
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, DC 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended July 28, 2012

or

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
(State or other jurisdiction of
incorporation or organization)

36-3685240
(I.R.S. Employer
Identification No.)

1000 Remington Blvd., Suite 120
Bolingbrook, Illinois
(Address of principal executive offices)

60440
(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. 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 (§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 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 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

The number of shares of the registrant's common stock, par value \$0.01 per share, outstanding as of August 29, 2012 was 63,247,830 shares.

Table of Contents

**ULTA SALON, COSMETICS & FRAGRANCE, INC.
TABLE OF CONTENTS**

Part I - Financial Information

| | |
|--|----|
| Item 1. Financial Statements | |
| Balance Sheets | 3 |
| Statements of Income | 5 |
| Statements of Cash Flows | 6 |
| Statement of Stockholders' Equity | 7 |
| Notes to Financial Statements | 8 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 11 |
| Item 3. Quantitative and Qualitative Disclosures about Market Risk | 20 |
| Item 4. Controls and Procedures | 20 |

Part II - Other Information

| | |
|--|----|
| Item 1. Legal Proceedings | 21 |
| Item 1A. Risk Factors | 21 |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | 21 |
| Item 3. Defaults Upon Senior Securities | 21 |
| Item 4. Mine Safety Disclosures | 21 |
| Item 5. Other Information | 21 |
| Item 6. Exhibits | 22 |

| | |
|-------------------|----|
| SIGNATURES | 23 |
|-------------------|----|

Table of Contents

Part I - Financial Information

Item 1. Financial Statements

Ulta Salon, Cosmetics & Fragrance, Inc. Balance Sheets

| <u>(In thousands)</u> | <u>July 28,</u> <u>2012</u> <u>(unaudited)</u> | <u>January 28,</u> <u>2012</u> | <u>July 30,</u> <u>2011</u> <u>(unaudited)</u> |
|---|--|-----------------------------------|--|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 197,401 | \$253,738 | \$142,545 |
| Receivables, net | 32,279 | 26,153 | 19,939 |
| Merchandise inventories, net | 316,734 | 244,647 | 258,752 |
| Prepaid expenses and other current assets | 46,345 | 43,430 | 34,114 |
| Prepaid income taxes | 12,690 | — | — |
| Deferred income taxes | 12,257 | 12,264 | 8,922 |
| Total current assets | <u>617,706</u> | <u>580,232</u> | <u>464,272</u> |
| Property and equipment, net | 421,063 | 376,985 | 351,576 |
| Total assets | <u>\$1,038,769</u> | <u>\$957,217</u> | <u>\$815,848</u> |
| Liabilities and stockholders' equity | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 88,881 | \$ 86,442 | \$ 81,380 |
| Accrued liabilities | 80,507 | 74,411 | 73,745 |
| Accrued income taxes | — | 4,002 | 483 |
| Total current liabilities | <u>169,388</u> | <u>164,855</u> | <u>155,608</u> |
| Deferred rent | 186,486 | 163,463 | 153,159 |
| Deferred income taxes | 43,210 | 44,195 | 29,049 |
| Total liabilities | 399,084 | 372,513 | 337,816 |

Commitments and contingencies (note 3)

See accompanying notes to financial statements.

Table of Contents

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

| <u>(In thousands, except per share data)</u> | <u>July 28,</u> <u>2012</u> <u>(unaudited)</u> | <u>January 28,</u> <u>2012</u> | <u>July 30,</u> <u>2011</u> <u>(unaudited)</u> |
|---|--|-----------------------------------|--|
| Stockholders' equity: | | | |
| Common stock, \$.01 par value, 400,000 shares authorized; 63,788, 62,764 and 61,693 shares issued; 63,232, 60,209 and 61,188 shares outstanding; at July 28, 2012 (unaudited), January 28, 2012 and July 30, 2011 (unaudited), respectively | \$ 638 | \$ 627 | \$ 617 |
| Treasury stock-common, at cost | (7,466) | (7,415) | (4,179) |
| Additional paid-in capital | 452,335 | 404,698 | 367,863 |
| Retained earnings | 194,178 | 186,794 | 113,731 |
| Total stockholders' equity | <u>639,685</u> | <u>584,704</u> | <u>478,032</u> |
| Total liabilities and stockholders' equity | <u>\$1,038,769</u> | <u>\$957,217</u> | <u>\$815,848</u> |

See accompanying notes to financial statements.

Table of Contents**Ulta Salon, Cosmetics & Fragrance, Inc.
Statements of Income
(unaudited)**

| | 13 Weeks Ended | | 26 Weeks Ended | |
|--|------------------|------------------|------------------|------------------|
| | July 28, 2012 | July 30, 2011 | July 28, 2012 | July 30, 2011 |
| (In thousands, except per share data) | | | | |
| Net sales | \$481,683 | \$394,567 | \$955,781 | \$780,573 |
| Cost of sales | 314,058 | 260,280 | 617,244 | 511,381 |
| Gross profit | 167,625 | 134,287 | 338,537 | 269,192 |
| Selling, general and administrative expenses | 106,040 | 90,811 | 216,983 | 185,426 |
| Pre-opening expenses | 4,126 | 3,816 | 6,649 | 5,046 |
| Operating income | 57,459 | 39,660 | 114,905 | 78,720 |
| Interest expense | 104 | 147 | 125 | 320 |
| Income before income taxes | 57,355 | 39,513 | 114,780 | 78,400 |
| Income tax expense | 22,357 | 15,608 | 44,914 | 31,199 |
| Net income | <u>\$ 34,998</u> | <u>\$ 23,905</u> | <u>\$ 69,866</u> | <u>\$ 47,201</u> |
| Net income per common share: | | | | |
| Basic | \$ 0.55 | \$ 0.39 | \$ 1.11 | \$ 0.78 |
| Diluted | \$ 0.54 | \$ 0.38 | \$ 1.09 | \$ 0.75 |
| Weighted average common shares outstanding: | | | | |
| Basic | 63,070 | 61,126 | 62,782 | 60,840 |
| Diluted | 64,293 | 63,241 | 64,202 | 63,013 |
| Dividends declared per common share | \$ — | \$ — | \$ 1.00 | \$ — |

See accompanying notes to financial statements.

Table of Contents

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

| (In thousands) | 26 Weeks Ended | |
|---|------------------|------------------|
| | July 28, 2012 | July 30, 2011 |
| Operating activities | | |
| Net income | \$ 69,866 | \$ 47,201 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 42,614 | 36,400 |
| Deferred income taxes | (978) | (977) |
| Non-cash stock compensation charges | 6,346 | 5,196 |
| Excess tax benefits from stock-based compensation | (27,788) | (10,049) |
| Loss on disposal of property and equipment | 447 | 402 |
| Change in operating assets and liabilities: | | |
| Receivables | (6,126) | 2,353 |
| Merchandise inventories | (72,087) | (40,236) |
| Prepaid expenses and other current assets | (2,915) | (1,324) |
| Income taxes | 11,096 | 21,216 |
| Accounts payable | 2,439 | (5,713) |
| Accrued liabilities | (9,705) | (12,119) |
| Deferred rent | 23,023 | 18,587 |
| Net cash provided by operating activities | 36,232 | 60,937 |
| Investing activities | | |
| Purchases of property and equipment | (71,338) | (52,679) |
| Net cash used in investing activities | (71,338) | (52,679) |
| Financing activities | | |
| Dividends paid | (62,482) | — |
| Excess tax benefits from stock-based compensation | 27,788 | 10,049 |
| Stock options exercised | 13,514 | 13,053 |
| Common stock repurchased | (51) | — |
| Net cash (used in) provided by financing activities | (21,231) | 23,102 |
| Net (decrease) increase in cash and cash equivalents | (56,337) | 31,360 |
| Cash and cash equivalents at beginning of period | 253,738 | 111,185 |
| Cash and cash equivalents at end of period | <u>\$197,401</u> | <u>\$142,545</u> |
| Supplemental cash flow information | | |
| Cash paid for income taxes (net of refunds) | <u>\$ 34,903</u> | <u>\$ 10,960</u> |
| Noncash investing and financing activities: | | |
| Change in property and equipment included in accrued liabilities | <u>\$ 15,801</u> | <u>\$ 9,600</u> |

See accompanying notes to financial statements.

Table of Contents

Ulta Salon, Cosmetics & Fragrance, Inc.
Statement of Stockholders' Equity
(unaudited)

| (In thousands) | Common Stock | | Treasury - Common Stock | | Additional Paid-In Capital | Retained Earnings | Total Stockholders' Equity |
|---|--------------------------|---------------|------------------------------------|------------------|---|------------------------------|---|
| | Issued Shares | Amount | Shares | Amount | | | |
| Balance – January 28, 2012 | 62,764 | \$ 627 | (555) | \$(7,415) | \$404,698 | \$186,794 | \$ 584,704 |
| Stock options exercised and other awards | 1,024 | 11 | — | — | 13,503 | — | 13,514 |
| Common stock repurchased | — | — | (1) | (51) | — | — | (51) |
| Net income for the 26 weeks ended July 28, 2012 | — | — | — | — | — | 69,866 | 69,866 |
| Excess tax benefits from stock-based compensation | — | — | — | — | 27,788 | — | 27,788 |
| Stock compensation charge | — | — | — | — | 6,346 | — | 6,346 |
| Dividends paid | — | — | — | — | — | (62,482) | (62,482) |
| Balance – July 28, 2012 | <u>63,788</u> | <u>\$ 638</u> | <u>(556)</u> | <u>\$(7,466)</u> | <u>\$452,335</u> | <u>\$194,178</u> | <u>\$ 639,685</u> |

See accompanying notes to financial statements.

