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.

(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 x NO o

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

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

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

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

As of April 29, 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 e such forward-looking statements.

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

- 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.

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SALLY BEAUTY HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Earnings

(In thousands, except per share data)

(Unaudited)

	Three Months Ended March 31,		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, 2016	Three Months Ended March 31, 2015	Six Months Ended March 31, 2016	Six Months Ended March 31, 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.

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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.

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SALLY BEAUTY HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Six Months Ended March 31, 2016		Six Months Ended March 31, 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.

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 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

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.

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):

	As of March 31, 2016			
	Total	**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	

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

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 March 31,		Six Months Ended 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

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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Sally Beauty Holdings, Inc. and Subsidiaries

Condensed Notes to Consolidated Financial Statements

(Unaudited)

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 March 31,		Six Months Ended March 31,	
	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 obligat