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 July 30, 2017
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	20-3842867
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1818 Cornwall Avenue Vancouver, British Columbia	V6J 1C7
(Address of principal executive offices)	(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 August 28, 2017, there were 125,601,122 shares of the registrant's common stock, par value $0.005 per share, outstanding.

Exchangeable and Special Voting Shares:

At August 28, 2017, there were outstanding 9,780,927 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 August 28, 2017, the registrant had outstanding 9,780,927 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.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I
FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
lululemon athletica inc.
CONSOLIDATED BALANCE SHEETS
(Unaudited; Amounts in thousands, except per share amounts)

	July 30, 2017	January 29, 2017
ASSETS		
Current assets		
Cash and cash equivalents	$721,212	$734,846
Accounts receivable	15,873	9,200
Inventories	316,368	298,432
Prepaid and receivable income taxes	66,161	81,190
Other prepaid expenses and other current assets	51,408	39,069
	1,171,022	1,162,737
Property and equipment, net	426,961	423,499
Goodwill and intangible assets, net	24,749	24,557
Deferred income tax assets	40,016	26,256
Other non-current assets	24,175	20,492
	$1,686,923	$1,657,541
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$19,049	$24,846
Accrued inventory liabilities	21,292	8,601
Accrued compensation and related expenses	47,920	55,238
Income taxes payable	6,519	30,290
Unredeemed gift card liability	56,170	70,454
Other current liabilities	73,341	52,561
	224,291	241,990
Deferred income tax liabilities	7,668	7,262
Other non-current liabilities	57,155	48,316
	289,114	297,568
Stockholders' equity		
Undesignated preferred stock, $0.01 par value: 5,000 shares authorized; none issued and outstanding	—	—
Exchangeable stock, no par value: 60,000 shares authorized; 9,781 and 9,781 issued and outstanding	—	—
Special voting stock, $0.000005 par value: 60,000 shares authorized; 9,781 and 9,781 issued and outstanding	—	—
Common stock, $0.005 par value: 400,000 shares authorized; 125,697 and 127,304 issued and outstanding	628	637
Additional paid-in capital	272,043	266,622
Retained earnings	1,285,559	1,294,214
Accumulated other comprehensive loss	(160,421)	(201,500)
	1,397,809	1,359,973
	$1,686,923	$1,657,541

See accompanying notes to the unaudited interim consolidated financial statements

3

Table of Contents

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

	Quarter Ended		Two Quarters Ended	
	July 30, 2017	July 31, 2016	July 30, 2017	July 31, 2016
Net revenue	$581,054	$514,520	$1,101,361	$1,010,036
Cost of goods sold	283,632	260,359	547,044	516,744
Gross profit	297,422	254,161	554,317	493,292
Selling, general and administrative expenses	225,524	180,202	424,665	361,744
Asset impairment and restructuring costs	3,186	—	15,517	—
Income from operations	68,712	73,959	114,135	131,548
Other income (expense), net	812	578	1,719	92
Income before income tax expense	69,524	74,537	115,854	131,640
Income tax expense	20,813	20,912	35,897	32,679
Net income	$48,711	$53,625	$79,957	$98,961
Other comprehensive income (loss):				
Foreign currency translation adjustment	72,854	(28,052)	41,079	45,510
Comprehensive income	$121,565	$25,573	$121,036	$144,471
Basic earnings per share	$0.36	$0.39	$0.59	$0.72
Diluted earnings per share	$0.36	$0.39	$0.58	$0.72
Basic weighted-average number of shares outstanding	136,171	136,987	136,604	137,071
Diluted weighted-average number of shares outstanding	136,303	137,229	136,747	137,309

See accompanying notes to the unaudited interim consolidated financial statements

Table of Contents

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

	Exchangeable Stock	Special Voting Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Shares	Par Value	Shares	Par Value				
Balance at January 29, 2017	9,781	9,781	$ —	127,304	$637	$266,622	$1,294,214	$(201,500)	$1,359,973
Net income							79,957		79,957
Foreign currency translation adjustment								41,079	41,079
Stock-based compensation expense						8,710			8,710
Common stock issued upon settlement of stock-based compensation				141	1	914			915
Shares withheld related to net share settlement of stock-based compensation				(41)	—	(2,024)			(2,024)
Repurchase of common stock				(1,707)	(10)	(2,179)	(88,612)		(90,801)
Balance at July 30, 2017	9,781	9,781	$ —	125,697	$628	$272,043	$1,285,559	$(160,421)	$1,397,809

See accompanying notes to the unaudited interim consolidated financial statements

Table of Contents

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

	Two Quarters Ended July 30, 2017		July 31, 2016	
Cash flows from operating activities				
Net income	$ 79,957		$ 98,961	
Items not affecting cash				
Depreciation and amortization	51,569		39,683	
Stock-based compensation expense	8,710		8,126	
Asset impairment	11,593		—	
Changes in operating assets and liabilities				
Inventories	(10,041	)	16,947	
Prepaid and receivable income taxes	15,029		(6,020	)
Other prepaid expenses and other current assets	(17,502	)	(9,595	)
Other non-current assets	(15,620	)	(9,317	)
Accounts payable	(6,784	)	(2,512	)
Accrued inventory liabilities	9,571		(8,432	)
Accrued compensation and related expenses	(8,970	)	(5,967	)
Income taxes payable	(25,310	)	(6,948	)
Unredeemed gift card liability	(15,192	)	(12,679	)
Other accrued and non-current liabilities	25,028		(1,054	)
Net cash provided by operating activities	102,038		101,193	
Cash flows from investing activities				
Purchase of property and equipment	(49,889	)	(71,261	)

Net cash used in investing activities	(49,889)	(71,261)
Cash flows from financing activities		
Proceeds from settlement of stock-based compensation	915	5,079
Taxes paid related to net share settlement of stock-based compensation	(2,024)	(1,605)
Repurchase of common stock	(90,801)	(28,556)
Net cash used in financing activities	(91,910)	(25,082)
Effect of exchange rate changes on cash and cash equivalents	26,127	29,018
(Decrease) increase in cash and cash equivalents	(13,634)	33,868
Cash and cash equivalents, beginning of period	$ 734,846	$ 501,482
Cash and cash equivalents, end of period	$ 721,212	$ 535,350

See accompanying notes to the unaudited interim consolidated financial statements

Table of Contents

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

Table of Contents

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

NOTE 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nature of operations

lululemon athletica inc., a Delaware corporation ("lululemon" and, together with its subsidiaries unless the context otherwise requires, the "Company") is engaged in the design, distribution, and retail of healthy lifestyle inspired athletic apparel, which is sold through a chain of company-operated stores, direct to consumer through e-commerce, outlets, showrooms, temporary locations, sales to wholesale accounts, warehouse sales, and through license and supply arrangements. Its apparel is marketed under the lululemon and ivivva brand names. The Company operates stores in the United States, Canada, Australia, the United Kingdom, New Zealand, China, Hong Kong, Singapore, South Korea, Germany, Ireland, Japan, Puerto Rico, and Switzerland. There were a total of 421 and 406 company-operated stores in operation as of July 30, 2017 and January 29, 2017, respectively.

On June 1, 2017, the Company announced a plan to restructure its ivivva operations. On August 20, 2017, as part of this plan, the Company closed 47 of the 55 ivivva branded company-operated stores. Of the eight remaining ivivva branded stores, seven are expected to remain in operation and one is expected to be converted to a lululemon branded store. All of the Company's ivivva branded showrooms and other temporary locations have been closed. The Company continues to offer ivivva branded products on its e-commerce websites. Please refer to Note 6 of these unaudited interim consolidated financial statements for further details regarding the ivivva restructuring plans.

Basis of presentation

The unaudited interim consolidated financial statements as of July 30, 2017 and for the quarters and two quarters ended July 30, 2017 and July 31, 2016 are presented in United States dollars and have been prepared by the Company under the rules and regulations of the Securities and Exchange Commission ("SEC"). The financial information is presented in accordance with United States generally accepted accounting principles ("GAAP") for interim financial information and, accordingly, does not include all of the information and footnotes required by GAAP for complete financial statements. The financial information as of January 29, 2017 is derived from the Company's audited consolidated financial statements and related notes for the fiscal year ended January 29, 2017, which are included in Item 8 in the Company's fiscal 2016 Annual Report on Form 10-K filed with the SEC on March 29, 2017. These unaudited interim consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented. These unaudited interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and related notes included in Item 8 in the Company's fiscal 2016 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 2017 will end on January 28, 2018 and will be a 52-week year.

The Company's business is affected by the pattern of seasonality common to most retail apparel businesses. Historically, the Company has recognized a significant portion of its operating profit in the fourth fiscal quarter of each year as a result of increased net revenue during the holiday season.

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

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers ("ASC 606"). This ASU supersedes the revenue recognition requirements in ASC Topic 605 Revenue Recognition, including most industry-specific revenue recognition guidance. ASU 2014-09 requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, and expands the related disclosure requirements. In 2015, the FASB deferred the effective date for this guidance, and in 2016, the FASB issued several updates that clarify the guidance in this topic. ASC 606 may be adopted either on a full retrospective basis or using a modified retrospective method with a cumulative adjustment to equity. This guidance will be adopted by the Company beginning in its first quarter of fiscal 2018. The Company continues to evaluate the impact that this new guidance may have on its consolidated financial statements, and the method of retrospective adoption that it will elect, but does not expect ASC 606 to materially impact the amount, or timing, of its revenue recognition. Under the new requirements, the Company expects to recognize its provision for sales returns on a gross basis, rather than a net basis on the consolidated balance sheets.

In July 2015, the FASB amended ASC Topic 330, Inventory to simplify the measurement of inventory. The amendments require that an entity measure inventory at the lower of cost and net realizable value instead of the lower of cost and market. This guidance became effective for the Company the first quarter of fiscal 2017 and the adoption did not impact its consolidated financial statements.

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

In March 2016, the FASB amended ASC Topic 718, Stock Compensation simplifying the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The new guidance also allows an entity to account for forfeitures when they occur. The Company adopted this amendment in the first quarter of fiscal 2017 and elected to continue to estimate expected forfeitures. The Company is now required to include excess tax benefits and deficiencies as a component of income tax expense, rather than a component of stockholders' equity. Additionally, the Company retrospectively adjusted its consolidated statement of cash flows for the two quarters ended July 31, 2016 to reclassify excess tax benefits of $1.2 million from financing activities to operating activities.

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

NOTE 3. STOCK-BASED COMPENSATION AND BENEFIT PLANS

Stock-based compensation plans

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

Stock-based compensation expense charged to income for the plans was $8.7 million and $8.1 million for the two quarters ended July 30, 2017 and July 31, 2016, respectively. Total unrecognized compensation cost for all stock-based compensation plans was $51.7 million at July 30, 2017, which is expected to be recognized over a weighted-average period of 2.4 years.

