

BOWER JOSEPH L  
Form 4  
March 22, 2019

**FORM 4**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

OMB APPROVAL

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**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
BOWER JOSEPH L

(Last) (First) (Middle)

C/O HARVARD BUSINESS SCHOOL, CUMNOCK HALL 300 - SOLDIERS FIELD STA.

(Street)

BOSTON, MA 02163

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol  
LOEWS CORP [L]

3. Date of Earliest Transaction (Month/Day/Year)  
03/21/2019

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

Director  10% Owner  
 Officer (give title below)  Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)  
 Form filed by One Reporting Person  
 Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

| 1. Title of Security (Instr. 3) | 2. Transaction Date (Month/Day/Year) | 2A. Deemed Execution Date, if any (Month/Day/Year) | 3. Transaction Code (Instr. 8) | 4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) | 5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4) | 6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4) | 7. Nature of Ownership (Instr. 4) |
|---------------------------------|--------------------------------------|--|--------------------------------|---|---|--|-----------------------------------|
|                                 |                                      |  |                                | Code V  | Amount (A) or (D) Price   |  |                                   |
| Common Stock                    | 03/21/2019                           |  | M                              |   | 1,500 A \$ 21.74  | D  |                                   |
| Common Stock                    | 03/21/2019                           |  | D                              |   | 688 D \$ 47.35  | D  |                                   |
| Common Stock                    | 03/21/2019                           |  | S                              |   | 812 D \$ 47.56  | D  |                                   |

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

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**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**  
(e.g., puts, calls, warrants, options, convertible securities)

| 1. Title of Derivative Security (Instr. 3) | 2. Conversion or Exercise Price of Derivative Security | 3. Transaction Date (Month/Day/Year) | 3A. Deemed Execution Date, if any (Month/Day/Year) | 4. Transaction Code (Instr. 8) | 5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5) | 6. Date Exercisable and Expiration Date (Month/Day/Year) | 7. Title and Amount of Underlying Securities (Instr. 3 and 4) | Amount or Number of Shares |
|--|--|--------------------------------------|--|--------------------------------|---|--|---|----------------------------|
| Stock Appreciation Right                   | \$ 21.74   | 03/21/2019                           |  | M                              | 1,500   | 03/31/2009 03/31/2019                                    | Common Stock  | 1,500                      |

## Reporting Owners

| Reporting Owner Name / Address  | Relationships |           |         |       |
|---|---------------|-----------|---------|-------|
|   | Director      | 10% Owner | Officer | Other |
| BOWER JOSEPH L<br>C/O HARVARD BUSINESS SCHOOL<br>CUMNOCK HALL 300 - SOLDIERS FIELD STA.<br>BOSTON, MA 02163 | X             |           |         |       |

## Signatures

/s/ Thomas H. Watson by power of attorney for Joseph L. Bower  
 03/22/2019  
 \*\*Signature of Reporting Person Date

## Explanation of Responses:

- \* If the form is filed by more than one reporting person, see Instruction 4(b)(v).
- \*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).  
 Represents the weighted average price of multiple transactions with a range of prices between \$47.35 and \$47.56. The Reporting Person, upon request by the Commission Staff, the Issuer or a security holder of the Issuer, undertakes to provide further information regarding the number of securities at each separate price sold.
- (2) The Reporting Person received the Derivative Security pursuant to a stock appreciation right grant at no cost.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. g-right:2px;">

Sales tax collected

\$  
9,968

\$  
8,579

Accrued rent

4,943

5,567

Other

19,727

17,843

\$  
34,638

\$  
31,989

Other non-current liabilities:

Deferred lease liability

\$  
22,333

\$  
20,837

Tenant inducements

24,767

Explanation of Responses:

22,294

\$  
47,100

\$  
43,131

**NOTE 6. LEGAL PROCEEDINGS**

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

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On July 2, 2013, plaintiff Houssam Alkhoury filed a putative shareholder class action entitled Alkhoury v. lululemon athletica inc., et al., No. 13-CV-4596 (S.D.N.Y.) against lululemon, a certain director and a certain officer of the Company. This proceeding is discussed in the Company's Annual Report on Form 10-K filed with the SEC on March 26, 2015, and in its Quarterly Report on Form 10-Q filed with the SEC on June 9, 2015. On April 18, 2014, the Court dismissed all of Lead Plaintiff's claims for failure to state a claim. Lead Plaintiff appealed this decision and on May 15, 2015, the Court of Appeals dismissed the plaintiff's appeal.

On July 15, 2015, plaintiffs Hallandale Beach Police Officers and Firefighters' Personnel Retirement Fund and Laborers' District Council Industry Pension Fund filed in the Delaware Court of Chancery a derivative lawsuit on behalf of lululemon against certain current and former directors of lululemon, captioned Laborers' District Council Industry Pension Fund v. Bensoussan, et al., C.A. No. 11293-CB. Plaintiffs claim that the individual defendants breached their fiduciary duties to lululemon by allegedly failing to investigate certain trades of lululemon stock owned by Dennis J. Wilson in 2013. Plaintiffs also claim that Mr. Wilson breached his fiduciary duties by making his broker aware of certain non-public, material events prior to executing sales of lululemon stock on Mr. Wilson's behalf. On August 18, 2015, the individual defendants (including Mr. Wilson) filed motions to dismiss the action pursuant to Court of Chancery Rules 23.1 and 12(b)(6) for failure to adequately plead that demand on the board was excused and for failure to state a claim upon which relief may be granted. Also on August 18, 2015, the Company filed a motion to dismiss the action pursuant to Court of Chancery Rule 23.1 for failure to adequately plead that demand on the board was excused.

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## NOTE 7. SEGMENT REPORTING

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

|   | Thirteen<br>Weeks Ended<br>August 2,<br>2015 | Thirteen<br>Weeks Ended<br>August 3,<br>2014 | Twenty-Six<br>Weeks Ended<br>August 2,<br>2015 | Twenty-Six<br>Weeks Ended<br>August 3,<br>2014 |
|---|--|--|--|--|
| Net revenue:  |  |  |  |  |
| Company-operated stores                                     | \$339,779                                    | \$294,040                                    | \$653,873                                      | \$582,142                                      |
| Direct to consumer  | 82,239                                       | 63,481                                       | 165,875  | 129,455  |
| Other   | 30,992                                       | 33,187                                       | 56,806   | 63,729   |
|   | \$453,010                                    | \$390,708                                    | \$876,554                                      | \$775,326                                      |
| Income from operations before general corporate<br>expense: |  |  |  |  |
| Company-operated stores                                     | \$67,441                                     | \$74,891                                     | \$136,664                                      | \$150,596                                      |
| Direct to consumer  | 32,250                                       | 24,087                                       | 67,121   | 51,182   |
| Other   | 1,820  | 3,496  | 2,801  | 6,786  |
|   | 101,511                                      | 102,474                                      | 206,586  | 208,564  |
| General corporate expense                                   | 34,932                                       | 34,586                                       | 71,971   | 70,875   |
| Income from operations                                      | 66,579                                       | 67,888                                       | 134,615  | 137,689  |
| Other income, net   | 842  | 1,890  | 1,371  | 3,533  |
| Income before provision for income taxes                    | \$67,421                                     | \$69,778                                     | \$135,986                                      | \$141,222                                      |
| Capital expenditures:                                       |  |  |  |  |
| Company-operated stores                                     | \$24,788                                     | \$15,805                                     | \$41,632                                       | \$31,671                                       |
| Direct to consumer  | 1,479  | 3,751  | 1,932  | 4,863  |
| Corporate   | 10,915                                       | 7,099  | 21,554   | 15,568   |
|   | \$37,182                                     | \$26,655                                     | \$65,118                                       | \$52,102                                       |
| Depreciation and amortization:                              |  |  |  |  |
| Company-operated stores                                     | \$11,736                                     | \$9,027                                      | \$23,013                                       | \$17,424                                       |
| Direct to consumer  | 1,599  | 1,255  | 3,135  | 2,261  |
| Corporate   | 3,360  | 3,354  | 6,643  | 6,412  |
|   | \$16,695                                     | \$13,636                                     | \$32,791                                       | \$26,097                                       |

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

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

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

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

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

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

Overview

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

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

Financial Highlights

Our net revenue increased from \$390.7 million in the second quarter of fiscal 2014 to \$453.0 million in the second quarter of fiscal 2015, representing a growth rate of 16%. This increase resulted primarily from the addition of 66 new company-operated stores and increased direct to consumer net revenue.

