

# LULULEMON ATHLETICA INC.

## FORM 10-K (Annual Report)

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Industry	Apparel/Accessories
Sector	Consumer Cyclical
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended February 1, 2015  
**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 001-33608

**lululemon athletica inc.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

20-3842867  
(I.R.S. Employer  
Identification Number)

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

V6J 1C7  
(Zip Code)

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

**Securities registered pursuant to Section 12(b) of the Act:**

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$0.005 per share	Nasdaq Global Select Market

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

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

The aggregate market value of the voting stock held by non-affiliates of the registrant on August 1, 2014 was approximately \$3,986,474,344. Such aggregate market value was computed by reference to the closing price of the common stock as reported on the Nasdaq Global Select Market on August 1, 2014. For purposes of determining this amount only, the registrant has defined affiliates as including the executive officers and directors of the registrant on August 1, 2014.

*Common Stock:*

At March 23, 2015 there were 132,131,605 shares of the registrant's common stock, par value \$0.005 per share, outstanding.

*Exchangeable and Special Voting Shares:*

At March 23, 2015, there were outstanding 9,832,541 exchangeable shares of Lulu Canadian Holding, Inc., a wholly-owned subsidiary of the registrant. Exchangeable shares are exchangeable for an equal number of shares of the registrant's common stock.

In addition, at March 23, 2015, the registrant had outstanding 9,832,541 shares of special voting stock, through which the holders of exchangeable shares of Lulu Canadian Holding, Inc. may exercise their voting rights with respect to the registrant. The special voting stock and the registrant's common stock generally vote together as a single class on all matters on which the common stock is entitled to vote.

**DOCUMENTS INCORPORATED BY REFERENCE**

**DOCUMENT**

Portions of Proxy Statement for the 2015 Annual Meeting  
of Stockholders

**PARTS INTO WHICH INCORPORATED**

Part III

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## PART I

### Special Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. We use words such as "anticipates," "believes," "estimates," "may," "intends," "expects" and similar expressions to identify forward-looking statements. Discussions containing forward-looking statements may be found in the material set forth under "Business," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in other sections of the report. All forward-looking statements are inherently uncertain as they are based on our expectations and assumptions concerning future events. Any or all of our forward-looking statements in this report may turn out to be inaccurate. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. They may be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties, including the risks, uncertainties and assumptions described in the section entitled "Item 1A. Risk Factors" and elsewhere in this report. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this report may not occur as contemplated, and our actual results could differ materially from those anticipated or implied by the forward-looking statements. All forward-looking statements in this report are made as of the date hereof, based on information available to us as of the date hereof, and we assume no obligation to update any forward-looking statement.

### ITEM 1. BUSINESS

#### General

lululemon athletica inc. is a designer and retailer of technical athletic apparel. Since our inception, we have developed a distinctive corporate culture with a mission to produce products which create transformational experiences for people to live happy, healthy, fun lives.

We promote a set of core values in our business which include, developing the highest quality products, operating with integrity, leading a balanced and fun life, and nurturing entrepreneurial spirit. These core values attract passionate and motivated employees who are driven to succeed and share our purpose of "elevating the world from mediocrity to greatness."

In this Annual Report on Form 10-K ("10-K" or "Report") for the fiscal year ended February 1, 2015 ("fiscal 2014"), lululemon athletica inc. (together with its subsidiaries) is referred to as "lululemon," "the Company," "we," "us" or "our."

#### Our Products

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

Although we benefit from the growing number of people that participate in yoga, we believe the percentage of our products sold for other activities will continue to increase as we broaden our product range to address other activities. Our fitness-related accessories include an array of items such as bags, socks, underwear, yoga mats and water bottles.

Our design team continues to source and develop technically advanced fabrics and innovative functional features that we believe will help advance our product line and differentiate us from the competition.

#### Our Market

Our primary target customer is a sophisticated and educated woman who understands the importance of an active, healthy lifestyle. She is increasingly tasked with the dual responsibilities of career and family and is constantly challenged to balance her work, life and health. We believe she pursues exercise to achieve physical fitness and inner peace.

As women have continued to embrace a variety of fitness and athletic activities, including yoga, we believe we have been able to effectively address their unique fit and performance needs by incorporating style along with comfort and functionality into our products through our vertical retail strategy.

Although we were founded to address the unique needs of women, we are also successfully designing products for men and athletic female youth who also appreciate the technical rigor and premium quality of our products. We also believe longer-term growth in athletic participation will be reinforced as the aging Baby Boomer generation focuses more on longevity. In

addition, we believe consumer purchase decisions are driven by both an actual need for functional products and a desire to create a particular lifestyle perception. As such, we believe the credibility and authenticity of our brand expands our potential market beyond just athletes to those who desire to lead an active, healthy, and balanced life.

### Our Segments

We primarily conduct our business through two channels: corporate-owned stores, and direct to consumer.

We also generate net revenue from our corporate-owned outlets and showrooms, through sales to wholesale accounts, from warehouse sales, and from sales from temporary locations. The net revenue we generate from these sources is combined in our other segment.

As of February 1, 2015, we operated 302 corporate-owned stores located in the United States, Canada, Australia, New Zealand, the United Kingdom, and Singapore. We believe our vertical retail strategy allows us to interact more directly with, and gain feedback from, our customers, whom we call guests, while providing us with greater control of our brand.

Our direct to consumer segment includes the net revenue which we generate from our lululemon and ivivva e-commerce websites, [www.lululemon.com](http://www.lululemon.com) and [www.ivivva.com](http://www.ivivva.com) and other country and region specific websites.

### Our Stores

As of February 1, 2015, our retail footprint included 211 stores in the United States, 57 stores in Canada, 26 stores in Australia, five in New Zealand, two in the United Kingdom, and one in Singapore. While most of our corporate-owned stores are branded lululemon athletica, 22 of our corporate-owned stores are branded ivivva athletica and specialize in dance-inspired apparel for female youth. Our retail stores are located primarily on street locations, in lifestyle centers, and in malls.

Our corporate-owned stores by brand and by country as of February 1, 2015 and February 2, 2014, are summarized in the table below:

	February 1, 2015	February 2, 2014
<b>lululemon athletica</b>		
United States	200	168
Canada	46	45
Australia	26	25
New Zealand	5	4
United Kingdom	2	—
Singapore	1	—
	280	242
<b>ivivva athletica</b>		
United States	11	3
Canada	11	9
	22	12
<b>Total</b>	302	254

We opened 48 net new corporate-owned stores in North America, Australia, Europe and Asia in fiscal 2014. Over the next fiscal year, our new store growth will be primarily focused on corporate-owned stores in the United States. Over the next few years we intend to expand our presence outside of North America and Australia, as part of our long-term business strategy.

We believe that partnering with companies and individuals with significant experience and proven success in certain target countries is to our advantage. On January 11, 2015, we entered into a license and supply agreement with a partner in the Middle East which grants it the right to operate lululemon athletica branded retail locations in the United Arab Emirates, Kuwait, Qatar, Oman and Bahrain for an initial term of five years. We retain the rights to sell lululemon products through our e-commerce websites in these countries. Under this arrangement we will be supplying the partner with lululemon products, training and other support. As of February 1, 2015 there were no franchised retail locations in operation.

We perform ongoing evaluations of our portfolio of corporate-owned store locations. In fiscal 2014 we closed one of our corporate-owned stores. As we continue our evaluation we may in future periods close additional corporate-owned store locations.

We believe that our innovative retail concept and guest experience contribute to the success of our stores. During fiscal 2014 our corporate-owned stores open at least one year, which average approximately 2,950 square feet, averaged sales of \$1,678 per square foot.

### **Direct to Consumer**

Direct to consumer is an increasingly substantial part of our business, representing approximately 17.9% of our net revenue in fiscal 2014, compared to 16.5% of our net revenue in fiscal 2013 and 14.4% of our net revenue in fiscal 2012. We believe that a direct to consumer channel is convenient for our core customer and enhances the image of our brand. Our direct to consumer channel makes our product accessible to more markets than our corporate-owned store channel alone. We believe this channel is effective in building brand awareness, especially in new markets.

### **Other Channels**

Other net revenue accounted for 7.1% of total net revenue in fiscal 2014 compared to 6.2% in fiscal 2013 and 6.0% of total net revenue in fiscal 2012. Other net revenue includes sales made through the following channels:

- *Wholesale* - Our wholesale accounts include premium yoga studios, health clubs and fitness centers. We believe these premium wholesale locations offer an alternative distribution channel that is convenient for our core consumer and enhances the image of our brand. We do not intend wholesale to be a significant contributor to overall sales. Instead, we intend to use the channel to build brand awareness, especially in new markets, including those outside of North America.
- *Outlets and warehouse sales* - We utilize outlets as well as warehouse sales, which are typically held one or more times a year, to sell slow moving inventory and inventory from prior seasons to retail customers at discounted prices.
- *Showrooms* - Our showrooms are typically small locations that we open from time to time when we enter new markets and feature a limited selection of our product offering.
- *Temporary locations* - Our temporary locations are typically opened for a short period of time in markets in which we may not already have a presence.

### **Community-Based Marketing**

We utilize a community-based approach to building brand awareness and customer loyalty. We pursue a multi-faceted strategy which leverages our local ambassadors, social media, in-store community boards and a variety of grassroots initiatives.

### **Product Design and Development**

Our product design efforts are led by a team of designers based in Vancouver, British Columbia partnering with international designers. Our team is comprised of dedicated athletes and users of our products who embody our design philosophy and dedication to premium quality. Our design team identifies trends based on market intelligence and research, proactively seeks the input of our guests and our ambassadors and broadly seeks inspiration consistent with our goals of style, function and technical superiority.

As we strive to continue to provide our guests with technically advanced fabrics, our design team works closely with our suppliers to incorporate innovative fabrics that bring particular specifications to our products. We partner with independent inspection, verification, and testing companies, who conduct a variety of tests on our fabrics, testing performance characteristics including pilling, shrinkage, abrasion resistance and colorfastness. We collaborate with leading fabric suppliers to develop fabrics that we ultimately trademark for brand recognition whenever possible.

### **Sourcing and Manufacturing**

We do not own or operate any manufacturing facilities. We rely on a limited number of suppliers to provide fabrics for and to produce our products. We work with a group of approximately 57 suppliers to provide the fabrics for our products. We use a wide variety of fabrics in our products, including our Luon fabric. We obtain substantially all of our Luon fabric, which represents approximately 30% of the fabric we use in our products, from two suppliers. We work with a group of approximately 30 suppliers that manufacture our products, five of which produced approximately 63% of our products in fiscal 2014. During fiscal 2014, no single manufacturer produced more than 30% of our product offering. During fiscal 2014, approximately 59%

of our products were produced in South East Asia, approximately 23% in South Asia, approximately 11% in China, approximately 1% in North America and the remainder in other countries. We believe our North American manufacturers provide us with the speed to market necessary to respond quickly to changing trends and increased demand.

We have developed long-standing relationships with a number of our vendors and take great care to ensure that they share our commitment to quality and ethics. We do not, however, have any long-term term contracts with any of our suppliers or manufacturing sources for the production and supply of our fabrics and garments, and we compete with other companies for fabrics, raw materials, production and import quota capacity. We require that all of our manufacturers adhere to a vendor code of ethics regarding social and environmental sustainability practices. We partner with leading inspection and verification firms to closely monitor each supplier's compliance with applicable laws and our vendor code of ethics.

### **Distribution Facilities**

We operate and distribute finished products from our owned or leased distribution facilities in Vancouver, British Columbia, Sumner, Washington, Columbus, Ohio, and Melbourne, Victoria. During fiscal 2013 we purchased the distribution center in Columbus with approximately 307,000 square feet that we opened in fiscal 2014. The distribution facilities in Vancouver, Sumner and Melbourne are leased and are approximately 120,000, 167,000 and 54,000 square feet, respectively. We believe our distribution infrastructure will be sufficient to accommodate our expected store growth and expanded product offerings over the next several years.

We also utilize third-party logistic providers to store and distribute finished products from their warehouse locations in Hong Kong and the Netherlands.

### **Competition**

Competition in the athletic apparel industry is principally on the basis of brand image and recognition as well as product quality, innovation, style, distribution and price. We believe that we successfully compete on the basis of our premium brand image, our focus on women and our technical product innovation. In addition, we believe our vertical retail distribution strategy differentiates us from our competitors and allows us to more effectively control our brand image.

The market for athletic apparel is highly competitive. It includes increasing competition from established companies that are expanding their production and marketing of performance products, as well as from frequent new entrants to the market. We are in direct competition with wholesalers and direct sellers of athletic apparel, such as Nike, Inc., adidas AG and Under Armour, Inc. We also compete with retailers specifically focused on women's athletic apparel including The Gap, Inc. (including the Athleta brand), Lucy Activewear Inc., and bebe stores, inc. (including the BEBE SPORT collection).

### **Seasonality**

Our business is affected by the general seasonal trends common to the retail apparel industry. Our annual net revenue is weighted more heavily toward our fourth fiscal quarter, reflecting our historical strength in sales during the holiday season, while our operating expenses are more equally distributed throughout the year. As a result, a substantial portion of our operating profits are generated in the fourth quarter of our fiscal year. For example, we generated approximately 42% , 39% and 41% of our full year operating profit during the fourth quarters of fiscal 2014 , fiscal 2013 and fiscal 2012 , respectively.

### **Our Employees**

As of February 1, 2015 , we had 8,628 employees, of which 4,949 were employed in the United States, 2,822 were employed in Canada, and 857 were employed outside of North America. None of our employees are currently covered by a collective bargaining agreement. We have had no labor-related work stoppages by our employees and we believe our relations with our employees are excellent.

### **Intellectual Property**

We believe we own the material trademarks used in connection with the marketing, distribution and sale of all of our products in the United States, Canada and in the other countries in which our products are currently or intended to be either sold or manufactured. Our major trademarks include lululemon athletica & design, the logo design (WAVE design) and lululemon as a word mark. We own trademark registrations for names of several of our fabrics and products including Luon, Silverescent, Pacebreaker, Rulu, Scuba, Wunder Under, VitaSea, Boolux, Luxtreme, Groove Pant, Light as Air, Booby Bracer, Ta Ta Tamer and Power Y. In addition to trademarks, we own 32 industrial design registrations in Canada that protect our



distinctive apparel and accessory designs, as well as a number of corresponding design patents in the United States and registered community designs in Europe.

## **Securities and Exchange Commission Filings**

Our website address is [www.lululemon.com](http://www.lululemon.com). We provide free access to various reports that we file with, or furnish to, the United States Securities and Exchange Commission, or the SEC, through our website, as soon as reasonably practicable after they have been filed or furnished. These reports include, but are not limited to, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports. Our SEC reports can also be accessed through the SEC's website at [www.sec.gov](http://www.sec.gov). Also available on our website are printable versions of our Code of Business Conduct and Ethics and charters of the Audit, Compensation, and Nominating and Governance Committees of our Board of Directors. Information on our website does not constitute part of this annual report on Form 10-K or any other report we file or furnish with the SEC.

## **ITEM 1A. RISK FACTORS**

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

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

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

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

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

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

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

We have experienced, and may in the future continue to experience, a significant disruption in the supply of fabrics or raw materials from current sources and we may be unable to locate alternative materials suppliers of comparable quality at an acceptable price, or at all. In addition, if we experience significant increased demand, or if we need to replace an existing supplier or manufacturer, we may be unable to locate additional supplies of fabrics or raw materials or additional

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

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

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

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

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

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

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

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

Our business is subject to significant pressure on pricing and costs caused by many factors, including intense competition, constrained sourcing capacity and related inflationary pressure, pressure from consumers to reduce the prices we charge for our products and changes in consumer demand. These factors may cause us to experience increased costs, reduce our sales prices to consumers or experience reduced sales in response to increased prices, any of which could cause our operating

margin to decline if we are unable to offset these factors with reductions in operating costs and could have a material adverse effect on our financial conditions, operating results and cash flows.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We rely on our distribution facilities for substantially all of our product distribution. Our distribution facilities include computer controlled and automated equipment, which means their operations are complicated and may be subject to a number of risks related to security or computer viruses, the proper operation of software and hardware, electronic or power interruptions or other system failures. In addition, because substantially all of our products are distributed from three locations, our operations could also be interrupted by labor difficulties, extreme or severe weather conditions or by floods, fires or other natural disasters near our distribution centers. For example, severe weather conditions in Sumner, Washington in 2011, including snow and freezing rain, resulted in disruption in our distribution facilities and the local transportation system. If we encounter problems with our distribution system, our ability to meet guest expectations, manage inventory, complete sales and achieve objectives for operating efficiencies could be harmed.

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

The intellectual property rights in the technology, fabrics and processes used to manufacture our products are owned or controlled by our suppliers and are generally not unique to us. Our ability to obtain intellectual property protection for our products is therefore limited and we currently own no patents or exclusive intellectual property rights in the technology, fabrics or processes underlying our products. As a result, our current and future competitors are able to manufacture and sell products with performance characteristics, fabrics and styling similar to our products. Because many of our competitors have significantly greater financial, distribution, marketing and other resources than we do, they may be able to manufacture and sell products based on our fabrics and manufacturing technology at lower prices than we can. If our competitors do sell similar products to ours at lower prices, our net revenue and profitability could suffer.

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

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

***We are subject to risks associated with leasing retail 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.

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

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

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

Our growth will largely depend on our ability to successfully open and operate new stores. Our approach to identifying locations for our stores typically favors street locations, lifestyle centers and malls where we can be a part of the community. As a result, our stores are typically located near retailers or fitness facilities that we believe are consistent with our guests' lifestyle choices. Sales at these stores are derived, in part, from the volume of foot traffic in these locations. Our ability to successfully open and operate new stores depends on many factors, including, among others, our ability to:

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

Successful new store openings may also be affected by our ability to initiate our grassroots marketing efforts in advance of opening our first store in a new market. We typically rely on our grassroots marketing efforts to build awareness of our brand and demand for our products. Our grassroots marketing efforts are often lengthy and must be tailored to each new market based on our emerging understanding of the market. Accordingly, there can be no assurance that we will be able to successfully





implement our grassroots marketing efforts in a particular market in a timely manner, if at all. Additionally, we may be unsuccessful in identifying new markets where our technical athletic apparel and other products and brand image will be accepted or the performance of our stores will be considered successful.

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

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

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

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

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

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

***Our business is affected by seasonality.***

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

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

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

We currently generate a significant portion of our net revenue and incur a significant portion of our expenses in Canada. The reporting currency for our consolidated financial statements is the U.S. dollar. The strengthening of the U.S. dollar against the Canadian dollar during fiscal 2014 has resulted in:

- a reduction in our net revenue upon translation of the sales made by our Canadian operations into U.S. dollars for the purposes of consolidation;
- a reduction in our selling, general and administrative expenses incurred by our Canadian operations into U.S. dollars for the purposes of consolidation; and
- foreign exchange gains by our Canadian subsidiaries on U.S. dollar cash and receivables denominated in U.S. dollars.

A 10% depreciation in the relative value of the Canadian dollar against the U.S. dollar compared to the exchange rates in effect for fiscal 2014 would have resulted in lost income from operations of approximately \$2.2 million in fiscal 2014. This assumes a consistent 10% depreciation in the Canadian dollar against the U.S. dollar throughout the fiscal year. The timing of changes in the relative value of the Canadian dollar combined with the seasonal nature of our business, can affect the magnitude of the impact that fluctuations in foreign exchange rates have on our income from operations.

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

***The operations of many of our suppliers are subject to additional risks that are beyond our control and that could harm our business, financial condition and results of operations.***

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

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

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

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

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

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

Our success depends in large part on our brand image. We believe that our trademarks and other proprietary rights have significant value and are important to identifying and differentiating our products from those of our competitors and creating





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

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

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

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

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

**ITEM 2. PROPERTIES**

Our principal executive and administrative offices are located at 1818 Cornwall Avenue, Vancouver, British Columbia, Canada, V6J 1C7. We currently operate four distribution centers located in Vancouver, British Columbia, Sumner, Washington, Columbus, Ohio and Melbourne, Victoria. We purchased the Columbus, Ohio distribution center in fiscal 2013 and it commenced operations during fiscal 2014. We expect that our current administrative offices and distribution centers are sufficient for our expansion plans for the foreseeable future.

The general location, use and approximate size of our owned properties at February 1, 2015, are set forth below:

Location	Use	Approximate Square Feet
Columbus, OH	Distribution Center	307,000
Vancouver, BC	Executive and Administrative Offices	78,000
Vancouver, BC	Executive and Administrative Offices	15,000

The general location, use, approximate size and lease renewal date of our leased properties at February 1, 2015, are set forth below:

Location	Use	Approximate Square Feet	Lease Renewal Date
Sumner, WA	Distribution Center	167,000	April 2020
Vancouver, BC	Distribution Center	120,000	November 2017
Melbourne, VIC	Distribution Center	54,000	September 2016
Melbourne, VIC	Executive and Administrative Offices	28,000	September 2019

In addition to the locations listed above, we hold inventory at warehouses managed by third-parties in Hong Kong and the Netherlands.

As of February 1, 2015, we leased approximately 888,000 gross square feet relating to 300 of our 302 stores. Our leases generally have initial terms of between five and 10 years, and generally can be extended only in five-year increments, if at all. All of our leases require a fixed annual rent, and most require the payment of additional rent if store sales exceed a negotiated amount. Generally, our leases are "net" leases, which require us to pay all of the cost of insurance, taxes, maintenance and utilities. We generally cannot cancel these leases at our option.

### ITEM 3. LEGAL PROCEEDINGS

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

On October 25, 2013, plaintiff Laborers' District Council Industry Pension Fund filed a books-and-records action in the Delaware Court of Chancery entitled *Laborers' District Council Construction Industry Pension Fund v. lululemon athletica inc.*, C.A. No. 9039-VCP (Del. Ch.) under 8 Del. C. Sec. 220 based on a demand letter it sent to us on or around August 8, 2013 to request certain lululemon records relating to the March 2013 sheer Luon issue, our announcement that our then CEO, Christine Day, intended to resign, and certain stock trades executed by the then-Chairman of our board of directors, Mr. Wilson, prior to our announcement regarding our former CEO, Christine Day. The Court held a one-day trial on February 19, 2014, which took the form of an oral argument. On April 2, 2014, the Court rejected the majority of books and records sought by plaintiff and ordered us to produce a narrow category of documents relating to one trade made by the our former Chairman. On June 11, 2014, the Court consolidated this action with the action captioned *Hallandale Beach Police Officers and Firefighters' Personnel Retirement Fund v. lululemon athletica inc.*, C.A. No. 8522-VCP (Del. Ch.), which is described below. On June 13, 2014, Plaintiffs filed a Motion to Enforce the Court's April 2, 2014 Telephonic Rulings and Compel in Camera Inspection of Withheld and Redacted Documents. The Court held a hearing on the Motion to Enforce on December 1, 2014 and the judgment on the Motion remains pending. We believe there is no merit to the Motion.

