
**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 **April 29, 2018**

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

At May 28, 2018, there were 125,914,467 shares of the registrant's common stock, par value \$0.005 per share, outstanding.

Exchangeable and Special Voting Shares:

At May 28, 2018, there were outstanding 9,776,421 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 May 28, 2018, the registrant had outstanding 9,776,421 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)

| | April 29, 2018 | January 28, 2018 |
|--|---------------------|---------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 966,571 | \$ 990,501 |
| Accounts receivable | 21,875 | 19,173 |
| Inventories | 373,445 | 329,562 |
| Prepaid and receivable income taxes | 46,927 | 48,948 |
| Other prepaid expenses and other current assets | 44,037 | 48,098 |
| | <u>1,452,855</u> | <u>1,436,282</u> |
| Property and equipment, net | 472,262 | 473,642 |
| Goodwill and intangible assets, net | 24,361 | 24,679 |
| Deferred income tax assets | 30,923 | 32,491 |
| Other non-current assets | 31,304 | 31,389 |
| | <u>\$ 2,011,705</u> | <u>\$ 1,998,483</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable | \$ 16,255 | \$ 24,646 |
| Accrued inventory liabilities | 19,861 | 13,027 |
| Accrued compensation and related expenses | 54,261 | 70,141 |
| Current income taxes payable | 19,445 | 15,700 |
| Unredeemed gift card liability | 69,510 | 82,668 |
| Lease termination liabilities | 5,523 | 6,427 |
| Other current liabilities | 82,486 | 79,989 |
| | <u>267,341</u> | <u>292,598</u> |
| Non-current income taxes payable | 44,078 | 48,268 |
| Deferred income tax liabilities | 1,582 | 1,336 |
| Other non-current liabilities | 62,470 | 59,321 |
| | <u>375,471</u> | <u>401,523</u> |
| 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; 9,776 and 9,781 issued and outstanding | — | — |
| Special voting stock, \$0.000005 par value: 60,000 shares authorized; 9,776 and 9,781 issued and outstanding | — | — |
| Common stock, \$0.005 par value: 400,000 shares authorized; 125,911 and 125,650 issued and outstanding | 630 | 628 |
| Additional paid-in capital | 291,352 | 284,253 |
| Retained earnings | 1,530,147 | 1,455,002 |
| Accumulated other comprehensive loss | (185,895) | (142,923) |
| | <u>1,636,234</u> | <u>1,596,960</u> |
| | <u>\$ 2,011,705</u> | <u>\$ 1,998,483</u> |

See accompanying notes to the unaudited interim consolidated financial statements

lululemon athletica inc.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited; Amounts in thousands, except per share amounts)

| | Quarter Ended | |
|---|----------------|----------------|
| | April 29, 2018 | April 30, 2017 |
| Net revenue | \$ 649,706 | \$ 520,307 |
| Cost of goods sold | 304,973 | 263,412 |
| Gross profit | 344,733 | 256,895 |
| Selling, general and administrative expenses | 240,428 | 199,141 |
| Asset impairment and restructuring costs | — | 12,331 |
| Income from operations | 104,305 | 45,423 |
| Other income (expense), net | 2,918 | 907 |
| Income before income tax expense | 107,223 | 46,330 |
| Income tax expense | 32,070 | 15,084 |
| Net income | \$ 75,153 | \$ 31,246 |
| Other comprehensive (loss) income: | | |
| Foreign currency translation adjustment | (42,972) | (31,775) |
| Comprehensive income (loss) | \$ 32,181 | \$ (529) |
| Basic earnings per share | \$ 0.55 | \$ 0.23 |
| Diluted earnings per share | \$ 0.55 | \$ 0.23 |
| Basic weighted-average number of shares outstanding | 135,502 | 137,037 |
| Diluted weighted-average number of shares outstanding | 135,931 | 137,192 |

See accompanying notes to the unaudited interim consolidated financial statements

lululemon athletica inc.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited; Amounts in thousands)

| | <u>Exchangeable Stock</u> | <u>Special Voting Stock</u> | | <u>Common Stock</u> | | <u>Additional Paid-in Capital</u> | <u>Retained Earnings</u> | <u>Accumulated Other Comprehensive Loss</u> | <u>Total</u> |
|---|---------------------------|-----------------------------|------------------|---------------------|------------------|---|------------------------------|---|---------------------|
| | <u>Shares</u> | <u>Shares</u> | <u>Par Value</u> | <u>Shares</u> | <u>Par Value</u> | | | | |
| Balance at January 28, 2018 | 9,781 | 9,781 | \$ — | 125,650 | \$ 628 | \$ 284,253 | \$ 1,455,002 | \$ (142,923) | \$ 1,596,960 |
| Net income | | | | | | | 75,153 | | 75,153 |
| Foreign currency translation adjustment | | | | | | | | (42,972) | (42,972) |
| Common stock issued upon exchange of exchangeable shares | (5) | (5) | — | 5 | — | — | | | — |
| Stock-based compensation expense | | | | | | 5,193 | | | 5,193 |
| Common stock issued upon settlement of stock-based compensation | | | | 333 | 2 | 8,406 | | | 8,408 |
| Shares withheld related to net share settlement of stock-based compensation | | | | (77) | — | (6,500) | | | (6,500) |
| Repurchase of common stock | | | | — | — | — | (8) | | (8) |
| Balance at April 29, 2018 | <u>9,776</u> | <u>9,776</u> | <u>\$ —</u> | <u>125,911</u> | <u>\$ 630</u> | <u>\$ 291,352</u> | <u>\$ 1,530,147</u> | <u>\$ (185,895)</u> | <u>\$ 1,636,234</u> |

See accompanying notes to the unaudited interim consolidated financial statements

lululemon athletica inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; Amounts in thousands)

| | Quarter Ended | |
|---|----------------|----------------|
| | April 29, 2018 | April 30, 2017 |
| Cash flows from operating activities | | |
| Net income | \$ 75,153 | \$ 31,246 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 26,773 | 23,163 |
| Deferred income taxes | 400 | (6,927) |
| Stock-based compensation expense | 5,193 | 2,730 |
| Asset impairment for ivivva restructuring | — | 11,593 |
| Settlement of derivatives not designated in a hedging relationship | (211) | — |
| Changes in operating assets and liabilities: | | |
| Inventories | (50,770) | (10,127) |
| Prepaid and receivable income taxes | 2,021 | 4,959 |
| Other prepaid expenses and other current and non-current assets | 979 | (6,025) |
| Accounts payable | (7,676) | (15,798) |
| Accrued inventory liabilities | 7,517 | 12,368 |
| Accrued compensation and related expenses | (14,157) | (15,038) |
| Current income taxes payable | 4,293 | (2,240) |
| Unredeemed gift card liability | (12,299) | (10,367) |
| Non-current income taxes payable | (4,190) | — |
| Lease termination liabilities and other current and non-current liabilities | 2,811 | (137) |
| Net cash provided by operating activities | 35,837 | 19,400 |
| Cash flows from investing activities | | |
| Purchase of property and equipment | (34,314) | (19,879) |
| Net cash used in investing activities | (34,314) | (19,879) |
| Cash flows from financing activities | | |
| Proceeds from settlement of stock-based compensation | 8,408 | 278 |
| Taxes paid related to net share settlement of stock-based compensation | (6,500) | (1,961) |
| Repurchase of common stock | (8) | (12,804) |
| Net cash provided by (used in) financing activities | 1,900 | (14,487) |
| Effect of exchange rate changes on cash and cash equivalents | (27,353) | (21,591) |
| Decrease in cash and cash equivalents | (23,930) | (36,557) |
| Cash and cash equivalents, beginning of period | \$ 990,501 | \$ 734,846 |
| Cash and cash equivalents, end of period | \$ 966,571 | \$ 698,289 |

See accompanying notes to the unaudited interim consolidated financial statements

lululemon athletica inc.
INDEX FOR NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL
STATEMENTS

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lululemon athletica inc.
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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. We primarily conduct our business through company-operated stores and direct to consumer through e-commerce. We also generate net revenue from outlets, sales from temporary locations, sales to wholesale accounts, showrooms, warehouse sales, and license and supply arrangements. The Company operates stores in the United States, Canada, Australia, China, the United Kingdom, New Zealand, Japan, South Korea, Germany, Singapore, Ireland, and Switzerland. There were a total of 411 and 404 company-operated stores in operation as of April 29, 2018 and January 28, 2018, respectively.

Basis of presentation

The unaudited interim consolidated financial statements as of April 29, 2018 and for the quarters ended April 29, 2018 and April 30, 2017 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 January 28, 2018 is derived from the Company's audited consolidated financial statements and related notes for the fiscal year ended January 28, 2018, which are included in Item 8 in the Company's fiscal 2017 Annual Report on Form 10-K filed with the SEC on March 27, 2018. 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 Item 8 in the Company's fiscal 2017 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 2018 will end on February 3, 2019 and will be a 53-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 net revenue 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

Recently adopted accounting pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* ("ASC 606") which supersedes the revenue recognition requirements in ASC 605 *Revenue Recognition*. This ASU 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.

The Company adopted ASC 606 on January 29, 2018 on a modified retrospective basis. There were no changes to the consolidated statement of operations as a result of the adoption, and the timing and amount of its revenue recognition remained substantially unchanged under this new guidance. Under the provisions of ASC 606, the Company is now required to present its provision for sales returns on a gross basis, rather than a net basis. The Company's liability for sales return refunds is recognized within other current liabilities, and the Company now presents an asset for the value of inventory which is expected to be returned within other current assets on the consolidated balance sheets. Under the modified retrospective approach, the comparative prior period information has not been restated for this change.

The effect of adoption of ASC 606 on the Company's consolidated balance sheet as of April 29, 2018 was as follows:

| | April 29, 2018 | | |
|---|-----------------------|---------------------------|--|
| | As Reported | Adjustment for ASC 606 | Balances Without Adoption of ASC 606 |
| | <i>(In thousands)</i> | | |
| Other prepaid expenses and other current assets | \$ 44,037 | \$ (2,579) | \$ 41,458 |
| Current assets | 1,452,855 | (2,579) | 1,450,276 |
| Total assets | 2,011,705 | (2,579) | 2,009,126 |
| Other current liabilities | 82,486 | 2,579 | 85,065 |
| Current liabilities | 267,341 | 2,579 | 269,920 |
| Total liabilities | 375,471 | 2,579 | 378,050 |

In May 2017, the FASB amended ASC 718, *Stock Compensation*, to reduce diversity in practice and to clarify when a change to the terms or conditions of a share-based payment award must be accounted for as a modification and will result in fewer changes to the terms of an award being accounted for as modifications. The new guidance was effective beginning in the first quarter of fiscal 2018 and will apply on a prospective basis. The Company does not expect it to have a material impact on its consolidated financial statements.

Accounting policies as a result of recently adopted accounting pronouncements

Revenue recognition

Net revenue is comprised of company-operated store net revenue, direct to consumer net revenue through websites and mobile apps, including mobile apps on in-store devices that allow demand to be fulfilled via the Company's distribution centers, and other net revenue, which includes revenue from outlets, temporary locations, sales to wholesale accounts, showrooms, warehouse sales, and license and supply arrangement net revenue, which consists of royalties as well as sales of the Company's products to licensees. All revenue is reported net of sales taxes collected from customers on behalf of taxing authorities.

Revenue is recognized when performance obligations are satisfied through the transfer of control of promised goods to the Company's customers. Control transfers once a customer has the ability to direct the use of, and obtain substantially all of the benefits from, the product. This includes the transfer of legal title, physical possession, the risks and rewards of ownership, and customer acceptance. Revenue from company-operated stores and other retail locations is recognized at the point of sale. Direct to consumer revenue and sales to wholesale accounts are recognized upon receipt by the customer.

Revenue is presented net of an allowance for estimated returns, which is based on historic experience. The Company's liability for sales return refunds is recognized within other current liabilities, and an asset for the value of inventory which is expected to be returned is recognized within other prepaid expenses and other current assets on the consolidated balance sheets.

Shipping fees billed to customers are recorded as revenue, and shipping costs are recognized within selling, general and administrative expenses in the same period the related revenue is recognized.

Proceeds from the sale of gift cards are initially deferred and recognized as within unredeemed gift card liability on the consolidated balance sheets, and are recognized as revenue when tendered for payment. Based on historical experience, and to the extent there is no requirement to remit unclaimed card balances to government agencies, an estimate of the gift card balances that will never be redeemed is recognized as revenue in proportion to gift cards which have been redeemed.

Recently issued accounting pronouncements

In February 2016, the FASB issued ASC 842, *Leases* ("ASC 842") to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the new guidance, lessees are required to recognize a lease liability, which represents the discounted obligation to make future minimum lease payments, and a corresponding right-of-use asset on the balance sheet for most leases. This guidance will be effective for the Company beginning in its first quarter of fiscal 2019, with early application permitted. The Company will adopt ASC 842 in its first quarter of fiscal 2019. The Company is continuing to evaluate the impact that this new guidance will have on its consolidated financial statements, including its disclosures, and the method of adoption. It is expected that the primary impact upon adoption will be the recognition, on a discounted basis, of the Company's minimum commitments under noncancelable operating leases as right of use assets and obligations on the consolidated balance

sheets. This will result in a significant increase in assets and liabilities on the Company's consolidated balance sheets. In preparation for the adoption of ASC 842, the Company is in the process of implementing certain key system changes to enable the preparation of necessary financial information and is evaluating the impact that this new guidance will have on its processes and controls.

In August 2017, the FASB amended ASC 815, *Derivatives and Hedging* to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. It will make more financial and nonfinancial hedging strategies eligible for hedge accounting. It also amends the presentation and disclosure requirements and changes how companies assess effectiveness. This guidance will be effective for the Company beginning in its first quarter of fiscal 2019, with early application permitted. The Company is currently evaluating the impact that this new guidance may have on its consolidated financial statements.

