
**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 May 3, 2014

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

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

Accelerated filer

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 June 2, 2014 was 64,324,524 shares.

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Consolidated Balance Sheets**

| (In thousands) | May 3, 2014 (Unaudited) | February 1, 2014 | May 4, 2013 (Unaudited) |
|---|--|-----------------------------|--|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 456,709 | \$ 419,476 | \$ 293,214 |
| Receivables, net | 26,722 | 47,049 | 29,925 |
| Merchandise inventories, net | 531,427 | 457,933 | 442,085 |
| Prepaid expenses and other current assets | 53,391 | 55,993 | 48,106 |
| Deferred income taxes | 22,241 | 22,246 | 15,285 |
| Total current assets | 1,090,490 | 1,002,697 | 828,615 |
| Property and equipment, net | 603,933 | 595,736 | 499,395 |
| Deferred compensation plan assets | 4,802 | 4,294 | 3,567 |
| Total assets | <u>\$1,699,225</u> | <u>\$1,602,727</u> | <u>\$1,331,577</u> |
| Liabilities and stockholders' equity | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 184,148 | \$ 148,282 | \$ 148,488 |
| Accrued liabilities | 90,343 | 103,180 | 78,847 |
| Accrued income taxes | 27,928 | 15,349 | 20,732 |
| Total current liabilities | 302,419 | 266,811 | 248,067 |
| Deferred rent | 264,679 | 261,630 | 220,003 |
| Deferred income taxes | 67,019 | 66,718 | 55,988 |
| Other long-term liabilities | 5,352 | 4,474 | 3,795 |
| Total liabilities | 639,469 | 599,633 | 527,853 |

Commitments and contingencies (note 3)

See accompanying notes to consolidated financial statements.

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

| <u>(In thousands, except per share data)</u> | <u>May 3,</u> <u>2014</u> <u>(Unaudited)</u> | <u>February 1,</u> <u>2014</u> | <u>May 4,</u> <u>2013</u> <u>(Unaudited)</u> |
|---|--|-----------------------------------|--|
| Stockholders' equity: | | | |
| Common stock, \$.01 par value, 400,000 shares authorized; 64,899, 64,793 and 64,313 shares issued; 64,324, 64,231 and 63,758 shares outstanding; at May 3, 2014 (unaudited), February 1, 2014 and May 4, 2013 (unaudited), respectively | \$ 649 | \$ 647 | \$ 643 |
| Treasury stock-common, at cost | (9,378) | (8,125) | (7,566) |
| Additional paid-in capital | 556,154 | 548,194 | 509,292 |
| Retained earnings | 512,331 | 462,378 | 301,355 |
| Total stockholders' equity | <u>1,059,756</u> | <u>1,003,094</u> | <u>803,724</u> |
| Total liabilities and stockholders' equity | <u>\$1,699,225</u> | <u>\$1,602,727</u> | <u>\$1,331,577</u> |

See accompanying notes to consolidated financial statements.

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

| | 13 Weeks Ended | |
|--|------------------|------------------|
| | May 3, 2014 | May 4, 2013 |
| (In thousands, except per share data) | | |
| Net sales | \$713,770 | \$582,712 |
| Cost of sales | 467,817 | 378,763 |
| Gross profit | 245,953 | 203,949 |
| Selling, general and administrative expenses | 162,443 | 133,048 |
| Pre-opening expenses | 2,629 | 3,206 |
| Operating income | 80,881 | 67,695 |
| Interest income | (200) | (24) |
| Income before income taxes | 81,081 | 67,719 |
| Income tax expense | 31,128 | 25,893 |
| Net income | <u>\$ 49,953</u> | <u>\$ 41,826</u> |
| Net income per common share: | | |
| Basic | \$ 0.78 | \$ 0.66 |
| Diluted | \$ 0.77 | \$ 0.65 |
| Weighted average common shares outstanding: | | |
| Basic | 64,273 | 63,842 |
| Diluted | 64,607 | 64,495 |

See accompanying notes to consolidated financial statements.