Table of Contents

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

1. Business and basis of presentation

Ulta Salon, Cosmetics & Fragrance, Inc. (Company or Ulta) 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 July 28, 2012, the Company operated 489 stores in 45 states, as shown in the table below:

| <u>State</u> | <u>Number of stores</u> | <u>State</u> | <u>Number of stores</u> |
|---------------|-------------------------|----------------|-------------------------|
| Alabama | 9 | Montana | 1 |
| Arizona | 23 | Nebraska | 2 |
| Arkansas | 3 | Nevada | 6 |
| California | 46 | New Hampshire | 1 |
| Colorado | 11 | New Jersey | 14 |
| Connecticut | 3 | New Mexico | 1 |
| Delaware | 1 | New York | 16 |
| Florida | 33 | North Carolina | 17 |
| Georgia | 20 | North Dakota | 1 |
| Idaho | 3 | Ohio | 15 |
| Illinois | 37 | Oklahoma | 8 |
| Indiana | 9 | Oregon | 5 |
| Iowa | 6 | Pennsylvania | 18 |
| Kansas | 3 | Rhode Island | 1 |
| Kentucky | 6 | South Carolina | 7 |
| Louisiana | 6 | Tennessee | 7 |
| Maine | 2 | Texas | 61 |
| Maryland | 9 | Utah | 5 |
| Massachusetts | 6 | Virginia | 11 |
| Michigan | 20 | Washington | 8 |
| Minnesota | 11 | West Virginia | 1 |
| Mississippi | 4 | Wisconsin | 5 |
| Missouri | 7 | Total | 489 |

The accompanying unaudited 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 financial statements reflect all adjustments, which are of a normal recurring nature, necessary to fairly state the 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 13 and 26 weeks ended July 28, 2012 are not necessarily indicative of the results to be expected for the fiscal year ending February 2, 2013, 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 January 28, 2012. All amounts are stated in thousands, with the exception of per share amounts and number of stores.

Table of Contents

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 January 28, 2012. Presented below in this and the following notes is supplemental information that should be read in conjunction with "Notes to 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 second quarters in fiscal 2012 and 2011 ended on July 28, 2012 and July 30, 2011, respectively.

Share-based compensation

The Company measures share-based compensation cost on the grant date, based on the fair value of the award, and recognizes the expense over the requisite service period for awards expected to vest. 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:

| | 26 Weeks Ended | |
|----------------------------------|----------------|---------------|
| | July 28, 2012 | July 30, 2011 |
| Volatility rate | 53.3% | 54.2% |
| Average risk-free interest rate | 1.2% | 2.4% |
| Average expected life (in years) | 6.3 | 6.3 |
| Dividend yield | None | None |

The Company granted 183 and 124 stock options during the 26 weeks ended July 28, 2012 and July 30, 2011, respectively. The weighted-average grant date fair value of these options was \$45.00 and \$28.62, respectively.

The Company recorded stock compensation expense of \$3,454 and \$2,388 for the 13 weeks ended July 28, 2012 and July 30, 2011, respectively. The Company recorded stock compensation expense of \$6,346 and \$5,196 for the 26 weeks ended July 28, 2012 and July 30, 2011, respectively. At July 28, 2012, there was approximately \$36,616 of unrecognized compensation expense related to unvested options and restricted stock.

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 13 and 26 weeks ended July 28, 2012 and July 30, 2011. Total rent expense under operating leases was \$27,640 and \$23,127 for 13 weeks ended July 28, 2012 and July 30, 2011, respectively. Total rent expense under operating leases was \$53,708 and \$44,984 for 26 weeks ended July 28, 2012 and July 30, 2011, respectively.

General litigation – On March 2, 2012, a putative employment class action lawsuit was filed against us and certain unnamed defendants in state court in Los Angeles County, California. On April 12, 2012, the Company removed the case to the United States District Court for the Central District of California. The plaintiff and members of the proposed class are alleged to be (or to have been) non-exempt hourly employees. The suit alleges that Ulta violated various provisions of the California labor laws and failed to provide plaintiff and members of the proposed class with full meal periods, paid rest breaks, certain wages, overtime compensation and premium pay. The suit seeks to recover damages and penalties as a result of these alleged practices. The Company denies plaintiff's allegations and is vigorously defending the matter.

The Company is also involved in various legal proceedings that are incidental to the conduct of its business. 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.

Table of Contents

4. Notes payable

On October 19, 2011, the Company entered into an Amended and Restated Loan and Security Agreement (the Loan Agreement) with Wells Fargo Bank, National Association, as Administrative Agent, Collateral Agent and a Lender thereunder, Wells Fargo Capital Finance LLC as a Lender, J.P. Morgan Securities LLC as a Lender, JP Morgan Chase Bank, N.A. as a Lender and PNC Bank, National Association, as a Lender. The Loan Agreement amended and restated the Loan and Security Agreement, dated as of August 31, 2010, by and among the Company and the lenders. The Loan Agreement extends the maturity of the Company's credit facility to October 2016, provides maximum revolving loans equal to the lesser of \$200,000 or a percentage of eligible owned inventory, contains a \$10,000 subfacility for letters of credit and allows the Company to increase the revolving facility by an additional \$50,000, subject to consent by each lender and other conditions. The Loan Agreement contains a requirement to maintain a minimum amount of excess borrowing availability at all times. Substantially all of the Company's assets are pledged as collateral for outstanding borrowings under the credit facility. Outstanding borrowings will bear interest at the prime rate or Libor plus 1.50% and the unused line fee is 0.225%.

On September 5, 2012, the Company entered into Amendment No. 1 to its Amended and Restated Loan and Security Agreement (the Amendment) with its lender group. The Amendment updates certain administrative terms and conditions and provides the Company greater flexibility to take certain corporate actions. There were no changes to the revolving loan amounts available, interest rates or maturity date under terms of the Loan Agreement.

As of July 28, 2012, January 28, 2012 and July 30, 2011, the Company had no borrowings outstanding under the credit facility.

5. Fair Value Measurements

The carrying value of cash and cash equivalents, accounts receivable, and accounts payable approximates their estimated fair values due to the short maturities of these instruments.

The Company has adopted the Accounting Standards Codification (ASC) rules for fair value measurements and disclosures. The adoption had no impact on the Company's financial statements. The rules 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.
- Level 3 – unobservable inputs in which there is little or no market data, which would require the Company to develop its own assumptions.

As of July 28, 2012, the Company held financial liabilities of \$2,497 related to its non-qualified deferred compensation plan. The liabilities have been categorized as Level 2 as they are based on third-party reported net asset values which are based primarily on quoted market prices of underlying assets of the funds within the plan.

Table of Contents

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:

| | 13 Weeks Ended | | 26 Weeks Ended | |
|---|------------------|------------------|------------------|------------------|
| | July 28, 2012 | July 30, 2011 | July 28, 2012 | July 30, 2011 |
| Net income | \$34,998 | \$23,905 | \$69,866 | \$47,201 |
| Denominator for basic net income per share – weighted-average common shares | 63,070 | 61,126 | 62,782 | 60,840 |
| Dilutive effect of stock options and non-vested stock | 1,223 | 2,115 | 1,420 | 2,173 |
| Denominator for diluted net income per share | 64,293 | 63,241 | 64,202 | 63,013 |
| Net income per common share: | | | | |
| Basic | \$ 0.55 | \$ 0.39 | \$ 1.11 | \$ 0.78 |
| Diluted | \$ 0.54 | \$ 0.38 | \$ 1.09 | \$ 0.75 |

The denominators for diluted net income per common share for the 13 weeks ended July 28, 2012 and July 30, 2011 exclude 653 and 124 employee stock options, respectively, due to their anti-dilutive effects.

The denominators for diluted net income per common share for the 26 weeks ended July 28, 2012 and July 30, 2011 exclude 653 and 252 employee stock options, respectively, due to their anti-dilutive effects.

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 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, as amended, 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 and existing locations 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 (SEC), including risk factors contained in Item 1A, "Risk Factors" of our Annual Report on Form 10-K for the year ended January 28, 2012. 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.

