lululemon athletica inc.
Form 10-Q
June 12, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended May 4, 2014

or

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

For the transition period from to

Commission file number 001-33608

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

Delaware (State or other jurisdiction of incorporation or organization)	20-3842867 (I.R.S. Employer Identification No.)
1818 Cornwall Avenue, Vancouver, British Columbia (Address of principal executive offices)	V6J 1C7 (Zip Code)

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

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

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

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

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

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

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

At June 9, 2014, there were 115,523,575 shares of the registrant's common stock, par value $0.005 per share, outstanding.

Exchangeable and Special Voting Shares:

At June 9, 2014, there were outstanding 29,937,820 exchangeable shares of Lulu Canadian Holding, Inc., a wholly-owned subsidiary of the registrant. Exchangeable shares are exchangeable for an equal number of shares of the registrant's common stock.

In addition, at June 9, 2014, the registrant had outstanding 29,937,820 shares of special voting stock, through which the holders of exchangeable shares of Lulu Canadian Holding, Inc. may exercise their voting rights with respect to the registrant. The special voting stock and the registrant's common stock generally vote together as a single class on all matters on which the common stock is entitled to vote.

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PART I
FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
lululemon athletica inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

	May 4, 2014	February 2, 2014
	(Unaudited)	
	(Amounts in thousands, except per share amounts)	
ASSETS		
Current assets		
Cash and cash equivalents	$751,965	$698,649
Accounts receivable	7,849	11,903
Inventories	177,375	186,090
Prepaid expenses and other current assets	44,194	46,197
	981,383	942,839
Property and equipment, net	271,370	255,603
Goodwill and intangible assets, net	28,107	28,201
Deferred income tax asset	4,995	18,300
Other non-current assets	5,102	4,745
	$1,290,957	$1,249,688
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$6,960	$12,647
Accrued liabilities	43,698	42,310
Accrued compensation and related expenses	23,373	19,445
Income taxes payable	533	769
Unredeemed gift card liability	30,919	38,343
	105,483	113,514
Non-current liabilities	57,093	39,492
	162,576	153,006
Stockholders' equity		
Undesignated preferred stock, $0.01 par value, 5,000 shares authorized, none issued and outstanding	—	—
Exchangeable stock, no par value, 60,000 shares authorized, issued and outstanding 29,938 and 29,955	—	—
Special voting stock, $0.000005 par value, 60,000 shares authorized, issued and outstanding 29,938 and 29,955	—	—
Common stock, $0.005 par value, 400,000 shares authorized, issued and outstanding 115,504 and 115,342	578	577
Additional paid-in capital	240,678	240,351
Retained earnings	942,803	923,822
Accumulated other comprehensive loss	(55,678)	(68,068)
	1,128,381	1,096,682
	$1,290,957	$1,249,688

See accompanying notes to the interim consolidated financial statements

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lululemon athletica inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	Thirteen Weeks Ended May 4, 2014	Thirteen Weeks Ended May 5, 2013
	(Unaudited)	
	(Amounts in thousands, except per share amounts)	
Net revenue	$384,618	$345,782
Cost of goods sold	188,874	175,057
Gross profit	195,744	170,725
Selling, general and administrative expenses	125,943	104,836
Income from operations	69,801	65,889
Other income (expense), net	1,643	1,501
Income before provision for income taxes	71,444	67,390
Provision for income taxes	52,463	20,111
Net income	$18,981	$47,279
Basic earnings per share	$0.13	$0.33
Diluted earnings per share	$0.13	$0.32
Basic weighted-average number of shares outstanding	145,383	144,482
Diluted weighted-average number of shares outstanding	145,861	145,849
Other comprehensive income (loss):		
Foreign currency translation adjustment	12,390	(4,447)
Comprehensive income	$31,371	$42,832

See accompanying notes to the interim consolidated financial statements

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lululemon athletica inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Exchangeable Stock		Special Voting Stock		Common Stock					
	Shares	Par Value	Shares	Par Value	Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	(Unaudited) (Amounts in thousands)									
Balance at February 2, 2014	29,955	$—	29,955	$—	115,342	$577	$240,351	$923,822	$(68,068)	$1,096,682
Net income.								18,981		18,981
Foreign currency translation adjustment									12,390	12,390
Stock-based compensation							1,977			1,977
Common stock issued upon exchange of exchangeable shares	(17)	—	(17)	—	17	—	—			—
Stock options exercised					65	—	1,575			1,575
Common stock issued upon settlement of performance-based restricted stock units					146	1	(1)			—
Shares withheld related to net share settlement of performance-based restricted stock units					(66)	—	(3,224)			(3,224)
Balance at May 4, 2014	29,938	$—	29,938	$—	115,504	$578	$240,678	$942,803	$(55,678)	$1,128,381

See accompanying notes to the interim consolidated financial statements

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lululemon athletica inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Thirteen Weeks Ended May 4, 2014	Thirteen Weeks Ended May 5, 2013
	(Unaudited) (Amounts in thousands)	
Cash flows from operating activities		
Net income	$18,981	$47,279
Items not affecting cash		
Provision for inventories	(1,734)	17,153
Depreciation and amortization	12,460	11,729
Stock-based compensation	1,977	4,286
Deferred income taxes	30,946	—
Excess tax benefits from stock-based compensation	—	(280)
Other, including net changes in other non-cash balances		
Prepaid tax installments	5,900	(4,637)
Other prepaid expenses and other current assets	(53)	(3,069)
Inventories	11,241	(6,229)
Accounts payable	(5,805)	2,709
Accrued liabilities	1,092	7,847
Income taxes payable	(236)	(37,787)
Accrued compensation and related expenses	3,815	(8,749)
Other non-cash balances	(7,609)	(5,117)
Net cash provided by operating activities	70,975	25,135
Cash flows from investing activities		
Purchase of property and equipment	(25,447)	(20,976)
Net cash used in investing activities	(25,447)	(20,976)
Cash flows from financing activities		
Proceeds from exercise of stock options	1,575	163
Excess tax benefits from stock-based compensation	—	280
Taxes paid related to net share settlement of equity awards	(3,224)	(4,801)
Net cash used in financing activities	(1,649)	(4,358)
Effect of exchange rate changes on cash	9,437	(1,562)
Increase (decrease) in cash and cash equivalents	53,316	(1,761)
Cash and cash equivalents, beginning of period	$698,649	$590,179
Cash and cash equivalents, end of period	$751,965	$588,418

See accompanying notes to the interim consolidated financial statements

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lululemon athletica inc. and Subsidiaries
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except per share and store count information, unless otherwise indicated)

NOTE 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nature of operations

lululemon athletica inc., a Delaware corporation ("lululemon" and, together with its subsidiaries unless the context otherwise requires, the "Company") is engaged in the design, manufacture and distribution of healthy lifestyle inspired athletic apparel, which is sold through a chain of corporate-owned and operated retail stores, direct to consumer through e-commerce, showrooms, a network of wholesale accounts, outlets and warehouse sales. The Company's primary markets are the United States, Canada, Australia, New Zealand, and the United Kingdom, where 178, 54, 26, four, and one corporate-owned store(s) were in operation as of May 4, 2014, respectively. There were a total of 263 and 254 corporate-owned stores in operation as of May 4, 2014 and February 2, 2014, respectively.