On August 12, 2013 and August 23, 2013, plaintiffs Thomas Canty and Tammy Federman filed shareholder derivative actions entitled *Canty v. Day, et al.*, No. 13-CV-5629 (S.D.N.Y.) and *Federman v. Day, et al.*, No. 13-CV-5977 (S.D.N.Y.). Plaintiffs allege that they are acting on behalf of us and name as defendants our current and former directors and certain officers. On January 17, 2014, plaintiffs filed an amended complaint, operative in both actions. In that amended complaint, plaintiffs challenge certain public disclosures and conduct relating to the March 2013 sheer Luon issue, the June 2013 announcement regarding the resignation of our former CEO, Christine Day, and certain stock trades executed by Mr. Wilson and Ms. Day in the months leading up to that announcement. Plaintiffs allege violations of Section 14(a) of the Securities Exchange Act and breach of fiduciary duty, unjust enrichment, abuse of control, and gross mismanagement. On April 9, 2014, the Court dismissed all of plaintiffs' claims due to plaintiffs' failure to make a pre-suit demand. On May 9, 2014, plaintiff in the Canty action filed a notice of appeal to the United States Court of Appeals for the Second Circuit. The Court of Appeals has scheduled an oral argument on the appeal on March 27, 2015. We believe there is no merit to the appeal.

On July 2, 2013, plaintiff Houssam Alkhoury filed a putative shareholder class action entitled *Alkhoury v. lululemon athletica inc., et al.*, No. 13-CV-4596 (S.D.N.Y.) against lululemon, a certain director and a certain officer of ours (collectively, "Defendants"). On October 1, 2013, the Court appointed Louisiana Sheriffs' Pension & Relief Fund as Lead Plaintiff and on November 1, 2013, Lead Plaintiff filed a consolidated class action complaint on behalf of a proposed class of purchasers of lululemon stock between September 7, 2012 through June 11, 2013 (the "Complaint"). In its Complaint, Lead Plaintiff asserted causes of action under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 against Defendants based on certain public disclosures made by us relating to lululemon's product quality and the March 2013 sheer Luon issue. On January 15, 2014, Lead Plaintiff filed a consolidated amended class action complaint (the "Amended Complaint") on behalf of a proposed

class of purchasers of lululemon stock between September 7, 2012 through January 10, 2014. In its Amended Complaint, Lead Plaintiff added new claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 based on certain of lululemon's public disclosures related to our ongoing quality control improvements and the impact of those improvements on our financial results. On April 18, 2014, the Court dismissed all of Lead Plaintiff's claims for failure to state a claim. Lead Plaintiff filed a notice of appeal of this decision and filed its appeal brief on August 1, 2014. We filed a reply on October 23, 2014, Lead Plaintiff filed a further reply on November 6, 2014, and a hearing has been scheduled for May 8, 2015. We believe there is no merit to the appeal.

On May 3, 2013, plaintiff Hallandale Beach Police Officers and Firefighters' Personnel Retirement Fund filed a books-and-records action in the Delaware Court of Chancery entitled *Hallandale Beach Police Officers and Firefighters' Personnel Retirement Fund v. lululemon athletica inc.*, C.A. No. 8522-VCP (Del. Ch.) under 8 Del. C. Sec. 220 based on a demand letter it sent to us on April 17, 2013 to request certain lululemon records relating to the March 2013 sheer Luon issue and revisions to our executive bonus plan. We moved to dismiss the complaint on May 28, 2013. On June 14, 2013, plaintiff sent a supplemental demand letter that requested additional records from us relating to our announcement that Christine Day intended to resign as our Chief Executive Officer, and certain stock trades executed by our then-Chairman, Mr. Wilson, prior to our announcement regarding Ms. Day. On July 1, 2013, plaintiff filed an amended complaint to incorporate allegations relating to the June 14, 2013 supplemental demand letter. We moved to dismiss the amended complaint on August 15, 2013, and in response to this filing, plaintiffs served us with a new demand letter and then filed a second amended complaint on November 4, 2013. We moved to dismiss the second amended complaint on December 4, 2013 and the Court held argument on the motion on February 5, 2014. On April 2, 2014, the Court rejected the majority of books and records sought by plaintiff and ordered us to produce a narrow category of documents relating to one trade made by our former Chairman. On June 11, 2014 the Court consolidated this action with the action captioned *Laborers' District Council Construction Industry Pension Fund v. lululemon athletica inc.*, C.A. No. 9039-VCP (Del. Ch.) which is described above. On June 13, 2014 Plaintiffs filed a Motion to Enforce the Court's April 2, 2014 Telephonic Rulings and Compel in Camera Inspection of Withheld and Redacted Documents. The Court held a hearing on the Motion to Enforce on December 1, 2014 and the judgment on the Motion remains pending. We believe there is no merit to the Motion.

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

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

## PART II

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information and Dividends**

Our common stock is quoted on the Nasdaq Global Select Market under the symbol "LULU." The following table sets forth, for the periods indicated, the high and low closing sale prices of our common stock reported by the Nasdaq Global Select Market for the last two fiscal years:

	Common Stock Price (Nasdaq Global Select Market)	
	High	Low
<b>Fiscal Year Ended February 1, 2015</b>		
Fourth Quarter	\$ 67.48	\$ 41.29
Third Quarter	45.19	38.37
Second Quarter	45.67	37.25
First Quarter	54.56	44.53
<b>Fiscal Year Ended February 2, 2014</b>		
Fourth Quarter	\$ 71.56	\$ 45.68
Third Quarter	76.57	65.29
Second Quarter	82.28	61.33
First Quarter	76.88	62.32

As of February 1, 2015, there were approximately 700 holders of record of our common stock.

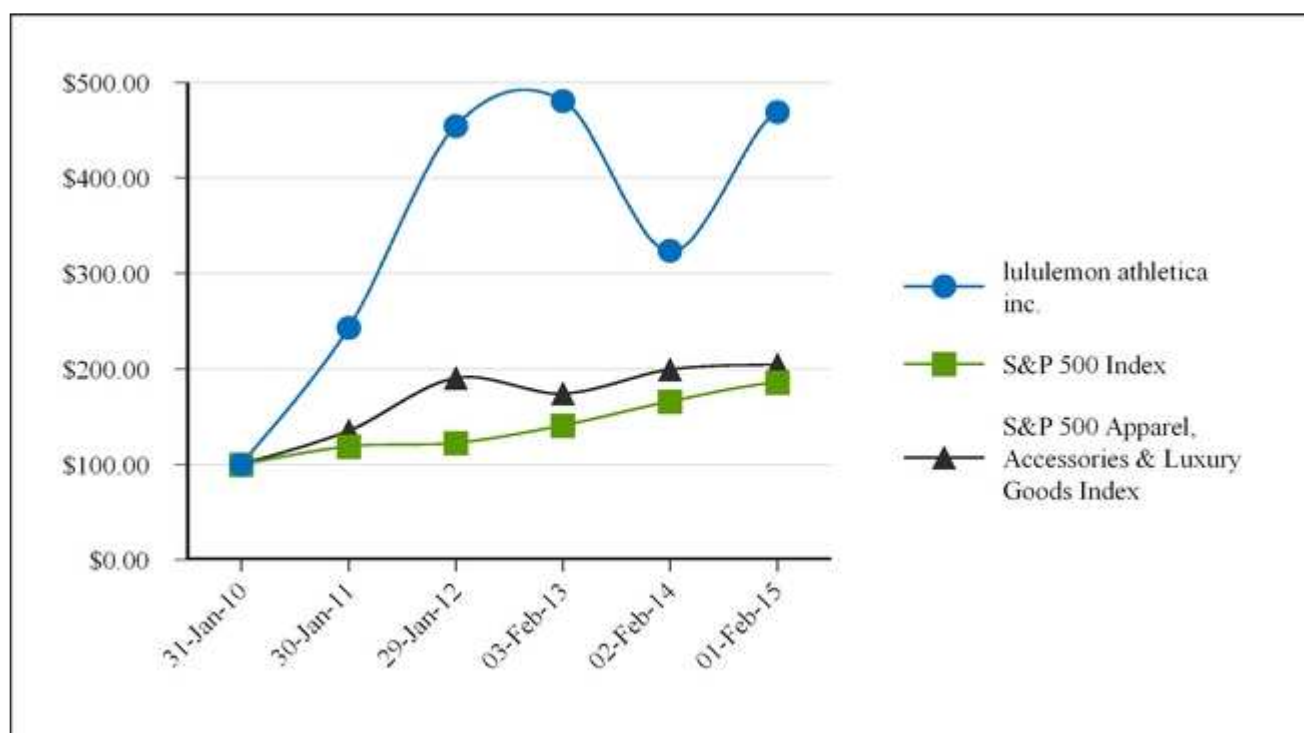
We have never declared or paid any cash dividends on our common stock and do not anticipate paying any cash dividends on our common stock at this time. We anticipate that we will retain all of our available funds for use in the operation and expansion of our business. Any future determination as to the payment of cash dividends will be at the discretion of our board of directors and will depend on our financial condition, operating results, current and anticipated cash needs, plans for expansion and other factors that our board of directors considers to be relevant. In addition, financial and other covenants in any instruments or agreements that we enter into in the future may restrict our ability to pay cash dividends on our common stock.

**Stock Performance Graph**

The graph set forth below compares the cumulative total stockholder return on our common stock between January 31, 2010 (the date of our fiscal year end five years ago) and February 1, 2015, with the cumulative total return of (i) the S&P 500 Index and (ii) S&P 500 Apparel, Accessories & Luxury Goods Index <sup>(1)</sup>, over the same period. This graph assumes the investment of \$100 on January 31, 2010 in the closing sale price our common stock, the S&P 500 Index and the S&P Apparel, Accessories & Luxury Goods Index and assumes the reinvestment of dividends, if any.

The comparisons shown in the graph below are based on historical data. We caution that the stock price performance showing in the graph below is not necessarily indicative of, nor is it intended to forecast, the potential future performance of our common stock. Information used in the graph was obtained from the Nasdaq Stock Market website, a source believed to be reliable, but we are not responsible for any errors or omissions in such information.

<sup>(1)</sup> The previously compared S&P Retail Index is no longer published.



	31-Jan-10	30-Jan-11	29-Jan-12	03-Feb-13	02-Feb-14	01-Feb-15
lululemon athletica inc.	\$ 100.00	\$ 242.99	\$ 454.11	\$ 480.59	\$ 323.58	\$ 469.12
S&P 500 Index	\$ 100.00	\$ 118.85	\$ 122.58	\$ 140.91	\$ 166.00	\$ 185.78
S&P 500 Apparel, Accessories & Luxury Goods Index	\$ 100.00	\$ 135.25	\$ 190.32	\$ 174.21	\$ 199.36	\$ 204.52

### Issuer Purchase of Equity Securities

The following table provides information regarding our repurchases of shares of our common stock during the thirteen weeks ended February 1, 2015 related to our stock repurchase program:

Period <sup>(1)</sup>	Total Number of Shares Purchased <sup>(2)</sup>	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(2)</sup>	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(2)</sup>
November 3, 2014 - November 30, 2014	326,312	\$ 42.96	326,312	\$ 305,716,285
December 1, 2014 - January 4, 2015	70,157	44.86	70,157	302,569,190
January 5, 2015 - February 1, 2015	—	—	—	302,569,190
<b>Total</b>	<b>396,469</b>		<b>396,469</b>	

<sup>(1)</sup> Monthly information is presented by reference to our fiscal periods during our fourth quarter of fiscal 2014 .

<sup>(2)</sup> Our stock repurchase program was approved by our board of directors in June 2014. Common shares are repurchased in the open market at prevailing market prices, with the timing and actual number of common shares to be repurchased depending upon market conditions, eligibility to trade, and other factors. The repurchases will be made up until June 2016, and the maximum dollar value of shares to be repurchased is \$450 million.

The following table provides information regarding our purchases of shares of our common stock during the thirteen weeks ended February 1, 2015 related to our Employee Share Purchase Plan:

<u>Period</u> <sup>(1)</sup>	<u>Total Number of Shares Purchased</u> <sup>(2)</sup>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u> <sup>(3)</sup>	<u>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs</u> <sup>(2,3)</sup>
November 3, 2014 - November 30, 2014	10,952	\$ 44.82	10,952	5,300,350
December 1, 2014 - January 4, 2015	14,104	51.35	14,104	5,286,246
January 5, 2015 - February 1, 2015	7,391	64.49	7,391	5,278,855
Total	<u>32,447</u>		<u>32,447</u>	

<sup>(1)</sup> Monthly information is presented by reference to our fiscal periods during our fourth quarter of fiscal 2014 .

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

<sup>(3)</sup> 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.

**ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA**

The selected consolidated financial data set forth below is derived from our consolidated financial statements and should be read in conjunction with our consolidated financial statements for the years ended February 1, 2015 , February 2, 2014 , February 3, 2013 , January 29, 2012 and January 30, 2011 . The consolidated statement of operations and comprehensive income data for each of the years ended February 1, 2015 , February 2, 2014 and February 3, 2013 and the consolidated balance sheet data as of February 1, 2015 and February 2, 2014 is derived from, and qualified by reference to, our audited consolidated financial statements and related notes appearing elsewhere in this Annual Report. The consolidated statement of operations and comprehensive income for the year ended February 3, 2013 covers a 53 week period compared to a 52 week period for the other years.

	Fiscal Year Ended				
	February 1, 2015	February 2, 2014	February 3, 2013	January 29, 2012	January 30, 2011
	(In thousands, except per share data)				
<b>Consolidated statement of operations and comprehensive income data:</b>					
Net revenue	\$ 1,797,213	\$ 1,591,188	\$ 1,370,358	\$ 1,000,839	\$ 711,704
Cost of goods sold	883,033	751,112	607,532	431,488	316,757
Gross profit	914,180	840,076	762,826	569,351	394,947
Operating expenses:					
Selling, general and administrative expenses	538,147	448,718	386,387	282,393	212,784
Provision for impairment and lease exit costs	—	—	—	—	1,772
Income from operations	376,033	391,358	376,439	286,958	180,391
Other income (expense), net	7,102	5,768	4,957	2,500	2,886
Income before provision for income taxes	383,135	397,126	381,396	289,458	183,277
Provision for income taxes	144,102	117,579	109,965	104,494	61,080
Net income	239,033	279,547	271,431	184,964	122,197
Net income attributable to non-controlling interest	—	—	875	901	350
Net income attributable to lululemon athletica inc.	\$ 239,033	\$ 279,547	\$ 270,556	\$ 184,063	\$ 121,847
<b>Other comprehensive (loss) income:</b>					
Foreign currency translation adjustment	(105,339)	(89,158)	(459)	1,220	14,462
Comprehensive income	\$ 133,694	\$ 190,389	\$ 270,097	\$ 185,283	\$ 136,309
Basic earnings per share	\$ 1.66	\$ 1.93	\$ 1.88	\$ 1.29	\$ 0.86
Diluted earnings per share	\$ 1.66	\$ 1.91	\$ 1.85	\$ 1.27	\$ 0.85
Basic weighted-average number of shares outstanding	143,935	144,913	144,000	143,196	141,720
Diluted weighted-average number of shares outstanding	144,298	146,043	145,806	145,278	143,858
	As of				
	February 1, 2015	February 2, 2014	February 3, 2013	January 29, 2012	January 30, 2011
	(In thousands)				
<b>Consolidated balance sheet data:</b>					
Cash and cash equivalents	\$ 664,479	\$ 698,649	\$ 590,179	\$ 409,437	\$ 316,286
Total assets	1,296,213	1,252,388	1,052,678	736,034	499,302
Total stockholders' equity	1,089,568	1,096,682	887,299	606,181	394,293
Non-controlling interest	—	—	—	4,805	3,904



## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This discussion summarizes our consolidated operating results, financial condition and liquidity during the three-year period ending February 1, 2015. Our fiscal year ends on the Sunday closest to January 31 of the following year, typically resulting in a 52 week year, but occasionally giving rise to an additional week, resulting in a 53 week year.

Fiscal 2014 and fiscal 2013 were 52 week years whereas fiscal 2012 was a 53 week year. Net revenue numbers for fiscal 2012 include results from the 53rd week; however, total comparable sales and comparable stores sales calculations exclude the 53rd week. The following discussion and analysis should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K.

This discussion and analysis contains forward-looking statements based on current expectations that involve risks, uncertainties and assumptions, such as our plans, objectives, expectations and intentions set forth in the "Special Note Regarding Forward-Looking Statements." Our actual results and the timing of events may differ materially from those anticipated in these forward looking statements as a result of various factors, including those set forth in the "Item 1A. Risk Factors" section and elsewhere in this Annual Report on Form 10-K.

### **Overview**

Fiscal 2014 was a year in which we continued to make investments we believe will help us to drive growth and expand our business. We have strengthened the foundation of our business through continued investments in product quality and supply chain and these investments will continue through fiscal 2015.

Throughout fiscal 2014 we also focused on our product assortment, guest experience, and our go-to-market process for our products. Our improved product assortment helped to enhance our guest experience and contributed to the improved total comparative sales performance we saw in the second half of fiscal 2014. The opening of our new distribution center in Columbus, Ohio in fiscal 2014 has also helped improve guest experience through a reduction in our average transit times for online orders and will also benefit retail distribution to our corporate owned stores in the United States.

We opened 48 net new corporate-owned stores in fiscal 2014, of which 40 were in the United States. In addition to our plans for further new store openings in the United States, we are focused on accelerating our international expansion. During fiscal 2014 we opened corporate-owned stores for the first time in the United Kingdom and Singapore and opened showrooms for the first time in China. We will continue to utilize a community-based approach to building brand awareness and guest loyalty in new countries but will look to do so over a shorter period of time than previously, so that we can accelerate our international growth.

We see potential for further expansion for our men's category and our ivivva athletica brand. In the men's category we expanded both in-store and online product assortment and we opened our first standalone men's store in Soho, New York. For ivivva, we opened 10 new stores during fiscal 2014 and will continue to invest in this brand and open further stores through fiscal 2015.

In fiscal 2015, we expect to substantially complete this foundational work and accelerate our investments in innovation to drive sustainable global growth.

### **Financial Highlights**

- Our net revenue increased from \$1.6 billion in fiscal 2013 to \$1.8 billion in fiscal 2014, representing an annual growth rate of 13%. Our increase in net revenue from fiscal 2013 to fiscal 2014 resulted from the addition of 48 net new corporate-owned stores and increased direct to consumer net revenue.
- Total comparable sales, which includes comparable store sales and direct to consumer, increased 1% in fiscal 2014 and increased by 3% on a constant dollar basis.
- Our direct to consumer segment is an increasingly substantial part of our growth strategy, and now represents 17.9% of our net revenue compared to 16.5% in fiscal 2013 and 14.4% in fiscal 2012. Direct to consumer net revenue increased 24% on a constant dollar basis primarily as the result of increased traffic on our e-commerce websites.
- Corporate-owned stores accounted for 75.0% of total net revenue in fiscal 2014, 77.3% of total net revenue in fiscal 2013 and 79.6% of total net revenue in fiscal 2012. Comparable store sales decreased by 1% on a constant dollar basis for fiscal 2014 primarily as the result of lower conversion rates and lower units purchased per transaction.

- Gross profit for fiscal 2014 increased by 9% to \$914.2 million , from \$840.1 million in fiscal 2013 . As a percentage of net revenue, gross profit decreased to 50.9% compared to 52.8% in fiscal 2013 . The decrease in the gross margin percentage was primarily due to product mix, increased product costs, and increased air freight usage.
- Income from operations for fiscal 2014 decreased by 4% to \$376.0 million , from \$391.4 million in fiscal 2013 . As a percentage of net revenue, income from operations decreased to 20.9% compared to 24.6% of net revenue in fiscal 2013 . The decrease in income from operations was a result of an increase in selling, general and administration expenses, relative to the increase in net revenue, partially offset by an increase in gross margin.
- Tax expense for fiscal 2014 increased by 23% to \$144.1 million , from \$117.6 million in fiscal 2013 . Fiscal 2014 includes a tax expense of \$33.7 million related to the repatriation of foreign earnings that will be used to fund the share buyback program. The tax rate excluding the \$33.7 million tax expense on the repatriation of foreign earnings would have been 28.8% , compared to 29.6% in fiscal 2013. The tax rate for fiscal 2014 , including the tax expense on the repatriation of foreign earnings, was 37.6% .
- Diluted earnings per share for fiscal 2014 were \$1.66 . compared to \$1.91 in fiscal 2013 . Excluding the tax expense of \$33.7 million on the repatriated foreign earnings, diluted earnings per share were \$1.89 for fiscal 2014.

Refer to the non-GAAP reconciliation tables contained in the "Results of Operations" section of this "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for reconciliations of constant dollar total comparable sales, constant dollar comparable store sales, constant dollar changes in direct to consumer net revenue, the fiscal 2014 tax rate excluding the tax expense on the repatriation of foreign earnings, and diluted earnings per share excluding the tax expense on the repatriation of foreign earnings to measures calculated in accordance with United States generally accepted accounting principles ("GAAP").

## General

*Net revenue* is comprised of corporate-owned store net revenue, direct to consumer sales through [www.lululemon.com](http://www.lululemon.com), [www.ivivva.com](http://www.ivivva.com) and other country and region specific websites, and other net revenue, which includes outlet sales, showroom sales, sales to wholesale accounts, warehouse sales, and sales from temporary locations.

*Cost of goods sold* includes the cost of purchased merchandise, including in-bound freight, duty and nonrefundable taxes incurred in delivering the goods to our distribution centers. It also includes occupancy costs and depreciation expense for our corporate-owned store locations, all costs incurred in operating our distribution centers and production, design and merchandise departments, hemming, and shrink and valuation reserves. The primary drivers of the costs of individual goods are the costs of raw materials and labor in the countries where we source our merchandise.

*Selling, general and administrative expenses* consist of all operating costs not otherwise included in cost of goods sold. We anticipate that our selling, general and administrative expenses will increase in absolute dollars due to anticipated continued growth of our corporate support staff and store-level employees.

*Provision for income taxes* depends on the statutory tax rates in the countries where we sell our products. We anticipate that in the future we may start to sell our products directly to some customers located in countries that we have not yet operated in, in which case we would become subject to taxation based on the foreign statutory rates in the countries where these sales take place and our effective tax rate could fluctuate accordingly.

## Results of Operations

The following tables summarize key components of our results of operations for the periods indicated, both in dollars and as a percentage of net revenue:

	Fiscal Year Ended		
	February 1, 2015	February 2, 2014	February 3, 2013
(In thousands)			
<b>Consolidated statements of operations:</b>			
Net revenue	\$ 1,797,213	\$ 1,591,188	\$ 1,370,358
Cost of goods sold	883,033	751,112	607,532
Gross profit	914,180	840,076	762,826
Selling, general and administrative expenses	538,147	448,718	386,387
Income from operations	376,033	391,358	376,439
Other income (expense), net	7,102	5,768	4,957
Income before provision for income taxes	383,135	397,126	381,396
Provision for income taxes	144,102	117,579	109,965
Net income	239,033	279,547	271,431
Net income attributable to non-controlling interest	—	—	875
Net income attributable to lululemon athletica inc.	\$ 239,033	\$ 279,547	\$ 270,556
		Fiscal Year Ended	
	February 1, 2015	February 2, 2014	February 3, 2013
	(% of net revenue)		
Net revenue	100.0	100.0	100.0
Cost of goods sold	49.1	47.2	44.3
Gross profit	50.9	52.8	55.7
Selling, general and administrative expenses	30.0	28.2	28.2
Income from operations	20.9	24.6	27.5
Other income (expense), net	0.4	0.4	0.3
Income before provision for income taxes	21.3	25.0	27.8
Provision for income taxes	8.0	7.4	8.0
Net income	13.3	17.6	19.8
Net income attributable to non-controlling interest	—	—	0.1
Net income attributable to lululemon athletica inc.	13.3	17.6	19.7

## Comparison of Fiscal 2014 to Fiscal 2013

### Net Revenue

Net revenue increased \$206.0 million , or 13% , to \$1.797 billion in fiscal 2014 from \$1.591 billion in fiscal 2013 . Assuming the average exchange rates in fiscal 2014 remained constant with the average exchange rates in fiscal 2013 , our net revenue would have increase d \$241.7 million , or 15% .

