-going upgrades to our information technology systems (approximately \$2.8 million). Segment operating earnings, as a percentage of net sales, decreased by 30 basis points to 17.6% for the six months ended March 31, 2016, compared to 17.9% for the six months ended March 31, 2015. This decrease reflects higher segment operating expenses as a percentage of the segment's net sales, including the expense increases discussed in this paragraph, partially offset by the improvement in the segment's gross profit margin described above.

Beauty Systems Group. BSG's segment operating earnings increased by \$15.1 million, or 13.4%, for the six months ended March 31, 2016, compared to the six months ended March 31, 2015, primarily a result of the increase in the segment's net sales and the improved gross profit margin described above. This increase was partially offset by the incremental costs related to 36 net additional company-operated stores (stores opened or acquired during the past twelve months, which represents a 3.2% increase in the number of stores) operating during the six months ended March 31, 2016, compared to the six months ended

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March 31, 2015. Segment operating earnings, as a percentage of net sales, increased to 16.0% for the six months ended March 31, 2016, compared to 15.1% for the six months ended March 31, 2015. This increase reflects the increase in the segment's gross profit margin described above, as well as a decrease in segment operating expenses as a percentage of the segment's net sales.

Unallocated Expenses. Unallocated expenses, which represent certain corporate costs (such as payroll, employee benefits and travel expenses for corporate staff, certain professional fees, certain new business development expenses and corporate governance expenses) that have not been charged to our operating segments, increased by \$11.1 million, or 17.5%, for the six months ended March 31, 2016, compared to the six months ended March 31, 2015. This increase was due primarily to higher corporate expenses related to on-going upgrades to our information technology systems (approximately \$4.1 million), higher employee recruitment and compensation-related expenses (approximately \$2.2 million), higher employee compensation-related expenses in connection with our ongoing management transition plans (approximately \$1.3 million), professional fees mainly in connection with certain corporate initiatives (approximately \$1.9 million) and a loss associated with impairment of an intangible asset (approximately \$0.6 million).

Share-based Compensation Expense. Total compensation costs charged against income for share-based compensation arrangements decreased by \$3.4 million to \$7.2 million for the six months ended March 31, 2016, compared to \$10.6 million for the six months ended March 31, 2015. This decrease was mainly due to the timing of expense recognition in connection with retirement-eligible grantees during the six months ended March 31, 2016 and the impact of awards that became fully vested after March 31, 2015.

Interest Expense

Interest expense increased by \$32.4 million to \$90.9 million for the six months ended March 31, 2016, compared to \$58.5 million for the six months ended March 31, 2015 principally due to the impact of our debt refinancing in December 2015, including a loss on extinguishment of debt of \$33.3 million recognized in connection with such debt refinancing. Please see Liquidity and Capital Resources below for additional information about the Company's debt and recent debt refinancing activities.

Provision for Income Taxes

The provision for income taxes was \$60.1 million and \$70.3 million, and the effective income tax rate was 37.0% and 37.7%, for the six months ended March 31, 2016 and 2015, respectively. The lower effective income tax rate for the six months ended March 31, 2016, compared to the six months ended March 31, 2015, was primarily due to an adjustment to non-deductible expenses in the current interim period.

Net Earnings

As a result of the foregoing, consolidated net earnings decreased by \$14.0 million, or 12.1%, to \$102.4 million for the six months ended March 31, 2016, compared to \$116.4 million for the six months ended March 31, 2015. Net earnings, as a percentage of net sales, decreased by 90 basis points to 5.2% for the six months ended March 31, 2016, compared to 6.1% for the six months ended March 31, 2015.

Financial Condition

March 31, 2016 Compared to September 30, 2015

Working capital (current assets less current liabilities) decreased by \$52.0 million to \$643.4 million at March 31, 2016, compared to \$695.4 million at September 30, 2015. The ratio of current assets to current liabilities was 2.28 to 1.00 at March 31, 2016, compared to 2.41 to 1.00 at September 30, 2015. The decrease in working capital reflects a decrease of \$42.7 million in current assets and an increase of \$9.3 million in current liabilities. The decrease in current assets as of March 31, 2016, is principally due to a decrease in cash and cash equivalents of \$51.5 million (please see *Liquidity and Capital Resources* below for a description of our sources and uses of cash) and a decrease in trade accounts receivable and accounts receivable, other, in the aggregate, of \$10.2 million, partially offset by an increase of \$16.0 million in inventory and an increase in other current assets of \$2.8 million. The increase in current liabilities is principally due to an increase of \$11.1 million in accounts payable, partially offset by a decrease in income taxes payable of \$1.7 million, as discussed below.