Basis of presentation

The unaudited interim consolidated financial statements as of May 4, 2014 and for the thirteen weeks ended May 4, 2014 and May 5, 2013 are presented using the United States dollar and have been prepared by the Company under the rules and regulations of the Securities and Exchange Commission ("SEC"). In the opinion of management, the financial information is presented in accordance with United States generally accepted accounting principles ("GAAP") for interim financial information and, accordingly, does not include all of the information and footnotes required by GAAP for complete financial statements. The financial information as of February 2, 2014 is derived from the Company's audited consolidated financial statements and notes for the fiscal year ended February 2, 2014, included in Item 8 in the fiscal 2013 Annual Report on Form 10-K filed with the SEC on March 27, 2014. These unaudited interim consolidated financial statements reflect all adjustments which are in the opinion of management necessary to a fair statement of the results for the interim periods presented. These unaudited interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and related notes included in the Company's 2013 Annual Report on Form 10-K.

The Company’s fiscal year ends on the Sunday closest to January 31 of the following year, typically resulting in a 52 week year, but occasionally giving rise to an additional week, resulting in a 53 week year. Fiscal 2014 will end on February 1, 2015.

The Company's business is affected by the pattern of seasonality common to most retail apparel businesses. The results for the periods presented are not necessarily indicative of future financial results.

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS

In April 2014, the FASB amended ASC Topic 205 Presentation of Financial Statements ("ASC 205") and ASC Topic 360 Property, Plant, and Equipment ("ASC 360") to change the criteria for reporting discontinued operations. The amendments also require new disclosures about discontinued operations and disposals of components of an entity that do not qualify for discontinued operations reporting. This guidance is effective for public companies for years, and interim periods within those years, beginning on or after December 15, 2014, with early adoption permitted for disposals that have not been reported in financial statements previously issued or available for issuance. The Company adopted the amendment in first quarter of fiscal 2014 with no material impact on the Company's consolidated financial statements.

NOTE 3. STOCK-BASED COMPENSATION

Stock-based compensation plans

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

Stock-based compensation expense charged to income for the plans was $1,977 and $4,286 for the thirteen weeks ended May 4, 2014 and May 5, 2013, respectively. Total unrecognized compensation cost for all stock-based compensation plans was $26,829 at May 4, 2014, which is expected to be recognized over a weighted-average period of 2.7 years.

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Company stock options, performance-based restricted stock units, restricted shares and restricted stock units
A summary of the Company's stock option, performance-based restricted stock unit, restricted share and restricted stock unit activity as of May 4, 2014 and changes during the thirteen week period then ended is presented below:

	Stock Options		Performance-Based Restricted Stock Units		Restricted Shares		Restricted Stock Units	
	Number	Weighted-Average Exercise Price	Number	Weighted-Average Grant Date Fair Value	Number	Weighted-Average Grant Date Fair Value	Number	Weighted-Average Grant Date Fair Value
Balance at February 2, 2014	669	$ 30.76	428	$ 57.08	57	$ 51.99	—	$ —
Granted	204	52.47	295	50.08	—	—	20	52.59
Exercised	65	24.37	146	37.99	—	—	—	—
Forfeited	9	65.43	9	63.21	—	—	—	—
Balance at May 4, 2014	799	$ 36.40	568	$ 58.27	57	$ 51.99	20	$ 52.59
Exercisable at May 4, 2014	407	$ 19.29						

The fair value of each stock option granted is estimated on date of grant using the Black-Scholes model. The assumptions used to calculate the fair value of options granted are evaluated and revised, as necessary, to reflect market conditions and the Company's historical experience. The expected term of the options is based upon historical experience of similar awards, giving consideration for expectations of future employee behavior. Expected volatility is based upon the historical volatility of the Company's stock for the period corresponding with the expected term of the options. The risk-free interest rate is based on the U.S. Treasury yield curve in effect on the first day of fiscal 2014 for the period corresponding with the expected term of the options. The following assumptions were used in calculating the fair value of stock options granted in fiscal 2014:

	Stock Options Granted During Fiscal 2014	
Expected term	4.0 years	
Expected volatility	45.93	%
Risk-free interest rate	1.04	%
Dividend yield	—	%

The Company's performance-based restricted stock units are awarded to eligible employees and entitle the grantee to receive a maximum of 1.5 shares of common stock per performance-based restricted stock unit if the Company achieves specified performance goals and the grantee remains employed during the vesting period. The fair value of performance-based restricted stock units is based on the closing price of the Company's common stock on the award date. Expense for performance share units is recognized when it is probable that the performance goal will be achieved.

Employee stock purchase plan

The Company's Board of Directors and stockholders approved the Company's Employee Share Purchase Plan ("ESPP") in September 2007. Contributions are determined by eligible employees, subject to certain limits as defined in the ESPP, and the Company matches one-third of that amount. The maximum number of shares available under the ESPP is 6,000 shares. During the thirteen weeks ended May 4, 2014, there were 31 shares purchased under the ESPP in the open market.

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NOTE 4. EARNINGS PER SHARE

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

	Thirteen Weeks Ended May 4, 2014	Thirteen Weeks Ended May 5, 2013
Net income	$18,981	$47,279
Basic weighted-average number of shares outstanding	145,383	144,482
Effect of stock options assume exercised	478	1,367
Diluted weighted-average number of shares outstanding	145,861	145,849
Basic earnings per share	$0.13	$0.33
Diluted earnings per share	$0.13	$0.32

The Company's calculation of weighted-average shares includes the common stock of the Company as well as the exchangeable shares. Exchangeable shares are the equivalent of common shares in all material respects. All classes of stock have in effect the same rights and share equally in undistributed net income. For the thirteen weeks ended May 4, 2014 and May 5, 2013, 264 and 57 stock options, respectively, were anti-dilutive to earnings per share and therefore have been excluded from the computation of diluted earnings per share.

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NOTE 5. SUPPLEMENTARY FINANCIAL INFORMATION

A summary of certain balance sheet accounts is as follows:

	May 4, 2014	February 2, 2014
Inventories:		
Finished goods	$185,842	$196,292
Provision to reduce inventory to market value	(8,467)	(10,202)
	$177,375	$186,090
Prepaid expenses and other current assets:		
Prepaid tax installments	$19,344	$25,211
Prepaid expenses	24,850	20,986
	$44,194	$46,197
Property and equipment:		
Land	$68,855	$67,903
Buildings	25,770	20,407
Leasehold improvements	151,586	140,748
Furniture and fixtures	44,400	41,400
Computer hardware and software	107,729	100,034
Equipment and vehicles	4,886	4,108
Accumulated amortization and depreciation	(131,856)	(118,997)
	$271,370	$255,603
Goodwill and intangible assets:		
Goodwill	$25,496	$25,496
Changes in foreign currency exchange rates	(125)	(217)
	25,371	25,279
Reacquired franchise rights	10,630	10,630
Accumulated amortization	(8,035)	(7,830)
Changes in foreign currency exchange rates	141	122
	2,736	2,922
	$28,107	$28,201
Accrued liabilities:		
Inventory purchases	$14,093	$12,715
Sales tax collected	8,908	8,341
Accrued rent	5,021	5,936
Other	15,676	15,318
	$43,698	$42,310
Non-current liabilities:		
Deferred lease liability	$18,400	$17,994
Tenant inducements	17,126	17,521
Deferred income tax liability	21,567	3,977
	$57,093	$39,492

NOTE 6. LEGAL PROCEEDINGS

On October 25, 2013, plaintiff Laborers' District Council Industry Pension Fund filed a books-and-records action in the Delaware Court of Chancery entitled Laborers' District Council Construction Industry Pension Fund v. lululemon athletica inc., C.A. No. 9039-VCP (Del. Ch.) under 8 Del. C. Sec. 220 based on a demand letter it sent to the Company on or around August 8, 2013 to request certain lululemon records relating to the March 2013 sheer Luon issue, the Company's announcement that its then CEO, Christine Day, intended to resign, and certain stock trades executed by the then-Chairman of the Company's

board of directors, Mr. Wilson, prior to the Company's announcement regarding its former CEO, Christine Day. The Court held a one-day trial on February 19, 2014, which took the form of an oral argument. On April 2, 2014, the Court rejected the majority of books and records sought by plaintiff and ordered the Company to produce a narrow category of documents relating to one trade made by the Company’s former Chairman.