Table of Contents

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. After extensive research, we recognized an opportunity to better satisfy how a woman wanted to shop for beauty products. This led to what we believe to be a unique retail approach that focuses on all aspects of how women prefer to shop for beauty products by combining one-stop shopping, a compelling value proposition and convenient locations, together with an uplifting specialty retail experience. 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 focus on providing affordable indulgence to our customers by combining one-stop shopping in convenient locations with the distinctive environment and experience of a specialty retailer. Key aspects of our strategy include our ability to offer our customers a broad selection of over 20,000 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 predominately located in convenient, high-traffic locations such as power centers. As of July 28, 2012, we operated 489 stores across 45 states.

The continued growth of our business and any future increases in net sales, net income and cash flows are dependent on our ability to execute our growth strategy, including growing our store base, expanding our product, brand and service offerings, enhancing our loyalty program, broadening our marketing reach, expanding our digital business and improving our profitability by expanding operating margin. We believe that the steadily expanding U.S. beauty products and services industry, the shift in distribution of prestige beauty products from department stores to specialty retail stores, coupled with Ulta's competitive strengths, positions us to capture additional market share in the industry through successful execution of our growth strategy.

Comparable store sales is a key metric that is monitored closely within the retail industry. Our comparable store sales have fluctuated in the past and we expect them to continue to fluctuate in the future. A variety of factors affect our comparable store sales, including general U.S. economic conditions, changes in merchandise strategy or mix, and timing and effectiveness of our marketing activities, among others.

Over the long-term, our growth strategy is to increase total net sales through increases in our comparable store sales and by opening new stores. Gross profit as a percentage of net sales is expected to increase as a result of our ability to expand merchandise margin and leverage our supply chain infrastructure and fixed store costs with comparable store sales increases and operating efficiencies. We plan to continue to improve our operating results by leveraging our fixed costs and decreasing our selling, general and administrative expenses, as a percentage of our net sales.

Global economic conditions

Economic conditions in the U.S. continue to be uncertain. Fiscal stress in the U.S. and Europe has resulted in significant fluctuations in the U.S. stock markets and has negatively impacted consumer sentiment. While the U.S. credit markets have stabilized and credit availability has improved compared to the recent recessionary period, economic growth is expected to continue to be weak. Consumer spending habits are affected by levels of unemployment, unsettled financial markets, weakness in housing and real estate, higher interest rates, fuel and energy costs, and consumer perception of economic conditions, among others. Sudden negative changes in one or more of the factors that affect consumer spending could adversely affect consumer spending levels which could lead to reduced consumer demand for our merchandise and adversely affect our sales levels and financial performance.

Current business trends

We recorded an 9.7% comparable store sales increase during the first half of fiscal 2012. We do not expect the high single digit to low double digit comparable store sales increases of recent quarters to continue into the future. Our long-term annual net income growth target of 25% to 30% is based on comparable store sales increases of 3% to 5%.

Basis of presentation

The Company has determined its operating segments on the same basis that it uses to internally evaluate performance. We have combined our three operating segments: retail stores, salon services and e-commerce, into one reportable segment because they have a similar class of consumer, economic characteristics, nature of products and distribution methods.

Table of Contents

Net sales include store and e-commerce merchandise sales as well as salon service revenue. We recognize merchandise revenue at the point of sale in our retail stores and the time of shipment in the case of e-commerce sales. Merchandise sales are recorded net of estimated returns. Salon service revenue is recognized at the time the service is provided. Gift card sales revenue is deferred until the customer redeems the gift card. Company coupons and other incentives are recorded as a reduction of net sales.

Comparable store sales reflect sales for stores beginning on the first day of the 14th month of operation. Therefore, a store is included in our comparable store base on the first day of the period after one year of operations plus the initial one month grand opening period. Non-comparable store sales include sales from new stores that have not yet completed their 13th month of operation and stores that were closed for part or all of the period in either year as a result of remodel activity. Remodeled stores are included in comparable store sales unless the store was closed for a portion of the current or prior period. E-commerce merchandise sales are excluded from comparable store sales. There may be variations in the way in which some of our competitors and other retailers calculate comparable or same store sales.

Comparable store sales is a critical measure that allows us to evaluate the performance of our store base as well as several other aspects of our overall strategy. Several factors could positively or negatively impact our comparable store sales results:

- the general national, regional and local economic conditions and corresponding impact on customer spending levels;
- the introduction of new products or brands;
- the location of new stores in existing store markets;
- competition;
- our ability to respond on a timely basis to changes in consumer preferences;
- the effectiveness of our various marketing activities; and
- the number of new stores opened and the impact on the average age of all of our comparable stores.

Cost of sales includes:

- the cost of merchandise sold, including all vendor allowances, which are treated as a reduction of merchandise costs;
- warehousing and distribution costs, including labor and related benefits, freight, rent, depreciation and amortization, real estate taxes, utilities and insurance;
- store occupancy costs, including rent, depreciation and amortization, real estate taxes, utilities, repairs and maintenance, insurance, licenses and cleaning expenses;
- salon payroll and benefits;
- customer loyalty program expense; and
- shrink and inventory valuation reserves.

Our cost of sales may be negatively impacted as we open an increasing number of stores. Changes in our merchandise mix may also have an impact on cost of sales. This presentation of items included in cost of sales may not be comparable to the way in which our competitors or other retailers compute their cost of sales.

Selling, general and administrative expenses include:

- payroll, bonus and benefit costs for retail and corporate employees;
- advertising and marketing costs;
- occupancy costs related to our corporate office facilities;

Table of Contents

- stock-based compensation expense;
- depreciation and amortization for all assets except those related to our retail and warehouse operations, which are included in cost of sales; and
- legal, finance, information systems and other corporate overhead costs.

This presentation of items in selling, general and administrative expenses may not be comparable to the way in which our competitors or other retailers compute their selling, general and administrative expenses.

Pre-opening expenses include non-capital expenditures during the period prior to store opening for new, remodeled and relocated stores including rent during the construction period for new and relocated stores, store set-up labor, management and employee training and grand opening advertising.

Interest expense represents unused facility fees associated with our credit facility, which is structured as an asset based lending instrument. Our credit facility may be used to fund seasonal inventory needs and new and remodel store capital requirements in excess of our cash on hand and cash flow from operations. Our credit facility interest is based on a variable interest rate structure which can result in increased cost in periods of rising interest rates.

Income tax expense reflects the federal statutory tax rate and the weighted average state statutory tax rate for the states in which we operate stores.

Table of Contents

Results of operations

Our quarterly periods are the 13 weeks ending on the Saturday closest to April 30, July 31, October 31 and January 31. The Company's second quarters in fiscal 2012 and 2011 ended on July 28, 2012 and July 30, 2011, respectively. Our quarterly results of operations have varied in the past and are likely to do so again in the future. As such, we believe that period-to-period comparisons of our results of operations should not be relied upon as an indication of our future performance.

The following table presents the components of our results of operations for the periods indicated:

| (Dollars in thousands) | 13 Weeks Ended | | 26 Weeks Ended | |
|--|------------------|------------------|------------------|------------------|
| | July 28, 2012 | July 30, 2011 | July 28, 2012 | July 30, 2011 |
| Net sales | \$481,683 | \$394,567 | \$955,781 | \$780,573 |
| Cost of sales | 314,058 | 260,280 | 617,244 | 511,381 |
| Gross profit | 167,625 | 134,287 | 338,537 | 269,192 |
| Selling, general and administrative expenses | 106,040 | 90,811 | 216,983 | 185,426 |
| Pre-opening expenses | 4,126 | 3,816 | 6,649 | 5,046 |
| Operating income | 57,459 | 39,660 | 114,905 | 78,720 |
| Interest expense | 104 | 147 | 125 | 320 |
| Income before income taxes | 57,355 | 39,513 | 114,780 | 78,400 |
| Income tax expense | 22,357 | 15,608 | 44,914 | 31,199 |
| Net income | \$ 34,998 | \$ 23,905 | \$ 69,866 | \$ 47,201 |
| Other operating data: | | | | |
| Number of stores end of period | 489 | 415 | 489 | 415 |
| Comparable store sales increase | 9.3% | 11.3% | 9.7% | 11.2% |

| (Percentage of net sales) | 13 Weeks Ended | | 26 Weeks Ended | |
|--|------------------|------------------|------------------|------------------|
| | July 28, 2012 | July 30, 2011 | July 28, 2012 | July 30, 2011 |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of sales | 65.2% | 66.0% | 64.6% | 65.5% |
| Gross profit | 34.8% | 34.0% | 35.4% | 34.5% |
| Selling, general and administrative expenses | 22.0% | 23.0% | 22.7% | 23.8% |
| Pre-opening expenses | 0.9% | 1.0% | 0.7% | 0.6% |
| Operating income | 11.9% | 10.1% | 12.0% | 10.1% |
| Interest expense | 0.0% | 0.0% | 0.0% | 0.0% |
| Income before income taxes | 11.9% | 10.0% | 12.0% | 10.0% |
| Income tax expense | 4.6% | 4.0% | 4.7% | 4.0% |
| Net income | 7.3% | 6.1% | 7.3% | 6.0% |

Table of Contents

Comparison of 13 weeks ended July 28, 2012 to 13 weeks ended July 30, 2011

Net sales

Net sales increased \$87.1 million, or 22.1%, to \$481.7 million for the 13 weeks ended July 28, 2012, compared to \$394.6 million for the 13 weeks ended July 30, 2011. Salon service sales increased \$4.9 million, or 20.6%, to \$28.7 million compared to \$23.8 million in second quarter 2011. The net sales increases are due to comparable stores driving an increase of \$35.3 million and non-comparable store increases of \$51.8 million compared to the second quarter 2011.

