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lululemon athletica inc.
Form 10-Q
June 09, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the quarterly period ended May 3, 2015

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the transition period from _____ to _____

Commission file number 001-33608

lululemon athletica inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

20-3842867
(I.R.S. Employer
Identification No.)

1818 Cornwall Avenue
Vancouver, British Columbia
(Address of principal executive offices)

V6J 1C7
(Zip Code)

Registrant's telephone number, including area code:
604-732-6124

Former name, former address and former fiscal year, if changed since last report:
N/A

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

At June 4, 2015, there were 131,612,198 shares of the registrant's common stock, par value \$0.005 per share, outstanding.

Exchangeable and Special Voting Shares:

At June 4, 2015, there were outstanding 9,832,541 exchangeable shares of Lulu Canadian Holding, Inc., a wholly-owned subsidiary of the registrant. Exchangeable shares are exchangeable for an equal number of shares of the registrant's common stock.

In addition, at June 4, 2015, the registrant had outstanding 9,832,541 shares of special voting stock, through which the holders of exchangeable shares of Lulu Canadian Holding, Inc. may exercise their voting rights with respect to the registrant. The special voting stock and the registrant's common stock generally vote together as a single class on all matters on which the common stock is entitled to vote.

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PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

lululemon athletica inc.

CONSOLIDATED BALANCE SHEETS

(Unaudited; Amounts in thousands, except per share amounts)

	May 3, 2015	February 1, 2015
ASSETS		
Current assets		
Cash and cash equivalents	\$655,881	\$664,479
Accounts receivable	13,287	13,746
Inventories	236,499	208,116
Prepaid expenses and other current assets	67,125	64,671
	972,792	951,012
Property and equipment, net	314,336	296,008
Goodwill and intangible assets, net	26,276	26,163
Deferred income tax assets	16,294	16,018
Other non-current assets	8,018	7,012
	\$1,337,716	\$1,296,213
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$5,318	\$9,339
Accrued inventory liabilities	39,008	22,296
Accrued compensation and related expenses	27,550	29,932
Income taxes payable	1,277	20,073
Unredeemed gift card liability	39,226	46,252
Other accrued liabilities	31,103	31,989
	143,482	159,881
Deferred income tax liabilities	3,800	3,633
Other non-current liabilities	45,423	43,131
	192,705	206,645
Stockholders' equity		
Undesignated preferred stock, \$0.01 par value, 5,000 shares authorized, none issued and outstanding	—	—
Exchangeable stock, no par value, 60,000 shares authorized, issued and outstanding 9,833 and 9,833	—	—
Special voting stock, \$0.000005 par value, 60,000 shares authorized, issued and outstanding 9,833 and 9,833	—	—
Common stock, \$0.005 par value, 400,000 shares authorized, issued and outstanding 131,978 and 132,112	660	661
Additional paid-in capital	245,136	241,695
Retained earnings	1,050,016	1,020,619
Accumulated other comprehensive loss	(150,801)	(173,407)
	1,145,011	1,089,568
	\$1,337,716	\$1,296,213

See accompanying notes to the interim consolidated financial statements

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CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited; Amounts in thousands, except per share amounts)

	Thirteen Weeks Ended May 3, 2015	Thirteen Weeks Ended May 4, 2014
Net revenue	\$423,544	\$384,618
Cost of goods sold	217,667	188,874
Gross profit	205,877	195,744
Selling, general and administrative expenses	137,841	125,943
Income from operations	68,036	69,801
Other income, net	529	1,643
Income before provision for income taxes	68,565	71,444
Provision for income taxes	20,755	52,463
Net income	\$47,810	\$18,981
Other comprehensive income:		
Foreign currency translation adjustment	22,606	12,390
Comprehensive income	\$70,416	\$31,371
Basic earnings per share	\$0.34	\$0.13
Diluted earnings per share	\$0.34	\$0.13
Basic weighted-average number of shares outstanding	141,967	145,383
Diluted weighted-average number of shares outstanding	142,337	145,861
See accompanying notes to the interim consolidated financial statements		

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lululemon athletica inc.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited; Amounts in thousands)

	Exchangeable Stock		Special Voting Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Par Value	Shares	Par Value	Shares	Par Value				
Balance at February 1, 2015	9,833	\$—	9,833	\$—	132,112	\$661	\$241,695	\$1,020,619	\$(173,407)	\$1,089,568
Net income								47,810		47,810
Foreign currency translation adjustment									22,606	22,606
Stock-based compensation expense							2,068			2,068
Excess tax benefit from stock-based compensation							209			209
Common stock issued upon settlement of stock-based compensation Shares withheld related to net share settlement of stock-based compensation					168	1	2,801			2,802
Repurchase of common stock					(19)	—	(1,237)			(1,237)
Balance at May 3, 2015	9,833	\$—	9,833	\$—	131,978	\$660	\$245,136	\$1,050,016	\$(150,801)	\$1,145,011

See accompanying notes to the interim consolidated financial statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; Amounts in thousands)

	Thirteen Weeks Ended May 3, 2015	Thirteen Weeks Ended May 4, 2014	
Cash flows from operating activities			
Net income	\$47,810	\$18,981	
Items not affecting cash			
Depreciation and amortization	16,096	12,460	
Stock-based compensation expense	2,068	1,977	
Deferred income taxes	—	30,946	
Excess tax benefits from stock-based compensation	(209) —	
Other, including net changes in other non-cash balances			
Prepaid tax installments	2,182	5,900	
Other prepaid expenses and other current assets	(3,917	) (53)
Inventories	(25,797	) 9,207	
Accounts payable	(4,092	) (5,805)
Accrued inventory liabilities	16,001	1,531	
Other accrued liabilities	(1,191	) (139)
Income taxes payable	(19,428	) (236)
Accrued compensation and related expenses	(2,853	) 3,815	
Other non-cash balances	(5,730	) (7,609)
Net cash provided by operating activities	20,940	70,975	
Cash flows from investing activities			
Purchase of property and equipment	(27,936	) (25,447)
Net cash used in investing activities	(27,936	) (25,447)
Cash flows from financing activities			
Proceeds from settlement of stock-based compensation	2,802	1,575	
Excess tax benefits from stock-based compensation	209	—	
Taxes paid related to net share settlement of equity awards	(1,237	) (3,224)
Repurchase of common stock	(18,815) —	
Net cash used in financing activities	(17,041	) (1,649)
Effect of exchange rate changes on cash and cash equivalents	15,439	9,437	
(Decrease) increase in cash and cash equivalents	(8,598	) 53,316	
Cash and cash equivalents, beginning of period	\$664,479	\$698,649	
Cash and cash equivalents, end of period	\$655,881	\$751,965	
See accompanying notes to the interim consolidated financial statements			

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NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except per share and store count information, unless otherwise indicated)

NOTE 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nature of operations

lululemon athletica inc., a Delaware corporation ("lululemon" and, together with its subsidiaries unless the context otherwise requires, the "Company") is engaged in the design, distribution, and retail of healthy lifestyle inspired athletic apparel, which is sold through a chain of company-operated stores, direct to consumer through e-commerce, showrooms, a network of wholesale accounts, outlets and warehouse sales. The Company operates stores in the United States, Canada, Australia, New Zealand, the United Kingdom, and Singapore where 223, 59, 26, five, two, and one company-operated store(s), respectively, were in operation as of May 3, 2015. There were a total of 316 and 302 company-operated stores in operation as of May 3, 2015 and February 1, 2015, respectively.

Basis of presentation

The unaudited interim consolidated financial statements as of May 3, 2015 and for the thirteen weeks ended May 3, 2015 and May 4, 2014 are presented in United States dollars and have been prepared by the Company under the rules and regulations of the Securities and Exchange Commission ("SEC"). The financial information is presented in accordance with United States generally accepted accounting principles ("GAAP") for interim financial information and, accordingly, does not include all of the information and footnotes required by GAAP for complete financial statements. The financial information as of February 1, 2015 is derived from the Company's audited consolidated financial statements and notes for the fiscal year ended February 1, 2015, included in Item 8 in the fiscal 2014 Annual Report on Form 10-K filed with the SEC on March 26, 2015. These unaudited interim consolidated financial statements reflect all adjustments which are in the opinion of management necessary to a fair statement of the results for the interim periods presented. These unaudited interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and related notes included in the Company's 2014 Annual Report on Form 10-K.

The Company's fiscal year ends on the Sunday closest to January 31 of the following year, typically resulting in a 52 week year, but occasionally giving rise to an additional week, resulting in a 53 week year. Fiscal 2015 will end on January 31, 2016 and will be a 52 week year.

The Company's business is affected by the pattern of seasonality common to most retail apparel businesses.

Historically, the Company has recognized a significant portion of its operating profit in the fourth fiscal quarter of each year as a result of increased sales during the holiday season.

Certain comparative figures have been reclassified to conform to the financial presentation adopted for the current year.

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASC Topic 606, Revenue from Contracts with Customers ("ASC 606"), which supersedes the revenue recognition requirements in ASC Topic 605 Revenue Recognition, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. This guidance requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, and expands the related disclosure requirements. This guidance will be effective for the Company beginning in its first quarter of fiscal 2017. The Company is currently evaluating the impact that this new guidance may have on its consolidated financial statements. In April 2015, the FASB issued an exposure draft deferring the effective date for public companies to years, and interim periods within those years, beginning after December 15, 2017, with early application permitted.

In June 2014, the FASB amended ASC Topic 718, Compensation - Stock Compensation ("ASC 718") for share-based payments in which the terms of the award provide that a performance target can be achieved after the requisite service period. The amendments require that a performance target that affects vesting and that could be achieved after the

requisite service period be treated as a performance condition. This guidance is effective for public companies for years, and interim periods within those years, beginning on or after December 15, 2015, and early application is permitted. This guidance will be effective for the Company beginning in its first quarter of fiscal 2016. The Company is currently evaluating the impact that this new guidance may have on its consolidated financial statements.

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In April 2015, the FASB amended ASC Subtopic 350-40, Intangibles - Goodwill and Other - Internal-Use Software ("ASC 350-40") to provide guidance to customers about whether a cloud computing arrangement includes a software license. This guidance requires that if a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. This guidance is effective for public companies for years, and interim periods within those years, beginning on or after December 15, 2015, and early application is permitted. The Company is currently evaluating the impact that this new guidance may have on its consolidated financial statements.

NOTE 3. STOCK-BASED COMPENSATION**Stock-based compensation plans**

The Company's employees participate in various stock-based compensation plans, which are provided by the Company directly.

Stock-based compensation expense charged to income for the plans was \$2,068 and \$1,977 for the thirteen weeks ended May 3, 2015 and May 4, 2014, respectively. Total unrecognized compensation cost for all stock-based compensation plans was \$39,276 at May 3, 2015, which is expected to be recognized over a weighted-average period of 2.7 years.