On August 12, 2013 and August 23, 2013, plaintiffs Thomas Canty and Tammy Federman filed shareholder derivative actions entitled Canty v. Day, et al., No. 13-CV-5629 (S.D.N.Y.) and Federman v. Day, et al., No. 13-CV-5977 (S.D.N.Y.). Plaintiffs allege that they are acting on behalf of the Company and name as defendants current and former directors and certain officers of the Company. On January 17, 2014, plaintiffs filed an amended complaint, operative in both actions. In that amended complaint, plaintiffs challenge certain public disclosures and conduct relating to the March 2013 sheer Luon issue, the June 2013 announcement regarding the resignation of the Company's former CEO, Christine Day, and certain stock trades executed by Mr. Wilson and Ms. Day in the months leading up to that announcement. Plaintiffs allege violations of Section 14(a) of the Securities Exchange Act and breach of fiduciary duty, unjust enrichment, abuse of control, and gross mismanagement. On April 9, 2014, the Court dismissed all of plaintiffs’ claims due to plaintiffs’ failure to make a pre-suit demand. On May 9, 2014, plaintiff in the Canty action filed a notice of appeal to the United States Court of Appeals for the Second Circuit. The Company believes there is no merit to the appeal.

On July 2, 2013, plaintiff Houssam Alkhoury filed a putative shareholder class action entitled Alkhoury v. lululemon athletica inc., et al., No. 13-CV-4596 (S.D.N.Y.) against lululemon, a certain director and a certain officer of the Company (collectively, "Defendants"). On October 1, 2013, the Court appointed Louisiana Sheriffs' Pension & Relief Fund as Lead Plaintiff and on November 1, 2013, Lead Plaintiff filed a consolidated class action complaint on behalf of a proposed class of purchasers of lululemon stock between September 7, 2012 through June 11, 2013 (the "Complaint"). In its Complaint, Lead Plaintiff asserted causes of action under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 against Defendants based on certain public disclosures made by the Company relating to lululemon's product quality and the March 2013 sheer Luon issue. On January 15, 2014, Lead Plaintiff filed a consolidated amended class action complaint (the "Amended Complaint") on behalf of a proposed class of purchasers of lululemon stock between September 7, 2012 through January 10, 2014. In its Amended Complaint, Lead Plaintiff added new claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 based on certain of lululemon's public disclosures related to the Company's ongoing quality control improvements and the impact of those improvements on the Company's financial results. On April 18, 2014, the Court dismissed all of Lead Plaintiff’s claims for failure to state a claim. On May 16, 2014, Lead Plaintiff filed a notice of appeal to the United States Court of Appeals for the Second Circuit. The Company believes there is no merit to the appeal.

On May 3, 2013, plaintiff Hallandale Beach Police Officers and Firefighters Personnel Retirement Fund filed a books-and-records action in the Delaware Court of Chancery entitled Hallandale Beach Police Officers and Firefighters' Personnel Retirement Fund v. lululemon athletica inc., C.A. No. 8522-VCP (Del. Ch.) under 8 Del. C. Sec. 220 based on a demand letter it sent to the Company on April 17, 2013 to request certain lululemon records relating to the March 2013 sheer Luon issue and revisions to the Company's executive bonus plan. The Company moved to dismiss the complaint on May 28, 2013. On June 14, 2013, plaintiff sent a supplemental demand letter that requested additional records from the Company relating to the Company's announcement that Christine Day intended to resign as the Company's Chief Executive Officer, and certain stock trades executed by the Company's then-Chairman, Mr. Wilson, prior to the Company's announcement regarding Ms. Day. On July 1, 2013, plaintiff filed an amended complaint to incorporate allegations relating to the June 14, 2013 supplemental demand letter. The Company moved to dismiss the amended complaint on August 15, 2013, and in response to this filing, plaintiffs served the Company with a new demand letter and then filed a second amended complaint on November 4, 2013. The Company moved to dismiss the second amended complaint on December 4, 2013 and the Court held argument on the motion on February 5, 2014. On April 2, 2014, the Court rejected the majority of books and records sought by plaintiff and ordered the Company to produce a narrow category of documents relating to one trade made by the Company’s former Chairman.

The Company has indemnification agreements with certain of its current and former officers and directors that may require it, 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.

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

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In addition to the legal matters described above, the Company is, from time to time, involved in routine legal matters incidental to its business. 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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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 corporate-owned stores, direct to consumer and other. Direct to consumer includes sales from the Company's e-commerce websites. Showroom sales, sales to wholesale accounts, outlet sales and warehouse sales have been combined into other. The Company has reviewed the classification of its expenses amongst its reportable segments and has updated the classification of some of these expenses. Accordingly, all prior year comparable information has been reclassified to conform to the current year classification. Information for these segments is detailed in the table below:

	Thirteen Weeks Ended May 4, 2014	Thirteen Weeks Ended May 5, 2013
Net revenue:		
Corporate-owned stores	$288,101	$269,357
Direct to consumer	65,974	53,967
Other	30,543	22,458
	$384,618	$345,782
Income from operations before general corporate expense:		
Corporate-owned stores	$75,697	$70,873
Direct to consumer	27,117	21,191
Other	3,276	4,362
	106,090	96,426
General corporate expense	36,289	30,537
Income from operations	69,801	65,889
Other income (expense), net	1,643	1,501
Income before provision for income taxes	$71,444	$67,390
Capital expenditures:		
Corporate-owned stores	$15,867	$10,589
Direct to consumer	1,112	371
Corporate	8,468	10,016
	$25,447	$20,976
Depreciation:		
Corporate-owned stores	$8,396	$7,494
Direct to consumer	1,006	995
Corporate	3,058	3,240
	$12,460	$11,729

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NOTE 8. SUBSEQUENT EVENT

The Company evaluates events or transactions that occur after the balance sheet date through to the date which the financial statements are issued, for potential recognition or disclosure in its unaudited interim consolidated financial statements in accordance with ASC Topic 855, Subsequent Events ("ASC 855").