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

| | 13 Weeks Ended | |
|---|------------------|------------------|
| | May 3, 2014 | May 4, 2013 |
| (In thousands) | | |
| Operating activities | | |
| Net income | \$ 49,953 | \$ 41,826 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 30,473 | 24,779 |
| Deferred income taxes | 306 | 99 |
| Non-cash stock compensation charges | 4,063 | 3,048 |
| Excess tax benefits from stock-based compensation | (901) | (3,901) |
| Loss on disposal of property and equipment | 874 | 1,577 |
| Change in operating assets and liabilities: | | |
| Receivables | 20,327 | 11,590 |
| Merchandise inventories | (73,494) | (80,960) |
| Prepaid expenses and other current assets | 2,602 | 2,346 |
| Income taxes | 13,480 | 14,579 |
| Accounts payable | 35,866 | 29,602 |
| Accrued liabilities | (13,275) | (13,968) |
| Deferred rent | 3,049 | 12,000 |
| Other assets and liabilities | 370 | 218 |
| Net cash provided by operating activities | 73,693 | 42,835 |
| Investing activities | | |
| Purchases of property and equipment | (39,106) | (42,004) |
| Net cash used in investing activities | (39,106) | (42,004) |
| Financing activities | | |
| Repurchase of common shares | — | (37,337) |
| Excess tax benefits from stock-based compensation | 901 | 3,901 |
| Stock options exercised | 2,998 | 5,416 |
| Purchase of treasury shares | (1,253) | (72) |
| Net cash provided by (used in) financing activities | 2,646 | (28,092) |
| Net increase (decrease) in cash and cash equivalents | 37,233 | (27,261) |
| Cash and cash equivalents at beginning of period | 419,476 | 320,475 |
| Cash and cash equivalents at end of period | <u>\$456,709</u> | <u>\$293,214</u> |
| Supplemental cash flow information | | |
| Cash paid for income taxes (net of refunds) | \$ 17,160 | \$ 10,996 |
| Noncash investing activities: | | |
| Change in property and equipment included in accrued liabilities | \$ 436 | \$ 688 |

See accompanying notes to consolidated financial statements.

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

| (In thousands) | Common Stock | | Treasury - Common Stock | | Additional Paid-In Capital | Retained Earnings | Total Stockholders' Equity |
|---|--------------------------|---------------|------------------------------------|------------------|---|------------------------------|---|
| | Issued Shares | Amount | Treasury Shares | Amount | | | |
| Balance – February 1, 2014 | 64,793 | \$ 647 | (562) | \$(8,125) | \$ 548,194 | \$462,378 | \$ 1,003,094 |
| Stock options exercised and other awards | 106 | 2 | — | — | 2,996 | — | 2,998 |
| Purchase of treasury shares | — | — | (13) | (1,253) | — | — | (1,253) |
| Net income for the 13 weeks ended May 3, 2014 | — | — | — | — | — | 49,953 | 49,953 |
| Excess tax benefits from stock-based compensation | — | — | — | — | 901 | — | 901 |
| Stock compensation charge | — | — | — | — | 4,063 | — | 4,063 |
| Balance – May 3, 2014 | <u>64,899</u> | <u>\$ 649</u> | <u>(575)</u> | <u>\$(9,378)</u> | <u>\$ 556,154</u> | <u>\$512,331</u> | <u>\$ 1,059,756</u> |

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

1. Business and basis of presentation

Ulta Salon, Cosmetics & Fragrance, Inc. was incorporated in the state of Delaware on January 9, 1990, to operate specialty retail stores selling cosmetics, fragrance, haircare and skincare products, and related accessories and services. The stores also feature full-service salons. As of May 3, 2014, the Company operated 696 stores in 46 states, as shown in the table below. As used in these notes and throughout this Quarterly Report on Form 10-Q, all references to “we,” “us,” “our,” “Ulta” or the “Company” refer to Ulta Salon, Cosmetics & Fragrance, Inc. and its consolidated subsidiary, Ulta Inc.

| <u>State</u> | <u>Number of stores</u> | <u>State</u> | <u>Number of stores</u> |
|---------------|-------------------------|----------------|-------------------------|
| Alabama | 11 | Montana | 4 |
| Arizona | 23 | Nebraska | 3 |
| Arkansas | 6 | Nevada | 7 |
| California | 76 | New Hampshire | 4 |
| Colorado | 13 | New Jersey | 16 |
| Connecticut | 7 | New Mexico | 2 |
| Delaware | 1 | New York | 22 |
| Florida | 49 | North Carolina | 22 |
| Georgia | 25 | North Dakota | 1 |
| Idaho | 4 | Ohio | 26 |
| Illinois | 44 | Oklahoma | 8 |
| Indiana | 14 | Oregon | 9 |
| Iowa | 6 | Pennsylvania | 25 |
| Kansas | 5 | Rhode Island | 2 |
| Kentucky | 8 | South Carolina | 12 |
| Louisiana | 12 | South Dakota | 2 |
| Maine | 3 | Tennessee | 10 |
| Maryland | 12 | Texas | 72 |
| Massachusetts | 10 | Utah | 8 |
| Michigan | 34 | Virginia | 20 |
| Minnesota | 11 | Washington | 13 |
| Mississippi | 5 | West Virginia | 2 |
| Missouri | 15 | Wisconsin | 12 |
| | | Total | 696 |

