Ulta Salon, Cosmetics & Fragrance, Inc.
Form 10-Q
June 17, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarterly Period Ended May 3, 2008

or

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from __________ to __________

Commission File Number: 001-33764

ULTA SALON, COSMETICS & FRAGRANCE, INC.
(Exact name of Registrant as specified in its charter)

Delaware	**36-3685240**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1000 Remington Blvd., Suite 120 **Bolingbrook, Illinois**	**60440**
(Address of principal executive offices)	(Zip code)

Registrant s telephone number, including area code: (630) 410-4800

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. þ Yes o No

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer þ	Smaller reporting company o

(Do not check if a smaller reporting company)

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

The number of shares of the registrant s common stock, par value $0.01 per share, outstanding as of June 5, 2008 was 57,462,294 shares.

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Part I Financial Information

Item 1. Consolidated Financial Statements

Ulta Salon, Cosmetics & Fragrance, Inc.
Consolidated Balance Sheets

(In thousands)	May 3, 2008 (unaudited)	February 2, 2008	May 5 2007 (unaudited)
Assets			
Current assets:			
Cash and cash equivalents	$ 3,975	$ 3,789	$ 3,161
Receivables, net	19,533	20,643	17,137
Merchandise inventories, net	212,564	176,109	152,867
Prepaid expenses and other current assets	22,435	19,184	19,041
Deferred income taxes	9,129	9,219	5,694
Total current assets	267,636	228,944	197,900
Property and equipment, net	255,123	236,389	174,916
Deferred income taxes	4,080	4,080	4,728
Other assets			308
Total assets	$526,839	$469,413	$377,852
Liabilities and stockholders equity			
Current liabilities:			
Current portion notes payable	$ 18,143	$	$ 28,053
Accounts payable	66,508	52,122	50,922
Accrued liabilities	49,618	54,719	33,055
Accrued income taxes	6,872	5,064	
Total current liabilities	141,141	111,905	112,030
Notes payable less current portion	86,391	74,770	55,038
Deferred rent	80,411	71,235	52,633
Total liabilities	307,943	257,910	219,701
Commitments and contingencies			
Series III redeemable preferred stock			4,792

See accompanying notes to consolidated financial statements.

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Ulta Salon, Cosmetics & Fragrance, Inc.
Consolidated Balance Sheets (continued)

(In thousands, except per share data)	May 3, 2008 (unaudited)	February 2, 2008	May 5 2007 (unaudited)
Stockholders equity:			
Preferred stock	$	$	$226,803
Treasury stock-preferred, at cost			(1,815)
Common stock, $.01 par value, 400,000 shares authorized; 57,780, 57,411 and 7,645 shares issued; 57,275, 56,906 and 7,400 shares outstanding; at May 3, 2008 (unaudited) and February 3, 2008 and May 5, 2007 (unaudited), respectively	578	574	121
Treasury stock-common, at cost	(4,179)	(4,179)	(2,244)
Additional paid-in capital	287,922	284,951	16,333
Related party notes receivable			(4,094)
Accumulated deficit	(64,849)	(69,124)	(81,665)
Accumulated other comprehensive loss	(576)	(719)	(80)
Total stockholders equity	218,896	211,503	153,359
Total liabilities and stockholders equity	$526,839	$469,413	$377,852

See accompanying notes to consolidated financial statements.

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Ulta Salon, Cosmetics & Fragrance, Inc.
Consolidated Statements of Income
(unaudited)

	Three months ended	
(In thousands, except per share data)	**May 3, 2008**	**May 5, 2007**
Net sales	$239,298	$194,113
Cost of sales	165,377	134,600
Gross profit	73,921	59,513
Selling, general and administrative expenses	62,065	47,982
Pre-opening expenses	3,772	1,656
Operating income	8,084	9,875
Interest expense	915	996
Income before income taxes	7,169	8,879
Income tax expense	2,894	3,560
Net income	$ 4,275	$ 5,319
Less preferred stock dividends		3,743
Net income available to common stockholders	$ 4,275	$ 1,576
Net income per common share:		
Basic	$ 0.08	$ 0.22
Diluted	$ 0.07	$ 0.10
Weighted average common shares outstanding:		
Basic	56,956	7,185
Diluted	58,980	50,972

See accompanying notes to consolidated financial statements.