Our 9.3% comparable store sales increase included a 5.5% increase in traffic and a 3.8% increase in average ticket. We attribute the increase in comparable store sales to our successful marketing and merchandising strategies.

Gross profit

Gross profit increased \$33.3 million, or 24.8%, to \$167.6 million for the 13 weeks ended July 28, 2012, compared to \$134.3 million for the 13 weeks ended July 30, 2011. Gross profit as a percentage of net sales increased 80 basis points to 34.8% for the 13 weeks ended July 28, 2012, compared to 34.0% for the 13 weeks ended July 30, 2011. The increases in gross profit margin were primarily driven by:

- 70 basis points of leverage in fixed store costs attributed to the impact of higher sales volume; and
- 30 basis points improvement in merchandise margins driven by our marketing and merchandising strategies; offset by
- 30 basis points of supply chain deleverage due to the addition of our new Chambersburg, Pennsylvania distribution center.

Selling, general and administrative expenses

Selling, general and administrative (SG&A) expenses increased \$15.2 million, or 16.8%, to \$106.0 million for the 13 weeks ended July 28, 2012, compared to \$90.8 million for the 13 weeks ended July 30, 2011. As a percentage of net sales, SG&A expenses decreased 100 basis points to 22.0% for the 13 weeks ended July 28, 2012, compared to 23.0% for the 13 weeks ended July 30, 2011. The leverage in SG&A expenses is primarily attributed to:

- 60 basis points improvement in variable store and marketing expense leverage attributed to cost efficiencies and higher sales volume; and
- 40 basis points in corporate overhead leverage attributed to higher sales volume.

Pre-opening expenses

Pre-opening expenses increased \$0.3 million to \$4.1 million for the 13 weeks ended July 28, 2012, compared to \$3.8 million for the 13 weeks ended July 30, 2011. During the 13 weeks ended July 28, 2012, we opened 22 new stores, relocated 1 store and remodeled 9 stores, compared to 21 new store openings and 15 remodeled stores during the 13 weeks ended July 30, 2011.

Interest expense

Interest expense was insignificant for the 13 weeks ended July 28, 2012 and July 30, 2011. We did not access our credit facility during the second quarter fiscal 2012 or 2011. Interest expense for the period represents various unused fees related to the credit facility.

Income tax expense

Income tax expense of \$22.4 million for the 13 weeks ended July 28, 2012 represents an effective tax rate of 39.0%, compared to \$15.6 million of tax expense representing an effective tax rate of 39.5% for the 13 weeks ended July 30, 2011. The lower tax rate is primarily due to a decrease in non-deductible compensation expense compared to the prior year period.

Net income

Net income increased \$11.1 million, or 46.4%, to \$35.0 million for the 13 weeks ended July 28, 2012, compared to \$23.9 million for the 13 weeks ended July 30, 2011. The increase is primarily related to the \$33.3 million increase in gross profit, offset by a \$15.2 million increase in SG&A expenses and a \$6.8 million increase in income tax expense.

Table of Contents

Comparison of 26 weeks ended July 28, 2012 to 26 weeks ended July 30, 2011

Net sales

Net sales increased \$175.2 million, or 22.4%, to \$955.8 million for the 26 weeks ended July 28, 2012, compared to \$780.6 million for the 26 weeks ended July 30, 2011. Salon service sales increased \$9.6 million, or 20.2%, to \$57.2 million compared to \$47.6 million in the first 26 weeks of fiscal 2011. The net sales increases are due to comparable stores increases of \$73.3 million and non-comparable stores increases of \$101.9 million compared to the first 26 weeks of fiscal 2011.

Our 9.7% comparable store sales increase included a 7.8% increase in traffic and a 1.9% increase in average ticket. We attribute the increase in comparable store sales to our successful marketing and merchandising strategies.

Gross profit

Gross profit increased \$69.3 million, or 25.8%, to \$338.5 million for the 26 weeks ended July 28, 2012, compared to \$269.2 million for the 26 weeks ended July 30, 2011. Gross profit as a percentage of net sales increased 90 basis points to 35.4% for the 26 weeks ended July 28, 2012, compared to 34.5% for the 26 weeks ended July 30, 2011. The increases in gross profit margin were primarily driven by:

- 50 basis points improvement in merchandise margins driven by our marketing and merchandising strategies; and
- 50 basis points of leverage in fixed store costs attributed to the impact of higher sales volume.

Selling, general and administrative expenses

Selling, general and administrative (SG&A) expenses increased \$31.6 million, or 17.0%, to \$217.0 million for the 26 weeks ended July 28, 2012, compared to \$185.4 million for the 26 weeks ended July 30, 2011. As a percentage of net sales, SG&A expenses decreased 110 basis points to 22.7% for the 26 weeks ended July 28, 2012, compared to 23.8% for the 26 weeks ended July 30, 2011. The leverage in SG&A expenses is primarily attributed to:

- 60 basis points improvement in variable store and marketing expense leverage attributed to cost efficiencies and higher sales volume; and
- 40 basis points in corporate overhead leverage attributed to higher sales volume.

Pre-opening expenses

Pre-opening expenses increased \$1.6 million to \$6.6 million for the 26 weeks ended July 28, 2012, compared to \$5.0 million for the 26 weeks ended July 30, 2011. During the 26 weeks ended July 28, 2012, we opened 40 new stores, relocated 2 stores and remodeled 9 stores, compared to 26 new store openings, 1 relocated store and 17 remodeled stores during the 26 weeks ended July 30, 2011.

Interest expense

Interest expense was insignificant for the 26 weeks ended July 28, 2012 and July 30, 2011. We did not access our credit facility during the first half of fiscal 2012 or 2011. Interest expense for the period represents various unused fees related to the credit facility.

Income tax expense

Income tax expense of \$44.9 million for the 26 weeks ended July 28, 2012 represents an effective tax rate of 39.1%, compared to \$31.2 million of tax expense representing an effective tax rate of 39.8% for the 26 weeks ended July 30, 2011. The lower tax rate is primarily due to a decrease in non-deductible compensation expense compared to the prior year period.

Net income

Net income increased \$22.7 million, or 48.0%, to \$69.9 million for the 26 weeks ended July 28, 2012, compared to \$47.2 million for the 26 weeks ended July 30, 2011. The increase is primarily related to the \$69.3 million increase in gross profit, offset by a \$31.6 million increase in SG&A expenses and a \$13.7 million increase in income tax expense.

Table of Contents

Liquidity and capital resources

Our primary cash needs are for capital expenditures for new, relocated and remodeled stores, increased merchandise inventories related to store expansion, and for continued improvement in our information technology systems.

Our primary sources of liquidity are cash on hand and cash flows from operations, including changes in working capital and borrowings under our credit facility. The most significant component of our working capital is merchandise inventories reduced by related accounts payable and accrued expenses. Our working capital position benefits from the fact that we generally collect cash from sales to customers the same day, or within several days of the related sale, while we typically have up to 30 days to pay our vendors.

Our working capital needs are greatest from August through November each year as a result of our inventory build-up during this period for the approaching holiday season. This is also the time of year when we are at maximum investment levels in our new store class and may not have collected all of the landlord allowances due to us as part of our lease agreements. Based on past performance and current expectations, we believe that cash on hand, cash generated from operations and borrowings under the credit facility will satisfy the Company's working capital needs, capital expenditure needs, commitments, and other liquidity requirements through at least the next 12 months.

The following table presents a summary of our cash flows for the periods indicated:

| (In thousands) | 26 Weeks Ended | |
|--|-------------------|------------------|
| | July 28, 2012 | July 30, 2011 |
| Net cash provided by operating activities | \$ 36,232 | \$ 60,937 |
| Net cash used in investing activities | (71,338) | (52,679) |
| Net cash (used in) provided by financing activities | (21,231) | 23,102 |
| Net (decrease) increase in cash and cash equivalents | <u>\$(56,337)</u> | <u>\$ 31,360</u> |

Operating activities

Operating activities consist of net income adjusted for certain non-cash items, including depreciation and amortization, non-cash stock-based compensation, realized gains or losses on disposal of property and equipment, and the effect of working capital changes.

Merchandise inventories were \$316.7 million at July 28, 2012, compared to \$258.8 million at July 30, 2011, representing an increase of \$57.9 million. The increase is primarily due to the addition of 74 net new stores opened since July 30, 2011 and the opening of the Chambersburg, Pennsylvania distribution center.

Deferred rent liabilities were \$186.5 million at July 28, 2012, an increase of \$33.3 million compared to July 30, 2011. Deferred rent includes deferred construction allowances, future rental increases and rent holidays which are all recognized on a straight-line basis over their respective lease term. The increase is primarily due to the addition of 74 net new stores opened since July 30, 2011 and the opening of the Chambersburg, Pennsylvania distribution center.