Trade accounts receivable and accounts receivable, other, in the aggregate, decreased by \$10.2 million to \$80.9 million at March 31, 2016, compared to \$91.1 million at September 30, 2015 due primarily to the timing of collections from customers and vendors of balances outstanding and the impact of foreign currency translation adjustments. Inventory increased by \$16.0 million to \$901.2 million at March 31, 2016, compared to \$885.2 million at September 30, 2015 due primarily to an increase in company-operated stores (approximately 70 net additional company-operated stores added since September 30, 2015), partially

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offset by the impact of foreign currency translation adjustments. Other current assets increased by \$2.8 million to \$39.9 million at March 31, 2016, compared to \$37.0 million at September 30, 2015 due primarily to an increase in income tax receivable in the ordinary course of our business. Accounts payable increased by \$11.1 million to \$287.0 million at March 31, 2016, compared to \$275.9 million at September 30, 2015 due primarily to the timing of payments to suppliers mainly in connection with purchases of merchandise inventory and capital expenditures in the ordinary course of our business. Income taxes payable decreased by \$1.7 million to \$4.6 million at March 31, 2016, compared to \$6.3 million at September 30, 2015 due primarily to the timing of estimated income tax payments.

Total stockholders' deficit, for the six months ended March 31, 2016, increased by \$43.6 million primarily as a result of our repurchase and subsequent retirement of approximately 6.2 million shares of our common stock for approximately \$162.4 million and foreign currency translation adjustments, net of tax, of \$2.1 million, partially offset by net earnings of \$102.4 million, and share-based compensation expense, the impact of exercises of stock options and other share-based compensation activity, in the aggregate, of approximately \$18.5 million.

Liquidity and Capital Resources

We broadly define liquidity as our ability to generate sufficient cash flow from operating activities to meet our obligations and commitments. In addition, liquidity includes the ability to obtain appropriate debt and equity financing and to convert into cash those assets that are no longer required to meet existing strategic and financial objectives. Therefore, liquidity cannot be considered separately from capital resources that consist of current or potentially available funds for use in achieving long-range business objectives and meeting debt service commitments. Please see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015 for additional information on our liquidity and capital resources.

We are highly leveraged and a substantial portion of our liquidity needs will arise from debt service on our outstanding indebtedness and from funding the costs of operations, working capital, capital expenditures and share repurchases. As a holding company, we depend on our subsidiaries, including Sally Holdings LLC (which we refer to as Sally Holdings), to distribute funds to us so that we may pay our obligations and expenses. The ability of our subsidiaries to make such distributions will be subject to their operating results, cash requirements and financial condition and their compliance with relevant laws, and covenants and financial ratios related to their existing or future indebtedness, including covenants restricting Sally Holdings' ability to pay dividends to us. If, as a consequence of these limitations, we cannot receive sufficient distributions from our subsidiaries, we may not be able to meet our obligations to fund general corporate expenses. Please see Risk Factors—Risks Relating to Our Business, and Risks Relating to Our Substantial Indebtedness in Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2015.

We may from time to time repurchase or otherwise retire or refinance our debt (through our subsidiaries or otherwise) and take other steps to reduce or refinance our debt. These actions may include open market repurchases of our notes or other retirements of outstanding debt. The amount of debt that may be repurchased, or refinanced or otherwise retired, if any, will be determined in the sole discretion of our Board of Directors and will depend on market conditions, trading levels of the Company's debt from time to time, the Company's cash position and other considerations.