Table of Contents

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 July 30, 2017, and changes during the first two quarters 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
	(In thousands, except per share amounts)							
Balance at January 29, 2017	918	$ 59.20	390	$ 61.05	14	$ 70.54	360	$ 62.99
Granted	597	51.91	184	51.90	22	51.72	312	52.08
Exercised/released	26	35.27	—	—	14	70.29	92	65.94
Forfeited	137	57.96	188	53.74	—	—	67	57.08
Balance at July 30, 2017	1,352	$ 56.56	386	$ 60.25	22	$ 51.72	513	$ 56.60
Exercisable at July 30, 2017	314	$ 57.57						

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes model. The assumptions used to calculate the fair value of the options granted are evaluated and revised, as necessary, to reflect market conditions and the Company's historical experience. The expected term of the options is based upon the historical experience of similar awards, giving consideration to expectations of future employee behavior. Expected volatility is based upon the historical volatility of the Company's common stock for the period corresponding with the expected term of the options. The risk-free interest rate is based on the U.S. Treasury yield curve for the period corresponding with the expected term of the options. The following assumptions were used in calculating the fair value of stock options granted in the first two quarters of fiscal 2017:

	Two Quarters Ended July 30, 2017	
Expected term	4.00 years	
Expected volatility	38.28	%
Risk-free interest rate	1.72	%
Dividend yield	—	%

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

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

Employee share purchase plan

The Company's board of directors and stockholders approved the Company's Employee Share Purchase Plan ("ESPP") in September 2007. Contributions are made by eligible employees, subject to certain limits defined in the ESPP, and the Company matches one-third of the contribution. The maximum number of shares authorized to be purchased under the ESPP is 6.0 million shares. All shares purchased under the ESPP are purchased in the open market. During the quarter ended July 30, 2017, there were 43.5 thousand shares purchased.

Defined contribution pension plans

During the second quarter of fiscal 2016, the Company began offering defined contribution pension plans to its eligible employees in Canada and the United States. Participating employees may elect to defer and contribute a portion of their eligible

Table of Contents

compensation to a plan up to limits stated in the plan documents, not to exceed the dollar amounts set by applicable laws. The Company matches 50% to 75% of the contribution depending on the participant's length of service, and the contribution is subject to a two year vesting period. The Company's net expense for the defined contribution plans was $2.7 million and $0.9 million in the first two quarters of fiscal 2017 and fiscal 2016, respectively.

NOTE 4. FAIR VALUE MEASUREMENT

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

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

The fair value measurement is categorized in its entirety by reference to its lowest level of significant input. As of July 30, 2017, the Company held certain assets and liabilities that are required to be measured at fair value on a recurring basis:

	July 30, 2017	Level 1	Level 2	Level 3
	(in thousands)			
Net forward currency contract (liabilities) assets	$(1,131)	$ —	$(1,131)	$ —

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

In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Company has impaired certain long-lived assets and recorded them at their estimated fair value on a non-recurring basis. The fair value of these long-lived assets was determined using Level 3 inputs, principally the present value of the estimated future cash flows expected from their use and eventual disposition.

NOTE 5. DERIVATIVE FINANCIAL INSTRUMENTS

Foreign exchange risk

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

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

Net investment hedges

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

The Company holds a significant portion of its assets in Canada and during the quarter ended July 30, 2017 entered into forward currency contracts designed to hedge a portion of the foreign currency exposure that arises on translation of a Canadian subsidiary into U.S. dollars. These forward currency contracts are designated as net investment hedges. The effective portions of the hedges are reported in accumulated other comprehensive income or loss and will subsequently be reclassified to net earnings in the period in which the hedged investment is either sold or substantially liquidated. The Company assesses hedge effectiveness based on changes in forward rates. The Company recorded no ineffectiveness from net investment hedges for the quarter ended July 30, 2017.

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

Table of Contents

Derivatives not designated as hedging instruments

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

During the quarter ended July 30, 2017 the Company entered into certain forward currency contracts designed to economically hedge the foreign exchange revaluation gains and losses that are recognized by its Canadian subsidiaries on U.S. dollar denominated monetary assets and liabilities. The Company has not applied hedge accounting to these instruments and the change in fair value of these derivatives is recorded within selling, general and administrative expenses.

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

Outstanding notional amounts

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

	July 30, 2017	July 31, 2016
	(in thousands)	
Derivatives designated as net investment hedges	$ 78,000	$ —
Derivatives not designated in a hedging relationship	65,000	—

The forward currency contracts designated as net investment hedges mature in January 2018.

The forward currency contracts not designated in a hedging relationship mature on different dates between October 2017 and December 2017.

Quantitative disclosures about derivative financial instruments

The Company presents its derivative assets and derivative liabilities at their gross fair values within other prepaid expenses and other current assets and other current liabilities on the consolidated balance sheets. However, the Company's Master International Swap Dealers Association, Inc., Agreements and other similar arrangements allow net settlements under certain conditions. As of July 30, 2017, there were derivative assets of $4.1 million and derivative liabilities of $4.8 million subject to enforceable netting arrangements.

The fair values of forward currency contracts were as follows:

	July 30, 2017	July 31, 2016
	(in thousands)	
Derivatives designated as net investment hedges, recognized within:		
Other current liabilities	$ 7,068	$ —
Derivatives not designated in a hedging relationship, recognized within:		
Other prepaid expenses and other current assets	5,937	—

The pre-tax gains and losses on foreign exchange forward contracts recorded in accumulated other comprehensive income and in the consolidated statement of operations, are as follows:

	July 30, 2017	July 31, 2016
	(in thousands)	
Derivatives designated as net investment hedges:		
(Loss) gain recognized in other comprehensive income	$ (8,925)	$ —
Derivatives not designated in a hedging relationship:		
Gain (loss) recognized in selling, general and administrative expenses	7,634	—

12

Table of Contents

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

Credit risk

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

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

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

NOTE 6. ASSET IMPAIRMENT AND RESTRUCTURING

On June 1, 2017, the Company announced a plan to restructure its ivivva operations. On August 20, 2017, as part of this plan, the Company closed 47 of its 55 ivivva branded company-operated stores. Of the eight remaining ivivva branded stores, seven are expected to remain in operation and one is expected to be converted to a lululemon branded store. All of the Company's ivivva branded showrooms and other temporary locations have been closed. The Company continues to offer ivivva branded products on its e-commerce websites.

The Company expects the restructuring to be substantially complete by the end of the third quarter of fiscal 2017.

As a result of the closures, the Company currently estimates that it will incur aggregate pre-tax charges of between $50.0 million and $60.0 million in fiscal 2017, inclusive of $23.2 million recognized during the two quarters ended July 30, 2017. The remaining costs, primarily related to lease terminations and employee related costs, are expected to be substantially recognized in the third quarter of fiscal 2017. These estimates are based on significant assumptions and could change materially.

A summary of the pre-tax charges recognized during the second quarter and the first two quarters of fiscal 2017 in connection with the Company's restructuring of its ivivva operations is as follows:

	Quarter Ended July 30, 2017	Two Quarters Ended July 30, 2017
	(In thousands)	
Costs recorded in cost of goods sold:		
Provision to reduce inventories to net realizable value	$962	$2,904
Expected loss on committed inventory purchases	(941)	2,536
Accelerated depreciation	2,223	2,223
	2,244	7,663
Costs recorded in operating expenses:		
Impairment of property and equipment	—	11,593
Employee related costs	2,458	3,196
Lease termination and other restructuring costs	728	728
Asset impairment and restructuring costs	3,186	15,517
Restructuring and related costs	$5,430	$23,180

Income tax recoveries of $1.4 million and $6.1 million were recorded on the above items in the second quarter and the first two quarters of fiscal 2017, respectively. These income tax recoveries are based on the expected annual tax rate of the applicable tax jurisdictions.

Table of Contents

Costs recorded in cost of goods sold

During the first two quarters of fiscal 2017, the Company recognized expenses of $7.7 million in cost of goods sold as a result of the restructuring of its ivivva operations. This included $2.9 million to reduce inventories to their estimated net realizable value, and $2.5 million for the losses the Company expects to incur on certain firm inventory and fabric purchase commitments. The liability for the expected losses is included within accrued inventory liabilities on the consolidated balance sheets.

During the second quarter of fiscal 2017, the Company took delivery of inventory that it had previously committed to purchase. As a result, there was a reduction in the Company's liability for expected losses on committed inventory purchases and a corresponding increase in its provision to reduce inventories to net realizable value.

The Company also recorded accelerated depreciation charges of $2.2 million during the first two quarters of fiscal 2017, primarily related to leasehold improvements and furniture and fixtures for stores which have been closed during the third quarter of fiscal 2017.

Costs recorded in operating expenses

The Company recognized asset impairment and restructuring costs of $15.5 million during the first two quarters of fiscal 2017 as a result of the restructuring of its ivivva operations.

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

The fair value of the long-lived assets for each store was determined using Level 3 inputs, principally the present value of the estimated future cash flows expected from their use and eventual disposition.

During the first two quarters of fiscal 2017, the Company recognized employee related expenses as a result of the restructuring of $3.2 million.

The Company recognized lease termination and other restructuring costs of $0.7 million during the first two quarters of fiscal 2017.

NOTE 7. INCOME TAXES

As disclosed in Note 15 to the audited consolidated financial statements included in Item 8 of the Company's fiscal 2016 Annual Report on Form 10-K filed with the SEC on March 29, 2017, the Company finalized a bilateral Advance Pricing Arrangement ("APA") with the Internal Revenue Service ("IRS") and the Canada Revenue Agency ("CRA") during fiscal 2016.

The results for the quarter and two quarters ended July 30, 2017 did not include any discrete items or adjustments related to the APA.

The results for the quarter and two quarters ended July 31, 2016 included net interest expenses of $0.3 million and $1.5 million, respectively, that were recorded in other income (expense), net, and net income tax recoveries of $1.9 million and $7.6 million, respectively, related to the expected outcome of the APA and taxes associated with the anticipated repatriation of foreign earnings.

Table of Contents

NOTE 8. EARNINGS PER SHARE

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

	Quarter Ended		Two Quarters Ended	
	July 30, 2017	July 31, 2016	July 30, 2017	July 31, 2016
	(In thousands, except per share amounts)			
Net income	$48,711	$53,625	$79,957	$98,961
Basic weighted-average number of shares outstanding	136,171	136,987	136,604	137,071
Assumed conversion of dilutive stock options and awards	132	242	143	238
Diluted weighted-average number of shares outstanding	136,303	137,229	136,747	137,309
Basic earnings per share	$0.36	$0.39	$0.59	$0.72
Diluted earnings per share	$0.36	$0.39	$0.58	$0.72

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 two quarters ended July 30, 2017 and July 31, 2016, 0.2 million and 0.1 million stock options and awards, respectively, were anti-dilutive to earnings per share and therefore have been excluded from the computation of diluted earnings per share.

On 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 $450.0 million. This stock repurchase program was completed during the second quarter of fiscal 2016.

On December 1, 2016, the Company's board of directors approved a program to repurchase shares of the Company's common stock up to an aggregate value of $100.0 million. The common stock generally is repurchased in the open market at prevailing market prices, with the timing and actual number of shares repurchased depending upon market conditions, eligibility to trade, and other factors. The repurchases may be made until December 9, 2018. As of July 30, 2017, the remaining aggregate value of shares available to be repurchased under this program was $8.5 million. During the two quarters ended July 30, 2017 and July 31, 2016, 1.7 million and 0.4 million shares, respectively, were repurchased under the program at a total cost of $90.8 million and $28.6 million, respectively.

Subsequent to July 30, 2017, and up to August 28, 2017, 0.1 million shares were repurchased at a total cost of $5.8 million.

NOTE 9. SUPPLEMENTARY FINANCIAL INFORMATION

For the quarters ended July 30, 2017 and July 31, 2016, there were net foreign exchange and derivative revaluation losses of $1.7 million and gains of $5.1 million, respectively, included within selling, general and administrative expenses.

For the two quarters ended July 30, 2017 and July 31, 2016, there were net foreign exchange and derivative revaluation gains of $4.1 million and losses of $8.5 million, respectively, included within selling, general and administrative expenses.