The \$11.1 million cash flow benefit from income taxes is attributed to Federal income tax deductions due to accelerated bonus depreciation on fixed assets and tax deductible stock option exercises and share sales deemed to be disqualifying dispositions.

Investing activities

We have historically used cash primarily for new and remodeled stores as well as investments in information technology systems. Investment activities related to capital expenditures were \$71.3 million during the 26 weeks ended July 28, 2012, compared to \$52.7 million during the 26 weeks ended July 30, 2011. The increase in capital expenditures year over year is primarily due to the increased number of new store openings during fiscal 2012.

Table of Contents

Financing activities

Financing activities in fiscal 2012 consist principally of capital stock transactions and dividend payment. We had no borrowings outstanding under our credit facility as of July 28, 2012, January 28, 2012 and July 30, 2011. The zero outstanding borrowings position is due to a combination of factors including strong sales growth, overall performance of management initiatives including expense control and other working capital reductions. We may require borrowings under the credit facility from time to time in future periods to support our new store program and seasonal inventory needs.

Dividend

On March 8, 2012, we announced that our Board of Directors had declared a \$1.00 per share special cash dividend to shareholders of record as of the close of business on March 20, 2012. The special cash dividend totaling \$62.5 million was paid on May 15, 2012.

Our Board of Directors may, in its discretion, determine future dividends after giving consideration to our levels of profit and cash flow, capital requirements, current and future liquidity, restrictions included as part of our credit facility as well as financial and other conditions existing at the time.

Credit facility

On October 19, 2011, we entered into an Amended and Restated Loan and Security Agreement (the Loan Agreement) with Wells Fargo Bank, National Association, as Administrative Agent, Collateral Agent and a Lender thereunder, Wells Fargo Capital Finance LLC as a Lender, J.P. Morgan Securities LLC as a Lender, JP Morgan Chase Bank, N.A. as a Lender and PNC Bank, National Association, as a Lender. The Loan Agreement amended and restated the Loan and Security Agreement, dated as of August 31, 2010, by and among the Company and the lenders. The Loan Agreement extends the maturity of the Company's credit facility to October 2016, provides maximum revolving loans equal to the lesser of \$200,000 or a percentage of eligible owned inventory, contains a \$10,000 subfacility for letters of credit and allows the Company to increase the revolving facility by an additional \$50,000, subject to consent by each lender and other conditions. The Loan Agreement contains a requirement to maintain a minimum amount of excess borrowing availability at all times. Substantially all of the Company's assets are pledged as collateral for outstanding borrowings under the facility. Outstanding borrowings will bear interest at the prime rate or Libor plus 1.50% and the unused line fee is 0.225%.

On September 5, 2012, we entered into Amendment No. 1 to its Amended and Restated Loan and Security Agreement (the Amendment) with its lender group. The Amendment updates certain administrative terms and conditions and provides us greater flexibility to take certain corporate actions. There were no changes to the revolving loan amounts available, interest rates or maturity date under terms of the Loan Agreement.

As of July 28, 2012, January 28, 2012 and July 30, 2011, we had no borrowings outstanding under the credit facility.

Off-balance sheet arrangements

Our off-balance sheet arrangements consist of operating lease obligations and letters of credit. We do not have any non-cancelable purchase commitments as of July 28, 2012.

Contractual obligations

Our contractual obligations consist of operating lease obligations and our revolving line of credit. No material changes outside the ordinary course of business have occurred in our contractual obligations during the 26 weeks ended July 28, 2012.

Critical accounting policies and estimates

Management's discussion and analysis of financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of these financial statements required the use of estimates and judgments that affect the reported amounts of our assets, liabilities, revenues and expenses. Management bases estimates on historical experience and other assumptions it believes to be reasonable under the circumstances and evaluates these estimates on an on-going basis. Actual results may differ from these estimates. There have been no significant changes to the critical accounting policies and estimates included in our Annual Report on Form 10-K for the fiscal year ended January 28, 2012.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily the result of fluctuations in interest rates. We do not hold or issue financial instruments for trading purposes.

Interest rate sensitivity

We are exposed to interest rate risks primarily through borrowings under our credit facility. Interest on our borrowings is based upon variable rates. We did not access our credit facility during the 26 week period ended July 28, 2012. The interest expense recognized in our statement of income represents unused fees associated with the credit facility.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures over Financial Reporting

We have established disclosure controls and procedures to ensure that material information relating to the Company is made known to the officers who certify our financial reports and to the members of our senior management and Board of Directors.

Based on management's evaluation as of July 28, 2012, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective to ensure that the information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 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 the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes to our internal controls over financial reporting during the 26 weeks ended July 28, 2012 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Part II - Other Information

Item 1. Legal Proceedings

General litigation – On March 2, 2012, a putative employment class action lawsuit was filed against us and certain unnamed defendants in state court in Los Angeles County, California. On April 12, 2012, the Company removed the case to the United States District Court for the Central District of California. The plaintiff and members of the proposed class are alleged to be (or to have been) non-exempt hourly employees. The suit alleges that Ulta violated various provisions of the California labor laws and failed to provide plaintiff and members of the proposed class with full meal periods, paid rest breaks, certain wages, overtime compensation and premium pay. The suit seeks to recover damages and penalties as a result of these alleged practices. The Company denies plaintiff’s allegations and is vigorously defending the matter.

We are also involved in various legal proceedings that are incidental to the conduct of our business. 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.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended January 28, 2012, which could materially affect our business, financial condition, financial results or future performance. There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended January 28, 2012.

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

The following table sets forth repurchases of our common stock during the second quarter of 2012:

| <u>Period</u> | <u>Total number of shares purchased (1)</u> | <u>Average price paid per share</u> | <u>Total number of shares purchased as part of publicly announced plans or programs (2)</u> | <u>Number of maximum shares that may yet to be purchased under plans or programs (2)</u> |
|--------------------------------|---|-------------------------------------|---|--|
| April 29, 2012 to May 26, 2012 | 561 | 91.20 | – | – |

- (1) Represents shares of the Company’s common stock transferred from employees in satisfaction of minimum statutory tax withholding obligations upon the vesting of restricted stock during the period.
- (2) During the second quarter of 2012, the Company did not have a formal plan or program for the repurchase of the Company’s common stock.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

On September 5, 2012, the Company entered into Amendment No. 1 to its Amended and Restated Loan and Security Agreement (the Amendment) by and among the Company, Wells Fargo Bank, National Association, as Administrative Agent, Collateral Agent and a Lender, Wells Fargo Capital Finance LLC as a Lender, J.P. Morgan Securities LLC as a Lender, JP Morgan Chase Bank, N.A. as a Lender and PNC Bank, National Association, as a Lender. The Amendment provides greater flexibility for the Company to form subsidiaries, consummate stock and asset acquisitions and engage in repurchases of the Company’s capital stock, in each case subject to certain terms and conditions more fully set forth in the Amendment. Conforming changes to other provisions of the Loan Agreement are included in the Amendment which, among other things, permit intercompany investments, asset transfers and affiliate transactions, in each case subject to certain terms and conditions more fully set forth in the Amendment.

The description above is a summary of the Amendment and is qualified in its entirety by the complete text of the Amendment, a copy of which is attached to this quarterly report as Exhibit 10.1 and incorporated herein by reference.

Table of Contents

Item 6. Exhibits

| Exhibit Number | Description of document | Filed Herewith | Incorporated by Reference | | | |
|----------------|---|----------------|---------------------------|----------------|-------------|-------------|
| | | | Form | Exhibit Number | File Number | Filing Date |
| 3.1 | Amended and Restated Certificate of Incorporation | | S-1 | 3.1 | 333-144405 | 8/17/2007 |
| 3.2 | Amended and Restated Bylaws | | S-1 | 3.2 | 333-144405 | 8/17/2007 |
| 4.1 | Specimen Common Stock Certificate | | S-1 | 4.1 | 333-144405 | 10/11/2007 |
| 4.2 | Third Amended and Restated Registration Rights Agreement between Ulta Salon, Cosmetics & Fragrance, Inc. and the stockholders party thereto | | S-1 | 4.2 | 333-144405 | 8/17/2007 |
| 4.3 | Stockholder Rights Agreement | | S-1 | 4.4 | 333-144405 | 8/17/2007 |
| 10.1 | Amendment No. 1 to Amended and Restated Loan and Security Agreement dated September 5, 2012, by and among Ulta Salon, Cosmetics & Fragrance, Inc., Wells Fargo Bank, National Association, Wells Fargo Capital Finance, LLC, J.P. Morgan Securities LLC, JPMorgan Chase Bank, N.A. and PNC Bank, National Association | X | | | | |
| 31.1 | Certification of the Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002 | X | | | | |
| 31.2 | Certification of the Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002 | X | | | | |
| 32.1 | Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | X | | | | |
| 101.INS * | XBRL Instance | X | | | | |
| 101.SCH * | XBRL Taxonomy Extension Schema | X | | | | |
| 101.CAL * | XBRL Taxonomy Extension Calculation | X | | | | |
| 101.LAB * | XBRL Taxonomy Extension Labels | X | | | | |
| 101.PRE * | XBRL Taxonomy Extension Presentation | X | | | | |
| 101.DEF * | XBRL Taxonomy Extension Definition | X | | | | |

* In accordance with Rule 406T of Regulation S-T, the Interactive Data Files in Exhibit 101 to the Quarterly Report on Form 10-Q shall be deemed “furnished” and not “filed.”

