

Ulta Salon, Cosmetics & Fragrance, Inc.

Form DEF 14A

May 02, 2011

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**United States Securities And Exchange Commission
Washington, D.C. 20549
SCHEDULE 14A
PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934
(AMENDMENT NO.____)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under Rule 14a-12

ULTA SALON, COSMETICS & FRAGRANCE, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the

Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON JUNE 2, 2011**

TO THE STOCKHOLDERS OF ULTA SALON, COSMETICS & FRAGRANCE, INC.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Ulta Salon, Cosmetics & Fragrance, Inc. (Ulta or the Company), a Delaware corporation, will be held on Thursday, June 2, 2011, at 10:00 A.M. local time, at Ulta s headquarters located at 1000 Remington Blvd., Suite 120, Bolingbrook, Illinois 60440, for the following purposes:

1. To elect Dennis K. Eck, Charles J. Philippin and Kenneth T. Stevens as Class I Directors to hold office until the 2014 Annual Meeting of Stockholders;
2. To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm, for our fiscal year 2011, ending January 28, 2012;
3. To vote on an advisory resolution on the Company s executive compensation;
4. To vote on the frequency of future stockholder advisory votes on the Company s executive compensation;
5. To approve the 2011 Incentive Award Plan; and
6. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice.

The Board of Directors has fixed the close of business on April 11, 2011, as the record date for the determination of stockholders entitled to notice of and to vote on the items listed above at this Annual Meeting and at any adjournment or postponement thereof.

By Order of the Board of Directors

Robert S. Guttman
Senior Vice President, General Counsel and Secretary

May 2, 2011

**Important notice regarding availability of proxy materials
for Ulta's 2011 Annual Meeting of Stockholders to be held on June 2, 2011:**

**The Proxy Statement and Annual Report to Stockholders on Form 10-K
for the year ended January 29, 2011 are available at <http://ir.ulta.com>.**

Brokers cannot vote for Proposals 1, 3, 4 and 5 without your instructions.

YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON, KINDLY MARK, SIGN AND DATE THE ENCLOSED PROXY CARD AND RETURN IT PROMPTLY IN THE ENCLOSED ENVELOPE (WHICH IS POSTAGE PREPAID, IF MAILED IN THE UNITED STATES). EVEN IF YOU HAVE GIVEN YOUR PROXY, YOU MAY STILL REVOKE YOUR PROXY AND VOTE IN PERSON IF YOU ATTEND THE MEETING. PLEASE NOTE, HOWEVER, THAT IF YOUR SHARES OF RECORD ARE HELD BY A BROKER, BANK OR OTHER NOMINEE AND YOU WISH TO VOTE AT THE MEETING, YOU MUST OBTAIN FROM THE RECORD HOLDER A PROXY ISSUED IN YOUR NAME.

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**1000 Remington Blvd., Suite 120
Bolingbrook, IL 60440**

**PROXY STATEMENT
FOR ANNUAL MEETING OF STOCKHOLDERS**

JUNE 2, 2011

ARTICLE I. PROXY MATERIALS AND ANNUAL MEETING

QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS AND THE ANNUAL MEETING

1. Q: General Why am I receiving these materials?

A: On or about May 2, 2011, we sent the Notice of Annual Meeting of Stockholders, Proxy Statement and Proxy Card to you, and to all stockholders of record as of the close of business on April 11, 2011, because the Board of Directors of Ulta is soliciting your proxy to vote at the 2011 Annual Meeting of Stockholders. Also enclosed are our 2010 Annual Report and Form 10-K for fiscal 2010, which, along with our Proxy Statement, are also available at the Investor Relations section of our website at <http://ir.ulta.com>.

2. Q: Date, Time and Place When and where is the Annual Meeting of Stockholders?

A: The Annual Meeting of Stockholders will be held on Thursday, June 2, 2011, at 10:00 A.M. local time, at Ulta's headquarters located at 1000 Remington Blvd., Suite 120, Bolingbrook, Illinois 60440.

3. Q: Purpose What is the purpose of the Annual Meeting of Stockholders?

A: At our Annual Meeting, stockholders will act upon the matters outlined in this Proxy Statement and in the Notice of Annual Meeting on the cover page of this Proxy Statement. Following the Annual Meeting, management will respond, if applicable, to questions from stockholders and may make a presentation on our performance.

4. Q: Attending the Annual Meeting How can I attend the Annual Meeting?

A: You will be admitted to the Annual Meeting if you were an Ulta stockholder or joint holder as of the close of business on April 11, 2011, or you hold a valid proxy for the Annual Meeting. You should be prepared to present photo identification for admittance. In addition, if you are a stockholder of record, your name will be verified against the list of stockholders of record prior to admittance to the Annual Meeting. If you are not a stockholder of record but hold shares through a broker, trustee or nominee, you should provide proof of beneficial ownership on the record date, such as your most recent account statement prior to April 11, 2011, a copy of the voting instruction card provided by your broker, trustee or nominee, or other similar evidence of ownership. If a stockholder is an entity and not a natural person, a maximum of two representatives per such stockholder will be admitted to the Annual Meeting. Such representatives must comply with the procedures outlined above and must also present evidence of authority to represent such entity. If a stockholder is a

natural person and not an entity, such stockholder and his/her immediate family members will be admitted to the Annual Meeting, provided they comply with the above procedures. In order to be admitted to the Annual Meeting, all attendees must provide photo identification and comply with the other procedures outlined above upon request.

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5. Q: Multiple Sets of Proxy Materials What should I do if I receive more than one set of voting materials?

A: You may receive more than one set of voting materials, including multiple copies of this Proxy Statement and multiple Proxy Cards or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you may receive a separate voting instruction card for each brokerage account. If you are a stockholder of record and your shares are registered in more than one name, you will receive more than one Proxy Card. Please vote each Proxy Card and voting instruction card that you receive.

6. Q: Record Holders and Beneficial Owners What is the difference between holding shares as a Record Holder versus a Beneficial Owner?

A: Most Ulta stockholders hold their shares through a broker or other nominee rather than directly in their own name. There are some distinctions between shares held of record and those owned beneficially:

Record Holders If your shares are registered directly in your name with our Transfer Agent, American Stock Transfer & Trust Company, you are considered, with respect to those shares, the stockholder of record or Record Holder. As the stockholder of record, you have the right to grant your voting proxy directly to Ulta or to vote in person at the Annual Meeting. We have enclosed or sent a Proxy Card for you to use.

Beneficial Owner If your shares are held in a brokerage account or by another nominee, you are considered the Beneficial Owner of shares held in street name, and these proxy materials are being forwarded to you automatically, along with a voting instruction card from your broker, trustee or nominee. As a Beneficial Owner, you have the right to direct your broker, trustee or nominee how to vote and are also invited to attend the Annual Meeting. Since a Beneficial Owner is not the stockholder of record, you may not vote these shares in person at the meeting unless you obtain a legal proxy from the broker, trustee or nominee that holds your shares, giving you the right to vote the shares at the meeting. Your broker, trustee or nominee has enclosed or provided voting instructions for you to use in directing how to vote your shares. If you do not provide specific voting instructions to your broker by May 23, 2011 (10 days before the Annual Meeting), your broker can vote your shares with respect to discretionary items, but not with respect to non-discretionary items. The election of Directors (Proposal 1), the advisory vote on executive compensation (Proposal 3), the advisory vote on the frequency of future advisory votes on executive compensation (Proposal 4) and the approval of the 2011 Incentive Award Plan (Proposal 5) are considered non-discretionary items, while the ratification of the appointment of our independent registered public accounting firm (Proposal 2) is considered a discretionary item. On non-discretionary items for which you do not give your broker instructions, the shares will be treated as broker non-votes.

7. Q: Voting Who can vote and how do I vote?

A: Only holders of our common stock at the close of business on April 11, 2011 will be entitled to notice of and to vote at the Annual Meeting. At the close of business on April 11, 2011, we had outstanding and entitled to vote 60,944,626 shares of common stock. Each holder of our common stock on such date will be entitled to one vote for each share held on all matters to be voted upon at the Annual Meeting.

To ensure that your vote is recorded promptly, please vote as soon as possible, even if you plan to attend the Annual Meeting in person. Most stockholders have two options for submitting their votes:

by mail, using the paper Proxy Card; or

in person at the Annual Meeting with a Proxy Card/legal proxy.

For further instructions on voting, see your Proxy Card. If you attend the Annual Meeting, you may also submit your vote in person, and any previous votes that you submitted by mail will be superseded by the vote that you cast at the Annual Meeting. Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to vote at the Annual Meeting, you must obtain from the Record Holder a legal proxy issued in your name.

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8. Q: Revocation of Proxy May I change my vote after I return my proxy?

A: Yes. Even after you have submitted your proxy/vote, you may revoke or change your vote at any time before the proxy is exercised by (i) the timely delivery of a valid, later-dated proxy, timely written notice of revocation with our Corporate Secretary at our principal executive offices at 1000 Remington Blvd., Suite 120, Bolingbrook, IL 60440; or (ii) by attending the Annual Meeting and voting in person. Attendance at the Annual Meeting will not, by itself, revoke a proxy.

9. Q: Quorum What constitutes a quorum?

A: Presence at the Annual Meeting, in person or by proxy, of the holders of a majority of the common stock outstanding on April 11, 2011 will constitute a quorum, permitting the Annual Meeting to proceed and business to be conducted. As of April 11, 2011, 60,944,626 shares of common stock, representing the same number of votes, were outstanding. Thus, the presence of the holders of common stock representing at least 30,472,314 votes will be required to establish a quorum. Proxies received but marked as abstentions and broker non-votes will be included in the calculation of the number of votes considered to be present at the meeting.

10. Q: Voting Results Where can I find the voting results of the Annual Meeting?

A: We will publish final results on a Current Report on Form 8-K within four business days of the Annual Meeting. We will publish the frequency with which we will hold future advisory votes on executive compensation as an amendment to this Current Report on Form 8-K no later than October 28, 2011.

11. Q: Solicitation Who will pay the costs of soliciting these proxies?

A: We will bear the entire cost of solicitation of proxies, including preparation, assembly, printing and mailing of this Proxy Statement, the Proxy Card and any additional information furnished to stockholders. Copies of solicitation materials will be furnished to banks, brokerage houses, fiduciaries and custodians holding shares of common stock beneficially owned by others to forward to such Beneficial Owners. We may reimburse persons representing Beneficial Owners of common stock for their reasonable costs of forwarding solicitation materials to such Beneficial Owners. Original solicitation of proxies may be supplemented by electronic means, mail, facsimile, telephone or personal solicitation by our Directors, officers or other employees. No additional compensation will be paid to our Directors, officers or other regular employees for such services.

12. Q: Additional Matters at the Annual Meeting What happens if additional matters are presented at the Annual Meeting?

A: Other than the five proposals described in this Proxy Statement, we are not aware of any other properly submitted business to be acted upon at the Annual Meeting. If you grant a proxy, the persons named as proxy holders, Carl Chuck Rubin, our Chief Executive Officer and President, and Robert S. Guttman, our Senior Vice President, General Counsel and Secretary, will have the discretion to vote your shares on any additional matters properly presented for a vote at the meeting. If, for any unforeseen reason, any of our nominees are not available as a candidate for Director, the persons named as proxy holders will vote your proxy for such other candidate or candidates as may be nominated by the Board of Directors.

13. Q: Stockholder Proposals What is the deadline to propose actions for consideration at next year's Annual Meeting of Stockholders, or to nominate individuals to serve as Directors?

A: Pursuant to Rule 14a-8 under the Securities Exchange Act of 1934 (the Exchange Act), the deadline for submitting a stockholder proposal for inclusion in our Proxy Statement and Proxy Card for our 2012 Annual Meeting of Stockholders is December 31, 2011. Under our Bylaws, stockholders who wish to bring matters or propose Director nominees at our 2012 Annual Meeting of Stockholders must provide specified information to us no earlier than February 3, 2012 and no later than March 4, 2012. Stockholders are also advised to review our Bylaws, which contain additional requirements with respect to advance notice of stockholder proposals and Director nominations. Proposals by stockholders must be mailed to our Corporate Secretary at our principal executive offices at 1000 Remington Blvd., Suite 120, Bolingbrook, IL 60440.

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14. Q: Nomination of Directors How do I submit a proposed Director nominee to the Board of Directors for consideration?