Company stock options, performance-based restricted stock units, restricted shares and restricted stock units

A summary of the Company's stock option, performance-based restricted stock unit, restricted share and restricted stock unit activity as of May 3, 2015 and changes during the thirteen week period then ended is presented below:

	Stock Options		Performance-Based Restricted Stock Units		Restricted Shares		Restricted Stock Units	
	Number	Weighted-Average Exercise Price	Number	Weighted-Average Grant Date Fair Value	Number	Weighted-Average Grant Date Fair Value	Number	Weighted-Average Grant Date Fair Value
Balance at February 1, 2015	879	\$ 39.25	452	\$ 59.27	62	\$ 42.86	186	\$ 45.75
Granted	151	64.83	133	64.83	—	—	167	64.85
Exercised/vested	128	21.83	40	68.45	—	—	4	52.59
Forfeited	58	53.09	84	65.96	4	38.25	11	50.23
Balance at May 3, 2015	844	\$ 45.53	461	\$ 58.87	58	\$ 43.12	338	\$ 54.97
Exercisable at May 3, 2015	303	\$ 29.85						

The fair value of each stock option granted is estimated on date of grant using the Black-Scholes model. The assumptions used to calculate the fair value of options granted are evaluated and revised, as necessary, to reflect market conditions and the Company's historical experience. The expected term of the options is based upon historical experience of similar awards, giving consideration for expectations of future employee behavior. Expected volatility is based upon the historical volatility of the Company's common stock for the period corresponding with the expected term of the options. The risk-free interest rate is based on the U.S. Treasury yield curve for the period corresponding with the expected term of the options. The following assumptions were used in calculating the fair value of stock options granted in fiscal 2015:

	Stock Options Granted During Fiscal 2015	
Expected term	4.0 years	
Expected volatility	42.73	%
Risk-free interest rate	0.98	%
Dividend yield	—	%

The Company's performance-based restricted stock units are awarded to eligible employees and entitle the grantee to receive a maximum of two shares of common stock per performance-based restricted stock unit if the Company achieves specified performance goals and the grantee remains employed during the vesting period. The fair value of performance-based restricted stock units is based on the closing price of the Company's common stock on the award date. Expense for performance-based restricted stock units is recognized when it is probable that the performance goal will be achieved.

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The fair value of the restricted shares and restricted stock units is based on the closing price of the Company's common stock on the award date.

Employee stock purchase plan

The Company's board of directors and stockholders approved the Company's Employee Share Purchase Plan ("ESPP") in September 2007. Contributions are made by eligible employees, subject to certain limits as defined in the ESPP, and the Company matches one-third of the contribution. The maximum number of shares available under the ESPP is 6,000 shares. During the thirteen weeks ended May 3, 2015, there were 22 shares purchased under the ESPP in the open market.

NOTE 4. EARNINGS PER SHARE

The details of the computation of basic and diluted earnings per share are as follows:

	Thirteen Weeks Ended May 3, 2015	Thirteen Weeks Ended May 4, 2014
Net income	\$47,810	\$18,981
Basic weighted-average number of shares outstanding	141,967	145,383
Effect of stock options assumed exercised	370	478
Diluted weighted-average number of shares outstanding	142,337	145,861
Basic earnings per share	\$0.34	\$0.13
Diluted earnings per share	\$0.34	\$0.13

The Company's calculation of weighted-average shares includes the common stock of the Company as well as the exchangeable shares. Exchangeable shares are the equivalent of common shares in all material respects. All classes of stock have in effect the same rights and share equally in undistributed net income. For the thirteen weeks ended May 3, 2015 and May 4, 2014, 94 and 264 stock options, respectively, were anti-dilutive to earnings per share and therefore have been excluded from the computation of diluted earnings per share.

On June 11, 2014, the Company's board of directors approved a program to repurchase shares of the Company's common stock up to an aggregate value of \$450,000. The common stock is to be repurchased in the open market at prevailing market prices, with the timing and actual number of shares to be repurchased depending upon market conditions and other factors. The repurchases will be made up until June 2016. During the thirteen weeks ended May 3, 2015, 283 shares were repurchased under the program at a total cost of \$18,815. Subsequent to May 3, 2015, and up to June 4, 2015, 368 shares were repurchased at a total cost of \$23,273.

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NOTE 5. SUPPLEMENTARY FINANCIAL INFORMATION

A summary of certain balance sheet accounts is as follows:

	May 3, 2015	February 1, 2015	
Inventories:			
Finished goods	\$242,777	\$214,113	
Provision to reduce inventory to market value	(6,278)	(5,997))
	\$236,499	\$208,116	
Prepaid expenses and other current assets:			
Prepaid tax installments	\$38,574	\$40,547	
Prepaid expenses	28,551	24,124	
	\$67,125	\$64,671	
Property and equipment:			
Land	\$62,799	\$60,548	
Buildings	30,454	29,099	
Leasehold improvements	191,301	176,677	
Furniture and fixtures	59,915	55,320	
Computer hardware	37,927	35,457	
Computer software	94,975	84,854	
Equipment and vehicles	12,103	11,908	
Accumulated depreciation	(175,138)	(157,855))
	\$314,336	\$296,008	
Goodwill and intangible assets:			
Goodwill	\$25,496	\$25,496	
Changes in foreign currency exchange rates	(824)	(1,083))
	24,672	24,413	
Intangibles—reacquired franchise rights	10,150	10,150	
Accumulated amortization	(8,468)	(8,264))
Changes in foreign currency exchange rates	(78)	(136))
	1,604	1,750	
	\$26,276	\$26,163	
Other accrued liabilities:			
Sales tax collected	\$9,505	\$8,579	
Accrued rent	4,434	5,567	
Other	17,164	17,843	
	\$31,103	\$31,989	
Other non-current liabilities:			
Deferred lease liability	\$21,237	\$20,837	
Tenant inducements	24,186	22,294	
	\$45,423	\$43,131	

NOTE 6. LEGAL PROCEEDINGS

In addition to the legal matters described below, the Company is, from time to time, involved in routine legal matters incidental to the conduct of its business, including legal matters such as initiation and defense of proceedings to protect intellectual property rights, personal injury claims, product liability claims, and similar matters. The Company believes the ultimate resolution of any such current proceeding will not have a material adverse effect on its continued financial position, results of operations or cash flows.

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On October 25, 2013, plaintiff Laborers' District Council Industry Pension Fund filed a books-and-records action in the Delaware Court of Chancery entitled Laborers' District Council Construction Industry Pension Fund v. lululemon athletica inc., C.A. No. 9039-VCP (Del. Ch.) under 8 Del. C. Sec. 220 based on a demand letter it sent to the Company on or around August 8, 2013 to request certain lululemon records relating to the March 2013 sheer Luon issue, the Company's announcement that its then CEO, Christine Day, intended to resign, and certain stock trades executed by the then-Chairman of the Company's board of directors, Mr. Wilson, prior to the Company's announcement regarding its former CEO, Christine Day. On April 2, 2014, the Court rejected the majority of books and records sought by the plaintiff and ordered the Company to produce a narrow category of documents relating to one trade made by the Company's former Chairman. On June 11, 2014, the Court consolidated this action with the action captioned Hallandale Beach Police Officers and Firefighters' Personnel Retirement Fund v. lululemon athletica inc., C.A. No. 8522-VCP (Del. Ch.), which is described below. On June 13, 2014, Plaintiffs filed a Motion to Enforce the Court's April 2, 2014 Telephonic Rulings and Compel in Camera Inspection of Withheld and Redacted Documents. On April 30, 2015 the Court denied the plaintiff's motion in part.

On August 12, 2013 and August 23, 2013, plaintiffs Thomas Canty and Tammy Federman filed shareholder derivative actions entitled Canty v. Day, et al., No. 13-CV-5629 (S.D.N.Y.) and Federman v. Day, et al., No. 13-CV-5977 (S.D.N.Y.). Plaintiffs allege that they are acting on behalf of the Company and name as defendants current and former directors and certain officers of the Company challenging certain public disclosures and conduct relating to the March 2013 sheer Luon issue, the June 2013 announcement regarding the resignation of the Company's former CEO, Christine Day, and certain stock trades executed by Mr. Wilson and Ms. Day in the months leading up to that announcement. On April 9, 2014, the Court dismissed all of the plaintiffs' claims due to the plaintiffs' failure to make a pre-suit demand. The plaintiff in the Canty action appealed this decision to the United States Court of Appeals for the Second Circuit. On April 3, 2015 the Court of Appeals dismissed the plaintiff's appeal.

On July 2, 2013, plaintiff Houssam Alkhoury filed a putative shareholder class action entitled Alkhoury v. lululemon athletica inc., et al., No. 13-CV-4596 (S.D.N.Y.) against lululemon, a certain director and a certain officer of the Company (collectively, "Defendants"). On October 1, 2013, the Court appointed Louisiana Sheriffs' Pension & Relief Fund as Lead Plaintiff and on November 1, 2013, Lead Plaintiff filed a consolidated class action complaint on behalf of a proposed class of purchasers of lululemon stock between September 7, 2012 through June 11, 2013 (the "Complaint"). In its Complaint, Lead Plaintiff asserted causes of action under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 against Defendants based on certain public disclosures made by the Company relating to lululemon's product quality and the March 2013 sheer Luon issue. On January 15, 2014, Lead Plaintiff filed a consolidated amended class action complaint (the "Amended Complaint") on behalf of a proposed class of purchasers of lululemon stock between September 7, 2012 through January 10, 2014. In its Amended Complaint, Lead Plaintiff added new claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 based on certain of lululemon's public disclosures related to the Company's ongoing quality control improvements and the impact of those improvements on the Company's financial results. On April 18, 2014, the Court dismissed all of Lead Plaintiff's claims for failure to state a claim. Lead Plaintiff appealed this decision and on May 15, 2015, the Court of Appeals dismissed the plaintiff's appeal.

On May 3, 2013, plaintiff Hallandale Beach Police Officers and Firefighters' Personnel Retirement Fund filed a books-and-records action in the Delaware Court of Chancery entitled Hallandale Beach Police Officers and Firefighters' Personnel Retirement Fund v. lululemon athletica inc., C.A. No. 8522-VCP (Del. Ch.) under 8 Del. C. Sec. 220 based on a demand letter it sent to the Company on April 17, 2013 to request certain lululemon records relating to the March 2013 sheer Luon issue and revisions to the Company's executive bonus plan. On June 14, 2013, the plaintiff sent a supplemental demand letter that requested additional records from the Company relating to the Company's announcement that Christine Day intended to resign as the Company's CEO, and certain stock trades executed by the Company's then-Chairman, Mr. Wilson, prior to the Company's announcement regarding Ms. Day. On April 2, 2014, the Court rejected the majority of books and records sought by the plaintiff and ordered the Company to produce a narrow category of documents relating to one trade made by the Company's former Chairman. On June 11, 2014 the Court consolidated this action with the action captioned Laborers' District Council Construction

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Industry Pension Fund v. lululemon athletica inc., C.A. No. 9039-VCP (Del. Ch.) which is described above. On June 13, 2014 Plaintiffs filed a Motion to Enforce the Court's April 2, 2014 Telephonic Rulings and Compel in Camera Inspection of Withheld and Redacted Documents. On April 30, 2015 the Court denied the plaintiff's motion in part.

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NOTE 7. SEGMENT REPORTING

The Company applies ASC Topic 280, Segment Reporting ("ASC 280"), in determining reportable segments for its financial statement disclosure. The Company reports segments based on the financial information it uses in managing its business. The Company's reportable segments are comprised of company-operated stores and direct to consumer. Direct to consumer represents sales from the Company's e-commerce websites. Outlet sales, showroom sales, sales to wholesale accounts, warehouse sales, and sales from temporary locations have been combined into other. Information for these segments is detailed in the table below:

	Thirteen Weeks Ended May 3, 2015	Thirteen Weeks Ended May 4, 2014
Net revenue:		
Company-operated stores	\$314,094	\$288,101
Direct to consumer	83,636	65,974
Other	25,814	30,543
	\$423,544	\$384,618
Income from operations before general corporate expense:		
Company-operated stores	\$69,223	\$75,697
Direct to consumer	34,871	27,117
Other	981	3,276
	105,075	106,090
General corporate expense	37,039	36,289
Income from operations	68,036	69,801
Other income, net	529	1,643
Income before provision for income taxes	\$68,565	\$71,444
Capital expenditures:		
Company-operated stores	\$16,844	\$15,867
Direct to consumer	453	1,112
Corporate	10,639	8,468
	\$27,936	\$25,447
Depreciation and amortization:		
Company-operated stores	\$11,277	\$8,396
Direct to consumer	1,536	1,006
Corporate	3,283	3,058
	\$16,096	\$12,460

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Some of the statements contained in this Form 10-Q and any documents incorporated herein by reference constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included or incorporated in this Form 10-Q are forward-looking statements, particularly statements which relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts, such as statements regarding our future financial condition or results of operations, our prospects and strategies for future growth, the development and introduction of new products, and the implementation of our marketing and branding strategies. In many cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "intends," "predicts," "potential" or the negative of these terms or other comparable terminology.