Table of Contents

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

	July 30, 2017	January 29, 2017
	(In thousands)	
Inventories:		
Finished goods	$329,535	$306,087
Provision to reduce inventories to net realizable value	(13,167)	(7,655)
	$316,368	$298,432
Property and equipment, net:		
Land	$82,358	$78,561
Buildings	39,032	32,174
Leasehold improvements	285,931	273,801
Furniture and fixtures	86,610	84,479
Computer hardware	61,611	58,270
Computer software	187,040	160,835
Equipment and vehicles	14,670	13,704
Accumulated depreciation	(330,291)	(278,325)
	$426,961	$423,499
Goodwill and intangible assets, net:		
Goodwill	$25,496	$25,496
Changes in foreign currency exchange rates	(947)	(1,263)
	24,549	24,233
Intangibles - reacquired franchise rights	10,150	10,150
Accumulated amortization	(9,942)	(9,807)
Changes in foreign currency exchange rates	(8)	(19)
	200	324
	$24,749	$24,557
Other current liabilities:		
Accrued duty, freight, and other operating expenses	$38,871	$27,477
Sales tax collected	12,551	10,182
Accrued rent	4,988	5,562
Other	16,931	9,340
	$73,341	$52,561
Other non-current liabilities:		
Deferred lease liability	$27,514	$26,648
Tenant inducements	23,808	21,668
Other	5,833	—
	$57,155	$48,316

As of July 30, 2017, as result of the restructuring of its ivivva operations, the Company had a provision of $2.9 million to reduce the carrying value of certain ivivva branded finished goods inventories to their estimated net realizable value. In addition, the Company had a liability for the losses it expects to incur on certain firm inventory and fabric purchase commitments of $2.5 million. This liability is included within accrued inventory liabilities on the consolidated balance sheets.

Please refer to Note 6 of these unaudited interim consolidated financial statements for further details regarding the ivivva restructuring plans, including impairment of property and equipment, net which was recorded during the first quarter of fiscal 2017.

Table of Contents

NOTE 10. SEGMENT REPORTING

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

	Quarter Ended		Two Quarters Ended	
	July 30, 2017	July 31, 2016	July 30, 2017	July 31, 2016
	(In thousands)			
Net revenue:				
Company-operated stores	$413,944	$381,389	$793,043	$740,093
Direct to consumer	113,049	87,399	210,272	184,965
Other	54,061	45,732	98,046	84,978
	$581,054	$514,520	$1,101,361	$1,010,036
Income from operations before general corporate expense:				
Company-operated stores	$92,609	$80,277	$170,139	$153,564
Direct to consumer	40,139	32,644	75,566	71,152
Other	6,952	4,636	9,760	6,720
	139,700	117,557	255,465	231,436
General corporate expense	65,558	43,598	118,150	99,888
Restructuring and related costs	5,430	—	23,180	—
Income from operations	68,712	73,959	114,135	131,548
Other income (expense), net	812	578	1,719	92
Income before income tax expense	$69,524	$74,537	$115,854	$131,640
Capital expenditures:				
Company-operated stores	$16,634	$11,515	$23,802	$28,265
Direct to consumer	6,861	4,551	8,841	5,715
Corporate and other	6,515	28,552	17,246	37,281
	$30,010	$44,618	$49,889	$71,261
Depreciation and amortization:				
Company-operated stores	$15,881	$14,511	$31,081	$28,295
Direct to consumer	4,353	1,725	6,347	3,054
Corporate and other	8,172	4,261	14,141	8,334
	$28,406	$20,497	$51,569	$39,683

The accelerated depreciation related to the restructuring of the ivivva operations is included in corporate and other in the above breakdown of depreciation and amortization.

Table of Contents

NOTE 11. LEGAL PROCEEDINGS

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

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

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

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

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

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

This information should be read in conjunction with the unaudited interim consolidated financial statements and the notes included in Item 1 of Part I of this Quarterly Report on Form 10-Q and the audited consolidated financial statements and notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations, contained in our fiscal 2016 Annual Report on Form 10-K filed with the SEC on March 29, 2017.

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

Overview

lululemon is a designer, distributor, and retailer of healthy lifestyle inspired athletic apparel. Since our inception, we have developed a distinctive corporate culture, and we have a mission to produce products which create transformational experiences for people to live happy, healthy, fun lives. We promote a set of core values in our business which include taking personal responsibility, nurturing entrepreneurial spirit, acting with honesty and courage, valuing connection, and choosing to have fun. These core values attract passionate and motivated employees who are driven to succeed and share our purpose of "elevating the world from mediocrity to greatness."

We offer a comprehensive line of apparel and accessories for women and men. We also offer activewear for girls under our ivivva brand name. Our apparel assortment includes items such as pants, shorts, tops, and jackets designed for healthy

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Table of Contents

lifestyle and athletic activities such as yoga, running, training, and most other sweaty pursuits. We also offer fitness-related accessories, including an array of items such as bags, socks, underwear, yoga mats, and water bottles. On June 1, 2017, we announced a plan to restructure our ivivva operations to a primarily e-commerce focused business, with a select number of stores remaining in key communities across North America. On August 20, 2017, as a part of this plan, we closed 47 of our 55 ivivva branded company-operated stores. Of the eight remaining ivivva branded stores, seven are expected to remain in operation and one is expected to be converted to a lululemon branded store. All of our ivivva branded showrooms and other temporary locations have been closed. We continue to offer ivivva branded products on our e-commerce websites. We anticipate that we will substantially complete the restructuring by the end of the third quarter of fiscal 2017.

Financial Highlights

The summary below provides both GAAP and adjusted non-GAAP financial measures. In connection with the restructuring of our ivivva operations, we recognized pre-tax costs totaling $5.4 million in the second quarter of fiscal 2017. The adjusted financial measures exclude these charges and their related tax effects, and also exclude certain discrete items related to our transfer pricing arrangements and taxes on repatriation of foreign earnings which were recognized during the second quarter of fiscal 2016.

For the second quarter of fiscal 2017, compared to the second quarter of fiscal 2016:

- Net revenue increased 13% to $581.1 million. On a constant dollar basis, net revenue increased 13%.
- Total comparable sales, which includes comparable store sales and direct to consumer, increased 7%. On a constant dollar basis, total comparable sales increased by 7%.
- Comparable store sales increased 2%, or increased by 2% on a constant dollar basis.
- Direct to consumer net revenue increased 29%, or increased by 30% on a constant dollar basis. During the quarter we held an online warehouse sale. Excluding the impact of this sale, direct to consumer net revenue increased 15%, or increased 16% on a constant dollar basis.
- Gross profit increased 17% to $297.4 million. Adjusted gross profit increased 18% to $299.7 million.
- Gross margin increased 180 basis points to 51.2%. Adjusted gross margin increased 220 basis points to 51.6%.
- Income from operations decreased by 7% to $68.7 million. Adjusted income from operations increased by $0.2 million, or less than 1%, to $74.1 million.
- Operating margin decreased 260 basis points to 11.8%. Adjusted operating margin decreased by 160 basis points to 12.8%.
- Income tax expense decreased less than 1% to $20.8 million. Our effective tax rate for the second quarter of fiscal 2017 was 29.9% compared to 28.1% for the second quarter of fiscal 2016. The adjusted effective tax rate was 29.6% in the second quarter of fiscal 2017 compared to 30.5% in the second quarter of fiscal 2016.
- Diluted earnings per share were $0.36 compared to $0.39 in the second quarter of fiscal 2016. Adjusted diluted earnings per share were $0.39 for the second quarter of fiscal 2017 compared to $0.38 for the second quarter of fiscal 2016.

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

Table of Contents

Results of Operations

Second Quarter Results

The following table summarizes key components of our results of operations for the quarters ended July 30, 2017 and July 31, 2016. The percentages are presented as a percentage of net revenue.

	Quarter Ended			
	July 30, 2017	July 31, 2016	July 30, 2017	July 31, 2016
	(In thousands)		(Percentages)	
Net revenue	$581,054	$514,520	100.0 %	100.0 %
Cost of goods sold	283,632	260,359	48.8	50.6
Gross profit	297,422	254,161	51.2	49.4
Selling, general and administrative expenses	225,524	180,202	38.8	35.0
Asset impairment and restructuring costs	3,186	—	0.6	—
Income from operations	68,712	73,959	11.8	14.4
Other income (expense), net	812	578	0.2	0.1
Income before income tax expense	69,524	74,537	12.0	14.5
Income tax expense	20,813	20,912	3.6	4.1
Net income	$48,711	$53,625	8.4 %	10.4 %

Net Revenue

Net revenue increased $66.5 million, or 13%, to $581.1 million for the second quarter of fiscal 2017 from $514.5 million for the second quarter of fiscal 2016. On a constant dollar basis, assuming the average exchange rates for the second quarter of fiscal 2017 remained constant with the average exchange rates for the second quarter of fiscal 2016, net revenue increased $68.9 million, or 13%.

The increase in net revenue was primarily due to net revenue generated by new company-operated stores as well as increased direct to consumer net revenue. Total comparable sales, which includes comparable store sales and direct to consumer, increased 7% in the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016. Total comparable sales increased 7% on a constant dollar basis.

Net revenue on a segment basis for the quarters ended July 30, 2017 and July 31, 2016 is summarized below. The percentages are presented as a percentage of total net revenue.

	Quarter Ended			
	July 30, 2017	July 31, 2016	July 30, 2017	July 31, 2016
	(In thousands)		(Percentages)	
Company-operated stores	$413,944	$381,389	71.2 %	74.1 %
Direct to consumer	113,049	87,399	19.5	17.0
Other	54,061	45,732	9.3	8.9
Net revenue	$581,054	$514,520	100.0 %	100.0 %

Company-Operated Stores. Net revenue from our company-operated stores segment increased $32.6 million, or 9%, to $413.9 million in the second quarter of fiscal 2017 from $381.4 million in the second quarter of fiscal 2016. The following contributed to the increase in net revenue from our company-operated stores segment:

- Net revenue from company-operated stores we opened or significantly expanded subsequent to July 31, 2016, and therefore not included in comparable store sales, contributed $28.9 million to the increase. We have opened 42 net new company-operated stores since the second quarter of fiscal 2016, including 24 stores in the United States, five stores in China, four stores in Canada, three stores in the United Kingdom, two stores in South Korea, and one store in each of Hong Kong, Ireland, Japan, and New Zealand.
- A comparable store sales increase of 2% in the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016 resulted in a $3.7 million increase to net revenue. Comparable store sales increased 2%, or $4.9 million on a

20

Table of Contents

constant dollar basis. The increase in comparable store sales was primarily as a result of increased dollar value per transaction and improved conversion rates. This was partially offset by a decrease in store traffic.

Direct to Consumer. Net revenue from our direct to consumer segment increased $25.7 million, or 29%, to $113.0 million in the second quarter of fiscal 2017 from $87.4 million in the second quarter of fiscal 2016. Direct to consumer net revenue increased 30% on a constant dollar basis. This was primarily as a result of increased website traffic and improved conversion rates. This was partially offset by a decrease in dollar value per transaction. During the second quarter of fiscal 2017, we held online warehouse sales in the United States and Canada which generated net revenue of $12.3 million. We did not hold any warehouse sales during the second quarter of fiscal 2016. Excluding the impact of the online warehouse sales, direct to consumer net revenue increased 15%, or increased 16% on a constant dollar basis.