A: You may propose Director nominees for consideration by the Board of Directors nominating and corporate governance committee. Any such recommendation should include the nominee's name and qualifications for Board membership and should be directed to our Corporate Secretary at the address of our principal executive offices set forth above. Such recommendation should disclose all relationships that could give rise to a lack of independence and also contain a statement signed by the nominee acknowledging that he or she will owe a fiduciary obligation to Ulta and our stockholders. The section titled Corporate Governance and the Board of Directors below provides additional information on the nomination process. In addition, please review our Bylaws in connection with nominating a Director for election at our Annual Meeting of Stockholders.

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Over the course of Ulta's history, the Board of Directors has developed corporate governance practices consistent with its duties of good faith, due care and loyalty, to help fulfill its responsibilities to our stockholders.

Board of Directors meetings and committees

During the fiscal year ended January 29, 2011, the Board of Directors held 13 meetings. Commencing fiscal year 2003, Mr. Eck became our Non-Executive Chairman and typically presides over meetings of the full Board as well as executive sessions. The Board of Directors has an audit committee, a nominating and corporate governance committee and a compensation committee. In June 2010, certain of our directors and other stockholders registered and sold shares of our common stock in a secondary offering. Due to the interest of those certain directors in this transaction, the Board of Directors formed an independent special committee to consider issues related to the secondary offering. The special committee met 2 times during the 2010 fiscal year and was comprised of Messrs. Eck, DiRomualdo, Heilbronn, Philippin and Rubin. During fiscal year 2010, Mr. Lebow attended fewer than 75% of the aggregate meetings of the Board of Directors and of the committees on which he served that were held during the period for which he was a Director or committee member. Directors are invited and are expected to attend the Annual Meeting of Stockholders, and all but one of our Directors then in office attended our 2010 Annual Meeting of Stockholders.

Committee Composition: The following table provides the composition of each of our committees as of January 29, 2011:

Director	Audit Committee(1)	Nominating and Corporate Governance Committee	Compensation Committee(2)
Dennis K. Eck*			
Hervé J.F. Defforey			
Robert F. DiRomualdo	ü		
Charles Heilbronn			ü
Lynelle P. Kirby			
Lorna E. Nagler		ü	ü
Charles J. Philippin	ü		
Chuck Rubin			
Yves Sisteron		ü	

- (1) Additional information regarding the audit committee can be found starting on Page 21.
- (2) Additional information regarding the compensation committee can be found starting on Page 23.

* Non-Executive Chairman of the Board.

Committee chairman.

Board leadership structure

We currently separate the roles of Chief Executive Officer and Chairman of the Board in recognition of the differences between these two roles. Our Board is led by an independent, non-executive Chairman. We believe that this leadership structure enhances the accountability of the Chief Executive Officer to the Board, strengthens the Board's independence from management and ensures a greater role for the independent Directors in the oversight of our Company. In addition, separating these roles allows our Chief Executive Officer to focus his efforts on running our business and managing our Company in the best interests of our stockholders, while the Chairman provides

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guidance to the Chief Executive Officer and sets the agenda for Board meetings and establishes priorities and procedures for the work of the full Board. The Chairman presides over meetings of the full Board as well as executive sessions, which the Board generally holds several times a year, both telephonically and in conjunction with in-person meetings of the full Board. The Board recognizes that no single leadership model is right for all companies and at all times and that, depending on the circumstances, other leadership models, such as combining the Chairman and Chief Executive Officer roles, might be appropriate. Accordingly, the Board periodically reviews its leadership structure.

Independence

Board member independence is an essential element of Ulta corporate governance. The Board of Directors has determined that each of the current non-employee Directors and each nominee for Director is free of any relationship that would interfere with his or her individual exercise of independent judgment with regard to Ulta. Chuck Rubin, Chief Executive Officer and President, is currently the sole member of the Board of Directors that is not independent due to his office with Ulta. Each member of the nominating and corporate governance committee, compensation committee and audit committee satisfy the current independence requirements of NASDAQ and the SEC.

Board role in risk oversight

Our Board of Directors oversees an enterprise-wide approach to risk management, designed to support the achievement of organizational objectives, including strategic objectives, to improve long-term organizational performance and enhance stockholder value. Management is responsible for the Company's day-to-day risk management activities and processes, and our Board's role is to engage in informed oversight of and provide direction with respect to such risk management activities and processes. The Board recognizes that a fundamental part of risk management is not only understanding the risks our Company faces and the steps management is taking to manage those risks, but also understanding what level of risk is appropriate for our Company. As such, the Board focuses on understanding the nature of our enterprise risks, including operational, financial, legal and regulatory, strategic and reputational risks, as well as the adequacy of our risk assessment and risk management processes. To facilitate such an understanding, the Board and its committees receive management updates on our business operations, financial results and strategy, and the Board discusses and provides direction with respect to risks related to those topics.

While the Board has the ultimate oversight responsibility for the risk management process, various committees of the Board also have responsibility for risk management. The audit committee oversees risks associated with financial accounting and audits, as well as internal control over financial reporting. The audit committee assists the Board in its oversight by discussing with management our Company's risk assessment and management policies, the Company's significant financial risk exposures and the actions taken by management to limit, monitor or control such exposures. The compensation committee oversees the risks relating to the Company's compensation policies and practices. In setting compensation, the compensation committee strives to create incentives that encourage a level of risk-taking behavior consistent with the Company's business strategy. The compensation committee also oversees the risks relating to the Company's management development and leadership succession. The nominating and corporate governance committee oversees the implementation of the Company's Code of Business Conduct and monitors compliance therewith.

Nominating and corporate governance committee

The nominating and corporate governance committee acts under a written charter that was approved by the Board of Directors and has been published under "Corporate Governance" in the Investor Relations section of the Ulta website at <http://ir.ulta.com>. The primary responsibility of the nominating and corporate governance committee is to recommend to the Board of Directors candidates for nomination as Directors and membership on committees of the Board. The committee reviews the performance and independence of each Director, and in appropriate circumstances, may

recommend the removal of a Director for cause. The committee oversees the

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evaluation of the Board of Directors and makes recommendations to improve performance. The committee also recommends to the Board of Directors policies with respect to corporate governance. During fiscal year 2010, the nominating and corporate governance committee was composed of the following independent Directors: Messrs. Heilbronn (Chairman) and Sisteron and Ms. Nagler. The Board of Directors has determined that each committee member qualifies as a nonemployee director under rules and regulations of the Securities and Exchange Commission (the SEC), as well as the independence requirements of NASDAQ. The nominating and corporate governance committee met 2 times during fiscal year 2010.

Nominating and corporate governance committee charter

The nominating and corporate governance committee charter identifies the roles and responsibilities that govern the nominating and corporate governance committee, such as:

identifying qualified candidates to become Board members;

selecting nominees for election as Directors at the next annual meeting of stockholders (or special meeting of stockholders at which Directors are to be elected);

selecting candidates to fill any vacancies on the Board;

reviewing the composition of the committees of the Board and making recommendations to the Board regarding committee membership;

overseeing the implementation of and monitoring compliance with Ulta's Code of Business Conduct (other than with respect to complaints regarding accounting issues, as more fully set forth in the audit committee charter); and

overseeing the evaluation of the Board.

Nomination process qualifications

The nominating and corporate governance committee is responsible for reviewing the appropriate skills and characteristics required of Directors in the context of prevailing business conditions, and in its nominating committee capacity, for making recommendations regarding the size and composition of the Board of Directors. The objective of the nominating and corporate governance committee is to create and sustain a Board of Directors that brings to Ulta a variety of perspectives and skills derived from high-quality business and professional experience. Pursuant to its charter, the nominating and corporate governance committee annually assesses the experience, expertise, capabilities, skills and diversity of the members of the Board, individually and collectively, and considers these factors when evaluating Director candidates. In this regard, both the Board and the nominating and corporate governance committee believe that it is essential for Board members to represent diverse viewpoints based upon differences in professional experience, education, skill and other individual qualities and attributes that contribute to an active, effective Board. Although there are no specific minimum qualifications that a Director candidate must possess, the nominating and corporate governance committee recommends those candidates who possess the highest personal and professional integrity, have prior experience in corporate management and the industry, maintain academic or operational expertise in an area of our business and demonstrate practical and mature business judgment.

We will consider all stockholder recommendations for candidates for the Board of Directors and, to date, we have not received a timely Director nominee from a stockholder. Stockholders who want to suggest a candidate for consideration should send a written notice, addressed to the Corporate Secretary at our principal executive offices at

1000 Remington Blvd., Suite 120, Bolingbrook, IL 60440. Further details about the nomination process may be found in the answer to Question 14 above, entitled "Nomination of Directors - How do I submit a proposed Director nominee to the Board of Directors for consideration?"

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This notice must include the following information for each candidate the stockholder proposes to nominate:

(1) name, age, business address and residence address, (2) principal occupation or employment, (3) class and number of shares of capital stock beneficially owned by such candidate and (4) and any other information relating to the candidate that is required to be disclosed in solicitations for proxies for the election of Directors pursuant to applicable SEC rules. In addition, the stockholder giving such notice must include his or her (1) name and record address and (2) the class and number of shares such stockholder beneficially owns.

We also consider potential Director candidates recommended by current Directors, officers, employees and others. We may also retain the services of search firms to provide us with candidates, especially when we are looking for a candidate with a particular expertise, quality, skill or background. The nominating and corporate governance committee screens all potential candidates in the same manner, regardless of the source of the recommendation. Our review is typically based on any written materials provided with respect to potential candidates, and we review such materials to determine the qualifications, experience and background of the candidates. Final candidates are typically interviewed by members of the committee and other members of the Board, as appropriate. In making its determinations, the committee evaluates each individual in the context of our Board of Directors as a whole, with the objective of assembling a group that can best perpetuate the success of our Company and represent stockholder interests through the exercise of sound judgment. After review and deliberation of all feedback and data, the committee makes a recommendation to the full Board of Directors regarding whom should be nominated by the Board of Directors.

Code of Business Conduct

All Ulta employees, officers and members of the Board of Directors must act ethically at all times and in accordance with the policies comprising the Ulta Code of Business Conduct. We demand full compliance with this policy from employees, officers and members of the Board of Directors, including our Chief Executive Officer, Chief Financial Officer and such other individuals performing similar functions. Moreover, all corporate employees, officers and members of the Board of Directors have signed a certificate acknowledging that they have read, understood and will continue to comply with the policy, and all corporate employees and officers are required to read and acknowledge this policy on an annual basis. Ulta includes the Code of Business Conduct in new hire materials for all corporate employees. The policy is published and any amendments or waivers thereto will be published under Corporate Governance in the Investor Relations section of the Ulta website located at <http://ir.ulta.com>.

Disclosure committee

The disclosure committee is a management committee that acts under a written charter approved by the audit committee. Its primary responsibility is to assist our Chief Executive Officer and Chief Financial Officer in fulfilling their responsibility for oversight of the accuracy and timeliness of our disclosures. Management and the disclosure committee have established disclosure controls and procedures designed to ensure that disclosures required by the SEC and other written information to be disclosed to the investment community are recorded, processed, summarized and reported accurately on a timely basis. These disclosure controls and procedures are monitored and evaluated for their effectiveness on a regular basis. The disclosure committee, in conjunction with management, reviews and approves the preparation of SEC filings and various documents distributed to the investment community containing financial information or other material information. The disclosure committee discusses all relevant information with our Chief Executive Officer and Chief Financial Officer and, if needed, the Board of Directors and the audit committee.

Stockholder communication

Any stockholder is free to communicate in writing with the Board of Directors on matters pertaining to Ulta by addressing their comments to the Board of Directors, c/o General Counsel, Ulta Salon, Cosmetics & Fragrance, Inc., 1000 Remington Blvd., Suite 120, Bolingbrook, IL 60440, or by e-mail at InvestorRelations@ulta.com. Our General Counsel will review all correspondence addressed to our Board of Directors, or any individual Director, for

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any inappropriate correspondence and correspondence more suitably directed to management. Our General Counsel will forward appropriate stockholder communications to our Board of Directors prior to the next regularly scheduled meeting of our Board of Directors following the receipt of the communication. Our General Counsel will summarize all correspondence not forwarded to our Board of Directors and make the correspondence available to our Board of Directors for its review upon our Board of Directors' request.

PROPOSAL ONE

ELECTION OF DIRECTORS

Our Amended and Restated Certificate of Incorporation provides that our Board of Directors be divided into three classes designated Class I, Class II and Class III, with each class consisting, as nearly as possible, of one-third of the total number of Directors. Each class serves a three-year term with one class being elected at each year's annual meeting of stockholders, beginning in 2008. Vacancies on our Board of Directors may be filled by persons elected by a majority of the remaining Directors. A Director elected by our Board of Directors to fill a vacancy, including a vacancy created by an increase in size of our Board of Directors, will serve for the remainder of the full term of the class of Directors in which the vacancy occurred and until that Director's successor is elected and qualified.