The net revenue increase was driven by sales from new stores and the growth of our direct to consumer segment. Total comparable sales, which includes comparable store sales and direct to consumer, increased 1% in fiscal 2014 compared to fiscal 2013 . Excluding the effect of foreign currency fluctuations, total comparable sales would have increased by 3% .

Our net revenue on a segment basis for fiscal 2014 and fiscal 2013 is summarized below. Net revenue is expressed in dollar amounts. The percentages are presented as a percentage of total net revenue.

	Fiscal Year Ended February 1, 2015 and February 2, 2014					
	2014		2013			
	(In thousands)		(Percentages)			
Corporate-owned stores	\$	1,348,225	\$	1,228,999	75.0	77.3
Direct to consumer		321,180		263,083	17.9	16.5
Other		127,808		99,106	7.1	6.2
Net revenue	\$	1,797,213	\$	1,591,188	100.0	100.0

*Corporate-Owned Stores.* Net revenue from our corporate-owned stores segment increased \$119.2 million , or 10% , to \$1.348 billion in fiscal 2014 from \$1.229 billion in fiscal 2013 . Net revenue from corporate-owned stores we opened during fiscal 2014 , and during fiscal 2013 prior to sales from such stores becoming part of our comparable stores base, contributed \$162.0 million of the increase. Net new store openings in fiscal 2014 included 40 stores in the United States, including eight ivivva branded stores, three stores in Canada, including two ivivva branded stores, one store in Australia, one store in New Zealand, two stores in the United Kingdom and one store in Singapore. The increase in net revenue from our corporate-owned stores segment was partially offset by a comparable store sales decrease of 3% in fiscal 2014 compared to fiscal 2013 which resulted in a \$42.8 million decrease to net revenue, including the effect of foreign currency fluctuations. Excluding the effect of foreign currency fluctuations, comparable store sales would have decreased 1% , or \$19.1 million , in fiscal 2014 . Comparable store sales have decreased, primarily as the result of lower conversion rates and lower units purchased per transaction.

*Direct to Consumer.* Net revenue from our direct to consumer segment increased \$58.1 million , or 22% , to \$321.2 million in fiscal 2014 from \$263.1 million in fiscal 2013 . Excluding the effect of foreign exchange fluctuations, direct to consumer net revenue would have increased 24% . The increase in net revenue from our direct to consumer segment was a result of increasing traffic on our e-commerce websites.

*Other.* Net revenue from our other segment increased \$28.7 million , or 29% , to \$127.8 million in fiscal 2014 from \$99.1 million in fiscal 2013 . The increase in net revenue from our other segment was primarily due to increased sales from our outlets, showrooms, and temporary locations. We continue to employ our other segment strategy to increase interest in our product in markets where we may not have corporate-owned stores.

### Gross Profit

Gross profit increased \$74.1 million , or 9% , to \$914.2 million in fiscal 2014 from \$840.1 million in fiscal 2013 . Increased net revenue resulted in an increased gross profit. A \$17.5 million inventory provision related to the pull-back of black Luon pants was recorded in cost of sales during fiscal 2013.

The increase in gross profit was partially offset by increased costs related to our production, design, distribution and merchandising departments, as well as increases in fixed costs, such as occupancy costs and depreciation.

Gross profit, as a percentage of net revenue, or gross margin, decreased 190 basis points, to 50.9% in fiscal 2014 from 52.8% in fiscal 2013 . The decrease in gross margin resulted primarily from:

- a decrease of 210 basis points due to product mix, increased product costs, and increased air freight costs;
- an increase in expenses related to our product and supply chain departments, relative to the increase in net revenue, of 70 basis points;
- an increase in fixed costs, such as occupancy costs and depreciation, relative to the increase in net revenue, of 40 basis points; and
- an unfavorable impact of foreign exchange rates on product costs which contributed to a decrease in gross margin of 40 basis points.

The decrease in gross margin was partially offset by a decrease in provision for inventories, charged to cost of sales, of 110 basis points related to the pull-back of black Luon pants which was recorded in the first quarter of fiscal 2013. A decrease in markdowns of 60 basis points driven by high sell-through of seasonal items also partially offset the decrease in gross margin.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased \$89.4 million , or 20% , to \$538.1 million in fiscal 2014 from \$448.7 million in fiscal 2013 . The increase in selling, general and administrative expenses was principally comprised of:

- an increase in employee costs of \$40.2 million as there were increases in hourly wages and a growth in labor hours associated with new corporate-owned stores, outlets, showrooms and other;
- an increase in variable store costs of \$5.7 million from new corporate-owned stores, outlets, showrooms and other;
- an increase in variable costs such as distribution costs, credit card fees and packaging related to our direct to consumer segment of \$6.0 million as a result of increased sales volume;
- an increase in administrative costs related to our direct to consumer segment of \$4.4 million associated with the growth in this channel and increased head count to support it;
- an increase in head office employee costs of \$5.7 million from increased head count in order to position us for long-term growth, partially offset by decreased stock-based compensation;
- an increase in other head office costs of \$5.2 million as a result of the overall growth of our business and investment in strategic initiatives and projects;
- an increase in other costs, including occupancy costs not included in cost of goods sold, of \$11.4 million ; and
- a decrease in net foreign exchange gains of \$10.8 million .

As a percentage of net revenue, selling, general and administrative expenses increased 180 basis points, to 30.0% in fiscal 2014 from 28.2% in fiscal 2013 .

We expect selling, general and administrative expenses to increase throughout fiscal 2015 as we add administrative and sales personnel and increase our infrastructure to support the growth in our store base.

**Income from Operations**

Income from operations decreased \$15.3 million , or 4% , to \$376.0 million in fiscal 2014 from \$391.4 million in fiscal 2013 . The decrease was a result of increased selling, general and administrative costs of \$89.4 million , partially offset by increased gross profit of \$74.1 million . The increase in selling, general and administrative costs was primarily driven by the increase in our business.

On a segment basis, we determine income from operations without taking into account our general corporate expenses. We have reviewed our general corporate expenses and determined some costs previously classified as general corporate are direct segment expenses. Accordingly, all prior year comparable information has been reclassified to conform to the current year classification.

Income from operations before general corporate expenses for fiscal 2014 and fiscal 2013 is summarized below and is expressed in dollar amounts. The percentages are presented as a percentage of net revenue of the respective operating segments.

	Fiscal Year Ended February 1, 2015 and February 2, 2014			
	2014	2013	2014	2013
	(In thousands)		(Percentages)	
Corporate-owned stores	\$ 356,589	\$ 372,267	26.4	30.3
Direct to consumer	132,877	109,999	41.4	41.8
Other	9,499	13,994	7.4	14.1
Income from operations before general corporate expense	498,965	496,260		
General corporate expense	122,932	104,902		
Income from operations	\$ 376,033	\$ 391,358		

**Corporate-Owned Stores.** Income from operations from our corporate-owned stores segment decreased \$15.7 million , or 4% , to \$356.6 million for fiscal 2014 from \$372.3 million for fiscal 2013 primarily due to an increase in selling, general and administrative expenses related to employee costs as well as operating expenses associated with new stores, partially offset by an increase of \$31.2 million in gross profit from increased sales. Income from operations as a percentage of corporate-owned stores net revenue decreased by 390 basis points primarily due to higher selling, general and administrative expenses as a

percentage of net revenue as well as lower gross margin resulting from product mix, increased product costs, and increased air freight costs.

*Direct to Consumer.* Income from operations from our direct to consumer segment increased \$22.9 million , or 21% , to \$132.9 million in fiscal 2014 from \$110.0 million in fiscal 2013 . The increase was primarily the result of increased gross profit of \$33.1 million primarily due to increased net revenue resulting from increased traffic, partially offset by increased selling, general and administrative expenses related to our long-term strategy for developing this channel. Income from operations as a percentage of direct to consumer net revenue decreased to 41.4% in fiscal 2014 from 41.8% in fiscal 2013 .

*Other.* Income from operations from our other segment decreased \$4.5 million , or 32% , to \$9.5 million in fiscal 2014 from \$14.0 million in fiscal 2013 . Income from operations as a percentage of other net revenue decreased by 670 basis points primarily due to an increased number of showrooms in new international markets which have a higher cost structure than North America. We continue to employ our other segment strategy to increase interest in our product in markets we have not otherwise entered with corporate-owned stores.

*General Corporate Expense.* General corporate expense increased \$18.0 million , or 17% , to \$122.9 million in fiscal 2014 from \$104.9 million in fiscal 2013 . This increase was primarily due to a \$10.8 million decrease in net foreign exchange gains, primarily from our Canadian operating entity. An increase in expenses related to our head office growth of \$7.2 million, which was largely related to additional costs incurred to support the growth of our business, including increased professional fees related to investment in strategic initiatives and projects. General corporate expenses are expected to continue to increase in future years as we grow our overall business and require increased efforts at our head office to support our corporate-owned stores, direct to consumer and other segments.

#### ***Other Income (Expense), Net***

Other income (expense), net increased \$1.3 million , to \$7.1 million in fiscal 2014 from \$5.8 million in fiscal 2013 . The increase was primarily the result of increased interest earned on cash and cash equivalents.

#### ***Provision for Income Taxes***

Provision for income taxes increased \$26.5 million , or 23% , to \$144.1 million in fiscal 2014 from \$117.6 million in fiscal 2013 . In fiscal 2014 , our effective tax rate was 37.6% compared to 29.6% in fiscal 2013 . The increase in our effective tax rate was a result of a tax expense of \$33.7 million recorded during fiscal 2014 to provide for U.S. income and applicable foreign withholding taxes on dividends of \$473.7 million which were distributed during fiscal 2014 from foreign subsidiaries to the U.S. parent entity to fund the share repurchase program.

#### ***Net Income***

Net income decreased \$40.5 million , or 15% , to \$239.0 million in fiscal 2014 from \$279.5 million in fiscal 2013 . The decrease in net income in fiscal 2014 was primarily due to an increase of \$89.4 million in selling, general and administrative expenses, and an increase of \$26.5 million in provision for income taxes, partially offset by a \$1.3 million increase in other income (expense), and a \$74.1 million increase in gross profit resulting from new stores and the growth of our direct to consumer segment.

### **Comparison of Fiscal 2013 to Fiscal 2012**

#### ***Net Revenue***

Net revenue increased \$220.8 million , or 16% , to \$1.591 billion in fiscal 2013 from \$1.370 billion in fiscal 2012 . Assuming the average exchange rates in fiscal 2013 remained constant with the average exchange rates in fiscal 2012 , our net revenue would have increased \$247.0 million , or 18% . Total comparable sales, including comparable stores and direct to consumer, and excluding the fifty-third week's sales of fiscal 2012, increased 7% in fiscal 2013, or 9% excluding the effect of foreign currency fluctuations.

The net revenue increase was driven by sales from new stores, the growth of our direct to consumer segment, and increased sales at locations in our comparable stores base. The constant dollar increase in comparable store sales was driven primarily by the strength of our existing product lines, successful introduction of new products and increasing recognition of the lululemon athletica brand name, especially at our U.S. stores, that drove higher transactions per store in the United States.



Our net revenue on a segment basis for fiscal 2013 and fiscal 2012 are expressed in dollar amounts as well as relevant percentages, presented as a percentage of total net revenue below.

	Fiscal Year Ended February 2, 2014 and February 3, 2013			
	2013		2012	
	(In thousands)		(Percentages)	
Corporate-owned stores	\$ 1,228,999	\$ 1,090,181	77.3	79.6
Direct to consumer	263,083	197,255	16.5	14.4
Other	99,106	82,922	6.2	6.0
Net revenue	\$ 1,591,188	\$ 1,370,358	100.0	100.0

*Corporate-Owned Stores* . Net revenue from our corporate-owned stores segment increased \$138.8 million , or 13% , to \$1.229 billion in fiscal 2013 from \$1.090 billion in fiscal 2012 . The following contributed to the increase in net revenue from our corporate-owned stores segment:

- Net revenue from corporate-owned stores we opened during fiscal 2013 , and during fiscal 2012 prior to sales from such stores becoming part of our comparable stores base, contributed \$138.0 million of the increase. New store openings in fiscal 2013 included three stores in Canada, including one ivivva branded store, 36 stores in the United States, including three ivivva branded stores, two stores in Australia, and two stores in New Zealand; and
- Comparable store sales increase of 2% in fiscal 2013 resulted in a \$19.5 million increase to net revenue, including the effect of foreign currency fluctuations. Excluding the effect of foreign currency fluctuations, comparable store sales increased 4% , or \$37.3 million , in fiscal 2013 .

The increase in net revenue was partially offset by \$18.7 million of net revenue from the 53rd week of fiscal 2012, which was excluded in the calculation of comparable store sales.

*Direct to Consumer* . Net revenue from our direct to consumer segment increased \$65.8 million , or 33% , to \$263.1 million in fiscal 2013 from \$197.3 million in fiscal 2012 , including \$4.2 million of net revenue from the 53rd week of fiscal 2012 . Excluding the net revenue from the 53rd week of fiscal 2012, net revenue from our direct to consumer segment increased 36% ; excluding the effect of foreign exchange fluctuations, direct to consumer net revenue would have increased 38% . The increase in net revenue from our direct to consumer segment was a result of increasing traffic on our e-commerce websites.

*Other* . Net revenue from our other segment increased \$16.2 million , or 20% , to \$99.1 million in fiscal 2013 from \$82.9 million in fiscal 2012 , including \$3.3 million of net revenue from the 53rd week of fiscal 2012. The increase in net revenue from our other segment was primarily due to increased sales from our outlets and showrooms sales channels. We continue to employ our other segment strategy to increase interest in our product in markets where we may not have corporate-owned stores.

### Gross Profit

Gross profit increased \$77.2 million , or 10% , to \$840.1 million in fiscal 2013 from \$762.8 million in fiscal 2012 . Increased net revenue in all of our operating segments resulted in an increased gross profit. A \$17.5 million charge related to the pull-back of black Luon pants was recorded in cost of sales during fiscal 2013.

The increase in gross profit was partially offset by increases in fixed costs, such as occupancy costs and depreciation, as well as increased costs related to our design, merchandising, and production departments.

Gross profit, as a percentage of net revenue, or gross margin, decreased 290 basis points, to 52.8% in fiscal 2013 from 55.7% in fiscal 2012 . The decrease in gross margin resulted primarily from:

- a decrease in product margin of 200 basis points due to a lower sales mix of higher margin core items related to the pull-back of black Luon pants, along with higher markdowns and an increase in provision for inventories charged to cost of sales; and
- a non-recurring charge of 110 basis points related to the pull-back of black Luon pants in the first quarter of fiscal 2013 .

The decrease in gross margin was partially offset by a decrease in expenses related to our product and supply chain departments, relative to the increase in net revenue, and by leverage on fixed costs, such as depreciation and occupancy costs, which together contributed to an increase in gross margin of 20 basis points.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased \$62.3 million , or 16% , to \$448.7 million in fiscal 2013 from \$386.4 million in fiscal 2012 . The increase in selling, general and administrative expenses was principally comprised of:

- an increase in employee costs of \$25.3 million as we experience growth in labor hours associated with new and existing corporate-owned stores, outlets, showrooms and other, as well as an increase in wages as we invest in our employees;
- an increase in variable store costs of \$9.5 million from new and existing corporate-owned stores, outlets, showrooms and other;
- an increase in variable costs such as distribution costs, credit card fees and packaging related to our direct to consumer segment of \$7.3 million as a result of increased sales volume;
- an increase in administrative costs related to our direct to consumer segment of \$5.3 million associated with the growth in this channel and increased head count to support it;
- an increase in head office employee costs of \$5.7 million from increased head count in order to position us for long-term growth, partially offset by decreased management incentive-based compensation and stock-based compensation;
- an increase in other head office costs of \$17.5 million as a result of the overall growth of our business and investment in strategic initiatives and projects; and
- an increase in other costs, including occupancy costs and depreciation not included in cost of goods sold, of \$9.6 million as a result of the expansion of our business and in order to position us for long-term growth.

The increase in selling, general and administrative expenses was partially offset by a \$17.9 million increase in net foreign exchange gains which were primarily from our Canadian operating entity.

As a percentage of net revenue, selling, general and administrative expenses remained unchanged at 28.2% in both fiscal 2013 and fiscal 2012 .

**Income from Operations**

Income from operations increased \$14.9 million , or 4% , to \$391.4 million in fiscal 2013 from \$376.4 million in fiscal 2012 . The increase was a result of increased gross profit of \$77.2 million , partially offset by increased selling, general and administrative costs of \$62.3 million . The increase in selling, general and administrative costs was primarily driven by the increase in our business, as seen in our net revenue increases.

On a segment basis, we determine income from operations without taking into account our general corporate expenses. We have reviewed our general corporate expenses and determined some costs previously classified as general corporate are direct segment expenses. Accordingly, all prior year comparable information has been reclassified to conform to the current year classification.

Income from operations before general corporate expenses for fiscal 2013 and fiscal 2012 are expressed in dollar amounts as well as percentages, presented as a percentage of net revenue of their respective operating segments below.

	<b>Fiscal Year Ended February 2, 2014 and February 3, 2013</b>			
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>(In thousands)</b>		<b>(Percentages)</b>	
Corporate-owned stores	\$ 372,267	\$ 373,607	30.3	34.3
Direct to consumer	109,999	85,128	41.8	43.2
Other	13,994	19,787	14.1	23.9
Income from operations before general corporate expense	496,260	478,522		
General corporate expense	104,902	102,083		
Income from operations	<u>\$ 391,358</u>	<u>\$ 376,439</u>		

*Corporate-Owned Stores.* Income from operations from our corporate-owned stores segment decreased \$1.3 million , or less than 1%, to \$372.3 million for fiscal 2013 from \$373.6 million for fiscal 2012 primarily due to an increase in selling, general and administrative expenses related to employee costs as well as operating expenses associated with new stores and a \$17.5 million charge related to the pull-back of black Luon pants, which was partially offset by an increase of \$38.3 million in gross profit. Income from operations as a percentage of corporate-owned stores net revenue decreased by 400 basis points



primarily from a decrease in gross margin due to a lower mix of higher margin core items related to the pull-back of black Luon pants.

*Direct to Consumer.* Income from operations from our direct to consumer segment increased \$24.9 million , or 29% , to \$110.0 million in fiscal 2013 from \$85.1 million in fiscal 2012 due to increased sales through our e-commerce websites, with gross profit increasing \$36.3 million over fiscal 2012 . Income from operations as a percentage of direct to consumer net revenue decreased by 140 basis points in fiscal 2013 compared to fiscal 2012 .

*Other.* Income from operations from our other segment decreased \$5.8 million , or 29% , to \$14.0 million in fiscal 2013 from \$19.8 million in fiscal 2012 . We continue to employ our other segment strategy to increase interest in our product in markets we have not otherwise entered with corporate-owned stores.

*General Corporate Expense.* General corporate expenses increased \$2.8 million , or 3% , to \$104.9 million in fiscal 2013 from \$102.1 million in fiscal 2012 . This increase was primarily due to an increase in expenses related to our head office growth of \$27.3 million, which was largely related to the growth of our information technology and human resources departments as well as the overall growth of our business, and increased professional fees related to investment in strategic initiatives and projects. Increased depreciation and amortization expense of \$3.3 million also contributed to the increase in general corporate expense. The increase in general corporate expense was partially offset by an increase of \$17.9 million in net foreign exchange gains which were primarily from our Canadian operating entity as well as decreased management incentive-based compensation of \$5.0 million and decreased stock-based compensation expense of \$4.9 million.

#### ***Other Income (Expense), Net***

Other income (expense), net increased \$0.8 million , to \$5.8 million in fiscal 2013 from \$5.0 million in fiscal 2012 . The increase was primarily a result of increased interest income earned in fiscal 2013 compared to fiscal 2012 on our increased cash balances.

#### ***Provision for Income Taxes***

Provision for income taxes increased \$7.6 million , or 7% , to \$117.6 million in fiscal 2013 from \$110.0 million in fiscal 2012 . In fiscal 2013 , our effective tax rate was 29.6% compared to 28.8% in fiscal 2012 .

#### ***Net Income***

Net income increased \$9.0 million , or 3% , to \$279.5 million in fiscal 2013 from \$270.6 million in fiscal 2012 . The increase in net income in fiscal 2013 was primarily due to a \$77.2 million increase in gross profit resulting from sales growth at existing and additional corporate-owned stores opened during fiscal 2013 and increasing traffic on our e-commerce websites and the addition of regional websites and a \$0.8 million increase in other income (expense), net, partially offset by an increase of \$62.3 million in selling, general and administrative expenses, and an increase of \$7.6 million in provision for income taxes.

#### ***Comparable Sales***

We separately track comparable store sales, which reflect net revenue at corporate-owned stores that have been open for at least 12 months. Therefore, net revenue from a store is included in comparable store sales beginning with the first month for which the store has a full month of comparable prior year sales. Non-comparable store sales include sales from new stores that have not been open or otherwise not operated by us for 12 months or from stores which have been significantly remodeled or relocated. Also included in non-comparable stores sales are sales from direct to consumer sales, outlets, wholesale, warehouse sales, showrooms, temporary locations, and sales from corporate-owned stores which we have closed. The 53rd week of fiscal 2012 is excluded from the calculation of comparable store sales.

We began to report total comparable sales in fiscal 2013, which combines comparable store sales and direct to consumer sales, excluding the 53rd week of sales from fiscal 2012. Our direct to consumer segment represents a growing portion of our net revenue as the shopping behavior of our guests evolves. Our approach to our guests supports this as it involves country and region specific websites, mobile/tablet devices in stores, social networks, and product notification emails. We therefore believe that reporting total comparable sales with comparable store sales and direct to consumer sales combined provides a more relevant metric.

By measuring the change in year-over-year net revenue in stores that have been open for 12 months or more as well as direct to consumer sales, total comparable sales allows us to evaluate our performance eliminating the impact of newly opened stores. Various factors affect comparable sales, including:

- the location of new stores relative to existing stores;

- consumer preferences, buying trends and overall economic trends;
- our ability to anticipate and respond effectively to customer preferences for technical athletic apparel;
- competition;
- changes in our merchandise mix;
- pricing;
- the timing of our releases of new merchandise and promotional events;
- the effectiveness of our grassroots marketing efforts;
- the level of customer service that we provide in our stores and on our websites;
- our ability to source and distribute products efficiently; and
- the number of stores we open, close (including for temporary renovations) and expand in any period.

Opening new stores is an important part of our growth strategy. Accordingly, total comparable sales has limited utility for assessing the success of our growth strategy insofar as comparable sales do not reflect the performance of stores open less than 12 months.