The accompanying unaudited consolidated financial statements and related notes have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and the U.S. Securities and Exchange Commission’s Article 10, Regulation S-X. These consolidated financial statements were prepared on a consolidated basis to include the accounts of the Company and its wholly owned subsidiary. All significant intercompany accounts, transactions and unrealized profit were eliminated in consolidation. In the opinion of management, the accompanying consolidated financial statements reflect all adjustments, which are of a normal recurring nature, necessary to fairly state the 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 weeks ended May 3, 2014 are not necessarily indicative of the results to be expected for the fiscal year ending January 31, 2015, or for any other future interim period or for any future year.

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These interim consolidated financial statements and the related notes should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended February 1, 2014. All amounts are stated in thousands, with the exception of per share amounts and number of stores.

2. Summary of significant accounting policies

Information regarding the Company's significant accounting policies is contained in Note 2, "Summary of significant accounting policies," to the financial statements in the Company's Annual Report on Form 10-K for the year ended February 1, 2014. 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 first quarters in fiscal 2014 and 2013 ended on May 3, 2014 and May 4, 2013, 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 on a straight-line method 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 weighted-average assumptions for the periods indicated:

| | 13 Weeks Ended | |
|----------------------------------|----------------|----------------|
| | May 3, 2014 | May 4, 2013 |
| Volatility rate | 41.1% | 54.3% |
| Average risk-free interest rate | 1.4% | 1.0% |
| Average expected life (in years) | 3.8 | 6.0 |
| Dividend yield | None | None |

The Company granted 287 and 207 stock options during the 13 weeks ended May 3, 2014 and May 4, 2013, respectively. The compensation cost that has been charged against operating income for stock option grants was \$2,133 and \$2,315 for the 13 weeks ended May 3, 2014 and May 4, 2013, respectively. The weighted-average grant date fair value of these options was \$32.04 and \$38.29, respectively. At May 3, 2014, there was approximately \$23,157 of unrecognized compensation expense related to unvested stock options.

The Company issued 46 and 89 restricted stock awards during the 13 weeks ended May 3, 2014 and May 4, 2013, respectively. The compensation cost that has been charged against operating income for restricted stock awards was \$1,930 and \$733 for the 13 weeks ended May 3, 2014 and May 4, 2013, respectively. At May 3, 2014, there was approximately \$10,957 of unrecognized compensation expense related to restricted stock awards.

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 weeks ended May 3, 2014 and May 4, 2013. Total rent expense under operating leases was \$38,538 and \$32,010 for 13 weeks ended May 3, 2014 and May 4, 2013, 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. On August 8, 2013, the plaintiff asked the court to certify the proposed class and the Company opposed the plaintiff's request and is waiting for the court to issue a decision. 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.

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The Company has not recorded any accruals for this matter because the Company's potential liability for the matter is not probable and cannot be reasonably estimated based on currently available information. The Company cannot determine a reasonable estimate of the maximum possible loss or range of loss for this matter given that it is in the early stage of the litigation process and is subject to the inherent uncertainties of litigation (such as the strength of the Company's legal defenses and the availability of insurance recovery). Although the maximum amount of liability that may ultimately result from this matter cannot be predicted with certainty, management expects that this matter, when ultimately resolved, will not have a material adverse effect on the Company's consolidated financial position or liquidity. It is possible, however, that the ultimate resolution of this matter could have a material adverse effect on the Company's results of operations in a particular quarter or year if such resolution results in a significant liability for the Company.

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.

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 lenders. The Loan Agreement extended 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.

On September 5, 2012, the Company entered into Amendment No. 1 to Amended and Restated Loan and Security Agreement (the First Amendment) with the lender group. The First Amendment updated 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, covenants or maturity date under terms of the Loan Agreement.

On December 6, 2013, the Company entered into Amendment No. 2 to the Amended and Restated Loan and Security Agreement (the Second Amendment) with the lender group. The Second Amendment extended the maturity of the facility to December 2018. 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 0.20%.

As of May 3, 2014, February 1, 2014 and May 4, 2013, the Company had no borrowings outstanding under the credit facility and the Company was in compliance with all terms and covenants of the agreement.

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.

Fair value is measured using inputs from the three levels of the fair value hierarchy, which are described 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 May 3, 2014, the Company held financial liabilities of \$4,376 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.