The Board of Directors is presently composed of eight members, seven of whom are non-employee, independent Directors. Each Director was elected to the Board of Directors to serve until a successor is duly elected and qualified or until his or her death, resignation or removal. There is currently one vacancy resulting from the planned resignation of Ms. Kirby effective March 17, 2011. The Board expects to fill this vacancy as soon as practicable. Messrs. Eck, Philippin and Sisteron are the Class I Directors whose terms expire in 2011. Mr. Sisteron will not stand for re-election at this Annual Meeting. Messrs. Eck and Philippin are nominees for re-election, and Kenneth T. Stevens is a nominee for election to the Board of Directors. Mr. Stevens, who is standing for election by the stockholders at this Annual Meeting for the first time, was first identified as a candidate for the Board of Directors by our Chief Executive Officer and was recommended by the nominating and corporate governance committee. If elected at the Annual Meeting, each of the nominees would serve until the 2014 Annual Meeting of Stockholders and until their successors are elected and qualified, or until their death, resignation or removal. Messrs. Defforey and DiRomualdo and Ms. Nagler are the Class II Directors with terms expiring in 2012, and Messrs. Heilbronn and Rubin are the Class III Directors with terms expiring in 2013.

The affirmative vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting will be required to approve the nominees for election and re-election. Abstentions will be counted toward the tabulation of votes cast on proposals presented to the stockholders and will have the same effect as negative votes. Broker non-votes will be counted towards a quorum, but will not be counted for any purpose in determining whether this matter has been ratified.

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Set forth below is biographical information for each nominee for election for a three-year term expiring at the 2014 Annual Meeting:

Name	Age	Positions with Us / Principal Occupations / Business Experience	Director Since
Dennis K. Eck	67	<p>Mr. Eck has been the Non-Executive Chairman of our Board since October 2003. From November 1997 to September 2001, Mr. Eck served as Chief Executive Officer and a director of Coles Myer LTD Australia, one of Australia's largest retailers. Prior to that, Mr. Eck served in various other executive roles with Coles Myer, including as Chief Operating Officer and a director from April 1997 to November 1997, Managing Director of Basic Needs from November 1996 to April 1997, and Managing Director of Supermarkets from May 1994 to November 1996. Prior to 1994, Mr. Eck served as President, Chief Operating Officer and a director of The Vons Companies Inc., as the Vice Chairman of the Board and Executive Vice President of American Stores, Inc., as Chairman and Chief Executive Officer of American Food and Drug, as President, Chief Executive Officer and a director of American Food and Drug, and as President and Chief Operating Officer of Acme Markets, Inc. He also served in executive roles of increasing responsibility at Savon Drug Inc. and Jewel Food Stores. In 2000, Mr. Eck was named the Astute Business Leader of the Year in Australia by the Association of Chartered Accountants.</p> <p>The Board benefits from Mr. Eck's ability to provide the perspective of an experienced Chief Executive Officer based upon his leadership at a large international corporation with operations worldwide. Running a public company exposed Mr. Eck to many of the issues facing public companies, including on the operational, financial and corporate governance fronts. His years of executive and managerial experience also enable him to bring demonstrated management ability at senior levels to the Board. Additionally, his experience leading complex organizations with large employee bases has given him expertise in executive compensation programs, making him well-suited to chair our compensation committee.</p>	2003

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Name	Age	Positions with Us / Principal Occupations / Business Experience	Director Since
Charles J. Philippin	61	<p>Mr. Philippin was a principal of Garmark Advisors, a mezzanine investment fund, from 2002 until his retirement in February 2008. From 2000 to 2002, Mr. Philippin served as Chief Executive Officer of Online Retail Partners. From 1994 to 2000, Mr. Philippin was a member of the Management Committee of Investcorp International Inc., a global investment group. Prior to 1994, Mr. Philippin was a partner of PricewaterhouseCoopers, where he served as National Director of Mergers & Acquisitions. Mr. Philippin is a director and chairman of the audit committee of Alliance Laundry Systems and of Aquilex Corporation. Mr. Philippin has also served as a director and chairman of the audit committee of CSK Auto, Inc., as a director, audit committee member and compensation committee member of Competitive Technologies and as a director of Samsonite Corporation and Saks Fifth Avenue.</p> <p>Mr. Philippin brings to the Board a wealth of experience dealing with and overseeing the implementation of accounting principles and financial reporting rules and regulations. With his extensive experience chairing public company audit committees and in various senior management positions in the financial services sector, Mr. Philippin provides relevant expertise on investment and financial matters. His accounting experience, together with his knowledge of financial reporting rules and regulations, makes him a valued addition to our audit committee.</p>	2008

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Name	Age	Positions with Us / Principal Occupations / Business Experience	Director Since
Kenneth T. Stevens	59	<p>Mr. Stevens was the Chief Executive Officer and a director of philosophy, Inc., a skin care and beauty company, from 2009 to April 2011. From 2007 to 2008, he served as President and Chief Operating Officer of Tween Brands, Inc., a publicly traded retailer. From 2002 until 2006, Mr. Stevens held various executive positions at Limited Brands, Inc. and its subsidiaries, including Executive Vice President and Chief Financial Officer of Limited Brands, Inc., Chief Executive Officer of Express and President of Bath & Body Works. Prior to 2002, Mr. Stevens held senior leadership positions at several public and private companies, including in Chord Communications, Bank One Retail Group, Taco Bell Corporation and PepsiCo, Inc. From 1983 to 1991, Mr. Stevens was a partner at McKinsey & Company, Inc. Mr. Stevens currently serves as a director and chairman of the audit committee of Cost Plus, Inc. He previously served as a director and audit committee member of Spartan Stores, Inc. and La Quinta Inns, Inc. and as a director, audit committee member and chairman of the compensation committee of Virgin Mobile USA, Inc.</p> <p>Mr. Stevens will bring over twenty years of executive experience to the Board, including expertise in financial, management, strategic and operational matters. Additionally, as the Chief Executive Officer of a cosmetics company, Mr. Stevens had firsthand exposure to many of the issues facing retailers, including companies like Ulta. The Board also will benefit from the insight Mr. Stevens has gained through his service as a board and committee member of four public companies and from his knowledge of accounting principles and financial reporting rules and regulations.</p>	N/A

THE BOARD OF DIRECTORS RECOMMENDS A VOTE IN FAVOR OF EACH NAMED NOMINEE

Table of Contents**INFORMATION ABOUT OUR BOARD OF DIRECTORS****Directors continuing in office until the 2012 Annual Meeting:**

Name	Age	Positions with Us / Principal Occupations / Business Experience	Director Since
Hervé J.F. Defforey	61	Mr. Defforey has been an operating partner of GRP, a venture capital firm, since September 2007. Prior to September 2007, Mr. Defforey was a partner in GRP Europe Ltd. from November 2001 to September 2007 and Chief Financial Officer and Managing Director of Carrefour S.A. from 1991 to 2001. Prior to 1991, Mr. Defforey served as Treasurer at BMW Group, General Manager of various BMW AG group subsidiaries and also held senior positions at Chase Manhattan Bank, EBRO Agrícolas, S.A. and Nestlé S.A. Mr. Defforey is chairman of the supervisory board as well as a member of the audit, nominating and strategy committees of X5 Retail Group NV, a director and audit committee member of IFCO Systems NV and a director of Kyriba, Inc. He previously served as a director of PrePay Technologies Ltd. Mr. Defforey holds a master's degree in business administration from St. Gallen University.	2004

Mr. Defforey has valuable experience serving on audit committees of public companies and qualifies as an audit committee financial expert. His background as Chief Financial Officer of Carrefour and as Treasurer of BMW Group and his overall financial and accounting expertise make Mr. Defforey particularly well-suited in assisting our Board with its financial oversight and reporting responsibilities. As a result of his professional experiences and strong financial background, Mr. Defforey serves as the Chairman of our audit committee. In addition, Mr. Defforey possesses experience in the retail sector and brings his background in marketing to the Board.

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Name	Age	Positions with Us / Principal Occupations / Business Experience	Director Since
Robert F. DiRomualdo	66	<p>Mr. DiRomualdo is Chairman and Chief Executive Officer of Naples Ventures, LLC, a private investment company that he formed in 2002. Prior to 2002, Mr. DiRomualdo served in various roles at Borders Group, Inc. and its predecessor companies, including as Chairman of the Board and Chief Executive Officer, and as President and Chief Executive Officer of Hickory Farms. Mr. DiRomualdo was a director of Bill Me Later, Inc., where he served as chairman of the compensation committee and as a member of the audit committee. Mr. DiRomualdo has lectured frequently at the Wharton School of the University of Pennsylvania and Harvard Business School, in addition to other educational institutions, on a pro bono basis. He holds a master's degree in business administration from Harvard Business School.</p> <p>Mr. DiRomualdo's qualifications for the Board include his ability to provide the insight and perspectives of a successful and long-serving Chairman and Chief Executive Officer of a major retail company, during which time he was instrumental in the development and implementation of a growth strategy that led to the company's expansion into major domestic and international markets. He also oversaw a public stock offering and listing on the New York Stock Exchange by Borders Group as well as its birth into the Fortune 500. Due to his experience supervising the principal financial officer of Borders Group as well as his previous committee experience, Mr. DiRomualdo provides valuable insight as a member of our audit committee.</p>	2004

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Name	Age	Positions with Us / Principal Occupations / Business Experience	Director Since
Lorna E. Nagler	54	<p>Ms. Nagler is President of Bealls Department Stores, Inc. and has served in this position since January 2011. She served as President and Chief Executive Officer of Christopher & Banks Corporation, a specialty retailer of women's clothing, from August 2007 to October 2010. She also served as a director of Christopher & Banks. From 2004 to 2007, Ms. Nagler was President of Lane Bryant, a division of Charming Shoppes, Inc., a women's apparel company. From 2002 to 2004, she was President of Catherines Stores, also a division of Charming Shoppes, Inc. From 1996 to 2002, Ms. Nagler held various retail management positions with Kmart Corporation, including Senior Vice President, General Merchandise Manager of Apparel and Jewelry from 2000 to 2002 and Divisional Vice President, General Merchandise Manager of Kids and Menswear from 1998 to 2000. From 1994 to 1996, Ms. Nagler was a Vice President, Divisional Merchandise Manager for Kids R Us. Ms. Nagler also has previous retail experience with Montgomery Ward and Main Street Department Stores.</p> <p>With years of experience as a senior-level executive in a wide variety of retail companies, including as the President and Chief Executive Officer of a public retail company, Ms. Nagler provides considerable expertise on strategic, management and operational issues facing a multi-state retailer. Running a public company gave Ms. Nagler front-line exposure to many of the issues facing public retail companies, particularly on the operational, financial and corporate governance fronts. The Board also benefits from Ms. Nagler's extensive experience in the retail industry and the informed perspectives such experience facilitates. Additionally, her past role as President and Chief Executive Officer positions her well to serve as a member of our compensation committee and nominating and corporate governance committee.</p>	2009

Table of Contents**Directors continuing in office until the 2013 Annual Meeting:**

Name	Age	Positions with Us / Principal Occupations / Business Experience	Director Since
Charles Heilbronn	56	<p>Mr. Heilbronn has been Executive Vice President and Secretary of Chanel, Inc. since 1998. Since December 2004, he has served as Executive Vice President of Chanel Limited, a privately-held international luxury goods company selling fragrance and cosmetics, women's clothing, shoes and accessories, leather goods, fine jewelry and watches. From 1987 to December 2004, Mr. Heilbronn was Vice President and General Counsel of Chanel Limited and Senior Vice President, General Counsel and Secretary of Chanel, Inc. Mr. Heilbronn is currently a director of Doublemousse B.V., Chanel, Inc. (U.S.) and various other Chanel companies and affiliates in the U.S. and worldwide. He is also a Membre du Conseil de Surveillance (a non-executive board of trustees) of Bourjois SAS. He served as a director of Red Envelope from 2002 to 2006 and was a member of its compensation committee.</p> <p>Mr. Heilbronn has over 20 years of experience at one of the world's leading luxury goods companies and brings a broad domestic and international perspective to issues considered by the Board. His business background and industry experience enable him to provide substantial expertise on relevant business matters and in the governance of publicly held corporations, both as the Chair of our nominating and corporate governance committee and as a member of our compensation committee.</p>	1995