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on September 6, 2012 on its behalf by the undersigned, thereunto duly authorized.

ULTA SALON, COSMETICS & FRAGRANCE, INC.

By: /s/ Carl S. Rubin
Carl S. Rubin
President, Chief Executive Officer and Director

By: /s/ Gregg R. Bodnar
Gregg R. Bodnar
Chief Financial Officer

AMENDMENT NO. 1 TO AMENDED AND RESTATED
LOAN AND SECURITY AGREEMENT

This AMENDMENT NO. 1 TO AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT (this "Amendment") dated as of September 5, 2012 is by and among ULTA SALON, COSMETICS & FRAGRANCE, INC., a Delaware corporation ("Borrower"), the financial institutions party hereto as lenders ("Lenders") and WELLS FARGO BANK, NATIONAL ASSOCIATION, in its capacities as administrative agent for Lenders ("Administrative Agent"), as collateral agent for Lenders ("Collateral Agent,"") and in its individual capacity ("Wells Fargo"). Capitalized terms used and not defined herein shall have the meanings assigned to them in the Loan Agreement (defined below).

R E C I T A L S:

WHEREAS, Borrower, Lenders, Administrative Agent and Collateral Agent are parties to that certain Amended and Restated Loan and Security Agreement dated as of October 19, 2011 (the "Loan Agreement");

WHEREAS, the Borrower has requested that Lenders agree to certain amendments to the Loan Agreement as set forth herein; and

WHEREAS, Lenders have agreed to such amendments upon the terms and conditions contained herein;

NOW, THEREFORE, in consideration of the premises contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

Section 1 Amendments to Loan Agreement. Immediately upon the satisfaction of each of the conditions precedent set forth in Section 2 of this Amendment, the Loan Agreement shall be amended as of the date hereof as follows:

1.1 Section 1 of the Loan Agreement is amended by adding the following new defined terms thereto in their proper alphabetical order:

"Acquisition" means, with respect to any Person (a) a purchase of a Controlling interest in the Capital Stock of any other Person, (b) a purchase or other acquisition of all or substantially all of the assets or properties of, another Person or of any business unit of another Person, or (c) any merger or consolidation of such Person with any other Person or other transaction or series of transactions resulting in the acquisition of all or substantially all of the assets, or a Controlling interest in the Capital Stock, of any other Person, in each case in any transaction or group of transactions which are part of a common plan.

“Control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. “Controlling” and “Controlled” have meanings correlative thereto.

“Permitted Acquisition” means an Acquisition in which all of the following conditions are satisfied:

(a) No Default or Event of Default then exists or would arise from the consummation of such Acquisition;

(b) Such Acquisition shall have been approved by the Board of Directors of the Person (or similar governing body if such Person is not a corporation) which is the subject of such Acquisition and such Person shall not have announced that it will oppose such Acquisition or shall not have commenced any action which alleges that such Acquisition shall violate applicable law; and

(c) The Borrower shall have furnished the Administrative Agent with at least ten (10) days’ prior written notice of such intended Acquisition and shall have furnished the Administrative Agent with (i) notice of the anticipated closing date for such Acquisition, together with a current draft of the acquisition documents (and final copies thereof as and when executed, which documents shall be made available by the Administrative Agent to the Lenders), (ii) a summary of any due diligence undertaken by or on behalf of the Borrower in connection with such Acquisition (subject to the Administrative Agent’s execution of customary non-reliance and confidentiality agreements), which summary the Borrower authorizes the Administrative Agent to make available to the Lenders (subject to the Lenders’ execution of customary non-reliance and confidentiality agreements), (iii) the most recent financial statements received by Borrower for the Person which is the subject of such Acquisition, which financial statements shall be made available by the Administrative Agent to the Lenders and (iv) pro forma projected financial statements for the twelve (12) month period following such Acquisition after giving effect to such Acquisition (including balance sheets, cash flows and income statements by month on a consolidated basis for the Borrower and Obligors (including the acquired Person)), which pro forma projected financial statements shall be made available by the Administrative Agent to the Lenders.

1.2 Section 1.10 of the Loan Agreement (definition of “Bank Products”) is amended and restated in its entirety as follows:

“Bank Products” means any services or facilities provided to the Borrower or any Obligor by a Lender or any of its Affiliates (but excluding Cash Management Services) on account of (a) Hedging Agreements, (b) purchase cards, (c) merchant services constituting a line of credit (d) factoring, (e) commercial credit cards, and (f) leasing.

1.3 Section 1.11 of the Loan Agreement (definition of “Bank Product Reserves”) is amended by deleting the text “obligations of the Borrower” where it appears therein and by inserting the text “obligations of the Borrower or any Obligor” in its stead.

1.4 Section 1.16 of the Loan Agreement (definition of “Cash Management Reserves”) is amended by deleting the text “obligations of the Borrower” where it appears therein and by inserting the text “obligations of the Borrower or any Obligor” in its stead.

1.5 Section 1.17 of the Loan Agreement (definition of “Cash Management Services”) is amended by deleting the text “to the Borrower” where it appears therein and by inserting the text “to the Borrower or any Obligor” in its stead.

1.6 Section 1.51 of the Loan Agreement (definition of “Hedging Agreements”) is amended and restated in its entirety as follows:

“Hedging Agreements” shall mean any and all transactions, agreements or documents, now existing or hereafter entered into with a Lender or an Affiliate of a Lender subject to Section 9.9(g) hereof and on terms and conditions reasonably satisfactory (in light of standard ISDA documentation practices) to Administrative Agent and Borrower or any Obligor, as applicable, which (a) provides for an interest rate swap, cap, floor or collar or similar transaction for the purpose of hedging Borrower’s or an Obligor’s exposure to fluctuations in interest rates in respect of the Obligations, (b) are not entered into for speculative purposes, (c) are with a financial institution having combined capital and surplus and undivided profits of not less than \$250,000,000, (d) are unsecured except to the extent any indebtedness of Borrower or an Obligor thereunder constitutes Obligations secured hereby or to the extent secured by pledges or deposits permitted under Section 9.8(i) hereof and (e) and for which the counterparty to the Hedging Agreement and the Borrower or any Obligor, as applicable, have executed a Swap Acknowledgement Agreement.

1.7 Section 1.74 of the Loan Agreement (definition of “Obligations”) is amended and restated in its entirety as follows:

“Obligations” shall mean (a) any and all Loans, Letter of Credit Accommodations and all other obligations, liabilities and indebtedness of every kind, nature and description (except those described in clause (b) of this definition) owing by Borrower or any Obligor to any Agent or any Lender and/or their Affiliates, including principal, interest, charges, fees, costs and expenses, however evidenced, whether as principal, surety, endorser, guarantor or otherwise, whether arising under this Agreement, any other Financing Agreement or otherwise, whether now existing or hereafter arising, whether arising before, during or after the initial or any renewal term of this Agreement or after the commencement of any case with respect to Borrower or any Obligor under the United States Bankruptcy Code or any similar statute (including the payment of interest and other amounts which would accrue and become due but for the commencement of such case, whether or not such amounts are allowed or allowable in whole or in part in such

case), whether direct or indirect, absolute or contingent, joint or several, due or not due, primary or secondary, liquidated or unliquidated, secured or unsecured, and however acquired by any Agent or any Lender and (b) for purposes only of Section 5.1 and Section 9.9 hereof and subject to priority and right of payment under Section 6.4(a) hereof, any and all obligations, liabilities and indebtedness of any kind, nature and description owing by Borrower or any Obligor arising under or in connection with Cash Management Services, Hedging Agreements and other Bank Products; provided, that, with respect to Hedging Agreements, the Agents shall have entered into an agreement substantially in the form of Exhibit C hereto with the counterparty to such Hedging Agreement, as acknowledged and agreed to by Borrower or an Obligor, as applicable (the “Swap Acknowledgment Agreement”); provided further, that, obligations arising under or in connection with Cash Management Services or Bank Products other than Hedging Agreements shall only be considered “Obligations” hereunder if such Lender providing such services to Borrower or an Obligor has provided written notice of same to the Administrative Agent within ten (10) days of the date such product becomes effective. The parties acknowledge that, as of the Closing Date, the Cash Management Services and Bank Products described on Schedule II hereto shall constitute “Obligations” hereunder.