Other. Net revenue from our other segment increased $8.3 million, or 18%, to $54.1 million in the second quarter of fiscal 2017 from $45.7 million in the second quarter of fiscal 2016. This increase was primarily the result of increased net revenue at existing outlets and due to an increased number of outlets during the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016. There was also an increase in net revenue from temporary locations. The increase in net revenue from outlets and temporary locations was partially offset by a lower net revenue from showrooms, primarily due to a decreased number of showrooms open during the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016.

Gross Profit

Gross profit increased $43.3 million, or 17%, to $297.4 million for the second quarter of fiscal 2017 from $254.2 million for the second quarter of fiscal 2016. Gross profit as a percentage of net revenue, or gross margin, was 51.2% in the second quarter of fiscal 2017 compared to 49.4% in the second quarter of fiscal 2016.

Gross margin increased by 180 basis points to 51.2% in the second quarter of fiscal 2017 from 49.4% in the second quarter of fiscal 2016. The increase in gross margin was primarily the result of an increase in product margin of 260 basis points which was primarily due to a favorable mix of higher margin product and lower product costs, partially offset by higher markdowns.

This was partially offset by accelerated depreciation charges related to the restructuring of our ivivva operations of 40 basis points, an unfavorable impact of foreign exchange rates of 20 basis points, an increase in occupancy and depreciation costs of 10 basis points, and an increase in costs related to our product and supply chain departments of 10 basis points.

During the second quarter of fiscal 2017, we recorded accelerated depreciation charges of $2.2 million in cost of goods sold as a result of the restructuring of our ivivva operations. This was primarily related to leasehold improvements and furniture and fittings for stores which have been closed during the third quarter of fiscal 2017. See Note 6 to the unaudited interim consolidated financial statements included in Item 1 of Part I of this report. Excluding these charges, adjusted gross profit increased 18% to $299.7 million, and adjusted gross margin increased 220 basis points to 51.6% compared to the second quarter of fiscal 2016.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $45.3 million, or 25%, to $225.5 million in the second quarter of fiscal 2017 from $180.2 million in the second quarter of fiscal 2016. The increase in selling, general and administrative expenses was primarily due to:

- an increase in costs related to our operating channels of $20.8 million, comprised of:
  - an increase in employee costs of $8.3 million primarily from a growth in labor hours and benefits, mainly associated with new company-operated stores and other new operating locations;
  - an increase in variable costs of $3.8 million primarily due to an increase in distribution costs and credit card fees as a result of increased net revenue; and
  - an increase in other costs of $8.7 million primarily due to an increase in digital marketing expenses, website related costs, brand and community costs, and other costs associated with our operating locations; and
- an increase in head office costs of $17.7 million, comprised of:
  -

an increase in employee costs of $5.0 million primarily due to additional employees to support the growth in our business;

Table of Contents

- an increase in other costs of $12.7 million primarily due to a global brand campaign, increases in other brand and community costs, photography costs, professional fees, depreciation, and information technology related costs; and
- an increase in net foreign exchange and derivative revaluation losses of $6.8 million. There were net foreign exchange and derivative revaluation losses of $1.7 million in the second quarter of fiscal 2017 compared to net foreign exchange revaluation gains of $5.1 million in the second quarter of fiscal 2016. The net foreign exchange gains and losses primarily relate to the revaluation of U.S. dollar denominated monetary assets and liabilities held by Canadian subsidiaries. During the second quarter of fiscal 2017 we entered into certain forward currency contracts designed to hedge against changes in the Canadian dollar to U.S. dollar exchange rate. See Note 5 to the unaudited interim consolidated financial statements included in Item 1 of Part I of this report.

As a percentage of net revenue, selling, general and administrative expenses increased 380 basis points, to 38.8% in the second quarter of fiscal 2017 from 35.0% in the second quarter of fiscal 2016.

Asset Impairment and Restructuring Costs

As a result of the restructuring of our ivivva operations, we recognized restructuring costs of $3.2 million in the second quarter of fiscal 2017. This included employee related costs of $2.5 million and lease termination and other restructuring costs of $0.7 million. We did not have asset impairment and restructuring costs in the second quarter of fiscal 2016. Please refer to Note 6 to the unaudited interim consolidated financial statements included in Item 1 of Part I of this report.

Income from Operations

Income from operations decreased $5.2 million, or 7%, to $68.7 million in the second quarter of fiscal 2017 from $74.0 million in the second quarter of fiscal 2016. Operating margin decreased 260 basis points to 11.8% compared to 14.4% in the second quarter of fiscal 2016.

In connection with the restructuring of our ivivva operations, we recognized pre-tax costs totaling $5.4 million in the second quarter of fiscal 2017. This includes restructuring costs of $3.2 million, and accelerated depreciation charges of $2.2 million which were recorded in cost of goods sold. Excluding these charges, adjusted income from operations increased by less than 1% to $74.1 million and adjusted operating margin decreased by 160 basis points to 12.8%.

On a segment basis, we determine income from operations without taking into account our general corporate expenses and the costs we incur in connection with the restructuring of our ivivva operations.

Segmented income from operations for the quarters ended July 30, 2017 and July 31, 2016 is summarized below. The percentages are presented as a percentage of net revenue of the respective operating segments.

	Quarter Ended			
	July 30, 2017	July 31, 2016	July 30, 2017	July 31, 2016
	(In thousands)		(Percentages)	
Company-operated stores	$92,609	$80,277	22.4%	21.0 %
Direct to consumer	40,139	32,644	35.5	37.4
Other	6,952	4,636	12.9	10.1
Segmented income from operations	139,700	117,557		
General corporate expense	65,558	43,598		
Restructuring and related costs	5,430	—		
Income from operations	$68,712	$73,959		

Company-Operated Stores. Income from operations from our company-operated stores segment increased $12.3 million, or 15%, to $92.6 million for the second quarter of fiscal 2017 from $80.3 million for the second quarter of fiscal 2016. The increase was primarily the result of increased gross profit of $23.5 million which was primarily due to increased net revenue from new stores, and higher gross margin. The increase in gross margin was primarily due to a favorable mix of higher margin products, lower product costs, and improved average retail prices. The increase in gross profit was partially offset by an increase in selling, general and administrative expenses, including increased store employee costs and operating expenses associated with new stores. Income from operations as a percentage of company-operated stores net revenue increased by 140 basis points primarily due to increased gross margin, partially offset by deleverage of selling, general and administrative expenses.

Table of Contents

Direct to Consumer. Income from operations from our direct to consumer segment increased $7.5 million, or 23%, to $40.1 million for the second quarter of fiscal 2017 from $32.6 million for the second quarter of fiscal 2016. The increase was primarily the result of increased gross profit of $16.6 million due to increased website traffic and improved conversion rates, partially offset by a decrease in dollar value per transaction. During the second quarter of fiscal 2017, we held online warehouse sales in the United States and Canada which generated net revenue of $12.3 million. We did not hold any warehouse sales during the second quarter of fiscal 2016. This was partially offset by an increase in selling, general and administrative expenses including higher digital marketing expenses, website related costs, and higher variable costs such as distribution and credit card fees as a result of higher net revenue. Income from operations as a percentage of direct to consumer net revenue decreased by 190 basis points primarily due to deleverage of selling, general and administrative expenses, partially offset by increased gross margin.

Other. Other income from operations increased $2.3 million, or 50%, to $7.0 million for the second quarter of fiscal 2017 from $4.6 million for the second quarter of fiscal 2016. The increase was primarily the result of increased gross profit of $5.3 million which was primarily due to increased net revenue at existing outlets, an increased number of outlets and temporary locations, and higher gross margin. The increase in gross profit was partially offset by an increase in selling, general and administrative expenses, including increased employee costs, and increased brand and community costs. Income from operations as a percentage of other net revenue increased by 280 basis points primarily due to an increase in gross margin partially offset by deleverage of selling, general and administrative expenses as a percentage of other net revenue.

General Corporate Expense. General corporate expense increased $22.0 million, or 50%, to $65.6 million for the second quarter of fiscal 2017 from $43.6 million for the second quarter of fiscal 2016. This increase was primarily due to a global brand campaign, increases in other brand and community costs, photography costs, professional fees, depreciation, information technology costs, and head office employee costs. There was also a $6.8 million increase in net foreign exchange and derivative revaluation losses. There were net foreign exchange and derivative revaluation losses of $1.7 million in the second quarter of fiscal 2017 compared to net foreign exchange gains of $5.1 million in the second quarter of fiscal 2016. The net foreign exchange gains and losses primarily relate to the revaluation of U.S. dollar denominated monetary assets and liabilities held by Canadian subsidiaries.

Other Income (Expense), Net

Other income, net increased $0.2 million, or 40%, to $0.8 million for the second quarter of fiscal 2017 from income of $0.6 million for the second quarter of fiscal 2016. The second quarter of fiscal 2016 included a net interest expense of $0.3 million in relation to certain tax adjustments that are outlined in Note 7 to the unaudited interim consolidated financial statements included in Item 1 of Part I of this report.

Income Tax Expense

Income tax expense decreased $0.1 million, or less than 1%, to $20.8 million for the second quarter of fiscal 2017 from $20.9 million for the second quarter of fiscal 2016.

The second quarters of fiscal 2017 and fiscal 2016 included certain adjustments which resulted in net income tax recoveries of $1.4 million and $1.9 million, respectively. As outlined in Notes 6 and 7 to the unaudited interim consolidated financial statements included in Item 1 of Part I of this report, these tax recoveries relate to the tax effect of the costs recognized in connection with the ivivva restructuring, and to our transfer pricing arrangements and taxes on repatriation of foreign earnings.

The effective tax rate for the second quarter of fiscal 2017 was 29.9% compared to 28.1% for the second quarter of fiscal 2016. The adjusted effective tax rate was 29.6% for the second quarter of fiscal 2017 compared to 30.5% for the second quarter of fiscal 2016. The decrease in the adjusted effective tax rate compared to the second quarter of fiscal 2016 is primarily due to a decrease in the expected non-deductible stock based compensation expense for fiscal 2017, and due to certain true-ups which were recorded during the second quarter of fiscal 2017 following the finalization of the Company's Canadian tax returns.

Net Income

Net income decreased $4.9 million, or 9%, to $48.7 million for the second quarter of fiscal 2017 from $53.6 million for the second quarter of fiscal 2016. This was primarily due to an increase in selling, general and administrative expenses of $45.3 million and long-lived asset impairment and restructuring costs of $3.2 million, partially offset by an increase in gross profit of $43.3 million, an increase in other income (expense), net of $0.2 million, and a decrease in income tax expense of $0.1 million.

Table of Contents

First Two Quarters Results

The following table summarizes key components of our results of operations for the first two quarters ended July 30, 2017 and July 31, 2016. The percentages are presented as a percentage of net revenue.

	Two Quarters Ended			
	July 30, 2017	July 31, 2016	July 30, 2017	July 31, 2016
	(In thousands)		(Percentages)	
Net revenue	$1,101,361	$1,010,036	100.0%	100.0%
Cost of goods sold	547,044	516,744	49.7	51.2
Gross profit	554,317	493,292	50.3	48.8
Selling, general and administrative expenses	424,665	361,744	38.6	35.8
Asset impairment and restructuring costs	15,517	—	1.3	—
Income from operations	114,135	131,548	10.4	13.0
Other income (expense), net	1,719	92	0.1	—
Income before income tax expense	115,854	131,640	10.5	13.0
Income tax expense	35,897	32,679	3.2	3.2
Net income	$79,957	$98,961	7.3 %	9.8 %

Net Revenue

Net revenue increased $91.3 million, or 9%, to $1.101 billion for the first two quarters of fiscal 2017 from $1.010 billion for the first two quarters of fiscal 2016. On a constant dollar basis, assuming the average exchange rates for the first two quarters of fiscal 2017 remained constant with the average exchange rates for the first two quarters of fiscal 2016, net revenue increased $95.2 million, or 9%.