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Name	Age	Positions with Us / Principal Occupations / Business Experience	Director Since
Chuck Rubin	51	<p>Mr. Rubin was appointed our President and Chief Operating Officer effective May 10, 2010, and assumed the role of Chief Executive Officer on September 2, 2010. Prior to joining Ulta, he served as President of the North American Retail division of Office Depot Inc. beginning in January 2006. Mr. Rubin first joined Office Depot as Executive Vice President, Chief Marketing Officer and Chief Merchandising Officer in 2004. Before that time, Mr. Rubin spent six years at Accenture (including three years as a partner), where he worked with a range of retail clients across department store, specialty store and ecommerce venues. Prior to that, he spent six years in the sporting goods specialty retail business, where he served as a general merchandise manager and a member of the executive committees for two publicly held companies. He began his career with Federated Department Stores, where he spent 11 years in merchandising and store management. Mr. Rubin served as a member of the executive committee of the board of directors of the National Retail Federation from January 2007 through March 2010.</p>	2010
		<p>As the Chief Executive Officer of the Company, Mr. Rubin is able to provide the Board with valuable insight regarding the Company's operations, its management team and associates as a result of his day-to-day involvement in the operations of the business. Additionally, the Board benefits from Mr. Rubin's demonstrated leadership skills and the extensive senior management and executive operational experience he has acquired in various businesses across the retail industry. He has experience building partnerships with key brands, ranging from mass market to prestige in both the specialty and department store markets. During his time at Office Depot, Mr. Rubin was responsible for leading that company's retail business in North America, including store operations, merchandising, marketing, real estate and construction. Mr. Rubin lends his extensive operational and marketing expertise to the Board, as well as his insights into the management of complex organizations, and he contributes an understanding of operational and marketing strategy in today's challenging environment.</p>	

Table of Contents**Directors not standing for reelection at the 2011 Annual Meeting:**

Name	Age	Positions with Us / Principal Occupations / Business Experience	Director Since
Yves Sisteron	55	Mr. Sisteron has been a Managing Partner and Co-Founder of GRP Partners, a venture capital firm, since 2000. Prior to that, Mr. Sisteron was a managing director at Donaldson Lufkin & Jenrette overseeing the operations of Global Retail Partners, which he co-founded in 1996. From 1989 to 1996, Mr. Sisteron managed the U.S. investments of Fourcar B.V., a division of Carrefour S.A. Mr. Sisteron is a director of EnvestNet Asset Management and a member of its compensation committee. He also serves as a director of HealthDataInsights, Kyriba, Inc., Qualys, Inc. and Actimagine, Inc. He previously served as a director of Netsize, S.A.	1993

The Board benefited from Mr. Sisteron's perspectives on financial and investment matters due to his experience in various management positions in the financial services and retail sectors. As a long serving director, Mr. Sisteron provided a deep understanding of the Company, the retail and beauty industry and our competitive environment. Additionally, his legal background enabled him to provide guidance in corporate law matters and in the governance public companies. Such experience made him well-positioned to serve as a member of our nominating and corporate governance committee as well.

The Board would like to express its deepest gratitude to Mr. Sisteron for his years of service to the Company and wish him well in his future endeavors.

NON-EXECUTIVE DIRECTOR COMPENSATION FOR FISCAL 2010

The following table provides information related to the compensation of our non-employee Directors earned for fiscal 2010:

Name	Fees Earned or Paid in Cash (\$)	Option Awards(1) (\$)	Total (\$)
Lorna E. Nagler	40,000	235,505	275,505
Charles Philippin	40,000		40,000
Hervé J.F. Defforey	20,000		20,000

- (1) Amounts shown represent the grant date fair value of options granted in fiscal 2010 as computed in accordance with Financial Accounting Standards Board (FASB) (Accounting Standards Codification (ASC)) Topic 718, *Compensation - Stock Compensation*. For a discussion of the assumptions made in the valuation

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reflected, see Note 10 to the Consolidated Financial Statements for fiscal 2010 contained in our Annual Report on Form 10-K filed on March 30, 2011.

The following table sets forth the outstanding options held by our non-employee Directors as of January 29, 2011:

Name	Options
Lorna E. Nagler	33,334
Charles Philippin	50,000
Hervé J.F. Defforey	19,750

We strive to promote an ownership mentality among our key leadership and Board of Directors. As such, the Company utilizes equity compensation to encourage our Directors to maintain a stock ownership investment in the Company under appropriate circumstances. Additionally, during fiscal 2009 and upon the recommendation of the compensation committee, the Board approved the introduction of a cash compensation component in order to attract and retain certain qualified Directors. As shown in the above tables, the Board approved an annual fee of \$40,000 for each of Lorna E. Nagler and Charles Philippin for fiscal 2010, to be paid quarterly in arrears. In fiscal 2009, the Board also approved an option for Ms. Nagler to purchase 50,000 shares of our common stock, to be granted in three annual installments with each installment vesting equally over four years. During fiscal 2008, we granted Mr. Philippin an option to purchase 50,000 shares of our common stock for his services as a Director. These options vest equally over four years. In addition, during fiscal 2010 the Board agreed to pay an annual fee of \$40,000 to Hervé J.F. Defforey, to be paid quarterly in arrears beginning in the third quarter of fiscal 2010.

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**ARTICLE III. INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
AND AUDIT COMMITTEE**

PROPOSAL TWO

RATIFICATION OF APPOINTMENT OF INDEPENDENT
REGISTERED PUBLIC ACCOUNTING FIRM

The audit committee of the Board of Directors has appointed Ernst & Young LLP as our independent registered public accounting firm for the fiscal year 2011, ending January 28, 2012. Services provided to Ulta by Ernst & Young LLP in fiscal year 2010 are described under "Fees to Independent Registered Public Accounting Firm" below. Additional information regarding the audit committee is provided on page 21.

Ernst & Young LLP has audited the financial statements of Ulta since 1997. Representatives of Ernst & Young LLP will be present at the Annual Meeting to respond to appropriate questions and to make such statements as they may desire.

Stockholder ratification of the selection of Ernst & Young LLP as our independent registered public accounting firm is not required by our Bylaws or otherwise. However, the Board of Directors is submitting the selection of Ernst & Young LLP to the stockholders for ratification as a matter of good corporate governance practice. If the stockholders fail to ratify the selection, the audit committee will reconsider whether or not to retain that firm. Even if the selection is ratified, the audit committee, in its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of Ulta and our stockholders.

The affirmative vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting will be required to ratify the selection of Ernst & Young LLP. Abstentions will be counted toward the tabulation of votes cast on proposals presented to the stockholders and will have the same effect as negative votes. Broker non-votes will be counted towards a quorum, but will not be counted for any purpose in determining whether this matter has been ratified.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR PROPOSAL TWO

FEE TO INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The following table sets forth the aggregate fees billed by Ernst & Young LLP for professional services rendered for fiscal years 2010 and 2009:

	2010	2009
Audit Fees(1)	\$ 614,418	\$ 601,231
Audit-Related Fees		
Tax Fees		
All Other Fees(2)	1,975	1,995

Total	\$ 616,393	\$ 603,226
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- (1) Represents fees billed for professional services rendered for audits of our annual financial statements, including reviews of the financial statements included in our quarterly reports on Form 10-Q.
- (2) Represents fees relating to online research software.

The audit committee has approved all professional fees paid to Ernst & Young LLP.

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The audit committee has established procedures for the pre-approval of all audit and permitted non-audit-related services provided by our independent registered public accounting firm. The procedures include, in part, that: (1) the audit committee, on an annual basis, shall pre-approve the independent registered public accounting firm's engagement letter/annual service plan; (2) the audit committee must pre-approve any permitted service not included in the annual service plan; (3) the audit committee chairman may pre-approve any permitted service between regularly scheduled meetings, as applicable, and a report of such services and related fees are to be disclosed to the full audit committee at the next scheduled meeting; and (4) the audit committee will review a summary of the services provided and the fees paid on an annual basis.

AUDIT COMMITTEE

The audit committee provides assistance to the Board of Directors in fulfilling its responsibility to our stockholders, potential stockholders and the investment community relating to corporate accounting, financial, management and reporting practices, the system of internal controls and the auditing process. Specifically, the audit committee assists the Board of Directors in monitoring the integrity of our financial statements, our independent registered public accounting firm's qualifications and independence, the performance of our audit function and independent registered public accounting firm, our compliance with legal and regulatory requirements and our policies with respect to risk assessment and risk management. The audit committee has direct responsibility for the appointment, compensation, retention (including termination) and oversight of our independent registered public accounting firm, and our independent registered public accounting firm reports directly to the audit committee.

During fiscal year 2010, the audit committee was composed of the following independent Directors: Messrs. Defforey, DiRomualdo and Philippin. Each of Messrs. Defforey, DiRomualdo and Philippin has been designated by the Board of Directors as an audit committee financial expert as defined in applicable SEC Rules. The Board of Directors made a qualitative assessment of each member's level of knowledge and experience based on a number of factors, including education and work, management and director experience. The Board of Directors has determined that each committee member qualifies as a nonemployee director under SEC rules and regulations, as well as the independence requirements of NASDAQ. All members of our audit committee are financially literate and are independent, as independence is defined in Rule 5605(a)(2) of the NASDAQ listing standards and Section 10A(m)(3) of Exchange Act. As noted, the audit committee met 15 times during fiscal year 2010, and its report is presented below. The audit committee acts under a written charter that was adopted by the Board of Directors and has been published under Corporate Governance in the Investor Relations section of the Ulta website located at <http://ir.ulta.com>.

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REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS¹

The audit committee assists the Board of Directors in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing and financial reporting practices of Ulta.

The audit committee oversees Ulta's financial process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process, including the systems of internal controls. Ulta has an Internal Audit Department that is actively involved in examining and evaluating Ulta's financial, operational and information systems activities and reports functionally to the Chair of the audit committee and administratively to management. In fulfilling its oversight responsibilities, the audit committee reviewed and discussed with management the periodic reports, including the audited financial statements in our Annual Report on Form 10-K. This included a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements.

The audit committee reviewed with the independent registered public accounting firm, who is responsible for expressing an opinion on the conformity of those audited financial statements with accounting principles generally accepted in the United States, its judgments as to the quality, not just the acceptability, of Ulta's accounting principles and such other matters as are required to be discussed with the audit committee under generally accepted auditing standards, including Statement on Auditing Standards No. 61, as amended (AICPA, *Professional Standards*, Vol. 1. AU Section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T. In addition, the audit committee has discussed with the independent registered public accounting firm the firm's independence from management and Ulta, including the matters in the written disclosures and the Letter from the Independent Registered Public Accounting Firm required by applicable requirements of the Public Company Accounting Oversight Board regarding the firm's communications with the audit committee concerning independence.

The audit committee discussed with Ulta's independent registered public accounting firm the overall scope and plans for their audit and developed a pre-approval process for all independent registered public accounting firm services. The audit committee meets with the independent registered public accounting firm, with and without management present, to discuss the results of their examination, their evaluation of Ulta's internal and disclosure controls and the overall quality of Ulta's financial reporting. The audit committee held 15 meetings during fiscal year 2010.

In reliance on the reviews and discussions referred to above, the audit committee recommended to the Board of Directors, and the Board of Directors approved, that the audited financial statements be included in Ulta's Annual Report on Form 10-K for the fiscal year 2010, ended January 29, 2011, for filing with the SEC. The audit committee has appointed Ernst & Young LLP to be Ulta's independent registered public accounting firm for the fiscal year 2011, ending January 28, 2012.

Audit Committee of the Board of Directors

Hervé J.F. Defforey (Chairman)
Robert F. DiRomualdo
Charles J. Philippin

¹ This report is not soliciting material, is not deemed filed with the SEC, and is not to be incorporated by reference into any Ulta filing under the Securities Act of 1933 (the Securities Act) or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language contained in such

filing.

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**ARTICLE IV. COMPENSATION COMMITTEE REPORT
AND COMPENSATION DISCUSSION AND ANALYSIS**

The compensation committee met 13 times during fiscal year 2010, and its report is presented below. During fiscal year 2009, the compensation committee was composed of the following independent Directors: Messrs. Eck (Chairman) and Heilbronn and Ms. Nagler; Mr. Lebow also served as a member of the committee during fiscal year 2010, but left the committee in April of 2010. The Board of Directors has determined that each current committee member qualifies as a nonemployee director under the rules and regulations of the SEC, as well as the independence requirements of NASDAQ. The compensation committee acts under a written charter that was adopted by the Board of Directors and has been published under Corporate Governance in the Investor Relations section of the Ulta website located at <http://ir.ulta.com>. Under this charter, the compensation committee is responsible for:

setting our compensation philosophy;

reviewing and approving the compensation for all executive officers and senior vice presidents;

reviewing and recommending compensation for non-employee directors;

supervising compensation policies for all employees including reviewing of the adequacy of compensation structure and procedures;

recommending to the Board the employment, appointment and removal of officers in accordance with the Bylaws;

establishing, amending and terminating compensation plans and administering such plans; and

annually reviewing its own performance and reporting findings and action plans to the Board.