In January 2018, the FASB released guidance on the accounting for the global intangible low-taxed income ("GILTI") provisions of the tax bill H.R.1, commonly known as the U.S. Tax Cuts and Jobs Act ("U.S. tax reform"). The GILTI provisions impose a tax on foreign subsidiary earnings in excess of a deemed return on the foreign subsidiary's tangible assets. The guidance indicates that an accounting policy election can be made to treat the GILTI tax as either a current tax in the period in which it is incurred or as a deferred tax. The Company has not yet made its accounting policy election but will do so during the one-year measurement period as allowed by the SEC. In accordance with the FASB guidance, until an accounting policy election is made, any taxes related to the GILTI provisions will be treated as a current income tax expense in the period incurred.

In February 2018, the FASB amended ASC 220, *Income Statement—Reporting Comprehensive Income*. ASC 740, *Income Taxes*, requires that the effect of a change in tax laws or rates on deferred tax assets and liabilities be included in income from continuing operations. In situations in which the tax effects of a transaction were initially recognized directly in other comprehensive income, this results in "stranded" amounts in accumulated other comprehensive income related to the income tax rate differential. The amendments to ASC 220 allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the enactment of the U.S. tax reform. The guidance in the ASU is effective for the Company beginning in its first quarter of fiscal 2019 with early adoption permitted. The Company is currently evaluating the impact that this new guidance may have on its statement of shareholders' equity, and the timing of adoption.

NOTE 3. STOCK-BASED COMPENSATION AND BENEFIT PLANS

Stock-based compensation plans

The Company's eligible 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 \$5.2 million and \$2.7 million for the quarters ended April 29, 2018 and April 30, 2017, respectively. Total unrecognized compensation cost for all stock-based compensation plans was \$62.1 million at April 29, 2018, which is expected to be recognized over a weighted-average period of 2.5 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 April 29, 2018, and changes during the first quarter 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 |
| <i>(In thousands, except per share amounts)</i> | | | | | | | | |
| Balance at January 28, 2018 | 1,117 | \$ 56.44 | 329 | \$ 60.42 | 21 | \$ 52.45 | 427 | \$ 57.54 |
| Granted | 297 | 85.63 | 82 | 85.93 | — | — | 207 | 83.95 |
| Exercised/released | 155 | 54.08 | 39 | 63.04 | — | — | 137 | 59.35 |
| Forfeited/expired | 240 | 57.13 | 115 | 60.79 | — | — | 16 | 58.33 |
| Balance at April 29, 2018 | 1,019 | \$ 65.17 | 257 | \$ 68.03 | 21 | \$ 52.45 | 481 | \$ 68.35 |
| Exercisable at April 29, 2018 | 268 | \$ 57.67 | | | | | | |

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes model. The assumptions used to calculate the fair value of the 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 the historical experience of similar awards, giving consideration to 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 are weighted averages of the assumptions that were used in calculating the fair value of stock options granted in the first quarter of fiscal 2018 :

| | Quarter Ended April 29, 2018 |
|-------------------------|---------------------------------|
| Expected term | 3.75 years |
| Expected volatility | 36.88% |
| Risk-free interest rate | 2.46% |
| 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.

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 share 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 defined in the ESPP, and the Company matches one-third of the contribution. The maximum number of shares authorized to be purchased under the ESPP is 6.0 million shares. All shares purchased under the ESPP are purchased in the open market. During the quarter ended April 29, 2018, there were 25.6 thousand shares purchased.

Defined contribution pension plans

During the second quarter of fiscal 2016, the Company began offering defined contribution pension plans to its eligible employees in Canada and the United States. Participating employees may elect to defer and contribute a portion of their eligible compensation to a plan up to limits stated in the plan documents, not to exceed the dollar amounts set by applicable laws. The

Company matches 50% to 75% of the contribution depending on the participant's length of service, and the contribution is subject to a two year vesting period. The Company's net expense for the defined contribution plans was \$1.7 million and \$1.4 million in the first quarter of fiscal 2018 and fiscal 2017, respectively.

NOTE 4 . FAIR VALUE MEASUREMENT

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are made using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value:

- Level 1 - defined as observable inputs such as quoted prices in active markets;
- Level 2 - defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and
- Level 3 - defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The fair value measurement is categorized in its entirety by reference to its lowest level of significant input. As of April 29, 2018 and January 28, 2018, the Company held certain assets and liabilities that are required to be measured at fair value on a recurring basis:

| | <u>April 29, 2018</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Balance Sheet Classification</u> |
|---|-------------------------|----------------|----------------|----------------|---|
| | <i>(In thousands)</i> | | | | |
| Money market funds | \$ 212,629 | \$ 212,629 | \$ — | \$ — | Cash and cash equivalents |
| Treasury bills | 86,637 | 86,637 | — | — | Cash and cash equivalents |
| Term deposits | 371,940 | — | 371,940 | — | Cash and cash equivalents |
| Net forward currency contract assets | 2,047 | — | 2,047 | — | Other prepaid expenses and other current assets |
| Net forward currency contract liabilities | 1,947 | — | 1,947 | — | Other current liabilities |
| | <u>January 28, 2018</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Balance Sheet Classification</u> |
| | <i>(In thousands)</i> | | | | |
| Term deposits | \$ 258,238 | \$ — | \$ 258,238 | \$ — | Cash and cash equivalents |

The Company records accounts receivable, accounts payable, and accrued liabilities at cost. The carrying values of these instruments approximate their fair value due to their short-term maturities.

The Company has short-term, highly liquid investments classified as cash equivalents, which are invested in money market funds, Treasury bills, and term deposits. The Company records cash equivalents at their original purchase prices plus interest that has accrued at the stated rate.

The fair values of the forward currency contract assets and liabilities are determined using observable Level 2 inputs, including foreign currency spot exchange rates, forward pricing curves, and interest rates. The fair values consider the credit risk of the Company and its counterparties. They are presented at their gross fair values. However, the Company's Master International Swap Dealers Association, Inc., Agreements and other similar arrangements allow net settlements under certain conditions.

In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Company has impaired certain long-lived assets and recorded them at their estimated fair value on a non-recurring basis. The fair value of these long-lived assets was determined using Level 3 inputs, principally the present value of the estimated future cash flows expected from their use and eventual disposition. Please refer to Note 6 of these unaudited interim consolidated financial statements for further details regarding the impairment of long-lived assets as a result of the ivivva restructuring. Also as a result of the ivivva restructuring, the Company recorded lease termination liabilities at fair value, determined using Level 3 inputs based on remaining lease rentals and reduced by estimated sublease income.

NOTE 5 . DERIVATIVE FINANCIAL INSTRUMENTS***Foreign exchange risk***

The Company is exposed to risks associated with changes in foreign currency exchange rates and uses derivative financial instruments to manage its exposure to certain of these foreign currency exchange rate risks. The Company does not enter into derivative contracts for speculative or trading purposes.

The Company currently hedges against changes in the Canadian dollar to U.S. dollar exchange rate using forward currency contracts.

Net investment hedges

The Company is exposed to foreign exchange gains and losses which arise on translation of its foreign subsidiaries' balance sheets into U.S. dollars. These gains and losses are recorded as a foreign currency translation adjustment in accumulated other comprehensive income or loss within stockholders' equity.

The Company holds a significant portion of its assets in Canada and enters into forward currency contracts designed to hedge a portion of the foreign currency exposure that arises on translation of a Canadian subsidiary into U.S. dollars. These forward currency contracts are designated as net investment hedges. The effective portions of the hedges are reported in accumulated other comprehensive income or loss and will subsequently be reclassified to net earnings in the period in which the hedged investment is either sold or substantially liquidated. Hedge effectiveness is measured using a method based on changes in forward exchange rates. The Company recorded no ineffectiveness from net investment hedges during the quarter ended April 29, 2018 .

The Company classifies the cash flows at settlement of its net investment hedges within investing activities in the consolidated statements of cash flows.

Derivatives not designated as hedging instruments

The Company is exposed to gains and losses arising from changes in foreign exchange rates associated with transactions which are undertaken by its subsidiaries in currencies other than their functional currency. Such transactions include intercompany transactions and inventory purchases. These transactions result in the recognition of certain foreign currency denominated monetary assets and liabilities which are remeasured to the quarter-end or settlement date exchange rate. The resulting foreign currency gains and losses are recorded in selling, general and administrative expenses.

During the quarter ended April 29, 2018 , the Company entered into certain forward currency contracts designed to economically hedge the foreign exchange revaluation gains and losses that are recognized by its Canadian subsidiaries on U.S. dollar denominated monetary assets and liabilities. The Company has not applied hedge accounting to these instruments and the change in fair value of these derivatives is recorded within selling, general and administrative expenses.

The Company classifies the cash flows at settlement of its forward currency contracts which are not designated in hedging relationships within operating activities in the consolidated statements of cash flows.

Outstanding notional amounts

The Company had foreign exchange forward contracts outstanding with the following notional amounts:

| | <u>April 29, 2018</u> | <u>April 30, 2017</u> |
|--|-----------------------|-----------------------|
| | <i>(In thousands)</i> | |
| Derivatives designated as net investment hedges | \$ 262,000 | \$ — |
| Derivatives not designated in a hedging relationship | 240,000 | — |

The forward currency contracts designated as net investment hedges mature on different dates between June 2018 and October 2018.

The forward currency contracts not designated in a hedging relationship mature on different dates between May 2018 and October 2018.

Quantitative disclosures about derivative financial instruments

The Company presents its derivative assets and derivative liabilities at their gross fair values within other prepaid expenses and other current assets and other current liabilities on the consolidated balance sheets. However, the Company's Master International Swap Dealers Association, Inc., Agreements and other similar arrangements allow net settlements under certain conditions. As of April 29, 2018, there were derivative assets of \$1.7 million and derivative liabilities of \$1.6 million subject to enforceable netting arrangements.

The fair values of forward currency contracts were as follows:

| | April 29, 2018 | April 30, 2017 |
|--|-----------------------|----------------|
| | <i>(In thousands)</i> | |
| Net forward currency contract assets, recognized within other prepaid expenses and other current assets: | | |
| Derivatives designated as net investment hedges | \$ 2,047 | \$ — |
| Net forward currency contract liabilities, recognized within other current liabilities: | | |
| Derivatives not designated in a hedging relationship | 1,947 | — |

The pre-tax gains and losses on foreign exchange forward contracts recorded in accumulated other comprehensive income are as follows:

| | Quarter Ended | |
|--|-----------------------|----------------|
| | April 29, 2018 | April 30, 2017 |
| | <i>(In thousands)</i> | |
| Gains recognized in foreign currency translation adjustment: | | |
| Derivatives designated as net investment hedges | \$ 10,818 | \$ — |

No gains or losses have been reclassified from accumulated other comprehensive income into net income for derivative financial instruments in a net investment hedging relationship, as the Company has not sold or liquidated (or substantially liquidated) its hedged subsidiary.

The pre-tax net foreign exchange and derivative gains and losses recorded in the consolidated statement of operations are as follows:

| | Quarter Ended | |
|--|-----------------------|-----------------|
| | April 29, 2018 | April 30, 2017 |
| | <i>(In thousands)</i> | |
| Gains (losses) recognized in selling, general and administrative expenses: | | |
| Foreign exchange gains | \$ 9,645 | \$ 5,792 |
| Derivatives not designated in a hedging relationship | (10,048) | — |
| Net foreign exchange and derivative (losses) gains | <u>\$ (403)</u> | <u>\$ 5,792</u> |

Credit risk

The Company is exposed to credit-related losses in the event of nonperformance by the counterparties to the forward currency contracts. The credit risk amount is the Company's unrealized gains on its derivative instruments, based on foreign currency rates at the time of nonperformance.

The Company's forward currency contracts are entered into with large, reputable financial institutions that are monitored by the Company for counterparty risk.

The Company's derivative contracts contain certain credit risk-related contingent features. Under certain circumstances, including an event of default, bankruptcy, termination, and cross default under the Company's revolving credit facility, the Company may be required to make immediate payment for outstanding liabilities under its derivative contracts.

NOTE 6. ASSET IMPAIRMENT AND RESTRUCTURING

During fiscal 2017, the Company restructured its ivivva operations. On August 20, 2017, the Company closed 48 of its 55 ivivva branded company-operated stores and all other ivivva branded temporary locations. As a result of this restructuring, the

Company recognized aggregate pre-tax charges \$47.2 million during fiscal 2017, inclusive of \$17.7 million recognized during the first quarter of fiscal 2017. The results for the first quarter of fiscal 2018 did not include any adjustments related to the restructuring of its ivivva operations.

A summary of the pre-tax charges recognized in connection with the Company's restructuring of its ivivva operations is as follows:

| | Quarter Ended | |
|---|----------------|----------------|
| | April 29, 2018 | April 30, 2017 |
| <i>(In thousands)</i> | | |
| Costs recorded in cost of goods sold: | | |
| Provision to reduce inventories to net realizable value | \$ — | \$ 1,942 |
| Expected loss on committed inventory purchases | — | 3,477 |
| | — | 5,419 |
| Costs recorded in operating expenses: | | |
| Impairment of property and equipment | — | 11,593 |
| Employee related costs | — | 738 |
| Asset impairment and restructuring costs | — | 12,331 |
| Restructuring and related costs | \$ — | \$ 17,750 |

An income tax recovery of \$4.7 million was recorded on the above items in the first quarter of fiscal 2017 based on the expected annual tax rate of the applicable tax jurisdictions.

Costs recorded in cost of goods sold

During the first quarter of fiscal 2017, the Company recognized expenses of \$5.4 million in cost of goods sold as a result of the restructuring of its ivivva operations. This included \$1.9 million to reduce inventories to their estimated net realizable value, and \$3.5 million for the losses the Company expects to incur on certain firm inventory and fabric purchase commitments. The liability for the expected losses is included within accrued inventory liabilities on the consolidated balance sheets.

Costs recorded in operating expenses

The Company recognized asset impairment and restructuring costs of \$12.3 million during the first quarter of fiscal 2017 as a result of the restructuring of its ivivva operations.