At March 31, 2016, cash and cash equivalents were \$88.5 million. Based upon the current level of operations and anticipated growth, we anticipate that existing cash balances (excluding amounts permanently invested in connection with foreign operations), funds expected to be generated by operations and funds available under the ABL facility will be sufficient to meet our working capital requirements, fund share repurchases and potential acquisitions and finance anticipated capital expenditures, including information technology upgrades, over the next twelve months.

However, there can be no assurance that our business will generate sufficient cash flows from operations, that anticipated net sales and operating improvements will be realized, or that future borrowings will be available under our ABL facility in an amount sufficient to enable us to service our indebtedness or to fund our other liquidity needs. In addition, our ability to meet our debt service obligations and liquidity needs are subject to certain risks, which include, but are not limited to, increases in competitive activity, the loss of key suppliers, rising interest rates, the loss of key personnel, the ability to execute our business strategy and general economic conditions. Please see **Risk Factors** in **Part I** of our **Annual Report on Form 10-K** for the fiscal year ended September 30, 2015.

We utilize our ABL facility for the issuance of letters of credit, for certain working capital and liquidity needs and to manage normal fluctuations in our operational cash flow. In that regard, we may from time to time draw funds under the ABL facility for general corporate purposes including funding of capital expenditures, acquisitions, interest payments due on our indebtedness and share repurchases. The funds drawn on an individual occasion during the six months ended March 31, 2016 have varied in amounts up to \$20.0 million, total amounts outstanding have ranged from zero up to \$90.0 million and the average daily balance outstanding was \$24.6 million. During the six months ended March 31, 2016, the weighted average interest rate on our

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borrowings under the ABL facility was 3.0%. The amounts drawn are generally paid down with cash provided by our operating activities. As of March 31, 2016, there were no borrowings outstanding under the ABL facility and Sally Holdings had \$478.4 million available for borrowings under the ABL facility, subject to borrowing base limitations, as reduced by outstanding letters of credit.

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. Please see *Long-Term Debt Covenants* below.

Share Repurchase Programs

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, 2016 and 2015, the Company repurchased and subsequently retired approximately 6.2 million and 2.1 million shares, respectively, of its common stock under the 2014 Share Repurchase Program at an aggregate cost of \$162.4 million and \$67.5 million, respectively. We funded these share repurchases with existing cash balances, cash from operations and borrowings under the ABL facility. The Company reduced common stock and additional paid-in capital, in the aggregate, by these amounts. However, as required by GAAP, to the extent that share repurchase amounts exceeded the balance of additional paid-in capital prior to us recording such repurchases, we recorded the excess in accumulated deficit.

As of March 31, 2016, we had approximately \$610.1 million of additional share repurchase authorization remaining under the 2014 Share Repurchase Program. Future repurchases of shares of our common stock are expected to be funded with existing cash balances, funds expected to be generated by operations and funds available under the ABL facility.

Historical Cash Flows

Historically, our primary source of cash has been funds provided by operating activities and, when necessary, borrowings under our ABL facility. The primary uses of cash have been for acquisitions, capital expenditures, repayments and servicing of long-term debt and share repurchases. The following table shows our sources and uses of funds for the six months ended March 31, 2016 and 2015 (in thousands):

	Six months ended March 31,	
	2016	2015
Net cash provided by operating activities	\$ 212,208	\$ 174,452
Net cash used by investing activities	(74,160)	(39,365)
Net cash (used) provided by financing activities	(189,509)	6,395

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Effect of foreign currency exchange rate changes on cash and cash equivalents		(29)		(2,030)
Net (decrease) increase in cash and cash equivalents	\$	(51,490)	\$	139,452

Net Cash Provided by Operating Activities

Net cash provided by operating activities during the six months ended March 31, 2016 increased by \$37.8 million to \$212.2 million, compared to \$174.5 million during the six months ended March 31, 2015 mainly due to an increase in net earnings before loss on extinguishment of debt, share-based compensation, depreciation and amortization expenses, deferred income taxes and excess tax benefits resulting from share-based compensation activity (in the aggregate, \$48.2 million), partially offset by changes in the components of working capital.