1.8 Section 1.36 of the Loan Agreement (definition of “Eligible Inventory”) is amended by adding a new sentence to the end thereof to read as follows:

“To the extent any Subsidiary becomes an Obligor pursuant to Section 9.7(c), then references to “Borrower” set forth in this definition (and any component definition used in this definition) shall be deemed to also include references to such Obligor for purposes of including the Inventory of such Obligor as Eligible Inventory subject to the foregoing criteria.”

1.9 Section 1.37 of the Loan Agreement (definition of “Eligible Letter of Credit Inventory”) is amended by adding a new sentence to the end thereof to read as follows:

“To the extent any Subsidiary becomes an Obligor pursuant to Section 9.7(c), then references to “Borrower” set forth in this definition (and any component definition used in this definition) shall be deemed to also include references to such Obligor for purposes of including the Inventory of such Obligor as Eligible Letter of Credit Inventory subject to the foregoing criteria.”

1.10 Section 1.77 of the Loan Agreement (definition of “Other Hedging Agreements”) is amended and restated in its entirety as follows:

“Other Hedging Agreements” shall mean any and all transactions, agreements or documents now existing or hereafter entered into with a Person other than a Lender or an Affiliate of a Lender subject to Section 9.9(g)(B) hereof which (a) provides for an interest rate or foreign exchange swap, cap, floor or collar or similar transaction for the purpose of hedging Borrower’s or any Obligor’s exposure to fluctuations in interest rates or currency, (b) are not entered into for speculative purposes, (c) are with a financial institution having combined capital and surplus and undivided profits of not less than \$250,000,000, and (d) are unsecured.

1.11 Section 5.2 of the Loan Agreement is amended by adding a new clause (d) to the end thereof to read as follows:

“(d) Notwithstanding anything to the contrary contained in Section 5.1 above, the Collateral shall not include the assets or Capital Stock of (x) any Subsidiary that is a controlled foreign corporation (as defined under Section 957 of the Code (each, a “CFC”)) except for Capital Stock representing (i) 65% of the voting Capital Stock of such Subsidiary and (ii) 100% of the non-voting Capital Stock of such Subsidiary and (y) any other Subsidiary to the extent (A) the inclusion of such assets or Capital Stock would result in any adverse tax consequences (including, without limitation, as a result of the operation of Section 956 of the Code or any similar law or regulation in any applicable jurisdiction) to Borrower or any of its Affiliates and (B) the sole assets of such Subsidiary consists of Capital Stock in one or more CFCs .”

1.12 Section 6.4(a) of the Loan Agreement is amended by deleting the following text appearing therein: “first, to pay any fees, indemnities or expense reimbursements then due to any Agent, any Lender or their representatives from Borrower (other than in connection with any Hedging Agreements, Bank Products or Cash Management Services)”, and by inserting the following text in its stead: “first, to pay any fees, indemnities or expense reimbursements then due to any Agent, any Lender or their representatives from Borrower or any Obligor (other than in connection with any Hedging Agreements, Bank Products or Cash Management Services)”.

1.13 Section 9.7(a) of the Loan Agreement is amended and restated to read as follows:

“(a) merge into or with or consolidate with any other Person or permit any other Person to merge into or with or consolidate with it if such merger or consolidation results in a Change of Control; provided, that any Obligor may merge into another Obligor or the Borrower (provided that the Borrower is the surviving entity after giving effect thereto) or may dissolve or cease doing business so long as the assets of such Obligor are transferred to the Borrower or another Obligor;”

1.14 Section 9.7(b) of the Loan Agreement is amended by (a) deleting the word “or” at the end of clause (vi) of Section 9.7(b), (b) adding the word “or” at the end of clause (vii) of Section 9.7(b) and (c) adding a new clause (viii) at the end of Section 9.7(b) to read as follows:

“(viii) sales, assignments, leases, transfers or other dispositions of assets from (A) Borrower or any Obligor to Borrower or any other Obligor, (B) any Subsidiary that is not an Obligor to Borrower or any other Subsidiary and (C) Borrower or any Obligor to a Subsidiary that is not an Obligor; provided, that with respect to this clause (C), (1) the conditions set forth in Section 9.10(f)(i)-(iii) shall be satisfied with respect to any such disposition and (2) to the extent any intellectual property which is required to sell Eligible Inventory is subject to such disposition, then either the Administrative Agent shall retain a lien on such intellectual property or the Subsidiary holding such intellectual property shall grant to Administrative Agent a non-exclusive royalty free license (upon terms reasonably acceptable to the Administrative Agent) to use such intellectual property to sell Eligible Inventory during the continuation of an Event of Default;”

1.15 Section 9.7(c) of the Loan Agreement is amended and restated to read as follows:

“(c) form or acquire any subsidiaries except that Borrower and its Subsidiaries may (i) acquire Subsidiaries in accordance with Section 9.10(f) and (ii) form additional Subsidiaries; provided, that to the extent any such acquired or formed Subsidiary is organized within the United States (and subject to the limitations set forth in Section 5.2(d)), at the time that such Person becomes a Subsidiary, and promptly thereafter (and in any event within ten (10) days), Borrower shall, and shall cause such Subsidiary to: (A) to the extent such Subsidiary is not a Subsidiary described under clause (y) of Section 5.2(d), become an Obligor by executing and delivering to the Administrative Agent the following documents, which documents shall, for clarity, incorporate as to such Subsidiary, all representations and warranties made by the Borrower under this Agreement and all affirmative and negative covenants applicable to the Borrower under this Agreement: (1) a guaranty of the Obligations in favor of the Administrative Agent, for the ratable benefit of the Lenders, (2) a security agreement, pursuant to which such Subsidiary grants a lien to the Collateral Agent, for the ratable benefit of the Lenders, on substantially all the assets of such Subsidiary to secure such guaranty and the Obligations, on terms and conditions consistent with the Borrower’s grant of liens under this Agreement and (3) documents of the type referred to in clauses (a) and (c) of Section 4.1, together with any other documents required by the terms of the guaranty and security agreement referred to in clauses (1) and (2) above, and (B) pledge the Capital Stock of such Subsidiary (subject to Section 5.2(d) to the extent such Subsidiary is described therein) to the Administrative Agent, for the ratable benefit of the Lenders, to secure the Obligations; in each case, in form, content and scope reasonably satisfactory to the Administrative Agent.”

1.16 Section 9.9 of the Loan Agreement is amended by

(a) deleting the word “and” at the end of Section 9.9(f),

(b) amending and restating Section 9.9(g) in its entirety to read as follows:

“(g) (A) contingent liabilities of Borrower and/or any Obligors pursuant to any Hedging Agreements entered into by Borrower and/or any Obligors; provided that the aggregate principal notional amount of indebtedness that may be subject to Hedging Agreements at any one time shall not exceed \$100,000,000 at any time. Notwithstanding any provision herein to the contrary, no Affiliate of a Lender shall act as a counterparty to a Hedging Agreement unless and until such Affiliate shall have entered into a written agreement and acknowledgement in favor of Administrative Agent, in form and substance satisfactory to Administrative Agent, in which such Affiliate agrees to be bound by the terms of this Agreement, in the capacity as a counterparty to a Hedging Agreement, in the same manner as a Lender hereunder, in the capacity as a counterparty to a Hedging Agreement and (B) contingent liabilities of Borrower and/or any Obligors pursuant to any Other Hedging Agreements entered into by Borrower and/or any Obligors; provided that (i) Lenders shall have been given a reasonable opportunity to match the proposed terms of the Other Hedging Agreements prior to Borrower or any Obligor entering into the Other Hedging Agreements and (ii) the aggregate principal notional amount of indebtedness that may be subject to Other Hedging Agreements at any one time shall not exceed \$25,000,000; and”

and (c) adding a new Section 9.9(h) to read as follows:

“(h) indebtedness and obligations consisting of intercompany loans, advances and other obligations permitted under Sections 9.10(f), (g) and (h).”

1.17 Section 9.10 of the Loan Agreement is amended by (a) deleting the word “and” at the end of Section 9.10(e) therein and (b) amending and restating Section 9.10(f) and adding new Sections 9.10(g) and 9.10(h), in each case to read as follows:

“(f) other loans, advances and/or investments (including by capital contribution, dividend or otherwise or by purchase or repurchase of the Capital Stock or indebtedness or all or a substantial part of the assets or property of any Person, or guarantee, assumption, endorsement or otherwise becoming responsible for the indebtedness, performance, obligations or dividends of any Person), in each case to or in a Person that is not the Borrower or an Obligor and as long as (i) no Event of Default has occurred and is continuing at the time of such loan, advance or investment, (ii) the average Excess Availability for the preceding twelve months most recently ended shall not have been less than thirty percent (30%) of the lesser of (A) the average amount of the Loans available to Borrower during such period based on the formula set forth in Section 2.1(a) hereof, subject to the sublimits and Availability Reserves established by Agents hereunder and (B) the Maximum Credit then in effect and (iii) after giving pro forma effect to any such loans, advances and/or investments, projected Excess Availability as of the end of each of the immediately following twelve months shall be not less than twenty-five percent (25%) of the lesser of (A) the amount of the Loans available to Borrower as of such time based on the formula set forth in Section 2.1(a) hereof, subject to the sublimits and Availability Reserves from time to time established by Agents hereunder and (B) the Maximum Credit, (iv) to the extent any such investment constitutes an Acquisition, the conditions set forth in the definition of Permitted Acquisition are satisfied and (v) any assets acquired in connection with any investment shall not be eligible to be included in the Borrowing Base until the Administrative Agent shall have had the opportunity to conduct such due diligence as the Administrative Agent may require, the results of which shall be satisfactory to the Agents;

(g) loans, advances and/or investments (including capital contributions) (i) from Borrower or any Obligor to or in Borrower or any other Obligor, (ii) from any Subsidiary which is not an Obligor to or in any other Subsidiary which is not an Obligor, and (iii) from any Subsidiary which is not an Obligor to Borrower or any other Obligor so long as, with respect to this clause (iii) only, at the time of any repayment of any such loan or advance, the conditions set forth in Section 9.10(f)(i)-(iii) are satisfied; and

(h) guarantees by the Borrower or any other Obligor of the performance by Borrower or any other Obligor under any contract, lease or other obligation.”