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Ulta Salon, Cosmetics & Fragrance, Inc.
Consolidated Statements of Cash Flows
(unaudited)

(Dollars in thousands)	Three months ended May 3, 2008	May 5, 2007
Operating activities		
Net income	$ 4,275	$ 5,319
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	12,018	9,840
Deferred income taxes		(822)
Non-cash stock compensation charges	591	289
Excess tax benefits from stock-based compensation	(1,083)	
Loss on disposal of property and equipment	127	135
Change in operating assets and liabilities:		
Receivables	1,110	1,338
Merchandise inventories	(36,455)	(23,630)
Prepaid expenses and other assets	(3,251)	(3,758)
Accounts payable	14,386	7,851
Accrued liabilities	(2,311)	(12,999)
Deferred rent	9,176	2,266
Net cash used in operating activities	(1,417)	(14,171)
Investing activities		
Purchases of property and equipment, net	(30,545)	(17,757)
Receipt of related party notes receivable		373
Net cash used in investing activities	(30,545)	(17,384)
Financing activities		
Proceeds on long-term borrowings	289,238	239,123
Payments on long-term borrowings	(259,474)	(206,769)
Initial public offering issuance costs	(59)	
Purchase of treasury stock		(1,830)
Excess tax benefits from stock-based compensation	1,083	
Proceeds from issuance of common stock under stock plans	1,360	547
Net cash provided by financing activities	32,148	31,071
Net increase (decrease) in cash and cash equivalents	186	(484)
Cash and cash equivalents at beginning of period	3,789	3,645
Cash and cash equivalents at end of period	$ 3,975	$ 3,161

See accompanying notes to consolidated financial statements.

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Ulta Salon, Cosmetics & Fragrance, Inc.
Consolidated Statements of Cash Flows (continued)
(unaudited)

(Dollars in thousands)	Three months ended May 3, 2008	Three months ended May 5, 2007
Supplemental cash flow information		
Cash paid for interest	$1,006	$ 574
Cash paid for income taxes	$ 3	$7,121
Noncash investing and financing activities:		
Purchases of property and equipment included in accrued liabilities	$ 334	$5,054
Unrealized (gain) loss on interest rate swap hedge, net of tax	$ (143)	$ 99

See accompanying notes to consolidated financial statements.

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Ulta Salon, Cosmetics & Fragrance, Inc.
Consolidated Statements of Stockholders Equity
(unaudited)

(In thousands, except per share data)	Common Stock Issued Shares	Common Stock Issued Amount	Treasury - Common Stock Treasury Shares	Treasury - Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders Equity
Balance February 2, 2008	57,411	$574	(505)	$(4,179)	$284,951	$(69,124)	$(719)	$ 211,503
Common stock options exercised	369	4			1,356			1,360
Unrealized gain on interest rate swap hedge, net of $90 income tax							143	143
Net income for the three months ended May 3, 2008						4,275		4,275
Comprehensive income								4,418
Excess tax benefits from stock-based compensation					1,083			1,083
Stock compensation charge					591			591
Initial public offering issuance costs					(59)			(59)
Balance May 3, 2008	57,780	$578	(505)	$(4,179)	$287,922	$(64,849)	$(576)	$ 218,896

See accompanying notes to consolidated financial statements.

Ulta Salon, Cosmetics & Fragrance, Inc.
Notes to Consolidated Financial Statements
(unaudited)

1. Business and basis of presentation

The accompanying consolidated financial statements of Ulta Salon, Cosmetics & Fragrance, Inc. (the Company) include Ulta Salon, Cosmetics & Fragrance, Inc. and its wholly owned subsidiary, Ulta Internet Holdings, Inc. (Internet). All inter-company balances and transactions have been eliminated. The operations of Internet were merged into the Company during 2006, resulting in its dissolution as a separate legal entity on November 30, 2006.