**Non-GAAP Financial Measures**

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

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

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

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

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

**Constant dollar changes in net revenue**

	Fiscal Year Ended February 1, 2015		Fiscal Year Ended February 2, 2014	
	(In thousands)	(Percentage)	(In thousands)	(Percentage)
Net revenue increase	\$ 206,024	13%	\$ 220,830	16%
Adjustments due to foreign exchange rate changes	35,656	2%	26,153	2%
Net revenue increase in constant dollars	\$ 241,680	15%	\$ 246,983	18%

**Constant dollar total comparable sales**

	Fiscal Year Ended February 1, 2015	Fiscal Year Ended February 2, 2014
Total comparable sales	1%	7%
Adjustments due to foreign exchange rate changes	2%	2%
Total comparable sales in constant dollars	<u>3%</u>	<u>9%</u>

**Constant dollar comparable store sales**

	Fiscal Year Ended February 1, 2015		Fiscal Year Ended February 2, 2014	
	(In thousands)	(Percentage)	(In thousands)	(Percentage)
Comparable store sales	\$ (42,801)	(3)%	\$ 19,460	2%
Adjustments due to foreign exchange rate changes	23,712	2%	17,874	2%
Comparable store sales in constant dollars	<u>\$ (19,089)</u>	<u>(1)%</u>	<u>\$ 37,334</u>	<u>4%</u>

**Constant dollar changes in direct to consumer net revenue**

	Fiscal Year Ended February 1, 2015	Fiscal Year Ended February 2, 2014
	(Percentage)	
Change in direct to consumer net revenue	22%	36%
Adjustments due to foreign exchange rate changes	2%	2%
Change in direct to consumer net revenue in constant dollars	<u>24%</u>	<u>38%</u>

**Tax rate, excluding the tax expense on repatriated foreign earnings**

	Fiscal Year Ended February 1, 2015	Fiscal Year Ended February 2, 2014
Tax rate	37.6 %	29.6%
Tax expense on repatriated foreign earnings	(8.8)%	—%
Tax rate, excluding the tax expense on repatriated foreign earnings	<u>28.8 %</u>	<u>29.6%</u>

**Diluted earnings per share, excluding the tax expense on repatriated foreign earnings**

	Fiscal Year Ended February 1, 2015	Fiscal Year Ended February 2, 2014
Diluted earnings per share	\$ 1.66	\$ 1.91
Tax expense on repatriated foreign earnings	0.23	—
Diluted earnings per share, excluding the tax expense on repatriated foreign earnings	<u>\$ 1.89</u>	<u>\$ 1.91</u>

**Liquidity and Capital Resources**

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

As of February 1, 2015, our working capital (excluding cash and cash equivalents) was \$126.7 million and our cash and cash equivalents were \$664.5 million.

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

	Fiscal Year Ended		
	February 1, 2015	February 2, 2014	February 3, 2013
	(In thousands)		
Total cash provided by (used in):			
Operating activities	\$ 314,449	\$ 278,339	\$ 280,113
Investing activities	(119,733)	(106,408)	(93,229)
Financing activities	(149,077)	8,907	(5,491)
Effect of exchange rate changes	(79,809)	(72,368)	(651)
(Decrease) increase in cash and cash equivalents	<u>\$ (34,170)</u>	<u>\$ 108,470</u>	<u>\$ 180,742</u>

### ***Operating Activities***

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

In fiscal 2014, cash provided by operating activities increased \$36.1 million, to \$314.4 million compared to cash provided by operating activities of \$278.3 million in fiscal 2013. The increase was primarily a result of decreased income taxes paid and an increase in accrued compensation and related benefits, partially offset by a decrease in net income. The net increase in items not affecting cash was primarily due to an increase in depreciation related to our increased number of stores.

### ***Investing Activities***

*Investing Activities* relate primarily to capital expenditures.

Cash used in investing activities increased \$13.3 million, to \$119.7 million in fiscal 2014 from \$106.4 million in fiscal 2013. Capital expenditures for our corporate-owned stores segment were \$76.9 million in fiscal 2014 which included \$38.1 million to open 49 corporate-owned stores and \$60.2 million in fiscal 2013 which included \$31.3 million to open 45 corporate-owned stores. The remaining capital expenditures for our corporate-owned stores segment in each period were for ongoing store refurbishment. Capital expenditures for our direct to consumer segment were \$10.0 million and \$6.0 million in fiscal 2014 and fiscal 2013, respectively. Capital expenditures related to corporate activities and administration were \$32.9 million and \$40.2 million in fiscal 2014 and fiscal 2013, respectively. The capital expenditures in each period for corporate activities and administration were for improvements at our head office and other corporate buildings as well as investments in information technology and business systems.

Capital expenditures are expected to range between \$130 million and \$135 million in fiscal 2015.

### ***Financing Activities***

*Financing Activities* consist primarily of cash used to repurchase shares of our common stock, cash received on the exercise of stock options, excess tax benefits from stock-based compensation, taxes paid related to the net share settlement of equity awards, and cash paid to acquire the remaining non-controlling interest in Australia in fiscal 2012. Cash used by financing activities increased \$158.0 million, to cash used of \$149.1 million in fiscal 2014 from cash provided of \$8.9 million in fiscal 2013. The primary cause of this increase is our stock repurchase program which began in the second quarter of fiscal 2014. During fiscal 2014 we repurchased 3.7 million shares for a total cost of \$147.4 million.

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

## Revolving Credit Facility

On November 22, 2013, we entered into unsecured demand revolving credit facilities with HSBC Bank Canada and Bank of America, N.A., Canada Branch, which replaced our 2007 credit facility. The credit facilities provide us with available borrowings in a total amount of \$15.0 million. Borrowings under the credit facilities must be repaid in full on demand and are available by way of U.S. or Canadian denominated advances, letters of credit or depository bills. Advances denominated in U.S. Dollars bear interest on the outstanding balance at a rate equal to U.S. LIBOR plus 100 basis points or the U.S. prime rate, at our option. Advances denominated in Canadian Dollars bear interest on the outstanding balance at a rate equal to the CDOR Rate plus 100 basis points or the Canadian prime rate, at our option. Borrowings drawn down under standby letters of credit bear a fee of 100 basis points and borrowings drawn down under commercial letters of credit bear the banks' standard pricing. We are also required to pay a quarterly commitment fee of 10 basis points on the unused portion of the facility. Our wholly-owned subsidiary, lululemon usa inc., has provided a guarantee to the bank counter-parties under the facilities. The revolving credit facilities are unsecured, with a negative pledge on assets subject to permitted encumbrances, and no financial covenants. These facilities were renewed for a one year period in November 2014. As of February 1, 2015, aside from letters of credit of \$0.6 million, we had no other borrowings outstanding under these credit facilities.

## Contractual Obligations and Commitments

*Leases.* We lease certain store and other retail locations, distribution centers, offices, and equipment under non-cancelable operating leases. Our leases generally have initial terms of between five and 10 years, and generally can be extended only in five-year increments, if at all. Our leases expire at various dates between one and 10 years, excluding extensions at our option. A substantial number of our leases include renewal options and certain of our leases include rent escalation clauses, rent holidays and leasehold rental incentives, none of which are reflected in the table below. Most of our leases for store premises also include contingent rental payments based on sales volume, the impact of which also are not reflected in the table below.

*Product purchase obligations.* The amounts listed for product purchase obligations in the table below represent agreements (including open purchase orders) to purchase products in the ordinary course of business that are enforceable and legally binding and that specify all significant terms. In some cases, prices are subject to change throughout the production process. The reported amounts exclude product purchase liabilities included in accounts payable and accrued inventory liabilities as of February 1, 2015.

The following table summarizes our contractual arrangements as of February 1, 2015, and the timing and effect that such commitments are expected to have on our liquidity and cash flows in future periods:

	Payments Due by Fiscal Year						
	Total	2015	2016	2017	2018	2019	Thereafter
	(In thousands)						
Operating leases (minimum rent)	\$ 395,483	\$ 82,282	\$ 81,697	\$ 72,660	\$ 57,190	\$ 43,625	\$ 58,029
Product purchase obligations	\$ 189,723	\$ 189,723	\$ —	\$ —	\$ —	\$ —	\$ —

## Off-Balance Sheet Arrangements

We enter into standby letters of credit to secure certain of our obligations, including leases, taxes and duties. As of February 1, 2015, letters of credit and letters of guarantee totaling \$0.6 million have been issued.

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

## Critical Accounting Policies 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 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.

We believe that the following critical accounting policies affect our more significant estimates and judgments used in the preparation of our consolidated financial statements:

*Revenue Recognition.* Net revenue is recognized net of sales taxes, discounts, and an estimated allowance for sales returns. Sales to customers through corporate-owned stores and other physical locations are recognized at the point of sale, net of an estimated allowance for sales returns. Direct to consumer sales are recognized when goods are shipped and collection is reasonably assured, net of an estimated allowance for sales returns. Other net revenue includes outlet sales, showroom sales, sales to wholesale accounts, warehouse sales, and sales from temporary locations. Revenue is recognized when these sales occur and amounts billed to customers for shipping and handling are recognized at the time of shipment.

Our estimated allowance for sales returns is a subjective critical estimate that has a direct impact on reported net revenue. This allowance is calculated based on a history of actual returns, estimated future returns and any significant future known or anticipated events. Consideration of these factors results in an estimated allowance for sales returns. Our standard terms for retail sales limit returns to approximately 14 days after the sale of the merchandise, however we accept returns after 14 days where the product fails to meet our guests' quality expectations. For our wholesale sales, we allow returns from our wholesale accounts if properly requested and approved. Employee discounts are classified as a reduction of net revenue.

Revenue from our gift cards is recognized when tendered for payment, or upon redemption. Outstanding customer balances are included in "Unredeemed gift card liability" on the consolidated balance sheets. There are no expiration dates on our gift cards, and we do not charge any service fees that cause a decrement to customer balances.

While we will continue to honor all gift cards presented for payment, we may determine the likelihood of redemption to be remote for certain card balances due to, among other things, long periods of inactivity. In these circumstances, to the extent we determine there is no requirement for remitting card balances to government agencies under unclaimed property laws, card balances may be recognized in the consolidated statements of operations in net revenue. The amount to be recognized is an estimate, based on historical customer redemption rates.

*Inventory.* Inventory is valued at the lower of cost and market. We periodically review our inventories and make provisions as necessary to appropriately value obsolete and damaged goods. The amount of the provision is equal to the difference between the cost of the inventory and its net realizable value based upon assumptions about future demands, selling prices and market conditions. If changes in market conditions result in reductions in the estimated net realizable value of our inventory below our previous estimate, we would increase our reserve in the period in which we made such a determination. In addition, we provide for inventory shrinkage as a percentage of sales, based on historical trends from actual physical inventories. Inventory shrinkage estimates are made to reduce the inventory value for lost or stolen items. We perform physical inventory counts throughout the year and adjust the shrink provision accordingly. In fiscal 2014, we wrote-off \$12.4 million of inventory, and in fiscal 2013 we wrote-off \$28.1 million of inventory, including \$17.5 million related to the pull-back of black Luon pants.

*Property and Equipment.* Property and equipment are recorded at cost less accumulated depreciation. Buildings are depreciated on a straight-line basis over the expected useful life of the asset, which we estimate to be 20 years. Leasehold improvements are depreciated on a straight-line basis over the lesser of the length of the lease and the estimated useful life of the assets, up to a maximum of five years. All other property and equipment is depreciated using the declining balance method as follows:

Furniture and fixtures	20%
Computer hardware and software	30%
Equipment and vehicles	30%

Changes in circumstances (such as technological advances) can result in differences between the actual and estimated useful lives. In those cases where we determine that the useful life of a long-lived asset should be shortened, we increase depreciation expense over the remaining useful life to depreciate the asset's net book value to its salvage value.

*Long-Lived Assets.* Long-lived assets, including intangible assets with finite useful lives are evaluated for impairment when the occurrence of events or changes in circumstances indicates that the carrying value of the assets may not be recoverable as measured by comparing their net book value to the undiscounted estimated future cash flows generated by their use and eventual disposition. Impaired assets are recorded at fair value, determined principally by the present value of the estimated future cash flows expected from their use and eventual disposition.

*Income Taxes.* Deferred income tax assets are reduced by a valuation allowance, if based on the weight of available positive and negative evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.



The recognition of a deferred income tax asset is based upon several assumptions and forecasts, including current and proposed tax legislation, current and anticipated taxable income, utilization of previously unrealized non-operating loss carry forwards and regulatory reviews of tax filings. Given the judgments and estimates required and the sensitivity of the results to the significant assumptions used, we believe the accounting estimates used in relation to the recognition of deferred income tax assets are subject to measurement uncertainty and are susceptible to a material change if the underlying assumptions change.

We have not recorded U.S. income tax expense for foreign earnings that we have determined to be indefinitely reinvested outside the United States. We periodically assess the need to utilize these unremitted earnings to finance our foreign operations. This assessment is based on cash flow projections by tax jurisdiction. Such estimates are inherently imprecise since many assumptions utilized in the cash flow projections are subject to revision in the future. The possibility exists that amounts determined to be indefinitely reinvested outside of the United States may ultimately be repatriated. For instance, the cash needs of our U.S. entities may exceed our current expectations, or the actual cash needs of our foreign entities may be less than our current expectations. This would result in additional income tax expense in the year we determined that amounts were no longer indefinitely reinvested.

We file income tax returns in the United States, Canada and various foreign and state jurisdictions. The 2011 to 2013 tax years remain subject to examination by the U.S. federal and state tax authorities. The 2010 tax year is still open for certain state tax authorities. The 2007 to 2013 tax years remain subject to examination by Canadian tax authorities. The 2008 to 2013 tax years remain subject to examination by tax authorities in certain foreign jurisdictions. Our policy is to recognize interest expense and penalties related to income tax matters as a selling, general and administrative expense. At February 1, 2015, we do not have any significant accruals for interest related to unrecognized tax benefits or tax penalties. Our intercompany transfer pricing policies are currently subject to audits by various foreign tax jurisdictions. Although we believe that our intercompany transfer pricing policies and tax positions are reasonable, the final outcomes of tax audits or potential tax disputes may be materially different from that which is reflected in our income tax provisions and accruals.

*Goodwill and Intangible Assets.* Intangible assets are recorded at cost. Reacquired franchise rights are amortized on a straight-line basis over their estimated useful lives of 10 years. Goodwill represents the excess of the purchase price over the fair market value of identifiable net assets acquired and is not amortized. Goodwill is tested for impairment annually or more frequently when an event or circumstance indicates that goodwill might be impaired. Goodwill impairment testing requires us to estimate the fair value of our reporting units. We generally base our measurement of the fair value on the present value of future cash flows. Our significant estimates in the discounted cash flows model include: the discount rate and long-term rates of growth. We use our best estimates and judgment based on available evidence in conducting the impairment testing.

*Stock-Based Compensation.* We account for stock-based compensation using the fair value method. The fair value of the awards is estimated at the date of grant and recognized as employee compensation expense on a straight-line basis over the requisite service period. For awards with service and/or performance conditions, the amount of compensation expense recognized is based on the number of awards that are expected to vest.

The estimation of the number stock awards that will ultimately vest requires judgment, and to the extent actual results differ from our estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised. We consider several factors when estimating the number of awards which are expected to vest, including, future profit forecasts, types of awards, size of option holder group and anticipated employee retention. Actual results may differ substantially from these estimates.

The calculation of the grant-date fair value of stock options requires us to make certain estimates and assumptions, including, stock price volatility, and the expected life of the options. These assumptions are evaluated and revised, as necessary, to reflect market conditions and the Company's historical experience. The expected term of the options is based upon historical experience of similar awards, giving consideration for expectations of future employee behavior. Expected volatility is based upon the historical volatility of the Company's common stock for the period corresponding with the expected term of the options. In the future, as we gain historical data for volatility in our own stock and the actual term employees hold our options, expected volatility and expected term may change which could substantially change the grant-date fair value of future awards of stock options and, ultimately, the expense we record.

*Contingencies.* In the ordinary course of business, we are involved in legal proceedings regarding contractual and employment relationships and a variety of other matters. We record contingent liabilities resulting from claims against us, when a loss is assessed to be probable and the amount of the loss is reasonably estimable. Assessing probability of loss and estimating probable losses requires analysis of multiple factors, including in some cases judgments about the potential actions of third-party claimants and courts.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

We currently generate a significant portion of our net revenue and incur a significant portion of our expenses in Canada. The reporting currency for our consolidated financial statements is the U.S. dollar. The strengthening of the U.S. dollar against the Canadian dollar during fiscal 2014 has resulted in:

- a reduction in our net revenue upon translation of the sales made by our Canadian operations into U.S. dollars for the purposes of consolidation;
- a reduction in our selling, general and administrative expenses incurred by our Canadian operations into U.S. dollars for the purposes of consolidation; and
- foreign exchange gains by our Canadian subsidiaries on U.S. dollar cash and receivables denominated in U.S. dollars.

A 10% depreciation in the relative value of the Canadian dollar against the U.S. dollar compared to the exchange rates in effect for fiscal 2014 would have resulted in lost income from operations of approximately \$2.2 million in fiscal 2014. This assumes a consistent 10% depreciation in the Canadian dollar against the U.S. dollar throughout the fiscal year. The timing of changes in the relative value of the Canadian dollar combined with the seasonal nature of our business, can affect the magnitude of the impact that fluctuations in foreign exchange rates have on our income from operations.

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

*Interest Rate Risk*. Our revolving credit facilities provide us with available borrowings in amount up to \$15.0 million in the aggregate. Because our revolving credit facilities bear interest at a variable rate, we will be exposed to market risks relating to changes in interest rates, if we have a meaningful outstanding balance. As of February 1, 2015, aside from letters of credit and guarantees, we had no outstanding balances under our revolving facilities. We currently do not engage in any interest rate hedging activity and currently have no intention to do so in the foreseeable future. However, in the future, if we have a meaningful outstanding balance under our revolving facility, in an effort to mitigate losses associated with these risks, we may at times enter into derivative financial instruments, although we have not historically done so. These may take the form of forward contracts, option contracts, or interest rate swaps. We do not, and do not intend to, engage in the practice of trading derivative securities for profit.

### **Inflation**

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



**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**lululemon athletica inc.  
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

Consolidated Financial Statements:

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Stockholders and Directors of  
lululemon athletica inc.**

We have audited the accompanying consolidated balance sheets of lululemon athletica inc. and its subsidiaries as of February 1, 2015 and February 2, 2014 and the related consolidated statements of operations and comprehensive income, stockholders' equity and cash flows for the 52, 52, and 53 week periods ended February 1, 2015, February 2, 2014, and February 3, 2013, respectively. In addition, we have audited the financial statement schedule listed in the index appearing under Item 15(a)(2). We also have audited lululemon athletica inc.'s and its subsidiaries' internal control over financial reporting as of February 1, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management is responsible for these consolidated financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express an opinion on these consolidated financial statements, the financial statement schedule and the company's internal control over financial reporting based on our integrated audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements and the financial statement schedule are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of lululemon athletica inc. and its subsidiaries as of February 1, 2015 and February 2, 2014 and the results of their operations and their cash flows for the 52, 52, and 53 week periods ended February 1, 2015, February 2, 2014, and February 3, 2013, respectively, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also, in our opinion, lululemon athletica inc. and its subsidiaries maintained, in all material respects, effective internal control over financial reporting as of February 1, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

/s/ PricewaterhouseCoopers LLP

**Chartered Accountants**

Vancouver, British Columbia

March 25, 2015

**lululemon athletica inc.**  
**CONSOLIDATED BALANCE SHEETS**  
*(Amounts in thousands, except per share amounts)*

	February 1, 2015	February 2, 2014
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 664,479	\$ 698,649
Accounts receivable	13,746	11,903
Inventories	208,116	188,790
Prepaid expenses and other current assets	64,671	46,197
	<u>951,012</u>	<u>945,539</u>
Property and equipment, net	296,008	255,603
Goodwill and intangible assets, net	26,163	28,201
Deferred income tax asset	16,018	18,300
Other non-current assets	7,012	4,745
	<u>\$ 1,296,213</u>	<u>\$ 1,252,388</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 9,339	\$ 12,647
Accrued inventory liabilities	22,296	15,415
Accrued compensation and related expenses	29,932	19,445
Income taxes payable	20,073	769
Unredeemed gift card liability	46,252	38,343
Other accrued liabilities	31,989	29,595
	<u>159,881</u>	<u>116,214</u>
Deferred income tax liability	3,633	3,977
Other non-current liabilities	43,131	35,515
	<u>206,645</u>	<u>155,706</u>
Stockholders' equity		
Undesignated preferred stock, \$0.01 par value, 5,000 shares authorized, none issued and outstanding	—	—
Exchangeable stock, no par value, 60,000 shares authorized, issued and outstanding 9,833 and 29,955	—	—
Special voting stock, \$0.000005 par value, 60,000 shares authorized, issued and outstanding 9,833 and 29,955	—	—
Common stock, \$0.005 par value, 400,000 shares authorized, issued and outstanding 132,112 and 115,342	661	577
Additional paid-in capital	241,695	240,351
Retained earnings	1,020,619	923,822
Accumulated other comprehensive loss	(173,407)	(68,068)
	<u>1,089,568</u>	<u>1,096,682</u>
	<u>\$ 1,296,213</u>	<u>\$ 1,252,388</u>

See accompanying notes to the consolidated financial statements

**lululemon athletica inc.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**

*(Amounts in thousands, except per share amounts)*

	Fiscal Year Ended		
	February 1, 2015	February 2, 2014	February 3, 2013
Net revenue	\$ 1,797,213	\$ 1,591,188	\$ 1,370,358
Cost of goods sold	883,033	751,112	607,532
Gross profit	914,180	840,076	762,826
Selling, general and administrative expenses	538,147	448,718	386,387
Income from operations	376,033	391,358	376,439
Other income (expense), net	7,102	5,768	4,957
Income before provision for income taxes	383,135	397,126	381,396
Provision for income taxes	144,102	117,579	109,965
Net income	239,033	279,547	271,431
Net income attributable to non-controlling interest	—	—	875
Net income attributable to lululemon athletica inc.	\$ 239,033	\$ 279,547	\$ 270,556
<b>Other comprehensive (loss) income:</b>			
Foreign currency translation adjustment	(105,339)	(89,158)	(459)
Comprehensive income	\$ 133,694	\$ 190,389	\$ 270,097
Basic earnings per share	\$ 1.66	\$ 1.93	\$ 1.88
Diluted earnings per share	\$ 1.66	\$ 1.91	\$ 1.85
Basic weighted-average number of shares outstanding	143,935	144,913	144,000
Diluted weighted-average number of shares outstanding	144,298	146,043	145,806

See accompanying notes to the consolidated financial statements

**lululemon athletica inc.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

(Amounts in thousands)

	Exchangeable Stock		Special Voting Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total	Non-Controlling Interest	Total
	Shares	Par Value	Shares	Par Value	Shares	Par Value						
Balance at January 29, 2012	33,412	\$ —	33,412	\$ —	110,135	\$ 551	\$ 205,557	\$ 373,719	\$ 21,549	\$ 601,376	\$ 4,805	\$ 606,181
Net income attributable to lululemon athletica inc.								270,556		270,556		270,556
Foreign currency translation adjustment									(459)	(459)		(459)
Common stock issued upon exchange of exchangeable shares	(1,347)	—	(1,347)	—	1,347	7	(7)			—		—
Stock-based compensation							15,637			15,637		15,637
Excess tax benefit from stock-based compensation							9,901			9,901		9,901
Restricted share issuance					16	—	—			—		—
Stock options exercised					873	4	11,010			11,014		11,014
Registration fees associated with shelf registration statement							(393)			(393)		(393)
Non-controlling interest:												
Net income attributable to non-controlling interests											875	875
Purchase of remaining non-controlling interests							(20,333)			(20,333)	(5,680)	(26,013)
Balance at February 3, 2013	32,065	\$ —	32,065	\$ —	112,371	\$ 562	\$ 221,372	\$ 644,275	\$ 21,090	\$ 887,299	\$ —	\$ 887,299
Net income attributable to lululemon athletica inc.								279,547		279,547		279,547
Foreign currency translation adjustment									(89,158)	(89,158)		(89,158)
Common stock issued upon exchange of exchangeable shares	(2,110)		(2,110)	—	2,110	11	(11)			—		—
Stock-based compensation							10,087			10,087		10,087
Excess tax benefit from stock-based compensation							6,457			6,457		6,457
Restricted share issuance					58	—	—			—		—
Stock options exercised					686	3	8,168			8,171		8,171
Common stock issued upon settlement of performance-based restricted stock units					208	1	(1)			—		—
Shares withheld related to net share settlement of equity awards					(91)	—	(5,721)			(5,721)		(5,721)
Balance at February 2, 2014	29,955	\$ —	29,955	\$ —	115,342	\$ 577	\$ 240,351	\$ 923,822	\$ (68,068)	\$ 1,096,682	\$ —	\$ 1,096,682