The compensation committee may delegate under its charter any of its responsibilities to a subcommittee, but only to the extent consistent with our Bylaws, Articles of Incorporation, Section 162(m) of the Internal Revenue Code and NASDAQ rules. In connection with the performance of its duties, during 2010 the compensation committee sought the input of Lyn Kirby, our former Chief Executive Officer, and Mr. Rubin, our current Chief Executive Officer, with respect to other executives' compensation.

Compensation consultant

During fiscal 2010 the compensation committee engaged Towers Watson and Pay Governance, as their outside consultants, to provide information regarding market comparisons for certain positions and general executive compensation advice. In those capacities, both Towers Watson and Pay Governance were engaged directly by the compensation committee. The compensation committee changed compensation consultants in 2010 when their primary consultants at Towers Watson joined Pay Governance. Pay Governance is an independent executive compensation consulting firm formed by former Towers Watson consultants.

Compensation risk

The Company reviewed its compensation plans, practices and policies and determined that it does not have any such plans, practices and policies that create risks that are reasonably likely to have a material adverse effect on the

Company based on the following:

The Company's variable compensation programs are linked to specific performance metrics goals set by the compensation committee for executive officers and for other employees by supervisors consistent with the Company's compensation philosophy and business goals;

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The performance periods for the pay programs are designed to match the period for which the employee had influence on the results and incorporate incentives of a longer term nature to tie the employee to the actual results;

Payments under the incentives are capped;

Payments are reviewed by the compensation committee, management, payroll, human resources and subject to spot audits;

The mix between fixed and variable pay is balanced as to neither discourage proper risk taking, nor encourage excessive risk taking; and

No participant is allowed to approve their own performance goals, nor the payout.

Compensation committee interlocks and insider participation

None of the members of our compensation committee has at any time been one of our officers or employees. None of our executive officers currently serves, or in the past year has served, as a member of the board of directors or compensation committee, or other committee serving an equivalent function, of any entity that has one or more executive officers serving on our Board of Directors or compensation committee.

REPORT OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS²

The compensation committee has reviewed and discussed the following Compensation Discussion and Analysis (CD&A) with management. Based on this review and discussion, the compensation committee recommended to the Board of Directors that the CD&A be included in Ulta's fiscal 2010 Annual Report on Form 10-K and this Proxy Statement.

Compensation Committee of the Board of Directors

Dennis K. Eck (Chairman)
Charles Heilbronn
Lorna Nagler

COMPENSATION DISCUSSION AND ANALYSIS

Philosophy

Our executive compensation philosophy is to provide compensation opportunities that attract, retain and motivate talented key executives. We accomplish this by:

evaluating the competitiveness and effectiveness of our compensation programs against other comparable businesses based on industry, size, results and other relevant business factors;

linking annual incentive compensation to our performance on key measurable financial, operational and strategic goals that support stockholder value;

- ² This report is not soliciting material, is not deemed filed with the SEC, and is not to be incorporated by reference into any Ulta filing under the Securities Act or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language contained in such filing.

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focusing a significant portion of the executive's compensation on equity-based incentives to align interests closely with stockholders; and

managing pay for performance such that pay is tied to business and individual performance.

Our compensation program consists of a fixed base salary, variable cash bonus and stock option awards, with a significant portion weighted towards the variable components. This mix of compensation is intended to ensure that total compensation reflects our overall success or failure and to motivate executive officers to meet appropriate performance measures.

Overview of 2010 compensation

In 2010 we transitioned Chief Executive Officers, from Lyn Kirby to Chuck Rubin. As part of that transition, we entered into an employment agreement with Mr. Rubin, which included certain cash and special equity grants that were necessary to induce him to accept employment with the Company. Also in connection with this transition, we entered into an agreement with Ms. Kirby to assist with the successful transition of her duties to Mr. Rubin. Additionally, Mr. L. Heureux separated from the Company on January 19, 2011, and in connection therewith received certain severance payments and additional benefits pursuant to a voluntary separation and release agreement. All of these agreements are described in more detail below.

More generally, we continued our bonus plan with a company-wide performance goal relating to earnings set at or above our budget for 2010, while retaining a discretionary piece to take into account the continued instability in the economic environment. We again out-performed our targeted earnings goals for 2010 resulting in bonuses for that portion at the maximum level. Mr. Rubin's and Ms. Kirby's bonuses for 2010 were prorated to reflect their period of employment. Except for the special grants of restricted stock to Mr. Rubin, we continued to use stock options as our primary means of providing long-term incentives for our named executive officers and made grants in accordance with our normal annual program. Due to our better than expected performance in 2009, and having previously frozen salaries in 2009, we also increased salaries for our named executive officers for 2010 in line with general market increases.

Peer group

In general, the Compensation Committee evaluated the competitive marketplace for our executive compensation in 2010 against the following market-based surveys and a pre-determined peer group set in consultation with Towers Watson:

2009/2010 Watson Wyatt Report on Top Management, retail and general industry (all participating companies) survey data, regressed for \$1.5 billion in revenues;

2009 Mercer Benchmark Database – Executive, retail and general (all participating companies) industry survey data, regressed for \$1.5 billion in revenues; and

A peer group of 19 retail companies, including:

Aeropostale
Ann Taylor Stores
Brown Shoe

Fossil, Inc.
Genesco
Guess, Inc.

PetSmart
Revlon, Inc.
Sally Beauty Holdings

CHICOS FAS, Inc.
Coldwater Creek
Dick's Sporting Goods
DSW, Inc.

Hibbett Sports, Inc.
J. Crew Group, Inc.
Jo-Ann Stores

The Children's Place
Timberland Co.
Urban Outfitters

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The compensation committee does not rely solely on the peer group or survey data in making its individual compensation determinations, but rather the compensation committee considers our Chief Executive Officer's input as to an executive's performance and internal pay equity among current executives and newly hired executives. The compensation committee also considers the accounting and tax impact of each element of compensation and in the past has tried to minimize the compensation expense impact of equity grants on our financial statements, while minimizing the tax consequences to executives.

In connection with evaluating merit and market increases in base salary, the compensation committee reviewed aggregated data from the following surveys in order to determine the market level of salary increases:

2009/2010 Mercer US Compensation Planning Survey;

Hewitt: 2009-2010 US Salary Increase Survey (General Industry);

2009 Hay Retail Executive and Management Survey;

World at Work Salary Budget Survey 2009/2010 (Retail and General Industry); and

Watson Wyatt Data Services.

In determining the additional base salary market adjustment for Mr. Bodnar discussed below, the compensation committee reviewed data provided by Mr. Rubin and prepared by an executive search firm with respect to comparable CFO positions at the following companies:

Abercrombie & Fitch
Aeropostale
Ann Taylor Stores
Bare Escentuals, Inc.
Borders Group, Inc.
CHICOS FAS, Inc.
Christopher & Banks, Inc.

DSW, Inc.
J. Crew Group, Inc.
Jo-Ann Stores
New York & Company
Radioshack
Sally Beauty Holdings

The Children's Place
The Dress Barn, Inc.
The Finish Line, Inc.
The Talbots, Inc.
Tween Brands, Inc.
Williams-Sonoma, Inc.

Base salary

Base salaries are reviewed annually and are set based on individual contract and hiring negotiation, competitiveness versus the external market and internal merit increase budgets. Based on a review of marketplace salary increases contained in the surveys described above, as well as the compensation committee's assessment of current economic and other market conditions, each year management proposes a merit baseline percentage increase in salaries. Our Chief Executive Officer then recommends to the compensation committee adjustments to the baseline percentage (either up or down) based on his or her assessment of an individual's performance, with input from the human resources department. As discussed above, base salaries were increased by 2.3% for 2010 based on merit.

Mr. Rubin's base salary was set at the time of his hiring to be in line with the median of our peer group and the market surveys described above for a Chief Operating Officer and President position, with the intent to succeed to the Chief Executive Officer position.

In August 2010, the compensation committee, upon the recommendation of Mr. Rubin, further increased Mr. Bodnar's salary to \$425,000 to bring Mr. Bodnar's compensation (base and target incentive) in line with the market for his

position and responsibilities at comparable retail and high-growth companies as demonstrated by the market data discussed above.

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Annual bonuses

Under the terms of her contract entered into in 2008, Ms. Kirby's target bonus is 100% of her base salary, with a maximum bonus equal to 200% of her base salary. Her target and maximum were set based on Towers Watson's input during the 2008 contract negotiations to approximate the median for chief executive officers in the survey data and peer group discussed above. Under the terms of his contract, Mr. Rubin's target bonus similarly is set at 100% of his base salary with a maximum bonus equal to 200% of his base salary. His bonus was set to be in line with Ms. Kirby's and was determined at the time to approximate the median for his role based on the survey data and peer group discussed above. Both Mr. Rubin and Ms. Kirby agreed to pro rate their bonuses for 2010 for the period of time worked. Mr. Bodnar's target bonus was 50% of his base salary, and Mr. Guttman and Mr. L. Heureux had a target bonus of 40% of their base pay.

In fiscal 2010, the bonuses for our named executive officers were based on achievement of one quantifiable objective performance target weighted at 80% of the bonus opportunity. The remaining 20% of the bonus opportunity was based on discretionary performance reviews. The performance target for 2010 was \$94 million of earnings before income taxes, adjusted for certain accounting charges required under generally accepted accounting principles and non-recurring charges (EBT).

No bonus was payable unless performance under the EBT goal exceeded 80% of the target. A maximum of 250% of target could be earned by Messrs. Bodnar, L. Heureux and Guttman and 200% under Ms. Kirby's and Mr. Rubin's contracts. In setting the EBT target, the compensation committee believes that excluding the impact of non-recurring charges and certain other accounting charges is appropriate because these are items over which management has no control. Actual EBT for fiscal 2010 was \$118 million (vs. target of \$94 million) resulting in a payout of \$425,006, \$237,569 and \$234,175 for Messrs. Bodnar, Guttman and L. Heureux, respectively, and \$943,554 and \$1,121,177 for Ms. Kirby and Mr. Rubin, which reflects their pro rated bonuses for 2010.

The compensation committee and the Board of Directors, based on Mr. Rubin's input, assessed Messrs. Bodnar's and Guttman's performance during the year to determine the discretionary portion of the bonus payable. Based on this assessment, Mr. Bodnar received \$53,126 and Mr. Guttman received \$29,696 (each representing 125% of the 20% discretionary portion of their bonus). The 125% payout of the discretionary bonus component to Messrs. Bodnar and Guttman was based upon their 2010 individual performance, including efforts related to the Company's secondary offering in June 2010 and their work in insuring the forward progress of the Company during the CEO transition. As part of his separation from the Company, Mr. L. Heureux was guaranteed 100% of the discretionary portion of his bonus for 2010 fiscal year.

Ms. Kirby and Mr. Rubin received the maximum bonus of 200% of their base salary (pro rated for 2010) based solely on achievement of the EBT goal, and therefore were not eligible for any additional discretionary bonus.

LTIP

We provide long-term incentives through annual option grants to our executives and certain other employees, which we refer to as our LTIP. In addition, certain employees are eligible to receive grants of stock options upon hire or promotion. All executives, other than Ms. Kirby, were eligible for the LTIP. Ms. Kirby was entitled to significant option grants under her employment agreement. As a result, the compensation committee determined that Ms. Kirby did not need any additional equity compensation under the LTIP. Mr. Rubin did not participate in LTIP grants in 2010 due to the grants he received in connection with the commencement of his employment, which are more fully described below. However, he will be eligible to participate in the LTIP beginning in 2011.

Under the LTIP each employee receives an option grant based on a methodology that provides value equal to a targeted percentage of base salary. This targeted percentage was determined based on input from Towers Watson as to market median practices for long term incentives. The compensation committee approved the target percentage of base salary for LTIP of 55% for Mr. Bodnar, and 50% for Mr. Guttman and Mr. L. Heureux. Beginning in 2011, Mr. Rubin's participation in the LTIP will be targeted at 200% of base salary.