As a result of the plan to close the majority of the ivivva branded locations, the long-lived assets of each ivivva branded location were tested for impairment as of April 30, 2017. For impaired locations, a loss was recognized representing the difference between the net book value of the long-lived assets and their estimated fair value. Impairment losses totaling \$11.6 million were recognized during the first quarter of fiscal 2017. These losses primarily relate to leasehold improvements and furniture and fixtures of the company-operated stores segment. These assets were retired during the third quarter of fiscal 2017 in conjunction with the closures of the company-operated stores.

During the first quarter of fiscal 2017, the Company recognized employee related expenses as a result of the restructuring of \$0.7 million .

The results for the first quarter of fiscal 2018 did not include any adjustments related to the restructuring of the ivivva operations. As of April 29, 2018 , the Company had lease termination liabilities of \$5.5 million .

NOTE 7 . INCOME TAXES

The U.S. tax reform was enacted on December 22, 2017 and introduced significant changes to U.S. income tax laws. The U.S. tax reform reduced the U.S. federal income tax rate from 35% to 21%, introduced a shift to a territorial tax system and changed how foreign earnings are subject to U.S. tax, and imposed a mandatory one-time transition tax on the deemed repatriation of accumulated undistributed earnings of foreign subsidiaries. The U.S. tax reform also introduced new taxes on certain foreign-sourced earnings and certain related-party payments, which are referred to as the GILTI tax and the base erosion anti-abuse tax. Accounting for the income tax effects of the U.S. tax reform is complex and requires significant judgement and estimates in the interpretation and calculations of its provisions.

The SEC issued Staff Accounting Bulletin 118 ("SAB 118") which allows companies to record provisional estimates of the impacts of the U.S. tax reform within a one year measurement period. As disclosed in Note 14 to the audited consolidated financial statements included in Item 8 of the Company's fiscal 2017 Annual Report on Form 10-K filed with the SEC on March 27, 2018, the Company recorded certain provisional amounts in the fourth quarter of fiscal 2017 and expects the accounting for the income tax effects of the U.S. tax reform to be completed in fiscal 2018.

As the Company completes its analysis of the U.S. tax reform it may make adjustments to the provisional amounts recognized during fiscal 2017, and will incorporate any additional interpretations or guidance that may be issued. The Company may also identify additional effects not reflected as of April 29, 2018. Any such adjustments may materially impact the provision for income taxes and the effective income tax rate in the period in which the adjustments are made.

As of April 29, 2018, no deferred income tax liabilities have been recognized on any of the undistributed earnings of the Company's foreign subsidiaries as these earnings were indefinitely reinvested outside of the United States. The Company is continuing to evaluate the impact that the U.S. tax reform will have upon the taxes which may become payable upon repatriation, its reinvestment plans, and the most efficient means of deploying its capital resources globally. As this analysis has not yet been completed, it is possible that amounts determined to be indefinitely reinvested outside of the U.S. may ultimately be repatriated, resulting in additional tax liabilities being recognized.

NOTE 8. EARNINGS PER SHARE

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

| | Quarter Ended | |
|---|---|----------------|
| | April 29, 2018 | April 30, 2017 |
| | <i>(In thousands, except per share amounts)</i> | |
| Net income | \$ 75,153 | \$ 31,246 |
| Basic weighted-average number of shares outstanding | 135,502 | 137,037 |
| Assumed conversion of dilutive stock options and awards | 429 | 155 |
| Diluted weighted-average number of shares outstanding | 135,931 | 137,192 |
| Basic earnings per share | \$ 0.55 | \$ 0.23 |
| Diluted earnings per share | \$ 0.55 | \$ 0.23 |

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 quarters ended April 29, 2018 and April 30, 2017, 0.1 million and 0.3 million stock options and awards, respectively, were anti-dilutive to earnings per share and therefore have been excluded from the computation of diluted earnings per share.

On December 1, 2016, the Company's board of directors approved a program to repurchase shares of the Company's common stock up to an aggregate value of \$100.0 million. This stock repurchase program was completed during the third quarter of fiscal 2017.

On November 29, 2017, the Company's board of directors approved a stock repurchase program for up to \$200.0 million of its common shares in the open market at prevailing market prices, including under plans complying with the provisions of Rule 10b5-1 and Rule 10b-18 of the Securities Exchange Act of 1934. The timing and actual number of common shares to be repurchased will depend upon market conditions, eligibility to trade, and other factors, in accordance with Securities and Exchange Commission requirements, and the repurchase program is expected to be completed in two years. As of April 29, 2018, the remaining aggregate value of shares available to be repurchased under this program was \$199.0 million.

During the quarters ended April 29, 2018 and April 30, 2017, 100 and 0.2 million shares, respectively, were repurchased under the program at a total cost of \$7.5 thousand and \$12.8 million, respectively.

Subsequent to April 29, 2018, and up to May 28, 2018, no shares were repurchased.

NOTE 9. SUPPLEMENTARY FINANCIAL INFORMATION

A summary of certain consolidated balance sheet accounts is as follows:

| | April 29, 2018 | January 28, 2018 |
|---|-------------------|---------------------|
| <i>(In thousands)</i> | | |
| Inventories: | | |
| Finished goods | \$ 389,921 | \$ 344,695 |
| Provision to reduce inventories to net realizable value | (16,476) | (15,133) |
| | <u>\$ 373,445</u> | <u>\$ 329,562</u> |
| Property and equipment, net: | | |
| Land | \$ 79,907 | \$ 83,048 |
| Buildings | 38,213 | 39,278 |
| Leasehold improvements | 305,304 | 301,449 |
| Furniture and fixtures | 92,739 | 91,778 |
| Computer hardware | 64,052 | 61,734 |
| Computer software | 181,409 | 173,997 |
| Equipment and vehicles | 14,720 | 14,806 |
| Work in progress | 58,059 | 51,260 |
| Property and equipment, gross | 834,403 | 817,350 |
| Accumulated depreciation | (362,141) | (343,708) |
| | <u>\$ 472,262</u> | <u>\$ 473,642</u> |
| Goodwill and intangible assets, net: | | |
| Goodwill | \$ 25,496 | \$ 25,496 |
| Changes in foreign currency exchange rates | (1,151) | (890) |
| | <u>24,345</u> | <u>24,606</u> |
| Intangible assets, net | <u>16</u> | <u>73</u> |
| | <u>\$ 24,361</u> | <u>\$ 24,679</u> |
| Other non-current assets: | | |
| Security deposits | \$ 12,678 | \$ 11,599 |
| Deferred lease assets | 9,742 | 10,458 |
| Other | 8,884 | 9,332 |
| | <u>\$ 31,304</u> | <u>\$ 31,389</u> |
| Other current liabilities: | | |
| Accrued duty, freight, and other operating expenses | \$ 42,427 | \$ 33,695 |
| Sales tax collected | 12,365 | 11,811 |
| Sales return allowances | 7,918 | 6,293 |
| Accrued rent | 5,866 | 7,074 |
| Accrued capital expenditures | 3,860 | 5,714 |
| Forward currency contract liabilities | 1,947 | 8,771 |
| Other | 8,103 | 6,631 |
| | <u>\$ 82,486</u> | <u>\$ 79,989</u> |
| Other non-current liabilities: | | |
| Deferred lease liabilities | \$ 27,230 | \$ 27,186 |
| Tenant inducements | 29,604 | 26,250 |
| Other | 5,636 | 5,885 |
| | <u>\$ 62,470</u> | <u>\$ 59,321</u> |

NOTE 10. 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 and mobile apps. Outlets, temporary locations, sales to wholesale accounts, showrooms, warehouse sale net revenue and license and supply arrangements have been combined into other. During the first quarter of fiscal 2018, the Company reviewed its general corporate expenses and determined certain costs which were previously classified as general corporate expense are more appropriately classified within the direct to consumer segment. Accordingly, comparative figures have been reclassified to conform to the financial presentation adopted for the current year.

| | Quarter Ended | |
|--|-------------------|-------------------|
| | April 29, 2018 | April 30, 2017 |
| <i>(In thousands)</i> | | |
| Net revenue: | | |
| Company-operated stores | \$ 433,131 | \$ 379,099 |
| Direct to consumer | 157,843 | 97,223 |
| Other | 58,732 | 43,985 |
| | <u>\$ 649,706</u> | <u>\$ 520,307</u> |
| Income from operations before general corporate expense: | | |
| Company-operated stores | \$ 99,287 | \$ 77,499 |
| Direct to consumer | 62,267 | 34,098 |
| Other | 11,223 | 2,836 |
| | <u>172,777</u> | <u>114,433</u> |
| General corporate expense | 68,472 | 51,260 |
| Restructuring and related costs | — | 17,750 |
| Income from operations | <u>104,305</u> | <u>45,423</u> |
| Other income (expense), net | 2,918 | 907 |
| Income before income tax expense | <u>\$ 107,223</u> | <u>\$ 46,330</u> |
| Capital expenditures: | | |
| Company-operated stores | \$ 19,236 | \$ 7,168 |
| Direct to consumer | 721 | 1,980 |
| Corporate and other | 14,357 | 10,731 |
| | <u>\$ 34,314</u> | <u>\$ 19,879</u> |
| Depreciation and amortization: | | |
| Company-operated stores | \$ 17,082 | \$ 15,200 |
| Direct to consumer | 2,599 | 1,994 |
| Corporate and other | 7,092 | 5,969 |
| | <u>\$ 26,773</u> | <u>\$ 23,163</u> |

The following table disaggregates the Company's net revenue by geographic area. The economic conditions in these areas could affect the amount and timing of the Company's net revenue and cash flows.

| | Quarter Ended | |
|--------------------------|-------------------|-------------------|
| | April 29, 2018 | April 30, 2017 |
| | (In thousands) | |
| United States | \$ 462,270 | \$ 379,467 |
| Canada | 112,149 | 91,646 |
| Outside of North America | 75,287 | 49,194 |
| | <u>\$ 649,706</u> | <u>\$ 520,307</u> |

NOTE 11 . 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, employment claims, and similar matters. The Company believes the ultimate resolution of any such current proceeding will not have a material adverse effect on its consolidated balance sheets, results of operations or cash flows.

On October 9, 2015, certain current and former hourly employees of the Company filed a class action lawsuit in the Supreme Court of New York entitled *Rebecca Gathmann-Landini et al v. lululemon USA inc.* On December 2, 2015, the case was moved to the United States District Court for the Eastern District of New York. The lawsuit alleges that the Company violated various New York labor codes by failing to pay all earned wages, including overtime compensation. The plaintiffs are seeking an unspecified amount of damages. The Company intends to vigorously defend this matter.

On December 20, 2017, former lululemon employee Shayla Famouri filed a lawsuit in Los Angeles Superior Court against the Company and a former employee of the Company. The plaintiff alleges claims for sexual assault and battery, sexual harassment, retaliation, creating a hostile work environment and related claims. The complaint seeks damages in the amount of \$3.0 million, as well as non-monetary relief such as policy change and an apology. The Company intends to vigorously defend this matter.

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 the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. 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 unaudited interim consolidated financial statements and the notes included in Item 1 of Part I of this Quarterly Report on 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 fiscal 2017 Annual Report on Form 10-K filed with the SEC on March 27, 2018 .

We 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 athletica inc. is principally a designer, distributor, and retailer of healthy lifestyle inspired athletic apparel and accessories. We have a mission to create transformational products and experiences which enable people to live a life they love, and have developed a brand for those pursuing an active, mindful lifestyle. Since our inception, we have fostered a distinctive corporate culture; we promote a set of core values in our business which include taking personal responsibility, nurturing entrepreneurial spirit, acting with honesty and courage, valuing connection, and choosing to have fun. These core values attract passionate and motivated employees who are driven to achieve personal and professional goals, and share our purpose of "elevating the world through the power of practice."

Our healthy lifestyle inspired athletic apparel and accessories are marketed under the lululemon and ivivva 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 a healthy lifestyle and athletic activities such as yoga, running, training, and most other sweaty pursuits. We also offer fitness-related accessories, including items such as bags, socks, underwear, yoga mats and equipment, and water bottles.

During fiscal 2017, we restructured our ivivva operations. On August 20, 2017 , we closed 48 of our 55 ivivva branded company-operated stores and all other ivivva branded temporary locations.

Financial Highlights

The summary below provides both GAAP and adjusted non-GAAP financial measures. In connection with the restructuring of our ivivva operations, we recognized pre-tax costs totaling \$17.7 million in the first quarter of fiscal 2017. The adjusted financial measures for the first quarter of fiscal 2017 exclude these charges and their related tax effects. The results for the first quarter of fiscal 2018 did not include any costs related to the restructuring of our ivivva operations.

For the first quarter of fiscal 2018 , compared to the first quarter of fiscal 2017 :

- Net revenue increase d 25% to \$649.7 million . On a constant dollar basis, net revenue increased 23% .
- Total comparable sales, which includes comparable store sales and direct to consumer, increased 20% . On a constant dollar basis, total comparable sales increased 19% .
 - Comparable store sales increased 8% , or increased 6% on a constant dollar basis.
 - Direct to consumer net revenue increased 62% , or increased 60% on a constant dollar basis.
- Gross profit increase d 34% to \$344.7 million . It increased 31% compared to adjusted gross profit for the first quarter of fiscal 2017 .
- Gross margin increase d 370 basis points to 53.1% . It increased 270 basis points compared to adjusted gross margin for the first quarter of fiscal 2017 .
- Income from operations increase d 130% to \$104.3 million . It increased 65% compared to adjusted income from operations for the first quarter of fiscal 2017 .
- Operating margin increase d 740 basis points to 16.1% . It increased 400 basis points compared to adjusted operating margin for the first quarter of fiscal 2017 .
- Income tax expense increase d 113% to \$32.1 million . Our effective tax rate for the first quarter of fiscal 2018 was 29.9% compared to 32.6% for the first quarter of fiscal 2017 . The adjusted effective tax rate was 30.8% in the first quarter of fiscal 2017 .
- Diluted earnings per share were \$0.55 compared to \$0.23 in the first quarter of fiscal 2017 . Adjusted diluted earnings per share were \$0.32 for the first quarter of fiscal 2017 .

