UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED: MARCH 31, 2011

-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 (§ 232.405 of this chapter) 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 28, 2011, there were 183,342,302 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 for periods after the separation from Alberto-Culver Company (Alberto-Culver) and to Sally Holdings, Inc. and its consolidated subsidiaries for periods prior to the separation from Alberto-Culver unless otherwise indicated or the context otherwise requires.

Cautionary Notice Regarding Forward-Looking Statements

Statements in this Quarterly Report on Form 10-Q and in the documents incorporated by reference herein which are not purely historical facts or which depend upon future events may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act. Words such as anticipate, believe, estimate, expect, intend, plan, project, target, can, could, may, should, will, would or similar e such forward-looking statements.

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

- the highly competitive nature of, and the increasing consolidation of, the beauty products distribution industry;
- anticipating changes in consumer preferences and buying trends and managing our product lines and inventory;
- potential fluctuation in our same store sales and quarterly financial performance;
- our dependence upon manufacturers who may be unwilling or unable to continue to supply products to us;
- the possibility of material interruptions in the supply of products by our manufacturers;
- products sold by us being found to be defective in labeling or content;
- compliance with laws and regulations or becoming subject to additional or more stringent laws and regulations;
- product diversion to mass retailers;
- the operational and financial performance of our Armstrong McCall, L.P. (Armstrong McCall) franchise-based business;
- the success of our internet-based business;
- successfully identifying acquisition candidates or successfully completing desirable acquisitions;
- integrating businesses acquired in the future;
- opening and operating new stores profitably;

- the impact of a downturn in the economy upon our business;
- the success of our cost control plans;
- protecting our intellectual property rights, particularly our trademarks;
- conducting business outside the United States;
- disruption in our information technology systems;
- severe weather, natural disasters or acts of terrorism;
- the preparedness of our accounting and other management systems to meet financial reporting and other requirements and the upgrade of our existing financial reporting system;
- being a holding company, with no operations of our own, and depending on our subsidiaries for cash;
- our substantial indebtedness;
- the possibility that we may incur substantial additional debt in the future;
- restrictions and limitations in the agreements and instruments governing our debt;
- 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;

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- changes in interest rates increasing the cost of servicing our debt or increasing our interest expense due to our interest rate swap agreements;
- the potential impact on us if the financial institutions we deal with become impaired;
- the representativeness of our historical consolidated financial information with respect to our future financial position, results of operations or cash flows;
- our reliance upon Alberto-Culver for the accuracy of certain historical services and information;
- the share distribution of Alberto-Culver common stock in our separation from Alberto-Culver not constituting a tax-free distribution;
- actions taken by certain large stockholders adversely affecting the tax-free nature of the share distribution of Alberto-Culver common stock;
- the voting power of our largest stockholder discouraging third party acquisitions of us at a premium; and
- the interests of our largest stockholder differing from the interests of other holders of our common stock.

Additional factors that could cause actual events or results to differ materially from the events or results described in the forward-looking statements can be found in our Annual Report on Form 10-K for the fiscal year ended September 30, 2010, as filed with the Securities and Exchange Commission. 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 does not constitute part of this Quarterly Report on Form 10-Q.

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PART I   FINANCIAL INFORMATION

Item 1. Financial Statements.

The following are the Company s consolidated balance sheets as of March 31, 2011 and September 30, 2010, its consolidated statements of earnings for the three and six months ended March 31, 2011 and 2010, and its consolidated statements of cash flows for the six months ended March 31, 2011 and 2010.

The Company was formed in June 2006 and became the accounting successor company to Sally Holdings, Inc. (which was, until November 2006, a wholly-owned subsidiary of Alberto-Culver) upon the completion of our separation from Alberto-Culver. In these financial statements and elsewhere in this Quarterly Report on Form 10-Q, we refer to these transactions as the Separation Transactions. Please see the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2010 for additional information about the Separation Transactions.