The increase in net revenue was primarily due to net revenue generated by new company-operated stores as well as increased direct to consumer net revenue. Total comparable sales, which includes comparable store sales and direct to consumer, increased 3% in the first two quarters of fiscal 2017 compared to the first two quarters of fiscal 2016. Total comparable sales increased 3% on a constant dollar basis.

Net revenue on a segment basis for the first two quarters ended July 30, 2017 and July 31, 2016 is summarized below. The percentages are presented as a percentage of total net revenue.

	Two Quarters Ended			
	July 30, 2017	July 31, 2016	July 30, 2017	July 31, 2016
	(In thousands)		(Percentages)	
Company-operated stores	$793,043	$740,093	72.0 %	73.3 %
Direct to consumer	210,272	184,965	19.1	18.3
Other	98,046	84,978	8.9	8.4
Net revenue	$1,101,361	$1,010,036	100.0%	100.0%

Company-Operated Stores. Net revenue from our company-operated stores segment increased $53.0 million, or 7%, to $793.0 million in the first two quarters of fiscal 2017 from $740.1 million in the first two quarters of fiscal 2016. Net revenue from company-operated stores we opened or significantly expanded subsequent to July 31, 2016, and therefore not included in comparable store sales, contributed $55.4 million to the increase. We have opened 42 net new company-operated stores since the second quarter of fiscal 2016, including 24 stores in the United States, five stores in China, four stores in Canada, three stores in the United Kingdom, two stores in South Korea, and one store in each of Hong Kong, Ireland, Japan, and New Zealand. The increase in net revenue from our company-operated stores segment was partially offset by a comparable store sales decrease of less than 1% in the first two quarters of fiscal 2017 which resulted in a $2.5 million decrease to net revenue. Comparable store sales decreased less than 1%, or $0.8 million on a constant dollar basis. The decrease in comparable store sales was primarily as a result of decreased traffic, partially offset by increased dollar value per transaction and improved conversion rates.

Direct to Consumer. Net revenue from our direct to consumer segment increased $25.3 million, or 14%, to $210.3 million in the first two quarters of fiscal 2017 from $185.0 million in the first two quarters of fiscal 2016. Direct to consumer net revenue increased 14% on a constant dollar basis. This was primarily as a result of increased website traffic, partially offset by lower conversion rates and a decrease in dollar value per transaction. During the second quarter of fiscal 2017, we held online warehouse sales in the United States and Canada which generated net revenue of $12.3 million. We did not hold any online warehouse sales during the first two quarters of fiscal 2016. Excluding the impact of the online warehouse sales, direct to consumer net revenue increased 7%, or increased 8% on a constant dollar basis.

Other. Net revenue from our other segment increased $13.1 million, or 15%, to $98.0 million in the first two quarters of fiscal 2017 from $85.0 million in the first two quarters of fiscal 2016. This increase was primarily the result of increased net revenue at existing outlets, and an increased number of temporary locations and outlets open during the first two quarters of fiscal 2017 compared to the first two quarters of fiscal 2016. The increase in net revenue from outlets and temporary locations was partially offset by a lower net revenue from showrooms, primarily due a decreased number of showrooms open during the first two quarters of fiscal 2017 compared to the first two quarters of fiscal 2016.

Gross Profit

Gross profit increased $61.0 million, or 12%, to $554.3 million for the first two quarters of fiscal 2017 from $493.3 million for the first two quarters of fiscal 2016. Gross profit as a percentage of net revenue, or gross margin, was 50.3% in the first two quarters of fiscal 2017 compared to 48.8% in the first two quarters of fiscal 2016.

Gross margin increased by 150 basis points, to 50.3% in the first two quarters of fiscal 2017 from 48.8% in the first two quarters of fiscal 2016. The increase in gross margin was primarily the result of an increase in product margin of 320 basis points which was primarily due to a favorable mix of higher margin product and lower product costs, partially offset by higher markdowns.

This was partially offset by costs incurred in connection with the restructuring of our ivivva operations of 70 basis points, an increase in occupancy and depreciation costs of 50 basis points, and an increase in costs related to our product and supply chain departments of 50 basis points.

During the first two quarters of fiscal 2017, as a result of the restructuring of our ivivva operations, we recognized costs totaling $7.7 million within costs of goods sold, as outlined in Note 6 to the unaudited interim consolidated financial statements included in Item 1 of Part I of this report. Excluding these charges, adjusted gross profit increased 14% to $562.0 million and adjusted gross margin increased 220 basis points to 51.0% compared to the first two quarters of fiscal 2016.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $62.9 million, or 17%, to $424.7 million in the first two quarters of fiscal 2017 from $361.7 million in the first two quarters of fiscal 2016. The increase in selling, general and administrative expenses was primarily due to:

- an increase in costs related to our operating channels of $38.0 million, comprised of:
  - an increase in employee costs of $19.2 million, primarily from a growth in labor hours and benefits, mainly associated with new company-operated stores and other new operating locations;
  - an increase in variable costs of $3.1 million, primarily due to an increase in credit card fees and distribution costs, partially offset by a decrease in total packaging costs; and
  - an increase in other costs of $15.7 million, primarily due to an increase in digital marketing expenses, website related costs, brand and community costs, and other costs associated with our operating locations; and
- an increase in head office costs of $37.5 million, comprised of:
  - an increase in employee costs of $11.3 million primarily due to additional employees to support the growth in our business; and
  - an increase in other costs of $26.2 million primarily due to a global brand campaign, increases in other brand and community costs, professional fees, information technology related costs, and depreciation.

The increase in selling, general and administrative expenses was partially offset by an increase in net foreign exchange and derivative revaluation gains of $12.6 million. There were net foreign exchange and derivative revaluation gains of $4.1 million in the first two quarters of fiscal 2017 compared to net foreign exchange revaluation losses of $8.5 million in the first two quarters of fiscal 2016. The net foreign exchange gains and losses primarily relate to the revaluation of U.S. dollar denominated monetary assets and liabilities held by Canadian subsidiaries. During the second quarter of fiscal 2017 we entered into certain forward currency contracts designed to hedge against changes in the Canadian dollar to U.S. dollar exchange rate. See Note 5 to the unaudited interim consolidated financial statements included in Item 1 of Part I of this report.

Table of Contents

As a percentage of net revenue, selling, general and administrative expenses increased 280 basis points, to 38.6% in the first two quarters of fiscal 2017 from 35.8% in the first two quarters of fiscal 2016.

Asset Impairment and Restructuring Costs

As a result of the restructuring of our ivivva operations, we recognized asset impairment and restructuring costs of $15.5 million in the first two quarters of fiscal 2017. This includes long-lived asset impairment charges of $11.6 million, employee related costs of $3.2 million, and lease termination and other restructuring costs of $0.7 million. We did not have asset impairment and restructuring costs in the first two quarters of fiscal 2016. Please refer to Note 6 to the unaudited interim consolidated financial statements included in Item 1 of Part I of this report.

Income from Operations

Income from operations decreased $17.4 million, or 13%, to $114.1 million in the first two quarters of fiscal 2017 from $131.5 million in the first two quarters of fiscal 2016. Operating margin decreased 260 basis points to 10.4% compared to 13.0% in the first two quarters of fiscal 2016.

In connection with the restructuring of our ivivva operations, we recognized pre-tax costs totaling $23.2 million in the first two quarters of fiscal 2017. This includes long-lived asset impairment and restructuring costs of $15.5 million, inventory write downs of $2.9 million, anticipated losses related to firm inventory purchase commitments of $2.5 million, and accelerated depreciation charges of $2.2 million. Excluding these charges, adjusted income from operations increased by 4% to $137.3 million and adjusted operating margin decreased by 50 basis points to 12.5%.

On a segment basis, we determine income from operations without taking into account our general corporate expenses and the costs we incur in connection with the restructuring of our ivivva operations.

Segmented income from operations for the first two quarters ended July 30, 2017 and July 31, 2016 is summarized below. The percentages are presented as a percentage of net revenue of the respective operating segments.

	Two Quarters Ended			
	July 30, 2017	July 31, 2016	July 30, 2017	July 31, 2016
	(In thousands)		(Percentages)	
Company-operated stores	$170,139	$153,564	21.5%	20.7%
Direct to consumer	75,566	71,152	35.9	38.5
Other	9,760	6,720	10.0	7.9
Segmented income from operations	255,465	231,436		
General corporate expense	118,150	99,888		
Restructuring and related costs	23,180	—		
Income from operations	$114,135	$131,548		

Company-Operated Stores. Income from operations from our company-operated stores segment increased $16.6 million, or 11%, to $170.1 million for the first two quarters of fiscal 2017 from $153.6 million for the first two quarters of fiscal 2016. The increase was primarily the result of increased gross profit of $40.8 million which was primarily due to increased net revenue from new stores and higher gross margin. The increase in gross margin was primarily due to a favorable mix of higher margin product, lower product costs, and improved average retail prices. The increase in gross profit was partially offset by an increase in selling, general and administrative expenses, including increased store employee costs and increased operating expenses associated with new stores. Income from operations as a percentage of company-operated stores net revenue increased by 80 basis points. The increase in gross margin was partially offset by deleverage of selling, general and administrative expenses.

Direct to Consumer. Income from operations from our direct to consumer segment increased $4.4 million, or 6%, to $75.6 million for the first two quarters of fiscal 2017 from $71.2 million for the first two quarters of fiscal 2016. The increase was primarily the result of increased gross profit of $19.3 million as a result of increased net revenue and higher gross margin. Direct to consumer net revenue increased due to increased website traffic, partially offset by lower conversion rates and a decrease in dollar value per transaction. During the second quarter of fiscal 2017, we held online warehouse sales in the United States and Canada which generated net revenue of $12.3 million. We did not hold any online warehouse sales during the first two quarters of fiscal 2016. The increase in gross profit was partially offset by an increase in selling, general and administrative expenses including higher digital marketing expenses, website related costs, and higher variable costs such as distribution and credit card fees as a result of higher net revenue. Income from operations as a percentage of direct to consumer net revenue d ecreased by 260 basis points primarily due to deleverage of selling, general and administrative expenses, partially offset by increased gross margin.

Other. Other income from operations increased $3.0 million, or 45%, to $9.8 million for the first two quarters of fiscal 2017 from $6.7 million for the first two quarters of fiscal 2016. The increase was primarily the result of increased gross profit of $8.6 million which was primarily due to increased net revenue at existing outlets, an increased number of outlets and temporary locations, and higher gross margin. The increase in gross profit was partially offset by an increase in selling, general and administrative expenses, including increased employee costs, and increased operating expenses associated with new locations and higher net revenues. Income from operations as a percentage of other net revenue increased by 210 basis points primarily due to an increase in gross margin partially offset by deleverage of selling, general and administrative expenses as a percentage of other net revenue.