Refer to the non-GAAP reconciliation tables contained in the "Non-GAAP Financial Measures" section of this "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" for reconciliations between constant dollar changes in net revenue, total comparable sales, comparable store sales, and direct to consumer net revenue, and adjusted gross profit, gross margin, income from operations, operating margin, income tax expense, effective tax rates, and diluted earnings per share, and the most directly comparable measures calculated in accordance with GAAP.

Results of Operations

First Quarter Results

The following table summarizes key components of our results of operations for the quarters ended April 29, 2018 and April 30, 2017. The percentages are presented as a percentage of net revenue.

| | Quarter Ended | | | |
|--|-----------------------|----------------|----------------------|----------------|
| | April 29, 2018 | April 30, 2017 | April 29, 2018 | April 30, 2017 |
| | <i>(In thousands)</i> | | <i>(Percentages)</i> | |
| Net revenue | \$ 649,706 | \$ 520,307 | 100.0% | 100.0% |
| Cost of goods sold | 304,973 | 263,412 | 46.9 | 50.6 |
| Gross profit | 344,733 | 256,895 | 53.1 | 49.4 |
| Selling, general and administrative expenses | 240,428 | 199,141 | 37.0 | 38.3 |
| Asset impairment and restructuring costs | — | 12,331 | — | 2.4 |
| Income from operations | 104,305 | 45,423 | 16.1 | 8.7 |
| Other income (expense), net | 2,918 | 907 | 0.4 | 0.2 |
| Income before income tax expense | 107,223 | 46,330 | 16.5 | 8.9 |
| Income tax expense | 32,070 | 15,084 | 4.9 | 2.9 |
| Net income | \$ 75,153 | \$ 31,246 | 11.6% | 6.0% |

Net Revenue

Net revenue increased \$129.4 million, or 25%, to \$649.7 million for the first quarter of fiscal 2018 from \$520.3 million for the first quarter of fiscal 2017. On a constant dollar basis, assuming the average exchange rates for the first quarter of fiscal 2018 remained constant with the average exchange rates for the first quarter of fiscal 2017, net revenue increased \$120.3 million, or 23%.

The increase in net revenue was primarily due to increased direct to consumer net revenue, net revenue generated by new company-operated stores, and an increase in comparable store sales. Total comparable sales, which includes comparable store sales and direct to consumer, increased 20% in the first quarter of fiscal 2018 compared to the first quarter of fiscal 2017. Total comparable sales increased 19% on a constant dollar basis.

Net revenue on a segment basis for the quarters ended April 29, 2018 and April 30, 2017 is summarized below. The percentages are presented as a percentage of total net revenue.

| | Quarter Ended | | | |
|-------------------------|-----------------------|----------------|----------------------|----------------|
| | April 29, 2018 | April 30, 2017 | April 29, 2018 | April 30, 2017 |
| | <i>(In thousands)</i> | | <i>(Percentages)</i> | |
| Company-operated stores | \$ 433,131 | \$ 379,099 | 66.7% | 72.9% |
| Direct to consumer | 157,843 | 97,223 | 24.3 | 18.7 |
| Other | 58,732 | 43,985 | 9.0 | 8.5 |
| Net revenue | \$ 649,706 | \$ 520,307 | 100.0% | 100.0% |

Company-Operated Stores. Net revenue from our company-operated stores segment increased \$54.0 million, or 14%, to \$433.1 million in the first quarter of fiscal 2018 from \$379.1 million in the first quarter of fiscal 2017. The following contributed to the increase in net revenue from our company-operated stores segment:

- Net revenue from company-operated stores we opened or significantly expanded subsequent to April 30, 2017, and therefore not included in comparable store sales, contributed \$42.7 million to the increase. We opened 48 net new

lululemon branded company-operated stores since the first quarter of fiscal 2017 , including 28 stores in North America, 14 stores in Asia, three stores in Australia/New Zealand, and three stores in Europe.

- A comparable store sales increase of 8% in the first quarter of fiscal 2018 compared to the first quarter of fiscal 2017 resulted in a \$22.9 million increase to net revenue. Comparable store sales increased 6% , or \$18.5 million on a constant dollar basis. The increase in comparable store sales was primarily a result of improved conversion rates and increased store traffic. This was partially offset by a decrease in dollar value per transaction.

These increases in net revenue were partially offset by the closure of 48 of our ivivva branded company-operated stores as part of the restructuring of our ivivva operations. These closures reduced our net revenue from company-operated stores for the first quarter of fiscal 2018 by \$11.6 million compared to the first quarter of fiscal 2017 .

Direct to Consumer. Net revenue from our direct to consumer segment increased \$60.6 million , or 62% , to \$157.8 million in the first quarter of fiscal 2018 from \$97.2 million in the first quarter of fiscal 2017 . Direct to consumer net revenue increased 60% on a constant dollar basis. This was primarily a result of increased website traffic, improved conversion, and increased dollar value per transaction.

Other. Net revenue from our other segment increase d \$14.7 million , or 34% , to \$58.7 million in the first quarter of fiscal 2018 from \$44.0 million in the first quarter of fiscal 2017 . This increase was primarily the result of an increased number of outlets and increased net revenue at existing outlets during the first quarter of fiscal 2018 compared to the first quarter of fiscal 2017 . There was also an increase in net revenue from temporary locations, including seasonal stores. The increase in net revenue from our other segment was partially offset by lower net revenue from showrooms, primarily due to a decreased number of showrooms open during the first quarter of fiscal 2018 compared to the first quarter of fiscal 2017 .

Gross Profit

Gross profit increase d \$87.8 million , or 34% , to \$344.7 million for the first quarter of fiscal 2018 from \$256.9 million for the first quarter of fiscal 2017 .

Gross profit as a percentage of net revenue, or gross margin, increase d 370 basis points to 53.1% in the first quarter of fiscal 2018 from 49.4% in the first quarter of fiscal 2017 . The increase in gross margin was primarily the result of:

- an increase in product margin of 120 basis points, which was primarily due to a favorable mix of higher margin product and lower product costs, lower markdowns, and lower inventory provision expense;
- a decrease in fixed costs as a percentage of revenue, including occupancy and depreciation costs and costs related to our product and supply chain departments, of 120 basis points;
- a favorable impact of foreign exchange rates of 30 basis points; and
- the costs incurred in the first quarter of fiscal 2017 in connection with the restructuring of our ivivva operations, which reduced gross margin in that quarter by 100 basis points.

During the first quarter of fiscal 2017 , as a result of the restructuring of our ivivva operations, we recognized costs totaling \$5.4 million within costs of goods sold, as outlined in Note 6 to the unaudited interim consolidated financial statements included in Item 1 of Part I of this report. Excluding these charges from the comparatives for the first quarter of fiscal 2017 , gross profit increased 31% and gross margin increase d 270 basis points.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increase d \$41.3 million , or 21% , to \$240.4 million in the first quarter of fiscal 2018 from \$199.1 million in the first quarter of fiscal 2017 . The increase in selling, general and administrative expenses was primarily due to:

- an increase in costs related to our operating channels of \$20.6 million , comprised of:
 - an increase in employee costs of \$6.0 million primarily from a growth in labor hours and benefits, mainly associated with new company-operated stores and other new operating locations, and due to higher retail bonus expenses as a result of higher net revenues;
 - an increase in variable costs of \$8.7 million primarily due to an increase in distribution costs, packaging costs, and credit card fees as a result of increased net revenue; and
 - an increase in other costs of \$5.9 million primarily due to an increase in digital marketing expenses, brand and community costs, and other costs associated with our operating locations;

- an increase in head office costs of \$14.4 million , comprised of:
 - an increase in employee costs of \$10.9 million primarily due to additional employees to support the growth in our business; and
 - an increase in other costs of \$3.5 million primarily due to increases in brand and community costs, partially offset by a decrease in professional fees and other head office costs.
- a decrease in net foreign exchange and derivative revaluation gains of \$6.2 million . There were net foreign exchange and derivative revaluation losses of \$0.4 million in the first quarter of fiscal 2018 compared to net foreign exchange revaluation gains of \$5.8 million in the first quarter of fiscal 2017 . The net foreign exchange gains and losses primarily relate to the revaluation of U.S. dollar denominated monetary assets and liabilities held by Canadian subsidiaries. During the second quarter of fiscal 2017, we began entering into forward currency contracts designed to economically hedge these foreign exchange revaluation gains and losses.

As a percentage of net revenue, selling, general and administrative expenses decreased 130 basis points, to 37.0% in the first quarter of fiscal 2018 from 38.3% in the first quarter of fiscal 2017 .

Asset Impairment and Restructuring Costs

During the first quarter of fiscal 2017 , we incurred asset impairment and restructuring costs totaling \$12.3 million in connection with the restructuring of our ivivva operations. This included long-lived asset impairment charges of \$11.6 million and severance costs of \$0.7 million . Please refer to Note 6 to the unaudited interim consolidated financial statements included in Item 1 of Part I of this report.

We did not have any asset impairment and restructuring costs in the first quarter of fiscal 2018 .

Income from Operations

Income from operations increased \$58.9 million , or 130% , to \$104.3 million in the first quarter of fiscal 2018 from \$45.4 million in the first quarter of fiscal 2017 . Operating margin increased 740 basis points to 16.1% compared to 8.7% in the first quarter of fiscal 2017 .

In connection with the restructuring of our ivivva operations, we recognized pre-tax costs totaling \$17.7 million in the first quarter of fiscal 2017 . This included costs of \$5.4 million recognized in cost of goods sold, and asset impairment and restructuring costs totaling \$12.3 million . Excluding these charges from the comparatives for the first quarter of fiscal 2017 , income from operations increased 65% and operating margin increased 400 basis points.

On a segment basis, we determine income from operations without taking into account our general corporate expenses and the costs we incurred in connection with the restructuring of our ivivva operations. In the first quarter of fiscal 2018 , we reviewed our general corporate expenses and determined certain costs which were previously classified as general corporate expenses are more appropriately classified within our direct to consumer segment. Accordingly, comparative figures have been reclassified to conform to the financial presentation adopted for the current year.

Segmented income from operations for the quarters ended April 29, 2018 and April 30, 2017 is summarized below. The percentages are presented as a percentage of net revenue of the respective operating segments.

| | Quarter Ended | | | |
|----------------------------------|-----------------------|-----------|----------------------|-------|
| | April 29, 2018 | | April 30, 2017 | |
| | <i>(In thousands)</i> | | <i>(Percentages)</i> | |
| Company-operated stores | \$ 99,287 | \$ 77,499 | 22.9% | 20.4% |
| Direct to consumer | 62,267 | 34,098 | 39.4 | 35.1 |
| Other | 11,223 | 2,836 | 19.1 | 6.4 |
| Segmented income from operations | 172,777 | 114,433 | | |
| General corporate expense | 68,472 | 51,260 | | |
| Restructuring and related costs | — | 17,750 | | |
| Income from operations | \$ 104,305 | \$ 45,423 | | |

Company-Operated Stores . Income from operations from our company-operated stores segment increased \$21.8 million , or 28% , to \$99.3 million for the first quarter of fiscal 2018 from \$77.5 million for the first quarter of fiscal 2017 . The increase was primarily the result of increased gross profit of \$31.9 million which was primarily due to increased net revenue and higher

gross margin. This was partially offset by an increase in selling, general and administrative expenses, primarily due to an increase in store employee costs, and increased store operating expenses including higher credit card fees, and distribution costs as a result of higher net revenues. Income from operations as a percentage of company-operated stores net revenue increased 250 basis points due to higher gross margin and leverage on selling, general and administrative expenses.

Direct to Consumer. Income from operations from our direct to consumer segment increased \$28.2 million, or 83%, to \$62.3 million for the first quarter of fiscal 2018 from \$34.1 million for the first quarter of fiscal 2017. The increase was primarily the result of increased gross profit of \$41.1 million which was primarily due to increased net revenue and higher gross margin. This was partially offset by an increase in selling, general and administrative expenses primarily due to higher variable costs including distribution costs and credit card fees as a result of higher net revenue, as well as higher digital marketing expenses. Income from operations as a percentage of direct to consumer net revenue increased 430 basis points due to leverage on selling, general and administrative expenses and increased gross margin.

Other. Other income from operations increased \$8.4 million, or 296%, to \$11.2 million for the first quarter of fiscal 2018 from \$2.8 million for the first quarter of fiscal 2017. The increase was primarily the result of increased gross profit of \$9.4 million which was primarily due to increased net revenue and higher gross margin. The increase in gross profit was partially offset by an increase in selling, general and administrative expenses, including increased employee costs and increased brand and community costs. Income from operations as a percentage of other net revenue increased 1270 basis points due to leverage on selling, general and administrative expenses and increased gross margin.

General Corporate Expense. General corporate expense increased \$17.2 million, or 34%, to \$68.5 million for the first quarter of fiscal 2018 from \$51.3 million for the first quarter of fiscal 2017. This increase was primarily due to increases in head office employee costs, increased brand and community costs, and a decrease in net foreign exchange and derivative revaluation gains of \$6.2 million. There were net foreign exchange and derivative revaluation losses of \$0.4 million in the first quarter of fiscal 2018 compared to net foreign exchange revaluation gains of \$5.8 million in the first quarter of fiscal 2017. The net foreign exchange gains and losses primarily relate to the revaluation of U.S. dollar denominated monetary assets and liabilities held by Canadian subsidiaries, and the derivatives are designed to economically hedge these gains and losses. These cost increases were partially offset by decreased professional fees and other head office costs.

Other Income (Expense), Net

Other income, net increased \$2.0 million, or 222%, to \$2.9 million for the first quarter of fiscal 2018 from income of \$0.9 million for the first quarter of fiscal 2017. The increase was primarily due to an increase in net interest income, primarily due to higher rates of return on our cash equivalents, including money market funds, treasury bills, and term deposits, and due to an increase in cash and cash equivalents in the first quarter of fiscal 2018 compared to first quarter of fiscal 2017.