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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:

| (In thousands) | 13 Weeks Ended | |
|---|----------------|----------------|
| | May 3, 2014 | May 4, 2013 |
| Net income | \$49,953 | \$41,826 |
| Denominator for basic net income per share – weighted-average common shares | 64,273 | 63,842 |
| Dilutive effect of stock options and non-vested stock | 334 | 653 |
| Denominator for diluted net income per share | 64,607 | 64,495 |
| Net income per common share: | | |
| Basic | \$ 0.78 | \$ 0.66 |
| Diluted | \$ 0.77 | \$ 0.65 |

The denominators for diluted net income per common share for the 13 weeks ended May 3, 2014 and May 4, 2013 exclude 665 and 562 employee stock options, respectively, due to their anti-dilutive effects.

7. Stock repurchase program

On March 18, 2013, the Company announced that our Board of Directors had authorized a stock repurchase program pursuant to which the Company may repurchase up to \$150 million of the Company's common stock. The repurchases may be made from time to time in the open market, in privately negotiated transactions, or otherwise, at prices that the Company deems appropriate and subject to market conditions, applicable law and other factors deemed relevant in the Company's sole discretion. The stock repurchase program does not have an expiration date and may be suspended or discontinued at any time. During the 13 weeks ended May 4, 2013, we purchased 500,500 shares of common stock for \$37.3 million at an average price of \$74.58. There were no repurchases during the 13 weeks ended May 3, 2014.

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; our ability to attract and retain key executive personnel; our ability to successfully execute and implement our common stock repurchase program; our ability to sustain our growth plans and successfully develop and implement our long-range strategic and financial plan; and other risk factors detailed in our public filings with the Securities and Exchange Commission (the "SEC"), including risk factors contained in Item 1A, "Risk Factors" of our Annual Report on Form 10-K for the year ended February 1, 2014. We assume no obligation to update any

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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. and its consolidated subsidiary, Ulta Inc. unless otherwise expressly stated or the context otherwise requires.

Overview

We were founded in 1990 as a beauty retailer at a time when prestige, mass and salon products were sold through distinct channels – department stores for prestige products, drug stores and mass merchandisers for mass products, and salons and authorized retail outlets for professional hair care products. We developed a unique specialty retail concept by combining one-stop shopping, a compelling value proposition, convenient locations and a welcoming shopping environment. 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 unmatched product breadth, value and convenience with the distinctive environment and experience of a specialty retailer. Key aspects of our business include our ability to offer our customers a broad selection of more than 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 May 3, 2014, we operated 696 stores across 46 states.

The continued growth of our business and any future increases in net sales, net income and cash flows is dependent on our ability to execute our five point growth strategy, including growing stores to approximately 1,200 locations, expanding our offering by adding new products, brands and services, enhancing our loyalty program, broadening our marketing reach and expanding our digital business. We believe that the expanding U.S. beauty products and salon 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. Operating profit is expected to increase as a result of our ability to expand merchandise margin and leverage our fixed store costs with comparable store sales increases and operating efficiencies offset by incremental investments in people, systems and supply chain required to support a 1,200 store chain with a successful e-commerce business and competitive omni-channel capabilities.

Current business trends

We recorded an 8.7% comparable store sales increase during the first quarter of fiscal 2014. This included the impact of our e-commerce business which grew 72.3% and contributed 190 basis points of the 8.7% increase. We recorded a 6.7% comparable store sales increase during the first quarter of fiscal 2013. This included the impact of our e-commerce business which grew 69.7% and contributed 140 basis points of the 6.7% increase. We are currently evaluating our long-range strategic and financial plan and expect to share our long-term growth plan and financial targets in the fall of 2014.

Basis of presentation

We have determined the operating segments on the same basis that we use 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.

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 e-commerce sales are recorded based on delivery of merchandise to the customer. 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.

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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. Comparable store sales include the Company's e-commerce business. There may be variations in the way in which some of our competitors and other retailers calculate comparable or same store sales.

Measuring comparable store sales 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 consumer 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 substantially 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;
- stock-based compensation expense;

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- 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 expense includes 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 includes unused facility fees associated with our credit facility, which is structured as an asset-based lending instrument. 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.