All amounts are stated in thousands, with the exception of per share amounts and number of stores.

The Company was incorporated in the state of Delaware on January 9, 1990, to operate specialty retail stores selling cosmetics, fragrance, haircare and skincare products, and related accessories and services. The stores also feature full-service salons. As of May 3, 2008, the Company operated 265 stores in 32 states, as shown in the table below:

State	Number of stores
Alabama	4
Arizona	20
California	28
Colorado	9
Delaware	1
Florida	17
Georgia	15
Illinois	30
Indiana	5
Iowa	2
Kansas	1
Kentucky	2
Louisiana	1
Maryland	5
Massachusetts	3
Michigan	5
Minnesota	6
Nebraska	1
Nevada	6
New Jersey	9
New York	8
North Carolina	10
Ohio	3
Oklahoma	5
Oregon	3
Pennsylvania	13
South Carolina	4
Tennessee	2
Texas	34
Virginia	7
Washington	4
Wisconsin	2

Total	**265**

The accompanying unaudited consolidated financial statements and related notes have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and the U.S. Securities and Exchange Commission s Article 10, Regulation S-X. In the opinion of management, the accompanying consolidated financial statements reflect all adjustments, which are of a normal recurring nature, necessary to fairly state the consolidated financial position and results of operations and cash flows for the interim periods presented.

The Company s business is subject to seasonal fluctuation. Significant portions of the Company s net sales and net income are realized during the fourth quarter of the fiscal year due to the holiday selling season. The results for the three months ended May 3, 2008 and May 5, 2007 are not necessarily indicative of the results to be expected for the fiscal year ending January 31, 2009, or for any other future interim period or for any future year.

These interim financial statements and the related notes should be read in conjunction with the financial statements and notes included in the Company s Annual Report on Form 10-K for the year ended February 2, 2008.

Reverse stock split

On September 17, 2007, the Company s Board of Directors approved a resolution to effect a reverse stock split of the Company s common stock pursuant to which each share of common stock was to be converted into 0.632 of one share of common stock. The reverse stock split became effective on October 22, 2007. Any fractional shares resulting from the reverse stock split were rounded to the nearest whole share. Common share and per share amounts for all periods presented and the conversion ratio of preferred to common shares have been adjusted for the 0.632 for 1 reverse stock split.

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Initial public offering

On October 30, 2007, the Company completed an initial public offering in which the Company sold 7,667 shares of common stock resulting in net proceeds of $123,549 after deducting underwriting discounts and commissions and offering expenses. Selling stockholders sold approximately 2,154 additional shares of common stock. The Company did not receive any proceeds from the sale of shares by the selling stockholders. The Company used the net proceeds from the offering to pay $93,012 of accumulated dividends in arrears on the Company s preferred stock, which satisfied all amounts due with respect to accumulated dividends, $4,792 to redeem the Company s Series III preferred stock, and $25,745 to reduce the Company s borrowings under its third amended and restated loan and security agreement and for general corporate purposes. Also in connection with the offering, the Company converted 41,524 preferred shares into common shares and restated the par value of its common stock to $0.01 per share.

2. Summary of significant accounting policies

Information regarding the Company s significant accounting policies is contained in Note 2, Summary of significant accounting policies, to the financial statements in the Company s Annual Report on Form 10-K for the year ended February 2, 2008. Presented below in this and the following notes is supplemental information that should be read in conjunction with Notes to consolidated financial statements in the Annual Report.

Fiscal quarter

The Company s quarterly periods are the 13 weeks ending on the Saturday closest to April 30, July 31, October 31, and January 31. The Company s first quarters in fiscal 2008 and 2007 ended on May 3, 2008 and May 5, 2007, respectively.