As at May 4, 2014 the Company had approximately $648,263 of undistributed earnings of foreign subsidiaries. Subsequent to May 4, 2014 the Company intends to distribute up to $500,000 to the U.S. parent entity to fund a share repurchase program and associated taxes. The Company has recorded an incremental tax expense and deferred tax liability as at May 4, 2014 of $30,946 to provide for U.S. income and applicable foreign withholding taxes. On June 11, 2014 the Company’s Board of Directors approved a program to repurchase shares of the Company’s common stock up to an aggregate value of $450,000. The Company intends to fund the share repurchase program through its available cash. The remaining undistributed earnings of the foreign subsidiaries will be permanently reinvested for the foreseeable future.

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.

Our fiscal year ends on the Sunday closest to January 31 of the following year, typically resulting in a 52 week year, but occasionally giving rise to an additional week, resulting in a 53 week year. Fiscal 2014 will end on February 1, 2015.

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

Overview

Fiscal 2014 will be an investment year, as we refocus on building a solid foundation to drive growth and expand our business. In addition to our plans for domestic and international expansion, we are also focused on initiatives related to rebuilding our brand experience, connecting with our guests and communities, and creating innovative, technical and beautiful product. We continue to invest in our product quality and supply chain, as we believe this is the foundation of our guest loyalty. Our focus on building foundation will also extend to our other categories, including our men's and ivivva business, where we see potential for future expansion. We believe our strong cash flow generation, solid balance sheet and healthy liquidity provide us with the financial flexibility to execute the initiatives which we believe will continue to lead our profitable growth.

Throughout the first quarter of fiscal 2014, we were able to grow our e-commerce business which we believe has further increased our brand awareness and has made our product available in new markets, including those outside of North America. Net revenue from our direct to consumer channel increased 22% and represented 17.2% of total revenue in the first quarter of fiscal 2014 compared to 15.6% of total revenue in the same period of the prior year. Continuing increases in traffic on our e-commerce website lead us to believe that there is potential for our direct to consumer segment to become an increasingly substantial part of our business and we plan to continue to commit a significant portion of our resources to further developing this channel.

We increased our store base through execution of our real estate strategy, when and where we saw opportunities for success. For example, we opened nine new corporate-owned stores during the first quarter of fiscal 2014. Where we find opportunities for growth through opening showrooms, or other community presence efforts, we expect to expand our store base and therefore our business. Our growth strategy relies on expansion in North America, particularly in the United States. We also believe that international growth is an opportunity and are expanding our foothold in markets by establishing local community connections, distributing to strategic sales partners and opening showrooms where we believe we can successfully seed the markets.

Operating Segment Overview

lululemon is a designer and retailer of technical athletic apparel operating primarily in North America and Australia. Our yoga-inspired apparel is marketed under the lululemon athletica and ivivva athletica brand names. We offer a comprehensive line of apparel and accessories including pants, shorts, tops and jackets designed for athletic pursuits such as yoga, running and general fitness, and dance-inspired apparel for female youth. As of May 4, 2014, our branded apparel was principally sold through 263 corporate-owned stores that are located in the United States, Canada, Australia, New Zealand and the United Kingdom and via our e-commerce websites included in our direct to consumer sales channel. We believe our vertical retail strategy allows us to interact more directly with and gain insights from our guests while providing us with greater control of our brand. In the thirteen week period ended May 4, 2014, 70% of our net revenue was derived from the sales of our products in the United States, 24% of our net revenue was derived from sales of our products in Canada, and 6% of our net revenue was derived from sales of our products outside of North America. In the thirteen week period ended May 5, 2013, 66% of our net revenue was derived from the sales of our products in the United States, 29% of our net revenue was derived from sales of our products in Canada, and 5% of our net revenue was derived from sales of our products outside of North America.

Our net revenue increased from $1.4 billion in fiscal 2012 to $1.6 billion in fiscal 2013, representing an annual growth rate of 16%. Our net revenue also increased from $345.8 million in the first quarter of fiscal 2013 to $384.6 million in first quarter of fiscal 2014, representing an 11% increase, and total comparable sales, which includes comparable store sales and direct to consumer, decreased 2% in the first quarter of fiscal 2014 compared to the first quarter of fiscal 2013. Excluding the effect of foreign currency fluctuations, total comparable sales would have increased 1%. Our ability to open new stores has been driven by increasing demand for our technical athletic apparel and a growing recognition of the lululemon athletica brand. We believe our superior products, strategic store locations, inviting guest experience and distinctive corporate culture are responsible for our strong financial performance.

We have three reportable segments: corporate-owned stores, direct to consumer and other. We report our segments based on the financial information we use in managing our businesses. While we receive financial information for each corporate-owned store, we have aggregated all of the corporate-owned stores into one reportable segment due to the similarities in the economic and other characteristics of these stores. Our direct to consumer segment accounted for 17.2% of our net revenue in first quarter of fiscal 2014, compared to 15.6% in the first quarter of fiscal 2013. Our other segment, consisting of sales from company-operated showrooms, sales to wholesale accounts, outlets and warehouse sales, accounted for less than 10% of our net revenue in the first quarter of fiscal 2014 and fiscal 2013.

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Results of Operations

Thirteen Week Results

The following table summarizes key components of our results of operations for the thirteen weeks ended May 4, 2014 and May 5, 2013. The operating results are expressed in dollar amounts as well as relevant percentages, presented as a percentage of net revenue.

	Thirteen Weeks Ended May 4, 2014 and May 5, 2013			
	2014	2013	2014	2013
	(In thousands)		(Percentages)	
Net revenue	$384,618	$345,782	100.0	100.0
Cost of goods sold	188,874	175,057	49.1	50.6
Gross profit	195,744	170,725	50.9	49.4
Selling, general and administrative expenses	125,943	104,836	32.7	30.3
Income from operations	69,801	65,889	18.2	19.1
Other income (expense), net	1,643	1,501	0.4	0.4
Income before provision for income taxes	71,444	67,390	18.6	19.5
Provision for income taxes	52,463	20,111	13.7	5.8
Net income	$18,981	$47,279	4.9	13.7

Net Revenue

Net revenue increased $38.8 million, or 11%, to $384.6 million for the first quarter of fiscal 2014 from $345.8 million for the first quarter of fiscal 2013. Assuming the average exchange rates for the first quarter of fiscal 2014 remained constant with the average exchange rates for the first quarter of fiscal 2013, our net revenue would have increased $49.0 million, or 14%.

The net revenue increase was driven by sales from new stores opened and the growth of our direct to consumer segment. Total comparable sales, which includes comparable store sales and direct to consumer decreased 2% in the first quarter of fiscal 2014 compared to the first quarter of fiscal 2013. Excluding the effect of foreign currency fluctuations, total comparable sales would have increased 1%.

Our net revenue on a segment basis for the thirteen weeks ended May 4, 2014 and May 5, 2013 is expressed in dollar amounts as well as relevant percentages, presented as a percentage of total net revenue below.