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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 first quarters in fiscal 2014 and 2013 ended on May 3, 2014 and May 4, 2013, 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 consolidated results of operations for the periods indicated:

| <u>(Dollars in thousands)</u> | <u>13 Weeks Ended</u> | | <u>13 Weeks Ended</u> | |
|--|------------------------|------------------------|------------------------|------------------------|
| | <u>May 3, 2014</u> | <u>May 4, 2013</u> | <u>May 3, 2014</u> | <u>May 4, 2013</u> |
| Net sales | \$713,770 | \$582,712 | \$100.0% | 100.0% |
| Cost of sales | 467,817 | 378,763 | 65.5% | 65.0% |
| Gross profit | 245,953 | 203,949 | 34.5% | 35.0% |
| Selling, general and administrative expenses | 162,443 | 133,048 | 22.8% | 22.8% |
| Pre-opening expenses | 2,629 | 3,206 | 0.4% | 0.6% |
| Operating income | 80,881 | 67,695 | 11.3% | 11.6% |
| Interest income | (200) | (24) | 0.0% | 0.0% |
| Income before income taxes | 81,081 | 67,719 | 11.4% | 11.6% |
| Income tax expense | 31,128 | 25,893 | 4.4% | 4.4% |
| Net income | <u>\$ 49,953</u> | <u>\$ 41,826</u> | <u>\$ 7.0%</u> | <u>7.2%</u> |
| Other operating data: | | | | |
| Number of stores end of period | 696 | 576 | | |
| Comparable store sales: | | | | |
| Retail and salon comparable store sales | 6.8% | 5.3% | | |
| E-commerce comparable store sales | 72.3% | 69.7% | | |
| Total comparable store sales increase | 8.7% | 6.7% | | |

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Comparison of 13 weeks ended May 3, 2014 to 13 weeks ended May 4, 2013

Net sales

Net sales increased \$131.1 million, or 22.5%, to \$713.8 million for the 13 weeks ended May 3, 2014, compared to \$582.7 million for the 13 weeks ended May 4, 2013. Salon service sales increased \$7.3 million, or 20.4%, to \$42.6 million compared to \$35.3 million in first quarter 2013. E-commerce sales increased \$12.3 million, or 72.3%, to \$29.4 million compared to \$17.0 million in first quarter 2013. The net sales increases are due to comparable stores driving an increase of \$49.9 million and non-comparable store increases of \$81.2 million compared to the first quarter 2013.

The 8.7% comparable store sales increase consisted of a 6.8% increase at the Company's retail and salon stores and a 72.3% increase in the Company's e-commerce business. The inclusion of the e-commerce business resulted in an increase of approximately 190 basis points to the Company's consolidated same store sales calculation for the 13 weeks ended May 3, 2014 compared to 140 basis points for the 13 weeks ended May 4, 2013. The total comparable store sales increase included a 2.5% increase in traffic and a 6.2% increase in average ticket. We attribute the increase in comparable store sales to our successful marketing and merchandising strategies.

Gross profit

Gross profit increased \$42.0 million, or 20.6%, to \$246.0 million for the 13 weeks ended May 3, 2014, compared to \$203.9 million for the 13 weeks ended May 4, 2013. Gross profit as a percentage of net sales decreased 50 basis points to 34.5% for the 13 weeks ended May 3, 2014, compared to 35.0% for the 13 weeks ended May 4, 2013. The decrease in gross profit margin was primarily driven by:

- 40 basis points deleverage in merchandise margins driven primarily by product and channel mix shifts and converting the remaining 50% of our loyalty program members to the ULTAmate Rewards loyalty program; and
- 10 basis points deleverage in fixed store costs due to the large number of new stores.

Selling, general and administrative expenses

Selling, general and administrative (SG&A) expenses increased \$29.4 million, or 22.1%, to \$162.4 million for the 13 weeks ended May 3, 2014, compared to \$133.0 million for the 13 weeks ended May 4, 2013. SG&A expenses as a percentage of net sales was 22.8% for the 13 weeks ended May 3, 2014 and May 4, 2013. The changes in SG&A were primarily due to planned investments in marketing, supply chain, e-commerce, and store labor to support growth in the prestige cosmetics and skincare categories.

Pre-opening expenses

Pre-opening expenses decreased \$0.6 million to \$2.6 million for the 13 weeks ended May 3, 2014, compared to \$3.2 million for the 13 weeks ended May 4, 2013. During the 13 weeks ended May 3, 2014, we opened 21 new stores compared to 28 new store openings during the 13 weeks ended May 4, 2013.

Interest income and expense

Interest income and expense was insignificant for the 13 weeks ended May 3, 2014 and May 4, 2013. Interest income results from highly liquid investments with maturities of three months or less from the date of purchase. Interest expense for the period represents various unused facility fees related to the credit facility. We did not access our credit facility during the first quarter fiscal 2014 or 2013.

