

Ulta Salon, Cosmetics & Fragrance, Inc.

Form 10-Q

June 05, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarterly Period Ended April 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)

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| | |
|--|--|
| 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 <input checked="" type="checkbox"/> | Accelerated filer <input type="checkbox"/> |
| Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company <input type="checkbox"/> |

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 May 29, 2012 was 62,942,562 shares.

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ULTA SALON, COSMETICS & FRAGRANCE, INC.

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Table of Contents**Part I - Financial Information****Item 1. Financial Statements****Ulta Salon, Cosmetics & Fragrance, Inc.****Balance Sheets**

| (In thousands) | April 28, 2012 (unaudited) | January 28, 2012 | April 30, 2011 (unaudited) |
|--|----------------------------------|---------------------|----------------------------------|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 266,345 | \$ 253,738 | \$ 116,811 |
| Receivables, net | 22,328 | 26,153 | 15,634 |
| Merchandise inventories, net | 332,065 | 244,647 | 255,547 |
| Prepaid expenses and other current assets | 40,102 | 43,430 | 32,513 |
| Prepaid income taxes | | | 4,233 |
| Deferred income taxes | 12,257 | 12,264 | 8,922 |
| Total current assets | 673,097 | 580,232 | 433,660 |
| Property and equipment, net | 384,904 | 376,985 | 332,147 |
| Total assets | \$ 1,058,001 | \$ 957,217 | \$ 765,807 |
| Liabilities and stockholders equity | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 111,889 | \$ 86,442 | \$ 81,510 |
| Accrued liabilities | 77,375 | 74,411 | 66,488 |
| Dividends payable | 62,420 | | |
| Accrued income taxes | 5,764 | 4,002 | |
| Total current liabilities | 257,448 | 164,855 | 147,998 |
| Deferred rent | 171,973 | 163,463 | 139,359 |
| Deferred income taxes | 43,675 | 44,195 | 29,084 |
| Total liabilities | 473,096 | 372,513 | 316,441 |

Commitments and contingencies (note 3)

See accompanying notes to financial statements.

Table of Contents**Ulta Salon, Cosmetics & Fragrance, Inc.****Balance Sheets (continued)**

| (In thousands, except per share data) | April 28, 2012 (unaudited) | January 28, 2012 | April 30, 2011 (unaudited) |
|---|----------------------------------|---------------------|----------------------------------|
| Stockholders' equity: | | | |
| Common stock, \$.01 par value, 400,000 shares authorized; 63,438, 62,764 and 61,577 shares issued; 62,883, 60,209 and 61,072 shares outstanding; at April 28, 2012 (unaudited), January 28, 2012 and April 30, 2011 (unaudited), respectively | \$ 634 | \$ 627 | \$ 616 |
| Treasury stock-common, at cost | (7,415) | (7,415) | (4,179) |
| Additional paid-in capital | 432,444 | 404,698 | 363,103 |
| Retained earnings | 159,242 | 186,794 | 89,826 |
| Total stockholders' equity | 584,905 | 584,704 | 449,366 |
| Total liabilities and stockholders' equity | \$ 1,058,001 | \$ 957,217 | \$ 765,807 |

See accompanying notes to financial statements.