	Thirteen Weeks Ended May 4, 2014 and May 5, 2013			
	2014	2013	2014	2013
	(In thousands)		(Percentages)	
Corporate-owned stores	$288,101	$269,357	74.9	77.9
Direct to consumer	65,974	53,967	17.2	15.6
Other	30,543	22,458	7.9	6.5
Net revenue	$384,618	$345,782	100.0	100.0

Corporate-Owned Stores. Net revenue from our corporate-owned stores segment increased $18.7 million, or 7%, to $288.1 million in the first quarter of fiscal 2014 from $269.4 million in the first quarter of fiscal 2013. Net revenue from corporate-owned stores we opened subsequent to May 5, 2013, and therefore not included in the comparable store sales, contributed $36.1 million to the increase. Net new store openings since the first quarter of fiscal 2013 included 37 stores in the United States, three stores in Canada, two stores in Australia, two stores in New Zealand and one store in the United Kingdom. The increase in net revenue from our corporate-owned stores segment was offset by a comparable store sales decrease of 7% in the first quarter of fiscal 2014 compared to the first quarter of fiscal 2013, which resulted in a $17.4 million decrease to net revenue, including the effect of foreign currency fluctuations. Excluding the effect of foreign currency fluctuations, comparable store sales would have decreased 4%, or $10.6 million, in the first quarter of fiscal 2014. The comparable store sales decrease was primarily the result of decreased traffic.

Direct to Consumer. Net revenue from our direct to consumer segment increased $12.0 million, or 22%, to $66.0 million in the first quarter of fiscal 2014 from $54.0 million in the first quarter of fiscal 2013. The increase in net revenue was primarily the result of increasing traffic on our e-commerce websites.

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Other. Net revenue from our other segment increased $8.1 million, or 36%, to $30.5 million in the first quarter of fiscal 2014 from $22.5 million in the first quarter of fiscal 2013. This increase was primarily the result of a warehouse sale held during the first quarter of fiscal 2013 as well as five new outlets opened since the first quarter of fiscal 2013. Increased revenue from our showrooms also contributed to the increase in net revenue from our other segment. We operate our other segment to increase interest in our product in markets we have not otherwise entered with corporate-owned stores.

Gross Profit

Gross profit increased $25.0 million, or 15%, to $195.7 million for the first quarter of fiscal 2014 from $170.7 million for the first quarter of fiscal 2013. Increased net revenues were partially offset by increased cost of goods sold. The increase in gross profit was also partially offset by increases in fixed costs, such as occupancy costs and depreciation, and increased costs related to our production, design, distribution and merchandising departments.

Gross profit as a percentage of net revenue, or gross margin, increased by 150 basis points, to 50.9% in the first quarter of fiscal 2014 from 49.4% in the first quarter of fiscal 2013. This was primarily the result of a decrease in provision for inventories, charged to cost of sales, of 510 basis points related to the pull-back of black Luon pants in the first quarter of fiscal 2013 and a decrease in markdowns and discounts of 110 basis points compared to the first quarter of fiscal 2013.

The increase in gross margin was partially offset by:

- a decrease in product margin of 310 basis points primarily due to a higher mix of lower margin seasonal items and increased product costs;
- an increase in expenses related to our product and supply chain departments, relative to the increase in net revenue of 70 basis points;
- an unfavorable impact of foreign exchange rates on product costs which contributed to a decrease in gross margin of 50 basis points; and
- an increase in air freight costs of 40 basis points from higher usage.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $21.1 million, or 20%, to $125.9 million in the first quarter of fiscal 2014 from $104.8 million in the first quarter of fiscal 2013. The increase in selling, general and administrative expenses was principally comprised of:

- an increase in employee costs of $6.3 million as we experienced natural growth in labor hours associated with new corporate-owned stores, outlets, showrooms and other;
- an increase in variable store costs of $1.9 million as a result of increased sales volume from new corporate-owned stores, outlets, showrooms and other;
- an increase in head office employee costs of $2.7 million from increased head count incurred in order to position us for long-term growth;
- an increase in other head office costs of $3.0 million as a result of the overall growth of our business and investment in strategic initiatives and projects;
- an increase in variable costs such as distribution costs, credit card fees and packaging related to our direct to consumer segment of $1.7 million as a result of increased sales volume;
- an increase in administrative costs related to our direct to consumer segment of $0.4 million associated with the growth in this channel and increased head count to support it; and
- an increase in other costs, including occupancy costs and depreciation not included in cost of goods sold, of $5.1 million, partly as a result of a $1.5 million foreign exchange loss, as well as from increased repairs and maintenance costs.

As a percentage of net revenue, selling, general and administrative expenses increased 240 basis points, to 32.7% from 30.3%.

Income from Operations

Income from operations increased $3.9 million, or 6%, to $69.8 million in the first quarter of fiscal 2014 from $65.9 million in the first quarter of fiscal 2013. The increase was a result of increased gross profit of $25.0 million, partially offset by

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increased selling, general and administrative costs of $21.1 million. The increase in selling, general and administrative costs was driven principally by the overall growth of our business.
On a segment basis, we determine income from operations without taking into account our general corporate expenses. We have reviewed our classification of our expenses amongst our reportable segments and have updated the classification of some of these expenses. Accordingly, all prior year comparable information has been reclassified to conform to the current year classification.
Income from operations before general corporate expenses for the thirteen weeks ended May 4, 2014 and May 5, 2013 is expressed in dollar amounts as well as percentages, presented as a percentage of net revenue of the respective operating segments below.

	Thirteen Weeks Ended May 4, 2014 and May 5, 2013			
	2014	2013	2014	2013
	(In thousands)		(Percentages)	
Corporate-owned stores	$75,697	$70,873	26.3	26.3
Direct to consumer	27,117	21,191	41.1	39.3
Other	3,276	4,362	10.7	19.4
Income from operations before general corporate expense	106,090	96,426		
General corporate expense	36,289	30,537		
Income from operations	$69,801	$65,889		

Corporate-Owned Stores. Income from operations from our corporate-owned stores segment increased $4.8 million, or 7%, to $75.7 million for the first quarter of fiscal 2014 from $70.9 million for the first quarter of fiscal 2013 primarily due to an increase in gross profit of $14.4 million from increased sales, partially offset by an increase in selling, general and administrative expenses related to employee costs as well as operating expenses associated with new stores. Income from operations as a percentage of corporate-owned stores revenue remained steady as an increase in gross margin due to a non-recurring charge to cost of sales related to the pull-back of black Luon pants in the first quarter of fiscal 2013 was offset by increased product costs in the first quarter of fiscal 2014.
Direct to Consumer. Income from operations from our direct to consumer segment increased $5.9 million, or 28%, to $27.1 million for the first quarter of fiscal 2014 from $21.2 million for the first quarter of fiscal 2013. This increase was primarily the result of increased gross profit of $8.0 million primarily due to increased revenue resulting from increased traffic, 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 180 basis points primarily due to increased revenue resulting from higher traffic.
Other. Income from operations from our other segment decreased $1.1 million, or 25%, to $3.3 million for the first quarter of fiscal 2014 from $4.4 million for the first quarter of fiscal 2013. Gross profit related to our other segment increased $2.7 million in the first quarter of fiscal 2014 from the first quarter of fiscal 2013. Income from operations as a percentage of other revenue decreased by 870 basis points primarily due to a warehouse sale held during the first quarter of fiscal 2014 as well as an increased number of international showrooms compared to the first quarter of fiscal 2103.
General Corporate Expense. General corporate expense increased $5.8 million, or 19%, to $36.3 million for the first quarter of fiscal 2014 from $30.5 million for the first quarter of fiscal 2013. This was primarily due to increased head office employee costs, as well as other head office costs as a result of the overall growth of our business and investment in strategic initiatives and projects. A $1.5 million foreign exchange loss further contributed to the increase in general corporate expense.
Other Income (Expense), Net
Other income (expense), net, increased $0.1 million, or 9%, to $1.6 million for the first quarter of fiscal 2014 from $1.5 million for the first quarter of fiscal 2013. The increase was primarily the result of increased interest income, a result of higher average cash balances in the first quarter of fiscal 2014 compared to the first quarter of fiscal 2013.
Provision for Income Taxes

Provision for income taxes increased $32.4 million, or 161%, to $52.5 million in the first quarter of fiscal 2014 from $20.1 million in the first quarter of fiscal 2013. In the first quarter of fiscal 2014, our effective tax rate was 73.4% compared to 29.8% in the first quarter of fiscal 2013. The increase in provision for income taxes was a result of a one-time deferred tax

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liability of $30.9 million recorded in the first quarter of fiscal 2014 to provide for U.S. income and applicable foreign withholding taxes on previously undistributed earnings from foreign subsidiaries to the U.S. parent entity to fund the share repurchase program.