Net Cash Used by Investing Activities

Net cash used by investing activities during the six months ended March 31, 2016 increased by \$34.8 million to \$74.2 million, compared to \$39.4 million during the six months ended March 31, 2015. This increase reflects incremental capital expenditures primarily related to store openings and ongoing information technology upgrades in both business segments, and store remodels in the Sally Beauty Supply segment (primarily in the U.S.) in the six months ended March 31, 2016, compared to the six months ended March 31, 2015 (\$36.3 million), partially offset by incremental proceeds from sale of property and equipment (\$1.7 million).

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Net Cash (Used) Provided by Financing Activities

Net cash (used) provided by financing activities changed by \$195.9 million to cash used of \$189.5 million during the six months ended March 31, 2016, compared to cash provided of \$6.4 million during the six months ended March 31, 2015, primarily due to an increase in share repurchases under the 2014 Share Repurchase Program (\$94.8 million), incremental net repayments of debt and the payment of debt issuance costs, in the aggregate, of \$38.5 million in connection with our redemption of the senior notes due 2019 and issuance of the senior notes due 2025 in December 2015, and a decrease in proceeds from exercises of stock options and excess tax benefits resulting from share-based compensation activity, in the aggregate, of \$62.6 million.

Long-Term Debt

Outstanding Long-Term Debt

In November 2006, the Company, through its subsidiaries (Sally Investment Holdings LLC and Sally Holdings) incurred \$1,850.0 million of indebtedness in connection with the Company's separation from its former parent, Alberto-Culver.

In the fiscal year 2011, Sally Holdings entered into a five-year asset-based senior secured loan facility (the ABL facility). The availability of funds under the ABL facility 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 the fiscal year 2013, the Company, Sally Holdings and other parties to the ABL facility entered into an 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.

In the fiscal year 2012, Sally Holdings and Sally Capital Inc. (collectively, the Issuers), both indirectly 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 \$150.0 million of the aggregate principal amount of the senior notes due 2022 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. As further discussed below, in December 2015, the Company redeemed in full the senior notes due 2019 at a redemption premium equal to 103.438% primarily with the net proceeds from the issuance of the 5.625% Senior Notes due 2025 (the senior notes due 2025).

In the fiscal year 2014, the Issuers issued \$200.0 million aggregate principal amount of their 5.5% Senior Notes due 2023 (the senior notes due 2023) 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.

On December 3, 2015, the Issuers issued \$750.0 million aggregate principal amount of their senior notes due 2025 at par. The Company used the net proceeds from this debt issuance (approximately \$737.3 million), as well as existing cash balances, to redeem in full the senior notes due 2019, at a total redemption cost of \$775.8 million, excluding accrued interest. In connection with our redemption of the senior notes due 2019, we recorded a loss on extinguishment of debt in the amount of approximately \$33.3 million, including a redemption premium in the amount of approximately \$25.8 million and unamortized deferred financing costs of approximately \$7.5 million.

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The principal amount of long-term debt (excluding capitalized leases) as of March 31, 2016 is as follows (dollars in thousands):

	Principal Amount(a)	Maturity Dates	Interest Rates (b)
ABL facility	\$	July 2018	(i) Prime plus (0.50% to 0.75%) or; (ii) LIBOR (c) plus (1.50% to 1.75%)
Senior notes due 2022	850,000	June 2022	5.750%
Senior notes due 2023	200,000	Nov. 2023	5.500%
Senior notes due 2025	750,000	Dec. 2025	5.625%
Total	\$ 1,800,000		

(a) Amounts reported above do not reflect unamortized premium of \$6.0 million related to notes with an aggregate principal amount of \$150.0 million or unamortized debt issuance costs in the aggregate amount of \$25.3 million, at March 31, 2016.

(b) Interest rates shown represent the coupon or contractual rate or rates related to each debt instrument listed.

(c) When used in this Quarterly Report, LIBOR means the London Interbank Offered Rate.

Long-Term Debt Covenants

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.

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. The senior notes due 2022, the senior notes due 2023 and the senior notes due 2025 (which we refer to collectively as the Senior Notes or the senior notes due 2022, 2023 and 2025) 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 2022, 2023 and 2025 is payable semi-annually, during the Company's first and third fiscal quarters.