The forward-looking statements contained in this Form 10-Q and any documents incorporated herein by reference reflect our current views about future events and are subject to risks, uncertainties, assumptions and changes in circumstances that may cause events or our actual activities or results to differ significantly from those expressed in any forward-looking statement. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future events, results, actions, levels of activity, performance or achievements. Readers are cautioned not to place undue reliance on these forward-looking statements. A number of important factors could cause actual results to differ materially from those indicated by the forward-looking statements, including, but not limited to, those factors described in "Risk Factors" and elsewhere in this report.

The forward-looking statements contained in this Form 10-Q reflect our views and assumptions only as of the date of this Form 10-Q and are expressly qualified in their entirety by the cautionary statements included in this Form 10-Q. Except as required by applicable securities law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events.

This information should be read in conjunction with the consolidated financial statements and the notes included in Item 1 of Part I of this Form 10-Q and the audited consolidated financial statements and notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations, contained in our annual report on Form 10-K.

We will disclose material non-public information through one or more of the following channels: our investor relations website (<http://investor.lululemon.com/>), the social media channels identified on our investor relations website, press releases, SEC filings, public conference calls, and webcasts.

Overview

lululemon is a designer, distributor, and retailer of technical athletic apparel. Since our inception, we have developed a distinctive corporate culture with a mission to produce products which create transformational experiences for people to live happy, healthy, fun lives. We promote a set of core values in our business which include, developing the highest quality products, operating with integrity, leading a balanced and fun life, and nurturing entrepreneurial spirit. These core values attract passionate and motivated employees who are driven to succeed and share our purpose of "elevating the world from mediocrity to greatness."

Our healthy lifestyle inspired athletic apparel is marketed under the lululemon athletica and ivivva athletica brand names. We offer a comprehensive line of apparel and accessories for women, men and female youth. Our apparel assortment includes items such as pants, shorts, tops and jackets designed for healthy lifestyle and athletic activities such as yoga, running, other sweaty pursuits, and dance-inspired apparel for female youth.

Financial Highlights

Our net revenue increased from \$384.6 million in the first quarter of fiscal 2014 to \$423.5 million in the first quarter of fiscal 2015, representing a growth rate of 10%. This increase resulted primarily from the addition of 53 net new company-operated stores and increased direct to consumer net revenue.

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Total comparable sales, which includes comparable store sales and direct to consumer, increased 2% in the first quarter of fiscal 2015, and increased by 6% on a constant dollar basis.

Our direct to consumer segment is an increasingly substantial part of our growth strategy, and represented 19.7% of our net revenue in the first quarter of fiscal 2015 compared to 17.2% in the first quarter of fiscal 2014. Direct to consumer net revenue increased 31% on a constant dollar basis primarily as the result of increased traffic on our e-commerce websites.

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Company-operated stores accounted for 74.2% of net revenue in the first quarter of fiscal 2015 compared to 74.9% of net revenue in the first quarter of fiscal 2014. Comparable store sales decreased by 1% on a constant dollar basis for the first quarter of fiscal 2015 primarily as a result of product delays due to the West Coast Port congestion that resulted in late Spring deliveries which reduced sales conversion rates and reduced the number of units purchased per transaction.

Gross profit for the first quarter of fiscal 2015 increased by 5% to \$205.9 million, from \$195.7 million in the first quarter of fiscal 2014. As a percentage of net revenue, gross profit decreased to 48.6% compared to 50.9% in the first quarter of fiscal 2014. The decrease in the gross margin percentage was primarily due to increased occupancy and depreciation costs, increased air freight costs, and an unfavorable impact of foreign exchange rates on product margin. Income from operations for the first quarter of fiscal 2015 decreased by 3% to \$68.0 million, from \$69.8 million in the first quarter of fiscal 2014. As a percentage of net revenue, income from operations decreased to 16.1% compared to 18.2% of net revenue in the first quarter of fiscal 2014. The decrease in income from operations was primarily the result of increased selling, general and administrative costs, partially offset by increased gross profit.

Provision for income taxes for the first quarter of fiscal 2015 decreased by 60% to \$20.8 million, from \$52.5 million in the first quarter of fiscal 2014. The first quarter of fiscal 2014 included a tax expense of \$30.9 million related to the repatriation of foreign earnings to fund the share buyback program. The effective tax rate was 30.3% in the first quarter of fiscal 2015 compared to 30.1% in the first quarter of fiscal 2014, excluding the \$30.9 million tax expense on the repatriation of foreign earnings.

Diluted earnings per share for the first quarter of fiscal 2015 were \$0.34 compared to \$0.13 in the first quarter of fiscal 2014. Excluding the tax expense of \$30.9 million on the repatriated foreign earnings, diluted earnings per share were \$0.34 for the first quarter of fiscal 2014.

Refer to the non-GAAP reconciliation tables contained in the "Results of Operations" section of this Management's Discussion and Analysis of Financial Condition and Results of Operations for reconciliations of constant dollar total comparable sales, constant dollar comparable store sales, constant dollar changes in direct to consumer net revenue, the tax rate excluding the tax expense on the repatriation of foreign earnings, and diluted earnings per share excluding the tax expense on the repatriation of foreign earnings to measures calculated in accordance with United States generally accepted accounting principles ("GAAP").

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Results of Operations

Thirteen Week Results

The following table summarizes key components of our results of operations for the thirteen weeks ended May 3, 2015 and May 4, 2014. The operating results are expressed in dollar amounts. The percentages are presented as a percentage of net revenue.

	Thirteen Weeks Ended May 3, 2015 and May 4, 2014					
	2015	2014	2015	2014		
	(In thousands)		(Percentages)			
Net revenue	\$423,544	\$384,618	100.0	% 100.0		%
Cost of goods sold	217,667	188,874	51.4	49.1		
Gross profit	205,877	195,744	48.6	50.9		
Selling, general and administrative expenses	137,841	125,943	32.5	32.7		
Income from operations	68,036	69,801	16.1	18.2		
Other income, net	529	1,643	0.1	0.4		
Income before provision for income taxes	68,565	71,444	16.2	18.6		
Provision for income taxes	20,755	52,463	4.9	13.7		
Net income	\$47,810	\$18,981	11.3	% 4.9		%
Net Revenue						

Net revenue increased \$38.9 million, or 10%, to \$423.5 million for the first quarter of fiscal 2015 from \$384.6 million for the first quarter of fiscal 2014. Assuming the average exchange rates for the first quarter of fiscal 2015 remained constant with the average exchange rates for the first quarter of fiscal 2014, our net revenue would have increased \$54.1 million, or 14%.

The net revenue increase was driven primarily by sales from new stores opened and the growth of our direct to consumer segment. Total comparable sales, which includes comparable store sales and direct to consumer, increased 2% in the first quarter of fiscal 2015. Excluding the effect of foreign currency fluctuations, total comparable sales would have increased 6%.

Our net revenue on a segment basis for the thirteen weeks ended May 3, 2015 and May 4, 2014 is summarized below. Net revenue is expressed in dollar amounts. The percentages are presented as a percentage of total net revenue.

	Thirteen Weeks Ended May 3, 2015 and May 4, 2014					
	2015	2014	2015	2014		
	(In thousands)		(Percentages)			
Company-operated stores	\$314,094	\$288,101	74.2	% 74.9		%
Direct to consumer	83,636	65,974	19.7	17.2		
Other	25,814	30,543	6.1	7.9		
Net revenue	\$423,544	\$384,618	100.0	% 100.0		%

Company-operated Stores. Net revenue from our company-operated stores segment increased \$26.0 million, or 9%, to \$314.1 million in the first quarter of fiscal 2015 from \$288.1 million in the first quarter of fiscal 2014. Net revenue from company-operated stores we opened subsequent to May 4, 2014, and therefore not included in comparable store sales, contributed \$38.2 million to the increase. Net new store openings since the first quarter of fiscal 2014 included 45 stores in the United States, five stores in Canada, one store in New Zealand, one store in the United Kingdom, and one store in Singapore. The increase in net revenue from our company-operated stores segment was offset by a comparable store sales decrease of 5% in the first quarter of fiscal 2015, which resulted in a \$12.2 million decrease to net revenue, including the effect of foreign currency fluctuations. Excluding the effect of foreign currency fluctuations, comparable store sales would have decreased 1%, or \$2.5 million, in the first quarter of fiscal 2015. The decrease in comparable store sales was primarily as a result of product delays due to the West Coast Port congestion that resulted in late Spring deliveries which reduced sales conversion rates and the number of units purchased per transaction.

Direct to Consumer. Net revenue from our direct to consumer segment increased \$17.7 million, or 27%, to \$83.6 million in the first quarter of fiscal 2015 from \$66.0 million in the first quarter of fiscal 2014. Excluding the effect of foreign exchange fluctuations, direct to consumer revenue would have increased 31%. The increase in net revenue was primarily the result of increased traffic on our e-commerce websites.

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Other. Other net revenue decreased \$4.7 million, or 15%, to \$25.8 million in the first quarter of fiscal 2015 from \$30.5 million in the first quarter of fiscal 2014. This decrease was primarily the result of a warehouse sale held during the first quarter of fiscal 2014 as well as decreased outlet sales in the first quarter of fiscal 2015 compared to the first quarter of fiscal 2014.

Gross Profit

Gross profit increased \$10.1 million, or 5%, to \$205.9 million for the first quarter of fiscal 2015 from \$195.7 million for the first quarter of fiscal 2014.

Gross profit as a percentage of net revenue, or gross margin, decreased by 230 basis points, to 48.6% in the first quarter of fiscal 2015 from 50.9% in the first quarter of fiscal 2014. The decrease in gross margin was primarily the result of:

- an increase in fixed costs, such as occupancy costs and depreciation, relative to the increase in net revenue, which contributed to a decrease in gross margin of 130 basis points;
- an increase in air freight costs of 100 basis points from higher usage and rates;
- an unfavorable impact of foreign exchange rates which contributed to a decrease in gross margin of 70 basis points; and
- an increase in expenses related to our product and supply chain departments, relative to the increase in net revenue of 30 basis points.

The decrease in gross margin was partially offset by an increase in product margin of 100 basis points.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$11.9 million, or 9%, to \$137.8 million in the first quarter of fiscal 2015 from \$125.9 million in the first quarter of fiscal 2014. The increase in selling, general and administrative expenses was principally comprised of:

- an increase in employee costs of \$8.0 million from a growth in labor hours and bonuses associated with new company-operated stores and showrooms;
- an increase in net foreign exchange losses of \$3.0 million;
- an increase in variable costs such as credit card fees, distribution costs, and packaging, of \$1.3 million primarily as a result of increased sales volume from our direct to consumer segment as well as new company-operated stores;
- an increase in other costs, including occupancy costs not included in cost of goods sold, of \$0.8 million; and
- an increase in administrative costs related to our direct to consumer segment of \$0.4 million associated with the growth in this channel.