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Option grants under the LTIP generally have the following characteristics:

- all options have an exercise price equal to the fair market value of our common stock on the date of grant;
- options vest ratably, on an annual basis over a four-year period; and
- options generally expire ten years after the date of grant.

Under Ms. Kirby's succession agreement, option awards continued to vest for as long as she remained on the Board of Directors, and the post-termination exercise period would not begin until she left the Board of Directors. Pursuant to her contract, she received a stock option grant in 2010, for 200,000 options. However, as discussed below regarding its option granting policy, the compensation committee has a policy of making option grants only after the market has been fully informed and executives have engaged in trading. Under the terms of her contract, Ms. Kirby's 2010 options were to be granted on the first day on which executives were allowed to trade in our shares following our fiscal 2009 earnings release, which would normally be the third trading day following the earnings release. However, due to their knowledge of the pending hiring of Mr. Rubin, Ms. Kirby and certain other executives were not allowed to trade in our shares following the fiscal 2009 earnings release. As a result, Ms. Kirby's options could not be granted at that time. However, if the options had been granted at that time, the exercise price of the options would have been \$22.86. In connection with negotiation of her succession agreement, the Company agreed to make Ms. Kirby's 2010 option grant at a price equal to the greater of \$22.86 or the fair market value on the date of grant (as is required under the plan), and to pay Ms. Kirby in cash the difference, if any, between the actual exercise price and \$22.86 per share. This agreement protected Ms. Kirby from any loss resulting from the delay in granting her options, which the compensation committee believed fair. Ms. Kirby's option grant for 2010 was at an exercise price of \$22.86, resulting in no extra payment to Ms. Kirby.

Special Payments to Mr. Rubin Upon Hiring

In connection with the negotiation of Mr. Rubin's employment agreement and his hiring initially as our Chief Operating Officer and President with the intent to make him our Chief Executive Officer, it was necessary to make the following payments to Mr. Rubin for the following reasons:

We agreed to pay him \$2,800,000 to make him whole for a similar payment that would have been payable to him by his former employer if he had remained employed through September 2010. As we wanted Mr. Rubin to join the Company prior to September, it was necessary to compensate him for this lost payment;

A restricted stock grant with a value equal to \$2,775,000 with the number of shares determined based on the 14-day average closing price of the Company's shares prior to May 10, 2010, which was the day his employment commenced with the Company. The restricted stock grant vests in full on December 29, 2011. The average closing price for the 14 days prior to May 10, 2010 was \$23.32 per share, resulting in a grant of 118,997 shares. The average closing price over the 14 days was used in order to protect against volatility in the share price and was also designed to include any market reaction to the Company's announcement that Mr. Rubin had been hired as Ms. Kirby's successor. The vesting of the restricted stock was intended to incentivize him to stay with the Company for a minimum of 18 months while his transition to Chief Executive Officer took place, but also provided him some protection in case such transition was not successful. The restricted stock grant was necessary to induce him to join the Company and was intended to make him whole for any other amounts relating to his employment move (other than relocation); and

A stock option grant of 318,725 shares vesting ratably over four years. The amount of the grant was based upon a modified binomial method for determining the value of the option shares. If Mr. Rubin is terminated

without cause, he vests in an additional one-quarter of the options. These options are intended to incentivize Mr. Rubin to grow the share price while also serving as an inducement to remain with the Company.

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Option granting policy

We have adopted a general policy of making LTIP and other stock option grants and setting the exercise price for such options based on the closing price of our stock on the third business day following the date our earnings announcement is made for each fiscal quarter. This timing of option grants is, thus, generally consistent with when our executives and directors would be allowed to trade in our common stock under our insider trading policy. The compensation committee determined that setting the exercise price for stock options at this time was prudent in that it allowed for the market to process all reported public information prior to pricing stock options. Such a practice thereby eliminates any potential manipulation regarding the timing of stock option grants. All stock option grants are approved in advance by the compensation committee.

Benefits, perquisites and tax-gross-ups

Executives are allowed to defer compensation under our non-qualified deferred compensation plan, which is more fully described in the narrative to the Non-Qualified Deferred Compensation Table below. For all eligible employees, we offer a 401(k) plan with matching contributions equal to 50% of contributions made up to 3% of eligible compensation. We also offer to eligible employees group health, life, accident and disability insurance. In addition, all employees are entitled to a discount on purchases at our stores.

The State of New York has been imposing income tax liabilities on our employees who are not residents of New York based on the amount of work for Ulta that these employees perform in New York (including business meetings and attendance at trade shows). This impacts a number of our employees who are not residents of New York, including Ms. Kirby and Mr. Rubin. Because a large portion of the beauty industry is concentrated in New York, we require certain of our employees to travel to and work in New York from time to time. However, as the income tax rates applicable in New York are substantially higher than those in Illinois, it is more expensive for our employees, on a tax basis, if we ask them to work in New York. Because we do not want to provide a disincentive to our employees to work from time to time in New York, and because the nature of their work requires travel to New York, the compensation committee has determined that it is in our best interests to gross-up non-New York employees for any differences in taxes paid on income in New York versus the rate that such employees would have paid in their home state. This tax gross-up is applicable to all employees impacted, not just executives.

The Company also agreed to pay Mr. Rubin's and Ms. Kirby's legal fees, up to a negotiated maximum, incurred in connection with negotiation and entering into his employment agreement and her succession agreement, as necessary costs associated with a smooth transition.

Severance

Under the terms of his employment agreement, Mr. Rubin could be entitled to certain severance benefits more fully described below under Severance and Change in Control Benefits. The compensation committee determined that such benefits were within market practices based on the information provided by Towers Watson in connection with his hiring. As Ms. Kirby resigned in 2010, she was ineligible for severance under her contract.

In addition, Mr. Guttman is entitled to severance under the terms of his offer of employment, as more fully described below under Severance and Change in Control Benefits. Severance for Mr. Guttman was considered a necessary part of his compensation package in order to attract him to join Ulta. Mr. Bodnar would be expected to receive severance as well, if he were involuntarily terminated by the Company for reasons other than cause.

Mr. L. Heureux entered into a voluntary separation and release agreement upon his separation on January 19, 2011, which provided in exchange for a release of all claims, for him to receive one year's salary payable in installments, a full bonus for fiscal 2010 (with the 20% discretionary portion of the bonus payable at 100%) and full vesting in certain stock options that would otherwise have vested on March 24, 2011.

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Accounting and tax considerations

The compensation committee also considers the accounting and tax impact of each element of compensation and in the past has tried to minimize the compensation expense impact of equity grants on our financial statements, while minimizing the tax consequences to executives.

A goal of the compensation committee is to comply with the requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended. Section 162(m) limits the tax deductibility for public companies of annual compensation in excess of \$1,000,000 paid to our Chief Executive Officer and any of our three other most highly compensated executive officers, other than our Chief Financial Officer. However, performance-based compensation that has been approved by our stockholders is excluded from the \$1,000,000 limit if, among other requirements, the compensation is payable only upon the attainment of pre-established, objective performance goals and the committee of our Board of Directors that establishes such goals consists only of outside directors. The compensation committee is composed solely of outside directors.

The compensation committee considers the anticipated tax treatment to us and our executive officers when reviewing executive compensation and our compensation programs. While the tax impact of any compensation arrangement is one factor to be considered, such impact is evaluated in light of the compensation committee's overall compensation philosophy and objectives. The compensation committee will consider ways to maximize the deductibility of executive compensation, while retaining the discretion it deems necessary to compensate officers in a manner commensurate with performance and the competitive environment for executive talent. From time to time, the compensation committee may award compensation to our executive officers which is not fully deductible if it determines that such award is consistent with its philosophy and is in our and our stockholders' best interests.

Our 2007 Incentive Award Plan has been designed and implemented with the intent to allow us to pay performance-based compensation under Section 162(m) of the Internal Revenue Code. Accordingly, stock option grants under the 2007 Incentive Award Plan should be performance based and therefore deductible under Section 162(m). The special cash award and the restricted stock grants to Mr. Rubin were not performance based and therefore will likely not be deductible in part by the Company.

Table of Contents**Summary compensation table**

The following table sets forth the compensation of our Chief Executive Officer, Chief Financial Officer and our other most highly compensated executive officers for our fiscal year ending January 29, 2011. We refer to these individuals collectively as the NEOs.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$) (1)	Non-Equity Incentive Plan	All Other Compensation	Total (\$)
						Compensation (\$)	Compensation (\$)(2)	
Michael Rubin President, Chief Executive Officer and Director (Principal Executive Officer)	2010	547,896	2,800,000(3)	2,715,512	3,694,022	1,121,177	230,355	11,100,364
Michael P. Kirby Vice President, Chief Executive Officer Director	2010	483,645			1,816,000	943,554	23,180	3,266,379
	2009	770,016	80,000		1,322,472	1,540,032	16,882	3,729,402
	2008	770,014	80,000		2,750,000		158,043	3,758,057
Richard R. Bodnar Chief Financial Officer Principal Financial Officer)	2010	383,698	53,126		576,800	425,006	1,097	1,439,727
	2009	337,889	38,500		469,300	350,002	3,278	1,198,969
	2008	320,007	17,000		1,401,410		3,098	1,741,515
David S. Guttman Vice President, General Counsel & Secretary	2010	295,934	29,696		259,560	237,569	2,112	825,271
	2009	290,285	23,223		235,201	232,228	3,999	782,736
David D. L. Heureux(4) Vice President Human Resources	2010	290,578	23,417			234,175	294,741	842,911
	2009	278,127	22,890		163,800	228,900	3,412	694,129

(1) Amounts shown represent the grant date fair value of options granted in the year indicated as computed in accordance with FASB ASC Topic 718. For a discussion of the assumptions made in the valuation reflected in these columns, see Note 10 to the Consolidated Financial Statements for fiscal 2010 contained in the Form 10-K filed on March 30, 2011.

(2) All other compensation includes amounts as indicated in the table below:

Name	Severance Payment	Relocation Expenses	Legal Fees	Relocation Expenses Tax	Life Insurance	401(k) Matching	New York State Tax
				Gross-Up	Premiums	Contribution	Reimbursement

Chuck Rubin	156,315	40,000	33,594	446		
Lynelle P. Kirby		20,000		1,042		2,138
Gregg R. Bodnar				581	516	
Robert S. Guttman				1,269	843	
Wayne D. L. Heureux	292,719			642	1,380	

(3) Reflects Mr. Rubin's special cash payment made as an inducement to commence employment with Ulta.

(4) Mr. L. Heureux's employment with Ulta terminated effective January 19, 2011. Upon such separation, Mr. L. Heureux became entitled to receive one year's base salary payable in regular payroll installments as severance.

Table of Contents**Grants of plan-based awards**

The following table sets forth certain information with respect to grants of plan-based awards for fiscal 2010 to the NEOs.

Name	Grant Date	Board of Directors Approval Date	Estimated Future Payouts Under			Number of Shares of Stock	Number of Securities Underlying Options	Exercise or Base Price of Option Awards \$	Grant Date Fair Value of Option Award \$(2)
			Non-Equity Threshold \$(1)	Incentive Target \$	Plan Awards Maximum \$				
Chuck Rubin	5/10/2010	4/9/2010	134,541	448,471	1,121,177	118,997	318,725	22.82	3,694,020
	5/10/2010	4/9/2010							
Michelle P. Kirby	6/8/2010	4/22/2010	113,226	377,422	943,554		200,000	22.86	1,816,000
Gregg R. Schneider	9/8/2010	8/31/2010	51,001	170,003	425,006		40,000	26.71	576,800
Robert S. Mattman	9/8/2010	8/31/2010	28,508	95,028	237,569		18,000	26.71	259,560
Wayne D. Heureux(3)	9/8/2010	8/31/2010	28,101	93,670	234,175		18,000	26.71	259,560

- (1) Threshold assumes performance exceeds 80% of each performance target, resulting in a payout of 30% of the EBT target bonus.
- (2) Represents the grant date fair value of stock appreciation rights and restricted stock units granted in the year indicated as computed in accordance with FASB ASC Topic 718. For a discussion of the assumptions made in the valuation reflected in these columns, see Note 10 to the Consolidated Financial Statements for fiscal 2010 contained in the Form 10-K filed on March 30, 2011.
- (3) Mr. L. Heureux's employment with Ulta terminated effective January 19, 2011, resulting in the forfeiture of his 2010 grant.

Table of Contents**Outstanding equity awards as of January 29, 2011**

The following table presents information concerning restricted stock and options to purchase shares of our common stock held by the NEOs as of January 29, 2011.