Total comparable sales, which includes comparable store sales and direct to consumer, increased 6% in the second quarter of fiscal 2015, and increased by 11% on a constant dollar basis.

Company-operated stores accounted for 75.0% of net revenue in the second quarter of fiscal 2015 compared to 75.3% of net revenue in the second quarter of fiscal 2014. Comparable store sales increased by 6% on a constant dollar basis for the second quarter of fiscal 2015 primarily as a result of increased traffic and increased dollar value per transaction.

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• Our direct to consumer segment is an increasingly substantial part of our growth strategy, and represented 18.2% of our net revenue in the second quarter of fiscal 2015 compared to 16.2% in the second quarter of fiscal 2014. Direct to consumer net revenue increased 35% on a constant dollar basis primarily as the result of higher conversion rates and traffic on our e-commerce websites.

Gross profit for the second quarter of fiscal 2015 increased by 7% to \$212.0 million, from \$197.3 million in the second quarter of fiscal 2014. Gross profit as a percentage of net revenue, or gross margin, decreased to 46.8% compared to 50.5% in the second quarter of fiscal 2014. The decrease in gross margin was primarily due to decreased product margin, increased occupancy and depreciation costs, an unfavorable impact of foreign exchange rates on gross margin, and increased air freight costs.

• Income from operations for the second quarter of fiscal 2015 decreased by 2% to \$66.6 million, from \$67.9 million in the second quarter of fiscal 2014. As a percentage of net revenue, income from operations decreased to 14.7% compared to 17.4% of net revenue in the second quarter of fiscal 2014.

Provision for income taxes for the second quarter of fiscal 2015 decreased by 6% to \$19.8 million, from \$21.0 million in the second quarter of fiscal 2014. The effective tax rate was 29.3% in the second quarter of fiscal 2015 compared to 30.1% in the second quarter of fiscal 2014.

• Diluted earnings per share for the second quarter of fiscal 2015 were \$0.34 compared to \$0.33 in the second quarter of fiscal 2014.

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

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## Results of Operations

## Thirteen Week Results

The following table summarizes key components of our results of operations for the thirteen weeks ended August 2, 2015 and August 3, 2014. The operating results are expressed in dollar amounts. The percentages are presented as a percentage of net revenue.

|  | Thirteen Weeks Ended August 2, 2015 and August 3, 2014 |           |               |         |  |   |
|--|--|-----------|---------------|---------|--|---|
|  | 2015   | 2014      | 2015          | 2014    |  |   |
|  | (In thousands)   |           | (Percentages) |         |  |   |
| Net revenue                                  | \$453,010  | \$390,708 | 100.0         | % 100.0 |  | % |
| Cost of goods sold                           | 240,985  | 193,401   | 53.2          | 49.5    |  |   |
| Gross profit                                 | 212,025  | 197,307   | 46.8          | 50.5    |  |   |
| Selling, general and administrative expenses | 145,446  | 129,419   | 32.1          | 33.1    |  |   |
| Income from operations                       | 66,579   | 67,888    | 14.7          | 17.4    |  |   |
| Other income, net                            | 842  | 1,890     | 0.2           | 0.5     |  |   |
| Income before provision for income taxes     | 67,421   | 69,778    | 14.9          | 17.9    |  |   |
| Provision for income taxes                   | 19,753   | 21,030    | 4.4           | 5.4     |  |   |
| Net income                                   | \$47,668   | \$48,748  | 10.5          | % 12.5  |  | % |
| Net Revenue                                  |  |           |               |         |  |   |

Net revenue increased \$62.3 million, or 16%, to \$453.0 million for the second quarter of fiscal 2015 from \$390.7 million for the second quarter of fiscal 2014. Assuming the average exchange rates for the second quarter of fiscal 2015 remained constant with the average exchange rates for the second quarter of fiscal 2014, our net revenue would have increased \$82.6 million, or 21%.

The net revenue increase was driven primarily by sales from new company-operated stores and the growth of our direct to consumer segment. Total comparable sales, which includes comparable store sales and direct to consumer, increased 6% in the second quarter of fiscal 2015. Excluding the effect of foreign currency fluctuations, total comparable sales would have increased 11%.

Our net revenue on a segment basis for the thirteen weeks ended August 2, 2015 and August 3, 2014 is summarized below. Net revenue is expressed in dollar amounts. The percentages are presented as a percentage of total net revenue.

|                         | Thirteen Weeks Ended August 2, 2015 and August 3, 2014 |           |               |         |  |   |
|-------------------------|--|-----------|---------------|---------|--|---|
|                         | 2015   | 2014      | 2015          | 2014    |  |   |
|                         | (In thousands)   |           | (Percentages) |         |  |   |
| Company-operated stores | \$339,779  | \$294,040 | 75.0          | % 75.3  |  | % |
| Direct to consumer      | 82,239   | 63,481    | 18.2          | 16.2    |  |   |
| Other                   | 30,992   | 33,187    | 6.8           | 8.5     |  |   |
| Net revenue             | \$453,010  | \$390,708 | 100.0         | % 100.0 |  | % |

Company-operated Stores. Net revenue from our company-operated stores segment increased \$45.7 million, or 16%, to \$339.8 million in the second quarter of fiscal 2015 from \$294.0 million in the second quarter of fiscal 2014. The following contributed to the increase in net revenue from our company-operated stores segment:

Net revenue from company-operated stores we opened subsequent to August 3, 2014, and therefore not included in comparable store sales, contributed \$44.3 million to the increase. We have opened 66 new company-operated stores since the second quarter of fiscal 2014, including 53 stores in the United States, six stores in Canada, three stores in the United Kingdom, two stores in Singapore, and one store in each of Australia and Hong Kong; and

A comparable store sales increase of 1% in the second quarter of fiscal 2015 resulted in a \$1.4 million increase to net revenue, including the effect of foreign currency fluctuations. Excluding the effect of foreign currency fluctuations, comparable store sales would have increased 6%, or \$14.2 million, in the second quarter of fiscal 2015. The increase in comparable store sales was primarily as a result of increased traffic and increased dollar value per transaction.



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**Direct to Consumer.** Net revenue from our direct to consumer segment increased \$18.8 million, or 30%, to \$82.2 million in the second quarter of fiscal 2015 from \$63.5 million in the second quarter of fiscal 2014. Excluding the effect of foreign exchange fluctuations, direct to consumer revenue would have increased 35%. The increase in net revenue was primarily the result of higher conversion rates and traffic on our e-commerce websites, including traffic driven by our Canadian and U.S. online warehouse sales.

**Other.** Other net revenue decreased \$2.2 million, or 7%, to \$31.0 million in the second quarter of fiscal 2015 from \$33.2 million in the second quarter of fiscal 2014. This decrease was primarily the result of fewer temporary locations being open during the second quarter of fiscal 2015 compared to the second quarter of fiscal 2014.

**Gross Profit**

Gross profit increased \$14.7 million, or 7%, to \$212.0 million for the second quarter of fiscal 2015 from \$197.3 million for the second quarter of fiscal 2014.