Income tax expense

Income tax expense of \$31.1 million for the 13 weeks ended May 3, 2014 represents an effective tax rate of 38.4%, compared to \$25.9 million of tax expense representing an effective tax rate of 38.2% for the 13 weeks ended May 4, 2013. The higher tax rate is primarily due to a decrease in federal Work Opportunity Tax Credits, as a result of these credits expiring as of January 31, 2013, and an increase in officer's compensation relating to Section 162(m).

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Net income

Net income increased \$8.1 million, or 19.4%, to \$50.0 million for the 13 weeks ended May 3, 2014, compared to \$41.8 million for the 13 weeks ended May 4, 2013. The increase is primarily related to the \$42.0 million increase in gross profit, offset by a \$29.4 million increase in SG&A expenses and a \$5.2 million increase in income tax expense.

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, supply chain improvements 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:

| (In thousands) | 13 Weeks Ended | |
|--|------------------------|------------------------|
| | May 3, 2014 | May 4, 2013 |
| Net cash provided by operating activities | \$ 73,693 | \$ 42,835 |
| Net cash used in investing activities | (39,106) | (42,004) |
| Net cash provided by (used in) financing activities | 2,646 | (28,092) |
| Net increase (decrease) in cash and cash equivalents | \$ 37,233 | \$ (27,261) |

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 \$531.4 million at May 3, 2014, compared to \$442.1 million at May 4, 2013, representing an increase of \$89.3 million. Average inventory per store declined 50 basis points compared to prior year. The increase in inventory is primarily due to the addition of 120 net new stores opened since May 4, 2013.

We had a current tax liability of \$27.9 at May 3, 2014, compared to \$20.7 million at May 4, 2013. The increase in taxes payable is primarily due to an increase in taxable income.

Deferred rent liabilities were \$264.7 million at May 3, 2014, an increase of \$44.7 million compared to \$220.0 million at May 4, 2013. 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 120 net new stores opened since May 4, 2013.

The \$13.5 million cash flow benefit from income taxes is due to timing of estimated payments and tax deductible stock option exercises.

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Investing activities

We have historically used cash primarily for new and remodeled stores, supply chain investments and investments in information technology systems. Investment activities related to capital expenditures were \$39.1 million during the 13 weeks ended May 3, 2014, compared to \$42.0 million during the 13 weeks ended May 4, 2013. The decrease in capital expenditures year over year is primarily due to the decreased number of new store openings during the 13 weeks ended May 3, 2014, compared to the 13 weeks ended May 4, 2013.

Financing activities

Financing activities in fiscal 2014 and 2013 consist principally of capital stock transactions and the related income tax effects, and our stock repurchase program. Purchase of treasury shares in fiscal 2014 and 2013 represents the fair value of common shares repurchased from plan participants in connection with shares withheld to satisfy minimum statutory tax obligations upon the vesting of restricted stock.

We had no borrowings outstanding under our credit facility as of May 3, 2014, February 1, 2014 and May 4, 2013. 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 or seasonal inventory needs.

Stock repurchase program

On March 18, 2013, we announced that our Board of Directors had authorized a stock repurchase program pursuant to which the Company may repurchase up to \$150 million of the Company's common stock. The repurchases may be made from time to time in the open market, in privately negotiated transactions, or otherwise, at prices that the Company deems appropriate and subject to market conditions, applicable law and other factors deemed relevant in the Company's sole discretion. The stock repurchase program does not have an expiration date and may be suspended or discontinued at any time. During the 13 weeks ended May 4, 2013, we purchased 500,500 shares of common stock for \$37.3 million at an average price of \$74.58. There were no repurchases during the 13 weeks ended May 3, 2014.

Credit facility

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 lenders. The Loan Agreement extended 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.

On September 5, 2012, we entered into Amendment No. 1 to Amended and Restated Loan and Security Agreement (the First Amendment) with the lender group. The First Amendment updated 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, covenants or maturity date under terms of the Loan Agreement.

On December 6, 2013, we entered into Amendment No. 2 to the Amended and Restated Loan and Security Agreement (the Second Amendment) with the lender group. The Second Amendment extended the maturity of the facility to December 2018. 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 0.20%.

As of May 3, 2014, February 1, 2014 and May 4, 2013, we had no borrowings outstanding under the credit facility and the Company was in compliance with all terms and covenants of the agreement.

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Off-balance sheet arrangements

Our off-balance sheet arrangements consist of operating lease obligations. We do not have any non-cancelable purchase commitments as of May 3, 2014.

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 13 weeks ended May 3, 2014.