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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,	
	2011	**2010**	**2011**	**2010**
Net sales	$ 801,805	$ 720,467	$ 1,595,369	$ 1,425,318
Cost of products sold and distribution expenses	409,991	376,183	824,164	747,819
Gross profit	391,814	344,284	771,205	677,499
Selling, general and administrative expenses	271,381	247,496	544,289	498,268
Depreciation and amortization	14,777	12,430	28,888	24,320
Operating earnings	105,656	84,358	198,028	154,911
Interest expense	27,793	28,414	57,316	56,894
Earnings before provision for income taxes	77,863	55,944	140,712	98,017
Provision for income taxes	28,585	21,384	50,485	37,331
Net earnings	$ 49,278	$ 34,560	$ 90,227	$ 60,686
Net earnings per share:				
Basic	$ 0.27	$ 0.19	$ 0.49	$ 0.33
Diluted	$ 0.26	$ 0.19	$ 0.48	$ 0.33
Weighted average shares:				
Basic	182,831	181,942	182,644	181,915
Diluted	187,724	183,975	187,431	183,885

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, 2010, 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, 2011 (Unaudited)	September 30, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 59,102	$ 59,494
Trade accounts receivable, less allowance for doubtful accounts of $2,776 at March 31, 2011 and $2,756 at September 30, 2010	57,828	54,989
Other receivables	39,268	29,510
Inventory	636,909	604,357
Prepaid expenses	24,432	23,486
Deferred income tax assets, net	23,011	22,939
Total current assets	840,550	794,775
Property and equipment, net of accumulated depreciation of $308,025 at March 31, 2011 and $291,186 at September 30, 2010	180,549	168,119
Goodwill	508,465	478,240
Other intangible assets, net of accumulated amortization of $39,119 at March 31, 2011 and $33,031 at September 30, 2010	139,116	109,352
Other assets	38,344	38,926
Total assets	$ 1,707,024	$ 1,589,412
Liabilities and Stockholders Deficit		
Current liabilities:		
Current maturities of long-term debt	$ 3,094	$ 3,045
Accounts payable	236,749	224,931
Accrued liabilities	168,544	167,496
Income taxes payable	13,704	12,180
Total current liabilities	422,091	407,652
Long-term debt	1,542,235	1,559,591
Other liabilities	38,761	40,692
Deferred income tax liabilities, net	44,499	41,803
Total liabilities	2,047,586	2,049,738
Stock options subject to redemption	766	946
Stockholders deficit:		
Common stock, $0.01 par value. Authorized 500,000 shares; 183,357 and 182,592 shares issued and 182,902 and 182,230 shares outstanding at March 31, 2011 and September 30, 2010, respectively	1,829	1,822
Preferred stock, $0.01 par value. Authorized 50,000 shares; none issued		
Additional paid-in capital	665,173	650,315
Accumulated deficit	(1,002,803)	(1,093,030)
Treasury stock, 15 shares at March 31, 2011 and September 30, 2010, at cost	(103)	(103)
Accumulated other comprehensive loss, net of tax	(5,424)	(20,276)
Total stockholders deficit	(341,328)	(461,272)
Total liabilities and stockholders deficit	$ 1,707,024	$ 1,589,412

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, 2010, 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, 2011	Six Months Ended March 31, 2010
Cash Flows from Operating Activities:		
Net earnings	$ 90,227	$ 60,686
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	28,888	24,320
Share-based compensation expense	10,275	7,371
Amortization of deferred financing costs	3,495	3,975
Excess tax (benefit) shortfall from share-based compensation	(776)	(25)
Net gain on disposal of property and equipment	(1,504)	(26)
Net loss on extinguishment of debt	1,741	376
Deferred income taxes	509	2,562
Changes in (exclusive of effects of acquisitions):		
Trade accounts receivable	1,288	7,801
Other receivables	(9,462)	(9,163)
Inventory	(12,671)	(10,557)
Prepaid expenses	(670)	(2,849)
Other assets	44	92
Accounts payable and accrued liabilities	9,632	8,812
Income taxes payable	1,886	(1,029)
Other liabilities	2,723	576
Net cash provided by operating activities	125,625	92,922
Cash Flows from Investing Activities:		
Capital expenditures	(29,370)	(23,162)
Proceeds from sale of property and equipment	145	54
Acquisitions, net of cash acquired	(81,170)	(34,936)
Net cash used by investing activities	(110,395)	(58,044)
Cash Flows from Financing Activities:		
Change in book cash overdraft	2,516	305
Proceeds from issuance of long-term debt	379,505	219,000
Repayments of long-term debt	(397,221)	(270,518)
Debt issuance costs	(5,284)	
Proceeds from exercises of stock options	3,807	70
Excess tax benefit (shortfall) from share-based compensation	776	25
Purchases of treasury stock		(56)
Net cash used by financing activities	(15,901)	(51,174)
Effect of foreign exchange rate changes on cash and cash equivalents	279	(731)
Net decrease in cash and cash equivalents	(392)	(17,027)
Cash and cash equivalents, beginning of period	59,494	54,447
Cash and cash equivalents, end of period	$ 59,102	$ 37,420
Supplemental Cash Flow Information:		
Interest paid	$ 51,311	$ 57,068
Income taxes paid, net	$ 48,306	$ 35,497