Gross profit as a percentage of net revenue, or gross margin, decreased by 370 basis points, to 46.8% in the second quarter of fiscal 2015 from 50.5% in the second quarter of fiscal 2014. The decrease in gross margin was primarily the result of:

- a decrease in product margin of 110 basis points primarily due to increased product costs; an increase in occupancy costs and depreciation relative to the increase in net revenue which contributed to a decrease in gross margin of 110 basis points primarily due lease renewals, store relocations and renovations, and international expansion;
- an unfavorable impact of foreign exchange rates which contributed to a decrease in gross margin of 70 basis points;
  - an increase in air freight costs of 50 basis points;
  - and
- an increase in markdowns of 30 basis points due primarily to our online warehouse sale.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased \$16.0 million, or 12%, to \$145.4 million in the second quarter of fiscal 2015 from \$129.4 million in the second quarter of fiscal 2014. The increase in selling, general and administrative expenses was principally comprised of:

- an increase in head office costs of \$9.4 million primarily as a result of increased professional fees, marketing costs, and head office employee costs;
  - an increase in employee costs of \$9.3 million primarily from a growth in labor hours and bonuses associated with new company-operated stores and showrooms;
- an increase in variable costs such as credit card fees, distribution costs, and packaging, of \$2.8 million primarily as a result of new company-operated stores as well as increased sales volume from our direct to consumer segment; and
- an increase in other costs, including repairs and maintenance costs, of \$1.7 million.

The increase in selling, general and administrative expenses was partially offset by an increase in net foreign exchange revaluation gains of \$6.9 million and a decrease in administrative costs related to our direct to consumer segment of \$0.3 million.

As a percentage of net revenue, selling, general and administrative expenses decreased 100 basis points, to 32.1% in the second quarter of fiscal 2015 from 33.1% in the second quarter of fiscal 2014.

**Income from Operations**

Income from operations decreased \$1.3 million, or 2%, to \$66.6 million in the second quarter of fiscal 2015 from \$67.9 million in the second quarter of fiscal 2014. The decrease was primarily the result of an increase in selling, general and administrative costs of \$16.0 million, partially offset by an increase in gross profit of \$14.7 million.

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

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Income from operations before general corporate expenses for the thirteen weeks ended August 2, 2015 and August 3, 2014 is summarized below and is expressed in dollar amounts. The percentages are presented as a percentage of net revenue of the respective operating segments.

|   | Thirteen Weeks Ended August 2, 2015 and August 3, 2014 |          |               |        |
|---|--|----------|---------------|--------|
|   | 2015   | 2014     | 2015          | 2014   |
|   | (In thousands)   |          | (Percentages) |        |
| Company-operated stores                                 | \$67,441   | \$74,891 | 19.8          | % 25.5 |
| Direct to consumer                                      | 32,250   | 24,087   | 39.2          | 37.9   |
| Other   | 1,820  | 3,496    | 5.9           | 10.5   |
| Income from operations before general corporate expense | 101,511  | 102,474  |               |        |
| General corporate expense                               | 34,932   | 34,586   |               |        |
| Income from operations                                  | \$66,579   | \$67,888 |               |        |

**Company-operated Stores.** Income from operations from our company-operated stores segment decreased \$7.5 million, or 10%, to \$67.4 million for the second quarter of fiscal 2015 from \$74.9 million for the second quarter of fiscal 2014 primarily due to an increase in employee costs as well as operating expenses associated with new stores, partially offset by increased gross profit of \$8.6 million. Income from operations as a percentage of company-operated stores revenue decreased by 570 basis points primarily due to lower gross margin and deleverage of selling, general and administrative expenses.

**Direct to Consumer.** Income from operations from our direct to consumer segment increased \$8.2 million, or 34%, to \$32.2 million for the second quarter of fiscal 2015 from \$24.1 million for the second quarter of fiscal 2014. The increase was primarily the result of increased gross profit of \$7.9 million primarily due to increased net revenue resulting from higher conversion rates and increased traffic on our e-commerce websites, partially offset by increased selling, general and administrative expenses. Income from operations as a percentage of direct to consumer revenue increased by 130 basis points.

**Other.** Other income from operations decreased \$1.7 million, or 48%, to \$1.8 million for the second quarter of fiscal 2015 from \$3.5 million for the second quarter of fiscal 2014. The decrease was primarily the result of decreased gross profit of \$1.8 million in the second quarter of fiscal 2015. Income from operations as a percentage of other net revenue decreased by 460 basis points primarily due to decreased net revenues, lower gross margin, deleverage of selling, general and administrative expenses, and due to an increased number of showrooms in new international markets which have a higher cost structure than North America.

**General Corporate Expense.** General corporate expense increased \$0.3 million, or 1%, to \$34.9 million for the second quarter of fiscal 2015 from \$34.6 million for the second quarter of fiscal 2014. This was primarily due to increased head office costs as a result of the overall growth of our business and investment in strategic initiatives and projects.

#### Other Income, Net

Other income, net, decreased \$1.0 million, or 55%, to \$0.8 million for the second quarter of fiscal 2015 from \$1.9 million for the second quarter of fiscal 2014. The decrease was primarily due to less interest earned on our decreased cash and cash equivalents balance compared to the second quarter of fiscal 2014 and due to a higher proportion of cash held in the U.S., where we earn lower rates of interest. During fiscal 2014, we distributed dividends from foreign subsidiaries to the U.S. parent entity to fund the share repurchase program.

#### Provision for Income Taxes

Provision for income taxes decreased \$1.3 million, or 6%, to \$19.8 million in the second quarter of fiscal 2015 from \$21.0 million in the second quarter of fiscal 2014. In the second quarter of fiscal 2015, our effective tax rate was 29.3% compared to 30.1% in the second quarter of fiscal 2014.

#### Net Income

Net income decreased \$1.1 million to \$47.7 million for the second quarter of fiscal 2015 from \$48.7 million for the second quarter of fiscal 2014. The decrease in net income was primarily the result of an increase in selling, general and administrative expenses of \$16.0 million and a decrease in other income, net of \$1.0 million, partially offset by an

increase in gross profit of \$14.7 million and a decrease in provision for income taxes of \$1.3 million.

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## Twenty-Six Week Results

The following table summarizes key components of our results of operations for the twenty-six week periods ended August 2, 2015 and August 3, 2014. The operating results are expressed in dollar amounts. The percentages are presented as a percentage of net revenue.

|  | Twenty-Six Weeks Ended August 2, 2015 and August 3, 2014 |           |               |      |       |   |
|--|--|-----------|---------------|------|-------|---|
|  | 2015   | 2014      | 2015          | 2014 |       |   |
|  | (In thousands)   |           | (Percentages) |      |       |   |
| Net revenue                                  | \$876,554  | \$775,326 | 100.0         | %    | 100.0 | % |
| Cost of goods sold                           | 458,652  | 382,275   | 52.3          |      | 49.3  |   |
| Gross profit                                 | 417,902  | 393,051   | 47.7          |      | 50.7  |   |
| Selling, general and administrative expenses | 283,287  | 255,362   | 32.3          |      | 32.9  |   |
| Income from operations                       | 134,615  | 137,689   | 15.4          |      | 17.8  |   |
| Other income, net                            | 1,371  | 3,533     | 0.2           |      | 0.4   |   |
| Income before provision for income taxes     | 135,986  | 141,222   | 15.6          |      | 18.2  |   |
| Provision for income taxes                   | 40,508   | 73,493    | 4.7           |      | 9.5   |   |
| Net income                                   | \$95,478   | \$67,729  | 10.9          | %    | 8.7   | % |
| Net Revenue                                  |  |           |               |      |       |   |

Net revenue increased \$101.2 million, or 13%, to \$876.6 million for the first two quarters of fiscal 2015 from \$775.3 million for the first two quarters of fiscal 2014. Assuming the average exchange rates for the first two quarters of fiscal 2015 remained constant with average exchange rates for the first two quarters of fiscal 2014, our net revenue would have increased \$137.0 million, or 18%.