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 consolidated 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 February 1, 2014.

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 13 weeks ended May 3, 2014. The interest expense recognized in our statement of income is primarily related to unused facility fees associated with the credit facility. Interest expense is offset by interest income from highly liquid investments with maturities of three months or less from the date of purchase.

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 May 3, 2014, 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, as amended, 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 13 weeks ended May 3, 2014 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. On August 8, 2013, the plaintiff asked the court to certify the proposed class and the Company opposed the plaintiff’s request and is waiting for the court to issue a decision. 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 February 1, 2014, 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 February 1, 2014.

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

Issuer Repurchases of Equity Securities

The following table sets forth repurchases of our common stock during the first quarter of 2014:

| Period | Total number of shares purchased (1) | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs (2) | Approximate dollar value of shares that may yet to be purchased under plans or programs (in thousands) (2) |
|---------------------------------|---|-------------------------------------|---|---|
| March 1, 2014 to March 28, 2014 | 4,319 | \$ 100.94 | — | 112,664 |
| March 29, 2014 to May 3, 2014 | 8,569 | \$ 95.34 | — | 112,664 |
| | <u>12,888</u> | <u>\$ 97.22</u> | <u>—</u> | <u>112,664</u> |

- (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) On March 18, 2013, we announced the approval of a stock repurchase program pursuant to which the Company is authorized to repurchase up to \$150 million shares of common stock in the open market, in privately negotiated transactions, or otherwise, at prices that the Company deems appropriate and subject to market conditions, applicable law and other factors deemed relevant in the Company’s sole discretion. The stock repurchase program does not have an expiration date and may be suspended or discontinued at any time. As of May 3, 2014, \$112.7 million remained available under the \$150 million program.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

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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 | Letter Agreement dated September 13, 2013 between Ulta Inc. and Jeffrey J. Childs | 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 | | | | |

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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 June 10, 2014 on its behalf by the undersigned, thereunto duly authorized.

ULTA SALON, COSMETICS & FRAGRANCE, INC.

By: /s/ Mary N. Dillon

Mary N. Dillon
Chief Executive Officer and Director

By: /s/ Scott M. Settersten

Scott M. Settersten
Chief Financial Officer and Assistant Secretary



September 13, 2013

Mr. Jeff Childs
25720 Timberlake Drive
Barrington, IL 60010

Dear Jeff,

We are very delighted to offer you a position with ULTA Inc. ("ULTA" or the "Company"). Below please find a summary of the employment offer.

Position: Chief Human Resources Officer

Reporting Relationship: In this position, you will report to Mary Dillon, Chief Executive Officer.

Start Date / Position: Your start date will be no later than October 1, 2013. On your start date, you will need to provide documentation of your eligibility to work in the United States. Please bring 2 pieces of identification (i.e., driver's license, social security card, or passport) on your first day of employment.

New hire orientation is at 8:30 am on your first day at our offices located at 1000 Remington Blvd., Suite 120, Bolingbrook, IL 60440.

Salary: Your annualized salary will be **\$457,000**, less applicable taxes and deductions, payable bi-weekly. You will be eligible for a performance and compensation review in April 2014. Future salary increases will be based on demonstrated job performance and in accordance with the Company merit increase policy and practice in effect at that time.

Bonus: Your annual target bonus for this position is **66%** of your base salary with a maximum payout opportunity of 250% of your target bonus as described in the attached bonus plan summary document. You will be eligible to participate in the ULTA bonus plan for fiscal year 2013 beginning on your start date. Your bonus opportunity for 2013 will be pro-rated to reflect the portion of the fiscal year during which you are employed by ULTA. Your bonus will be payable based on achievement of our 2013 earnings goal(s) and awarded at the same time bonuses are paid to other senior executives of the Company in the first quarter of 2014. Incentive bonus plans are established by the Board on an annual basis. Bonus payouts, which are subject to Board approval and your continued employment, are earned based on the achievement of the Company's earnings goal(s).

New Hire Cash Award: You will receive a cash payment totaling **\$202,833** on your start date. You will receive an additional cash payment totaling **\$250,000** on May 1, 2014, provided you continue to be employed by ULTA on such date.

Initial Equity Grant: A total equity amount of **\$903,840** of value will be granted on your employment start date if the Company's trading window is open on that date, or if not, on the first day of the next open trading window following your employment start date. All equity grants are subject to the provisions contained in the applicable plan and grant agreement. This grant shall consist of the following:

New Hire Stock Options – You will receive stock options valued at **\$252,492**. The number of options granted to you will be determined by dividing \$252,492 by the number derived from applying the option valuation methodology that the Company uses for financial reporting purposes as set forth in its 10-K but using the closing stock price on the date of grant (the "option value"). The exercise price will be the closing stock price on the date of grant. The options will vest ratably over 4 years with vesting beginning on March 19, 2014.