Income Tax Expense

Income tax expense increased \$17.0 million, or 113%, to \$32.1 million for the first quarter of fiscal 2018 from \$15.1 million for the first quarter of fiscal 2017.

The U.S. Tax Cuts and Jobs Act ("U.S. tax reform") was enacted on December 22, 2017 and introduced significant changes to U.S. income tax law. We recorded certain provisional amounts in the fourth quarter of fiscal 2017 and expect the accounting for the income tax effects of the U.S. tax reform to be completed in fiscal 2018. Please refer to Note 7 to the unaudited interim consolidated financial statements included in Item 1 of Part I of this report. We recognized a provisional income tax expense relating to the global intangible low-taxed income ("GILTI") tax in during the first quarter of fiscal 2018. The results for the first quarter of fiscal 2018 did not include any discrete items related to the U.S. tax reform.

During the first quarter of fiscal 2017, we recognized in a net income tax recovery of \$4.7 million on the costs recognized in connection with the ivivva restructuring. Please refer to Note 6 to the unaudited interim consolidated financial statements included in Item 1 of Part I of this report.

The effective tax rate for the first quarter of fiscal 2018 was 29.9% compared to 32.6% for the first quarter of fiscal 2017. Excluding the costs and related tax recoveries which were recognized in connection with the ivivva restructuring, the adjusted effective tax rate was 30.8% for the first quarter of fiscal 2017. The decrease in the effective tax rate for the first quarter of fiscal 2018 compared to the adjusted effective tax rate for the first quarter of fiscal 2017 was primarily due to the lower U.S. federal income tax rate as a result of the U.S. tax reform, partially offset by the provisional income tax expense relating to the GILTI tax.

Net Income

Net income increased \$43.9 million, or 141%, to \$75.2 million for the first quarter of fiscal 2018 from \$31.2 million for the first quarter of fiscal 2017. This was primarily due to an increase in gross profit of \$87.8 million, an increase in other income (expense), net of \$2.0 million, and a reduction in asset impairment and restructuring costs of \$12.3 million, partially offset by an increase in selling, general and administrative expenses of \$41.3 million and an increase in income tax expense of \$17.0 million.

Comparable Store Sales and Total Comparable Sales

We separately track comparable store sales, which reflect net revenue from company-operated stores that have been open for at least 12 months, or open for at least 12 months after being significantly expanded. 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 sales in the prior year. Comparable store sales exclude sales from new stores that have not been open for at least 12 months, from stores which have not been in their significantly expanded space for at least 12 months, and from stores which have been temporarily relocated for renovations. Comparable store sales also exclude sales from direct to consumer, outlets, temporary locations, wholesale accounts, showrooms, warehouse sales, license and supply arrangements, and sales from company-operated stores that we have closed. Total comparable sales combines comparable store sales and direct to consumer sales. The comparable sales measures we report may not be equivalent to similarly titled measures reported by other companies.

Non-GAAP Financial Measures

Constant dollar changes in net revenue, total comparable sales, comparable store sales, and direct to consumer net revenue, and the adjusted financial results are non-GAAP financial measures.

A constant dollar basis assumes the average foreign exchange rates for the period remained constant with the average foreign exchange rates for the same period of the prior year. We provide constant dollar changes in net revenue, total comparable sales, comparable store sales, and 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. 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.

Adjusted gross profit, gross margin, income from operations, operating margin, income tax expense, effective tax rates, and diluted earnings per share exclude the costs recognized in connection with the restructuring of our ivivva operations and its related tax effects. We believe these adjusted financial measures are useful to investors as the adjustments do not directly relate to our ongoing business operations and therefore do not contribute to a meaningful evaluation of the trend in our operating performance. Furthermore, we do not believe the adjustments are reflective of our expectations of our future operating performance and believe these non-GAAP measures are useful to investors because of their comparability to our historical information.

The presentation of this financial information is not intended to be considered in isolation or as a substitute for, or with greater prominence 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 changes in net revenue, total comparable sales, comparable store sales, and direct to consumer net revenue show the change compared to the corresponding period in the prior year.

Constant dollar changes in net revenue, total comparable sales, comparable store sales, and direct to consumer net revenue

| | Quarter Ended April 29, 2018 | |
|--|---|----------------------|
| | <i>(In thousands)</i> | <i>(Percentages)</i> |
| Change in net revenue | \$ 129,399 | 25 % |
| Adjustments due to foreign exchange rate changes | (9,141) | (2) |
| Change in net revenue in constant dollars | <u>\$ 120,258</u> | <u>23 %</u> |

| | Quarter Ended April 29, 2018 |
|---|---|
| Change in total comparable sales ^{(1),(2)} | 20 % |
| Adjustments due to foreign exchange rate changes | (1) |
| Change in total comparable sales in constant dollars ^{(1),(2)} | <u>19 %</u> |

| | Quarter Ended April 29, 2018 | |
|---|---|----------------------|
| | <i>(In thousands)</i> | <i>(Percentages)</i> |
| Change in comparable store sales ⁽²⁾ | \$ 22,896 | 8 % |
| Adjustments due to foreign exchange rate changes | (4,390) | (2) |
| Change in comparable store sales in constant dollars ⁽²⁾ | <u>\$ 18,506</u> | <u>6 %</u> |

| | Quarter Ended April 29, 2018 |
|--|---|
| Change in direct to consumer net revenue | 62 % |
| Adjustments due to foreign exchange rate changes | (2) |
| Change in direct to consumer net revenue in constant dollars | <u>60 %</u> |

⁽¹⁾ Total comparable sales includes comparable store sales and direct to consumer sales.

⁽²⁾ Comparable store sales reflects net revenue from company-operated stores that have been open for at least 12 months, or open for at least 12 months after being significantly expanded.

Adjusted financial measures

The following table reconciles adjusted financial measures with the most directly comparable measures calculated in accordance with GAAP. The adjustments relate to the restructuring of our ivivva operations and its related tax effects. Please refer to Note 6 to the unaudited interim consolidated financial statements included in Item 1 of Part I of this report for further information on these adjustments.

| | Quarter Ended April 29, 2018 | | | Quarter Ended April 30, 2017 | | |
|---|---------------------------------|-------------|--------------------------------|---------------------------------|--|--------------------------------|
| | GAAP Results | Adjustments | Adjusted Results (Non-GAAP) | GAAP Results | Restructuring of ivivva Operations Adjustments | Adjusted Results (Non-GAAP) |
| <i>(In thousands, except per share amounts)</i> | | | | | | |
| Gross profit | \$ 344,733 | \$ — | \$ 344,733 | \$ 256,895 | \$ 5,419 | \$ 262,314 |
| Gross margin | 53.1% | —% | 53.1% | 49.4% | 1.0% | 50.4% |
| Income from operations | 104,305 | — | 104,305 | 45,423 | 17,750 | 63,173 |
| Operating margin | 16.1% | —% | 16.1% | 8.7% | 3.4% | 12.1% |
| Income before income tax expense | 107,223 | — | 107,223 | 46,330 | 17,750 | 64,080 |
| Income tax expense | 32,070 | — | 32,070 | 15,084 | 4,684 | 19,768 |
| Effective tax rate | 29.9% | —% | 29.9% | 32.6% | (1.8)% | 30.8% |
| Diluted earnings per share | \$ 0.55 | \$ — | \$ 0.55 | \$ 0.23 | \$ 0.09 | \$ 0.32 |

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 56%, 47%, and 45% of our full year operating profit during the fourth quarters of fiscal 2017, fiscal 2016, and fiscal 2015, respectively. Excluding the costs we incurred in connection with the ivivva restructuring, we generated approximately 51% of our operating profit during the fourth quarter of fiscal 2017.

Liquidity and Capital Resources

Our primary sources of liquidity are our current balances of cash and cash equivalents, cash flows from operations, and capacity under our revolving credit facility. Our primary cash needs are capital expenditures for opening new stores and remodeling or relocating existing stores, making information technology system enhancements, funding working capital requirements, and making other strategic capital investments both in North America and internationally. We may 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, as well as in money market funds, treasury bills, and term deposits.

As of April 29, 2018, our working capital, excluding cash and cash equivalents, was \$218.9 million, our cash and cash equivalents were \$966.6 million, and our capacity under our revolving facility was \$148.7 million.

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

| | Quarter Ended | |
|---|----------------|----------------|
| | April 29, 2018 | April 30, 2017 |
| <i>(In thousands)</i> | | |
| Total cash provided by (used in): | | |
| Operating activities | \$ 35,837 | \$ 19,400 |
| Investing activities | (34,314) | (19,879) |
| Financing activities | 1,900 | (14,487) |
| Effect of exchange rate changes on cash | (27,353) | (21,591) |
| Decrease in cash and cash equivalents | \$ (23,930) | \$ (36,557) |

Operating Activities

Cash flows provided by operating activities consist primarily of net income adjusted for certain items including depreciation and amortization, stock-based compensation expense, and the effect of changes in operating assets and liabilities.

Cash provided by operating activities increased \$16.4 million, to \$35.8 million for the first quarter of fiscal 2018 compared to \$19.4 million for the first quarter of fiscal 2017, primarily as a result of the following:

Net income and non-cash items

- an increase of \$43.9 million in net income, and an increase of \$1.6 million in non-cash expenses primarily related to an increase in deferred income taxes, and depreciation, partially offset by a decrease in asset impairment costs related to the restructuring of our ivivva operations.

Changes in operating assets and liabilities

- a decrease of \$29.1 million in the change in operating assets and liabilities, primarily due to the following:
 - an increase of \$45.5 million related to inventory, primarily due to an increase in inventory purchases;
 - partially offset by a decrease of \$15.1 million related to accounts payable, other prepaid expenses and other current and non-current assets.

Investing Activities

Cash flows used in investing activities relate entirely to capital expenditures. The capital expenditures were primarily for opening new company-operated stores, remodeling or relocating certain stores, and ongoing store refurbishment. We also had capital expenditures related to information technology and business systems, related to corporate buildings, and for opening retail locations other than company-operated stores.

Cash used in investing activities increased \$14.4 million to \$34.3 million for the first quarter of fiscal 2018 from \$19.9 million for the first quarter of fiscal 2017. The increase was primarily the result of an increase in capital expenditures related to our company-operated stores, primarily as a result of an increase in renovations and relocations of existing stores, as well as an increased number of new company-operated stores. Increased corporate capital expenditures related to information technology and business systems also contributed to the increase in cash used in investing activities.

Financing Activities

Cash flows used in, or provided by, financing activities consist primarily of cash used to repurchase shares of our common stock and certain cash flows related to stock-based compensation.

Cash used in financing activities decreased \$16.4 million, to cash provided of \$1.9 million for the first quarter of fiscal 2018 compared to cash used of \$14.5 million for the first quarter of fiscal 2017. The decrease was primarily the result of our stock repurchase programs.

On December 1, 2016, our board of directors approved a program to repurchase shares of our common stock up to an aggregate value of \$100.0 million. This stock repurchase program was completed during the third quarter of fiscal 2017. On November 29, 2017, our board of directors approved a program to repurchase shares of our common stock up to an aggregate value of \$200.0 million.

Our cash used in financing activities for the first quarter of fiscal 2018 included \$7.5 thousand to repurchase 100 shares of our common stock compared to \$12.8 million to repurchase 0.2 million shares for the first quarter of fiscal 2017. The common stock was repurchased in the open market at prevailing market prices, including under plans complying with the provisions of Rule 10b5-1 and Rule 10b-18 of the Securities Exchange Act of 1934, with the timing and actual number of shares repurchased depending upon market conditions, eligibility to trade, and other factors.

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 1 of Part II of this Quarterly Report on Form 10-Q. In addition, we may make discretionary capital improvements with respect to our stores, distribution facilities, headquarters, or systems, or we may repurchase shares under an approved stock repurchase program, 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

On December 15, 2016, we entered into a credit agreement for \$150.0 million under an unsecured five-year revolving credit facility. Bank of America, N.A., is administrative agent and HSBC Bank Canada is the syndication agent and letter of credit issuer, and the lenders party thereto. Borrowings under the revolving credit facility may be made, in U.S. Dollars, Euros, Canadian Dollars, and in other currencies, subject to the approval of the administrative agent and the lenders. Up to \$35.0 million of the revolving credit facility is available for the issuance of letters of credit and up to \$25.0 million is available for the issuance of swing line loans. Commitments under the revolving credit facility may be increased by up to \$200.0 million, subject to certain conditions, including the approval of the lenders. Borrowings under the agreement may be prepaid and commitments may be reduced or terminated without premium or penalty (other than customary breakage costs). The principal amount outstanding under the credit agreement, if any, will be due and payable in full on December 15, 2021, subject to provisions that permit us to request a limited number of one year extensions annually.

Borrowings made under the revolving credit facility bear interest at a rate per annum equal to, at our option, either (a) a rate based on the rates applicable for deposits on the interbank market for U.S. Dollars or the applicable currency in which the borrowings are made ("LIBOR") or (b) an alternate base rate, plus, in each case, an applicable margin. The applicable margin is determined by reference to a pricing grid, based on the ratio of indebtedness to earnings before interest, tax depreciation, amortization, and rent ("EBITDAR") and ranges between 1.00%-1.75% for LIBOR loans and 0.00%-0.75% for alternate base rate loans. Additionally, a commitment fee of between 0.125%-0.200%, also determined by reference to the pricing grid, is payable on the average daily unused amounts under the revolving credit facility.

The credit agreement contains negative covenants that, among other things and subject to certain exceptions, limit the ability of our subsidiaries to incur indebtedness, incur liens, undergo fundamental changes, make dispositions of all or substantially all of their assets, alter their businesses and enter into agreements limiting subsidiary dividends and distributions.