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

| (In thousands, except per share data) | 13 Weeks Ended | |
|--|---------------------------|---------------------------|
| | April 28, 2012 | April 30, 2011 |
| Net sales | \$ 474,098 | \$ 386,006 |
| Cost of sales | 303,186 | 251,101 |
| Gross profit | 170,912 | 134,905 |
| Selling, general and administrative expenses | 110,943 | 94,615 |
| Pre-opening expenses | 2,523 | 1,230 |
| Operating income | 57,446 | 39,060 |
| Interest expense | 21 | 173 |
| Income before income taxes | 57,425 | 38,887 |
| Income tax expense | 22,557 | 15,591 |
| Net income | \$ 34,868 | \$ 23,296 |
| Net income per common share: | | |
| Basic | \$ 0.56 | \$ 0.38 |
| Diluted | \$ 0.54 | \$ 0.37 |
| Weighted average common shares outstanding: | | |
| Basic | 62,496 | 60,554 |
| Diluted | 64,072 | 62,758 |
| 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) | 13 Weeks Ended | |
|---|---------------------------|---------------------------|
| | April 28, 2012 | April 30, 2011 |
| Operating activities | | |
| Net income | \$ 34,868 | \$ 23,296 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 20,985 | 17,510 |
| Deferred income taxes | (513) | (942) |
| Non-cash stock compensation charges | 2,893 | 2,808 |
| Excess tax benefits from stock-based compensation | (16,550) | (8,736) |
| Loss on disposal of property and equipment | 255 | 477 |
| Change in operating assets and liabilities: | | |
| Receivables | 3,825 | 6,658 |
| Merchandise inventories | (87,418) | (37,031) |
| Prepaid expenses and other current assets | 3,328 | 277 |
| Income taxes | 18,312 | 15,187 |
| Accounts payable | 25,447 | (5,583) |
| Accrued liabilities | (1,396) | (14,271) |
| Deferred rent | 8,510 | 4,787 |
| Net cash provided by operating activities | 12,546 | 4,437 |
| Investing activities | | |
| Purchases of property and equipment | (24,799) | (19,540) |
| Net cash used in investing activities | (24,799) | (19,540) |
| Financing activities | | |
| Stock options exercised | 8,310 | 11,993 |
| Excess tax benefits from stock-based compensation | 16,550 | 8,736 |
| Net cash provided by financing activities | 24,860 | 20,729 |
| Net increase in cash and cash equivalents | 12,607 | 5,626 |
| Cash and cash equivalents at beginning of period | 253,738 | 111,185 |
| Cash and cash equivalents at end of period | \$ 266,345 | \$ 116,811 |
| Supplemental cash flow information | | |
| Cash paid for income taxes (net of refunds) | \$ 4,864 | \$ 1,346 |
| Noncash investing and financing activities: | | |
| Change in property and equipment included in accrued liabilities | \$ 4,360 | \$ 4,495 |

See accompanying notes to financial statements.

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Ulta Salon, Cosmetics & Fragrance, Inc.

Statement of Stockholders Equity

(unaudited)

| (In thousands) | Common Stock Issued | | Treasury - Common Stock Treasury | | Additional Paid-In Capital | Retained Earnings | Total Stockholders Equity |
|---|------------------------|--------|--|------------|----------------------------------|----------------------|---------------------------------|
| | 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 | 674 | 7 | | | 8,303 | | 8,310 |
| Net income for the 13 weeks ended April 28, 2012 | | | | | | 34,868 | 34,868 |
| Excess tax benefits from stock-based compensation | | | | | 16,550 | | 16,550 |
| Stock compensation charge | | | | | 2,893 | | 2,893 |
| Accrued dividends | | | | | | (62,420) | (62,420) |
| Balance April 28, 2012 | 63,438 | \$ 634 | (555) | \$ (7,415) | \$ 432,444 | \$ 159,242 | \$ 584,905 |

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 April 28, 2012, the Company operated 467 stores in 44 states, as shown in the table below:

| State | Number of stores | State | Number of stores |
|---------------|-------------------------|----------------|-------------------------|
| Alabama | 9 | Missouri | 6 |
| Arizona | 23 | Montana | 1 |
| Arkansas | 3 | Nebraska | 2 |
| California | 42 | Nevada | 6 |
| Colorado | 11 | New Hampshire | 1 |
| Connecticut | 3 | New Jersey | 13 |
| Delaware | 1 | New Mexico | 1 |
| Florida | 31 | New York | 16 |
| Georgia | 20 | North Carolina | 17 |
| Idaho | 1 | North Dakota | 1 |
| Illinois | 37 | Ohio | 15 |
| Indiana | 9 | Oklahoma | 7 |
| Iowa | 4 | Oregon | 5 |
| Kansas | 3 | Pennsylvania | 18 |
| Kentucky | 6 | Rhode Island | 1 |
| Louisiana | 5 | South Carolina | 6 |
| Maine | 2 | Tennessee | 7 |
| Maryland | 8 | Texas | 59 |
| Massachusetts | 6 | Utah | 5 |
| Michigan | 18 | Virginia | 11 |
| Minnesota | 11 | Washington | 8 |
| Mississippi | 3 | Wisconsin | 5 |
| | | Total | 467 |

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 weeks ended April 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 first quarters in fiscal 2012 and 2011 ended on April 28, 2012 and April 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:

| | 13 Weeks Ended | |
|----------------------------------|----------------|----------------|
| | April 28, 2012 | April 30, 2011 |
| Volatility rate | 54.0% | 54.4% |
| Average risk-free interest rate | 1.6% | 2.8% |
| Average expected life (in years) | 6.3 | 6.3 |
| Dividend yield | None | None |

The Company granted 35 and 45 stock options during the 13 weeks ended April 28, 2012 and April 30, 2011, respectively. The weighted-average grant date fair value of these options was \$46.78 and \$26.11, respectively.