New Hire Restricted Stock Units – You will receive restricted stock units equal to **\$44,558** divided by the closing share price on the date of grant. The restricted stock units vest on March 19, 2016.

Replacement Restricted Stock Units – You will receive restricted stock units equal to **\$606,790** divided by the closing share price on the date of grant. The restricted stock units will vest as follows:

- **Group 1:** 55% on April 1, 2014; and
- **Group 2:** 45% on April 1, 2015.

Group 1 Replacement Restricted Stock Units will fully vest and become payable before April 1, 2014 if your employment is terminated by reason of death, disability or by the Company without Cause. For this purpose "Cause" shall mean, as determined in the sole discretion of the Compensation Committee of Ulta, the (i) commission of a felony; (ii) dishonesty or misrepresentation involving the Company; (iii) serious misconduct in the performance or non-performance of your responsibilities to the Company (e.g., gross negligence, willful misconduct, gross insubordination or unethical conduct) or (iv) violation of any material condition of your employment.

Long Term Incentive Program: You will be eligible to participate in the Company's long term incentive program (LTIP) beginning in 2014 at the same time and in the same form as grants are made to other executives. Your annual LTI will have a grant date fair value targeted to **65%** of your base salary at the time of the award.

Involuntary Separation from Service: If you are involuntarily separated from the Company for reasons other than cause, you will receive a termination settlement payment based upon the Company practice in place at that time generally applicable to your job level in the Company, provided that you execute a termination settlement agreement and general release at time of termination.

Benefits: ULTA Inc. offers:

- Health insurance, including prescription, dental and vision coverage

-
- Flexible spending accounts for health and dependent care,
 - Basic life insurance,
 - Additional optional life insurance,
 - Accidental death and dismemberment insurance,
 - Short term disability insurance,
 - Additional optional long term disability insurance,
 - Employee assistance program,
 - Employee discounts,
 - A 401K plan
 - A deferred compensation plan (subject to eligibility).

You are eligible for ULTA's benefits on the 1st day of employment. You are eligible for 401(k) enrollment and paid time off on the 1st day of the month following 60 days of employment. To enroll in your benefits, you will log onto the Benefits website at www.ultabenefits.bswift.com to elect your benefits on or after your first day of active employment. To obtain your user name and password you must contact the bSwift Customer Service Center at 877-238-0246.

Vacation: Vacation accrual begins with your first day of employment and will be accrued according to the Company's normal vacation policy. You may accrue up to 4 weeks of vacation per fiscal year.

This offer is contingent on the results of the pre-employment drug test and background investigation and your confirmation that you are not subject to a non-compete or any other restrictions on your ability to work for ULTA. As a condition of employment and in consideration of your new hire cash awards you will be required to execute the Company's Confidential Information and Protective Covenant Agreement and comply with the Company's ethics guidelines, conflict of interest policies and its Code of Business Conduct (which are also attached).

By signing this offer, you are also affirming that you have not taken any of your prior employer's confidential or proprietary information, and that, during the course of your employment with ULTA, you will not disclose, use or rely upon any of your prior employer's confidential or proprietary information.

You are an at-will employee. Neither this letter, nor any other policy, procedure, practice or form shall be construed as a contract concerning your employment with us. We hope your employment with us will be mutually beneficial. We recognize however that needs and circumstances change. Accordingly, either you or ULTA can terminate your employment at any time and for any reason.


We are pleased to offer you a position with ULTA Inc. and look forward to working with you. We know you will contribute greatly to our organization, and will find the position to be a most challenging one.

After reviewing this offer as stated here, please sign one copy of this letter and return it in the enclosed self-addressed stamped envelope. The other copy is for your records.

Sincerely,



Mary Dillon
Chief Executive Officer



Jeff Childs

**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, Mary N. Dillon, 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: June 10, 2014

By: /s/ Mary N. Dillon
Mary N. Dillon
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, Scott M. Settersten, 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: June 10, 2014

By: /s/ Scott M. Settersten
Scott M. Settersten
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 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 May 3, 2014 (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: June 10, 2014

By: /s/ Mary N. Dillon
Mary N. Dillon
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 May 3, 2014 (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: June 10, 2014

By: /s/ Scott M. Settersten
Scott M. Settersten
Chief Financial Officer