1.18 Section 9.11 of the Loan Agreement is amended by (a) deleting the word “and” at the end of Sections 9.11(a) and 9.11(b), (b) replacing the period at the end of Section 9.11(c) with a semicolon, (c) replacing the period at the end of Section 9.11(d) with “; and” and (d) adding a new Section 9.11(e) to the end thereof to read as follows:

“(e) Borrower may repurchase, redeem or otherwise retire any shares of Capital Stock of Borrower (in addition to any repurchases under Sections 9.11(a) and (c) above); provided, that, each of the following conditions is satisfied: (i) no Default or Event of Default shall exist or have occurred at the time of or after giving effect to any such transaction, (ii) any payments shall be out of funds legally available therefor, (iii) after giving pro forma effect to any such transaction, Excess Availability shall be not less than twenty percent (20%) of the lesser of (A) the amount of the Loans available to Borrower as of such time based on the formula set forth in Section 2.1(a) hereof, subject to the sublimits and Availability Reserves from time to time established by Agents hereunder and (B) the Maximum Credit, (iv) projected Excess Availability as of the end of each of the subsequent twelve month periods shall be not less than twenty percent (20%) of the lesser of (A) the amount of the Loans available to Borrower as of such time based on the formula set forth in Section 2.1(a) hereof, subject to the sublimits and Availability Reserves from time to time established by Agents hereunder, and (B) the Maximum Credit, and (v) Administrative Agent shall have received not less than five (5) Business Days prior written notice of the intention of Borrower to engage in such transaction specifying the amount of payments which Borrower intends to pay, together with projections of Excess Availability supported by a set of 12 month financial statements (including profit and loss, balance sheet and cash flow statements) prepared on a basis reasonably acceptable to the Administrative Agent and Lenders (not to be unreasonably withheld).”

1.19 Section 9.12 of the Loan Agreement is amended by adding the following introductory language to such Section 9.12 immediately before the word “Borrower”:

“Except for transactions between or among Borrower and its Subsidiaries (except to the extent expressly prohibited by other sections of this Agreement),”

1.20 Section 10.1(b) of the Loan Agreement is amended and restated to read as follows:

“(b) any representation, warranty or statement of fact made by Borrower or any Obligor to any Agent or any Lender in this Agreement, the other Financing Agreements or any other agreement, schedule, confirmatory assignment or otherwise shall when made or deemed made be false or misleading in any material respect;”

1.21 Section 10.1(c) of the Loan Agreement is amended and restated to read as follows:

“(c) any Obligor revokes, terminates or fails to perform any of the terms, covenants, conditions or provisions of any guarantee, endorsement or other agreement of such party in favor of any Agent or any Lender (except to the extent such Obligor no longer exists as a result of a merger or dissolution permitted under this Agreement);”

1.22 Section 10.1(e) of the Loan Agreement is amended and restated to read as follows:

“(e) any Obligor (being a natural person or a general partner of an Obligor which is a partnership) dies or Borrower or any Obligor, which is a partnership, limited liability company, limited liability partnership or a corporation, dissolves or suspends or discontinues doing business, except for Obligors which may merge, dissolve, suspend or discontinue doing business in accordance with the terms of this Agreement;”

Section 2 Conditions to Effectiveness of Amendment . The effectiveness of this Amendment is subject to the satisfaction of the following conditions:

2.1 Amendment . Agent, Required Lenders and Borrower shall have executed this Amendment.

2.2 No Default . No Default or Event of Default shall have occurred and be continuing, both before and immediately after giving effect to the execution of this Amendment.

Section 3 Representations and Warranties . In order to induce Lenders to enter into this Amendment, Borrower represents and warrants to Lenders, upon the effectiveness of this Amendment, which representations and warranties shall survive the execution and delivery of this Amendment that:

3.1 No Default; etc. No Event of Default has occurred and is continuing after giving effect to this Amendment or would result from the execution or delivery of this Amendment.

3.2 Corporate Power and Authority; Authorization . Borrower has the corporate power and authority to execute and deliver this Amendment and to carry out the terms and provisions of the Loan Agreement, as amended by this Amendment, and the execution and delivery by Borrower of this Amendment, and the performance by the Borrower of its obligations hereunder have been duly authorized by all requisite corporate action by Borrower.

3.3 Execution and Delivery . Borrower has duly executed and delivered this Amendment.

3.4 Enforceability . This Amendment and the Loan Agreement, as amended by this Amendment constitute the legal, valid and binding obligations of Borrower, enforceable against Borrower in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' right generally, and by general principles of equity.

3.5 Representations and Warranties . All of the representations and warranties contained in the Loan Agreement and in the other Financing Agreements (other than those which speak expressly only as of a different date) are true and correct as of the date hereof after giving effect to this Amendment and the transactions contemplated hereby.

Section 4 Miscellaneous.

4.1 Effect; Ratification. Borrower acknowledges that all of the reasonable legal expenses incurred by Administrative Agent in connection herewith shall be reimbursable under Section 9.16 of the Loan Agreement. The amendments set forth herein are effective solely for the purposes set forth herein and shall be limited precisely as written, and shall not be deemed to (i) be a consent to any amendment, waiver or modification of any other term or condition of the Loan Agreement or of any other Financing Agreement or (ii) prejudice any right or rights that Agents and Lender may now have or may have in the future under or in connection with the Loan Agreement or any other Financing Agreement. Each reference in the Loan Agreement to “this Agreement”, “herein”, “hereof” and words of like import and each reference in the other Financing Agreements to the “Loan Agreement” shall mean the Loan Agreement as amended hereby. This Amendment shall be construed in connection with and as part of the Loan Agreement and all terms, conditions, representations, warranties, covenants and agreements set forth in the Loan Agreement and each other Financing Agreement, except as herein amended or waived are hereby ratified and confirmed and shall remain in full force and effect.

4.2 Counterparts. This Amendment may be executed in any number of counterparts, each such counterpart constituting an original but all together one and the same instrument.

4.3 Governing Law. This Amendment shall be governed by, and construed and interpreted in accordance with, the internal laws of the State of Illinois.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment No. 1 to Amended and Restated Loan and Security Agreement as of the date first above written.

WELLS FARGO BANK, NATIONAL ASSOCIATION
as Administrative Agent, Collateral Agent and as a Lender

By: /s/ Jason Searle
Title: Director

JP MORGAN CHASE BANK, N.A.,
as a Lender

By: /s/ Lynne Ciaccia
Title: Authorized Officer

PNC BANK, NATIONAL ASSOCIATION,
as a Lender

By: /s/ Rachel DeBeliso
Title: Officer

BORROWER
ULTA SALON, COSMETICS & FRAGRANCE, INC.

By: /s/ Gregg R. Bodnar
Title: Chief Financial Officer

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES
EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Carl S. Rubin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ulta Salon, Cosmetics & Fragrance, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 6, 2012

By: /s/ Carl S. Rubin

Carl S. Rubin

President, Chief Executive Officer and Director

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES
EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Gregg R. Bodnar, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ulta Salon, Cosmetics & Fragrance, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 6, 2012

By: /s/ Gregg R. Bodnar
Gregg R. Bodnar
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. §1350 (adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002), I, the undersigned President, Chief Executive Officer and Director of Ulta Salon, Cosmetics & Fragrance Inc. (the "Company"), hereby certify that the Quarterly Report on Form 10-Q of the Company for the quarterly period ended July 28, 2012 (the "Report"), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: September 6, 2012

By: /s/ Carl S. Rubin
Carl S. Rubin
President, Chief Executive Officer and Director

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. §1350 (adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002), I, the undersigned Chief Financial Officer of Ulta Salon, Cosmetics & Fragrance Inc. (the "Company"), hereby certify that the Quarterly Report on Form 10-Q of the Company for the quarterly period ended July 28, 2012 (the "Report"), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: September 6, 2012

By: /s/ Gregg R. Bodnar
Gregg R. Bodnar
Chief Financial Officer