Share-based compensation

Effective January 29, 2006, the Company adopted the fair value recognition and measurement provisions of Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment*. Pursuant to SFAS 123(R), share-based compensation cost is measured at grant date, based on the fair value of the award, and is recognized as expense over the requisite service period for awards expected to vest. As a non-public entity that previously used the minimum value method for pro forma disclosure purposes under SFAS 123, the Company was required to adopt the prospective method of accounting under SFAS 123(R). Under this transitional method, the Company is required to record compensation expense in the consolidated statements of income for all awards granted after the adoption date and to awards modified, repurchased, or cancelled after the adoption date using the fair value provisions of SFAS 123(R). The Company estimates the grant date fair value of stock options using a Black-Scholes valuation model. The expected volatility is based on the historical volatilities of a peer group of publicly-traded companies. The risk free interest rate is based on the U.S. Treasury yield curve in effect on the date of grant for the respective expected life of the option. The expected life represents the time the options granted are expected to be outstanding. The Company has elected to use the shortcut approach in accordance with the Securities and Exchange Commission Staff Accounting Bulletin (SAB) No. 107, *Share-Based Payment* and SAB No. 110, *Simplified Method for Plain Vanilla Share Options,* to develop the expected life. Any dividend we might declare in the future would be subject to the applicable provisions of our credit agreement, which currently restricts our ability to pay cash dividends. The Company recognizes compensation cost related to the stock options on a straight-line method over the requisite service period. The Company estimated the grant date fair value of stock options using a Black-Scholes valuation model using the following assumptions for the periods indicated:

	Three months ended	
	May 3, 2008	**May 5, 2007**
Volatility rate	38% - 41 %	45 %
Risk-free interest rate	2.00% - 2.70 %	4.54 %
Average expected life (years)	5.00	6.25
Dividend yield	None	None

The Company granted 1.1 million stock options during the three months ended May 3, 2008. The weighted-average grant date fair value of options granted in fiscal 2008 was $5.28 per option.

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The Company recorded stock compensation expense of $591 and $289 for the three months ended May 3, 2008 and May 5, 2007, respectively. At May 3, 2008, there was approximately $11,600 of unrecognized compensation expense related to unvested options.

Income taxes

The Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes,* on February 4, 2007. The adoption had no effect on the Company s consolidated financial position or results of operations. The Company does not currently maintain a liability for unrecognized tax benefits. The Company s policy is to recognize income tax-related interest and penalties as part of income tax expense. Income tax-related interest and penalties recorded in the consolidated financial statements were not significant for the three months ended May 3, 2008 and May 5, 2007. The Company conducts business only in the United States. Accordingly, the tax years that remain open to examination by U.S. federal, state, and local tax jurisdictions are generally three years, or fiscal 2005, 2006, and 2007.

Comprehensive income

Comprehensive income is comprised of net income and gains and losses from derivative instruments designated as cash flow hedges, net of income tax. Total comprehensive income is as follows:

	Three months ended	
	May 3, 2008	**May 5, 2007**
Net income	$ 4,275	$ 5,319
Unrealized (loss) gain on interest rate swap hedge, net of income tax	143	(99)
Comprehensive income	$ 4,418	$ 5,220

Recent accounting pronouncements

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of SFAS No. 133.* SFAS No. 161 is intended to help investors better understand how derivative instruments and hedging activities affect an entity s financial position, financial performance and cash flows through enhanced disclosure requirements. The enhanced disclosures primarily surround disclosing the objectives and strategies for using derivative instruments by their underlying risk as well as a tabular format of the fair values of the derivative instruments and their gains and losses. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company does not expect the adoption of SFAS No. 161 to have a material effect on its consolidated financial position or results of operations.

3. Commitments and contingencies

Leases The Company leases stores, distribution and office facilities, and certain equipment. Original non-cancelable lease terms range from three to ten years, and store leases generally contain renewal options for additional years. A number of the Company s store leases provide for contingent rentals based upon sales. Contingent rent amounts were insignificant in the three months ended May 3, 2008 and May 5, 2007. Total rent expense under operating leases was $15,459 and $11,567 for the three months ended May 3, 2008 and May 5, 2007, respectively.