We are also required to maintain a consolidated rent-adjusted leverage ratio of not greater than 3.50:1.00 and we are not permitted to allow the ratio of consolidated EBITDAR to consolidated interest charges (plus rent) to be less than 2.00:1.00. The credit agreement also contains certain customary representations, warranties, affirmative covenants, and events of default (including, among others, an event of default upon the occurrence of a change of control). If an event of default occurs, the credit agreement may be terminated and the maturity of any outstanding amounts may be accelerated.

As of April 29, 2018, aside from letters of credit of \$1.3 million, we had no other borrowings outstanding under this credit facility.

Off-Balance Sheet Arrangements

We enter into standby letters of credit to secure certain of our obligations, including leases, taxes, and duties. As of April 29, 2018, letters of credit and letters of guarantee totaling \$1.3 million had been issued.

We have not entered into any transactions, agreements or other contractual arrangements to which an entity unconsolidated with us is a party and under which we have (i) any obligation under a guarantee, (ii) any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity, (iii) any obligation under derivative instruments that are indexed to our shares and classified as equity in our consolidated balance sheets, or (iv) any obligation arising out of a variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

Critical Accounting Policies and Estimates

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 our 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 fiscal 2017 Annual Report on Form 10-K filed with the SEC on March 27, 2018, and in Notes 2, 4, and 5 included in Item 1 of Part I of this Quarterly Report on Form 10-Q.

Operating Locations

Our company-operated stores by country as of April 29, 2018 and January 28, 2018 , are summarized in the table below.

| | April 29, 2018 | January 28, 2018 |
|--------------------------------------|-------------------|---------------------|
| United States ⁽¹⁾ | 274 | 274 |
| Canada | 60 | 60 |
| Australia | 29 | 28 |
| China ⁽²⁾ | 16 | 15 |
| United Kingdom | 10 | 9 |
| New Zealand | 6 | 6 |
| Japan | 4 | 2 |
| South Korea | 4 | 3 |
| Germany | 3 | 2 |
| Singapore | 3 | 3 |
| Ireland | 1 | 1 |
| Switzerland | 1 | 1 |
| Total company-operated stores | 411 | 404 |

⁽¹⁾ Included within the United States as of April 29, 2018 and January 28, 2018 , was one company-operated store in the Commonwealth of Puerto Rico.

⁽²⁾ Included within China as of April 29, 2018 and January 28, 2018 , were three company-operated stores in the Hong Kong Special Administrative Region and one company-operated store in the Taiwan Province.

Retail locations operated by third parties under license and supply arrangements are not included in the above table. As of April 29, 2018 , there were seven licensed locations, including three in Mexico, three in the United Arab Emirates, and one in Qatar.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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 revenue, 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 foreign currency translation adjustment in accumulated other comprehensive income or loss 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 for the foreseeable future. The potential impact of currency fluctuation increases as our international expansion increases.

As of April 29, 2018 , we had certain forward currency contracts outstanding in order to hedge a portion of the foreign currency exposure that arises on translation of a Canadian subsidiary into U.S. dollars. We also had certain forward currency contracts outstanding in an effort to reduce our exposure to the foreign exchange revaluation gains and losses that are recognized by our Canadian subsidiaries on U.S. dollar denominated monetary assets and liabilities. Please refer to Note 5 to the unaudited interim consolidated financial statements included in Item 1 of Part I of this report for further information, including details of the notional amounts outstanding.

In the future, in an effort to reduce foreign exchange risks, we may enter into further derivative financial instruments including hedging additional currency pairs. We do not, and do not intend to, engage in the practice of trading derivative securities for profit.

We currently generate a significant portion of our net revenue and incur a significant portion of our expenses in Canada. We also hold a significant portion of our net assets 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:

- the following impacts to the consolidated statements of operations:

- 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 upon translation into U.S. dollars for the purposes of consolidation;
 - foreign exchange revaluation losses by our Canadian subsidiaries on U.S. dollar denominated monetary assets and liabilities; and
 - derivative valuation gains on forward currency contracts not designated in a hedging relationship;
- the following impacts to the consolidated balance sheets:
 - an increase in the foreign currency translation adjustment which arises on the translation of our Canadian subsidiaries' balance sheets into U.S. dollars; and
 - a decrease in the foreign currency translation adjustment from derivative valuation losses on forward currency contracts, entered into as net investment hedges of a Canadian subsidiary.

During the first quarter of fiscal 2018, the change in the relative value of the U.S. dollar against the Canadian dollar resulted in a \$45.8 million increase in accumulated other comprehensive loss within stockholders' equity. During the first quarter of fiscal 2017, the change in the relative value of the U.S. dollar against the Canadian dollar resulted in a \$32.7 million increase in accumulated other comprehensive loss within stockholders' equity.

A 10% depreciation in the relative value of the U.S. dollar against the Canadian dollar compared to the exchange rates in effect for the first quarter of fiscal 2018 would have resulted in additional income from operations of approximately \$2.0 million in the first quarter of fiscal 2018. This assumes a consistent 10% depreciation in the U.S. dollar against the Canadian dollar throughout the first quarter of fiscal 2018. The timing of changes in the relative value of the U.S. 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.

Interest Rate Risk. Our revolving credit facility provides us with available borrowings in an amount up to \$150.0 million in the aggregate. Because our revolving credit facility bears 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 April 29, 2018, aside from letters of credit of \$1.3 million, we had no other borrowings outstanding under this credit facility. We currently do not engage in any interest rate hedging activity and currently have no intention to do so. 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.

Our cash and cash equivalent balances are held in the form of cash on hand, bank balances, short-term deposits and treasury bills with original maturities of three months or less, and in money market funds. We do not believe these balances are subject to material interest rate risk.

Credit Risk. We have cash on deposit with various large, reputable financial institutions and have invested in U.S. and Canadian Treasury Bills, and in AAA-rated money market funds. The amount of cash and cash equivalents held with certain financial institutions exceeds government-insured limits. We are also exposed to credit-related losses in the event of nonperformance by the financial institutions that are counterparties to our forward currency contracts. The credit risk amount is our unrealized gains on our derivative instruments, based on foreign currency rates at the time of nonperformance. We have not experienced any losses related to these items, and we believe credit risk to be minimal. We seek to minimize our credit risk by entering into transactions with credit worthy and reputable financial institutions and by monitoring the credit standing of the financial institutions with whom we transact. We seek to limit the amount of exposure with any one counterparty.

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 principal executive officer and principal financial and accounting 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 principal executive officer and principal financial and accounting 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 April 29, 2018 . Based on that evaluation, our principal executive officer and principal financial and accounting officer concluded that, at April 29, 2018 , our disclosure controls and procedures were effective.

There were no changes in our internal control over financial reporting during the quarter ended April 29, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In addition to the legal matters described in Note 11 to the unaudited interim consolidated financial statements included in Item 1 of Part I of this report and in our fiscal 2017 Annual Report on Form 10-K, 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, employment 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.

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 2017 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 brand. The lululemon 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 or mishandle 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 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 receive, 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 is not discovered until after such products are purchased by our guests, our guests could lose confidence in 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.

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 or maintain 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. 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.

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.

In addition, because we hold limited patents and 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.

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. We work with a group of approximately 65 suppliers to provide the fabrics for our products. In fiscal 2017, approximately 59% of our fabrics were produced by our top five fabric suppliers, and the largest single manufacturer produced approximately 35% of raw materials used. We work with a group of approximately 47 vendors that manufacture our products, five of which produced approximately 64% of our products in fiscal 2017. During fiscal 2017, the largest single manufacturer produced approximately 25% of our product offerings. 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, and production.

We have experienced, and may in the future 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 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 and cost of consumer credit, levels of unemployment, and tax rates. 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.

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 costs and pricing 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 condition, 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 or our failure to comply with data privacy laws could damage our customer relationships and expose us to litigation risks and potential fines.

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.

Additionally, the European Union adopted a comprehensive General Data Privacy Regulation (the "GDPR"), which will become fully effective in May 2018. The GDPR requires companies to satisfy new requirements regarding the handling of personal and sensitive data, including its use, protection and the ability of persons whose data is stored to correct or delete such data about themselves. Failure to comply with GDPR requirements could result in penalties of up to four percent of worldwide revenue. The GDPR and other similar laws and regulations, as well as any associated inquiries or investigations or any other government actions, may be costly to comply with, result in negative publicity, increase our operating costs, require significant management time and attention, and subject us to remedies that may harm our business, including fines or demands or orders that we modify or cease existing business practices.

Any material disruption of our information technology systems or unexpected network interruption could disrupt our business and reduce our sales.

We are increasingly dependent on information technology systems and third-parties 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. The failure of our information technology systems to operate properly or effectively, problems with transitioning to upgraded or replacement systems, or difficulty in integrating new systems, could adversely affect our business. In addition, we have e-commerce websites in the United States, Canada, and internationally. Our information technology systems, websites, and operations of third parties on whom we rely, may encounter damage or disruption or slowdown caused by a failure to successfully upgrade 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. In addition, 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. We have limited back-up systems and redundancies, and our information technology systems and websites have experienced system failures and electrical outages in the past which have disrupted our operations. Any significant disruption in our information technology systems or websites could harm our reputation and credibility, and could have a material adverse effect on our business, financial condition, and results of operations.

If the technology-based systems that give our customers the ability to shop with us online do not function effectively, our operating results, as well as our ability to grow our e-commerce business globally, could be materially adversely affected.

Many of our customers shop with us through our e-commerce websites and mobile apps. Increasingly, customers are using tablets and smart phones to shop online with us and with our competitors and to do comparison shopping. We are increasingly using social media and proprietary mobile apps to interact with our customers and as a means to enhance their shopping experience. Any failure on our part to provide attractive, effective, reliable, user-friendly e-commerce platforms that offer a wide assortment of merchandise with rapid delivery options and that continually meet the changing expectations of online shoppers could place us at a competitive disadvantage, result in the loss of e-commerce and other sales, harm our reputation with customers, have a material adverse impact on the growth of our e-commerce business globally and could have a material adverse impact on our business and results of operations.

Risks specific to our e-commerce business also include diversion of sales from our company-operated stores, difficulty in recreating the in-store experience through direct channels and liability for online content. Our failure to successfully respond to these risks might adversely affect sales in our e-commerce business, as well as damage our reputation and brands.

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 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 disappointing growth outside of existing markets could 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 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 generally 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 generally 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 do not generally own patents or hold 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 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. The steps we take to protect our intellectual property rights may not be adequate to prevent infringement of these 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.

Our future success is substantially dependent on the continued service of our senior management and identifying and attracting our next Chief Executive Officer.

On February 2, 2018, our Chief Executive Officer resigned. In addition to this change, a number of members of our senior management team have left the Company in the last few years. These changes, or the loss of services of any of our other key executive officers or other members of our senior management team, or any negative public perception with respect to these individuals, may be disruptive to, or cause uncertainty in, our business and could have a negative impact on our ability to manage and grow our business effectively. Such disruption could have a material adverse impact on our financial performance, financial condition, and the market price of our stock.

We may not be successful in identifying and attracting a highly qualified successor to our Chief Executive Officer, and our process to search for the successor may be time-consuming and divert management's attention and resources away from our business. The search for our next Chief Executive Officer may have a negative impact on our senior management team, business, and financial performance and condition.

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.

Changes in tax laws or unanticipated tax liabilities could adversely affect our effective income tax rate and profitability.

We are subject to the income tax laws of the United States, Canada, and several other international jurisdictions. Our effective income tax rates could be unfavorably impacted by a number of factors, including changes in the mix of earnings amongst countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax laws, the outcome of income tax audits in various jurisdictions around the world, and any repatriation of unremitted earnings for which we have not previously accrued applicable U.S. income taxes and foreign withholding taxes.

We and our subsidiaries engage in a number of intercompany transactions across multiple tax jurisdictions. Although we believe that these transactions reflect the accurate economic allocation of profit and that proper transfer pricing documentation is in place, the profit allocation and transfer pricing terms and conditions may be scrutinized by local tax authorities during an audit and any resulting changes may impact our mix of earnings in countries with differing statutory tax rates.

Current economic and political conditions make tax rules in any jurisdiction, including the United States and Canada, subject to significant change. Changes in applicable U.S., Canadian, or other or foreign tax laws and regulations, or their interpretation and application, including the possibility of retroactive effect, could affect our income tax expense and profitability, as they have in fiscal 2017 upon passage of the U.S. Tax Cuts and Jobs Act.

We have recorded provisional amounts in fiscal 2017 in relation to the U.S. Tax Cuts and Jobs Act. We may make adjustments to the provisional amounts as additional information is collected and analyzed, and as we complete our assessment of the impact that the U.S. Tax Cuts and Jobs Act has, if any, upon our reinvestment plans for the accumulated earnings of our foreign subsidiaries. As we complete our analysis of the U.S. Tax Cuts and Jobs Act, we may also make adjustments to incorporate any additional interpretations or guidance that may be issued. We may also identify additional effects of the U.S. Tax Cuts and Jobs Act that are not reflected as of April 29, 2018. Any such adjustments may materially impact the provision for income taxes and our effective income tax rate in the period in which the adjustments are made, and in future periods.

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 \$2.6 billion in fiscal 2017. 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.

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 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.

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 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.

We are dependent on international trade agreements and regulations. If the United States were to withdraw from or materially modify certain international trade agreements, our business could be adversely affected.

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.

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 2017, approximately 53% of our products were manufactured in South East Asia, approximately 25% in South Asia, approximately 10% in China, approximately 8% in the Americas, and the remainder in other regions.

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.

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, which 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.

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. We may not 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, some of our employees, agents, or other channel partners, as well as those companies to which we outsource certain of our business operations, could take actions in violation of our policies. Any such violation could have a material and adverse effect on our business.

Our business is affected by seasonality.

Our business is affected by the general seasonal trends common to the retail apparel industry. 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 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 revenue, 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 foreign currency translation adjustment in accumulated other comprehensive income or loss 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 for the foreseeable future. The potential impact of currency fluctuation increases as our international expansion increases.