The ABL facility and the indentures governing the senior notes due 2022, 2023 and 2025 contain other covenants regarding restrictions on assets dispositions, granting of liens and security interests, 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, 2016, all the net assets of our consolidated subsidiaries were unrestricted from transfer under our credit arrangements.

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.

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 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.

The senior notes due 2025 carry optional redemption features whereby the Company has the option to redeem the notes, in whole or in part, on or after December 1, 2023 at par, plus accrued and unpaid interest, if any, and on or after December 1, 2020 at par plus a premium declining ratably to par, plus accrued and unpaid interest, if any. Prior to December 1, 2020, 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 December 1, 2018, the Company has the right to

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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 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, 2016, 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 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, 2016, the Company's Consolidated Coverage Ratio was approximately 6.1 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 also 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 (for the senior notes due 2022 and the senior notes due 2023) or since October 1, 2015 (for the senior notes due 2025), 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 plus (v) \$350 million (for the senior notes due 2025). 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, 2016, 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 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

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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, 2016, the Consolidated Fixed Charge Coverage Ratio was approximately 3.1 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 2022, 2023 and 2025, as appropriate. EBITDA is not a recognized measurement under accounting principles generally accepted in the United States of America (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.

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We are currently in compliance with the agreements and instruments governing our debt, including our financial covenants. 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. Further, our ability to comply with these covenants in future periods will also 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. Please see Risk Factors Risks Relating to Our Substantial Indebtedness in Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2015.

Capital Requirements

During the six months ended March 31, 2016, capital expenditures were approximately \$65.6 million, including amounts incurred but not paid at March 31, 2016. For fiscal year 2016, we anticipate total capital expenditures to be in the range of approximately \$125.0 million to \$135.0 million, excluding acquisitions. These capital expenditures will primarily fund (a) the addition of new stores, (b) the remodel, expansion or relocation of existing stores, (c) upgrades to our distribution centers in the U.S., as well as (d) certain corporate projects in the ordinary course of our business, including ongoing technology upgrades.

Contractual Obligations

There have been no material changes outside the ordinary course of our business in any of our contractual obligations since September 30, 2015, except for our December 2015 refinancing of a portion of our debt. In December 2015, we redeemed in full the Company's 6.875% Senior Notes due 2019, with an aggregate principal amount of \$750.0 million, primarily with the net proceeds from our December 2015 issuance of \$750.0 million aggregate principal amount of the Company's 5.625% Senior Notes due 2025.

Off-Balance Sheet Financing Arrangements

At March 31, 2016 and September 30, 2015, we had no off-balance sheet financing arrangements other than operating leases incurred in the ordinary course of business, as well as outstanding letters of credit related to inventory purchases and self-insurance programs. Such letters of credit totaled \$21.6 million and \$23.1 million at March 31, 2016 and September 30, 2015, respectively.

Inflation

We believe inflation has not had a material effect on our results of operations.

Critical Accounting Estimates

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities in the financial statements. Actual results may differ from these estimates. We believe these estimates and assumptions are reasonable. We consider accounting policies to be critical when they require us to make assumptions about matters that are highly uncertain at the time the accounting estimate is made and when different estimates that our management reasonably could have used have a material effect on the presentation of our financial condition, changes in financial condition or results of operations.

Our critical accounting estimates, as described in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015, include the valuation of inventory, vendor rebates and concessions, retention of risk, income taxes, assessment of long-lived assets and intangible assets for impairment and share-based payments. There have been no material changes to our critical accounting estimates or assumptions since September 30, 2015.

Recent Accounting Pronouncements

The Company has not yet adopted and is currently assessing the potential effect of the following pronouncements on its consolidated financial statements:

In September 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments* (ASU 2015-16) which will eliminate the current requirement to recognize measurement-period adjustments to provisional amounts retrospectively. Instead, ASU 2015-16 requires the acquirer to recognize measurement-period adjustments, as well as the impact on earnings of changes in depreciation, amortization and similar items (if any) resulting from the change to the provisional amounts, in the period when the amount of each measurement-period adjustment is determined. For public companies, this amendment is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Income Taxes* (ASU 2015-17) which aims to simplify the classification of deferred taxes on the balance sheet. More