	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Option Exercise Price Per Share (\$)	Option Expiration Date	Number of Shares of Stock that have not Vested	Market Value of Shares of Stock that have not Vested
Chuck Rubin(1)		318,725	22.82	2/1/2020	118,997	2,715,512
Lynelle P. Kirby(2)	316,000		25.32	6/15/2011		
	500,000	125,000	14.06(3)	6/15/2011		
		100,000	10.34	6/9/2012		
		200,000	22.86	6/8/2013		
		31,600(4)	16.02	1/25/2012		
Gregg R. Bodnar(5)	31,585		9.18	10/24/2016		
	33,180	11,060	15.81	7/18/2017		
	100,000	100,000	14.06(6)	3/24/2018		
	12,500	12,500	13.44	9/9/2018		
	10,000	30,000	9.75	6/17/2019		
	7,500	22,500	14.41	9/9/2019		
		40,000	26.71	9/8/2020		
Robert S. Guttman(7)	47,400	15,800	18.00	10/24/2017		
	10,000	10,000	13.44	9/9/2018		
	5,000	15,000	6.29	3/24/2019		
	5,000	15,000	14.41	9/9/2019		
		18,000	26.71	9/8/2020		
Wayne D. L. Heureux(8)	7,900		9.18	4/19/2011		
	11,850		15.81	4/19/2011		
	75,000		14.06	4/19/2011		
	10,000		13.44	4/19/2011		
	5,000		14.41	4/19/2011		

(1) Mr. Rubin's options vest 25% on February 1, 2011 and each anniversary of that date such that they are fully vested and exercisable on February 1, 2014. His restricted shares vest in full on December 29, 2011.

(2)

Ms. Kirby received 632,000 options on July 18, 2007 of which 25% vested on October 25, 2007 (the effective date of our initial public offering) and each anniversary of that date such that they were fully vested on October 25, 2010. Ms. Kirby exercised 316,000 vested options related to the July 18, 2007 grant during fiscal 2010. The remaining options expire 90 days after Ms. Kirby's termination of employment, which was March 17, 2011.

Pursuant to her employment agreement Ms. Kirby was granted:

625,000 options on March 24, 2008 which vested 250,000 on March 19, 2009, the date we announced our earnings for fiscal 2008, 250,000 on March 11, 2010, the date we announced our earnings for fiscal 2009, and 125,000 on March 10, 2011, the date we announced earnings for fiscal 2010.

200,000 options in June 2009 which vested in equal installments on March 11, 2010 and March 10, 2011, the dates we announced fiscal 2009 and fiscal 2010 earnings. Ms. Kirby exercised 100,000 vested options related to this grant in fiscal 2010.

200,000 options in June 2010 which vested on March 10, 2011, the date we announced fiscal 2010 earnings.

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The 2008 option grant expires 90 days after Ms. Kirby's termination from the Company. The 2009 and 2010 option grants have a term of three years from the grant date.

- (3) Exercise price was calculated as the greater of (i) the closing price of Ulta's common stock on March 24, 2008, or (ii) the average of the closing prices for the Ulta's common stock for the period March 20, 2008 through April 7, 2008.
- (4) In 2007, Ms. Kirby was contractually promised up to an additional 189,600 options to be granted one-third annually beginning one year after our initial public offering, but only if a sustained 25% plus increase in share price was achieved each year. The first third of such options were not granted as the criteria were not met. On October 25, 2009, Ms. Kirby was granted 63,200 options which vested 50% at the one-year anniversary of the grant and 50% on March 17, 2011. Ms. Kirby exercised 31,600 vested options related to this grant during fiscal 2010. Pursuant to Ms. Kirby's succession agreement, the remaining options are exercisable through January 25, 2012. Ms. Kirby agreed to forfeit her right to receive the remaining 63,200 option grant.
- (5) Mr. Bodnar's options all vest 25% on each anniversary of their grant date. The grant date of each option is 10 years prior to the Option Expiration Date listed above.
- (6) Exercise price was calculated as the average of the closing prices for the Ulta's common stock for the period March 20, 2008 through April 7, 2008.
- (7) Mr. Guttman's options all vest 25% on each anniversary of their grant date. The grant date of each option is 10 years prior to the Option Expiration Date listed above.
- (8) Mr. L. Heureux's employment with Ulta terminated effective January 19, 2011. The remaining exercisable options expire 90 days after termination of employment.

Option Exercises and Stock Vested

Name	Option Awards		Stock Awards	
	Number of Shares		Number of Shares	Value Realized
	Acquired on	Value Realized on	Acquired on	on
Exercise	Exercise (\$)(1)	Vesting	Vesting	
Chuck Rubin				
Lynelle P. Kirby	447,600	8,936,000		
Gregg R. Bodnar	94,815	2,216,301		
Robert S. Guttman				
Wayne D. L. Heureux	111,660	2,772,349		

- (1) The value realized on exercise is based on the closing sales price of our common stock on the exercise date as reported on the NASDAQ Global Select Market less the aggregate exercise price. The value realized was determined without considering any taxes that may have been owed.

2010 Non-qualified Deferred Compensation

The table below sets forth certain information as of January 29, 2011 with respect to the non-qualified deferred compensation plans in which our named executive officers participate.

Name	Executive Contributions in Last Fiscal Year(1)(2)	Aggregate Earnings in Last Fiscal Year	Aggregate Withdrawals/ Distributions	Aggregate Balance at Last Fiscal Year End(3)
Robert S. Guttman	\$ 58,633	\$ 10,771		\$ 204,742
Wayne D. L. Heureux	\$ 60,236	\$ 5,664		\$ 124,404

(1) Included in the amount listed under the Salary , Bonus and Non-Equity Incentive Plan Compensation columns in the Summary Compensation Table above.

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- (2) Contributions include salary and bonus deferrals, including bonuses earned in fiscal 2010 but paid in fiscal 2011.
- (3) \$135,338 and \$58,504 were previously reported as compensation to Mr. Guttman and Mr. L. Heureux, respectively, in the Summary Compensation Table for prior years.

The Ulta Nonqualified Deferred Compensation Plan became effective January 1, 2009. Participants may defer up to 75% of their base salary and 100% of their annual cash bonus. We do not match or make any other contributions to the plan. Participants may direct the investment of their contributions to the plan among several mutual funds, similar to those available under our 401(k) plan.

Severance and Change in Control Benefits

In the event that Mr. Rubin's employment is terminated without cause, he will be entitled to the following as severance subject to his providing a general release of claims:

Severance equal to eighteen months of his base salary;

Any bonus actually earned, prorated based on the percentage of the fiscal year Mr. Rubin is employed by the Company;

Accelerated vesting of the special hire restricted shares; and

Accelerated vesting of one fourth of the special hire options.

For this purpose "Cause" shall mean Mr. Rubin's:

Commission of an act of fraud or embezzlement;

The unauthorized, intentional or grossly negligent disclosure of confidential information which is injurious to the Company;

Willful breach of any fiduciary duty owed to the Company or the terms of his employment agreement;

Indictment for a felony or any crime involving fraud, dishonesty or moral turpitude;

Intentional misconduct as an employee, including knowing and intentional violation of the Company's written policies, or specific directions of the Board;

Failure substantially to perform his duties, following written notice (other than by reason of disability); and

Willful engagement in misconduct that may reasonably result in injury to the reputation or business prospects of the Company.

Any act or failure to act shall be considered "willful" only if done or omitted to be done without a good faith, reasonable belief that such act or failure to act was in our best interests. Mr. Rubin will have ten business days to cure any curable act after written notice from the Company of cause. Mr. Rubin's employment may be terminated without cause retroactively, if such reasons are later discovered after his termination.

In connection with his employment agreement, Mr. Rubin entered into an agreement not to disclose or use our confidential information at any time. He also agreed not to work for, or otherwise be involved with, any competitor for a period of eighteen months following his termination for any reason.

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In the event that Mr. Guttman's employment is terminated without cause, he will be entitled to a lump-sum payment equal to six months salary, which may be extended to one year's salary upon Board approval, subject to providing a general release of claims. In addition, if his employment is terminated without cause within 12 months following a change in control, he will vest in all options that he holds regardless of when granted. Mr. L. Heureux entered into a voluntary separation and release agreement upon his separation on January 19, 2011, which, in exchange for a release of all claims, provided for him to receive one year's salary payable in installments, a full bonus for fiscal 2010 (with the 20% discretionary portion of the bonus payable at 100%), and full vesting in certain stock options that would otherwise have vested on March 24, 2011.

Although Mr. Bodnar does not have a contractual right to severance, we would likely also pay him at least six months severance in connection with a termination without cause in exchange for a general release of claims similar to Mr. Guttman. In addition, if his employment is terminated without cause within 12 months following a change in control, he will vest in all options that he holds regardless of when granted.

Ms. Kirby resigned her employment in September 2010 and as a result was not entitled to any severance.

The following chart sets forth the amount that Messrs. Rubin, Bodnar and Guttman would receive in the event that their employment were terminated without cause, for good reason, or due to death or disability, or in connection with a change in control, on the last day of the 2010 fiscal year, January 29, 2011, and assuming the exercise of all options the vesting of which is accelerated upon such event. With respect to Mr. L. Heureux, the following chart sets forth the amount he is entitled to receive upon his separation on January 19, 2011 as severance and the value of stock options the vesting of which were accelerated as a result of such separation, but does not include his bonus for 2010 fiscal year, as that was deemed earned at the time of his separation. These amounts do not include any value for amounts payable under insurance policies applicable to employees in general.

Name	Involuntary Not for Cause Termination/ Good Reason	Death/ Disability	Involuntary Termination in Connection with Change in Control
Chuck Rubin	\$ 1,155,000	\$ 0	\$ 8,303,976
Gregg R. Bodnar	\$ 212,503	\$ 0	\$ 4,714,403
Robert S. Guttman	\$ 148,481	\$ 0	\$ 1,649,075
Wayne D. L. Heureux(1)	\$ 859,469	\$ 0	\$ 0

(1) Mr. L. Heureux's employment terminated on January 19, 2011.

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PROPOSAL THREE

ADVISORY RESOLUTION ON EXECUTIVE COMPENSATION

The Board of Directors is committed to excellence in governance. As part of that commitment, and pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and Section 14A of the Securities Exchange Act of 1934, as amended, Ulta is asking stockholders to vote on a resolution to approve the compensation of our named executive officers as disclosed in this Proxy Statement. This advisory resolution, commonly referred to as a say-on-pay resolution, is non-binding on the Company and the Board of Directors. However, the Board and the Compensation Committee value the opinions of the stockholders and will carefully consider the outcome of the vote when making future compensation decisions.

As described more fully in the Compensation Discussion and Analysis (CD&A) section of this Proxy Statement, our executive compensation program is structured to provide compensation opportunities that: (1) reflect the competitive marketplace in which the Company operates; (2) link annual incentive compensation to Company performance goals that support stockholder value; (3) focus a significant portion of an executive's compensation on equity-based incentives to align interests closely with stockholders; and (4) attract, motivate and retain key executives who are critical to our long-term success. A significant portion of the Company's executive compensation is performance-based, and we emphasize such incentives to ensure that total compensation reflects our overall success or failure and to motivate executive officers to meet appropriate performance measures.

We believe that the fiscal 2010 compensation of our named executive officers was appropriate and aligned with the Company's performance. We urge stockholders to read the CD&A section of this Proxy Statement, as well as the Summary Compensation Table and the related tables and disclosures, for a more complete understanding of how our executive compensation policies and procedures operate.

The Company is asking stockholders to approve the following advisory resolution at the 2011 Annual Meeting:

RESOLVED, that the stockholders of Ulta Salon, Cosmetics & Fragrance, Inc. (the Company) approve, on an advisory basis, the compensation of the Company's named executive officers as disclosed in this Proxy Statement pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion thereto.

Because the vote is advisory, it will not be binding upon the Board or the Compensation Committee. However, the Compensation Committee will consider the outcome of the vote in determining future compensation policies and decisions.

The affirmative vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting will be required to approve the advisory resolution on executive compensation. Abstentions will be counted toward the tabulation of votes cast on proposals presented to the stockholders and will have the same effect as negative votes. Broker non-votes will be counted towards a quorum, but will not be counted for any purpose in determining whether this matter has been ratified.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR PROPOSAL THREE

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PROPOSAL FOUR

ADVISORY VOTE ON THE FREQUENCY OF FUTURE ADVISORY VOTES ON EXECUTIVE COMPENSATION

In addition to providing stockholders with the opportunity to cast an advisory say on pay vote on executive compensation, Ulta is also asking stockholders to vote on whether future stockholder advisory votes on the Company's executive compensation should be held every one, two or three years.