General Corporate Expense. General corporate expense increased $18.3 million, or 18%, to $118.2 million for the first two quarters of fiscal 2017 from $99.9 million for the first two quarters of fiscal 2016. This increase was primarily due to increased head office employee costs, a global brand campaign, increases in other brand and community costs, professional fees, information technology related costs, and depreciation. These increases were partially offset by an increase in net foreign exchange and derivative revaluation gains of $12.6 million. There were net foreign exchange and derivative revaluation gains of $4.1 million in the first two quarters of fiscal 2017 compared to net foreign exchange losses of $8.5 million in the first two quarters of fiscal 2016. The net foreign exchange gains and losses primarily relate to the revaluation of U.S. dollar denominated monetary assets and liabilities held by Canadian subsidiaries.

Other Income (Expense), Net

Other income, net increased $1.6 million to $1.7 million for the first two quarters of fiscal 2017 from income of $0.1 million for the first two quarters of fiscal 2016. The increase was primarily due to net interest expense of $1.5 million which was recorded in the first two quarters of fiscal 2016 in relation to certain tax adjustments that are outlined in Note 7 to the unaudited interim consolidated financial statements included in Item 1 of Part I of this report.

Income Tax Expense

Income tax expense increased $3.2 million, or 10%, to $35.9 million for the first two quarters of fiscal 2017 from $32.7 million for the first two quarters of fiscal 2016.

The first two quarters of fiscal 2017 and fiscal 2016 included certain tax adjustments which resulted in net income tax recoveries of $6.1 million and $7.6 million, respectively. As outlined in Notes 6 and 7 to the unaudited interim consolidated financial statements included in Item 1 of Part I of this report, the tax recovery recognized in the first two quarters of fiscal 2017 relates to the tax effect of the costs recognized in connection with the ivivva restructuring, the tax recovery recognized in the first two quarters of fiscal 2016 relates to our transfer pricing arrangements and taxes on repatriation of foreign earnings.

The effective tax rate for the first two quarters of fiscal 2017 was 31.0% compared to 24.8% for the first two quarters of fiscal 2016. The adjusted effective tax rate was 30.2% for the first two quarters of fiscal 2017 compared to 30.2% for the first two quarters of fiscal 2016.

Net Income

Net income decreased $19.0 million, or 19%, to $80.0 million for the first two quarters of fiscal 2017 from $99.0 million for the first two quarters of fiscal 2016. This was primarily due to an increase in selling, general and administrative expenses of $62.9 million, long-lived asset impairment and restructuring costs of $15.5 million, and an increase in income tax expense of $3.2 million, partially offset by an increase in gross profit of $61.0 million, and an increase in other income (expense), net of $1.6 million.

Comparable Store Sales and Total Comparable Sales

We separately track comparable store sales, which reflect net revenue from company-operated stores that have been open for at least 12 months, or open for at least 12 months after being significantly expanded. Net revenue from a store is included in comparable store sales beginning with the first month for which the store has a full month of sales in the prior year. Comparable store sales exclude sales from new stores that have not been open for at least 12 months, from stores which have not been in their significantly expanded space for at least 12 months, and from stores which have been temporarily relocated for renovations. Comparable store sales also exclude sales from direct to consumer, outlets, showrooms, wholesale accounts, temporary locations, warehouse sales, license and supply arrangements, and sales from company-operated stores that we have closed.

Table of Contents

Total comparable sales combines comparable store sales and direct to consumer sales.

The comparable sales measures we report may not be equivalent to similarly titled measures reported by other companies.

Non-GAAP Financial Measures

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

A constant dollar basis assumes the average foreign exchange rates for the period remained constant with the average foreign exchange rates for the same period of the prior year. We provide constant dollar changes in net revenue, total comparable sales, comparable store sales, direct to consumer net revenue, and direct to consumer net revenue excluding the online warehouse sale because we use these measures to understand the underlying growth rate of net revenue excluding the impact of changes in foreign exchange rates. We believe that disclosing these measures on a constant dollar basis is useful to investors because it enables them to better understand the level of growth of our business.

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

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

The below changes in net revenue, total comparable sales, comparable store sales, direct to consumer net revenue, and direct to consumer net revenue excluding the online warehouse sale show the change compared to the corresponding period in the prior year.

Table of Contents

Constant dollar changes in net revenue, total comparable sales, comparable store sales, direct to consumer net revenue, and direct to consumer net revenue excluding the online warehouse sale

	Quarter Ended July 30, 2017		Two Quarters Ended July 30, 2017	
	(In thousands)	(Percentages)	(In thousands)	(Percentages)
Change in net revenue	$66,534	13 %	$91,325	9 %
Adjustments due to foreign exchange rate changes	2,351	—	3,831	—
Change in net revenue in constant dollars	$68,885	13 %	$95,156	9 %

	Quarter Ended July 30, 2017	Two Quarters Ended July 30, 2017
Change in total comparable sales[1,2]	7 %	3 %
Adjustments due to foreign exchange rate changes	—	—
Change in total comparable sales in constant dollars[1,2]	7 %	3 %

	Quarter Ended July 30, 2017		Two Quarters Ended July 30, 2017	
	(In thousands)	(Percentages)	(In thousands)	(Percentages)
Change in comparable store sales[2]	$3,689	2 %	$(2,482)	— %
Adjustments due to foreign exchange rate changes	1,168	—	1,694	—
Change in comparable store sales in constant dollars[2]	$4,857	2 %	$(788)	— %

	Quarter Ended July 30, 2017	Two Quarters Ended July 30, 2017
	(Percentages)	
Change in direct to consumer net revenue	29 %	14 %
Adjustments due to foreign exchange rate changes	1	—
Change in direct to consumer net revenue in constant dollars	30 %	14 %

	Quarter Ended July 30, 2017	Two Quarters Ended July 30, 2017
	(Percentages)	
Change in direct to consumer net revenue excluding the online warehouse sale	15 %	7 %
Adjustments due to foreign exchange rate changes	1	1
Change in direct to consumer net revenue excluding the online warehouse sale in constant dollars	16 %	8 %

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[1]Total comparable sales includes comparable store sales and direct to consumer sales.

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

Table of Contents

Adjusted financial measures

The following tables reconcile adjusted financial measures with the most directly comparable measures calculated in accordance with GAAP. The amounts are in thousands, except for the per share amounts.

	Quarter Ended July 30, 2017			Quarter Ended July 31, 2016		
	GAAP Results	Adjustments	Adjusted Results (Non-GAAP)	GAAP Results	Adjustments	Adjusted Results (Non-GAAP)
Gross profit[1]	$297,422	$ 2,244	$ 299,666	$254,161	$ —	$ 254,161
Gross margin[1]	51.2 %	0.4 %	51.6 %	49.4 %	— %	49.4 %
Income from operations[1,2]	68,712	5,430	74,142	73,959	—	73,959
Operating margin[1,2]	11.8 %	1.0 %	12.8 %	14.4 %	— %	14.4 %
Income before income tax expense[1,2,3]	69,524	5,430	74,954	74,537	270	74,807
Income tax expense[3,4]	20,813	1,390	22,203	20,912	1,926	22,838
Effective tax rate[3,4]	29.9 %	(0.3)%	29.6 %	28.1 %	2.4 %	30.5 %
Diluted earnings per share[1,2,3,4]	$0.36	$ 0.03	$ 0.39	$0.39	$ (0.01)	$ 0.38

	Two Quarters Ended July 30, 2017			Two Quarters Ended July 31, 2016		
	GAAP Results	Adjustments	Adjusted Results (Non-GAAP)	GAAP Results	Adjustments	Adjusted Results (Non-GAAP)
Gross profit[1]	$554,317	$ 7,663	$ 561,980	$493,292	$ —	$ 493,292
Gross margin[1]	50.3 %	0.7 %	51.0 %	48.8 %	— %	48.8 %
Income from operations[1,2]	114,135	23,180	137,315	131,548	—	131,548
Operating margin[1,2]	10.4 %	2.1 %	12.5 %	13.0 %	— %	13.0 %
Income before income tax expense[1,2,3]	115,854	23,180	139,034	131,640	1,510	133,150
Income tax expense[3,4]	35,897	6,073	41,970	32,679	7,570	40,249
Effective tax rate[3,4]	31.0 %	(0.8)%	30.2 %	24.8 %	5.4 %	30.2 %
Diluted earnings per share[1,2,3,4]	$0.58	$ 0.13	$ 0.71	$0.72	$ (0.04)	$ 0.68

[1] During the quarter and two quarters ended July 30, 2017, we recognized costs in cost of goods sold totaling $2.2 million and $7.7 million, respectively, to reduce the carrying value of certain ivivva branded inventories to their estimated net realizable value, to record the expected net loss on certain committed inventory purchases, and to record accelerated depreciation.

[2] During the quarter and two quarters ended July 30, 2017, we recognized costs in operating expenses totaling $3.2 million and $15.5 million, respectively, for long-lived asset impairment charges and severance costs related to the restructuring of our ivivva operations.

[3] The adjustments in the quarter and two quarters ended July 31, 2016 relate to our transfer pricing arrangements and the associated repatriation of foreign earnings and were recorded in other income (expense), net and income tax expense.

[4] The adjustment to income tax expense for the quarter and two quarters ended July 30, 2017 represents the tax effect of the ivivva related restructuring adjustments, calculated based on the expected annual tax rate of the applicable tax jurisdictions.

Please refer to Notes 6 and 7 to the unaudited interim consolidated financial statements included in Item 1 of Part I of this report for further information on these adjustments.

Seasonality

Our business is affected by the general seasonal trends common to the retail apparel industry. Our annual net revenue is weighted more heavily toward our fourth fiscal quarter, reflecting our historical strength in sales during the holiday season, while our operating expenses are more equally distributed throughout the year. As a result, a substantial portion of our operating profits are generated in the fourth quarter of our fiscal year. For example, we generated approximately 47%, 45%, and 42% of our full year operating profit during the fourth quarters of fiscal 2016, fiscal 2015, and fiscal 2014, respectively.

Liquidity and Capital Resources

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

As of July 30, 2017, our working capital (excluding cash and cash equivalents) was $225.5 million, our cash and cash equivalents were $721.2 million and our capacity under our revolving facility was $148.9 million.

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

	Two Quarters Ended	
	July 30, 2017	July 31, 2016
	(In thousands)	
Total cash provided by (used in):		
Operating activities	$102,038	$101,193
Investing activities	(49,889)	(71,261)
Financing activities	(91,910)	(25,082)
Effect of exchange rate changes on cash	26,127	29,018
(Decrease) increase in cash and cash equivalents	$(13,634)	$33,868

Operating Activities

Cash flows provided by operating activities consist primarily of net income adjusted for certain items not affecting cash and the effect of changes in operating assets and liabilities.

Cash provided by operating activities increased $0.8 million, to $102.0 million for the first two quarters of fiscal 2017 compared to $101.2 million for the first two quarters of fiscal 2016.

The increase was primarily the result of a $24.1 million increase in expenses that do not affect cash, including depreciation, stock based compensation expense, and asset impairments. This was partially offset by an increase in net cash outflows from changes in operating assets and liabilities of $4.2 million, and a reduction in net income of $19.0 million.

Investing Activities

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

Cash used in investing activities decreased $21.4 million to $49.9 million for the first two quarters of fiscal 2017 from $71.3 million for the first two quarters of fiscal 2016. In the second quarter of fiscal 2016 we purchased a land parcel in Vancouver, BC for $19.7 million for general corporate purposes. There has also been a reduction in capital expenditures related to our company-operated stores in the first two quarters of fiscal 2017 compared to the first two quarters of fiscal 2016.

Financing Activities

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

Cash used in financing activities increased $66.8 million, to $91.9 million for the first two quarters of fiscal 2017 compared to $25.1 million for the first two quarters of fiscal 2016.