The increase was partially offset by a decrease in head office costs of \$1.6 million primarily as a result of decreased professional fees and head office employee costs.

As a percentage of net revenue, selling, general and administrative expenses decreased 20 basis points, to 32.5% from 32.7%.

Income from Operations

Income from operations decreased \$1.8 million, or 3%, to \$68.0 million in the first quarter of fiscal 2015 from \$69.8 million in the first quarter of fiscal 2014. The decrease was primarily the result of an increase in selling, general and administrative costs of \$11.9 million, partially offset by increased gross profit of \$10.1 million.

On a segment basis, we determine income from operations without taking into account our general corporate expenses.

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Income from operations before general corporate expenses for the thirteen weeks ended May 3, 2015 and May 4, 2014 is summarized below and is expressed in dollar amounts. The percentages are presented as a percentage of net revenue of the respective operating segments.

	Thirteen Weeks Ended May 3, 2015 and May 4, 2014				
	2015	2014	2015	2014	
	(In thousands)		(Percentages)		
Company-operated stores	\$69,223	\$75,697	22.0	% 26.3	%
Direct to consumer	34,871	27,117	41.7	41.1	
Other	981	3,276	3.8	10.7	
Income from operations before general corporate expense	105,075	106,090			
General corporate expense	37,039	36,289			
Income from operations	\$68,036	\$69,801			

Company-operated Stores. Income from operations from our company-operated stores segment decreased \$6.5 million, or 9%, to \$69.2 million for the first quarter of fiscal 2015 from \$75.7 million for the first quarter of fiscal 2014 primarily due to an increase in employee costs as well as operating expenses associated with new stores partially offset by increased gross profit of \$3.8 million. Income from operations as a percentage of company-operated stores revenue decreased by 430 basis points primarily due to lower gross margin resulting from increased fixed costs, increased air freight costs, and an unfavorable impact of foreign exchange rates on gross margin.

Direct to Consumer. Income from operations from our direct to consumer segment increased \$7.8 million, or 29%, to \$34.9 million for the first quarter of fiscal 2015 from \$27.1 million for the first quarter of fiscal 2014. The increase was primarily the result of increased gross profit of \$8.8 million primarily due to increased net revenue resulting from increased traffic on our e-commerce websites, partially offset by increased selling, general and administrative expenses related to our long-term strategy for developing this channel. Income from operations as a percentage of direct to consumer revenue increased by 60 basis points.

Other. Other income from operations decreased \$2.3 million, or 70%, to \$1.0 million for the first quarter of fiscal 2015 from \$3.3 million for the first quarter of fiscal 2014. Income from operations as a percentage of other net revenue decreased by 690 basis points primarily due to decreased net revenues, lower gross margin, deleverage of selling, general and administrative expenses, and due to an increased number of showrooms in new international markets which have a higher cost structure than North America. Other gross profit decreased \$2.5 million in the first quarter of fiscal 2015 from the first quarter of fiscal 2014.

General Corporate Expense. General corporate expense increased \$0.8 million, or 2%, to \$37.0 million for the first quarter of fiscal 2015 from \$36.3 million for the first quarter of fiscal 2014. This was primarily due to increased head office costs as a result of the overall growth of our business and investment in strategic initiatives and projects.

Other Income, Net

Other income, net, decreased \$1.1 million, or 68%, to \$0.5 million for the first quarter of fiscal 2015 from \$1.6 million for the first quarter of fiscal 2014. Other income, net includes interest earned on cash balances.

Provision for Income Taxes

Provision for income taxes decreased \$31.7 million, or 60%, to \$20.8 million in the first quarter of fiscal 2015 from \$52.5 million in the first quarter of fiscal 2014. In the first quarter of fiscal 2015, our effective tax rate was 30.3% compared to 73.4% in the first quarter of fiscal 2014. The decrease in our effective tax rate was a result a tax expense of \$30.9 million recorded during the first quarter of fiscal 2014 to provide for U.S. income and applicable foreign withholding taxes on dividends which were distributed during fiscal 2014 from foreign subsidiaries to the U.S. parent entity to fund the share repurchase program.

Net Income

Net income increased \$28.8 million to \$47.8 million for the first quarter of fiscal 2015 from \$19.0 million for the first quarter of fiscal 2014. The increase in net income was primarily a result of a decrease in provision for income taxes of \$31.7 million and an increase in gross profit of \$10.1 million, partially offset by an increase in selling, general and

administrative expenses of \$11.9 million and a decrease in other income, net of \$1.1 million.

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Non-GAAP Financial Measures

Net revenue changes in constant dollars, total comparable sales in constant dollars, comparable store sales in constant dollars, changes in direct to consumer net revenue in constant dollars, the tax rate excluding the tax expense on the repatriation of foreign earnings, and diluted earnings per share excluding the tax expense on the repatriation of foreign earnings are non-GAAP performance measures.

We separately track comparable store sales, which reflect net revenue at company-operated stores that have been open for at least 12 months. Net revenue from a store is included in comparable store sales beginning with the first month for which the store has a full month of comparable prior year sales. Non-comparable store sales include sales from new stores that have not been open for 12 months or from stores which have been significantly remodeled or relocated. Also included in non-comparable stores sales are sales from direct to consumer sales, outlets, wholesale, warehouse sales, showrooms, temporary locations, and sales from company-operated stores which we have closed. Total comparable sales combines comparable store sales and direct to consumer sales. By measuring the change in year-over-year net revenue in stores that have been open for 12 months or more as well as direct to consumer sales, total comparable sales allows us to evaluate our performance eliminating the impact of newly opened stores.

We provide constant dollar changes in net revenue, total comparable sales, comparable store sales, and changes in direct to consumer net revenue because we use these measures to understand the underlying growth rate of net revenue excluding the impact of changes in foreign exchange rates, which are not under management's control. We believe that disclosing these measures on a constant dollar basis is useful to investors because it enables them to better understand the level of growth of our business.

We disclose the tax rate and diluted earnings per share excluding the tax expense on repatriated foreign earnings because of their comparability to our historical information as well as our diluted earnings per share guidance, which we believe is useful to investors.

The presentation of this financial information is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. A reconciliation of the non-GAAP financial measures follows, which includes more detail on the GAAP financial measure that is most directly comparable to each non-GAAP financial measure, and the related reconciliations between these financial measures.

The below performance measures show the dollar and percentage change compared to the corresponding period in the prior year.

Constant dollar changes in net revenue

	Thirteen Weeks Ended May 3, 2015 and May 4, 2014			
	2015 (In thousands)	2014	2015 (Percentages)	2014
Net revenue increase	\$38,926	\$38,836	10	% 11
Adjustments due to foreign exchange rate changes	15,208	10,130	4	3
Net revenue increase in constant dollars	\$54,134	\$48,966	14	% 14
Constant dollar total comparable sales				

	Thirteen Weeks Ended May 3, 2015 and May 4, 2014			
	2015	2014	2015 (Percentages)	2014
Total comparable sales ¹	2		% (2)%
Adjustments due to foreign exchange rate changes	4	3		
Total comparable sales in constant dollars ¹	6		% 1	%

¹Total comparable sales includes comparable store sales and direct to consumer sales. Comparable store sales reflects net revenue at company-operated stores that have been open for at least 12 months.

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Constant dollar comparable store sales

	Thirteen Weeks Ended May 3, 2015 and May 4, 2014				
	2015	2014	2015	2014	
	(In thousands)		(Percentages)		
Comparable store sales ¹	\$(12,158	) \$(17,369	) (5	)% (7)%
Adjustments due to foreign exchange rate changes	9,699	6,744	4	3	
Comparable store sales in constant dollars ¹	\$(2,459	) \$(10,625	) (1	)% (4)%

¹Comparable store sales reflects net revenue at company-operated stores that have been open for at least 12 months.

Constant dollar changes in direct to consumer revenue

	Thirteen Weeks Ended May 3, 2015 and May 4, 2014			
	2015	2014	2015	2014
	(Percentages)		(Percentages)	
Change in direct to consumer revenue	27	% 22		%
Adjustments due to foreign exchange rate changes	4	3		
Change in direct to consumer revenue in constant dollars	31	% 25		%
Tax rate, excluding the tax expense on repatriated foreign earnings				

	Thirteen Weeks Ended May 3, 2015 and May 4, 2014			
	2015	2014	2015	2014
	(Percentages)		(Percentages)	
Tax rate	30.3	% 73.4		%
Tax expense on repatriated foreign earnings	—	(43.3)	
Tax rate, excluding the tax expense on repatriated foreign earnings	30.3	% 30.1		%
Diluted earnings per share, excluding the tax expense on repatriated foreign earnings				

	Thirteen Weeks Ended May 3, 2015 and May 4, 2014	
	2015	2014
Diluted earnings per share	\$0.34	\$0.13
Tax expense on repatriated foreign earnings	—	0.21
Diluted earnings per share, excluding the tax expense on repatriated foreign earnings	\$0.34	\$0.34

Seasonality

Our business is affected by the general seasonal trends common to the retail apparel industry. Our annual net revenue is weighted more heavily toward our fourth fiscal quarter, reflecting our historical strength in sales during the holiday season, while our operating expenses are more equally distributed throughout the year. As a result, a substantial portion of our operating profits are generated in the fourth quarter of our fiscal year.

Liquidity and Capital Resources

Our primary sources of liquidity are our current balances of cash and cash equivalents, cash flows from operations and borrowings available under our revolving credit facility. Our primary cash needs are capital expenditures for opening new stores and remodeling existing stores, making information technology system enhancements and funding working capital requirements. We also use cash to repurchase shares of our common stock. Cash and cash equivalents in excess of our needs are held in interest bearing accounts with financial institutions.

At May 3, 2015, our working capital (excluding cash and cash equivalents) was \$173.4 million and our cash and cash equivalents were \$655.9 million.

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The following table summarizes our net cash flows provided by and used in operating, investing and financing activities for the periods indicated:

	Thirteen Weeks Ended May 3, 2015 and May 4, 2014	
	2015	2014
	(In thousands)	
Total cash provided by (used in):		
Operating activities	\$20,940	\$70,975
Investing activities	(27,936)	(25,447)
Financing activities	(17,041)	(1,649)
Effect of exchange rate changes on cash	15,439	9,437
(Decrease) increase in cash and cash equivalents	\$(8,598)	\$53,316

Operating Activities

Operating Activities consist primarily of net income adjusted for certain non-cash items, including depreciation and amortization, stock-based compensation expense and the effect of changes in non-cash working capital items, principally accounts payable, inventories, prepaid expenses, income taxes payable, accrued compensation and related expenses, and deferred gift card revenue.

Cash provided by operating activities decreased \$50.0 million, to \$20.9 million for the first quarter of fiscal 2015 compared to \$71.0 million for the first quarter of fiscal 2014. The decrease was primarily the result of increased inventory purchased during the first quarter of fiscal 2015 compared to the first quarter of fiscal 2014. Inventory increased during the first quarter of fiscal 2015 primarily due to the opening of new stores and to support our growth in our direct to consumer segment, and due to the West Coast Port congestion that resulted in late Winter and Spring product deliveries.

Investing Activities

Investing Activities relate entirely to capital expenditures. Cash used in investing activities increased \$2.5 million to \$27.9 million for the first quarter of fiscal 2015 from \$25.4 million for the first quarter of fiscal 2014. Our capital expenditures during the first quarter of fiscal 2015 were primarily related to new company-operated stores as well as computer software to support our growth.