We have, and may continue to, enter into forward currency contracts, or other derivative instruments, in an effort to mitigate the foreign exchange risks which we are exposed to. This may include entering into forward currency contracts to hedge against the foreign exchange gains and losses which arise on translation of our foreign subsidiaries' balance sheets into U.S. dollars, or entering into forward currency contracts in an effort to reduce our exposure to foreign exchange revaluation gains and losses that arise on monetary assets and liabilities held by our subsidiaries in a currency other than their functional currency.

Although we use financial instruments to hedge certain foreign currency risks, these measures may not succeed in fully offsetting the negative impact of foreign currency rate movements.

We are exposed to credit-related losses in the event of nonperformance by the counterparties to the forward currency contracts.

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, some or all of these pending trademark applications may not 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 may face obstacles 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, employment, 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. An unfavorable outcome of any particular proceeding 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.

Responding to actions by 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;
- 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 quarter ended April 29, 2018 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⁾ |
|--------------------------------------|--|-------------------------------------|--|--|
| January 29, 2018 - February 25, 2018 | 100 | \$ 75.00 | 100 | \$ 198,999,628 |
| February 26, 2018 - April 1, 2018 | — | — | — | 198,999,628 |
| April 2, 2018 - April 29, 2018 | — | — | — | 198,999,628 |
| Total | 100 | | 100 | |

⁽¹⁾ Monthly information is presented by reference to our fiscal periods during our first quarter of fiscal 2018 .

⁽²⁾ Our stock repurchase program was approved by our board of directors in November 2017. Common shares generally are repurchased in the open market at prevailing market prices, including under plans complying with the provisions of Rule 10b5-1 and Rule 10b-18 of the Securities Exchange Act of 1934, with the timing and actual number of common shares repurchased depending upon market conditions, eligibility to trade, and other factors. The repurchases are expected to be completed by November 2019, and the maximum dollar value of shares to be repurchased is \$200 million.

The following table provides information regarding our purchases of shares of our common stock during the quarter ended April 29, 2018 related to our Employee Share Purchase Plan:

| 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 Number of Shares that May Yet Be Purchased Under the Plans or Programs ⁽²⁾ |
|--------------------------------------|--|-------------------------------------|--|--|
| January 29, 2018 - February 25, 2018 | 8,952 | \$ 78.72 | 8,952 | 4,887,079 |
| February 26, 2018 - April 1, 2018 | 9,207 | 80.93 | 9,207 | 4,877,872 |
| April 2, 2018 - April 29, 2018 | 7,475 | 92.40 | 7,475 | 4,870,397 |
| Total | 25,634 | | 25,634 | |

⁽¹⁾ Monthly information is presented by reference to our fiscal periods during our first quarter of fiscal 2018 .

⁽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 withheld to settle statutory employee tax withholding related to the vesting of stock-based compensation awards.

ITEM 6. EXHIBITS

| Exhibit No. | Exhibit Title | Filed Herewith | Incorporated by Reference | | |
|-------------|---|----------------|---------------------------|-------------|-------------|
| | | | Form | Exhibit No. | Filing Date |
| 10.1* | Executive Employment Agreement, effective as of April 30, 2018, between lululemon athletica inc. and Patrick Guido | X | | | |
| 31.1 | Certification of principal executive officer Pursuant to Exchange Act Rule 13a-14(a) | X | | | |
| 31.2 | Certification of principal financial and accounting officer Pursuant to Exchange Act Rule 13a-14(a) | X | | | |
| 32.1** | Certification of principal executive officer and principal financial and accounting 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 unaudited interim consolidated financial statements from the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended April 29, 2018, 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 Unaudited Interim Consolidated Financial Statements | X | | | |

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

** Furnished herewith.

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.

lululemon athletica inc.

By: /s/ S TUART H ASELDEN

Stuart Haselden

Chief Operating Officer

(principal financial and accounting officer)

Dated: May 31, 2018

Exhibit Index

| Exhibit No. | Exhibit Title | Filed Herewith | Incorporated by Reference | | | |
|--------------------|---|-----------------------|----------------------------------|--------------------|-----------------|--------------------|
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* Denotes a compensatory plan, contract, or arrangement, in which our directors or executive officers may participate.

** Furnished herewith.



Private & Confidential

This Agreement is dated for reference as of April 9, 2018.

To: **Patrick Guido**

Re: **Executive Employment Agreement**

Dear **Patrick** :

This Agreement contains the terms and conditions of our offer of employment in the position of **Chief Financial Officer** . This Agreement will take effect as of the Effective Date and will continue until terminated in accordance with its terms.

It is a condition of this offer that you remain eligible to work in Canada for the duration of your employment with the Company. This offer is also conditional upon:

1. Approval of your authorization to work in Canada; and
2. Completion of a background check.

If such authorization to work and background check are not completed to the Company's satisfaction before the Effective Date, this offer will be of no force and effect.

If you accept employment on the terms and conditions set out below, please execute this Agreement where indicated.

ARTICLE 1 - INTERPRETATION

1.01 **Definitions**

In this Agreement, unless something in the subject matter or context is inconsistent therewith:

“ **Affiliate** ” has the meaning attributed to such term in the *Canada Business Corporations Act* and includes each direct and indirect subsidiary of the Company and any other entities, including joint ventures and franchises, in which the Company has an interest.

“ **Agreement** ” means this agreement, including its recitals and schedules, as amended from time to time in accordance with Section 6.04.

“ **Base Salary** ” has the meaning attributed to such term in Section 3.01.

“ **Board** ” means the board of directors of lululemon athletica inc. in office from time to time.

“ **Bonus Plan** ” means the Company's **Executive Bonus Plan** as amended by the Company from year to year.

“ **Cause** ” includes, without limitation, the usual meaning of just cause under the common law or the laws of British Columbia.

“ **Company** ” means lululemon athletica inc.

“ **Compensation Committee** ” means the compensation committee of the Board.

“**Confidential Information**” means information disclosed to or known by the Executive as a consequence of or through the Executive’s employment with the Company about the Company’s or any of its Affiliates’ products, operations, research, processes or services, including but not limited to all information relating to research, development, inventions, copyrights, patents, industrial designs, licenses, manufacture, production, distribution, purchasing, accounting, financing, engineering, marketing, merchandising, selling, and other technical or business information or trade secrets of the Company or any of its Affiliates, or about any of the Company’s or any of its Affiliates’ customers, suppliers, vendors or business affiliates and also includes any information that the Company has received from others that the Company is obligated to treat as confidential or proprietary, but Confidential Information does not include information which is or becomes generally available to the public through no fault of the Executive or which the Executive can establish, through written records, was in the Executive’s possession prior to its disclosure to the Executive as a result of the Executive’s work for the Company.

“ **Effective Date** ” of this Agreement means **April 30, 2018**.

“ **Executive** ” means **Patrick Guido** .

“ **Plan** ” means lululemon athletica inc.’s 2014 Equity Incentive Plan, as amended or replaced from time to time.

“ **Restrictive Covenant Agreement** ” has the meaning attributed to such term in Section 4.06.

“ **Termination Date** ” has the meaning attributed to such term in Section 5.01.

ARTICLE 2 - EMPLOYMENT

2.01 Employment

(1) Subject to the terms and conditions of this Agreement, the Company will, commencing on the Effective Date, employ the Executive in the position of **Chief Financial Officer** , on the terms and conditions set out herein.

(2) The Executive will report to **Chief Operating Officer** .

(3) The Executive shall perform duties and responsibilities as are normally provided by a **Chief Financial Officer**, of a corporation in a business and of a size similar to the Company and such other duties and responsibilities as may reasonably be assigned from time to time by **Chief Operating Officer** , subject always to the control and direction of the **Chief Operating Officer**.

2.02 Term

The term of this Agreement and the Executive’s employment under this Agreement will commence on the Effective Date and will continue for an indefinite period, subject to termination in accordance with the terms of this Agreement.

2.03 Place of Employment

(1) The Executive will perform the Executive’s duties and responsibilities for the Company at the principal executive offices of the Company and the Executive will reside within a reasonable daily commuting distance of such offices.

(2) The Executive acknowledges that the performance of the Executive’s duties and responsibilities will necessitate frequent travel to other places.

ARTICLE 3 - REMUNERATION AND BENEFITS

3.01 Base Salary

The Company will pay the Executive a base salary (the “**Base Salary**”) in the amount of **USD \$520,000** per annum, payable in accordance with the Company’s usual payroll practices and dates, in arrears by direct deposit, and subject to deductions required by law or authorized by the Executive.

3.02 **Bonus**

The Executive will be eligible to receive an annual bonus pursuant to the terms and conditions of the Bonus Plan. The Executive's bonus target under the Bonus Plan shall be **seventy five percent (75%)** of Base Salary.

3.03 **Retention Bonus**

In exchange for your accepting employment with Company and remaining employed for a period of **twelve (12) months** ("Retention Period"), lululemon agrees to provide you with a retention bonus in the amount of **USD \$300,000** ("Retention Bonus"), less applicable tax and other withholdings. lululemon will pay you the Retention Bonus, in advance of you actually having earned it and remaining employed for the Retention Period. Because lululemon is advancing this unearned Retention Bonus to you in anticipation of retaining your services for the Retention Period, in the event you should voluntarily resign your employment with lululemon or if lululemon terminates your employment for cause, prior to completing the Retention Period, you agree to repay lululemon the Retention Bonus within 15 days of the date of such resignation or termination, in a prorated amount based on the length of employment (rounded upwards to the nearest whole month). Should you be required to repay any portion of the Retention Bonus, the amount of the Retention Bonus shall be adjusted so that you are paying back the pro-rata portion of the post-tax payment made to you. Should lululemon terminate your employment for any reason other than just cause prior to you completing the Retention Period, the Retention Bonus shall be considered earned in full on the date of termination.

3.04 **Incentives**

(1) As an employee of the Company, you will be eligible for annual equity awards as determined by the Compensation Committee of the Board of Directors of lululemon athletica inc., in its sole discretion. These potential equity awards currently consist of stock options, restricted share units, and performance share units. Subject to Compensation Committee approval, if your start date is April 30, 2018, you will be eligible for an equity grant of USD\$384,615, being the target value of USD\$500,000 prorated for 280/371 days of the fiscal 2018 year. Should your start date be different than April 30, 2018, the value of your equity grant will be different, depending on the number of days that you will be employed by the Company in the fiscal year.

(2) Subject to the approval of the Compensation Committee of the Board of Directors of lululemon athletica inc., you will be awarded a one-time grant of a number of Restricted Share Units (RSUs) determined by dividing **USD \$100,000** by lululemon inc.'s fair market value per common share determined as of the effective date of the grant. Subject to your continued employment, the RSUs will vest over a three-year period, with one-third of the award vesting on or about each of the first, second, and third anniversaries of the grant date. RSU grants are subject to the terms of the Company's equity incentive plan, the applicable grant agreements, and the Company's practices and policies on granting RSU awards, including the Company's standard RSU award agreement.

(3) The Executive will also be eligible to participate in the Company's employee share purchase plan, subject to the terms and conditions of such plan.

3.05 **Benefits**

The Executive will be entitled to participate in applicable employee benefit plans as are in effect from time to time, subject to and in accordance with the terms and conditions of such plans.

3.06 **Fund Your Future Program**

The Company offers opportunities to contribute to a long term savings plan and to purchase Company stock via payroll deduction. If you are eligible to participate, the Company matches employee contributions in accordance with the plan provisions. Please review the applicable plans as eligibility and enrollment requirements vary. The Company reserves the right to alter these programs in whole or in part at any time without advance notice.

3.07 **Leadership Development**

We stand for personal development. We believe in creating the conditions for mindful performance to inspire people to design a life they love. You will have resources at your fingertips to embark on a development journey that will allow you to grow in all aspects of your life and show up as your fully expressed self.

3.08 **Plan documents and right to change**

(1) Some of the compensation and benefit plans and programs referred to in this offer are governed by insurance contracts and other plan or policy documents, which will in all cases govern.

(2) The Company reserves the right to amend, change or terminate any or all of its plans, programs, policies and benefits at any time for any reason without notice to the Executive, including without limitation bonus, commission, benefit, or compensation plans and programs.

3.09 **Vacation**

The Executive will be entitled to three (3) weeks paid vacation each year. Such vacation entitlement will be pro-rated for any part of a year. The Executive will take such vacation at times having regard to the best interests of the Company. Except as may be required by applicable employment standards legislation, the Executive will lose the entitlement to unused vacation and the Executive agrees that any unearned advanced vacation may be deducted from the Executive's final pay should the Executive's employment with the Company end for any reason.

3.10 **Relocation**

The Executive is eligible for relocation services as per the attached summary. Upon lululemon receiving the Executive's written acceptance of this offer of employment, the Executive will be contacted by a lululemon relocation/mobility representative to initiate the Executive's relocation arrangements.

3.11 **Expenses**

The Company will reimburse the Executive for all reasonable out-of-pocket expenses properly incurred by the Executive in the course of the Executive's employment with the Company, in accordance with the Company's expense reimbursement policy in effect as at the date the Executive incurs any such expenses. The Executive will provide the Company with appropriate statements and receipts verifying such expenses as the Company may require.

ARTICLE 4 - EXECUTIVE'S COVENANTS

4.01 **Full Time Service**

The Executive will devote all of the Executive's time, attention and effort to the business and affairs of the Company, will well and faithfully serve the Company and will use the Executive's best efforts to promote the interests of the Company and its Affiliates. The Executive will not engage in other employment or consulting work while employed by the Company.

4.02 **Duties and Responsibilities**

In the performance of the Executive's duties, the Executive agrees to give the Company the full benefit of the Executive's knowledge, expertise, skill and ingenuity and to exercise the degree of care, diligence and skill that a prudent executive would exercise in comparable circumstances.

4.03 **Policies, Rules and Regulations**

The Executive will be bound by and will faithfully observe and abide by all of the policies, rules and regulations of the Company from time to time in force which are applicable to senior executives of the Company and which are brought to the Executive's notice or of which the Executive should reasonably be aware including but not limited to the Company's Code of Business Conduct.