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	Exchangeable Stock		Special Voting Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total	Non-Controlling Interest	Total
	Shares	Par Value	Shares	Par Value	Shares	Par Value						
Net income attributable to lululemon athletica inc.								239,033		239,033		239,033
Foreign currency translation adjustment									(105,339)	(105,339)		(105,339)
Common stock issued upon exchange of exchangeable shares	(20,122)		(20,122)	—	20,122	101	(101)			—		—
Stock-based compensation							8,269			8,269		8,269
Excess tax benefit from stock-based compensation							413			413		413
Stock options exercised					158	1	2,912			2,913		2,913
Restricted share issuance					34	—	—			—		—
Common stock issued upon settlement of performance-based restricted stock units					217	1	(1)			—		—
Shares withheld related to net share settlement of stock-based compensation					(104)	(1)	(4,971)			(4,972)		(4,972)
Repurchase of common stock					(3,657)	(18)	(5,177)	(142,236)		(147,431)		(147,431)
Balance at February 1, 2015	9,833	\$ —	9,833	\$ —	132,112	\$ 661	\$ 241,695	\$ 1,020,619	\$ (173,407)	\$ 1,089,568	\$ —	\$ 1,089,568

See accompanying notes to the consolidated financial statements

**lululemon athletica inc.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Amounts in thousands)

	Fiscal Year Ended		
	February 1, 2015	February 2, 2014	February 3, 2013
Cash flows from operating activities			
Net income	\$ 239,033	\$ 279,547	\$ 271,431
Items not affecting cash			
Depreciation and amortization	58,364	49,068	43,000
Stock-based compensation	8,269	10,087	15,637
Derecognition of unredeemed gift card liability	(1,468)	(4,654)	(1,351)
Deferred income taxes	2,087	820	(6,445)
Excess tax benefits from stock-based compensation	(413)	(6,457)	(9,901)
Other, including net changes in other non-cash balances			
Prepaid tax installments	(15,234)	3,067	(7,812)
Other prepaid expenses and other current assets	(8,813)	(14,408)	(10,492)
Inventories	(26,806)	(38,507)	(51,222)
Accounts payable	(2,198)	11,627	(13,481)
Accrued inventory liabilities	8,276	6,985	(1,785)
Other accrued liabilities	3,271	7,837	1,777
Sales tax collected	517	161	(4,232)
Income taxes payable	19,304	(35,075)	30,951
Accrued compensation and related expenses	11,561	(6,282)	4,695
Deferred gift card revenue	11,326	9,306	13,711
Other non-cash balances	7,373	5,217	5,632
Net cash provided by operating activities	314,449	278,339	280,113
Cash flows from investing activities			
Purchase of property and equipment	(119,733)	(106,408)	(93,229)
Net cash used in investing activities	(119,733)	(106,408)	(93,229)
Cash flows from financing activities			
Proceeds from exercise of stock options	2,913	8,171	11,014
Excess tax benefits from stock-based compensation	413	6,457	9,901
Registration fees associated with shelf registration statement	—	—	(393)
Purchase of non-controlling interest	—	—	(26,013)
Taxes paid related to net share settlement of equity awards	(4,972)	(5,721)	—
Repurchase of common stock	(147,431)	—	—
Net cash (used in) provided by financing activities	(149,077)	8,907	(5,491)
Effect of exchange rate changes on cash	(79,809)	(72,368)	(651)
(Decrease) increase in cash and cash equivalents	(34,170)	108,470	180,742
Cash and cash equivalents, beginning of period	\$ 698,649	\$ 590,179	\$ 409,437
Cash and cash equivalents, end of period	\$ 664,479	\$ 698,649	\$ 590,179

See accompanying notes to the consolidated financial statements



**lululemon athletica inc.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

**1 NATURE OF OPERATIONS AND BASIS OF PRESENTATION**

***Nature of operations***

lululemon athletica inc., a Delaware corporation ("lululemon" and, together with its subsidiaries unless the context otherwise requires, the "Company") is engaged in the design, manufacture and distribution of healthy lifestyle inspired athletic apparel, which is sold through a chain of corporate-owned and operated retail stores, direct to consumer through e-commerce, showrooms, a network of wholesale accounts, outlets and warehouse sales. The Company's primary markets are the United States, Canada, Australia, New Zealand, the United Kingdom, and Singapore where 211, 57, 26, five, two, and one corporate-owned store(s), respectively, were in operation as at February 1, 2015. There were 302, 254, and 211 corporate-owned stores in operation as at February 1, 2015, February 2, 2014, and February 3, 2013, respectively.

***Basis of presentation***

The accompanying consolidated financial statements include the financial position, results of operations and cash flows of the Company during the three-year period ended February 1, 2015. The consolidated financial statements have been presented in U.S. dollars and are prepared in accordance with United States generally accepted accounting principles ("GAAP").

The Company's fiscal year ends on the Sunday closest to January 31 of the following year, typically resulting in a 52 week year, but occasionally giving rise to an additional week, resulting in a 53 week year. Fiscal 2014 and 2013 were 52 week years whereas fiscal 2012 was a 53 week year. Fiscal 2014, 2013 and 2012 ended on February 1, 2015, February 2, 2014, and February 3, 2013, respectively.

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

Certain prior year amounts have been reclassified to conform to fiscal 2014 presentation.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Principles of consolidation***

The consolidated financial statements include the accounts of lululemon athletica inc. and its wholly-owned subsidiaries. All inter-company balances and transactions have been eliminated. The results of operations of lululemon athletica australia Pty attributable to the non-controlling interest for fiscal 2012 are presented within equity and net income, and are shown separately from the Company's equity and net income attributable to the Company.

***Cash and cash equivalents***

Cash and cash equivalents consist of cash on hand, bank balances and short-term deposits with original maturities of less than three months. The Company has not experienced any losses related to these balances, and management believes its credit risk to be minimal.

***Accounts receivable***

Accounts receivable primarily arise out of sales to wholesale accounts and landlord lease inducements. The allowance for doubtful accounts represents management's best estimate of probable credit losses in accounts receivable. Receivables are written off against the allowance when management believes that the amount receivable will not be recovered. As at February 1, 2015, February 2, 2014 and February 3, 2013 the Company recorded an insignificant allowance for doubtful accounts.

***Inventories***

Inventories, consisting of finished goods, inventories in transit, and raw materials, are stated at the lower of cost and market value. Cost is determined using weighted-average costs. For finished goods, market is defined as net realizable value,

and for raw materials, market is defined as replacement cost. Cost of inventories includes all costs incurred to deliver inventory to the Company's distribution centers including freight, non-refundable taxes, duty and other landing costs.

The Company makes provisions as necessary to appropriately value obsolete or damaged goods. The amount of the provision is equal to the difference between the cost of the inventory and its estimated net realizable value based upon assumptions about future demand, selling prices and market conditions. In addition, the Company provides for inventory shrinkage based on historical trends from actual physical inventory counts. Inventory shrinkage estimates are made to reduce the inventory value for lost or stolen items. The Company performs physical inventory counts and cycle counts throughout the year and adjusts the shrink reserve accordingly.

***Property and equipment***

Property and equipment are recorded at cost less accumulated depreciation. Direct internal and external costs related to software used for internal purposes which are incurred during the application development stage or for upgrades that add functionality are capitalized. All other costs related to internal use software are expensed as incurred.

Depreciation commences when an asset is ready for its intended use. Buildings are depreciated on a straight-line basis over the expected useful life of the asset, which is estimated to be 20 years. Leasehold improvements are depreciated on a straight-line basis over the lesser of the length of the lease and the estimated useful life of the improvement, to a maximum of five years. All other property and equipment are depreciated using the declining balance method as follows:

Furniture and fixtures	20%
Computer hardware and software	30%
Equipment and vehicles	30%

***Goodwill and intangible assets***

Intangible assets are recorded at cost. Reacquired franchise rights are amortized on a straight-line basis over their estimated useful lives of 10 years.

Goodwill represents the excess of the aggregate of the consideration transferred, the fair value of any non-controlling interest in the acquiree, and the acquisition-date fair value of the Company's previously held equity interest over the net assets acquired and liabilities assumed. Goodwill and intangible assets with indefinite lives are tested annually for impairment or more frequently when an event or circumstance indicates that goodwill or indefinite life intangible assets might be impaired. The Company's operating segment for goodwill is its corporate-owned stores.

***Impairment of long-lived assets***

Long-lived assets, including intangible assets with finite lives, held for use are evaluated for impairment when the occurrence of events or a change in circumstances indicates that the carrying value of the assets may not be recoverable as measured by comparing their carrying value to the estimated undiscounted future cash flows generated by their use and eventual disposition. Impaired assets are recorded at fair value, determined principally by discounting the future cash flows expected from their use and eventual disposition. Reductions in asset values resulting from impairment valuations are recognized in income in the period that the impairment is determined.

***Leased property and equipment***

The Company leases stores, distribution centers, and administrative offices. Minimum rental payments, including any fixed escalation of rental payments and rent premiums, are amortized on a straight-line basis over the life of the lease beginning on the possession date. Rental costs incurred during a construction period, prior to store opening, are recognized as rental expense.

Deferred lease inducements, which include leasehold improvements paid for by the landlord and rent free periods, are recorded as liabilities on the consolidated balance sheet and recognized as a reduction of rent expense on a straight-line basis over the term of the lease.

The difference between the recognized rental expense and the total rental payments paid is reflected on the consolidated balance sheet as a deferred lease liability or a prepaid lease asset.

Contingent rental payments based on sales volumes are recorded in the period in which the sales occur.

The Company recognizes a liability for the fair value of asset retirement obligations ("AROs") when such obligations are incurred. The Company's AROs are primarily associated with leasehold improvements which, at the end of a lease, the Company is contractually obligated to remove in order to comply with the lease agreement. At the inception of a lease with such conditions, the Company records an ARO liability and a corresponding capital asset in an amount equal to the estimated fair value of the obligation. The liability is estimated based on a number of assumptions requiring management's judgment, including store closing costs, cost inflation rates and discount rates, and is accreted to its projected future value over time. The capitalized asset is depreciated using the convention for depreciation of leasehold improvement assets. Upon satisfaction of the ARO conditions, any difference between the recorded ARO liability and the actual retirement costs incurred is recognized as an operating gain or loss in the consolidated statements of operations.

The Company recognizes a liability for a cost associated with a lease exit or disposal activity when such obligation is incurred. A lease exit or disposal liability is measured initially at its fair value in the period in which the liability is incurred. The Company estimates fair value at the cease-use date of its operating leases as the remaining lease rentals, reduced by estimated sublease rentals that could be reasonably obtained for the property, even where the Company does not intend to enter into a sublease. Estimating the cost of certain lease exit costs involves subjective assumptions, including the time it would take to sublease the leased location and the related potential sublease income. The estimated accruals for these costs could be significantly affected if future experience differs from that used in the initial estimate.

### ***Deferred revenue***

Receipts from the sale of gift cards are treated as deferred revenue. Amounts received in respect of gift cards are recorded as unredeemed gift card liability. When gift cards are redeemed for apparel, the Company recognizes the related revenue.

### ***Revenue recognition***

Net revenue is comprised of corporate-owned store net revenue, direct to consumer sales through [www.lululemon.com](http://www.lululemon.com), [www.ivivva.com](http://www.ivivva.com) and other country and region specific websites, and other net revenue, which includes outlet sales, showroom sales, sales to wholesale accounts, warehouse sales, and sales from temporary locations.

Sales to customers through corporate-owned retail stores are recognized at the point of sale, net of discounts and an estimated allowance for sales returns.

Sales of apparel to customers through the Company's retail internet sites are recognized when goods are shipped, and collection is reasonably assured, net of an estimated allowance for sales returns.

Sales of apparel to wholesale accounts are recognized when goods are shipped and collection is reasonably assured.

All revenue is reported net of sales taxes collected for various governmental agencies.

Revenue from the Company's gift cards is recognized when tendered for payment, or upon redemption. Outstanding customer balances are included in "Unredeemed gift card liability" on the consolidated balance sheets. There are no expiration dates on the Company's gift cards, and lululemon does not charge any service fees that cause a decrement to customer balances.

While the Company will continue to honor all gift cards presented for payment, management may determine the likelihood of redemption to be remote for certain card balances due to, among other things, long periods of inactivity. In these circumstances, to the extent management determines there is no requirement for remitting card balances to government agencies under unclaimed property laws, card balances may be recognized in the consolidated statements of operations in net revenue. For the years ended February 1, 2015, February 2, 2014 and February 3, 2013, net revenue recognized on unredeemed gift card balances was \$1,468, \$4,654, and \$1,351, respectively.

### ***Cost of goods sold***

Cost of goods sold includes:

- the cost of purchased merchandise, which includes acquisition and production costs including raw material and labor, as applicable;
- the cost incurred to deliver inventory to the Company's distribution centers including in-bound freight, non-refundable taxes, duty and other landing costs;
- the cost of the Company's distribution centers (such as labor, rent and utilities) and the depreciation related to the Company's distribution centers;

- the cost of the Company's production, design, distribution and merchandising departments including salaries, stock-based compensation and benefits, and operating expenses;
- occupancy costs such as minimum rent, contingent rent where applicable, property taxes, utilities and depreciation expense for the Company's corporate-owned store locations;
- hemming; and
- shrink and inventory valuation reserves.

### ***Selling, general and administrative expenses***

Selling, general and administrative expenses consist of all operating costs not otherwise included in cost of goods sold. Our selling, general and administrative expenses include the costs of corporate and store-level wages and benefits, costs to transport our products from our distribution facilities to our sales locations and e-commerce guests, professional fees, marketing, information technology, human resources, accounting, corporate facility and occupancy costs, and depreciation and amortization expense other than in cost of goods sold.

For the years ended February 1, 2015 , February 2, 2014 and February 3, 2013 the Company incurred transportation costs of \$35,901 , \$31,296 , and \$23,407 respectively.

### ***Store pre-opening costs***

Operating costs incurred prior to the opening of new stores are expensed as incurred.

### ***Income taxes***

The Company follows the liability method with respect to accounting for income taxes. Deferred income tax assets and liabilities are determined based on temporary differences between the carrying amounts and the tax basis of assets and liabilities. Deferred income tax assets and liabilities are measured using enacted tax rates that are expected to be in effect when these differences are anticipated to reverse. Deferred income tax assets are reduced by a valuation allowance, if based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The evaluation as to the likelihood of realizing the benefit of a deferred income tax asset is based on the timing of scheduled reversals of deferred tax liabilities, taxable income forecasts, and tax-planning strategies.

The Company provides for taxes at the rate applicable for the appropriate tax jurisdiction. U.S. income taxes on unremitted earnings of foreign subsidiaries which the Company has determined to be indefinitely reinvested have not been recognized. Management periodically assesses the need to utilize these unremitted earnings to finance foreign operations. This assessment is based on cash flow projections that are the result of estimates of future production and operational and fiscal objectives by tax jurisdiction for our operations. Such estimates are inherently imprecise since many assumptions utilized in the cash flow projections are subject to revision in the future.

### ***Currency translation***

The functional currency for each entity included in these consolidated financial statements that is domiciled outside of the United States is generally the applicable local currency. Assets and liabilities of each foreign entity are translated into U.S. dollars at the exchange rate in effect on the balance sheet date. Net revenue and expenses are translated at the average rate in effect during the period. Unrealized translation gains and losses are recorded as a cumulative translation adjustment, which is included in other comprehensive income or loss, which is a component of accumulated other comprehensive income or loss included in stockholders' equity.

Foreign currency transactions denominated in a currency other than an entity's functional currency are remeasured into the functional currency with any resulting gains and losses included in income, except for gains and losses arising on intercompany foreign currency transactions that are of a long-term investment nature.

The aggregate foreign exchange gains (losses) included in selling, general and administrative expenses amount to \$6,372 , \$17,314 , and \$(625) for the years ended February 1, 2015 , February 2, 2014 , and February 3, 2013 , respectively.

### ***Fair value of financial instruments***

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, trade accounts payable, accrued liabilities, and other liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. All foreign exchange gains or losses are

recorded in the consolidated statements of operations under selling, general and administrative expenses. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

### ***Concentration of credit risk***

The Company is not exposed to significant credit risk on its cash and cash equivalents and accounts receivable. Cash and cash equivalents are held with high quality financial institutions. Accounts receivable are primarily from wholesale accounts and for landlord lease inducements. The Company does not require collateral to support the accounts receivable; however, in certain circumstances, the Company may require parties to provide payment for goods prior to delivery of the goods. The accounts receivable are net of an allowance for doubtful accounts, which is established based on management's assessment of the credit risk of the underlying accounts.

### ***Stock-based compensation***

The Company accounts for stock-based compensation using the fair value method. The fair value of awards granted is estimated at the date of grant and recognized as employee compensation expense on a straight-line basis over the requisite service period with the offsetting credit to additional paid-in capital. For awards with service and/or performance conditions, the amount of compensation expense recognized is based on the number of awards expected to vest and is adjusted to reflect those awards that do ultimately vest. For awards with performance conditions, the Company recognizes the compensation expense if and when the Company concludes that it is probable that the performance condition will be achieved. The Company reassesses the probability of achieving the performance condition at each reporting date. The fair value of the restricted shares, performance-based restricted stock units, and restricted stock units is based on the closing price of the Company's common stock on the award date.

### ***Earnings per share***

Earnings per share is calculated using the weighted-average number of common shares outstanding during the period. Diluted earnings per share is calculated by dividing net income available to common stockholders for the period by the diluted weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution from common shares issuable through stock options, performance-based restricted stock units that have satisfied their performance factor, and restricted stock units using the treasury stock method.

### ***Contingencies***

In the ordinary course of business, we are involved in legal proceedings regarding contractual and employment relationships and a variety of other matters. We record contingent liabilities resulting from claims against us, when a loss is assessed to be probable and the amount of the loss is reasonably estimable.

### ***Use of estimates***

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of net revenue and expenses during the reporting period.

### ***Recently issued accounting standards***

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

In June 2014, the FASB amended ASC Topic 718, *Compensation - Stock Compensation* ("ASC 718") for share-based payments in which the terms of the award provide that a performance target can be achieved after the requisite service period. The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. This guidance is effective for public companies for years, and interim periods within those years, beginning on or after December 15, 2015, and early application is permitted. This guidance will be effective for the Company beginning in its first quarter of fiscal 2016. The Company is currently evaluating the impact that this new guidance may have on its consolidated financial statements.

**3 INVENTORIES**

	<b>February 1, 2015</b>	<b>February 2, 2014</b>
Finished goods	\$ 214,113	\$ 196,292
Provision to reduce inventory to market value	(5,997)	(7,502)
	<u>\$ 208,116</u>	<u>\$ 188,790</u>

**4 PROPERTY AND EQUIPMENT**

	<b>February 1, 2015</b>	<b>February 2, 2014</b>
Land	\$ 60,548	\$ 67,903
Buildings	29,099	20,407
Leasehold improvements	176,677	140,748
Furniture and fixtures	55,320	41,400
Computer hardware	35,457	29,497
Computer software	84,854	70,537
Equipment and vehicles	11,908	4,108
Accumulated depreciation	(157,855)	(118,997)
	<u>\$ 296,008</u>	<u>\$ 255,603</u>

Included in the cost of computer software are capitalized costs of \$2,620 and \$1,697 at February 1, 2015 and February 2, 2014 , respectively, associated with internally developed software.

Depreciation expense related to property and equipment was \$57,450 , \$48,177 and \$41,671 for the years ended February 1, 2015 , February 2, 2014 , and February 3, 2013 , respectively.

**5 GOODWILL AND INTANGIBLE ASSETS**

	<b>February 1, 2015</b>	<b>February 2, 2014</b>
Goodwill	\$ 25,496	\$ 25,496
Changes in foreign currency exchange rates	(1,083)	(217)
	<u>24,413</u>	<u>25,279</u>
Intangibles—reacquired franchise rights	\$ 10,150	\$ 10,630
Accumulated amortization	(8,264)	(7,830)
Changes in foreign currency exchange rates	(136)	122
	<u>1,750</u>	<u>2,922</u>
Total goodwill and intangibles	<u>\$ 26,163</u>	<u>\$ 28,201</u>

Amortization expense related to intangible assets was \$914 , \$891 , and \$1,329 for the years ended February 1, 2015 , February 2, 2014 , and February 3, 2013 , respectively. The estimated aggregate future amortization expense is as follows:

<b>Fiscal Year</b>	
2015	\$ 747
2016	677
2017	254
2018	72
Thereafter	—
	<u>\$ 1,750</u>

The weighted-average remaining useful lives of the reacquired franchise rights was 1.79 years as at February 1, 2015 and 2.49 years as at February 2, 2014 .

## 6 OTHER ACCRUED LIABILITIES

	February 1, 2015	February 2, 2014
Sales tax collected	\$ 8,579	\$ 8,341
Accrued rent	5,567	5,936
Other	17,843	15,318
	<u>\$ 31,989</u>	<u>\$ 29,595</u>

## 7 OTHER NON-CURRENT LIABILITIES

	February 1, 2015	February 2, 2014
Deferred lease liability	\$ 20,837	\$ 17,994
Tenant inducements	22,294	17,521
	<u>\$ 43,131</u>	<u>\$ 35,515</u>

## 8 LONG-TERM DEBT AND CREDIT FACILITIES

In November 2013, the Company canceled the uncommitted senior secured demand revolving credit facility with Royal Bank of Canada that it had entered into in April 2007 and entered into unsecured demand revolving credit facilities with HSBC Bank Canada and Bank of America, N.A., Canada Branch for up to \$15,000 in the aggregate to support the issuance of letters of credit and to fund the working capital requirements of the Company. Borrowings under the uncommitted credit facilities are made on a when-and-as-needed basis at the discretion of the Company. These facilities were renewed for a one year period in November 2014.

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

At February 1, 2015 , aside from letters of credit and guarantees, there were no borrowings outstanding under these credit facilities. At February 1, 2015 , letters of credit totaling \$566 had been issued under these credit facilities.

## 9 STOCKHOLDERS' EQUITY

### *Authorized share capital*

The holders of the special voting stock are entitled to one vote for each share held. The special voting shares are not entitled to receive dividends or distributions or receive any consideration in the event of a liquidation, dissolution or wind-up. To the extent that exchangeable shares as described below are exchanged for common stock, a corresponding number of special voting shares will be cancelled without consideration.

The holders of the exchangeable shares have dividend and liquidation rights equivalent to those of holders of the common shares of the Company. The exchangeable shares can be converted on a one for one basis by the holder at any time into common shares of the Company plus a cash payment for any accrued and unpaid dividends. Holders of exchangeable shares are entitled to the same or economically equivalent dividend as declared on the common stock of the Company. The exchangeable shares are non-voting. The Company has the right to convert the exchangeable shares into common shares of the Company at any time after the earlier of July 26, 2047 , the date on which less than 4,188 exchangeable shares are outstanding or in the event of certain events such as a change in control.