Financing Activities

Financing Activities consist primarily of cash used to repurchase shares of our common stock, cash received on the exercise of stock options, taxes paid related to the net share settlement of stock-based compensation, and excess tax benefits from stock-based compensation. Cash used in financing activities increased \$15.4 million, to \$17.0 million for the first quarter of fiscal 2015 compared to \$1.6 million for the first quarter of fiscal 2014. We began our stock repurchase program in the second quarter of fiscal 2014, and our cash used in financing activities for the first quarter of fiscal 2015 included \$18.8 million to repurchase 0.3 million shares.

We believe that our cash and cash equivalent balances, cash generated from operations, and borrowings available to us under our revolving credit facility will be adequate to meet our liquidity needs and capital expenditure requirements for at least the next 12 months. Our cash from operations may be negatively impacted by a decrease in demand for our products as well as the other factors described in "Item 1A. Risk Factors". In addition, we may make discretionary capital improvements with respect to our stores, distribution facilities, headquarters, or other systems, which we would expect to fund through the use of cash, issuance of debt or equity securities or other external financing sources to the extent we were unable to fund such capital expenditures out of our cash and cash equivalents and cash generated from operations.

Revolving Credit Facility

In November 2013, we entered into unsecured demand revolving credit facilities with HSBC Bank Canada and Bank of America, N.A., Canada Branch, for up to \$15.0 million in the aggregate to support the issuance of letters of credit and to fund our working capital requirements. Borrowings under the uncommitted credit facilities are made on a when-and-as-needed basis at our discretion. These facilities were renewed for a one year period in November 2014.

Borrowings under the credit facility can be made either as (i) U.S. Dollar Loans - U.S. Dollar Loans bear interest a rate equal to U.S. LIBOR plus 100 basis points or U.S. prime rate, at our option; (ii) Letters of Credit - Borrowings drawn down

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under standby letters of credit issued by the banks bear a fee of 100 basis points; and (iii) CDN Dollar Loans - CDN Dollar Loans bear interest at a rate equal to the CDOR Rate plus 100 basis points or the Canadian Prime Rate, at our option.

At May 3, 2015, aside from letters of credit and guarantees, there were no borrowings outstanding under these credit facilities.

Off-Balance Sheet Arrangements

We enter into standby letters of credit to secure certain of our obligations, including leases, taxes and duties. As of May 3, 2015, letters of credit and letters of guarantee totaling \$0.9 million have been issued.

Other than our operating leases and these standby letters of credit, we do not have any off-balance sheet arrangements, investments in special purpose entities or undisclosed borrowings or debt. In addition, we have not entered into any derivative contracts or synthetic leases.

Critical Accounting Policies

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions. Predicting future events is inherently an imprecise activity and, as such, requires the use of judgment. Actual results may vary from estimates in amounts that may be material to the financial statements. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact our consolidated financial statements. Our critical accounting policies and estimates are discussed in our Annual Report on Form 10-K for our 2014 fiscal year end filed with the SEC on March 26, 2015 and in Note 2 included in Item 1 of Part I of this Quarterly Report on Form 10-Q.

Operating Locations

Our company-operated stores by brand and by country as of May 3, 2015 and February 1, 2015, are summarized in the table below.

	May 3, 2015	February 1, 2015
lululemon athletica		
United States	206	200
Canada	47	46
Australia	26	26
New Zealand	5	5
United Kingdom	2	2
Singapore	1	1
	287	280
ivivva athletica		
United States	17	11
Canada	12	11
	29	22
Total	316	302

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Foreign Currency Exchange Risk. The functional currency of our foreign subsidiaries is generally the applicable local currency. Our consolidated financial statements are presented in U.S. dollars. Therefore, the net revenues, expenses, assets and liabilities of our foreign subsidiaries are translated from their functional currencies into U.S. dollars.

Fluctuations in the value of the U.S. Dollar affect the reported amounts of net revenue, expenses, assets and liabilities.

Foreign exchange differences

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which arise on translation of our foreign subsidiaries' balance sheets into U.S. dollars are recorded as a cumulative translation adjustment in accumulated other comprehensive income within stockholders' equity.

We also have exposure to changes in foreign exchange rates associated with transactions which are undertaken by our subsidiaries in currencies other than their functional currency. Such transactions include intercompany transactions and inventory purchases denominated in currencies other than the functional currency of the purchasing entity. As a result, we have been impacted by changes in exchange rates and may be impacted materially for the foreseeable future. The potential impact of currency fluctuation increases as international expansion increases.

We currently generate a significant portion of our net revenue and incur a significant portion of our expenses in Canada. The reporting currency for our consolidated financial statements is the U.S. dollar. A weakening of the U.S. dollar against the Canadian dollar results in:

- an increase in our net revenue upon translation of the sales made by our Canadian operations into U.S. dollars for the purposes of consolidation;

- an increase in our selling, general and administrative expenses incurred by our Canadian operations into U.S. dollars for the purposes of consolidation; and

- foreign exchange losses by our Canadian subsidiaries on U.S. dollar cash and receivables denominated in U.S. dollars.

A 10% appreciation in the relative value of the Canadian dollar against the U.S. dollar compared to the exchange rates in effect for the first quarter of fiscal 2015 would have resulted in lost income from operations of approximately \$3.0 million in the first quarter of fiscal 2015. This assumes a consistent 10% appreciation in the Canadian dollar against the U.S. dollar throughout the first quarter of fiscal 2015. The timing of changes in the relative value of the Canadian dollar combined with the seasonal nature of our business, can affect the magnitude of the impact that fluctuations in foreign exchange rates have on our income from operations.

We have not historically hedged foreign currency fluctuations. However, in the future, in an effort to mitigate losses associated with these risks, we may at times enter into derivative financial instruments, although we have not historically done so. We do not, and do not intend to, engage in the practice of trading derivative securities for profit.

Interest Rate Risk. Our revolving credit facilities provide us with available borrowings in amount up to \$15.0 million in the aggregate. Because our revolving credit facilities bear interest at a variable rate, we will be exposed to market risks relating to changes in interest rates, if we have a meaningful outstanding balance. As of May 3, 2015, aside from letters of credit and guarantees, we had no outstanding balances under our revolving facilities. We currently do not engage in any interest rate hedging activity and currently have no intention to do so in the foreseeable future.

However, in the future, if we have a meaningful outstanding balance under our revolving facility, in an effort to mitigate losses associated with these risks, we may at times enter into derivative financial instruments, although we have not historically done so. These may take the form of forward contracts, option contracts, or interest rate swaps. We do not, and do not intend to, engage in the practice of trading derivative securities for profit.

Inflation

Inflationary factors such as increases in the cost of our product and overhead costs may adversely affect our operating results. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, a high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of gross margin and selling, general and administrative expenses as a percentage of net revenue if the selling prices of our products do not increase with these increased costs.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, or the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), to allow timely decisions to be made regarding required disclosure. We have established a Disclosure Committee, consisting of certain members of management, to assist in this evaluation. The Disclosure Committee meets on a quarterly basis, and as needed.

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act), at

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May 3, 2015. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, at May 3, 2015, our disclosure controls and procedures were effective.

There was no change in internal control over financial reporting during the thirteen weeks ended May 3, 2015 that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

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PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In addition to the legal matters described below, we are, from time to time, involved in routine legal matters incidental to the conduct of our business, including legal matters such as initiation and defense of proceedings to protect intellectual property rights, personal injury claims, product liability claims, and similar matters. We believe the ultimate resolution of any such current proceeding will not have a material adverse effect on our continued financial position, results of operations or cash flows.

On October 25, 2013, plaintiff Laborers' District Council Industry Pension Fund filed a books-and-records action in the Delaware Court of Chancery entitled Laborers' District Council Construction Industry Pension Fund v. lululemon athletica inc., C.A. No. 9039-VCP (Del. Ch.) under 8 Del. C. Sec. 220 based on a demand letter it sent to us on or around August 8, 2013 to request certain lululemon records relating to the March 2013 sheer Luon issue, our announcement that our then CEO, Christine Day, intended to resign, and certain stock trades executed by the then-Chairman of our board of directors, Mr. Wilson, prior to our announcement regarding our former CEO, Christine Day. On April 2, 2014, the Court rejected the majority of books and records sought by the plaintiff and ordered us to produce a narrow category of documents relating to one trade made by the our former Chairman. On June 11, 2014, the Court consolidated this action with the action captioned Hallandale Beach Police Officers and Firefighters' Personnel Retirement Fund v. lululemon athletica inc., C.A. No. 8522-VCP (Del. Ch.), which is described below. On June 13, 2014, Plaintiffs filed a Motion to Enforce the Court's April 2, 2014 Telephonic Rulings and Compel in Camera Inspection of Withheld and Redacted Documents. On April 30, 2015 the Court denied the plaintiff's motion in part.

On August 12, 2013 and August 23, 2013, plaintiffs Thomas Canty and Tammy Federman filed shareholder derivative actions entitled Canty v. Day, et al., No. 13-CV-5629 (S.D.N.Y.) and Federman v. Day, et al., No. 13-CV-5977 (S.D.N.Y.). Plaintiffs allege that they are acting on behalf of us and name as defendants our current and former directors and certain officers challenging certain public disclosures and conduct relating to the March 2013 sheer Luon issue, the June 2013 announcement regarding the resignation of our former CEO, Christine Day, and certain stock trades executed by Mr. Wilson and Ms. Day in the months leading up to that announcement. On April 9, 2014, the Court dismissed all of the plaintiffs' claims due to the plaintiffs' failure to make a pre-suit demand. The plaintiff in the Canty action appealed this decision to the United States Court of Appeals for the Second Circuit. On April 3, 2015 the Court of Appeals dismissed the plaintiff's appeal.

On July 2, 2013, plaintiff Houssam Alkhoury filed a putative shareholder class action entitled Alkhoury v. lululemon athletica inc., et al., No. 13-CV-4596 (S.D.N.Y.) against lululemon, a certain director and a certain officer of ours (collectively, "Defendants"). On October 1, 2013, the Court appointed Louisiana Sheriffs' Pension & Relief Fund as Lead Plaintiff and on November 1, 2013, Lead Plaintiff filed a consolidated class action complaint on behalf of a proposed class of purchasers of lululemon stock between September 7, 2012 through June 11, 2013 (the "Complaint"). In its Complaint, Lead Plaintiff asserted causes of action under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 against Defendants based on certain public disclosures made by us relating to lululemon's product quality and the March 2013 sheer Luon issue. On January 15, 2014, Lead Plaintiff filed a consolidated amended class action complaint (the "Amended Complaint") on behalf of a proposed class of purchasers of lululemon stock between September 7, 2012 through January 10, 2014. In its Amended Complaint, Lead Plaintiff added new claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 based on certain of lululemon's public disclosures related to our ongoing quality control improvements and the impact of those improvements on our financial results. On April 18, 2014, the Court dismissed all of Lead Plaintiff's claims for failure to state a claim. Lead Plaintiff appealed this decision and on May 15, 2015, the Court of Appeals dismissed the plaintiff's appeal.