Net Income

Net income decreased $28.3 million to $19.0 million for the first quarter of fiscal 2014 from $47.3 million for the first quarter of fiscal 2013. The decrease in net income was a result of an increase in provision for income taxes of $32.4 million and an increase in selling, general and administrative expenses of $21.1 million, offset by an increase in gross profit of $25.0 million and an increase in other income (expense), net of $0.1 million.

Seasonality

Historically, we have recognized a significant portion of our income from operations in the fourth fiscal quarter of each year as a result of increased sales during the holiday selling season. Despite the fact that we have experienced a significant amount of our net revenue and gross profit in the fourth quarter of each fiscal year, we believe that the true extent of the seasonality or cyclical nature of our business may have been overshadowed by our rapid growth to date.

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 cash needs are primarily capital expenditures for opening new stores and remodeling existing stores, international expansion, making information technology system investments and enhancements, real estate acquisitions and funding working capital requirements. Cash and cash equivalents in excess of our needs are held in interest bearing accounts with financial institutions.

At May 4, 2014, our working capital (excluding cash and cash equivalents) was $123.9 million and our cash and cash equivalents were $752.0 million.

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

	Thirteen Weeks Ended May 4, 2014	Thirteen Weeks Ended May 5, 2013
	(In thousands)	
Total cash provided by (used in):		
Operating activities	$70,975	$25,135
Investing activities	(25,447)	(20,976)
Financing activities	(1,649)	(4,358)
Effect of exchange rate changes on cash	9,437	(1,562)
Increase (decrease) in cash and cash equivalents	$53,316	$(1,761)

Operating Activities

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

Cash provided by operating activities increased $45.8 million, to $71.0 million for the first quarter of fiscal 2014 compared to $25.1 million for the first quarter of fiscal 2013. The increase was primarily a result of decreased income taxes paid and less inventory purchased during the first quarter of fiscal 2014 compared to the first quarter of fiscal 2013, offset by a decreased provision for inventories.

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Investing Activities

Investing Activities relate entirely to capital expenditures. Cash used in investing activities increased $4.5 million to $25.4 million for the first quarter of fiscal 2014 from $21.0 million for the first quarter of fiscal 2013.

Financing Activities

Financing Activities consists of cash received on the exercise of stock options, excess tax benefits from stock-based compensation, and taxes paid related to the net share settlement of equity awards. Cash used in financing activities decreased by $2.7 million to $1.6 million for the first quarter of fiscal 2014 from $4.4 million for the first quarter of fiscal 2013.

We believe that our cash 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 24 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 "Risk Factors" and elsewhere in this report. In addition, we may make discretionary capital improvements with respect to our stores, distribution facility, headquarters, or other systems, which we would expect to fund through the 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 from operations.

Revolving Credit Facility

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

Borrowings under the credit facility can be made either as (i) US Dollar Loans - US Dollar Loans will bear interest a rate equal to US LIBOR plus 100 basis points or US prime rate, at our option; (ii) Letters of Credit - Borrowings drawn down under standby letters of credit issued by the banks will bear a fee of 100 basis points; and (iii) CDN Dollar Loans - CDN Dollar Loans will bear interest at a rate equal to Bankers Acceptance plus 100 basis points or the Canadian Prime Rate, at our option.

At May 4, 2014, aside from letters of credit and guarantees, there were no borrowings outstanding under this credit facility.

Off-Balance Sheet Arrangements

We may enter into documentary letters of credit to facilitate the international purchase of merchandise. We also enter into standby letters of credit to secure certain of our obligations, including insurance programs and duties related to import purchases. As of May 4, 2014, letters of credit and letters of guarantee totaling $0.6 million have been issued. Other than these standby letters of credit and guarantee, 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 GAAP 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 2013 fiscal year end filed with the SEC on March 27, 2014 and in Note 2 included in Item 1 of Part I of this Quarterly Report on Form 10-Q.

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Operating Locations

Our corporate-owned stores by brand and by country as of May 4, 2014 and February 2, 2014, are summarized in the table below.

	May 4, 2014	February 2, 2014
lululemon athletica		
United States	171	168
Canada	45	45
Australia	26	25
New Zealand	4	4
United Kingdom	1	—
	247	242
ivivva athletica		
United States	7	3
Canada	9	9
	16	12
Total	263	254

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. We generate a significant portion of our expenses in Canada due to our Canadian head office. The reporting currency for our consolidated financial statements is the U.S. dollar. As a result, we have been impacted by changes in exchange rates and may be impacted materially for the foreseeable future. As we recognize selling, general and administrative expenses incurred in Canada in Canadian dollars, and the U.S. dollar has strengthened during the first quarter of fiscal 2014, it has had a positive impact on our Canadian operating results upon translation of those results into U.S. dollars for the purposes of consolidation. However, as of May 4, 2014, we operated 54 stores in Canada, and as a result, the lower selling, general and administrative expenses were offset by the negative impact of the stronger U.S. dollar upon the consolidation of the net revenue from sales in Canada. A 10% appreciation in the relative value of the Canadian dollar compared to the U.S. dollar would have resulted in lost income from operations of approximately $1.5 million in the first quarter of fiscal 2014. To the extent the ratio between our expenses generated in Canadian dollars increases as compared to our net revenue generated in Canadian dollars, we expect that our results of operations will be further impacted by changes in exchange rates. A portion of our net revenue is generated in Australia. A 10% depreciation in the relative value of the Australian dollar compared to the U.S. dollar would have resulted in lost income from operations of approximately $0.1 million during the first quarter of fiscal 2014. We do not currently hedge 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 have not, and do not intend to, engage in the practice of trading derivative securities for profit.

Interest Rate Risk. In November 2013, we entered into unsecured demand revolving credit facilities with HSBC Bank Canada and Bank of America, N.A., Canada Branch. The revolving credit facilities provide us with available borrowings in amount up to $15.0 million in the aggregate. Because our revolving credit facilities bear interest at a variable rate, we will be exposed to market risks relating to changes in interest rates, if we have a meaningful outstanding balance. As of May 4, 2014, aside from letters of credit and guarantees, we had no outstanding balances under our revolving facilities. We currently do not engage in any interest rate hedging activity and currently have no intention to do so in the foreseeable future. However, in the future, if we have a meaningful outstanding balance under our revolving facility, in an effort to mitigate losses associated with these risks, we may at times enter into derivative financial instruments, although we have not historically done so. These may take the form of forward contracts, option contracts, or interest rate swaps. We do not, and do not intend to, engage in the practice of trading derivative securities for profit.