4.04 **Conflict of Interest**

(1) The Executive will not, during the Executive's employment with the Company, engage in any business, enterprise or activity that is contrary to or detracts from the due performance of the business of the Company or the Executive's duties.

(2) The Executive will refrain from any situation in which the Executive's personal interest conflicts or may appear to conflict with the Executive's duties to the Company or the interests of the Company. The Executive agrees that if there is any doubt in this respect, the Executive will inform the CEO and obtain written authorization.

4.05 **Business Opportunities:**

During the Executive's employment, the Executive will communicate to the Company all knowledge, business and customer contacts and any other information that could concern or be in any way beneficial to the business of the Company. Any such information communicated to the Company as aforesaid will be and remain the property of the Company notwithstanding any subsequent termination of the Executive's employment.

4.06 **Restrictive Covenants**

The Executive agrees to be bound by the terms and conditions of the Restrictive Covenant Agreement (the "**Restrictive Covenant Agreement**") between the Company and the Executive, a copy of which is attached to this Agreement as Schedule A and is incorporated by reference and deemed to be a part of this Agreement.

4.07 **Pre-existing Obligations**

The Executive is hereby requested and directed by the Company not to disclose confidential or proprietary information of any kind belonging to the Executive's former employer or any other person. The Company is not employing the Executive to obtain the confidential information business information, intellectual property or business opportunities of the Executive's former employer or any other person.

4.08 **Anti-bribery**

During the Executive's on-boarding and employment the Executive will be required to read and comply with the Company's Handbook. The Handbook provides additional details regarding the Executive's employment, employee discounts, personal accountability, integrity (regarding hours worked), yoga benefits, the Code of Business Conduct (including policies related to gifts and entertainment and prohibiting bribes) and other benefits and time off programs. Failure to follow any of the Company's policies may lead to immediate termination of employment. Additional information and resources are on youlu, including the Company's policies on accessibility and accommodation for employees with disabilities, which is available following the Executive's first day of work. If you have any questions or require assistance in accessing any Company policies as a result of a disability, please contact your People Potential Partner.

4.09 **Confidential Information**

- (1) The Executive acknowledges and agrees that the Executive shall not acquire any right, title or interest in or to the Confidential Information.
 - (2) At all times during and subsequent to the termination of the Executive's employment with the Company, the Executive:
 - (a) will not use, copy or reproduce the Confidential Information except as may be reasonably required for the Executive to perform the Executive's duties for the Company, and the Executive will not directly or indirectly use, disseminate or disclose any Confidential Information for the Executive's own benefit or the benefit of any other person or entity; and
 - (b) the Executive you will take all necessary precautions against unauthorized disclosure of the Confidential Information.
-

(3) If the Executive is requested or ordered by law to disclose any Confidential Information, the Executive will advise the Company forthwith of such request or order and provide to the Executive all information concerning such request or order and the opportunity for the Company to object or intervene, prior to making any disclosure of Confidential Information.

ARTICLE 5 - TERMINATION

5.01 Termination by the Company

The Company may terminate the Executive's employment with the Company at any time by giving notice in writing to the Executive and stipulating the last day of employment (the "**Termination Date**").

5.02 Termination by the Executive

The Executive may terminate the Executive's employment with the Company at any time by giving the Company thirty (30) days' notice in writing (the "**Notice of Resignation Period**"). The Company may waive such notice, in whole or in part, in which case the Executive shall only be entitled to (i) payment of the Executive's Base Salary for the period from the effective date of the waiver of the Notice of Resignation Period to the end of the Notice of Resignation Period; (ii) continued group benefit coverage under Section 3.05 subject to and in accordance with the terms and conditions of the applicable plans, for the period ending the last day of the Notice of Resignation Period; (iii) the value of the pro-rated vacation leave with pay for that portion of the calendar year up to the end of the Notice of Resignation Period, and (iv) any payments or entitlements under the Bonus Plan that the Executive would otherwise receive during the Notice of Resignation Period.

5.03 Payments on Termination Without Cause

(1) If the Executive's employment with the Company is terminated by the Company without Cause, the Executive will only be entitled to the following payments and benefits:

- (a) Accrued Compensation. The Company will pay the Executive's Base Salary accrued and unpaid up to and including the Termination Date, including accrued vacation pay, at the rate in effect at the time notice of termination is given by the Company.
 - (b) Bonus Compensation. The Executive shall not receive any bonus payment whatsoever pursuant to Section 3.02 or the Bonus Plan except such bonus which is already earned and due to be paid up to and including the Termination Date, notwithstanding any period following the Termination Date during which the Executive may receive any payments or benefits under the terms of this Agreement or at law.
 - (c) Restricted Share Units, Performance Share Units and Stock Options. The Executive's rights regarding any Restricted Share Units, Performance Share Units or stock options from the Company will be governed by the terms of the Plan and the applicable plans, agreements policies of the Company, including without limitation the Plan.
 - (d) Notice. The Executive will be entitled to fifteen months' notice or payment of Base Salary (at the rate in effect as of the date of termination) in lieu, or a combination of notice and payment (the "**Severance Payment**"). Any payment made pursuant to this Section 5.03(1)(d) shall be:
 - i. less any termination or severance pay paid pursuant to the *Employment Standards Act* (British Columbia);
 - ii. subject to regular and statutory withholdings, and
 - iii. paid in equal instalments on the Company's normal paydays.
 - iv. for any payment above the minimum required under the *Employment Standards Act* (British Columbia), contingent upon the Executive's compliance with all surviving provisions of this Agreement and the Executive's execution of a full general release in a form acceptable to the Company releasing all claims, known or unknown that the Executive may have against the
-

Company arising out of or any way related to the Executive's employment or termination of employment with the Company.

- (e) RCA. Any amounts owing to the Executive pursuant to Section 5.03(d) that are above the minimum required under the *Employment Standards Act* (British Columbia) shall be forfeited if the Executive fails to comply with the Restrictive Covenant Agreement.
- (f) Deductions. The Company may deduct from the amounts payable by it to the Executive or for the Executive's benefit pursuant to Section 5.03(1)(a), (b), (c), or (d) any amounts owing to the Company by the Executive.
- (g) Fair and Reasonable. The parties agree that the provisions of Section 5.03 are fair and reasonable and that the amounts payable by the Company to the Executive's - benefit pursuant to Section 5.03 are reasonable.
- (h) No Other Payments or Benefits. The terms and conditions of this Section 5.03 and the amounts paid and the benefits provided to the Executive hereunder are in full satisfaction of any payments or benefits which the Executive may otherwise have been entitled to receive in relation to the termination of this Agreement and the Executive's employment hereunder pursuant to the common law and any applicable laws, including, without limitation, the British Columbia *Employment Standards Act*, or any of the Company's programs, policies, plans, contracts or agreements, whether written or verbal. Upon receipt of the payments and benefits described herein, the Executive will have no action, cause of action, claim or demand against the Company, the Company's Affiliates or any other person arising out of or in relation to the Executive's employment under this Agreement or the termination of this Agreement and the Executive's employment hereunder, other than to enforce the terms of this Agreement and remedy any breach thereof by the Company.

5.04

Payments on Termination by Company for Cause

If the Executive's employment with the Company is terminated by the Company for Cause, the Executive will only be entitled to receive the following compensation:

- (a) Accrued Base Salary. The Company will pay the Executive's Base Salary accrued but unpaid up to and including the Termination Date, including accrued vacation pay, at the rate in effect at the time the notice of termination is given.
- (b) Accrued Expenses. The Company will reimburse the Executive for any business expenses reasonably incurred by the Executive up to and including the Termination Date in accordance with the Company's normal expenses policy applicable to the Executive at that time.
- (c) Bonus Compensation. The Executive shall not receive any bonus payment whatsoever pursuant to Section 3.02 or the Bonus Plan except such bonus which is already earned and due to be paid up to and including the Termination Date, notwithstanding any period following the Termination Date during which the Executive may receive any payments or benefits under the terms of the Agreement.
- (d) Restricted Share Units, Performance Share Units and Stock Options. The Executive's rights regarding any Restricted Share Units, Performance Share Units or stock options from the Company will be governed by the terms of the Plan and the applicable plans, agreements policies of the Company, including without limitation the Plan.

5.05

Fair and Reasonable

The Executive acknowledges and agrees that the payments and/or benefits pursuant to this Article 5 will be in full satisfaction of all terms or requirements regarding termination of the Executive's employment, including without limitation common law notice of termination or compensation in lieu of such notice and compensation for length of service and any other entitlement pursuant to the British Columbia *Employment Standards Act* as amended from time to time. Except as expressly provided in this Article 5, the Executive will not be entitled to any termination payments, damages, or compensation whatsoever, notwithstanding any changes in the terms and conditions of the Executive's employment which may occur in the future, including any change in position, duties or compensation.

5.06 **Return of Property**

Upon termination of the Executive's employment with the Company, the Executive will deliver or cause to be delivered to the Company promptly all books, documents, money, securities or other property of the Company that are in the possession, charge, control or custody of the Executive, without retaining any copies or records of any Confidential Information whatsoever.

5.07 **No Termination Claims**

Upon any termination of the Executive's employment by the Company in compliance with this Agreement or upon any termination of the Executive's employment by the Executive, the Executive will have no action, cause of action, claim or demand against the Company, its Affiliates, any related or associated corporations or any other person as a consequence of such termination.

5.08 **Resignation as Director and Officer**

Upon any termination of the Executive's employment under this Agreement, the Executive will be deemed to have resigned as a director and officer of all Affiliates of the Company contemporaneously with the date of termination of the Executive's employment for any reason and will immediately, on request of the Company, sign forms of resignation indicating - the Executive's resignation as a director and officer of the Company and any Affiliates of the Company and of any other entities of which the Executive occupies similar positions as part of or in connection with the performance by the Executive of the duties under this Agreement, if applicable.

5.09 **Provisions which Operate Following Termination**

Notwithstanding any termination of the Executive's employment under this Agreement for any reason whatsoever and with or without cause, all provisions of this Agreement necessary to give efficacy thereto, including without limitation the Restrictive Covenant Agreement attached as Schedule A, will continue in full force and effect following such termination.

ARTICLE 6 - MISCELLANEOUS

6.01 **Deductions**

The Company will deduct all statutory deductions and any amounts authorized by the Executive from any amounts to be paid to the Executive under this Agreement.

6.02 **Entire Agreement**

This Agreement, including the Schedules to this Agreement constitutes the entire agreement between the parties with respect to the subject matter of this Agreement and cancels and supersedes any prior understandings and agreements between the parties to this Agreement with respect to the subject matter of this Agreement and any rights which the Executive may have by reason of any such prior agreements. There are no representations, warranties, forms, conditions, undertakings or collateral agreements, express, implied or statutory between the parties other than as expressly set forth in this Agreement.

6.03 **Severability**

If any provision of this Agreement is determined to be invalid or unenforceable in whole or in part, such invalidity or unenforceability will attach only to such provision or part of such provision and the remaining part of such provision and all other provisions of this Agreement will continue in full force and effect.

6.04 **Amendments and Waivers**

No amendment to this Agreement will be valid or binding unless set forth in writing and duly executed by both of the parties. No waiver of any breach of any provision of this Agreement will be effective or binding unless made in writing and signed by the party purporting to give the same and, unless otherwise provided in the written waiver, will be limited to the specific breach waived.

6.05 **Notices**

Any demand, notice or other communication to be given in connection with this Agreement must be given in writing and will be given by personal delivery, by registered mail, or by electronic means of communication addressed to the recipient as follows:

To the Company:

lululemon athletica inc.
1818 Cornwall Avenue
Vancouver, BC
V6J 1C7

Attention: VP, Legal

To the Executive:

Patrick Guido

or such other address, individual or electronic communication number as may be designated by notice given by either party to the other.

6.06 **Equitable Remedies**

The Executive hereby acknowledges and agrees that a breach of the Executive's obligations under this Agreement would result in damages to the Company that could not be adequately compensated for by monetary award. Accordingly, in the event of any such breach by the Executive, in addition to all other remedies available to the Company at law or in equity, the Company will be entitled as a matter of right to apply to a court of competent jurisdiction for such relief by way of restraining order, injunction, decree or otherwise, as may be appropriate to ensure compliance with the provisions of this Agreement.

6.07 **Governing Law**

This Agreement will be governed by and construed in accordance with the laws of the Province of British Columbia and the laws of Canada applicable therein.

6.08 **Attornment**

For the purpose of all legal proceedings this Agreement will be deemed to have been performed in the Province of British Columbia. The courts of competent jurisdiction located in Vancouver, British Columbia will have jurisdiction to entertain any action arising under this Agreement and the Company and the Executive each hereby attorns to the courts of competent jurisdiction located in Vancouver, British Columbia.

Yours truly,

lululemon athletica inc.

By: /s/ S TUART H ASELDEN

Stuart Haselden, Chief Operating Officer

SIGNED, SEALED AND DELIVERED in the presence of:

Witness Signature

April 10, 2018

Date

/s/ P ATRICK G UIDO

Patrick Guido

I, Glenn Murphy, certify that:

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

By: /s/ GLENN MURPHY

Glenn Murphy

Executive Chairman of the Board

(principal executive officer)

Date: May 31, 2018

I, Stuart Haselden, certify that:

1. I have reviewed this quarterly report on Form 10-Q of lululemon athletica inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

By: /s/ S TUART H ASELDEN

Stuart Haselden

Chief Operating Officer

(principal financial and accounting officer)

Date: May 31, 2018

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

In connection with the Quarterly Report of lululemon athletica inc. (the "Company") on Form 10-Q for the first quarter of fiscal 2018 , as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ G LENN M URPHY
Glenn Murphy
Executive Chairman of the Board
(principal executive officer)

Date: May 31, 2018

By: /s/ S TUART H ASELDEN
Stuart Haselden
Chief Operating Officer
(principal financial and accounting officer)

Date: May 31, 2018

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.