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, 2010, 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 primarily through its Sally Beauty Supply retail stores in the U.S., Puerto Rico, Canada, Mexico, Chile, the United Kingdom, Ireland, Belgium, France, Germany and Spain. Additionally, the Company distributes professional beauty products to salons and professional cosmetologists through its Beauty Systems Group (BSG) store operations and a commissioned direct sales force that calls on salons primarily in the U.S., Puerto Rico, Canada, the United Kingdom and certain other countries in Europe, and to franchises in the southern and southwestern U.S. and in Mexico through the operations of its subsidiary Armstrong McCall. Certain beauty products sold by BSG and Armstrong McCall are sold under exclusive territory agreements with the manufacturers of the products.

Sally Beauty was formed in June 2006 and became the accounting successor company to Sally Holdings, Inc. (which was, until November 2006, a wholly-owned subsidiary of Alberto-Culver) upon the completion of the Separation Transactions. Please see the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2010 for more information about the Separation Transactions.

Basis of Presentation

The 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, 2011 and September 30, 2010, its consolidated results of operations for the three and six months ended March 31, 2011 and 2010, and its consolidated cash flows for the six months ended March 31, 2011 and 2010.

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, 2010. 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 these interim periods are not necessarily indicative of the results that may be expected for any future interim period or the entire fiscal year.

The Company s financial instruments consist of cash and cash equivalents, trade and other accounts receivable, accounts payable, interest rate swap agreements, foreign currency option and forward agreements, and long-term debt. There were no significant changes in the methods and assumptions used to estimate the fair value of the Company s financial instruments since September 30, 2010.

The carrying amounts of cash and cash equivalents, trade and other accounts receivable, and accounts payable approximate fair value due to the short-term nature of these financial instruments.

Fair value amounts reported for our interest rate swaps, and foreign currency options and forwards are based on third-party information and were determined using (a) widely accepted valuation techniques, such as discounted cash flow analyses; (b) observable market inputs, such as current interest rate curves and current foreign currency exchange rates, as appropriate; and (c) reasonable estimates about relevant future market conditions, such as projected interest rates derived from

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Sally Beauty Holdings, Inc. and Subsidiaries

Condensed Notes to Consolidated Financial Statements

(Unaudited)

observable market interest rate curves and projected foreign currency exchange rates derived from observable market foreign currency exchange rates, as appropriate. These fair value amounts also reflect the contractual terms of each derivative instrument and credit valuation adjustments pertaining to the risk of nonperformance by either party. Please see Notes 4 and 10 for more information about the Company s interest rate swaps and foreign currency options and forwards.

Fair value amounts reported for the Company s long-term debt are based on unadjusted quoted market prices for the Company s debt securities where available or, if not available, were generally determined using widely accepted valuation techniques, such as discounted cash flow analyses, and observable inputs, such as market interest rates. Please see Notes 4 and 9 for more information about the Company s long-term debt.

3. Recent Accounting Pronouncements and Accounting Changes

Recent Accounting Pronouncements

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

In December 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-28 which amended Accounting Standards Codification (ASC) Topic 350*, Intangibles-Goodwill and Other.* This amendment modifies the goodwill impairment test for reporting units with a zero or negative carrying amount, by requiring that Step 2 of the goodwill impairment test be performed for such reporting units if it is more likely than not that an impairment of goodwill exists. For public companies, this amendment is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2010. Early application is not permitted.

In December 2010, the FASB issued ASU No. 2010-29 which amended ASC Topic 805, *Business Combinations* (ASC 805). This amendment requires that a public company that enters into business combinations that are material on an individual or aggregate basis disclose certain pro forma information for the current and the immediately preceding fiscal year. This amendment also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, non-recurring pro forma adjustments directly attributable to such business combination or business combinations. This amendment is effective prospectively for business combinations consummated on or after the first annual reporting period beginning on or after December 15, 2010. Early application is permitted.