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Inflation

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

ITEM 4. CONTROLS AND PROCEDURES

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

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act), at May 4, 2014. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, at May 4, 2014, our disclosure controls and procedures were effective.

There was no change in internal control over financial reporting during the thirteen weeks ended May 4, 2014 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

On October 25, 2013, plaintiff Laborers' District Council Industry Pension Fund filed a books-and-records action in the Delaware Court of Chancery entitled Laborers' District Council Construction Industry Pension Fund v. lululemon athletica inc., C.A. No. 9039-VCP (Del. Ch.) under 8 Del. C. Sec. 220 based on a demand letter it sent to us on or around August 8, 2013 to request certain lululemon records relating to the March 2013 sheer Luon issue, our announcement that our then CEO, Christine Day, intended to resign, and certain stock trades executed by the then-Chairman of our board of directors, Mr. Wilson, prior to our announcement regarding our former CEO, Christine Day. The Court held a one-day trial on February 19, 2014, which took the form of an oral argument. On April 2, 2014, the Court rejected the majority of books and records sought by plaintiff and ordered us to produce a narrow category of documents relating to one trade made by the our former Chairman.

On August 12, 2013 and August 23, 2013, plaintiffs Thomas Canty and Tammy Federman filed shareholder derivative actions entitled Canty v. Day, et al., No. 13-CV-5629 (S.D.N.Y.) and Federman v. Day, et al., No. 13-CV-5977 (S.D.N.Y.). Plaintiffs allege that they are acting on behalf of us and name as defendants our current and former directors and certain officers. On January 17, 2014, plaintiffs filed an amended complaint, operative in both actions. In that amended complaint, plaintiffs challenge certain public disclosures and conduct relating to the March 2013 sheer Luon issue, the June 2013 announcement regarding the resignation of our former CEO, Christine Day, and certain stock trades executed by Mr. Wilson and Ms. Day in the months leading up to that announcement. Plaintiffs allege violations of Section 14(a) of the Securities Exchange Act and breach of fiduciary duty, unjust enrichment, abuse of control, and gross mismanagement. On April 9, 2014, the Court dismissed all of plaintiffs' claims due to plaintiffs' failure to make a pre-suit demand. On May 9, 2014, plaintiff in the Canty action filed a notice of appeal to the United States Court of Appeals for the Second Circuit. We believe there is no merit to the appeal.

On July 2, 2013, plaintiff Houssam Alkhoury filed a putative shareholder class action entitled Alkhoury v. lululemon athletica inc., et al., No. 13-CV-4596 (S.D.N.Y.) against lululemon, a certain director and a certain officer of ours (collectively, "Defendants"). On October 1, 2013, the Court appointed Louisiana Sheriffs' Pension & Relief Fund as Lead Plaintiff and on November 1, 2013, Lead Plaintiff filed a consolidated class action complaint on behalf of a proposed class of purchasers of lululemon stock between September 7, 2012 through June 11, 2013 (the "Complaint"). In its Complaint, Lead Plaintiff asserted causes of action under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 against Defendants based on certain public disclosures made by us relating to lululemon's product quality and the March 2013 sheer Luon issue. On January 15, 2014, Lead Plaintiff filed a consolidated amended class action complaint (the "Amended Complaint") on behalf of a proposed class of purchasers of lululemon stock between September 7, 2012 through January 10, 2014. In its Amended Complaint, Lead Plaintiff added new claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 based on certain of lululemon's public disclosures related to our ongoing quality control improvements and the impact of those improvements on our financial results. On April 18, 2014, the Court dismissed all of Lead Plaintiff's claims for failure to state a claim. On May 16, 2014, Lead Plaintiff filed a notice of appeal to the United States Court of Appeals for the Second Circuit. We believe there is no merit to the appeal.

On May 3, 2013, plaintiff Hallandale Beach Police Officers and Firefighters Personnel Retirement Fund filed a books-and-records action in the Delaware Court of Chancery entitled Hallandale Beach Police Officers and Firefighters' Personnel Retirement Fund v. lululemon athletica inc., C.A. No. 8522-VCP (Del. Ch.) under 8 Del. C. Sec. 220 based on a demand letter it sent to us on April 17, 2013 to request certain lululemon records relating to the March 2013 sheer Luon issue and revisions to our executive bonus plan. We moved to dismiss the complaint on May 28, 2013. On June 14, 2013, plaintiff sent a supplemental demand letter that requested additional records from us relating to our announcement that Christine Day intended to resign as our Chief Executive Officer, and certain stock trades executed by our then-Chairman, Mr. Wilson, prior to our announcement regarding Ms. Day. On July 1, 2013, plaintiff filed an amended complaint to incorporate allegations relating to the June 14, 2013 supplemental demand letter. We moved to dismiss the amended complaint on August 15, 2013, and in response to this filing, plaintiffs served us with a new demand letter and then filed a second amended complaint on November 4, 2013. We moved to dismiss the second amended complaint on December 4, 2013 and the Court held argument on the motion on February 5, 2014. On April 2, 2014, the Court rejected the majority of books and records sought by plaintiff and ordered us to produce a narrow category of documents relating to one trade made by our former Chairman.

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

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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.

In addition to the legal matters described above, we are, from time to time, involved in routine legal matters incidental to our business. We believe the ultimate resolution of any such current proceeding will not have a material adverse effect on our continued financial position, results of operations or cash flows.

ITEM 1A. RISK FACTORS

In addition to the other information contained in this Form 10-Q and in our Annual Report on Form 10-K for our 2013 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 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 could be adversely affected if we fail to achieve these objectives or if our public image or reputation were to be tarnished by negative publicity. Negative publicity regarding the production methods of any of our suppliers or manufacturers could adversely affect our reputation and sales and force us to locate alternative suppliers or manufacturing sources. Additionally, while we devote considerable efforts and resources to protecting our intellectual property, if these efforts are not successful the value of our brand may be harmed, which 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 and our results of operations could suffer and our business could be harmed.

Our reliance on third-party 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 third-party 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 2013, approximately 63% of our products were produced by our top five manufacturing suppliers, 45% 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 purchase of our products. Consumer demand for our products may not reach our sales targets, or may decline, when there is an economic downturn or economic uncertainty in our key markets, particularly in North America. Our sensitivity to economic cycles and any related fluctuation in consumer demand may have a material adverse effect on our financial condition.

Our sales and profitability may decline as a result of increasing product costs and decreasing selling prices.

Our business is subject to significant pressure on 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 sales 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. Failure to anticipate and respond in a timely manner to changing consumer preferences could lead to, among other things, lower sales and excess inventory levels. Even if we are successful in anticipating consumer preferences, our ability to adequately react to and address those preferences will in part depend upon our continued ability to develop and introduce innovative, high-quality products. Our failure to effectively introduce new products that are accepted by consumers could result in a decrease in net revenue and excess inventory levels, which could have a material adverse effect on our financial condition.

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

To ensure adequate inventory supply, we must forecast inventory needs and place orders with our manufacturers based on our estimates of future demand for particular products. Our ability to accurately forecast demand for our products could be affected by many factors, including an increase or decrease in guest demand for our products or for products of our competitors, our failure to accurately forecast guest acceptance of new products, product introductions by competitors, unanticipated changes in general market conditions, and weakening of economic conditions or consumer confidence in future economic conditions. If we fail to accurately forecast guest demand we may experience excess inventory levels or a shortage of products available for sale in our stores or for delivery to guests.