On May 3, 2013, plaintiff Hallandale Beach Police Officers and Firefighters' Personnel Retirement Fund filed a books-and-records action in the Delaware Court of Chancery entitled Hallandale Beach Police Officers and Firefighters' Personnel Retirement Fund v. lululemon athletica inc., C.A. No. 8522-VCP (Del. Ch.) under 8 Del. C. Sec. 220 based on a demand letter it sent to us on April 17, 2013 to request certain lululemon records relating to the

March 2013 sheer Luon issue and revisions to our executive bonus plan. On June 14, 2013, the plaintiff sent a supplemental demand letter that requested additional records from us relating to our announcement that Christine Day intended to resign as our CEO, and certain stock trades executed by our then-Chairman, Mr. Wilson, prior to our announcement regarding Ms. Day. On April 2, 2014, the Court rejected the majority of books and records sought by the plaintiff and ordered us to produce a narrow category of documents relating to one trade made by our former Chairman. On June 11, 2014 the Court consolidated this action with the action captioned Laborers' District Council Construction Industry Pension Fund v. lululemon athletica inc., C.A. No. 9039-VCP (Del. Ch.) which is described above. On June 13, 2014 Plaintiffs filed a Motion to Enforce the Court's April 2, 2014 Telephonic Rulings and Compel in Camera Inspection of Withheld and Redacted Documents. On April 30, 2015 the Court denied the plaintiff's motion in part.

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We have indemnification agreements with certain of our current and former officers and directors that may require us, among other things, to indemnify such current or former officers and directors against certain liabilities that may arise by reason of their status or service as directors or officers and to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified.

We are unable at this time to predict the amount of our legal expenses associated with these proceedings and any settlement or damages associated with these matters. In the event that we are unsuccessful in our defense, or if we pursue settlement with regard to any of these actions, we could be required to pay significant final settlement amounts and/or judgments that exceed the limits of our insurance policies or the carriers may decline to fund such final settlements and/or judgments, which could have a material adverse effect on our financial condition and liquidity. Regardless of whether any of the claims asserted against us in these actions are valid, or whether we are ultimately held liable, such litigation may be expensive to defend and may divert resources away from our operations and negatively impact earnings. Further, we may not be able to obtain adequate insurance to protect us from these types of litigation matters or extraordinary business losses.

ITEM 1A. RISK FACTORS

In addition to the other information contained in this Form 10-Q and in our Annual Report on Form 10-K for our 2014 fiscal year, the following risk factors should be considered carefully in evaluating our business. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. Please note that additional risks not presently known to us or that we currently deem immaterial could also impair our business and operations.

Our success depends on our ability to maintain the value and reputation of our brand.

Our success depends on the value and reputation of the lululemon athletica brand. The lululemon athletica name is integral to our business as well as to the implementation of our strategies for expanding our business. Maintaining, promoting and positioning our brand will depend largely on the success of our marketing and merchandising efforts and our ability to provide a consistent, high quality product and guest experience. We rely on social media, as one of our marketing strategies, to have a positive impact on both our brand value and reputation. Our brand and reputation could be adversely affected if we fail to achieve these objectives, if our public image was to be tarnished by negative publicity, if we fail to deliver innovative and high quality products acceptable to our guests, or if we face a product recall. Negative publicity regarding the production methods of any of our suppliers or manufacturers could adversely affect our reputation and sales and force us to locate alternative suppliers or manufacturing sources. Additionally, while we devote considerable efforts and resources to protecting our intellectual property, if these efforts are not successful the value of our brand may be harmed. Any harm to our brand and reputation could have a material adverse effect on our financial condition.

If any of our products are unacceptable to us or our guests, our business could be harmed.

We have occasionally received, and may in the future continue to receive, shipments of products that fail to comply with our technical specifications or that fail to conform to our quality control standards. We have also received, and may in the future continue to receive, products that either meet our technical specifications but that are nonetheless unacceptable to us, or products that are otherwise unacceptable to us or our guests. Under these circumstances, unless we are able to obtain replacement products in a timely manner, we risk the loss of net revenue resulting from the inability to sell those products and related increased administrative and shipping costs. Additionally, if the unacceptability of our products are not discovered until after such products are purchased by our guests, our guests could lose confidence in the technical attributes of our products or we could face a product recall and our results of operations could suffer and our business, reputation, and brand could be harmed.

Our reliance on suppliers to provide fabrics for and to produce our products could cause problems in our supply chain. We do not manufacture our products or the raw materials for them and rely instead on suppliers. Many of the specialty fabrics used in our products are technically advanced textile products developed and manufactured by third parties and may be available, in the short-term, from only one or a very limited number of sources. For example, Luon fabric, which is included in many of our products, is supplied to the garment factories we use by a limited number of manufacturers, and the components used in manufacturing Luon fabric may each be supplied to our manufacturers by

single companies. In fiscal 2014, approximately 63% of our products were produced by our top five manufacturing suppliers, 40% of raw materials were produced by a single manufacturer. We have no long-term contracts with any of our suppliers or manufacturing sources for the production and supply of our fabrics and garments, and we compete with other companies for fabrics, raw materials, production and import quota capacity.

We have experienced, and may in the future continue to experience, a significant disruption in the supply of fabrics or raw materials from current sources and we may be unable to locate alternative materials suppliers of comparable quality at an

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acceptable price, or at all. In addition, if we experience significant increased demand, or if we need to replace an existing supplier or manufacturer, we may be unable to locate additional supplies of fabrics or raw materials or additional manufacturing capacity on terms that are acceptable to us, or at all, or we may be unable to locate any supplier or manufacturer with sufficient capacity to meet our requirements or to fill our orders in a timely manner. Identifying a suitable supplier is an involved process that requires us to become satisfied with its quality control, responsiveness and service, financial stability and labor and other ethical practices. Even if we are able to expand existing or find new manufacturing or fabric sources, we may encounter delays in production and added costs as a result of the time it takes to train our suppliers and manufacturers in our methods, products and quality control standards. Delays related to supplier changes could also arise due to an increase in shipping times if new suppliers are located farther away from our markets or from other participants in our supply chain. Any delays, interruption or increased costs in the supply of fabric or manufacture of our products could have an adverse effect on our ability to meet guest demand for our products and result in lower net revenue and income from operations both in the short and long term.

An economic downturn or economic uncertainty in our key markets may adversely affect consumer discretionary spending and demand for our products.

Many of our products may be considered discretionary items for consumers. Factors affecting the level of consumer spending for such discretionary items include general economic conditions, particularly those in North America and other factors such as consumer confidence in future economic conditions, fears of recession, the availability of consumer credit, levels of unemployment, tax rates and the cost of consumer credit. As global economic conditions continue to be volatile or economic uncertainty remains, trends in consumer discretionary spending also remain unpredictable and subject to reductions due to credit constraints and uncertainties about the future. Unfavorable economic conditions may lead consumers to delay or reduce purchases of our products. Consumer demand for our products may not reach our targets, or may decline, when there is an economic downturn or economic uncertainty in our key markets, particularly in North America. Our sensitivity to economic cycles and any related fluctuation in consumer demand may have a material adverse effect on our financial condition.

We operate in a highly competitive market and the size and resources of some of our competitors may allow them to compete more effectively than we can, resulting in a loss of our market share and a decrease in our net revenue and profitability.

The market for technical athletic apparel is highly competitive. Competition may result in pricing pressures, reduced profit margins or lost market share or a failure to grow our market share, any of which could substantially harm our business and results of operations. We compete directly against wholesalers and direct retailers of athletic apparel, including large, diversified apparel companies with substantial market share and established companies expanding their production and marketing of technical athletic apparel, as well as against retailers specifically focused on women's athletic apparel. We also face competition from wholesalers and direct retailers of traditional commodity athletic apparel, such as cotton T-shirts and sweatshirts. Many of our competitors are large apparel and sporting goods companies with strong worldwide brand recognition, such as Nike, Inc., adidas AG, The Gap, Inc. and Under Armour, Inc. Because of the fragmented nature of the industry, we also compete with other apparel sellers, including those specializing in yoga apparel and other activewear. Many of our competitors have significant competitive advantages, including longer operating histories, larger and broader customer bases, more established relationships with a broader set of suppliers, greater brand recognition and greater financial, research and development, store development, marketing, distribution and other resources than we do. In addition, our technical athletic apparel is sold at a price premium to traditional athletic apparel.

Our competitors may be able to achieve and maintain brand awareness and market share more quickly and effectively than we can. In contrast to our "grassroots" marketing approach, many of our competitors promote their brands through traditional forms of advertising, such as print media and television commercials, and through celebrity endorsements, and have substantial resources to devote to such efforts. Our competitors may also create and maintain brand awareness using traditional forms of advertising more quickly than we can. Our competitors may also be able to increase sales in their new and existing markets faster than we do by emphasizing different distribution channels than

we do, such as catalog sales or an extensive franchise network, as opposed to distribution through retail stores, wholesale or internet, and many of our competitors have substantial resources to devote toward increasing sales in such ways.

In addition, because we own no patents or exclusive intellectual property rights in the technology, fabrics or processes underlying our products, our current and future competitors are able to manufacture and sell products with performance characteristics, fabrication techniques and styling similar to our products.

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Our sales and profitability may decline as a result of increasing product costs and decreasing selling prices. Our business is subject to significant pressure on pricing and costs caused by many factors, including intense competition, constrained sourcing capacity and related inflationary pressure, pressure from consumers to reduce the prices we charge for our products and changes in consumer demand. These factors may cause us to experience increased costs, reduce our prices to consumers or experience reduced sales in response to increased prices, any of which could cause our operating margin to decline if we are unable to offset these factors with reductions in operating costs and could have a material adverse effect on our financial conditions, operating results and cash flows. If we are unable to anticipate consumer preferences and successfully develop and introduce new, innovative and updated products, we may not be able to maintain or increase our sales and profitability. Our success depends on our ability to identify and originate product trends as well as to anticipate and react to changing consumer demands in a timely manner. All of our products are subject to changing consumer preferences that cannot be predicted with certainty. If we are unable to introduce new products or novel technologies in a timely manner or our new products or technologies are not accepted by our guests, our competitors may introduce similar products in a more timely fashion, which could hurt our goal to be viewed as a leader in technical athletic apparel innovation. Our new products may not receive consumer acceptance as consumer preferences could shift rapidly to different types of athletic apparel or away from these types of products altogether, and our future success depends in part on our ability to anticipate and respond to these changes. Our failure to anticipate and respond in a timely manner to changing consumer preferences could lead to, among other things, lower sales and excess inventory levels. Even if we are successful in anticipating consumer preferences, our ability to adequately react to and address those preferences will in part depend upon our continued ability to develop and introduce innovative, high-quality products. Our failure to effectively introduce new products that are accepted by consumers could result in a decrease in net revenue and excess inventory levels, which could have a material adverse effect on our financial condition. Our results of operations could be materially harmed if we are unable to accurately forecast guest demand for our products. To ensure adequate inventory supply, we must forecast inventory needs and place orders with our manufacturers based on our estimates of future demand for particular products. Our ability to accurately forecast demand for our products could be affected by many factors, including an increase or decrease in guest demand for our products or for products of our competitors, our failure to accurately forecast guest acceptance of new products, product introductions by competitors, unanticipated changes in general market conditions, and weakening of economic conditions or consumer confidence in future economic conditions. If we fail to accurately forecast guest demand we may experience excess inventory levels or a shortage of products available for sale in our stores or for delivery to guests. Inventory levels in excess of guest demand may result in inventory write-downs or write-offs and the sale of excess inventory at discounted prices, which would cause our gross margin to suffer and could impair the strength and exclusivity of our brand. Conversely, if we underestimate guest demand for our products, our manufacturers may not be able to deliver products to meet our requirements, and this could result in damage to our reputation and guest relationships. Our inability to safeguard against security breaches with respect to our information technology systems could disrupt our operations. Our business employs systems and websites that allow for the storage and transmission of proprietary or confidential information regarding our business, guests and employees including credit card information. Security breaches could expose us to a risk of loss or misuse of this information and potential liability. We may not have the resources or technical sophistication to be able to anticipate or prevent rapidly evolving types of cyber-attacks. Actual or anticipated attacks may cause us to incur increasing costs including costs to deploy additional personnel and protection technologies, train employees and engage third party experts and consultants. Advances in computer capabilities, new technological discoveries or other developments may result in the technology used by us to protect transaction or other data being breached or compromised. Data and security breaches can also occur as a result of non-technical issues including intentional or inadvertent breach by employees or persons with whom we have commercial relationships that result in the unauthorized release of personal or confidential information. Any

compromise or breach of our security could result in a violation of applicable privacy and other laws, significant litigation and potential liability and damage to our brand and reputation or other harm to our business. Any material disruption of our information systems could disrupt our business and reduce our sales. We are increasingly dependent on information systems to operate our e-commerce websites, process transactions, respond to guest inquiries, manage inventory, purchase, sell and ship goods on a timely basis and maintain cost-efficient operations. Any material disruption or slowdown of our systems, including a disruption or slowdown caused by our failure to successfully

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upgrade our systems, system failures, viruses, computer "hackers" or other causes, could cause information, including data related to guest orders, to be lost or delayed which could-especially if the disruption or slowdown occurred during the holiday season-result in delays in the delivery of products to our stores and guests or lost sales, which could reduce demand for our products and cause our sales to decline. If changes in technology cause our information systems to become obsolete, or if our information systems are inadequate to handle our growth, we could lose guests. If we continue to grow at a rapid pace, we may not be able to effectively manage our growth and the increased complexity of our business and as a result our brand image and financial performance may suffer.