***Purchase of non-controlling interest***

In August 2012, the Company purchased the non-controlling interest in lululemon athletica Australia Pty Ltd ("lululemon australia") for \$26,013 . The Company previously accounted for its 80 percent interest in lululemon australia as a subsidiary with non-controlling interest.

As a result of the transaction, the carrying amount of \$5,680 of the non-controlling interest was reduced to \$ nil . The Company's equity was reduced by \$20,333 , the excess of the purchase price over the net adjustments, as a charge to additional paid in capital.

**10 STOCK-BASED COMPENSATION**

***Stock-based compensation plans***

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

In June 2014, the Company's stockholders approved the adoption of the lululemon athletica inc. 2014 Equity Incentive Plan ("2014 Plan"). The 2014 Plan provides for awards in the form of stock options, stock appreciation rights, restricted stock purchase rights, restricted share bonuses, restricted stock units, performance shares, performance-based restricted stock units, cash-based awards, other stock-based awards, and deferred compensation awards to employees (including officers and directors who are also employees), consultants, and directors of the Company.

The awards granted under the 2007 Equity Incentive Plan ("2007 Plan") remain outstanding and continue to vest under their original conditions. No further awards will be granted under the 2007 Plan.

The Company has granted stock options, performance-based restricted stock units, restricted stock units and restricted shares. The majority of stock options granted to date have a four -year vesting period and vest at a rate of 25% each year on the anniversary date of the grant and generally expire seven years from the date of grant. Performance-based restricted stock units issued generally vest three years from the grant date and restricted shares vest one year from the grant date. Restricted stock units granted generally have a three -year vesting period and vest at a certain percentage each year on the anniversary date of the grant. To date, 199 restricted shares have been issued to certain directors of the Company.

The Company's policy is to issue shares from treasury upon the exercise of Company options, vesting of performance-based restricted stock units or restricted stock units, and granting of restricted shares.

Stock-based compensation expense charged to income for the plans was \$8,269 , \$10,087 and \$15,637 for the years ended February 1, 2015 , February 2, 2014 , and February 3, 2013 , respectively.

Total unrecognized compensation cost for all stock-based compensation plans was \$25,720 as at February 1, 2015 , which is expected to be recognized over a weighted-average period of 2.5 years , and was \$17,065 as at February 2, 2014 over a weighted-average period of 2.2 years .

***Employee stock purchase plan***

The Company's board of directors and stockholders approved the Company's Employee Share Purchase Plan ("ESPP") in September 2007. Contributions are made by eligible employees, subject to certain limits as defined in the ESPP, and the Company matches one-third of the contribution. The maximum number of shares available under the ESPP is 6,000 shares. During the year ended February 1, 2015 , there were 145 shares purchased under the ESPP in the open market.

**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 February 1, 2015 , February 2, 2014 , and February 3, 2013 , and changes during the years then ended is presented below:

	Stock Options		Performance-Based Restricted Stock Units		Restricted Shares		Restricted Stock Units	
	Number	Weighted-Average Exercise Price	Number	Weighted-Average Grant Date Fair Value	Number	Weighted-Average Grant Date Fair Value	Number	Weighted-Average Grant Date Fair Value
Balance at January 29, 2012	2,253	\$ 14.77	384	\$ 31.90	8	\$ 46.10	—	\$ —
Granted	84	75.52	156	74.46	16	63.97	—	—
Exercised/vested	874	12.60	—	—	8	46.10	—	—
Forfeited	86	20.43	49	31.81	—	—	—	—
Balance at February 3, 2013	1,377	\$ 19.51	491	\$ 45.47	16	\$ 63.97	—	\$ —
Granted	118	64.86	290	52.41	59	52.35	—	—
Exercised/vested	686	11.90	208	21.72	16	63.97	—	—
Forfeited	140	41.33	145	59.03	2	64.30	—	—
Balance at February 2, 2014	669	\$ 30.76	428	\$ 57.08	57	\$ 51.99	—	\$ —
Granted	447	48.16	321	49.67	34	39.00	195	45.76
Exercised/vested	158	18.50	217	40.04	29	56.28	—	—
Forfeited	79	59.09	80	61.34	—	—	9	45.92
Balance at February 1, 2015	879	\$ 39.25	452	\$ 59.27	62	\$ 42.86	186	\$ 45.75

A total of 15,180 of shares of our common stock have been authorized for future issuance under our 2014 Equity Incentive Plan.

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

The following table summarizes information about stock options outstanding and exercisable at February 1, 2015 :

Range of Exercise Prices	Outstanding			Exercisable		
	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)
\$0.25 – \$14.16	176	\$ 7.37	2.6	176	\$ 7.37	2.6
\$14.29 – \$39.56	140	25.96	2.9	132	25.27	2.8
\$44.20 – \$44.20	224	44.20	6.6	—	—	0.0
\$45.75 – \$52.59	191	52.02	5.9	13	46.97	3.6
\$53.44 – \$76.49	148	65.65	5.1	55	66.55	4.6
	879	\$ 39.25	4.8	376	\$ 23.73	3.0
Intrinsic value	\$ 24,211			\$ 16,220		

As of February 1, 2015, the unrecognized compensation cost related to these options was \$8,172, which is expected to be recognized over a weighted-average period of 3.1 years; and the total aggregate intrinsic value for stock options outstanding and exercisable was \$16,220. The weighted-average grant date fair value of options granted during the years ended February 1, 2015, February 2, 2014, and February 3, 2013 was \$17.69, \$31.96, and \$37.20, respectively.

The following table summarizes the intrinsic value of options exercised and full value awards vested during fiscal 2014, 2013, and 2012:

	<b>Intrinsic Value of Options Exercised and Full Value Awards Vested During the Fiscal Year Ended</b>		
	<b>February 1, 2015</b>	<b>February 2, 2014</b>	<b>February 3, 2013</b>
Stock Options	\$ 4,382	\$ 37,591	\$ 53,605
Performance-based restricted stock units	10,242	13,057	—
Restricted shares	1,567	1,070	474
Restricted stock units	—	—	—
	<u>\$ 16,191</u>	<u>\$ 51,718</u>	<u>\$ 54,079</u>

The fair value of each stock option granted is estimated on date of grant using the Black-Scholes model. The assumptions used to calculate the fair value of options granted are evaluated and revised, as necessary, to reflect market conditions and the Company's historical experience. The expected term of the options is based upon historical experience of similar awards, giving consideration for expectations of future employee behavior. Expected volatility is based upon the historical volatility of the Company's common stock for the period corresponding with the expected term of the options. The risk-free interest rate is based on the U.S. Treasury yield curve for the period corresponding with the expected term of the options. The Company began using its own historical data in fiscal 2014 to determine the assumptions; prior to fiscal 2014, the assumptions were based upon a review of a peer group of publicly traded apparel retailers. The following assumptions were used in calculating the fair value of stock options granted in fiscal 2014, 2013, and 2012:

	<b>Stock Options Granted During the Fiscal Year Ended</b>		
	<b>February 1, 2015</b>	<b>February 2, 2014</b>	<b>February 3, 2013</b>
Expected term	4.00 years	4.06 years	4.06 years
Expected volatility	45.93%	64.65%	64.65%
Risk-free interest rate	1.04%	0.72%	0.72%
Dividend yield	—%	—%	—%

## 11 EARNINGS PER SHARE

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

	<b>Fiscal Year Ended</b>		
	<b>February 1, 2015</b>	<b>February 2, 2014</b>	<b>February 3, 2013</b>
Net income attributable to lululemon athletica inc	\$ 239,033	\$ 279,547	\$ 270,556
Basic weighted-average number of shares outstanding	143,935	144,913	144,000
Effect of stock options assumed exercised	363	1,130	1,806
Diluted weighted-average number of shares outstanding	<u>144,298</u>	<u>146,043</u>	<u>145,806</u>
Basic earnings per share	\$ 1.66	\$ 1.93	\$ 1.88
Diluted earnings per share	\$ 1.66	\$ 1.91	\$ 1.85

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 fiscal years ended February 1, 2015, February 2, 2014 and February 3, 2013, 296, 57 and 45 stock options, respectively, were anti-dilutive to earnings and therefore have been excluded from the computation of diluted earnings per share.

On June 11, 2014, the Company's board of directors approved a program to repurchase shares of the Company's common stock up to an aggregate value of \$450,000. The common stock is to be repurchased in the open market at prevailing market prices, with the timing and actual number of shares to be repurchased depending upon market conditions and other factors. The repurchases will be made up until June 2016. During the fiscal year ended February 1, 2015, 3,657 shares were repurchased under the program at a total cost of \$147,431. Subsequent to February 1, 2015, and up to March 23, 2015, no shares were repurchased.

## 12 COMMITMENTS AND CONTINGENCIES

The Company has obligations under operating leases for its store and other retail locations, distribution centers, offices, and equipment. As of February 1, 2015, the lease terms of the various leases are from two to 10 years. A substantial number of the Company's leases include renewal options and certain of the Company's leases include rent escalation clauses, rent holidays and leasehold rental incentives. Certain of the Company's leases for store premises also include contingent rental payments based on sales volume. The Company is required to make deposits for rental payments pursuant to certain lease agreements, which have been included in other non-current assets. Minimum annual basic rent payments excluding other executory operating costs, pursuant to lease agreements are approximately as laid out in the table below. These amounts include commitment in respect of corporate-owned stores that have not yet opened but for which lease agreements have been executed.

	Payments Due by Fiscal Year						
	Total	2015	2016	2017	2018	2019	Thereafter
Operating leases (minimum rent)	\$ 395,483	\$ 82,282	\$ 81,697	\$ 72,660	\$ 57,190	\$ 43,625	\$ 58,029

Rent expense for the years ended February 1, 2015, February 2, 2014, and February 3, 2013 was \$105,989, \$95,574, and \$82,428, respectively, under operating lease agreements, consisting of minimum rental expense of \$68,598, \$61,552, and \$54,050, respectively, and contingent rental amounts of \$37,391, \$34,022, and \$28,378, respectively.

On January 11, 2015, the Company entered into a license and supply agreement with a license to a partner in the Middle East which grants it the right to operate lululemon athletica branded retail locations in the United Arab Emirates, Kuwait, Qatar, Oman and Bahrain for an initial term of five years. Under this arrangement the Company will be supplying the partner with lululemon products, training and other support. As at February 1, 2015 there were no franchised retail locations in operation.

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

On October 25, 2013, plaintiff Laborers' District Council Industry Pension Fund filed a books-and-records action in the Delaware Court of Chancery entitled *Laborers' District Council Construction Industry Pension Fund v. lululemon athletica inc.*, C.A. No. 9039-VCP (Del. Ch.) under 8 Del. C. Sec. 220 based on a demand letter it sent to the Company on or around August 8, 2013 to request certain lululemon records relating to the March 2013 sheer Luon issue, the Company's announcement that its then CEO, Christine Day, intended to resign, and certain stock trades executed by the then-Chairman of the Company's board of directors, Mr. Wilson, prior to the Company's announcement regarding its former CEO, Christine Day. The Court held a one-day trial on February 19, 2014, which took the form of an oral argument. On April 2, 2014, the Court rejected the majority of books and records sought by plaintiff and ordered the Company to produce a narrow category of documents relating to one trade made by the Company's former Chairman. On June 11, 2014, the Court consolidated this action with the action captioned *Hallandale Beach Police Officers and Firefighters' Personnel Retirement Fund v. lululemon athletica inc.*, C.A. No. 8522-VCP (Del. Ch.), which is described below. On June 13, 2014, Plaintiffs filed a Motion to Enforce the Court's April 2, 2014 Telephonic Rulings and Compel in Camera Inspection of Withheld and Redacted Documents. The Court held a hearing on the Motion to Enforce on December 1, 2014 and the judgment on the Motion remains pending. The Company believes there is no merit to the Motion.

On August 12, 2013 and August 23, 2013, plaintiffs Thomas Cauty and Tammy Federman filed shareholder derivative actions entitled *Cauty v. Day, et al.*, No. 13-CV-5629 (S.D.N.Y.) and *Federman v. Day, et al.*, No. 13-CV-5977 (S.D.N.Y.). Plaintiffs allege that they are acting on behalf of the Company and name as defendants current and former directors and certain

officers of the Company. On January 17, 2014, plaintiffs filed an amended complaint, operative in both actions. In that amended complaint, plaintiffs challenge certain public disclosures and conduct relating to the March 2013 sheer Luon issue, the June 2013 announcement regarding the resignation of the Company's former CEO, Christine Day, and certain stock trades executed by Mr. Wilson and Ms. Day in the months leading up to that announcement. Plaintiffs allege violations of Section 14(a) of the Securities Exchange Act and breach of fiduciary duty, unjust enrichment, abuse of control, and gross mismanagement. On April 9, 2014, the Court dismissed all of plaintiffs' claims due to plaintiffs' failure to make a pre-suit demand. On May 9, 2014, plaintiff in the Canty action filed a notice of appeal to the United States Court of Appeals for the Second Circuit. The Court of Appeals has scheduled an oral argument on the appeal on March 27, 2015. The Company believes there is no merit to the appeal.

On July 2, 2013, plaintiff Houssam Alkhoury filed a putative shareholder class action entitled *Alkhoury v. lululemon athletica inc.*, et al., No. 13-CV-4596 (S.D.N.Y.) against lululemon, a certain director and a certain officer of the Company (collectively, "Defendants"). On October 1, 2013, the Court appointed Louisiana Sheriffs' Pension & Relief Fund as Lead Plaintiff and on November 1, 2013, Lead Plaintiff filed a consolidated class action complaint on behalf of a proposed class of purchasers of lululemon stock between September 7, 2012 through June 11, 2013 (the "Complaint"). In its Complaint, Lead Plaintiff asserted causes of action under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 against Defendants based on certain public disclosures made by the Company relating to lululemon's product quality and the March 2013 sheer Luon issue. On January 15, 2014, Lead Plaintiff filed a consolidated amended class action complaint (the "Amended Complaint") on behalf of a proposed class of purchasers of lululemon stock between September 7, 2012 through January 10, 2014. In its Amended Complaint, Lead Plaintiff added new claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 based on certain of lululemon's public disclosures related to the Company's ongoing quality control improvements and the impact of those improvements on the Company's financial results. On April 18, 2014, the Court dismissed all of Lead Plaintiff's claims for failure to state a claim. Lead Plaintiff filed a notice of appeal of this decision and filed its appeal brief on August 1, 2014. The Company filed a reply on October 23, 2014, Lead Plaintiff filed a further reply on November 6, 2014, and a hearing has been scheduled for May 8, 2015. The Company believes there is no merit to the appeal.

On May 3, 2013, plaintiff Hallandale Beach Police Officers and Firefighters' Personnel Retirement Fund filed a books-and-records action in the Delaware Court of Chancery entitled *Hallandale Beach Police Officers and Firefighters' Personnel Retirement Fund v. lululemon athletica inc.*, C.A. No. 8522-VCP (Del. Ch.) under 8 Del. C. Sec. 220 based on a demand letter it sent to the Company on April 17, 2013 to request certain lululemon records relating to the March 2013 sheer Luon issue and revisions to the Company's executive bonus plan. The Company moved to dismiss the complaint on May 28, 2013. On June 14, 2013, plaintiff sent a supplemental demand letter that requested additional records from the Company relating to the Company's announcement that Christine Day intended to resign as the Company's Chief Executive Officer, and certain stock trades executed by the Company's then-Chairman, Mr. Wilson, prior to the Company's announcement regarding Ms. Day. On July 1, 2013, plaintiff filed an amended complaint to incorporate allegations relating to the June 14, 2013 supplemental demand letter. The Company moved to dismiss the amended complaint on August 15, 2013, and in response to this filing, plaintiffs served the Company with a new demand letter and then filed a second amended complaint on November 4, 2013. The Company moved to dismiss the second amended complaint on December 4, 2013 and the Court held argument on the motion on February 5, 2014. On April 2, 2014, the Court rejected the majority of books and records sought by plaintiff and ordered the Company to produce a narrow category of documents relating to one trade made by the Company's former Chairman. On June 11, 2014 the Court consolidated this action with the action captioned *Laborers' District Council Construction Industry Pension Fund v. lululemon athletica inc.*, C.A. No. 9039-VCP (Del. Ch.) which is described above. On June 13, 2014 Plaintiffs filed a Motion to Enforce the Court's April 2, 2014 Telephonic Rulings and Compel in Camera Inspection of Withheld and Redacted Documents. The Court held a hearing on the Motion to Enforce on December 1, 2014 and the judgment on the Motion remains pending. The Company believes there is no merit to the Motion.

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

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

### 13 RELATED PARTY BALANCES AND TRANSACTIONS

The Company entered into the following transactions with related parties, all of which were approved by the Company's Audit Committee in accordance with the Company's related party transaction policy:

	February 1, 2015	February 2, 2014	February 3, 2013
<b>Payments to related parties</b>			
Occupancy costs for one corporate-owned store	\$ 140	\$ 150	\$ 151
Consulting fees	\$ 289	\$ 409	\$ 295

The Company's founder, who was member of the Company's board of directors up until February 2, 2015, owns a retail space that the Company leases for one of its corporate-owned stores. Consulting fees were paid to a relative of the Company's founder.

### 14 SUPPLEMENTAL CASH FLOW INFORMATION

	February 1, 2015	February 2, 2014	February 3, 2013
Cash paid for income taxes	\$ 146,376	\$ 155,394	\$ 71,342
Interest paid	\$ 14	\$ 117	\$ 206

### 15 INCOME TAXES

The Company files income tax returns in the U.S., Canada and various foreign, state and provincial jurisdictions. The 2011 to 2013 tax years remain subject to examination by the U.S. federal and state tax authorities. The 2010 tax year is still open for certain state tax authorities. The 2007 to 2013 tax years remain subject to examination by Canadian tax authorities. The 2008 to 2013 tax years remain subject to examination by tax authorities in certain foreign jurisdictions. The Company's policy is to recognize interest expense and penalties related to income tax matters as part of other income (expense), net. At February 1, 2015, the Company does not have any significant accruals for interest related to unrecognized tax benefits or tax penalties.

The Company's intercompany transfer pricing policies are currently subject to audits by the various foreign tax jurisdictions. Although the Company believes that its intercompany transfer pricing policies and tax positions are fully supportable, the final determination of tax audits or potential tax disputes may be different from that which is reflected in the Company's income tax provisions and accruals.

The provision for income taxes consists of the following:

	February 1, 2015	February 2, 2014	February 3, 2013
Federal income tax at statutory rate	35.0 %	35.0 %	35.0 %
Non-deductible compensation expense	0.3	0.5	0.8
U.S. state taxes	1.2	1.2	1.2
Foreign tax rate differential	(6.8)	(7.1)	(7.7)
Tax on repatriated foreign earnings	8.8	—	—
Permanent and other	(0.9)	—	(0.5)
Provision for income taxes	<u>37.6 %</u>	<u>29.6 %</u>	<u>28.8 %</u>

The provision for income taxes in fiscal 2014 includes a tax expense of \$33.7 million to provide for U.S. income and applicable foreign withholding taxes on dividends of \$473.7 million which were distributed during fiscal 2014 by foreign subsidiaries to the U.S. parent entity to fund the share repurchase program.

The tax effects of temporary differences that give rise to significant portions of the deferred tax asset and deferred tax liability at February 1, 2015 and February 2, 2014 are presented below:

	February 1, 2015	February 2, 2014
Deferred income tax asset		
Net operating loss carryforward	\$ 8,803	\$ 5,097
Foreign tax credits	—	4,585
Property and equipment	(15,850)	(12,447)
Deferred lease liability	6,977	6,284
Stock-based compensation	4,662	3,758
Inventory	3,058	4,681
Tenant inducements	6,965	5,841
Other	1,403	501
	<u>16,018</u>	<u>18,300</u>
Deferred income tax liability		
Property and equipment	(5,027)	(5,122)
Other	1,394	1,145
	<u>(3,633)</u>	<u>(3,977)</u>
Net deferred income tax asset	<u>\$ 12,385</u>	<u>\$ 14,323</u>

The Company's current and deferred taxes from federal, state and foreign sources were as follows:

	February 1, 2015	February 2, 2014	February 3, 2013
Income before provision for income taxes			
Domestic	\$ 94,234	\$ 81,688	\$ 63,426
Foreign	288,901	315,438	317,970
Income before provision for income taxes	<u>383,135</u>	<u>397,126</u>	<u>381,396</u>
Current taxes			
Federal	\$ 54,172	\$ 27,818	\$ 22,598
State	8,203	4,017	3,795
Foreign	80,461	84,924	90,017
Total current	<u>142,836</u>	<u>116,759</u>	<u>116,410</u>
Deferred taxes			
Federal	\$ 7,763	\$ 266	\$ (5,667)
State	77	38	(786)
Foreign	(6,574)	516	8
Total deferred	<u>1,266</u>	<u>820</u>	<u>(6,445)</u>
Provision for income taxes	<u>\$ 144,102</u>	<u>\$ 117,579</u>	<u>\$ 109,965</u>

U.S. income and foreign withholding taxes have not been provided on approximately \$471,322 of cumulative undistributed earnings of foreign subsidiaries at February 1, 2015. The Company intends to reinvest these earnings for the foreseeable future. U.S. income taxes of approximately \$44,148 would be incurred if these earnings were distributed.



**16 SEGMENTED FINANCIAL INFORMATION**

The Company applies ASC Topic 280, *Segment Reporting* ("ASC 280"), in determining reportable segments for its financial statement disclosure. The Company reports segments based on the financial information it uses in managing its business. The Company's reportable segments are comprised of corporate-owned stores and direct to consumer. Direct to consumer represents sales from the Company's e-commerce websites. Outlet sales, showroom sales, sales to wholesale accounts, warehouse sales, and sales from temporary locations have been combined into the other segment. The Company has reviewed the classification of its expenses amongst its reportable segments and has updated the classification of some of these expenses. Accordingly, all prior year comparable information has been reclassified to conform to the current year classification. Information for these segments is detailed in the table below:

	Fiscal Year Ended		
	February 1, 2015	February 2, 2014	February 3, 2013
Net revenue			
Corporate-owned stores	\$ 1,348,225	\$ 1,228,999	\$ 1,090,181
Direct to consumer	321,180	263,083	197,255
Other	127,808	99,106	82,922
	<u>\$ 1,797,213</u>	<u>\$ 1,591,188</u>	<u>\$ 1,370,358</u>
Income from operations before general corporate expense			
Corporate-owned stores	\$ 356,589	\$ 372,267	\$ 373,607
Direct to consumer	132,877	109,999	85,128
Other	9,499	13,994	19,787
	498,965	496,260	478,522
General corporate expense	122,932	104,902	102,083
Income from operations	376,033	391,358	376,439
Other income (expense), net	7,102	5,768	4,957
Income before provision for income taxes	<u>\$ 383,135</u>	<u>\$ 397,126</u>	<u>\$ 381,396</u>
Capital expenditures			
Corporate-owned stores	\$ 76,894	\$ 60,233	\$ 64,863
Direct to consumer	9,952	5,953	4,881
Corporate	32,887	40,222	23,485
	<u>\$ 119,733</u>	<u>\$ 106,408</u>	<u>\$ 93,229</u>
Depreciation and amortization			
Corporate-owned stores	\$ 37,951	\$ 31,349	\$ 28,874
Direct to consumer	6,299	4,599	3,393
Corporate	14,114	13,120	10,733
	<u>\$ 58,364</u>	<u>\$ 49,068</u>	<u>\$ 43,000</u>

Intercompany amounts are excluded from the above table as they are not included in the materials reviewed by the Chief Operating Decision Maker.