Securities litigation In December 2007 and January 2008, three putative securities class action lawsuits were filed against the Company and certain of its current and then-current executive officers in the United States District Court for the Northern District of Illinois. Each suit alleges that the prospectus and registration statement filed pursuant to the Company s initial public offering contained materially false and misleading statements and failed to disclose material facts. Each suit claims violations of Sections 11, 12(a)(2) and/or 15 of the Securities Act of 1933, and the two later filed suits added claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as well as the associated Rule 10b-5. In February 2008, two of the plaintiffs filed competing motions to consolidate the actions and appoint lead plaintiffs and lead plaintiffs counsel. On March 18, 2008, after one of the plaintiffs withdrew his motion, the suits were consolidated and plaintiffs in the *Mirsky v. ULTA* action were appointed lead plaintiffs. Lead plaintiffs filed their amended complaint on May 19, 2008. The amended complaint alleges no new violations of the securities laws not asserted in the prior complaints. It adds no new defendants and drops one of the then-current officers as a defendant. Defendants have until July 21, 2008 to respond to the amended complaint.

Although the Company believes that it has meritorious defenses to the claims made in the consolidated class action and intend to contest the lawsuit vigorously, an adverse resolution may have a material adverse effect on the Company s financial position and results of operations in the period in which the lawsuit is resolved. The Company is not presently able to reasonably estimate potential losses, if any, related to the lawsuit.

General litigation The Company is also involved in various legal proceedings that are incidental to the conduct of its business, including, but not limited to, employment related claims. In the opinion of management, the amount of any liability with respect to these proceedings, either individually or in the aggregate, will not be material.

4. Notes payable

The Company s credit facility is with LaSalle Bank National Association and its successors as the administrative agent, Wachovia Capital Finance Corporation as collateral agent, and JP Morgan Chase Bank as documentation agent. This facility provides maximum credit of $150,000 and a $50,000 accordion option through May 31, 2011. The credit facility agreement contains a restrictive financial covenant on tangible net worth. Substantially all of the Company s assets are pledged as collateral for outstanding borrowings under the facility. Outstanding borrowings bear interest at the prime rate or the Eurodollar rate plus 1.00% up to $100,000 and 1.25% thereafter. The advance rates on owned inventory are 80% (85% from September 1 to January 31).

The weighted-average interest rate on the outstanding borrowings as of May 3, 2008 and February 2, 2008, was 3.951% and 4.812%, respectively. The Company had approximately $45,140 and $73,140 of availability as of May 3, 2008 and February 2, 2008, respectively, excluding the accordion option.

The Company has an ongoing letter of credit that renews annually in October, the balance of which was $326 as of May 3, 2008 and February 2, 2008.

At May 3, 2008, the Company has classified $86,391 of outstanding borrowings under the facility as long-term as this is the minimum amount that the Company believes will remain outstanding for an uninterrupted period over the next year.

5. Financial instruments

On January 31, 2007, the Company entered into an interest rate swap agreement with a notional amount of $25,000 that qualified as a cash flow hedge to obtain a fixed interest rate on variable rate debt and reduce certain exposures to interest rate fluctuations. The swap results in fixed rate payments at an interest rate of 5.11% for a term of three years. As of May 3, 2008 and February 2, 2008, the interest rate swap had a negative fair value of $952 and $1,184 included in accrued liabilities, respectively. The change in market value during fiscal 2008 related to the effective portion of the cash flow hedge was recorded as an unrecognized gain in the other comprehensive loss section of stockholders equity in the consolidated balance sheets. Amounts related to any ineffectiveness, which are insignificant, are recorded as interest expense.

Interest rate differentials paid or received under this agreement are recognized as adjustments to interest expense. The Company does not hold or issue interest rate swap agreements for trading purposes. In the event that a counter-party fails to meet the terms of the interest rate swap agreement, the Company s exposure is limited to the interest rate differential. The Company manages the credit risk of counterparties by dealing only with institutions that the Company considers financially sound. The Company considers the risk of non-performance to be remote.

On February 3, 2008, the company adopted SFAS No. 157, *Fair Value Measurements,* for financial assets and liabilities. The adoption had no impact on the consolidated financial statements. SFAS No. 157 established a three-tier hierarchy for fair value measurements, which prioritizes the inputs used in measuring fair value as follows:

Level 1 observable inputs such as quoted prices for identical instruments in active markets.