We have expanded our operations rapidly since our inception in 1998 and our net revenue has increased from \$40.7 million in fiscal 2004 to \$1.8 billion in fiscal 2014. If our operations continue to grow at a rapid pace, we may experience difficulties in obtaining sufficient raw materials and manufacturing capacity to produce our products, as well as delays in production and shipments, as our products are subject to risks associated with overseas sourcing and manufacturing. We could be required to continue to expand our sales and marketing, product development and distribution functions, to upgrade our management information systems and other processes and technology, and to obtain more space for our expanding workforce. This expansion could increase the strain on our resources, and we could experience operating difficulties, including difficulties in hiring, training and managing an increasing number of employees. These difficulties could result in the erosion of our brand image which could have a material adverse effect on our financial condition.

The fluctuating cost of raw materials could increase our cost of goods sold and cause our results of operations and financial condition to suffer.

The fabrics used by our suppliers and manufacturers include synthetic fabrics whose raw materials include petroleum-based products. Our products also include silver and natural fibers, including cotton. Our costs for raw materials are affected by, among other things, weather, consumer demand, speculation on the commodities market, the relative valuations and fluctuations of the currencies of producer versus consumer countries and other factors that are generally unpredictable and beyond our control. Increases in the cost of raw materials, including petroleum or the prices we pay for silver and our cotton yarn and cotton-based textiles, could have a material adverse effect on our cost of goods sold, results of operations, financial condition and cash flows.

Our limited operating experience and limited brand recognition in new international markets may limit our expansion strategy and cause our business and growth to suffer.

Our future growth depends in part on our expansion efforts outside of North America. We have limited experience with regulatory environments and market practices internationally, and we may not be able to penetrate or successfully operate in any new market. In connection with our expansion efforts we may encounter obstacles we did not face in North America, including cultural and linguistic differences, differences in regulatory environments, labor practices and market practices, difficulties in keeping abreast of market, business and technical developments and foreign guests' tastes and preferences. We may also encounter difficulty expanding into new international markets because of limited brand recognition leading to delayed acceptance of our technical athletic apparel by guests in these new international markets. Our failure to develop our business in new international markets or experiencing disappointing growth outside of existing markets will harm our business and results of operations.

If we encounter problems with our distribution system, our ability to deliver our products to the market and to meet guest expectations could be harmed.

We rely on our distribution facilities for substantially all of our product distribution. Our distribution facilities include computer controlled and automated equipment, which means their operations are complicated and may be subject to a number of risks related to security or computer viruses, the proper operation of software and hardware, electronic or power interruptions or other system failures. In addition, because substantially all of our products are distributed from four locations, our operations could also be interrupted by labor difficulties, extreme or severe weather conditions or by floods, fires or other natural disasters near our distribution centers. If we encounter problems with our distribution system, our ability to meet guest expectations, manage inventory, complete sales and achieve objectives for operating efficiencies could be harmed.

Our fabrics and manufacturing technology are not patented and can be imitated by our competitors.

The intellectual property rights in the technology, fabrics and processes used to manufacture our products are owned or controlled by our suppliers and are generally not unique to us. Our ability to obtain intellectual property protection for our products is therefore limited and we currently own no patents or exclusive intellectual property rights in the technology, fabrics or processes underlying our products. As a result, our current and future competitors are able to manufacture and sell products with performance characteristics, fabrics and styling similar to our products. Because many of our competitors have

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significantly greater financial, distribution, marketing and other resources than we do, they may be able to manufacture and sell products based on our fabrics and manufacturing technology at lower prices than we can. If our competitors do sell similar products to ours at lower prices, our net revenue and profitability could suffer. Our failure or inability to protect our intellectual property rights could diminish the value of our brand and weaken our competitive position.

We currently rely on a combination of copyright, trademark, trade dress and unfair competition laws, as well as confidentiality procedures and licensing arrangements, to establish and protect our intellectual property rights. We cannot assure you that the steps taken by us to protect our intellectual property rights will be adequate to prevent infringement of such rights by others, including imitation of our products and misappropriation of our brand. In addition, intellectual property protection may be unavailable or limited in some foreign countries where laws or law enforcement practices may not protect our intellectual property rights as fully as in the United States or Canada, and it may be more difficult for us to successfully challenge the use of our intellectual property rights by other parties in these countries. If we fail to protect and maintain our intellectual property rights, the value of our brand could be diminished and our competitive position may suffer.

We are subject to risks associated with leasing retail and distribution space subject to long-term and non-cancelable leases.

We lease the majority of our stores under operating leases and our inability to secure appropriate real estate or lease terms could impact our ability to grow. Our leases generally have initial terms of between five and ten years, and generally can be extended only in five-year increments if at all. We generally cannot cancel these leases at our option. If an existing or new store is not profitable, and we decide to close it, as we have done in the past and may do in the future, we may nonetheless be committed to perform our obligations under the applicable lease including, among other things, paying the base rent for the balance of the lease term. Similarly, we may be committed to perform our obligations under the applicable leases even if current locations of our stores become unattractive as demographic patterns change. In addition, as each of our leases expire, we may fail to negotiate renewals, either on commercially acceptable terms or at all, which could require us to close stores in desirable locations.

We also lease the majority of our distribution centers and our inability to secure appropriate real estate or lease terms could impact our ability to deliver our products to the market.

Increasing labor costs and other factors associated with the production of our products in South and South East Asia could increase the costs to produce our products.

A significant portion of our products are produced in South and South East Asia and increases in the costs of labor and other costs of doing business in the countries in this area could significantly increase our costs to produce our products and could have a negative impact on our operations, net revenue and earnings. Factors that could negatively affect our business include a potential significant revaluation of the currencies used in these countries, which may result in an increase in the cost of producing products, labor shortage and increases in labor costs, and difficulties in moving products manufactured out of the countries in which they are manufactured and through the ports on the western coast of North America, whether due to port congestion, labor disputes, product regulations and/or inspections or other factors, and natural disasters or health pandemics. A labor strike or other transportation disruption affecting these ports could significantly disrupt our business. Also, the imposition of trade sanctions or other regulations against products imported by us from, or the loss of "normal trade relations" status with any country in which our products are manufactured, could significantly increase our cost of products imported into North America and/or Australia and harm our business.

We may not be able to successfully open new store locations in a timely manner, if at all, which could harm our results of operations.

Our growth will largely depend on our ability to successfully open and operate new stores. Our ability to successfully open and operate new stores depends on many factors, including, among others, our ability to:

- identify suitable store locations, the availability of which is outside of our control;
- negotiate acceptable lease terms, including desired tenant improvement allowances;
- hire, train and retain store personnel and field management;

•immerse new store personnel and field management into our corporate culture;
•source sufficient inventory levels; and
•successfully integrate new stores into our existing operations and information technology systems.

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Successful new store openings may also be affected by our ability to initiate our grassroots marketing efforts in advance of opening our first store in a new market. We typically rely on our grassroots marketing efforts to build awareness of our brand and demand for our products. Our grassroots marketing efforts are often lengthy and must be tailored to each new market based on our emerging understanding of the market. Accordingly, there can be no assurance that we will be able to successfully implement our grassroots marketing efforts in a particular market in a timely manner, if at all. Additionally, we may be unsuccessful in identifying new markets where our technical athletic apparel and other products and brand image will be accepted or the performance of our stores will be considered successful.

Our failure to comply with trade and other regulations could lead to investigations or actions by government regulators and negative publicity.

The labeling, distribution, importation, marketing and sale of our products are subject to extensive regulation by various federal agencies, including the Federal Trade Commission, Consumer Product Safety Commission and state attorneys general in the United States, the Competition Bureau and Health Canada in Canada, as well as by various other federal, state, provincial, local and international regulatory authorities in the countries in which our products are distributed or sold. If we fail to comply with any of these regulations, we could become subject to enforcement actions or the imposition of significant penalties or claims, which could harm our results of operations or our ability to conduct our business. In addition, the adoption of new regulations or changes in the interpretation of existing regulations may result in significant compliance costs or discontinuation of product sales and could impair the marketing of our products, resulting in significant loss of net revenue.

Our international operations are also subject to compliance with the U.S. Foreign Corrupt Practices Act, or FCPA, and other anti-bribery laws applicable to our operations. In many foreign countries, particularly in those with developing economies, it may be a local custom that businesses operating in such countries engage in business practices that are prohibited by the FCPA or other U.S. and foreign laws and regulations applicable to us. Although we have implemented procedures designed to ensure compliance with the FCPA and similar laws, there can be no assurance that all of our employees, agents and other channel partners, as well as those companies to which we outsource certain of our business operations, will not take actions in violation of our policies. Any such violation could have a material and adverse effect on our business.

Our future success is substantially dependent on the continued service of our senior management.

Our future success is substantially dependent on the continued service of our senior management and other key employees. In the last several years, several members of our senior management team have left us and we have focused time and resources on recruiting the new members of our current management team. The continued turnover of senior management and the loss of key members of our executive team could have a negative impact on our ability to manage and grow our business effectively.

We do not maintain a key person life insurance policy on any of the members of our senior management team. As a result, we would have no way to cover the financial loss if we were to lose the services of members of our senior management team.

Our business is affected by seasonality.

Our business is affected by the general seasonal trends common to the retail apparel industry. Our annual net revenue is weighted more heavily toward our fourth fiscal quarter, reflecting our historical strength in sales during the holiday season, while our operating expenses are more equally distributed throughout the year. As a result, a substantial portion of our operating profits are generated in the fourth quarter of our fiscal year. For example, we generated approximately 42%, 39% and 41% of our full year operating profit during the fourth quarters of fiscal 2014, fiscal 2013 and fiscal 2012, respectively. This seasonality may adversely affect our business and cause our results of operations to fluctuate, and, as a result, we believe that comparisons of our operating results between different quarters within a single fiscal year are not necessarily meaningful and that results of operations in any period should not be considered indicative of the results to be expected for any future period.