Inventory levels in excess of guest demand may result in inventory write-downs or write-offs and the sale of excess inventory at discounted prices, which would cause our gross margin to suffer and could impair the strength and exclusivity of

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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.

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 $1.6 billion in fiscal 2013. If our operations continue to grow at a rapid pace, we may experience difficulties in obtaining sufficient raw materials and manufacturing capacity to produce our products, as well as delays in production and shipments, as our products are subject to risks associated with overseas sourcing and manufacturing. We could be required to continue to expand our sales and marketing, product development and distribution functions, to upgrade our management information systems and other processes and technology, and to obtain more space for our expanding workforce. This expansion could increase the strain on our resources, and we could experience operating difficulties, including difficulties in hiring, training and managing an increasing number of employees. These difficulties could result in the erosion of our brand image which could have a material adverse effect on our financial condition.

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

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

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

Our future growth depends in part on our international expansion efforts. 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.

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

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

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

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

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 three 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. For example, severe weather conditions in Sumner, Washington in 2011, including snow and freezing rain, resulted in disruption in our distribution facilities and the local transportation system. If we encounter problems with our distribution system, our ability to meet guest expectations, manage inventory, complete sales and achieve objectives for operating efficiencies could be harmed.

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

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

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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.

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

We lease the majority of our corporate-owned 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.

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

A significant portion of our products are produced in China and increases in the costs of labor and other costs of doing business in China could significantly increase our costs to produce our products and could have a negative impact on our operations, revenue and earnings. Factors that could negatively affect our business include a potential significant revaluation of the Chinese Yuan, which may result in an increase in the cost of producing products in China, labor shortage and increases in labor costs in China, and difficulties in moving products manufactured in China out of Asia 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 impacting China. Also, the imposition of trade sanctions or other regulations against products imported by us from, or the loss of "normal trade relations" status with, China, 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 approach to identifying locations for our stores typically favors street locations, lifestyle centers and malls where we can be a part of the community. As a result, our stores are typically located near retailers or fitness facilities that we believe are consistent with our guests' lifestyle choices. Sales at these stores are derived, in part, from the volume of foot traffic in these locations. 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

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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 sales.

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

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

Our future success is substantially dependent on the continued service of our senior management and other key employees. In the last several years, several members of our senior management team have left us and we have focused time and resources on recruiting the new members of our current management team, including our new Chief Executive Officer. 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 sales are 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 33%, 36% and 37% of our full year gross profit during the fourth quarters of fiscal 2013, fiscal 2012 and fiscal 2011, 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 sales 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.

We generate a significant portion of our expenses in Canada due to our Canadian head office. The reporting currency for our consolidated financial statements is the U.S. dollar. As a result, we have been impacted by changes in exchange rates and may be impacted materially for the foreseeable future. As we recognize selling, general and administrative expenses incurred in Canada in Canadian dollars, and the U.S. dollar has strengthened during the first quarter of fiscal 2014, it has had a positive impact on our Canadian operating results upon translation of those results into U.S. dollars for the purposes of consolidation. However, as of May 4, 2014, we operated 54 stores in Canada, and as a result, the lower selling, general and administrative expenses were offset by the negative impact of the stronger U.S. dollar upon the consolidation of the net revenue from sales in Canada. A 10% appreciation in the relative value of the Canadian dollar compared to the U.S. dollar would have resulted in lost income from operations of approximately $1.5 million in the first quarter of fiscal 2014. To the extent the ratio between our expenses generated in Canadian dollars increases as compared to our net revenue generated in Canadian dollars, we expect that

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our results of operations will be further impacted by changes in exchange rates. A portion of our net revenue is generated in Australia. A 10% depreciation in the relative value of the Australian dollar compared to the U.S. dollar would have resulted in lost income from operations of approximately $0.1 million during the first quarter of fiscal 2014. We have not historically engaged in hedging transactions but in the future may at times enter into derivative financial instruments to mitigate foreign exchange risks. As we continue to recognize gains and losses in foreign currency transactions, depending upon changes in future currency rates, such gains or losses could have a significant, and potentially adverse, effect on our results of operations.

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 2013, approximately 67% of our products were produced in South and South East Asia, approximately 23% in China, approximately 3% 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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Our founder controls a significant percentage of our stock and is able to exercise significant influence over our affairs.
Our founder, Dennis Wilson, beneficially owns approximately 28% of our common stock. As a result, Mr. Wilson is able to influence or control matters requiring approval by our stockholders, including the election of directors and the approval of mergers, acquisitions or other extraordinary transactions. This concentration of ownership may have various effects including, but not limited to, delaying, preventing or deterring a change of control of our company.
Anti-takeover provisions of Delaware law and our certificate of incorporation and bylaws could delay and discourage takeover attempts that stockholders may consider to be favorable.
Certain provisions of our certificate of incorporation and bylaws and applicable provisions of the Delaware General Corporation Law may make it more difficult or impossible for a third-party to acquire control of us or effect a change in our board of directors and management. These provisions include:

- the classification of our board of directors into three classes, with one class elected each year;
- prohibiting cumulative voting in the election of directors;
- the ability of our board of directors to issue preferred stock without stockholder approval;
- the ability to remove a director only for cause and only with the vote of the holders of at least 66 2/3% of our voting stock;
- a special meeting of stockholders may only be called by our chairman or Chief Executive Officer, or upon a resolution adopted by an affirmative vote of a majority of the board of directors, and not by our stockholders;
- prohibiting stockholder action by written consent; and
- our stockholders must comply with advance notice procedures in order to nominate candidates for election to our board of directors or to place stockholder proposals on the agenda for consideration at any meeting of our stockholders.

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

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

The following table provides information regarding our purchases of our common stock during the thirteen weeks ended May 4, 2014:

Period[1]	Total Number of Shares Purchased[2]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[3]	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs[2,3]
February 3, 2014 - March 2, 2014	9,949	$50.46	9,949	5,414,021
March 3, 2014 - April 6, 2014	10,408	49.31	10,408	5,403,613
April 7, 2014 - May 4, 2014	10,967	49.07	10,967	5,392,646
Total	31,324		31,324	

(1) Monthly information is presented by reference to our fiscal months during our first quarter of fiscal 2014.

(2) Excluded from this disclosure are shares repurchased to settle statutory employee tax withholding related to the vesting of performance-based restricted stock unit awards.

(3) Our Employee Share Purchase Plan (ESPP) was approved by our Board of Directors and stockholders in September 2007. All shares purchased under the ESPP are purchased on the Nasdaq Global Select Market (or such other stock exchange as we may designate from time to time). Unless our Board of Directors terminates the ESPP

earlier, the ESPP will continue until all shares authorized for purchase under the ESPP have been purchased. The maximum number of shares authorized to be purchased under the ESPP is 6,000,000.

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ITEM 6. EXHIBITS

		Incorporated by Reference				
Exhibit No.	Exhibit Title	Filed Herewith	Form	Exhibit No.	File No.	Filing Date
10.1*	Executive Bonus Plan of lululemon athletica inc.	X				
10.2*	Form of Non-Qualified Stock Option Agreement (with clawback provision)	X				
10.3*	Form of Non-Qualified Stock Option Agreement (for international employees)	X				