31

Table of Contents

On June 11, 2014, our board of directors approved a program to repurchase shares of our common stock up to an aggregate value of $450.0 million. This stock repurchase program was completed during the second quarter of fiscal 2016. On December 1, 2016, our board of directors approved a program to repurchase shares of our common stock up to an aggregate value of $100.0 million over a period of up to two years.

Our cash used in financing activities for the first two quarters of fiscal 2017 included $90.8 million to repurchase 1.7 million shares of our common stock compared to $28.6 million to repurchase 0.4 million shares for the first two quarters of fiscal 2016.

We believe that our cash and cash equivalent balances, cash generated from operations, and borrowings available to us under our revolving credit facility will be adequate to meet our liquidity needs and capital expenditure requirements for at least the next 12 months. Our cash from operations may be negatively impacted by a decrease in demand for our products as well as the other factors described in Item 1 of Part II of this Quarterly Report on Form 10-Q. In addition, we may make discretionary capital improvements with respect to our stores, distribution facilities, headquarters, or systems, which we would expect to fund through the use of cash, issuance of debt or equity securities or other external financing sources to the extent we were unable to fund such capital expenditures out of our cash and cash equivalents and cash generated from operations.

Revolving Credit Facility

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

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

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

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

As of July 30, 2017, aside from letters of credit of $1.1 million, we had no other borrowings outstanding under this credit facility.

Off-Balance Sheet Arrangements

We enter into standby letters of credit to secure certain of our obligations, including leases, taxes and duties. As of July 30, 2017, letters of credit and letters of guarantee totaling $1.1 million had been issued.

We have not entered into any transactions, agreements or other contractual arrangements to which an entity unconsolidated with us is a party and under which we have (i) any obligation under a guarantee, (ii) any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity, (iii) any obligation under derivative instruments that are indexed to our shares and classified as equity in our consolidated

Table of Contents

balance sheets, or (iv) any obligation arising out of a variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions. Predicting future events is inherently an imprecise activity and, as such, requires the use of judgment. Actual results may vary from our estimates in amounts that may be material to the financial statements. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact our consolidated financial statements. Our critical accounting policies and estimates are discussed in our fiscal 2016 Annual Report on Form 10-K filed with the SEC on March 29, 2017, and in Notes 2, 4, and 5 included in Item 1 of Part I of this Quarterly Report on Form 10-Q.

Operating Locations

Our company-operated stores by brand and by country as of July 30, 2017 and January 29, 2017, are summarized in the table below.

	July 30, 2017	January 29, 2017
lululemon		
United States	252	245
Canada	53	51
Australia	27	27
United Kingdom	9	9
New Zealand	6	5
China	5	3
Hong Kong	3	3
Singapore	3	3
South Korea	3	2
Germany	1	1
Ireland	1	—
Japan	1	—
Puerto Rico	1	1
Switzerland	1	1
	366	351
ivivva		
United States	42	42
Canada	13	13
	55	55
Total	421	406

Retail locations operated by third parties under license and supply arrangements are not included in the above table. As of July 30, 2017, there were five licensed stores, including three in the United Arab Emirates, one in Mexico, and one in Qatar.

On August 20, 2017, as part of the restructuring of our ivivva operations, we closed 47 of our 55 ivivva branded company-operated stores. Of the eight remaining ivivva branded stores, seven are expected to remain in operation and one is expected to be converted to a lululemon branded store.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

33

Table of Contents

of the U.S. dollar affect the reported amounts of net revenue, expenses, assets, and liabilities. Foreign exchange differences which arise on translation of our foreign subsidiaries' balance sheets into U.S. dollars are recorded as a foreign currency translation adjustment in accumulated other comprehensive income or loss within stockholders' equity.

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

As of July 30, 2017 we had certain forward currency contracts outstanding in order to hedge a portion of the foreign currency exposure that arises on translation of a Canadian subsidiary into U.S. dollars. We also had certain forward currency contracts outstanding in an effort to reduce our exposure to the foreign exchange revaluation gains and losses that are recognized by our Canadian subsidiaries on U.S. dollar denominated monetary assets and liabilities. Please refer to Note 5 to the unaudited interim consolidated financial statements included in Item 1 of Part I of this report for further information, including details of the notional amounts outstanding.

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

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

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

During the first two quarters of fiscal 2017, the change in the relative value of the U.S. dollar against the Canadian dollar resulted in a $76.9 million reduction in accumulated other comprehensive loss within stockholders' equity. During the first two quarters of fiscal 2016, the change in the relative value of the U.S. dollar against the Canadian dollar resulted in a $44.0 million reduction in accumulated other comprehensive loss within stockholders' equity.

A 10% depreciation in the relative value of the U.S. dollar against the Canadian dollar compared to the exchange rates in effect for the first two quarters of fiscal 2017 would have resulted in lower income from operations of approximately $7.6 million in the first two quarters of fiscal 2017. This assumes a consistent 10% appreciation in the U.S. dollar against the Canadian dollar throughout the first two quarters of fiscal 2017. The timing of changes in the relative value of the U.S. dollar combined with the seasonal nature of our business, can affect the magnitude of the impact that fluctuations in foreign exchange rates have on our income from operations.

Interest Rate Risk. Our revolving credit facility provides us with available borrowings in an amount up to $150.0 million in the aggregate. Because our revolving credit facility bears interest at a variable rate, we will be exposed to market risks relating to changes in interest rates, if we have a meaningful outstanding balance. As of July 30, 2017, aside from letters of credit of $1.1 million, we had no other borrowings outstanding under this credit facility. We currently do not engage in any interest rate hedging activity and currently have no intention to do so. However, in the future, if we have a meaningful outstanding balance under our revolving facility, in an effort to mitigate losses associated with these risks, we may at times enter into derivative financial instruments, although we have not historically done so. These may take the form of forward contracts, option contracts, or interest rate swaps. We do not, and do not intend to, engage in the practice of trading derivative securities for profit.

Credit Risk. We are primarily exposed to credit-related losses in the event of nonperformance by the counterparties to the forward currency contracts. The credit risk amount is our unrealized gains on our derivative instruments, based on foreign currency rates at the time of nonperformance. Our forward currency contracts are entered into with large, reputable financial institutions that are monitored for counterparty risk.

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 and principal accounting officer), to allow timely decisions to be made regarding required disclosure. We have established a Disclosure Committee, consisting of certain members of management, to assist in this evaluation. The Disclosure Committee meets on a quarterly basis, and as needed.

Our management, including our 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 July 30, 2017. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, at July 30, 2017, our disclosure controls and procedures were effective.

There were no changes in our internal control over financial reporting during the quarter ended July 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II
OTHER INFORMATION
ITEM 1. LEGAL PROCEEDINGS
In addition to the legal matters described in Note 11 to the unaudited interim consolidated financial statements included in Item 1 of Part I of this report and in our fiscal 2016 Annual Report on Form 10-K, we are, from time to time, involved in routine legal matters incidental to the conduct of our business, including legal matters such as initiation and defense of proceedings to protect intellectual property rights, personal injury claims, product liability claims, employment claims, and similar matters. We believe the ultimate resolution of any such current proceeding will not have a material adverse effect on our continued financial position, results of operations or cash flows.
ITEM 1A. RISK FACTORS
In addition to the other information contained in this Form 10-Q and in our Annual Report on Form 10-K for our 2016 fiscal year, the following risk factors should be considered carefully in evaluating our business. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. Please note that additional risks not presently known to us or that we currently deem immaterial could also impair our business and operations.
Our success depends on our ability to maintain the value and reputation of our brand.
Our success depends on the value and reputation of the lululemon brand. The lululemon name is integral to our business as well as to the implementation of our strategies for expanding our business. Maintaining, promoting, and positioning our brand will depend largely on the success of our marketing and merchandising efforts and our ability to provide a consistent, high quality product, and guest experience. We rely on social media, as one of our marketing strategies, to have a positive impact on both our brand value and reputation. Our brand and reputation could be adversely affected if we fail to achieve these objectives, if our public image was to be tarnished by negative publicity, if we fail to deliver innovative and high quality products acceptable to our guests, or if we face a product recall. Negative publicity regarding the production methods of any of our suppliers or manufacturers could adversely affect our reputation and sales and force us to locate alternative suppliers or manufacturing sources. Additionally, while we devote considerable efforts and resources to protecting our intellectual property, if these efforts are not successful the value of our brand may be harmed. Any harm to our brand and reputation could have a material adverse effect on our financial condition.
If any of our products are unacceptable to us or our guests, our business could be harmed.
We have occasionally received, and may in the future continue to receive, shipments of products that fail to comply with our technical specifications or that fail to conform to our quality control standards. We have also received, and may in the future continue to receive, products that are otherwise unacceptable to us or our guests. Under these circumstances, unless we are able to obtain replacement products in a timely manner, we risk the loss of net revenue resulting from the inability to sell those products and related increased administrative and shipping costs. Additionally, if the unacceptability of our products is not discovered until after such products are purchased by our guests, our guests could lose confidence in our products or we could face a product recall and our results of operations could suffer and our business, reputation, and brand could be harmed.
We operate in a highly competitive market and the size and resources of some of our competitors may allow them to compete more effectively than we can, resulting in a loss of our market share and a decrease in our net revenue and profitability.
The market for technical athletic apparel is highly competitive. Competition may result in pricing pressures, reduced profit margins or lost market share, or a failure to grow or maintain our market share, any of which could substantially harm our business and results of operations. We compete directly against wholesalers and direct retailers of athletic apparel, including large, diversified apparel companies with substantial market share and established companies expanding their production and marketing of technical athletic apparel, as well as against retailers specifically focused on women's athletic apparel. We also face competition from wholesalers and direct retailers of traditional commodity athletic apparel, such as cotton T-shirts and sweatshirts. Many of our competitors are large apparel and sporting goods companies with strong worldwide brand recognition. Because of the fragmented nature of the industry, we also

compete with other apparel sellers, including those specializing in yoga apparel and other activewear. Many of our competitors have significant competitive advantages, including longer operating histories, larger and broader customer bases, more established relationships with a broader set of suppliers, greater brand recognition and greater financial, research and development, store development, marketing, distribution, and other resources than we do.

Table of Contents

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

In addition, because we hold limited patents and exclusive intellectual property rights in the technology, fabrics or processes underlying our products, our current and future competitors are able to manufacture and sell products with performance characteristics, fabrication techniques, and styling similar to our products.

Our reliance on suppliers to provide fabrics for and to produce our products could cause problems in our supply chain.

We do not manufacture our products or the raw materials for them and rely instead on suppliers. Many of the specialty fabrics used in our products are technically advanced textile products developed and manufactured by third parties and may be available, in the short-term, from only one or a very limited number of sources. In fiscal 2016, approximately 63% of our products were produced by our top five manufacturing suppliers, and 40% of raw materials were produced by a single manufacturer. We have no long-term contracts with any of our suppliers or manufacturing sources for the production and supply of our fabrics and garments, and we compete with other companies for fabrics, raw materials, and production.