The Company recorded stock compensation expense of \$2,893 and \$2,808 for the 13 weeks ended April 28, 2012 and April 30, 2011, respectively. At April 28, 2012, there was approximately \$30,532 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 weeks ended April 28, 2012 and April 30, 2011. Total rent expense under operating leases was \$26,067 and \$21,857 for 13 weeks ended April 28, 2012 and April 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 intends to vigorously defend 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.

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.

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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

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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%.

As of April 28, 2012, January 28, 2012 and April 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 April 28, 2012, the Company held financial liabilities of \$2,486 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.

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 | |
|---|----------------|----------------|
| | April 28, 2012 | April 30, 2011 |
| Net income | \$ 34,868 | \$ 23,296 |
| Denominator for basic net income per share - weighted-average common shares | 62,496 | 60,554 |
| Dilutive effect of stock options and non-vested stock | 1,576 | 2,204 |
| Denominator for diluted net income per share | 64,072 | 62,758 |
| Net income per common share: | | |
| Basic | \$ 0.56 | \$ 0.38 |
| Diluted | \$ 0.54 | \$ 0.37 |

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The denominators for diluted net income per common share for the 13 weeks ended April 28, 2012 and April 30, 2011 exclude 525 and 189 employee stock options, respectively, due to their anti-dilutive effects.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our 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.

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 April 28, 2012, we operated 467 stores across 44 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 channels, expanding our e-commerce 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.

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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 10.1% comparable store sales increase during the first quarter of fiscal 2012. We do not expect the low double digit comparable store sales increases 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.

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 Internet 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.

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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;

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 includes unused facility fees associated with our credit facility, which is structured as an asset based lending instrument. Our interest expense will fluctuate based on the seasonal borrowing requirements associated with acquiring inventory in advance of key holiday selling periods and fluctuation in the variable interest rates we are charged on outstanding balances. 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 first quarters in fiscal 2012 and 2011 ended on April 28, 2012 and April 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:

| | 13 Weeks Ended | | 13 Weeks Ended | |
|--|---|-------------------|--|--|
| | April 28, 2012 (Dollars in thousands) | April 30, 2011 | April 28, 2012 (Percentage of net sales) | April 30, 2011 (Percentage of net sales) |
| Net sales | \$ 474,098 | \$ 386,006 | 100.0% | 100.0% |
| Cost of sales | 303,186 | 251,101 | 64.0% | 65.1% |
| Gross profit | 170,912 | 134,905 | 36.0% | 34.9% |
| Selling, general and administrative expenses | 110,943 | 94,615 | 23.4% | 24.5% |
| Pre-opening expenses | 2,523 | 1,230 | 0.5% | 0.3% |
| Operating income | 57,446 | 39,060 | 12.1% | 10.1% |
| Interest expense | 21 | 173 | 0.0% | 0.0% |
| Income before income taxes | 57,425 | 38,887 | 12.1% | 10.1% |
| Income tax expense | 22,557 | 15,591 | 4.8% | 4.0% |
| Net income | \$ 34,868 | \$ 23,296 | 7.4% | 6.0% |
| Other operating data: | | | | |
| Number of stores end of period | 467 | 394 | | |
| Comparable store sales increase | 10.1% | 11.1% | | |

Comparison of 13 weeks ended April 28, 2012 to 13 weeks ended April 30, 2011**Net sales**

Net sales increased \$88.1 million, or 22.8%, to \$474.1 million for the 13 weeks ended April 28, 2012, compared to \$386.0 million for the 13 weeks ended April 30, 2011. Salon service sales increased \$4.7 million, or 19.7%, to \$28.5 million compared to \$23.8 million in first quarter 2011. The net sales increases are due to comparable stores driving an increase of \$38.0 million and non-comparable store increases of \$50.1 million compared to the first quarter 2011.