The net revenue increase was driven by sales from new company-operated stores and the growth of our direct to consumer segment. Total comparable sales, which includes comparable store sales and direct to consumer, increased 4% in the first two quarters of fiscal 2015. Excluding the effect of foreign currency fluctuations, total comparable sales would have increased 8%.

Our net revenue on a segment basis for the twenty-six week periods ended August 2, 2015 and August 3, 2014 is summarized below. Net revenue is expressed in dollar amounts. The percentages are presented as a percentage of total net revenue.

|                         | Twenty-Six Weeks Ended August 2, 2015 and August 3, 2014 |           |               |      |       |   |
|-------------------------|--|-----------|---------------|------|-------|---|
|                         | 2015   | 2014      | 2015          | 2014 |       |   |
|                         | (In thousands)   |           | (Percentages) |      |       |   |
| Company-operated stores | \$653,873  | \$582,142 | 74.6          | %    | 75.1  | % |
| Direct to consumer      | 165,875  | 129,455   | 18.9          |      | 16.7  |   |
| Other                   | 56,806   | 63,729    | 6.5           |      | 8.2   |   |
| Net revenue             | \$876,554  | \$775,326 | 100.0         | %    | 100.0 | % |

Company-operated Stores. Net revenue from our company-operated stores segment increased \$71.7 million, or 12%, to \$653.9 million in the first two quarters of fiscal 2015 from \$582.1 million in the first two quarters of fiscal 2014. Net revenue from company-operated stores we opened subsequent to August 3, 2014, and therefore not included in comparable store sales, contributed \$82.5 million to the increase. We have opened 66 new company-operated stores since the second quarter of fiscal 2014, including 53 stores in the United States, six stores in Canada, three stores in the United Kingdom, two stores in Singapore, and one store in each of Australia and Hong Kong. The increase in net revenue from our company-operated stores segment was offset by a comparable store sales decrease of 2% in the first two quarters of fiscal 2015, which resulted in a \$10.7 million decrease to net revenue, including the effect of foreign currency fluctuations. Excluding the effect of foreign currency fluctuations, comparable store sales would have increased 2%, or \$11.8 million, in the first two quarters of fiscal 2015. The increase in comparable store sales, excluding the effect of foreign currency fluctuations, was primarily as a result of increased traffic and increased dollar

value per transaction.

Direct to Consumer. Net revenue from our direct to consumer segment increased \$36.4 million, or 28%, to \$165.9 million in the first two quarters of fiscal 2015 from \$129.5 million in the first two quarters of fiscal 2014. Excluding the effect of

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foreign exchange fluctuations, direct to consumer revenue would have increased 33%. The increase in net revenue was primarily the result of higher conversion rates and traffic on our e-commerce websites, including traffic driven by our Canadian and U.S. online warehouse sales held during the second quarter of fiscal 2015.

Other. Other net revenue decreased \$6.9 million, or 11%, to \$56.8 million in the first two quarters of fiscal 2015 from \$63.7 million in the first two quarters of fiscal 2014. This decrease was primarily the result of a warehouse sale held during the first quarter of fiscal 2014 as well as fewer temporary locations being open during the first two quarters of fiscal 2015 compared to the first two quarters of fiscal 2014 and decreased outlet sales.

Gross Profit

Gross profit increased \$24.9 million, or 6%, to \$417.9 million for the first two quarters of fiscal 2015 from \$393.1 million for the first two quarters of fiscal 2014.

Gross profit as a percentage of net revenue, or gross margin, decreased by 300 basis points, to 47.7% in the first two quarters of fiscal 2015 from 50.7% in the first two quarters of fiscal 2014. The decrease in gross margin was primarily the result of:

an increase in fixed costs, including occupancy costs and depreciation, relative to the increase in net revenue, which contributed to a decrease in gross margin of 130 basis points. This was primarily due lease renewals, store relocations and renovations, and international expansion;

- an increase in air freight costs of 70 basis points;

an unfavorable impact of foreign exchange rates which contributed to a decrease in gross margin of 70 basis points; and

a decrease in product margin of 30 basis points.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$27.9 million, or 11%, to \$283.3 million in the first two quarters of fiscal 2015 from \$255.4 million in the first two quarters of fiscal 2014. The increase in selling, general and administrative expenses was principally comprised of:

an increase in employee costs of \$17.4 million primarily from a growth in labor hours and bonuses associated with new company-operated stores and showrooms;

an increase in head office costs of \$7.7 million primarily as a result of increased marketing costs, professional fees, and head office employee costs;

an increase in variable costs such as credit card fees, distribution costs, and packaging, of \$4.2 million primarily as a result of new company-operated stores as well as increased sales volume from our direct to consumer segment; and

an increase in other costs, including repairs and maintenance costs, of \$2.5 million.

The increase in selling, general and administrative expenses was partially offset by an increase in net foreign exchange revaluation gains of \$3.9 million.

As a percentage of net revenue, selling, general and administrative expenses decreased 60 basis points, to 32.3% in the first two quarters of fiscal 2015 from 32.9% in the first two quarters of fiscal 2014.

Income from Operations

Income from operations decreased \$3.1 million, or 2%, to \$134.6 million in the first two quarters of fiscal 2015 from \$137.7 million in the first two quarters of fiscal 2014. The decrease was primarily the result of an increase in selling, general and administrative costs of \$27.9 million, partially offset by increased gross profit of \$24.9 million.

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

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Income from operations before general corporate expenses for the twenty-six week periods ended August 2, 2015 and August 3, 2014 is summarized below and is expressed in dollar amounts. The percentages are presented as a percentage of net revenue of the respective operating segments.

|   | Twenty-Six Weeks Ended August 2, 2015 and August 3, 2014 |            |               |        |
|---|--|------------|---------------|--------|
|   | 2015   | 2014       | 2015          | 2014   |
|   | (In thousands)   |            | (Percentages) |        |
| Company-operated stores                                 | \$ 136,664   | \$ 150,596 | 20.9          | % 25.9 |
| Direct to consumer                                      | 67,121   | 51,182     | 40.5          | 39.5   |
| Other   | 2,801  | 6,786      | 4.9           | 10.6   |
| Income from operations before general corporate expense | 206,586  | 208,564    |               |        |
| General corporate expense                               | 71,971   | 70,875     |               |        |
| Income from operations                                  | \$ 134,615   | \$ 137,689 |               |        |

**Company-operated Stores.** Income from operations from our company-operated stores segment decreased \$13.9 million, or 9%, to \$136.7 million for the first two quarters of fiscal 2015 from \$150.6 million for the first two quarters of fiscal 2014 primarily due to an increase in employee costs as well as operating expenses associated with new stores partially offset by increased gross profit of \$12.4 million. Income from operations as a percentage of company-operated stores revenue decreased by 500 basis points primarily due to lower gross margin and deleverage of selling, general and administrative expenses.

**Direct to Consumer.** Income from operations from our direct to consumer segment increased \$15.9 million, or 31%, to \$67.1 million for the first two quarters of fiscal 2015 from \$51.2 million for the first two quarters of fiscal 2014. The increase was primarily the result of increased gross profit of \$16.7 million primarily due to increased net revenue resulting from higher conversion rates and increased traffic on our e-commerce websites, partially offset by increased selling, general and administrative expenses related to our long-term strategy for developing this channel. Income from operations as a percentage of direct to consumer revenue increased by 100 basis points.

**Other.** Other income from operations decreased \$4.0 million, or 59%, to \$2.8 million for the first two quarters of fiscal 2015 from \$6.8 million for the first two quarters of fiscal 2014. The decrease was primarily the result of decreased gross profit of \$4.3 million in the second quarter of fiscal 2015. Income from operations as a percentage of other net revenue decreased by 570 basis points primarily due to decreased net revenues, lower gross margin, deleverage of selling, general and administrative expenses, and due to an increased number of showrooms in new international markets which have a higher cost structure than North America.