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

We are increasingly dependent on information technology systems and third-parties to operate our e-commerce websites, process transactions, respond to guest inquiries, manage inventory, purchase, sell and ship goods on a timely basis, and maintain cost-efficient operations. The failure of our information technology systems to operate properly or effectively, problems with transitioning to upgraded or replacement systems, or difficulty in integrating new systems, could adversely affect our business. In addition, we have e-commerce websites in the United States, Canada, and internationally. Our information technology systems, websites, and operations of third parties on whom we rely, may encounter damage or disruption or slowdown caused by a failure to successfully upgrade systems, system failures, viruses, computer "hackers" or other causes, could cause information, including data related to guest orders, to be lost or delayed which could, especially if the disruption or slowdown occurred during the holiday season, result in delays in the delivery of products to our stores and guests or lost sales, which could reduce demand for our products and cause our sales to decline. In addition, if changes in technology cause our information systems to become obsolete, or if our information systems are inadequate to handle our growth, we could lose guests. We have limited back-up systems and redundancies, and our information technology systems and websites have experienced system failures and electrical outages in the past which have disrupted our operations. Any significant disruption in our information technology systems or websites could harm our reputation and credibility, and could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

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

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

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

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

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

The intellectual property rights in the technology, fabrics, and processes used to manufacture our products generally are owned or controlled by our suppliers and are generally not unique to us. Our ability to obtain intellectual property protection for our products is therefore limited and we do not generally own patents or hold exclusive intellectual property rights in the

Table of Contents

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.

We may see higher than anticipated costs associated with, or not realize the benefits of, our efforts to restructure our ivivva business.

In June 2017, we announced a plan to restructure our ivivva operations to a primarily e-commerce focused business. In August 2017, as part of this effort, we closed 47 of our 55 ivivva branded company-operated stores. The estimated costs and benefits associated with our restructuring efforts may vary materially based on various factors, including the timing of our execution of the programs, the outcome of negotiations with landlords and other third parties, the accuracy of our sales forecasts, inventory levels, the diversion of management attention from ongoing business activities or a decrease in employee morale, potential employment or other claims and litigation, and changes in management's assumptions and projections. As a result of these events and circumstances, delays and unexpected costs may occur, which could result in higher costs than we anticipate or our not realizing all, or any, of the anticipated benefits of these restructuring efforts.

Our failure or inability to protect our intellectual property rights could diminish the value of our brand and weaken our competitive position.

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

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

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

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

Current economic and political conditions make tax rules in any jurisdiction, including the United States and Canada, subject to significant change. There have been proposals to reform U.S. and foreign tax laws that could significantly impact how U.S. multinational corporations are taxed on foreign earnings. Although we cannot predict whether or in what form such proposals will pass, several of the proposals considered, if enacted into law, could have an adverse impact on our income tax expense and cash flows.

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

We have expanded our operations rapidly since our inception in 1998 and our net revenue has increased from $40.7 million in fiscal 2004 to $2.3 billion in fiscal 2016. If our operations continue to grow at a rapid pace, we may experience difficulties in obtaining sufficient raw materials and manufacturing capacity to produce our products, as well as delays in production and shipments, as our products are subject to risks associated with overseas sourcing and manufacturing. We could be required to continue to expand our sales and marketing, product development and distribution functions, to upgrade our management information systems and other processes and technology, and to obtain more space for our expanding workforce. This expansion could increase the strain on our resources, and we could experience operating difficulties, including difficulties in hiring, training and managing an increasing number of employees. These difficulties could result in the erosion of our brand image which could have a material adverse effect on our financial condition.

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

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

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

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

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

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

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

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

Successful new store openings may also be affected by our ability to initiate our grassroots marketing efforts in advance of opening our first store in a new market. We typically rely on our grassroots marketing efforts to build awareness of our brand and demand for our products. Our grassroots marketing efforts are often lengthy and must be tailored to each new market based on our emerging understanding of the market. We may not be able to successfully implement our grassroots marketing efforts in a particular market in a timely manner, if at all. Additionally, we may be unsuccessful in identifying new markets where our technical athletic apparel and other products and brand image will be accepted or the performance of our stores will be considered successful.

Table of Contents

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.
The U.S. government could impose a border adjustment tax, which could have a material adverse effect on our business, financial condition and operating results. We are also dependent on international trade agreements and regulations. If the United States were to withdraw from or materially modify certain international trade agreements, our business could be adversely affected.
Our failure to comply with trade and other regulations could lead to investigations or actions by government regulators and negative publicity.
The labeling, distribution, importation, marketing, and sale of our products are subject to extensive regulation by various federal agencies, including the Federal Trade Commission, Consumer Product Safety Commission and state attorneys general in the United States, the Competition Bureau and Health Canada in Canada, as well as by various other federal, state, provincial, local and international regulatory authorities in the countries in which our products are distributed or sold. If we fail to comply with any of these regulations, we could become subject to enforcement actions or the imposition of significant penalties or claims, which could harm our results of operations or our ability to conduct our business. In addition, the adoption of new regulations or changes in the interpretation of existing regulations may result in significant compliance costs or discontinuation of product sales and could impair the marketing of our products, resulting in significant loss of net revenue.
Our international operations are also subject to compliance with the U.S. Foreign Corrupt Practices Act, or FCPA, and other anti-bribery laws applicable to our operations. In many foreign countries, particularly in those with developing economies, it may be a local custom that businesses operating in such countries engage in business practices that are prohibited by the FCPA or other U.S. and foreign laws and regulations applicable to us. Although we have implemented procedures designed to ensure compliance with the FCPA and similar laws, some of our employees, agents, or other channel partners, as well as those companies to which we outsource certain of our business operations, could take actions in violation of our policies. Any such violation could have a material and adverse effect on our business.
Our future success is substantially dependent on the continued service of our senior management.
Our future success is substantially dependent on the continued service of our senior management and other key employees. In the last several years, several members of our senior management team have left us and we have focused time and resources on recruiting the new members of our current management team. The continued turnover of senior management and the loss of key members of our executive team could have a negative impact on our ability to manage and grow our business effectively. In addition, if we're not effective with our succession planning, it may have a negative impact on our ability to fill senior management roles in a timely manner.
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. This seasonality may adversely affect our business and cause our results of operations to fluctuate, and, as a result, we believe that

comparisons of our operating results between different quarters within a single fiscal year are not necessarily meaningful and that results of operations in any period should not be considered indicative of the results to be expected for any future period.

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

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

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

From time to time, we may enter into forward currency contracts, or other derivative instruments, in an effort to mitigate the foreign exchange risks which we are exposed to. This may include entering into forward currency contracts to hedge against the foreign exchange gains and losses which arise on translation of our foreign subsidiaries' balance sheets into U.S. dollars, or entering into forward currency contracts in an effort to reduce our exposure to foreign exchange revaluation gains and losses that arise on monetary assets and liabilities held by our subsidiaries in a currency other than their functional currency. Please refer to Note 5 to the unaudited interim consolidated financial statements included in Item 1 of Part I of this report for further information, including details of the notional amounts of our forward currency contracts outstanding.

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

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

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 2016, approximately 47% of our products were produced in South East Asia, approximately 28% in South Asia, approximately 15% in China, approximately 1% in North America, and the remainder in other regions. As a result of our international suppliers, we are subject to risks associated with doing business abroad, including:

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

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

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

Our success depends in large part on our brand image. We believe that our trademarks and other proprietary rights have significant value and are important to identifying and differentiating our products from those of our competitors and creating and sustaining demand for our products. We have obtained and applied for some United States and foreign trademark registrations, and will continue to evaluate the registration of additional trademarks as appropriate. However, some or all of

Table of Contents

these pending trademark applications may not be approved by the applicable governmental authorities. Moreover, even if the applications are approved, third parties may seek to oppose or otherwise challenge these registrations. Additionally, we may face obstacles as we expand our product line and the geographic scope of our sales and marketing. Third parties may assert intellectual property claims against us, particularly as we expand our business and the number of products we offer. Our defense of any claim, regardless of its merit, could be expensive and time consuming and could divert management resources. Successful infringement claims against us could result in significant monetary liability or prevent us from selling some of our products. In addition, resolution of claims may require us to redesign our products, license rights from third parties, or cease using those rights altogether. Any of these events could harm our business and cause our results of operations, liquidity, and financial condition to suffer.

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

From time to time, we are involved in litigation and other proceedings, including matters related to product liability claims, stockholder class action and derivative claims, commercial disputes and intellectual property, as well as trade, regulatory, employment, and other claims related to our business. Any of these proceedings could result in significant settlement amounts, damages, fines or other penalties, divert financial and management resources, and result in significant legal fees. An unfavorable outcome of any particular proceeding could exceed the limits of our insurance policies or the carriers may decline to fund such final settlements and/or judgments and could have an adverse impact on our business, financial condition, and results of operations. In addition, any proceeding could negatively impact our reputation among our guests and our brand image.

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

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

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

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

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

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

Table of Contents

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

The following table provides information regarding our purchases of shares of our common stock during the quarter ended July 30, 2017 related to our stock repurchase program:

Period[1]	Total Number of Shares Purchased[2]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[2]	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs[2]
May 1, 2017 - May 28, 2017	201,803	$ 51.30	201,803	$ 76,077,952
May 29, 2017 - July 2, 2017	1,173,550	52.67	1,173,550	14,267,100
July 3, 2017 - July 30, 2017	97,712	59.39	97,712	8,463,723
Total	1,473,065		1,473,065	

(1) Monthly information is presented by reference to our fiscal periods during our second quarter of fiscal 2017.

(2) Our stock repurchase program was approved by our board of directors in December 2016. Common shares generally are repurchased in the open market at prevailing market prices, including under written plans complying with the provisions of Rule 10b5-1 and Rule 10b-18 of the Securities Exchange Act of 1934, with the timing and actual number of common shares repurchased depending upon market conditions, eligibility to trade, and other factors. The repurchases may be made through and including December 9, 2018, and the maximum dollar value of shares that may be repurchased is $100.0 million.

The following table provides information regarding our purchases of shares of our common stock during the quarter ended July 30, 2017 related to our Employee Share Purchase Plan:

Period[1]	Total Number of Shares Purchased[2]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[2]	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs[2]
May 1, 2017 - May 28, 2017	13,901	$ 50.68	13,901	4,992,562
May 29, 2017 - July 2, 2017	18,815	55.48	18,815	4,973,747
July 3, 2017 - July 30, 2017	10,784	60.49	10,784	4,962,963
Total	43,500		43,500	

(1) Monthly information is presented by reference to our fiscal periods during our second quarter of fiscal 2017.

(2) Our Employee Share Purchase Plan (ESPP) was approved by our board of directors and stockholders in September 2007. All shares purchased under the ESPP are purchased on the Nasdaq Global Select Market (or such other stock exchange as we may designate from time to time). Unless our board of directors terminates the ESPP earlier, the ESPP will continue until all shares authorized for purchase under the ESPP have been purchased. The maximum number of shares authorized to be purchased under the ESPP is 6,000,000.

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

Table of Contents

ITEM 6. EXHIBITS

Exhibit No.	Exhibit Title	Filed Herewith	Incorporated by Reference Form	Exhibit No.	File No.	Filing Date
10.1*	Second Amendment to Executive Employment Agreement, effective as of May 12, 2017, between lululemon athletica inc. and Stuart C. Haselden	X				
31.1	Certification of Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a)	X				
31.2	Certification of Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a)	X				
32.1**	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					
101	The following unaudited interim consolidated financial statements from the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended July 30, 2017, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations and Comprehensive Income, (iii) Consolidated Statements of Stockholders' Equity, (iv) Consolidated Statements of Cash Flows (v) Notes to the Unaudited Interim Consolidated Financial Statements	X				

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

Table of Contents

SIGNATURES

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

lululemon athletica inc.

By: /s/ STUART HASELDEN
Stuart Haselden
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)
Dated: August 31, 2017

Table of Contents

Exhibit Index

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

48