Because a significant portion of our net revenue and expenses are generated in countries other than the United States, fluctuations in foreign currency exchange rates have negatively affected our results of operations and may continue to

do so in the future.

The functional currency of our foreign subsidiaries is generally the applicable local currency. Our consolidated financial statements are presented in U.S. dollars. Therefore, the net revenues, expenses, assets and liabilities of our foreign subsidiaries are translated from their functional currencies into U.S. dollars. Fluctuations in the value of the U.S. Dollar affect the reported amounts of net revenue, expenses, assets and liabilities. Foreign exchange differences which arise on translation of our foreign subsidiaries' balance sheets into U.S. dollars are recorded as a cumulative translation adjustment in accumulated other

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comprehensive income within stockholders' equity. We also have exposure to changes in foreign exchange rates associated with transactions which are undertaken by our subsidiaries in currencies other than their functional currency. Such transactions include intercompany transactions and inventory purchases denominated in currencies other than the functional currency of the purchasing entity. As a result, we have been impacted by changes in exchange rates and may be impacted materially for the foreseeable future. The potential impact of currency fluctuation increases as international expansion increases.

We currently generate a significant portion of our net revenue and incur a significant portion of our expenses in Canada. The reporting currency for our consolidated financial statements is the U.S. dollar. A weakening of the U.S. dollar against the Canadian dollar results in:

- an increase in our net revenue upon translation of the sales made by our Canadian operations into U.S. dollars for the purposes of consolidation;
 - an increase in our selling, general and administrative expenses incurred by our Canadian operations into U.S. dollars for the purposes of consolidation; and
 - foreign exchange losses by our Canadian subsidiaries on U.S. dollar cash and receivables denominated in U.S. dollars.
- A 10% appreciation in the relative value of the Canadian dollar against the U.S. dollar compared to the exchange rates in effect for the first quarter of fiscal 2015 would have resulted in lost income from operations of approximately \$3.0 million in the first quarter of fiscal 2015. This assumes a consistent 10% appreciation in the Canadian dollar against the U.S. dollar throughout the first quarter of fiscal 2015. The timing of changes in the relative value of the Canadian dollar combined with the seasonal nature of our business, can affect the magnitude of the impact that fluctuations in foreign exchange rates have on our income from operations.

We have not historically hedged foreign currency fluctuations. However, in the future, in an effort to mitigate losses associated with these risks, we may at times enter into derivative financial instruments, although we have not historically done so. We do not, and do not intend to, engage in the practice of trading derivative securities for profit. The operations of many of our suppliers are subject to additional risks that are beyond our control and that could harm our business, financial condition and results of operations.

Almost all of our suppliers are located outside of North America. During fiscal 2014, approximately 59% of our products were produced in South East Asia, approximately 23% in South Asia, approximately 11% in China, approximately 1% in North America and the remainder in other countries. As a result of our international suppliers, we are subject to risks associated with doing business abroad, including:

- political unrest, terrorism, labor disputes and economic instability resulting in the disruption of trade from foreign countries in which our products are manufactured;
- the imposition of new laws and regulations, including those relating to labor conditions, quality and safety standards, imports, duties, taxes and other charges on imports, as well as trade restrictions and restrictions on currency exchange or the transfer of funds;
- reduced protection for intellectual property rights, including trademark protection, in some countries, particularly China;
- disruptions or delays in shipments; and
- changes in local economic conditions in countries where our manufacturers, suppliers or guests are located.

These and other factors beyond our control could interrupt our suppliers' production in offshore facilities, influence the ability of our suppliers to export our products cost-effectively or at all and inhibit our suppliers' ability to procure certain materials, any of which could harm our business, financial condition and results of operations.

Our ability to source our merchandise profitably or at all could be hurt if new trade restrictions are imposed or existing trade restrictions become more burdensome.

The United States and the countries in which our products are produced or sold internationally have imposed and may impose additional quotas, duties, tariffs, or other restrictions or regulations, or may adversely adjust prevailing quota, duty or tariff levels. We have expanded our relationships with suppliers outside of China, which among other things has resulted in increased costs and shipping times for some products. Countries impose, modify and remove tariffs and other trade restrictions in response to a diverse array of factors, including global and national economic and political

conditions, which make it impossible for us to predict future developments regarding tariffs and other trade restrictions. Trade restrictions, including tariffs, quotas, embargoes, safeguards and customs restrictions, could increase the cost or reduce the supply of products

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available to us or may require us to modify our supply chain organization or other current business practices, any of which could harm our business, financial condition and results of operations.

Our trademarks and other proprietary rights could potentially conflict with the rights of others and we may be prevented from selling some of our products.

Our success depends in large part on our brand image. We believe that our trademarks and other proprietary rights have significant value and are important to identifying and differentiating our products from those of our competitors and creating and sustaining demand for our products. We have obtained and applied for some United States and foreign trademark registrations, and will continue to evaluate the registration of additional trademarks as appropriate. However, we cannot guarantee that any of our pending trademark applications will be approved by the applicable governmental authorities. Moreover, even if the applications are approved, third parties may seek to oppose or otherwise challenge these registrations. Additionally, we cannot assure you that obstacles will not arise as we expand our product line and the geographic scope of our sales and marketing. Third parties may assert intellectual property claims against us, particularly as we expand our business and the number of products we offer. Our defense of any claim, regardless of its merit, could be expensive and time consuming and could divert management resources. Successful infringement claims against us could result in significant monetary liability or prevent us from selling some of our products. In addition, resolution of claims may require us to redesign our products, license rights from third parties or cease using those rights altogether. Any of these events could harm our business and cause our results of operations, liquidity and financial condition to suffer.

We are subject to periodic claims and litigation that could result in unexpected expenses and could ultimately be resolved against us.

From time to time, we are involved in litigation and other proceedings, including matters related to product liability claims, stockholder class action and derivative claims, commercial disputes and intellectual property, as well as trade, regulatory and other claims related to our business. Any of these proceedings could result in significant settlement amounts, damages, fines or other penalties, divert financial and management resources and result in significant legal fees. Although we cannot predict the outcome of any particular proceeding, an unfavorable outcome could exceed the limits of our insurance policies or the carriers may decline to fund such final settlements and/or judgments and could have an adverse impact on our business, financial condition and results of operations. In addition, any proceeding could negatively impact our reputation among our guests and our brand image.

Our business could be negatively affected as a result of actions of activist stockholders, and such activism could impact the trading value of our securities.

From time to time, a stockholder has expressed opposition to our operations, strategy, management, business or other matters. Responding to actions by this or other activist stockholders can be costly and time-consuming, disrupting our operations and diverting the attention of management and our employees. Such activities could interfere with our ability to execute our strategic plan. In addition, a proxy contest for the election of directors at our annual meeting would require us to incur significant legal fees and proxy solicitation expenses and require significant time and attention by management and our board of directors. The perceived uncertainties as to our future direction also could affect the market price and volatility of our securities.

Anti-takeover provisions of Delaware law and our certificate of incorporation and bylaws could delay and discourage takeover attempts that stockholders may consider to be favorable.

Certain provisions of our certificate of incorporation and bylaws and applicable provisions of the Delaware General Corporation Law may make it more difficult or impossible for a third-party to acquire control of us or effect a change in our board of directors and management. These provisions include:

- the classification of our board of directors into three classes, with one class elected each year;
- prohibiting cumulative voting in the election of directors;
- the ability of our board of directors to issue preferred stock without stockholder approval;
- the ability to remove a director only for cause and only with the vote of the holders of at least 66 2/3% of our voting stock;
-

a special meeting of stockholders may only be called by our chairman or Chief Executive Officer, or upon a resolution adopted by an affirmative vote of a majority of the board of directors, and not by our stockholders;

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prohibiting stockholder action by written consent; and our stockholders must comply with advance notice procedures in order to nominate candidates for election to our board of directors or to place stockholder proposals on the agenda for consideration at any meeting of our stockholders.

In addition, we are governed by Section 203 of the Delaware General Corporation Law which, subject to some specified exceptions, prohibits "business combinations" between a Delaware corporation and an "interested stockholder," which is generally defined as a stockholder who becomes a beneficial owner of 15% or more of a Delaware corporation's voting stock, for a three-year period following the date that the stockholder became an interested stockholder. Section 203 could have the effect of delaying, deferring or preventing a change in control that our stockholders might consider to be in their best interests.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides information regarding our purchases of shares of our common stock during the thirteen weeks ended May 3, 2015 related to our stock repurchase program:

Period ⁽¹⁾	Total Number of Shares Purchased ⁽²⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽²⁾
February 2, 2015 - March 1, 2015	—	\$—	—	\$ 302,642,344
March 2, 2015 - April 5, 2015	—	—	—	302,642,344
April 6, 2015 - May 3, 2015	282,802	66.51	282,802	283,832,974
Total	282,802		282,802	

⁽¹⁾ Monthly information is presented by reference to our fiscal periods during our first quarter of fiscal 2015.

Our stock repurchase program was approved by our board of directors in June 2014. Common shares are repurchased in the open market at prevailing market prices, with the timing and actual number of common shares to be repurchased depending upon market conditions, eligibility to trade, and other factors. The repurchases will be made up until June 2016, and the maximum dollar value of shares to be repurchased is \$450 million.

The following table provides information regarding our purchases of shares of our common stock during the thirteen weeks ended May 3, 2015 related to our Employee Share Purchase Plan:

Period ⁽¹⁾	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs ⁽²⁾
February 2, 2015 - March 1, 2015	7,024	\$66.77	7,024	5,271,831
March 2, 2015 - April 5, 2015	7,541	63.58	7,541	5,264,290
April 6, 2015 - May 3, 2015	7,388	68.05	7,388	5,256,902
Total	21,953		21,953	

⁽¹⁾ Monthly information is presented by reference to our fiscal periods during our first quarter of fiscal 2015.

⁽²⁾ Our Employee Share Purchase Plan (ESPP) was approved by our board of directors and stockholders in September 2007. All shares purchased under the ESPP are purchased on the Nasdaq Global Select Market (or such other stock exchange as we may designate from time to time). Unless our board of directors terminates the ESPP earlier, the ESPP will continue until all shares authorized for purchase under the ESPP have been purchased. The maximum

number of shares authorized to be purchased under the ESPP is 6,000,000.
Excluded from this disclosure are shares repurchased to settle statutory employee tax withholding related to the vesting of performance-based restricted stock unit awards.

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ITEM 6. EXHIBITS

Exhibit No.	Exhibit Title	Filed Herewith	Incorporated by Reference		Filing Date
			Form	Exhibit No. File No.	
10.1*	Form of Notice of Grant of Performance Shares and Performance Shares Agreement (with clawback provision)	X			
10.2*	Form of Notice of Grant of Restricted Stock Units and Restricted Stock Units Agreement (with clawback provision)	X			
31.1	Certification of Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a)	X			
31.2	Certification of Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a)	X			
32.1**	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
101	The following financial statements from the Company's 10-Q for the fiscal quarter ended May 3, 2015, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations and Comprehensive Income, (iii) Consolidated Statements of Stockholders' Equity, (iv) Consolidated Statements of Cash Flows (v) Notes to the Consolidated Financial Statements	X			
*	Denotes a compensatory plan, contract or arrangement, in which our directors or executive officers may participate.				
**	Furnished herewith				

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

By: lululemon athletica inc.
/s/ STUART HASELDEN
Stuart Haselden
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

Dated: June 8, 2015

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* Denotes a compensatory plan, contract or arrangement, in which our directors or executive officers may participate.

** Furnished herewith