**General Corporate Expense.** General corporate expense increased \$1.1 million, or 2%, to \$72.0 million for the first two quarters of fiscal 2015 from \$70.9 million for the first two quarters of fiscal 2014. This was primarily due to increased head office costs as a result of the overall growth of our business and investment in strategic initiatives and projects.

#### Other Income, Net

Other income, net decreased \$2.2 million, or 61%, to \$1.4 million in the first two quarters of fiscal 2015 from \$3.5 million in the first two quarters of fiscal 2014. The decrease was primarily due to less interest earned on our decreased cash and cash equivalents balance compared to the first two quarters of fiscal 2014 and due to a higher proportion of cash held in the U.S., where we earn lower rates of interest. During fiscal 2014, we distributed dividends from foreign subsidiaries to the U.S. parent entity to fund the share repurchase program.

#### Provision for Income Taxes

Provision for income taxes decreased \$33.0 million, or 45%, to \$40.5 million in the first two quarters of fiscal 2015 from \$73.5 million in the first two quarters of fiscal 2014. In the first two quarters of fiscal 2015, our effective tax rate was 29.8% compared to 52.0% in the first two quarters of fiscal 2014. The decrease in our effective tax rate was a result of a tax expense of \$31.3 million recorded during the first two quarters of fiscal 2014 to provide for U.S. income and applicable foreign withholding taxes on dividends which were distributed during fiscal 2014 from foreign

subsidiaries to the U.S. parent entity to fund the share repurchase program.

Net Income

Net income increased \$27.8 million to \$95.5 million for the first two quarters of fiscal 2015 from \$67.7 million for the first two quarters of fiscal 2014. The increase in net income was primarily a result of a decrease in provision for income taxes

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of \$33.0 million and an increase in gross profit of \$24.9 million, partially offset by an increase in selling, general and administrative expenses of \$27.9 million and a decrease in other income, net of \$2.2 million.

**Non-GAAP Financial Measures**

Net revenue changes in constant dollars, total comparable sales in constant dollars, comparable store sales in constant dollars, and changes in direct to consumer net revenue in constant dollars are non-GAAP performance measures.

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

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

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

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

**Constant dollar changes in net revenue**

|  | Thirteen Weeks Ended August 2, 2015 and August 3, 2014 |          |               |      |   |  |
|--|--|----------|---------------|------|---|--|
|  | 2015   | 2014     | 2015          | 2014 |   |  |
|  | (In thousands)   |          | (Percentages) |      |   |  |
| Net revenue increase                             | \$62,302   | \$46,195 | 16            | % 13 | % |  |
| Adjustments due to foreign exchange rate changes | 20,293   | 5,082    | 5             | 2    |   |  |
| Net revenue increase in constant dollars         | \$82,595   | \$51,277 | 21            | % 15 | % |  |

|  | Twenty-Six Weeks Ended August 2, 2015 and August 3, 2014 |           |               |      |   |  |
|--|--|-----------|---------------|------|---|--|
|  | 2015   | 2014      | 2015          | 2014 |   |  |
|  | (In thousands)   |           | (Percentages) |      |   |  |
| Net revenue increase                             | \$101,228  | \$85,031  | 13            | % 12 | % |  |
| Adjustments due to foreign exchange rate changes | 35,788   | 15,212    | 5             | 3    |   |  |
| Net revenue increase in constant dollars         | \$137,016  | \$100,243 | 18            | % 15 | % |  |

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## Constant dollar total comparable sales

|   | Thirteen Weeks Ended August 2, 2015 and August 3, 2014 |      | Twenty-Six Weeks Ended August 2, 2015 and August 3, 2014 |      |    |
|---|--|------|--|------|----|
|   | 2015<br>(Percentages)                                  | 2014 | 2015<br>(Percentages)                                    | 2014 |    |
| Total comparable sales <sup>1</sup>                     | 6  | % (1 | )% 4   | % (1 | )% |
| Adjustments due to foreign exchange rate changes        | 5  | 1    | 4  | 2    |    |
| Total comparable sales in constant dollars <sup>1</sup> | 11   | % —  | % 8  | % 1  | %  |

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

## Constant dollar comparable store sales

|   | Thirteen Weeks Ended August 2, 2015 and August 3, 2014 |           |                       |      |    |
|---|--|-----------|-----------------------|------|----|
|   | 2015<br>(In thousands)                                 | 2014      | 2015<br>(Percentages) | 2014 |    |
| Comparable store sales <sup>1</sup>                     | \$ 1,390   | \$(18,914 | ) 1                   | % (7 | )% |
| Adjustments due to foreign exchange rate changes        | 12,833   | 3,382     | 5                     | 2    |    |
| Comparable store sales in constant dollars <sup>1</sup> | \$ 14,223  | \$(15,532 | ) 6                   | % (5 | )% |

|   | Twenty-Six Weeks Ended August 2, 2015 and August 3, 2014 |             |                       |       |    |
|---|--|-------------|-----------------------|-------|----|
|   | 2015<br>(In thousands)                                   | 2014        | 2015<br>(Percentages) | 2014  |    |
| Comparable store sales <sup>1</sup>                     | \$(10,748  | ) \$(36,258 | ) (2                  | )% (7 | )% |
| Adjustments due to foreign exchange rate changes        | 22,531   | 10,126      | 4                     | 2     |    |
| Comparable store sales in constant dollars <sup>1</sup> | \$ 11,783  | \$(26,132   | ) 2                   | % (5  | )% |

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

## Constant dollar changes in direct to consumer revenue

|  | Thirteen Weeks Ended August 2, 2015 and August 3, 2014 |      | Twenty-Six Weeks Ended August 2, 2015 and August 3, 2014 |      |   |
|--|--|------|--|------|---|
|  | 2015<br>(Percentages)                                  | 2014 | 2015<br>(Percentages)                                    | 2014 |   |
| Change in direct to consumer revenue                     | 30   | % 29 | % 28   | % 25 | % |
| Adjustments due to foreign exchange rate changes         | 5  | 1    | 5  | 2    |   |
| Change in direct to consumer revenue in constant dollars | 35   | % 30 | % 33   | % 27 | % |

## Seasonality

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

## Liquidity and Capital Resources

Our primary sources of liquidity are our current balances of cash and cash equivalents, cash flows from operations and borrowings available under our revolving credit facility. Our primary cash needs are capital expenditures for opening new stores and remodeling existing stores, making information technology system enhancements and funding working capital requirements. We 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.

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At August 2, 2015, our working capital (excluding cash and cash equivalents) was \$228.9 million and our cash and cash equivalents were \$541.3 million.

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

|  | Twenty-Six Weeks Ended August 2,<br>2015 and August 3, 2014 |           |
|--|---|-----------|
|  | 2015  | 2014      |
|  | (In thousands)  |           |
| Total cash provided by (used in):                |   |           |
| Operating activities                             | \$32,161  | \$123,985 |
| Investing activities                             | (65,118)  | (52,102)  |
| Financing activities                             | (78,837)  | (57,167)  |
| Effect of exchange rate changes on cash          | (11,423)  | 11,708    |
| (Decrease) increase in cash and cash equivalents | \$(123,217)   | \$26,424  |

**Operating Activities**

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

Cash provided by operating activities decreased \$91.8 million, to \$32.2 million for the second quarter of fiscal 2015 compared to \$124.0 million for the second quarter of fiscal 2014. The decrease was primarily the result of increased inventory purchased during the first two quarters of fiscal 2015 compared to the first two quarters of fiscal 2014 as well as an increase in prepaid taxes. Inventory increased during the first two quarters of fiscal 2015 primarily due to the opening of new stores, increased inventory levels to support the sales growth in our direct to consumer and store segments, and due to the timing of product deliveries.