The Company operates in five geographic areas—Canada, the United States, Australia and New Zealand, Europe, and Asia. Net revenue from these regions for the years ended February 1, 2015, February 2, 2014, and February 3, 2013 was as follows:

	February 1, 2015	February 2, 2014	February 3, 2013
United States	\$ 1,257,351	\$ 1,052,148	\$ 839,908
Canada	434,328	454,209	461,586
Outside of North America	105,534	84,831	68,864
	<u>\$ 1,797,213</u>	<u>\$ 1,591,188</u>	<u>\$ 1,370,358</u>

Long-lived assets by geographic area for the years ended February 1, 2015 and February 2, 2014 were as follows:

	February 1, 2015	February 2, 2014
United States	\$ 133,222	\$ 97,288
Canada	144,689	145,416
Outside of North America	18,097	12,899
	<u>\$ 296,008</u>	<u>\$ 255,603</u>

The Company's intangible assets and goodwill relate to the reporting segment consisting of corporate-owned stores.

## 17 QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following tables present the Company's unaudited quarterly results of operations and comprehensive income for each of the eight fiscal quarters in the periods ended February 1, 2015 and February 2, 2014. The following tables should be read in conjunction with the Company's audited consolidated financial statements and related notes appearing elsewhere in this Form 10-K. The Company has prepared the information below on a basis consistent with its audited consolidated financial statements and has included all adjustments, consisting of normal recurring adjustments, which, in the opinion of the Company's management, are necessary to fairly present its operating results for the quarters presented. The Company's historical unaudited quarterly results of operations are not necessarily indicative of results for any future quarter or for a full year.

	Fiscal 2014				Fiscal 2013			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter

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

### Consolidated statements of operations and comprehensive income:

Net revenue	\$ 602,491	\$ 419,396	\$ 390,708	\$ 384,618	\$ 520,993	\$ 379,900	\$ 344,513	\$ 345,782
Cost of goods sold	292,450	208,308	193,401	188,874	242,203	175,294	158,558	175,057
Gross profit	310,041	211,088	197,307	195,744	278,790	204,606	185,955	170,725
Selling, general and administrative expenses	152,853	129,932	129,419	125,943	124,643	112,270	106,969	104,836
Income from operations	157,188	81,156	67,888	69,801	154,147	92,336	78,986	65,889
Other income (expense), net	1,755	1,814	1,890	1,643	1,519	1,453	1,295	1,501
Income before provision for income taxes	158,943	82,970	69,778	71,444	155,666	93,789	80,281	67,390
Provision for income taxes	48,090	22,519	21,030	52,463	45,974	27,678	23,816	20,111
Net income	<u>\$ 110,853</u>	<u>\$ 60,451</u>	<u>\$ 48,748</u>	<u>\$ 18,981</u>	<u>\$ 109,692</u>	<u>\$ 66,111</u>	<u>\$ 56,465</u>	<u>\$ 47,279</u>

### Other comprehensive (loss) income:

Foreign currency translation adjustment	(92,137)	(29,256)	3,664	12,390	(53,657)	(9,153)	(21,901)	(4,447)
Comprehensive income	<u>\$ 18,716</u>	<u>\$ 31,195</u>	<u>\$ 52,412</u>	<u>\$ 31,371</u>	<u>\$ 56,035</u>	<u>\$ 56,958</u>	<u>\$ 34,564</u>	<u>\$ 42,832</u>

Basic earnings per share	\$ 0.78	\$ 0.42	\$ 0.34	\$ 0.13	\$ 0.75	\$ 0.46	\$ 0.39	\$ 0.33
Diluted earnings per share	\$ 0.78	\$ 0.42	\$ 0.33	\$ 0.13	\$ 0.75	\$ 0.45	\$ 0.39	\$ 0.32

The Company's quarterly results of operations have varied in the past and are likely to do so again in the future. As such, the Company believes that comparisons of its quarterly results of operations should not be relied upon as an indication of the Company's future performance.

## **ITEM 9A. CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, as of the end of the period covered by this report, or the Evaluation Date. Based upon the evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the Evaluation Date. Disclosure controls and procedures are controls and procedures designed to reasonably ensure that information required to be disclosed in our reports filed under the Exchange Act, such as this report, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include controls and procedures designed to reasonably ensure that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

### **Inherent Limitations Over Internal Controls**

Our internal control over financial reporting is designed to provide reasonable assurances regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements. Management, including our principal executive officer and principal financial officer, does not expect that our internal controls will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource limitations on all control systems, no evaluation of internal controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Also, any evaluation of the effectiveness of controls in future periods are subject to the risk that those internal controls may become inadequate because of changes in business conditions, or that the degree of compliance with the policies and procedures may deteriorate.

### **Management's Annual Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15 (f) under the Securities Exchange Act of 1934, as amended). Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria set forth in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. Based on this evaluation, management concluded that we maintained effective internal control over financial reporting as of February 1, 2015. The effectiveness of our internal control over financial reporting as of February 1, 2015 has been audited by PricewaterhouseCoopers LLP our independent registered public accounting firm, as stated in their report in Item 8 of Part II of this Form 10-K.

### **Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting during the fourth quarter of the fiscal year ended February 1, 2015, which were identified in connection with management's evaluation required by Rules 13a-15(d) and 15d-15(d) under the Securities Exchange Act of 1934, as amended, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART III

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this item concerning our directors, director nominees and Section 16 beneficial ownership reporting compliance is incorporated by reference to our definitive Proxy Statement for our 2015 Annual Meeting of Stockholders under the captions "Election of Directors," "Section 16(a) Beneficial Ownership Reporting Compliance," "Executive Officers" and "Corporate Governance."

We have adopted a written code of business conduct and ethics, which applies to all of our directors, officers and employees, including our principal executive officer and our principal financial and accounting officer. Our Code of Business Conduct and Ethics is available on our website, [www.lululemon.com](http://www.lululemon.com), and can be obtained by writing to Investor Relations, lululemon athletica inc., 1818 Cornwall Avenue, Vancouver, British Columbia, Canada V6J 1C7 or by sending an email to [investors@lululemon.com](mailto:investors@lululemon.com). The information contained on our website is not incorporated by reference into this Annual Report on Form 10-K. Any amendments, other than technical, administrative or other non-substantive amendments, to our Code of Business Conduct and Ethics or waivers from the provisions of the Code of Business Conduct and Ethics for our principal executive officer and our principal financial and accounting officer will be disclosed on our website within four business days following the date of such amendment or waiver.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this item is incorporated by reference to our 2015 Proxy Statement under the captions "Executive Compensation" and "Executive Compensation Tables."

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this item is incorporated by reference to our 2015 Proxy Statement under the caption "Principal Stockholders and Stock Ownership by Management."

**Equity Compensation Plan Information (as of February 1, 2015 )**

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights <sup>(1)</sup> (A)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights <sup>(2)</sup> (B)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (A)) <sup>(3)</sup> (C)
Equity compensation plans approved by stockholders	1,516,818	\$ 39.25	20,458,987
Equity compensation plans not approved by stockholders	—	—	—
<b>Total</b>	<b>1,516,818</b>	<b>\$ 39.25</b>	<b>20,458,987</b>

<sup>(1)</sup> This amount represents the following: (a) 879,282 shares subject to outstanding options, (b) 451,503 shares subject to outstanding performance-based restricted stock units, and (c) 186,033 shares subject to outstanding restricted stock units. The options, performance-based restricted stock units and restricted stock units are all under our 2014 Equity Incentive Plan. Restricted shares outstanding under our 2014 Equity Incentive Plan have already been reflected in our total outstanding common stock balance.

<sup>(2)</sup> The weighted-average exercise price is calculated solely on the exercise prices of the outstanding options and does not reflect the shares that will be issued upon the vesting of outstanding awards of performance-based restricted stock units and restricted stock units, which have no exercise price.

<sup>(3)</sup> This includes (a) 15,180,132 shares of our common stock available for future issuance pursuant to our 2014 Equity Incentive Plan and (b) 5,278,855 shares of our common stock available for future issuance pursuant to our Employee Share Purchase Plan. The number of shares remaining available for future issuance under our 2014 Equity Incentive Plan is reduced by 1.7 shares for each award other than stock options granted and by one share for each stock option award granted. Outstanding awards that expire or are canceled without having been exercised or settled in full are available for issuance again under our 2014 Equity Incentive Plan and shares that are withheld in satisfaction of tax withholding obligations for full value awards are also again available for issuance. No further awards may be issued under the predecessor plan, our 2007 Equity Incentive Plan.

**ITEM 13. *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE***

The information required by this item is incorporated by reference to our 2015 Proxy Statement under the captions "Certain Relationships and Related Party Transactions" and "Corporate Governance."

**ITEM 14. *PRINCIPAL ACCOUNTANT FEES AND SERVICES***

The information required by this item is incorporated by reference to our 2015 Proxy Statement under the caption "Fees for Professional Services."

## PART IV

## ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULE

(a) Documents filed as part of this report:

1. *Financial Statements.* The financial statements as set forth under Item 8 of this Annual Report on Form 10-K are incorporated herein.
2. *Financial Statement Schedule.*

**Schedule II**  
**Valuation and Qualifying Accounts**

<u>Description</u>	<u>Balance at Beginning of Year</u>	<u>Charged to Costs and Expenses</u>	<u>Write-offs Net of Recoveries</u>	<u>Balance at End of Year</u>
	(In thousands)			
<b>Shrink Provision on Finished Goods</b>				
For the year ended February 3, 2013	\$ (1,126)	\$ (2,823)	\$ 2,949	\$ (1,000)
For the year ended February 2, 2014	(1,000)	(3,462)	3,364	(1,098)
For the year ended February 1, 2015	(1,098)	(3,564)	3,338	(1,324)
<b>Slow Moving and Obsolescence Provision on Finished Goods and Raw Materials</b>				
For the year ended February 3, 2013	\$ (1,086)	\$ (6,901)	\$ 2,737	\$ (5,250)
For the year ended February 2, 2014	(5,250)	(22,449)	22,206	(5,493)
For the year ended February 1, 2015	(5,493)	(2,566)	4,454	(3,605)
<b>Damage Provision on Finished Goods</b>				
For the year ended February 3, 2013	\$ (283)	\$ (3,727)	\$ 3,491	\$ (519)
For the year ended February 2, 2014	(519)	(6,327)	5,935	(911)
For the year ended February 1, 2015	(911)	(8,064)	7,907	(1,068)
<b>Sales Allowances</b>				
For the year ended February 3, 2013	\$ 914	\$ 914	\$ —	\$ 1,828
For the year ended February 2, 2014	1,828	(173)	—	1,655
For the year ended February 1, 2015	1,655	672	—	2,327
<b>Valuation Allowance on Deferred Income Taxes</b>				
For the year ended February 3, 2013	\$ (91)	\$ —	\$ —	\$ (91)
For the year ended February 2, 2014	(91)	—	—	(91)
For the year ended February 1, 2015	(91)	—	—	(91)

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3. Exhibits

		<b>Exhibit Index</b>				
Exhibit No.	Exhibit Title	Filed Herewith	Incorporated by Reference			
			Form	Exhibit No.	File No.	Filing Date
3.1	Amended and Restated Certificate of Incorporation of lululemon athletica inc.		8-K	3.1	001-33608	8/8/2007
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation of lululemon athletica inc.		8-K	3.1	001-33608	7/1/2011
3.3	Fourth Amended and Restated Bylaws of lululemon athletica inc.		8-K	3.1	001-33608	9/11/2014
4.1	Form of Specimen Stock Certificate of lululemon athletica inc.		S-1/A	4.1	001-33608	7/9/2007
10.1*	lululemon athletica inc. 2014 Equity Incentive Plan		8-K	10.1	001-33608	6/13/2014
10.2*	Form of Non-Qualified Stock Option Agreement (standard)		8-K	10.1	001-33608	12/11/2014
10.3*	Form of Non-Qualified Stock Option Agreement (for outside directors)		10-Q	10.2	001-33608	12/6/2012
10.4*	Form of Non-Qualified Stock Option Agreement (with clawback provision)		8-K	10.2	001-33608	12/11/2014
10.5*	Form of Non-Qualified Stock Option Agreement (for international employees)		8-K	10.3	001-33608	12/11/2014
10.6*	Form of Notice of Grant of Performance Shares and Performance Shares Agreement (standard)		8-K	10.4	001-33608	12/11/2014
10.7*	Form of Notice of Grant of Performance Shares and Performance Shares Agreement (with clawback provision)		8-K	10.5	001-33608	12/11/2014
10.8*	Form of Notice of Grant of Performance Shares and Performance Shares Agreement (for international employees)		8-K	10.6	001-33608	12/11/2014
10.9*	Form of Notice of Grant of Restricted Stock Units and Restricted Stock Units Agreement (standard)		8-K	10.7	001-33608	12/11/2014
10.10*	Form of Notice of Grant of Restricted Stock Units and Restricted Stock Units Agreement (with clawback provision)	X				
10.11*	Form of Notice of Grant of Restricted Stock Units and Restricted Stock Units Agreement (for international employees)		8-K	10.8	001-33608	12/11/2014
10.12*	Form of Notice of Grant of Restricted Stock Units and Restricted Stock Units Agreement (no tolling of vesting, standard)		8-K	10.9	001-33608	12/11/2014
10.13*	Form of Notice of Grant of Restricted Stock Units and Restricted Stock Units Agreement (no tolling of vesting, with		8-K	10.10	001-33608	12/11/2014



clawback provision)

10.14*	Form of Notice of Grant of Restricted Stock Units and Restricted Stock Units Agreement (no tolling of vesting, for international employees)	8-K	10.11	001-33608	12/11/2014
10.15*	Form of Restricted Stock Award Agreement	8-K	10.12	001-33608	12/11/2014

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Exhibit No.	Exhibit Title	Filed Herewith	Incorporated by Reference			
			Form	Exhibit No.	File No.	Filing Date
10.16*	Amended and Restated LIPO Investments (USA), Inc. Option Plan and form of Award Agreement		S-1	10.3	333-142477	5/1/2007
10.17	Amended and Restated Registration Rights Agreement dated December 12, 2012 between lululemon athletica inc. and the parties named therein		8-K	10.14	001-33608	12/18/2012
10.18	Exchange Trust Agreement dated July 26, 2007 between lululemon athletica inc., Lulu Canadian Holding, Inc. and Computershare Trust Company of Canada		10-Q	10.5	001-33608	9/10/2007
10.19	Exchangeable Share Support Agreement dated July 26, 2007 between lululemon athletica inc., Lululemon Callco ULC and Lulu Canadian Holding, Inc.		10-Q	10.6	001-33608	9/10/2007
10.20	Amended and Restated Declaration of Trust for Forfeitable Exchangeable Shares dated July 26, 2007, by and among the parties named therein		10-Q	10.7	001-33608	9/10/2007
10.21	Amended and Restated Arrangement Agreement dated as of June 18, 2007, by and among the parties named therein (including Plan of Arrangement and Exchangeable Share Provisions)		S-1/A	10.14	333-142477	7/9/2007
10.22	Form of Indemnification Agreement between lululemon athletica inc. and its directors and certain officers		S-1/A	10.16	333-142477	7/9/2007
10.23	Purchase and Sale Agreement between 2725312 Canada Inc and lululemon athletica inc., dated December 22, 2010		10-K	10.12	001-33608	3/17/2011
10.24*	Outside Director Compensation Plan	X				
10.25*	lululemon athletica inc. Employee Share Purchase Plan		10-Q	10.3	001-33608	11/29/2007
10.26*	Executive Bonus Plan of lululemon athletica inc.		8-K	10.1	001-33608	3/19/2013
10.27*	Executive Employment Agreement, dated effective as of December 1, 2013 between lululemon athletica inc. and Laurent Potdevin		8-K	10.1	001-33608	12/11/2013
10.28*	Amended Executive Employment Agreement, effective as of October 29, 2012 between lululemon athletica canada inc. and John E. Currie		10-K	10.20	001-33608	3/21/2013
10.29*	Executive Employment Agreement with Stuart C. Haselden, dated effective as of January 2, 2015		8-K	10.1	001-33608	1/7/2015
10.30*	Executive Employment Agreement, effective as of October 15, 2013 between lululemon athletica inc. and Tara Poseley		10-Q	10.1	001-33608	12/12/2013
10.31*	Executive Employment Agreement, effective as of March 24, 2010 between lululemon athletica canada inc. and Delaney Schweitzer		10-K	10.23	001-33608	3/25/2010

10.32*	Executive Employment Agreement, effective as of November 24, 2014 between lululemon athletica inc. and Scott (Duke) Stump	10-Q	10.13	001-33608	12/11/2014
21.1	Subsidiaries of lululemon athletica inc.	X			
23.1	Consent of PricewaterhouseCoopers LLP	X			

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Exhibit No.	Exhibit Title	Filed Herewith	Incorporated by Reference			
			Form	Exhibit No.	File No.	Filing Date
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
32.1**	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					
101	The following financial statements from the Company's 10-K for the fiscal year ended February 1, 2015, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations and Comprehensive Income, (iii) Consolidated Statements of Stockholders' Equity, (iv) Consolidated Statements of Cash Flows (v) Notes to the Consolidated Financial Statements	X				

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

\*\* Furnished herewith.



/s/ THOMAS G. STEMBERG

Director

March 25, 2015

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**Thomas G. Stemberg**

/s/ EMILY WHITE

Director

March 25, 2015

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**Emily White**

## Exhibit Index

Exhibit No.	Exhibit Title	Filed Herewith	Incorporated by Reference			
			Form	Exhibit No.	File No.	Filing Date
3.1	Amended and Restated Certificate of Incorporation of lululemon athletica inc.		8-K	3.1	001-33608	8/8/2007
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation of lululemon athletica inc.		8-K	3.1	001-33608	7/1/2011
3.3	Fourth Amended and Restated Bylaws of lululemon athletica inc.		8-K	3.1	001-33608	9/11/2014
4.1	Form of Specimen Stock Certificate of lululemon athletica inc.		S-1/A	4.1	001-33608	7/9/2007
10.1*	lululemon athletica inc. 2014 Equity Incentive Plan		8-K	10.1	001-33608	6/13/2014
10.2*	Form of Non-Qualified Stock Option Agreement (standard)		8-K	10.1	001-33608	12/11/2014
10.3*	Form of Non-Qualified Stock Option Agreement (for outside directors)		10-Q	10.2	001-33608	12/6/2012
10.4*	Form of Non-Qualified Stock Option Agreement (with clawback provision)		8-K	10.2	001-33608	12/11/2014
10.5*	Form of Non-Qualified Stock Option Agreement (for international employees)		8-K	10.3	001-33608	12/11/2014
10.6*	Form of Notice of Grant of Performance Shares and Performance Shares Agreement (standard)		8-K	10.4	001-33608	12/11/2014
10.7*	Form of Notice of Grant of Performance Shares and Performance Shares Agreement (with clawback provision)		8-K	10.5	001-33608	12/11/2014
10.8*	Form of Notice of Grant of Performance Shares and Performance Shares Agreement (for international employees)		8-K	10.6	001-33608	12/11/2014
10.9*	Form of Notice of Grant of Restricted Stock Units and Restricted Stock Units Agreement (standard)		8-K	10.7	001-33608	12/11/2014
10.10*	Form of Notice of Grant of Restricted Stock Units and Restricted Stock Units Agreement (with clawback provision)	X				
10.11*	Form of Notice of Grant of Restricted Stock Units and Restricted Stock Units Agreement (for international employees)		8-K	10.8	001-33608	12/11/2014
10.12*	Form of Notice of Grant of Restricted Stock Units and Restricted Stock Units Agreement (no tolling of vesting, standard)		8-K	10.9	001-33608	12/11/2014
10.13*	Form of Notice of Grant of Restricted Stock Units and Restricted Stock Units Agreement (no tolling of vesting, with clawback provision)		8-K	10.10	001-33608	12/11/2014



10.14*	Form of Notice of Grant of Restricted Stock Units and Restricted Stock Units Agreement (no tolling of vesting, for international employees)	8-K	10.11	001-33608	12/11/2014
10.15*	Form of Restricted Stock Award Agreement	8-K	10.12	001-33608	12/11/2014
10.16*	Amended and Restated LIPO Investments (USA), Inc. Option Plan and form of Award Agreement	S-1	10.3	333-142477	5/1/2007

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Exhibit No.	Exhibit Title	Filed Herewith	Incorporated by Reference			
			Form	Exhibit No.	File No.	Filing Date
10.17	Amended and Restated Registration Rights Agreement dated December 12, 2012 between lululemon athletica inc. and the parties named therein		8-K	10.14	001-33608	12/18/2012
10.18	Exchange Trust Agreement dated July 26, 2007 between lululemon athletica inc., Lulu Canadian Holding, Inc. and Computershare Trust Company of Canada		10-Q	10.5	001-33608	9/10/2007
10.19	Exchangeable Share Support Agreement dated July 26, 2007 between lululemon athletica inc., Lululemon Callco ULC and Lulu Canadian Holding, Inc.		10-Q	10.6	001-33608	9/10/2007
10.20	Amended and Restated Declaration of Trust for Forfeitable Exchangeable Shares dated July 26, 2007, by and among the parties named therein		10-Q	10.7	001-33608	9/10/2007
10.21	Amended and Restated Arrangement Agreement dated as of June 18, 2007, by and among the parties named therein (including Plan of Arrangement and Exchangeable Share Provisions)		S-1/A	10.14	333-142477	7/9/2007
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\* Denotes a compensatory plan, contract or arrangement, in which our directors or executive officers may participate.

\*\* Furnished herewith.

LULULEMON ATHLETICA INC.  
NOTICE OF GRANT OF RESTRICTED STOCK UNITS

The Participant has been granted an award of Restricted Stock Units (the " Award " ) pursuant to the lululemon athletica inc. 2014 Equity Incentive Plan (the " Plan " ) and the Restricted Stock Units Agreement attached hereto (the " Agreement " ), as follows:

Participant: \_\_\_\_\_ Employee ID: \_\_\_\_\_

Grant Date: \_\_\_\_\_ Grant No.: \_\_\_\_\_

Target Number of Units: \_\_\_\_\_ , subject to adjustment as provided by the Agreement.

Settlement Date: Except as otherwise provided in the Agreement or a separate written employment or other agreement between a Participating Company and the Participant, as soon as practicable on or after each Unit Vesting Date (or such other date on which the Award vests pursuant to Sections 4 or 7 of the Agreement), but in any event no later than seventy four (74) days following such date.

Vested Units: Except as provided in the Restricted Stock Units Agreement or a separate written employment or other agreement between a Participating Company and the Participant and provided that the Participant's Service has not terminated prior to the applicable Unit Vesting Date set forth below, the percentage of the Total Number of Units which become Vested Units on each Unit Vesting Date Shall be as follows:

Unit Vesting Date	Percentage of Total Number of Units Vesting:
[Insert vesting dates]	[Insert vesting percentages]

Recoupment Policy: The Award is subject to the terms and conditions of the Company's Policy for Recoupment of Incentive Compensation, as amended from time to time (the " Clawback Policy " ).

By their signatures below, the Company and the Participant agree that the Award is governed by this Notice and by the provisions of the Plan, the Agreement, and the Clawback Policy, all of which are made a part of this document. The Participant acknowledges receipt of a copy of the Plan, the Agreement, the prospectus for the Plan, and the Clawback Policy represents that the Participant has read and is familiar with the provisions of the Plan and the Agreement, and hereby accepts the Award subject to all of their terms and conditions.

LULULEMON ATHLETICA INC.