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specifically, ASU 2015-17 will require that all deferred tax assets and liabilities, and any related valuation allowance, be reported as noncurrent in a classified balance sheet. The new guidance will replace the existing practice of reporting deferred taxes for each tax jurisdiction (or taxing component of a jurisdiction) as (a) a net current asset or liability and (b) a net noncurrent asset or liability. The new guidance does not change the existing requirement that only permits offsetting assets and liabilities within the same jurisdiction. For public companies, this amendment is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which will require lessees to report on their balance sheets a right-of-use asset and a lease liability in connection with most lease agreements classified as operating leases under the current guidance. The lease liability will be measured based on the present value of future lease payments, subject to certain conditions. The right-of-use asset will be measured based on the initial amount of the liability, plus certain initial direct costs. The new guidance will further require that leases be classified at inception as either (a) operating leases or (b) finance leases. For operating leases, periodic expense will generally be flat (straight-line) throughout the life of the lease. For finance leases, periodic expense will decline (similar to capital leases under current rules) over the life of the lease. The new standard must be adopted using a modified retrospective transition method. For public companies, this amendment is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted.

In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*, intended to simplify various aspects of how share-based payments are recorded and presented on the financial statements. For example, the new guidance will require that all the income tax effect related to share-based payments be recorded in income tax expense. The new guidance further removes the current requirement to delay recognition of a windfall tax benefit until it reduces current taxes payable. In addition, the new standard will require that excess tax benefits and shortfalls from share-based compensation awards be reported as operating activities in the statement of cash flows. For public companies, these amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted.

In addition, the Company has not yet adopted the following recent accounting pronouncements and does not believe their adoption will have a material effect on its consolidated financial statements:

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09) which will supersede Accounting Standards Codification Topic 605, *Revenue Recognition*. In August 2015, the FASB deferred the effective date of this new standard by one year. 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, 2017. Early application is permitted, but no earlier than December 16, 2016. The Company has not yet selected a transition method.

In April 2015, the FASB issued ASU No. 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. The new standard permits the use of either the prospective or retrospective transition method. For public companies, this amendment is effective for fiscal years, and

interim periods within those fiscal years, beginning after December 15, 2015.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As a multinational corporation, we are subject to certain market risks including foreign currency fluctuations, interest rates and government actions. We consider a variety of practices to manage these market risks, including, when deemed appropriate, the occasional use of derivative financial instruments. Currently, we do not purchase or hold any derivative instruments for speculative or trading purposes.

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Foreign currency exchange rate risk

We are exposed to potential gains or losses from foreign currency fluctuations affecting net investments and earnings denominated in foreign currencies. Our primary exposures are to changes in exchange rates for the U.S. dollar versus the Euro, the British pound sterling, the Canadian dollar, the Chilean peso, and the Mexican peso. In addition, we currently have exposure to the currencies of several other countries located in South America. For each of the fiscal years 2015, 2014 and 2013, approximately 19% of our consolidated net sales were made in currencies other than the U.S. dollar. For the six months ended March 31, 2016, consolidated net sales are inclusive of an approximately \$34.5 million net negative impact from changes in foreign currency exchange rates and other comprehensive income (loss) reflects approximately \$2.1 million in foreign currency translation adjustments, net of tax. For the six months ended March 31, 2016, fluctuations in the U.S. dollar exchange rates did not otherwise have a material effect on our consolidated financial condition and consolidated results of operations.

A 10% increase or decrease in the exchange rates for the U.S. dollar versus the foreign currencies to which we have exposure would have impacted our consolidated net sales by approximately 1.7% in the six months ended March 31, 2016 and would have impacted our consolidated total assets by approximately 2.4% at March 31, 2016.

Our various foreign currency exposures at times offset each other, sometimes providing a natural hedge against foreign currency risk. As more fully disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015, the Company uses from time to time foreign exchange contracts to mitigate its remaining exposure to changes in foreign currency exchange rates. There have been no material changes to the aggregate notional amount of foreign exchange contracts held by the Company since September 30, 2015. At March 31, 2016, the aggregate net fair value of all foreign exchange contracts was \$0.3 million, consisting of contracts in an asset position of less than \$0.1 million and contracts in a liability position of approximately \$0.3 million.