Our 10.1% comparable store sales increase included a 7.9% increase in traffic and a 2.2% increase in average ticket. We attribute the increase in comparable store sales to our successful marketing and merchandising strategies.

Gross profit

Gross profit increased \$36.0 million, or 26.7%, to \$170.9 million for the 13 weeks ended April 28, 2012, compared to \$134.9 million for the 13 weeks ended April 30, 2011. Gross profit as a percentage of net sales increased 110 basis points to 36.0% for the 13 weeks ended April 28, 2012, compared to 34.9% for the 13 weeks ended April 30, 2011. The increases in gross profit margin were primarily driven by:

80 basis points improvement in merchandise margins driven by our marketing and merchandising strategies; and

40 basis points of leverage in fixed store costs attributed to the impact of higher sales volume.

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Selling, general and administrative expenses

Selling, general and administrative (SG&A) expenses increased \$16.3 million, or 17.3%, to \$110.9 million for the 13 weeks ended April 28, 2012, compared to \$94.6 million for the 13 weeks ended April 30, 2011. As a percentage of net sales, SG&A expenses decreased 110 basis points to 23.4% for the 13 weeks ended April 28, 2012, compared to 24.5% for the 13 weeks ended April 30, 2011. The leverage in SG&A expenses is primarily attributed to:

70 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 \$1.3 million to \$2.5 million for the 13 weeks ended April 28, 2012, compared to \$1.2 million for the 13 weeks ended April 30, 2011. During the 13 weeks ended April 28, 2012, we opened 18 new stores and relocated 1 store, compared to 5 new store openings, 1 relocated store and 2 remodeled stores during the 13 weeks ended April 30, 2011.

Interest expense

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

Income tax expense

Income tax expense of \$22.6 million for the 13 weeks ended April 28, 2012 represents an effective tax rate of 39.3%, compared to \$15.6 million of tax expense representing an effective tax rate of 40.1% for the 13 weeks ended April 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 \$11.6 million, or 49.7%, to \$34.9 million for the 13 weeks ended April 28, 2012, compared to \$23.3 million for the 13 weeks ended April 30, 2011. The increase is primarily related to the \$36.0 million increase in gross profit, offset by a \$16.3 million increase in SG&A expenses and a \$7.0 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, and for continued improvement in our information technology systems.

Our primary sources of liquidity are 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.

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The following table presents a summary of our cash flows:

| (In thousands) | 13 Weeks Ended | |
|---|-------------------|-------------------|
| | April 28, 2012 | April 30, 2011 |
| Net cash provided by operating activities | \$ 12,546 | \$ 4,437 |
| Net cash used in investing activities | (24,799) | (19,540) |
| Net cash provided by financing activities | 24,860 | 20,729 |
| Net increase in cash and cash equivalents | \$ 12,607 | \$ 5,626 |

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 \$332.1 million at April 28, 2012, compared to \$255.5 million at April 30, 2011, representing an increase of \$76.6 million. The increase is primarily due to the addition of 73 net new stores opened since April 30, 2011 and the opening of the Chambersburg, Pennsylvania distribution center.

Deferred rent liabilities were \$172.0 million at April 28, 2012, an increase of \$32.6 million compared to April 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 73 net new stores opened since April 30, 2011 and the opening of the Chambersburg, Pennsylvania distribution center.

The \$18.3 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 \$24.8 million during the 13 weeks ended April 28, 2012, compared to \$19.5 million during the 13 weeks ended April 30, 2011. The increase in capital expenditures year over year is primarily due to the increased number of new store openings during fiscal 2012.

Financing activities

Financing activities in fiscal 2012 consist principally of capital stock transactions. We had no borrowings outstanding under our credit facility as of April 28, 2012, January 28, 2012 and April 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 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.

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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 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%.

As of April 28, 2012, January 28, 2012 and April 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 April 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 13 weeks ended April 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.

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 three month period ended April 28, 2012. The interest expense recognized in our statement of income represents 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.

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Based on management's evaluation as of April 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

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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 13 weeks ended April 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 intends to vigorously defend 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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

Table of Contents**Item 6. Exhibits**

| Exhibit Number | Description of document | Filed Herewith | Form | Incorporated by Reference | | |
|----------------|---|----------------|------|---------------------------|-------------|-------------|
| | | | | 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 |
| 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.

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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 5, 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