For the following reasons, we recommend that our stockholders select a frequency of every three years:

Our compensation programs generally do not change significantly from year to year.

A vote every three years will allow stockholders to better judge our executive compensation program in relation to our long-term performance.

A vote every three years will provide us with the time to thoughtfully respond to stockholders' sentiments and implement any necessary changes.

We encourage our stockholders to evaluate our executive compensation programs over a multi-year horizon. In addition, we believe that a vote every three years on executive compensation reflects the appropriate time frame for our Compensation Committee and the Board of Directors to evaluate the results of the most recent advisory vote on executive compensation, to discuss the implications of that vote with stockholders to the extent needed, to develop and implement any adjustments to our executive compensation programs that may be appropriate in light of a past advisory vote on executive compensation, and for stockholders to see and evaluate the Compensation Committee's actions in context. In this regard, because the advisory vote on executive compensation occurs after we have already implemented our executive compensation programs for the current year, and because the different elements of compensation are designed to operate in an integrated manner and to complement one another, we expect that in certain cases it may not be appropriate or feasible to fully address and respond to any one year's advisory vote on executive compensation by the time of the following year's annual meeting.

We view the advisory vote on executive compensation as an additional, but not exclusive, opportunity for our stockholders to communicate with us regarding their views on the Company's executive compensation programs. In addition, we are concerned that an annual advisory vote on executive compensation could lead to a near-term perspective inappropriately bearing on our executive compensation programs. Finally, although we believe that holding an advisory vote on executive compensation every three years will reflect the right balance of considerations in the normal course, we will periodically reassess that view and can provide for an advisory vote on executive compensation on a more frequent basis if changes in our compensation programs or other circumstances suggest that such a vote would be appropriate.

This advisory vote is non-binding on the Company and the Board of Directors. While the Board and the Compensation Committee value the opinions of the stockholders and will consider the outcome of the vote when determining the frequency of future say on pay votes, the Board may decide that it is in the best interest of the Company and the stockholders to hold an advisory vote on executive compensation more or less frequently than the option approved by the stockholders.

The affirmative vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting will be required to approve the vote regarding the frequency of an advisory vote on the compensation of our named executive officers. However, if none of the frequency alternatives receives a majority

vote, we will consider the frequency that receives the highest number of votes by stockholders to be the frequency that has been selected by our stockholders. Abstentions and broker non-votes will be counted towards a quorum, but will not be counted for any other purpose with respect to this matter.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE IN FAVOR OF EVERY THREE YEARS WITH RESPECT TO PROPOSAL FOUR

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PROPOSAL FIVE

**APPROVAL OF
ULTA SALON, COSMETICS & FRAGRANCE, INC.
2011 INCENTIVE AWARD PLAN**

We are requesting that our stockholders vote in favor of adopting the Ulta Salon, Cosmetics & Fragrance, Inc. 2011 Incentive Award Plan (the "2011 Plan"), which was approved originally by the Board of Directors on April 26, 2011. A summary of the principal provisions of the 2011 Plan is set forth below. The summary is qualified by reference to the full text of the 2011 Plan, which is attached as Appendix A to this Proxy Statement.

The 2011 Plan was adopted in order to allow us to continue providing equity compensation to employees and members of the Board as a competitive compensation practice and to align the interests of our employees and Board members with our stockholders. The 2011 Plan is intended to replace 2007 Incentive Award Plan (the "2007 Plan"), which as of April 26, 2011 has only 746,431 shares (plus any shares returned due to forfeitures) available for future awards, which represents about the historical level of our annual equity grants. Therefore, unless the 2011 Plan is approved we will not be able to continue making equity compensation grants to our employees or directors. As discussed in greater detail in the Compensation Discussion and Analysis section in this Proxy Statement, one of the methods by which we execute our compensation philosophy is by focusing a significant portion of our executive's compensation on equity-based incentives, which are designed to align our executives' interests closely with those of our stockholders.

The 2011 Plan provides for the grant of options (both nonqualified and incentive stock options), stock appreciation rights ("SARs"), restricted stock, restricted stock units, performance awards, dividend equivalent rights, stock payments, deferred stock and cash-based awards (collectively, "Awards").

Under the terms of the 2011 Plan, the total number of shares of our common stock initially reserved for issuance under Awards is (i) 4,750,000 plus (ii) shares that are available for grant under or subject to awards which are forfeited or cancelled under the 2007 Plan, as discussed in greater detail below.

Shares Subject to 2011 Plan

Under the 2011 Plan, the aggregate number of shares of our common stock that may be issued is (i) 4,750,000 plus (ii) any shares that are available for grant under the prior plans on the effective date of the 2011 Plan or are subject to awards under prior plans, which after the effective date are forfeited or lapse unexercised or are settled in cash and are not issued under such prior plans. However, because the 2011 Plan has a fungible share design, grants of full value awards (restricted stock, restricted stock units, deferred stock and stock payments) will reduce the aggregate number of shares available under the 2011 Plan by 1.5 shares for each share delivered in settlement of a full value award.

The 2011 Plan provides for specific limits on the number of shares that may be subject to different types of Awards:

No more than 4,000,000 shares may be granted in any calendar year to any one Participant (as defined below).

In any one calendar year a Participant may not receive a cash-based award with a value exceeding \$5,000,000.

The shares of our common stock available under the 2011 Plan may be either previously authorized and unissued shares, treasury shares or shares purchased on the open market. The 2011 Plan provides for appropriate adjustments in the number and kind of shares subject to the 2011 Plan and to outstanding Awards thereunder in the event of a corporate event or transaction, including a merger, consolidation, reorganization, recapitalization, separation, partial or

complete liquidation, stock split, stock dividend, reverse stock split, split up, spin-off or other

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distribution of stock or property, combination of shares, exchange of shares or other similar change in capital structure.

If any shares subject to an Award under the 2011 Plan or a prior plan expire or are forfeited or are settled in cash in lieu of shares, or exchanged prior to the issuance of shares for an Award not involving shares, then the shares subject to such Award under the 2011 Plan or a prior plan shall be available again for grant under the 2011 Plan. However, the following shares will not be available for future grants under the 2011 Plan: (1) shares used to pay the exercise price of an option or to satisfy a tax withholding obligation of an Award; (2) shares subject to SARs that are not issued in connection with the exercise of such SARs; and (3) shares purchased on the open market with cash proceeds from the exercise of options.

On April 26, 2011, the closing price of a share of our common stock on the NASDAQ was \$52.57.

Administration

The 2011 Plan is generally administered by our Compensation Committee (the Committee) or any subcommittee thereof; provided, that a subcommittee of our Board of Directors may also function as the Committee. The Committee is authorized to determine the individuals who will receive Awards (the Participants), when they will receive Awards, the number of shares to be subject to each Award, the price of the Awards granted, payment terms, payment method and the expiration date applicable to each Award. The Committee is also authorized to adopt, amend and rescind rules relating to the administration of the 2011 Plan. The Committee may from time to time delegate its authority to grant or amend awards to officers of the company, provided that the full Board, acting by a majority of its members, must conduct the general administration of the 2011 Plan with respect to non-employee directors. In addition, the Committee may not delegate its authority with respect to senior executives of the Company who are subject to Section 16 of the Securities Exchange Act of 1934, as amended, or any individual who is subject to Section 162(m) of the Internal Revenue Code (the Code).

Amendment and Termination

The Committee or the Board may terminate, amend, or modify the 2011 Plan at any time; provided, however, that stockholder approval will be obtained for any amendment to the extent necessary and desirable to comply with any applicable law, regulation or stock exchange rule, to increase the number of shares available under the 2011 Plan or to permit the Committee to grant options with a price below fair market value on the date of grant. In addition, absent stockholder approval, no option or SAR may be amended to reduce the per share exercise price of the shares subject to such option or SAR below the per share exercise price as of the date the option or SAR was granted and, except to the extent permitted by the 2011 Plan in connection with certain changes in capital structure, no option or SAR may be granted in exchange for, or in connection with, the cancellation or surrender of an option or SAR having a higher per share exercise price.

In no event may an Award be granted pursuant to the 2011 Plan on or after the tenth anniversary of the date the stockholders approve the 2011 Plan.

Eligibility

Awards under the 2011 Plan may be granted to individuals who are our employees, our non-employee directors and our consultants. However, options which are intended to qualify as ISOs (as defined below) may only be granted to employees.

Awards

The following briefly describes the principal features of the various Awards that may be granted under the 2011 Plan.

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Options Options provide for the right to purchase our common stock at a specified price and usually will become exercisable in the discretion of the Committee in one or more installments after the grant date. The option exercise price may be paid in:

cash;

check;

shares of our common stock which have been held by the option holder for such period required by the Committee;

broker assisted cash-less exercise; or

such other methods as the Committee may approve from time to time.

The Committee may at anytime substitute SARs for options granted under the 2011 Plan. Options may take two forms: non-statutory options (NSOs) and incentive stock options (ISOs). NSOs may be granted for any term specified by the Committee, but shall not exceed ten years. ISOs will be designed to comply with the provision of the Code and will be subject to certain restrictions contained in the Code in order to qualify as ISOs. Among such restrictions ISOs must:

have an exercise price not less than the fair market value of our common stock on the date of grant, or if granted to certain individuals who own or are deemed to own at least 10% of the total combined voting power of all of our classes of stock (10% shareholders), then such exercise price may not be less than 110% of the fair market value of our common stock on the date of grant;

be granted only to our employees;

expire within a specified time following the option holders termination of employment;

be exercised within ten years after the date of grant, or with respect to 10% shareholders, no more than five years after the date of grant; and

not be exercisable for the first time for shares of our common stock with an aggregate fair market value in excess of \$100,000, determined based on the exercise price.

No ISO may be granted under the 2011 Plan after ten years from the date the 2011 Plan is approved by our stockholders.

Restricted Stock A restricted stock award is the grant of shares of our common stock at a price determined by the Committee (which price may be zero) that is nontransferable and unless otherwise determined by the Committee at the time of award, may be forfeited upon termination of employment or service during a restricted period. The Committee shall also determine in the Award agreement whether the Participant will be entitled to vote the shares of restricted stock and or receive dividends on such shares. Restricted stock granted to employees and consultants will vest according to the terms of each individual Award agreement, as determined by the Committee.

Stock Appreciation Rights SARs provide for the payment to the holder based upon increases in the price of our common stock over a set base price. SARs may be granted in connection with stock options or other Awards or separately. The term of each SAR is set by the Committee, but shall not exceed 10 years from the date of grant.

Payment for SARs may be made in cash, our common stock or any combination of the two.

Restricted Stock Units Restricted stock units represent the right to receive shares of our common stock at a specified date in the future, subject to forfeiture of such right. If the restricted stock unit has not been forfeited, then

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on the date specified in the Award agreement we shall deliver to the holder of the restricted stock unit, unrestricted shares of our common stock which will be freely transferable. The Committee will specify the vesting requirements in each Award agreement.

Dividend Equivalents Dividend equivalents represent the value of the dividends per share we pay, calculated with reference to the number of shares covered by an Award (other than a dividend equivalent award) held by the Participant. These may be paid in cash or stock. Dividend Equivalents paid in cash do not count against the share and award limits under the 2011 Plan. Dividend Equivalents granted on Awards that vest based on satisfaction of performance criteria will be paid out only once the performance criteria is satisfied and the Awards vest.

Performance Awards Performance awards are denominated in cash or shares of our common stock and are linked to satisfaction of performance criteria established by the Committee. If the Committee determines that the Award is intended to meet the requirements of qualified performance based compensation and therefore be deductible under Section 162(m) of the Code, then the performance criteria on which the Award will be based shall be with reference to any one or more of the following:

- earnings (either before or after interest, taxes, depreciation and amortization);
- economic value-added;
- gross or net sales or revenue;
- income (gross or net, before or after taxes);
- adjusted income (gross or net);
- operating earnings or profit;
- cash flow (including, but not limited to, operating cash flow and free cash flow);
- return on capital;
- return on assets;
- return on stockholders' equity;
- total stockholder return;
- return on sales;
- gross or net profit or operating margin;
- costs;
- funds from operations;
- expenses;
- productivity;

return on net assets;

operating efficiency;

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economic value;

comparable store sales;

working capital;

earnings per share;

adjusted earnings per share;

regulatory body approval for commercialization of a product;

implementation or completion of critical projects;

cash flow return on capital;

price per share of common stock; a