**Investing Activities**

Investing Activities relate entirely to capital expenditures. Cash used in investing activities increased \$13.0 million to \$65.1 million for the first two quarters of fiscal 2015 from \$52.1 million for the first two quarters of fiscal 2014. The increase was primarily the result of increased capital expenditures related to new company-operated stores as well as computer software to support our growth.

**Financing Activities**

Financing Activities consist primarily of cash used to repurchase shares of our common stock, cash received on the exercise of stock options, taxes paid related to the net share settlement of stock-based compensation, and excess tax benefits from stock-based compensation. Cash used in financing activities increased \$21.7 million, to \$78.8 million for the first two quarters of fiscal 2015 compared to \$57.2 million for the first two quarters of fiscal 2014. We began our stock repurchase program in the second quarter of fiscal 2014, and our cash used in financing activities for the first two quarters of fiscal 2015 included \$82.0 million to repurchase 1.3 million shares compared to \$55.8 million to repurchase 1.4 million shares for the first two quarters of fiscal 2014.

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

**Revolving Credit Facility**

In November 2013, we entered into unsecured demand revolving credit facilities with HSBC Bank Canada and Bank of America, N.A., Canada Branch, for up to \$15.0 million in the aggregate to support the issuance of letters of credit and to fund

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our working capital requirements. Borrowings under the uncommitted credit facilities are made on a when-and-as-needed basis at our discretion. These facilities were renewed for a one year period in November 2014. Borrowings under the credit facility can be made either as (i) U.S. Dollar Loans - U.S. Dollar Loans bear interest at a rate equal to U.S. LIBOR plus 100 basis points or U.S. prime rate, at our option; (ii) Letters of Credit - Borrowings drawn down under standby letters of credit issued by the banks bear a fee of 100 basis points; and (iii) CDN Dollar Loans - CDN Dollar Loans bear interest at a rate equal to the CDOR Rate plus 100 basis points or the Canadian Prime Rate, at our option.

At August 2, 2015, aside from letters of credit, there were no borrowings outstanding under these credit facilities.

Off-Balance Sheet Arrangements

We enter into standby letters of credit to secure certain of our obligations, including leases, taxes and duties. As of August 2, 2015, letters of credit totaling \$3.1 million have been issued.

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

Critical Accounting Policies

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

Operating Locations

Our company-operated stores by brand and by country as of August 2, 2015 and February 1, 2015, are summarized in the table below.

|                     | August 2,<br>2015 | February 1,<br>2015 |
|---------------------|-------------------|---------------------|
| lululemon athletica |                   |                     |
| United States       | 215               | 200                 |
| Canada              | 48                | 46                  |
| Australia           | 26                | 26                  |
| New Zealand         | 5                 | 5                   |
| United Kingdom      | 4                 | 2                   |
| Singapore           | 2                 | 1                   |
| Hong Kong           | 1                 | —                   |
|                     | 301               | 280                 |
| ivivva athletica    |                   |                     |
| United States       | 23                | 11                  |
| Canada              | 12                | 11                  |
|                     | 35                | 22                  |
| Total               | 336               | 302                 |

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

We currently generate a significant portion of our net revenue and incur a significant portion of our expenses in Canada. 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 strengthening of the U.S. dollar against the Canadian dollar results in: a decrease in our net revenue upon translation of the sales made by our Canadian operations into U.S. dollars for the purposes of consolidation; a decrease in our selling, general and administrative expenses incurred by our Canadian operations into U.S. dollars for the purposes of consolidation; and foreign exchange gains by our Canadian subsidiaries on U.S. dollar cash and receivables denominated in U.S. dollars.

During the first two quarters of fiscal 2015, the change in the relative value of the U.S. dollar against the Canadian dollar resulted in a \$18.1 million increase in accumulated other comprehensive loss within stockholders' equity. During the first two quarters of fiscal 2014, the change in the relative value of the U.S. dollar against the Canadian dollar resulted in a \$15.7 million reduction in accumulated other comprehensive loss within stockholders' equity. A 10% appreciation in the relative value of the U.S. dollar against the Canadian dollar compared to the exchange rates in effect for the first two quarters of fiscal 2015 would have resulted in additional income from operations of approximately \$1.7 million in the first two quarters of fiscal 2015. This assumes a consistent 10% appreciation in the U.S. dollar against the Canadian dollar throughout the first two quarters of fiscal 2015. 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.

We have not historically hedged foreign currency fluctuations. However, in the future, in an effort to mitigate losses associated with these risks, we may at times enter into derivative financial instruments, although we have not historically done so. We do not, and do not intend to, engage in the practice of trading derivative securities for profit. Interest Rate Risk. Our revolving credit facilities provide us with available borrowings in amount up to \$15.0 million in the aggregate. Because our revolving credit facilities bear interest at a variable rate, we will be exposed to market risks relating to changes in interest rates, if we have a meaningful outstanding balance. As of August 2, 2015, aside from letters of credit, we had no outstanding balances under our revolving facilities. We currently do not engage in any interest rate hedging activity and currently have no intention to do so in the foreseeable future. However, in the future, if we have a meaningful outstanding balance under our revolving facility, in an effort to mitigate losses associated with these risks, we may at times enter into derivative financial instruments, although we have not historically done so. These may take the form of forward contracts, option contracts, or interest rate swaps. We do not, and do not intend to, engage in the practice of trading derivative securities for profit.

Inflation

Inflationary factors such as increases in the cost of our product and overhead costs may adversely affect our operating results. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, a high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of gross margin

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and selling, general and administrative expenses as a percentage of net revenue if the selling prices of our products do not increase with these increased costs.

**ITEM 4. CONTROLS AND PROCEDURES**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, or the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), to allow timely decisions to be made regarding required disclosure. We have established a Disclosure Committee, consisting of certain members of management, to assist in this evaluation. The Disclosure Committee meets on a quarterly basis, and as needed. Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act), at August 2, 2015. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, at August 2, 2015, our disclosure controls and procedures were effective.

There was no change in internal control over financial reporting during the thirteen weeks ended August 2, 2015 that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

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PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

On July 2, 2013, plaintiff Houssam Alkhoury filed a putative shareholder class action entitled *Alkhoury v. lululemon athletica inc., et al.*, No. 13-CV-4596 (S.D.N.Y.) against lululemon, a certain director and a certain officer of ours. This proceeding is discussed in our Annual Report on Form 10-K filed with the SEC on March 26, 2015, and in its Quarterly Report on Form 10-Q filed with the SEC on June 9, 2015. On April 18, 2014, the Court dismissed all of Lead Plaintiff's claims for failure to state a claim. Lead Plaintiff appealed this decision and on May 15, 2015, the Court of Appeals dismissed the plaintiff's appeal.

On July 15, 2015, plaintiffs Hallandale Beach Police Officers and Firefighters' Personnel Retirement Fund and Laborers' District Council Industry Pension Fund filed in the Delaware Court of Chancery a derivative lawsuit on behalf of lululemon against certain of our current and former directors, captioned *Laborers' District Council Industry Pension Fund v. Bensoussan, et al.*, C.A. No. 11293-CB. Plaintiffs claim that the individual defendants breached their fiduciary duties to lululemon by allegedly failing to investigate certain trades of lululemon stock owned by Dennis J. Wilson in 2013. Plaintiffs also claim that Mr. Wilson breached his fiduciary duties by making his broker aware of certain non-public, material events prior to executing sales of lululemon stock on Mr. Wilson's behalf. On August 18, 2015, the individual defendants (including Mr. Wilson) filed motions to dismiss the action pursuant to Court of Chancery Rules 23.1 and 12(b)(6) for failure to adequately plead that demand on the board was excused and for failure to state a claim upon which relief may be granted. Also on August 18, 2015, we filed a motion to dismiss the action pursuant to Court of Chancery Rule 23.1 for failure to adequately plead that demand on the board was excused. We have indemnification agreements with certain of our current and former officers and directors that may require us, among other things, to indemnify such current or former officers and directors against certain liabilities that may arise by reason of their status or service as directors or officers and to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified.