The Company's foreign currency derivatives are not designated as hedges and do not currently meet the requirements for hedge accounting. Accordingly, the changes in fair value of these derivative instruments, which are adjusted quarterly, are recorded in our consolidated statements of earnings. Selling, general and administrative expenses reflect a net loss of \$0.6 million and a net gain of \$5.0 million for the six months ended March 31, 2016 and 2015, respectively, in connection with all of the Company's foreign currency derivatives instruments, including marked-to-market adjustments.

Interest rate risk

We and certain of our subsidiaries are sensitive to interest rate fluctuations primarily as a result of borrowings under our ABL facility from time to time. In order to enhance our ability to manage risk relating to cash flow and interest rate exposure, we and/or our other subsidiaries who are borrowers under our ABL facility may from time to time enter into and maintain derivative instruments, such as interest rate swap agreements, for periods consistent with the related underlying exposures. There were no borrowing under the ABL facility outstanding at March 31, 2016 and the Company held no interest rate swaps or similar derivative instruments.

We have no exposure to interest rate fluctuations in connection with our senior notes due 2022, 2023 and 2025, as the interest rates on such debt instruments are fixed.

Credit risk

We are exposed to credit risk on certain assets, primarily cash equivalents, short-term investments and accounts receivable. We believe that the credit risk associated with cash equivalents and short-term investments, if any, is largely mitigated by our policy of investing in a diversified portfolio of securities with high credit ratings.

We provide credit to customers in the ordinary course of business and perform ongoing credit evaluations. We believe that our exposure to concentrations of credit risk with respect to trade receivables is largely mitigated by our broad customer base and that our allowance for doubtful accounts is sufficient to cover customer credit risks at March 31, 2016.

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Item 4. Controls and Procedures.

Controls Evaluation and Related CEO and CFO Certifications. Our management, with the participation of our principal executive officer (CEO) and principal financial officer (CFO), conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2016. The controls evaluation was conducted by our Disclosure Committee, comprised of senior representatives from our finance, accounting, internal audit, and legal departments under the supervision of our CEO and CFO.

Certifications of our CEO and our CFO, which are required in accordance with Rule 13a-14 of the Exchange Act, are attached as exhibits to this report. This Controls and Procedures section includes the information concerning the controls evaluation referred to in the certifications and it should be read in conjunction with the certifications for a more complete understanding of the topics presented.

Limitations on the Effectiveness of Controls. We do not expect that our disclosure controls and procedures will prevent all errors and all fraud. A system of controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the system are met. Because of the limitations in all such systems, no evaluation can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Furthermore, the design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how unlikely. Because of these inherent limitations in a cost-effective system of controls and procedures, misstatements or omissions due to error or fraud may occur and not be detected.

Scope of the Controls Evaluation. The evaluation of our disclosure controls and procedures included a review of their objectives and design, our implementation of the controls and procedures and the effect of the controls and procedures on the information generated for use in this report. In the course of the evaluation, we sought to identify whether we had any data errors, control problems or acts of fraud and to confirm that appropriate corrective action, including process improvements, was being undertaken if needed. This type of evaluation is performed on a quarterly basis so that conclusions concerning the effectiveness of our disclosure controls and procedures can be reported in our Quarterly Reports on Form 10-Q and our Annual Reports on Form 10-K. Many of the components of our disclosure controls and procedures are also evaluated by our internal audit department, by our legal department and by personnel in our finance organization. The overall goals of these various evaluation activities are to monitor our disclosure controls and procedures on an ongoing basis and to maintain them as dynamic systems that change as conditions warrant.

Conclusions regarding Disclosure Controls. Based on the required evaluation of our disclosure controls and procedures, our CEO and CFO have concluded that, as of March 31, 2016, we maintain disclosure controls and procedures that are effective in providing reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified

in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting. During our last fiscal quarter, there have been no changes in our internal control over financial reporting identified in connection with the evaluation described above that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings.