Level 2 inputs other than quoted prices in active markets that are observable either directly or indirectly through corroboration with observable market data.

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Level 3 unobservable inputs in which there is little or no market data, which would require the Company to develop its own assumptions.

The Company s interest rate swap is required to be measured at fair value on a recurring basis. The fair value of the interest rate swap is determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. Therefore, the Company has categorized the interest rate swap as Level 2. The following table presents the Company s financial liabilities as of May 3, 2008 measured at fair value on a recurring basis:

	Fair value measurements using		
	Level 1	Level 2	Level 3
Interest rate swap liability	$	$ 952	$

6. Net income per common share

The following is a reconciliation of net income and the number of shares of common stock used in the computation of net income per basic and diluted share:

	Three months ended	
	May 3, 2008	May 5, 2007
Numerator for diluted net income per share net income	$ 4,275	$ 5,319
Less preferred stock dividends		3,743
Numerator for basic net income per share	$ 4,275	$ 1,576
Denominator for basic net income per share weighted-average common shares	56,956	7,185
Dilutive effect of stock options and non-vested stock	2,024	2,195
Dilutive effect of convertible preferred stock		41,592
Denominator for diluted net income per share	58,980	50,972
Net income per common share:		
Basic	$ 0.08	$ 0.22
Diluted	$ 0.07	$ 0.10

The denominator for diluted net income per common share for the three months ended May 3, 2008 and May 5, 2007 excludes 3,044 and 1,741 employee options, respectively, due to their anti-dilutive effects.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this quarterly report. This discussion contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, which reflect our current views with respect to, among other things, future events and financial performance. You can identify these forward-looking statements by the use of forward-looking words such as outlook, believes, expects, plans, estimates, or other comparable words. Any forward-looking statements contained in this Form 10-Q are based upon our historical performance and on current plans, estimates and expectations. The inclusion of this forward-looking information should not be regarded as a representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved. Such forward-looking statements are subject to various risks and uncertainties, which include, without limitation: the impact of weakness in the economy; changes in the overall level of consumer spending; changes in the wholesale cost of our products; the possibility that we may be unable to compete effectively in our highly competitive markets; the possibility that our continued opening of new stores could strain our resources and have a material adverse effect on our business and financial performance; the possibility that new store openings may be impacted by developer or co-tenant issues; the possibility that the capacity of our distribution and order fulfillment infrastructure may not be adequate to support our recent growth and expected future growth plans; the possibility of material disruptions to our information systems; weather conditions that could negatively impact sales and other risk factors detailed in our public filings with the Securities and Exchange Commission (the SEC), including risk factors contained in our Annual Report on Form 10-K for the year ended February 2, 2008. We assume no obligation to update any forward-looking statements as a result of new information, future events or developments. References in the following discussion to we , us , our , the Company , Ulta and similar references mean Ulta Salon, Cosmetics & Fragrance, Inc. unless otherwise expressly stated or the context otherwise requires.

Overview

We were founded in 1990 as a discount beauty retailer at a time when prestige, mass and salon products were sold through separate distribution channels. In 1999, we embarked on a multi-year strategy to understand and embrace what women want in a beauty retailer and transform Ulta into the shopping experience that it is today. We pioneered what we believe to be our unique combination of beauty superstore and specialty store attributes. We believe our strategy provides us with the competitive advantages that have contributed to our strong financial performance.

We are currently the largest beauty retailer that provides one-stop shopping for prestige, mass and salon products and salon services in the United States. We combine the unique elements of a beauty superstore with the distinctive environment and experience of a specialty retailer. Key aspects of our beauty superstore strategy include our ability to offer our customers a broad selection of over 21,000 beauty products across the categories of cosmetics, fragrance, haircare, skincare, bath and body products and salon styling tools, as well as salon haircare products. We focus on delivering a compelling value proposition to our customers across all of our product categories. Our stores are conveniently located in high-traffic, off-mall locations such as power centers and lifestyle centers with other destination retailers. As of May 3, 2008, we operated 265 stores acros