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

ITEM 1A. RISK FACTORS

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

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

Our success depends on the value and reputation of the lululemon athletica brand. The lululemon athletica name is integral to our business as well as to the implementation of our strategies for expanding our business. Maintaining, promoting and positioning our brand will depend largely on the success of our marketing and merchandising efforts

and our ability to provide a consistent, high quality product and guest experience. We rely on social media, as one of our marketing strategies, to have a positive impact on both our brand value and reputation. Our brand and reputation could be adversely affected if we fail to achieve these objectives, if our public image was to be tarnished by negative publicity, if we fail to deliver innovative and high quality products acceptable to our guests, or if we face a product recall. Negative publicity regarding the production methods of any of our suppliers or manufacturers could adversely affect our reputation and sales and force us to locate

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alternative suppliers or manufacturing sources. Additionally, while we devote considerable efforts and resources to protecting our intellectual property, if these efforts are not successful the value of our brand may be harmed. Any harm to our brand and reputation could have a material adverse effect on our financial condition.

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

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

Our reliance on suppliers to provide fabrics for and to produce our products could cause problems in our supply chain. We do not manufacture our products or the raw materials for them and rely instead on suppliers. Many of the specialty fabrics used in our products are technically advanced textile products developed and manufactured by third parties and may be available, in the short-term, from only one or a very limited number of sources. For example, Luon fabric, which is included in many of our products, is supplied to the garment factories we use by a limited number of manufacturers, and the components used in manufacturing Luon fabric may each be supplied to our manufacturers by single companies. In fiscal 2014, approximately 63% of our products were produced by our top five manufacturing suppliers, 40% of raw materials were produced by a single manufacturer. We have no long-term contracts with any of our suppliers or manufacturing sources for the production and supply of our fabrics and garments, and we compete with other companies for fabrics, raw materials, production and import quota capacity.

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

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

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

our key markets, particularly in North America. Our sensitivity to economic cycles and any related fluctuation in consumer demand may have a material adverse effect on our financial condition.

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

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

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

In addition, because we 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 sales and profitability may decline as a result of increasing product costs and decreasing selling prices.

Our business is subject to significant pressure on pricing and costs caused by many factors, including intense competition, constrained sourcing capacity and related inflationary pressure, pressure from consumers to reduce the prices we charge for our products and changes in consumer demand. These factors may cause us to experience increased costs, reduce our prices to consumers or experience reduced sales in response to increased prices, any of which could cause our operating margin to decline if we are unable to offset these factors with reductions in operating costs and could have a material adverse effect on our financial conditions, operating results and cash flows.

If we are unable to anticipate consumer preferences and successfully develop and introduce new, innovative and updated products, we may not be able to maintain or increase our sales and profitability.

Our success depends on our ability to identify and originate product trends as well as to anticipate and react to changing consumer demands in a timely manner. All of our products are subject to changing consumer preferences that cannot be predicted with certainty. If we are unable to introduce new products or novel technologies in a timely manner or our new products or technologies are not accepted by our guests, our competitors may introduce similar products in a more timely fashion, which could hurt our goal to be viewed as a leader in technical athletic apparel innovation. Our new products may not receive consumer acceptance as consumer preferences could shift rapidly to different types of athletic apparel or away from these types of products altogether, and our future success depends in part on our ability to anticipate and respond to these changes. Our failure to anticipate and respond in a timely manner to changing consumer preferences could lead to, among other things, lower sales and excess inventory levels. Even if we are successful in anticipating consumer preferences, our ability to adequately react to and address those preferences will in part depend upon our continued ability to develop and introduce innovative, high-quality products.

Our failure to effectively introduce new products that are accepted by consumers could result in a decrease in net revenue and excess inventory levels, which could have a material adverse effect on our financial condition.

Our results of operations could be materially harmed if we are unable to accurately forecast guest demand for our products.

To ensure adequate inventory supply, we must forecast inventory needs and place orders with our manufacturers based on our estimates of future demand for particular products. Our ability to accurately forecast demand for our products could be affected by many factors, including an increase or decrease in guest demand for our products or for products of our

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competitors, our failure to accurately forecast guest acceptance of new products, product introductions by competitors, unanticipated changes in general market conditions, and weakening of economic conditions or consumer confidence in future economic conditions. If we fail to accurately forecast guest demand we may experience excess inventory levels or a shortage of products available for sale in our stores or for delivery to guests.

Inventory levels in excess of guest demand may result in inventory write-downs or write-offs and the sale of excess inventory at discounted prices, which would cause our gross margin to suffer and could impair the strength and exclusivity of our brand. Conversely, if we underestimate guest demand for our products, our manufacturers may not be able to deliver products to meet our requirements, and this could result in damage to our reputation and guest relationships.

Our inability to safeguard against security breaches with respect to our information technology systems could disrupt our operations.

Our business employs systems and websites that allow for the storage and transmission of proprietary or confidential information regarding our business, guests and employees including credit card information. Security breaches could expose us to a risk of loss or misuse of this information and potential liability. We may not have the resources or technical sophistication to be able to anticipate or prevent rapidly evolving types of cyber-attacks. Actual or anticipated attacks may cause us to incur increasing costs including costs to deploy additional personnel and protection technologies, train employees and engage third party experts and consultants. Advances in computer capabilities, new technological discoveries or other developments may result in the technology used by us to protect transaction or other data being breached or compromised. Data and security breaches can also occur as a result of non-technical issues including intentional or inadvertent breach by employees or persons with whom we have commercial relationships that result in the unauthorized release of personal or confidential information. Any compromise or breach of our security could result in a violation of applicable privacy and other laws, significant litigation and potential liability and damage to our brand and reputation or other harm to our business.

Any material disruption of our information systems could disrupt our business and reduce our sales.

We are increasingly dependent on information systems to operate our e-commerce websites, process transactions, respond to guest inquiries, manage inventory, purchase, sell and ship goods on a timely basis and maintain cost-efficient operations. Any material disruption or slowdown of our systems, including a disruption or slowdown caused by our failure to successfully upgrade our systems, system failures, viruses, computer "hackers" or other causes, could cause information, including data related to guest orders, to be lost or delayed which could-especially if the disruption or slowdown occurred during the holiday season-result in delays in the delivery of products to our stores and guests or lost sales, which could reduce demand for our products and cause our sales to decline. If changes in technology cause our information systems to become obsolete, or if our information systems are inadequate to handle our growth, we could lose guests.

If we continue to grow at a rapid pace, we may not be able to effectively manage our growth and the increased complexity of our business and as a result our brand image and financial performance may suffer.

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

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

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

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

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

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

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

Our fabrics and manufacturing technology 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. We cannot assure you that the steps taken by us to protect our intellectual property rights will be adequate to prevent infringement of such rights by others, including imitation of our products and misappropriation of our brand. In addition, intellectual property protection may be unavailable or limited in some foreign countries where laws or law enforcement practices may not protect our intellectual property rights as fully as in the United States or Canada, and it may be more difficult for us to successfully challenge the use of our intellectual property rights by other parties in these countries. If we fail to protect and maintain our intellectual property rights, the value of our brand could be diminished and our competitive position may suffer.

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

We lease the majority of our stores under operating leases and our inability to secure appropriate real estate or lease terms could impact our ability to grow. Our leases generally have initial terms of between five and ten years, and generally can be extended only in five-year increments if at all. We generally cannot cancel these leases at our option. If an existing or new store is not profitable, and we decide to close it, as we have done in the past and may do in the

future, we may nonetheless be committed to perform our obligations under the applicable lease including, among other things, paying the base rent for the balance of the lease term. Similarly, we may be committed to perform our obligations under the applicable leases even if current locations of our stores become unattractive as demographic patterns change. In addition, as each of our leases expire, we may fail to negotiate renewals, either on commercially acceptable terms or at all, which could require us to close stores in desirable locations.