We are involved, from time to time, in various claims and lawsuits incidental to the conduct of our business in the ordinary course. We carry insurance coverage in such amounts in excess of our self-insured retention as we believe to be reasonable under the circumstances and that may or may not cover any or all of our liabilities in respect of these matters. We do not believe that the ultimate resolution of these matters will have a material adverse impact on our consolidated financial position, cash flows or results of operations.

We are subject to a number of U.S., federal, state and local laws and regulations, as well as the laws and regulations applicable in each foreign country or jurisdiction in which we do business. These laws and regulations govern, among other things, the composition, packaging, labeling and safety of the products we sell, the methods we use to sell these products and the methods we use to import these products. We believe that we are in material compliance with such laws and regulations, although no assurance can be provided that this will remain true going forward.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors contained in Item 1A. Risk Factors in Part I of our Annual Report on Form 10-K for the fiscal year ended September 30, 2015, which could materially affect our business, financial condition or future results. There have been no material changes from the risk factors disclosed in such Annual Report. The risks described in such Annual Report and herein are not the only risks facing our company.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(a) Not applicable

(b) Not applicable

(c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table provides information about the Company's repurchases of shares of its common stock during the three months ended March 31, 2016:

Fiscal Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)(2)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
January 1 through January 31, 2016	3,398,932	\$ 26.46	3,398,932	\$ 620,144,121
February 1 through February 29, 2016	377,134	26.70	377,134	610,074,000
March 1 through March 31, 2016				610,074,000
Total this quarter	3,776,066	\$ 26.48	3,776,066	\$ 610,074,000

(1) The table above does not include 408 shares of the Company's common stock surrendered by grantees during the three months ended March 31, 2016 to satisfy tax withholding obligations due upon the vesting of equity-based awards under the Company's share-based compensation plans.

(2) In August 2014, the Company's Board of Directors approved a share repurchase program authorizing the Company to repurchase up to \$1.0 billion of its common stock over a period of approximately three years (the 2014 Share Repurchase Program). The 2014 Share Repurchase Program expires on September 30, 2017.

Item 3. Defaults Upon Senior Securities.

Not applicable

Item 4. Mine Safety Disclosures.

Not applicable

Item 5. Other Information.

(a) Not applicable

(b) Not applicable

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Item 6. Exhibits.

Exhibit No.	Description
3.1	Third Restated Certificate of Incorporation of Sally Beauty Holdings, Inc., dated January 30, 2014, which is incorporated herein by reference from Exhibit 3.3 to the Company's Current Report on Form 8-K filed on January 30, 2014
3.2	Sixth Amended and Restated Bylaws of Sally Beauty Holdings, Inc., dated July 30, 2015, which is incorporated herein by reference from Exhibit 3.1 to the Company's Current Report on Form 8-K filed on August 6, 2015
10.1	Sally Beauty Holdings, Inc. Second Amended and Restated Independent Director Compensation Policy*
10.2	Separation and Release Agreement by and between Gary Winterhalter and the Corporation, dated as of February 18, 2016*
10.3	Option Exercise Period Extension Agreement by and between the Corporation and Gary Winterhalter, dated as of February 18, 2016*
10.4	Separation Agreement by and between Brian Walker and Sally Beauty Supply LLC, dated as of February 15, 2016*
31.1	Rule 13a-14(a)/15d-14(a) Certification of Christian A. Brickman*
31.2	Rule 13a-14(a)/15d-14(a) Certification of Mark J. Flaherty*
32.1	Section 1350 Certification of Christian A. Brickman*
32.2	Section 1350 Certification of Mark J. Flaherty*
101	The following financial information from our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2016, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Earnings; (ii) the Consolidated Statements of Comprehensive Income; (iii) the Consolidated Balance Sheets; (iv) the Consolidated Statements of Cash Flows; and (v) the Condensed Notes to Consolidated Financial Statements.

* Included herewith

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SIGNATURES

Pursuant to the requirements 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.

SALLY BEAUTY HOLDINGS, INC.
(Registrant)

Date: May 5, 2016

By: /s/ Mark J. Flaherty
Mark J. Flaherty
Senior Vice President and Chief Financial Officer
For the Registrant and as its Principal Financial Officer