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

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

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

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

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

- identify suitable store locations, the availability of which is outside of our control;
- negotiate acceptable lease terms, including desired tenant improvement allowances;
- hire, train and retain store personnel and field management;
- immerse new store personnel and field management into our corporate culture;
- source sufficient inventory levels; and
- successfully integrate new stores into our existing operations and information technology systems.

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

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

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

Our international operations are also subject to compliance with the U.S. Foreign Corrupt Practices Act, or FCPA, and other anti-bribery laws applicable to our operations. In many foreign countries, particularly in those with developing economies, it may be a local custom that businesses operating in such countries engage in business practices that are

prohibited by the FCPA or other U.S. and foreign laws and regulations applicable to us. Although we have implemented procedures designed to ensure compliance with the FCPA and similar laws, there can be no assurance that all of our employees, agents and other channel partners, as well as those companies to which we outsource certain of our business operations, will not take actions in violation of our policies. Any such violation could have a material and adverse effect on our business.



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

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

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

Our business is affected by seasonality.

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

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

The functional currency of our foreign subsidiaries is generally the applicable local currency. Our consolidated financial statements are presented in U.S. dollars. Therefore, the net revenues, expenses, assets and liabilities of our foreign subsidiaries are translated from their functional currencies into U.S. dollars. Fluctuations in the value of the U.S. Dollar affect the reported amounts of net revenue, expenses, assets and liabilities. Foreign exchange differences which arise on translation of our foreign subsidiaries' balance sheets into U.S. dollars are recorded as a cumulative translation adjustment in accumulated other comprehensive income within stockholders' equity. We also have exposure to changes in foreign exchange rates associated with transactions which are undertaken by our subsidiaries in currencies other than their functional currency. Such transactions include intercompany transactions and inventory purchases denominated in currencies other than the functional currency of the purchasing entity. As a result, we have been impacted by changes in exchange rates and may be impacted materially for the foreseeable future. The potential impact of currency fluctuation increases as international expansion increases.

We currently generate a significant portion of our net revenue and incur a significant portion of our expenses in Canada. 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 strengthening of the U.S. dollar against the Canadian dollar results in: a decrease in our net revenue upon translation of the sales made by our Canadian operations into U.S. dollars for the purposes of consolidation;

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

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

During the first two quarters of fiscal 2015, the change in the relative value of the U.S. dollar against the Canadian dollar resulted in a \$18.1 million increase in accumulated other comprehensive loss within stockholders' equity.

During the first two quarters of fiscal 2014, the change in the relative value of the U.S. dollar against the Canadian dollar resulted in a \$15.7 million reduction in accumulated other comprehensive loss within stockholders' equity.

A 10% appreciation in the relative value of the U.S. dollar against the Canadian dollar compared to the exchange rates in effect for the first two quarters of fiscal 2015 would have resulted in additional income from operations of approximately \$1.7 million in the first two quarters of fiscal 2015. This assumes a consistent 10% appreciation in the

U.S. dollar against the Canadian dollar throughout the first two quarters of fiscal 2015. 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.

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

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

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

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

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

The United States and the countries in which our products are produced or sold internationally have imposed and may impose additional quotas, duties, tariffs, or other restrictions or regulations, or may adversely adjust prevailing quota, duty or tariff levels. We have expanded our relationships with suppliers outside of China, which among other things has resulted in increased costs and shipping times for some products. Countries impose, modify and remove tariffs and other trade restrictions in response to a diverse array of factors, including global and national economic and political conditions, which make it impossible for us to predict future developments regarding tariffs and other trade restrictions. Trade restrictions, including tariffs, quotas, embargoes, safeguards and customs restrictions, could increase the cost or reduce the supply of products available to us or may require us to modify our supply chain organization or other current business practices, any of which could harm our business, financial condition and results of operations.

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

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

Successful infringement claims against us could result in significant monetary liability or prevent us from selling some of our products. In addition, resolution of claims may require us to redesign our products, license rights from third parties or cease using those rights altogether. Any of these events could harm our business and cause our results

of operations, liquidity and financial condition to suffer.

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

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

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

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.

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

The following table provides information regarding our purchases of shares of our common stock during the thirteen weeks ended August 2, 2015 related to our stock repurchase program:

| Period <sup>(1)</sup>         | Total Number of Shares Purchased <sup>(2)</sup> | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(2)</sup> | Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(2)</sup> |
|-------------------------------|---|------------------------------|---|---|
| May 4, 2015 - May 31, 2015    | 295,479   | \$63.86                      | 295,479   | \$264,964,678   |
| June 1, 2015 - July 5, 2015   | 379,120   | 64.43                        | 379,120   | 240,537,912   |
| July 6, 2015 - August 2, 2015 | 313,017   | 63.47                        | 313,017   | 220,669,923   |
| Total                         | 987,616   |                              | 987,616   |   |

<sup>(1)</sup> Monthly information is presented by reference to our fiscal periods during our second quarter of fiscal 2015.

Our stock repurchase program was approved by our board of directors in June 2014. Common shares are

<sup>(2)</sup> repurchased in the open market at prevailing market prices, with the timing and actual number of common shares to be repurchased depending upon market conditions, eligibility to trade, and other factors. The repurchases may be made up until June 2016, and the maximum dollar value of shares to be repurchased is \$450 million.

The following table provides information regarding our purchases of shares of our common stock during the thirteen weeks ended August 2, 2015 related to our Employee Share Purchase Plan:

| Period <sup>(1)</sup>         | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(2)</sup> | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(2)</sup> |
|-------------------------------|----------------------------------|------------------------------|---|---|
| May 4, 2015 - May 31, 2015    | 8,033                            | \$63.34                      | 8,033   | 5,248,869   |
| June 1, 2015 - July 5, 2015   | 12,156                           | 65.03                        | 12,156  | 5,236,713   |
| July 6, 2015 - August 2, 2015 | 8,595                            | 62.98                        | 8,595   | 5,228,118   |
| Total                         | 28,784                           |                              | 28,784  |   |

<sup>(1)</sup> Monthly information is presented by reference to our fiscal periods during our second quarter of fiscal 2015.

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

<sup>(2)</sup> exchange as we may designate from time to time). Unless our board of directors terminates the ESPP earlier, the ESPP will continue until all shares authorized for purchase under the ESPP have been purchased. The maximum number of shares authorized to be purchased under the ESPP is 6,000,000.

Excluded from this disclosure are shares repurchased to settle statutory employee tax withholding related to the vesting of stock-based compensation awards.

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## ITEM 6. EXHIBITS

| Exhibit No. | Exhibit Title  | Filed Herewith | Incorporated by Reference |                      | Filing Date |
|-------------|--|----------------|---------------------------|----------------------|-------------|
|             |  |                | Form                      | Exhibit No. File No. |             |
| 10.1*       | Executive Employment Agreement, effective as of June 4, 2015 between lululemon athletica inc. and Miguel Almeida   | X              |                           |                      |             |
| 10.2        | Second Amended and Restated Registration Rights Agreement, dated June 18, 2015, by and among lululemon athletica inc. and the parties named therein  | X              |                           |                      |             |
| 31.1        | Certification of Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a)   | X              |                           |                      |             |
| 31.2        | Certification of Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a)   | X              |                           |                      |             |
| 32.1**      | Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002   |                |                           |                      |             |
| 101         | The following financial statements from the Company's 10-Q for the fiscal quarter ended May 3, 2015, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations and Comprehensive Income, (iii) Consolidated Statements of Stockholders' Equity, (iv) Consolidated Statements of Cash Flows (v) Notes to the Consolidated Financial Statements | X              |                           |                      |             |

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

\*\* Furnished herewith

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SIGNATURES

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

lululemon athletica inc.

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

Dated: September 9, 2015

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## Exhibit Index

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