By: \_\_\_\_\_  
\_\_\_\_\_

Address: 1818 Cornwall Avenue  
Vancouver, British Columbia  
Canada, V6J 1C7

Attachments: Restricted Stock Units Agreement  
Policy for Recoupment of Incentive Compensation

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**LULULEMON ATHLETICA INC.**  
**RESTRICTED STOCK UNITS AGREEMENT**

lululemon athletica inc. has granted to the Participant named in the *Notice of Grant of Restricted Stock Units* (the “**Grant Notice**”) to which this Restricted Stock Units Agreement (the “**Agreement**”) is attached an Award consisting of Restricted Stock Units subject to the terms and conditions set forth in the Grant Notice and this Agreement. The Award has been granted pursuant to the lululemon athletica inc. 2014 Equity Incentive Plan (the “**Plan**”), as amended to the Grant Date, the provisions of which are incorporated herein by reference. By signing the Grant Notice, the Participant: (a) acknowledges receipt of and represents that the Participant has read and is familiar with the Grant Notice, this Agreement, the Plan, and a prospectus for the Plan (the “**Plan Prospectus**”) in the form most recently prepared in connection with the registration with the Securities and Exchange Commission of the shares issuable pursuant to the Plan, (b) accepts the Award subject to all of the terms and conditions of the Grant Notice, this Agreement and the Plan, and (c) agrees to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Grant Notice, this Agreement or the Plan.

The Participant also acknowledges and agrees that the purpose of this grant of Restricted Stock Units is to compensate the Participant in exchange for contributions made while actively at work. Accordingly, vesting will be deferred for periods of leave in accordance with Section 4.2 below.

**1. DEFINITIONS AND CONSTRUCTION.**

1.1 **Definitions** . Unless otherwise defined herein, capitalized terms shall have the meanings assigned to such terms in the Grant Notice or the Plan.

(a) “**Dividend Equivalent Units**” mean additional Restricted Stock Units credited pursuant to the Dividend Equivalent Right described in Section 3.3.

(b) “**Units**” means the Restricted Stock Units originally granted pursuant to the Award and the Dividend Equivalent Units credited pursuant to the Award, as both shall be adjusted from time to time pursuant to Section 8.

1.2 **Construction** . Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of this Agreement. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term “or” is not intended to be exclusive, unless the context clearly requires otherwise.

**2. ADMINISTRATION.**

All questions of interpretation concerning the Grant Notice, this Agreement and the Plan shall be determined by the Committee. All determinations by the Committee shall be final and binding upon all persons having an interest in the Award. Any executive officer of the Company shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, or election which is the responsibility of or which is allocated to the Company herein, provided such executive officer has apparent authority with respect to such matter, right, obligation, or election. The Company intends that the Award comply with, or be exempt from, Section 409A (including any amendments or replacements of such section), and the provisions of this Agreement shall be construed and administered in a manner consistent with this intent.

**3. THE AWARD.**

3.1 **Grant of Units**. On the Grant Date, the Participant shall acquire, subject to the provisions of this Agreement, the Total Number of Units set forth in the Grant Notice, subject to adjustment as provided in Section 3.3 and 8. Each Unit represents a right to receive on a date determined in accordance with the Grant Notice and this Agreement one (1) share of Stock.

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3.2 **No Monetary Payment Required** . The Participant is not required to make any monetary payment (other than applicable tax withholding, if any) as a condition to receiving the Units or Stock issued upon settlement of the Units, the consideration for which shall be past Services actually rendered and/or future Services to be rendered a Participating Company. Notwithstanding the foregoing, if required by applicable law, the Participant shall furnish consideration in the form of cash or past Services having a value not less than the par value of the Stock issued upon settlement of the Units.

3.3 **Dividend Equivalent Units**. This Agreement also constitutes the award of a Dividend Equivalent Right to the Participant. On the date that the Company pays a cash dividend to holders of Stock generally, the Participant shall be credited with a number of additional whole Dividend Equivalent Units determined by dividing (a) the product of (i) the dollar amount of the cash dividend paid per share of Stock such date and (ii) the sum of the Total Number of Units and the number of Dividend Equivalent Units previously credited to the Participant pursuant to the Award and which have not been settled or forfeited as of such date, by (b) the Fair Market Value per share of Stock on such date. Any resulting fractional Dividend Equivalent Units shall be rounded down to the nearest whole number. Such additional Dividend Equivalent Units shall be subject to the same terms and conditions and shall be settled or forfeited in the same manner and at the same time as the Units originally subject to the Award with respect to which they have been credited.

#### 4. **VESTING OF UNITS.**

4.1 **In General**. Except as provided by this Section 4 and Section 7, the Units shall vest and become Vested Units as provided in the Grant Notice.

4.2 **Effect of Leave of Absence**. Unless otherwise required by law, in the event that the Participant has taken in excess of thirty (30) days in a leave or leaves of absence during the period beginning on the Grant Date and ending on the applicable Unit Vesting Date, the applicable Unit Vesting Date will be deferred for a period of time equal to the duration of such leave or leaves of absence.

4.3 **Termination for Any Reason Other Than Death or Disability**. In the event of the termination of the Participant's Service for any reason other than death or Disability (whether voluntary or involuntary and with or without Cause) prior to a Unit Vesting Date, the Participant shall forfeit and the Company shall automatically reacquire all of the unvested Units subject to the Award. The Participant shall not be entitled to any payment for such forfeited Units.

4.4 **Termination by Reason of Death**. In the event of the death prior to any Unit Vesting Date, then on the date of such death unvested Units shall become Vested Units.

4.5 **Termination by Reason of Disability** . In the event of the termination of the Participant's Service by reason of Disability prior to any Unit Vesting Date, then on the date of such termination all unvested Units shall become Vested Units.

4.6 **Forfeiture For Violations of Non-Compete and/or Non-Solicitation Agreements**. Notwithstanding anything above to the contrary, if, during the Participant's Service, or following the Participant's termination of Service, the Participant violates any provision contained in a written service or other agreement applicable to the Participant (or any other written policy of the Participating Company Group of general application) relating to the prohibition of the Participant from engaging in activities which would violate any legally enforceable non-compete or non-solicitation clause or rule prior to any Unit Vesting Date, then all of the Units shall be treated as unvested and forfeited as of the date on which such violation occurs. In addition, effective upon any violation described above, any Units which have become Vested Units during the Participant's Service, or following the Participant's termination of Service shall be forfeited by the Participant and any shares of Stock retained by such Participant shall be returned to the Company or, if the Participant no longer retains such shares because the Participant has disposed of the shares (including, but not limited to shares subject to Section 6.2), then the Participant shall remit the Fair Market Value of the shares on the date the Participant disposed of them.

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## 5. SETTLEMENT OF THE AWARD.

5.1 **Issuance of Stock.** Subject to the provisions of Section 5.3 below, the Company shall issue to the Participant on the Settlement Date with respect to each Vested Unit one (1) share of Stock. Shares of Stock issued in settlement of Units shall be subject to any restrictions as may be required pursuant to Section 5.3, Section 6, or the Trading Compliance Policy.

5.2 **Beneficial Ownership of Shares of Stock; Certificate Registration.** The Participant hereby authorizes the Company, in its sole discretion, to deposit for the benefit of the Participant with any broker with which the Participant has an account relationship of which the Company has notice any or all shares of Stock acquired by the Participant pursuant to the settlement of the Award. Except as otherwise provided by this Section 5.2, a certificate for the shares of Stock as to which the Award is settled shall be registered in the name of the Participant, or, if applicable, in the names of the heirs of the Participant. In addition, shares of Stock settled as a result of this Agreement may be held in book entry form.

5.3 **Restrictions on Grant of the Award and Issuance of Shares of Stock.** The grant of the Award and issuance of shares of Stock upon settlement of the Award shall be subject to compliance with all applicable requirements of federal, state law or foreign law with respect to such securities. No share of Stock may be issued hereunder if the issuance of such shares would constitute a violation of any applicable federal, state or foreign securities laws or other law or regulations or the requirements of any stock exchange or market system upon which the Stock may then be listed. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance of any shares of Stock subject to the Award shall relieve the Company of any liability in respect of the failure to issue such shares as to which such requisite authority shall not have been obtained. As a condition to the settlement of the Award, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

5.4 **Fractional Shares.** The Company shall not be required to issue fractional shares of Stock upon the settlement of the Award. Any fractional share resulting from the determination of the number of Vested Units shall be rounded down to the nearest whole number.

## 6. TAX MATTERS.

6.1 **In General.** At the time the Grant Notice is executed, or at any time thereafter as requested by a Participating Company, the Participant hereby authorizes withholding from payroll and any other amounts payable to the Participant, and otherwise agrees to make adequate provision for, any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Company, if any, which arise in connection with the Award or the issuance of shares of Stock in settlement thereof. The Company shall have no obligation to process the settlement of the Award or to deliver shares of Stock until the tax withholding obligations as described in this Section have been satisfied by the Participant.

6.2 **Withholding in Shares.** Subject to applicable law, the Company may require the Participant to satisfy its tax withholding obligations by deducting from the shares of Stock otherwise deliverable to the Participant in settlement of the Award a number of whole shares of Stock having a fair market value, as determined by the Company as of the date on which the tax withholding obligations arise, not in excess of the amount of such tax withholding obligations determined by the applicable minimum statutory withholding rates.

## 7. CHANGE IN CONTROL.

7.1 **Acceleration of Vesting Upon a Change in Control .** In the event of the consummation of a Change in Control prior to any Unit Vesting Date, the surviving, continuing, successor, or purchasing entity or parent thereof, as the case may be (the "*Acquiror*"), may assume or continue the Company's rights and obligations

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with respect to outstanding Awards or substitute for outstanding Awards substantially equivalent rights with respect to the Acquiror's stock. For purposes of this Section 7.1, an Award shall be deemed assumed if, following the Change in Control, the Award confers the right to receive, for each Unit subject to the Award immediately prior to the Change in Control, the consideration (whether stock, cash, other securities or property or a combination thereof) to which a holder of a share of Stock of the Company on the effective date of the Change in Control was entitled for each Unit subject to an Award. In the event that the Acquiror elects not to assume, continue or substitute for the outstanding Awards in connection with a Change in Control, the vesting of 100% of the then unvested Units shall be accelerated in full and such Units shall be deemed Vested Units effective as of the date of the Change in Control, provided that the Participant's Service has not terminated prior to the Change in Control. In settlement of the Award, the Company shall issue to the Participant one (1) share of Stock for each Vested Unit determined in accordance with this Section 7.1. The vesting of Units and settlement of the Award that was permissible solely by reason of this Section 7.1 shall be conditioned upon the consummation of the Change in Control. Notwithstanding the foregoing, the Committee may, in its discretion, determine that upon a Change in Control, each Award outstanding immediately prior to the Change in Control shall be canceled in exchange for payment with respect to 100% of the Units which are subject to accelerated vesting in (a) cash, (b) stock of the Company or the Acquiror, or (c) other property which, in any such case, shall be in an amount having a Fair Market Value equal to the Fair Market Value of the consideration to be paid per share of stock in the Change in Control for each such Unit (subject to any required tax withholding). Such payment shall be made as soon as practicable following the Change in Control.

**7.2 Termination After Change in Control** . Notwithstanding anything in this Agreement to the contrary, if the Award is assumed or continued following a Change in Control, and if the Participant's Service ceases as a result of a Termination After Change in Control (as defined below), the surviving Units shall become Vested Units and the Award shall be settled promptly following such event.

(a) “**Termination After Change in Control**” shall mean either of the following events occurring within two (2) years after a Change in Control:

(i) Termination of the Participant's Service (i) with the Participating Company Group or such successor without Cause; or

(ii) The Participant's resignation for Good Reason (as defined below) within ninety (90) days of the Participant first becoming aware of the event constituting Good Reason provided the Participant has provided the Company (or its successor) notice of such condition and the opportunity to cure the event.

Notwithstanding any provision herein to the contrary, Termination After Change in Control shall not include any termination of the Participant's Service which (A) is for Cause; (B) is a result of the Participant's voluntary termination of such relationship other than for Good Reason; or (C) occurs prior to the effectiveness of a Change in Control.

(b) “**Good Reason**” shall mean any one or more of the following:

(i) Without the Participant's written consent, a material adverse change in the Participant's duties and responsibilities as compared to the Participant's duties and responsibilities immediately prior to the Change in Control;

(ii) Without the Participant's written consent, the relocation of the Participant's principal place of Service to a location that is more than fifty (50) miles from the Participant's principal place of Service immediately prior to the date of the Change in Control, or the imposition of travel requirements substantially more demanding of the Participant than such travel requirements existing immediately prior to the date of the Change in Control; or

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(iii) Any failure by the Participating Company Group (or its successor) to pay, or any material reduction by the applicable Participating Company Group of, (A) the Participant's base salary in effect immediately prior to the date of the Change in Control (unless reductions comparable in amount and duration are concurrently made for all other similarly situated persons with responsibilities, organizational level and title comparable to the Participant's), or (B) the Participant's target bonus opportunity, if any, in effect immediately prior to the date of the Change in Control (subject to applicable performance requirements with respect to the actual amount of bonus compensation earned by the Participant).

### 7.3 Federal Excise Tax Under Section 4999 of the Code.

(a) **Excess Parachute Payment.** In the event that any acceleration of vesting the Units and any other payment or benefit received or to be received by the Participant would subject the Participant to any excise tax pursuant to Section 4999 of the Code due to the characterization of such acceleration of vesting, payment or benefit as an "excess parachute payment" under Section 280G of the Code, the Participant may elect, in his or her sole discretion, to reduce the amount of any acceleration of vesting called for by this Agreement in order to avoid such characterization.

(b) **Determination by Independent Accountants.** To aid the Participant in making any election called for under Section 7.3(a), no later than the date of the occurrence of any event that might reasonably be anticipated to result in an "excess parachute payment" to the Participant as described in Section 7.3(a) (an "**Event**"), the Company shall request a determination in writing by independent public accountants selected by the Company (the "**Accountants**"). Unless the Company and the Participant otherwise agree in writing, the Accountants shall determine and report to the Company and the Participant within twenty (20) days of the date of the Event the amount of such acceleration of vesting, payments and benefits which would produce the greatest after-tax benefit to the Participant. For the purposes of such determination, the Accountants may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and the Participant shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make their required determination. The Company shall bear all fees and expenses the Accountants may reasonably charge in connection with their services contemplated by this Section 7.3(b).

## 8. ADJUSTMENTS FOR CHANGES IN CAPITAL STRUCTURE.

Subject to any required action by the stockholders of the Company and the requirements of Section 409A of the Code to the extent applicable, in the event of any change in the Stock effected without receipt of consideration by the Company, whether through merger, consolidation, reorganization, reincorporation, recapitalization, reclassification, stock dividend, stock split, reverse stock split, split-up, split-off, spin-off, combination of shares, exchange of shares, or similar change in the capital structure of the Company, or in the event of payment of a dividend or distribution to the stockholders of the Company in a form other than Stock (excepting normal cash dividends) that has a material effect on the Fair Market Value of shares, appropriate and proportionate adjustments shall be made in the number of Units subject to the Award and/or the number and kind of shares to be issued in settlement of the Award, in order to prevent dilution or enlargement of the Participant's rights under the Award. For purposes of the foregoing, conversion of any convertible securities of the Company shall not be treated as "effected without receipt of consideration by the Company." Any and all new, substituted or additional securities or other property to which the Participant is entitled by reason of the grant of Units acquired pursuant to this Award will be immediately subject to the provisions of this Award on the same basis as all Units originally acquired hereunder. Any fractional Unit or share resulting from an adjustment pursuant to this Section shall be rounded down to the nearest whole number. Such adjustments shall be determined by the Committee, and its determination shall be final, binding and conclusive.

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## 9. RIGHTS AS A STOCKHOLDER OR EMPLOYEE.

The Participant shall have no rights as a stockholder with respect to any shares of Stock which may be issued in settlement of this Award until the date of the issuance of a certificate for such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date such certificate is issued, except as provided in Section 8. If the Participant is an Employee, the Participant understands and acknowledges that, except as otherwise provided in a separate, written employment agreement between a Participating Company and the Participant, the Participant's employment is "at will" and is for no specified term. Nothing in this Agreement shall confer upon the Participant any right to continue in Service or interfere in any way with any right of any Participating Company to terminate the Participant's Service at any time.

## 10. LEGENDS.

The Company may at any time place legends referencing any applicable federal, state or foreign securities law restrictions on all certificates representing shares of Stock issued pursuant to this Agreement. The Participant shall, at the request of the Company, promptly present to the Company any and all certificates representing shares acquired pursuant to this Award in the possession of the Participant in order to carry out the provisions of this Section.

## 11. COMPLIANCE WITH SECTION 409A.

It is intended that any election, payment or benefit which is made or provided pursuant to or in connection with this Award that may result in Section 409A Deferred Compensation shall comply in all respects with the applicable requirements of Section 409A (including applicable regulations or other administrative guidance thereunder, as determined by the Committee in good faith) to avoid the unfavorable tax consequences provided therein for non compliance. In connection with effecting such compliance with Section 409A, the following shall apply:

**11.1 Separation from Service; Required Delay in Payment to Specified Employee.** Notwithstanding anything set forth herein to the contrary, no amount payable pursuant to this Agreement on account of the Participant's termination of Service which constitutes a "deferral of compensation" within the meaning of the Treasury Regulations issued pursuant to Section 409A of the Code (the "**Section 409A Regulations**") shall be paid unless and until the Participant has incurred a "separation from service" within the meaning of the Section 409A Regulations. Furthermore, to the extent that the Participant is a "specified employee" within the meaning of the Section 409A Regulations as of the date of the Participant's separation from service, no amount that constitutes a deferral of compensation which is payable on account of the Participant's separation from service shall be paid to the Participant before the date (the "**Delayed Payment Date**") which is first day of the seventh month after the date of the Participant's separation from service or, if earlier, the date of the Participant's death following such separation from service. All such amounts that would, but for this Section, become payable prior to the Delayed Payment Date will be accumulated and paid on the Delayed Payment Date.

**11.2 Other Changes in Time of Payment.** Neither the Participant nor the Company shall take any action to accelerate or delay the payment of any benefits which constitute a "deferral of compensation" within the meaning of the Section 409A Regulations in any manner which would not be in compliance with the Section 409A Regulations.

**11.3 Amendments to Comply with Section 409A; Indemnification.** Notwithstanding any other provision of this Agreement to the contrary, the Company is authorized to amend this Agreement, to void or amend any election made by the Participant under this Agreement and/or to delay the payment of any monies and/or provision of any benefits in such manner as may be determined by the Company, in its discretion, to be necessary or appropriate to comply with the Section 409A Regulations without prior notice to or consent of the Participant. The Participant hereby releases and holds harmless the Company, its directors, officers and stockholders from any and

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all claims that may arise from or relate to any tax liability, penalties, interest, costs, fees or other liability incurred by the Participant in connection with the Award, including as a result of the application of Section 409A.

11.4 **Advice of Independent Tax Advisor.** The Company has not obtained a tax ruling or other confirmation from the Internal Revenue Service with regard to the application of Section 409A to the Award, and the Company does not represent or warrant that this Agreement will avoid adverse tax consequences to the Participant, including as a result of the application of Section 409A to the Award. The Participant hereby acknowledges that he or she has been advised to seek the advice of his or her own independent tax advisor prior to entering into this Agreement and is not relying upon any representations of the Company or any of its agents as to the effect of or the advisability of entering into this Agreement.

## 12. MISCELLANEOUS PROVISIONS.

12.1 **Termination or Amendment.** The Committee may terminate or amend the Plan at any time. No amendment or addition to this Agreement shall be effective unless in writing and, to the extent such amendment is necessary to comply with applicable law or government regulation (including, but not limited to Section 409A), may be made without the consent of the Participant.

12.2 **Nontransferability of the Award.** Prior to the issuance of shares of Stock on the applicable Settlement Date, neither this Award nor any Units subject to this Award shall be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. All rights with respect to the Award shall be exercisable during the Participant's lifetime only by the Participant or the Participant's guardian or legal representative.

12.3 **Further Instruments.** The parties hereto agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Agreement.

12.4 **Binding Effect.** This Agreement shall inure to the benefit of the successors and assigns of the Company and, subject to the restrictions on transfer set forth herein, be binding upon the Participant and the Participant's heirs, executors, administrators, successors and assigns.

12.5 **Delivery of Documents and Notices.** Any document relating to participation in the Plan or any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given (except to the extent that this Agreement provides for effectiveness only upon actual receipt of such notice) upon personal delivery, electronic delivery at the e-mail address, if any, provided for the Participant by a Participating Company, or upon deposit in the U.S. Post Office or foreign postal service, by registered or certified mail, or with a nationally recognized overnight courier service, with postage and fees prepaid, addressed to the other party at the address shown below that party's signature to the Grant Notice or at such other address as such party may designate in writing from time to time to the other party.

(a) **Description of Electronic Delivery.** The Plan documents, which may include but do not necessarily include: the Plan, the Grant Notice, this Agreement, the Plan Prospectus, and any reports of the Company provided generally to the Company's stockholders, may be delivered to the Participant electronically. In addition, the Participant may deliver electronically the Grant Notice to the Company or to such third party involved in administering the Plan as the Company may designate from time to time. Such means of electronic delivery may include but do not necessarily include the delivery of a link to a Company intranet or the Internet site of a third party involved in administering the Plan, the delivery of the document via e-mail or such other means of electronic delivery specified by the Company.

(b) **Consent to Electronic Delivery.** The Participant acknowledges that the Participant has read Section 12.5(a) of this Agreement and consents to the electronic delivery of the Plan documents and Grant Notice, as described in Section 12.5(a). The Participant acknowledges that he or she may receive from the

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Company a paper copy of any documents delivered electronically at no cost to the Participant by contacting the Company by telephone or in writing. The Participant further acknowledges that the Participant will be provided with a paper copy of any documents if the attempted electronic delivery of such documents fails. Similarly, the Participant understands that the Participant must provide the Company or any designated third party administrator with a paper copy of any documents if the attempted electronic delivery of such documents fails. The Participant may revoke his or her consent to the electronic delivery of documents described in Section 12.5(a) or may change the electronic mail address to which such documents are to be delivered (if Participant has provided an electronic mail address) at any time by notifying the Company of such revoked consent or revised e-mail address by telephone, postal service or electronic mail. Finally, the Participant understands that he or she is not required to consent to electronic delivery of documents described in Section 12.5(a).

**12.6 Integrated Agreement.** The Grant Notice, this Agreement and the Plan, together with any employment, service or other agreement between the Participant and a Participating Company referring to the Award, shall constitute the entire understanding and agreement of the Participant and the Participating Company Group with respect to the subject matter contained herein or therein and supersede any prior agreements, understandings, restrictions, representations, or warranties among the Participant and the Participating Company Group with respect to such subject matter other than those as set forth or provided for herein or therein. To the extent contemplated herein or therein, the provisions of the Grant Notice, this Agreement and the Plan shall survive any settlement of the Award and shall remain in full force and effect.

**12.7 Applicable Law.** This Agreement shall be governed by the laws of the State of Delaware as such laws are applied to agreements between Delaware residents entered into and to be performed entirely within the State of Delaware.

**12.8 Counterparts.** The Grant Notice may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

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**LULULEMON ATHLETICA INC.**  
**POLICY FOR RECOUPMENT OF INCENTIVE COMPENSATION**

In the event lululemon athletica inc. (the “*Company*”) determines it must restate its financial results as reported in a Form 10-K, Form 10-Q or other report filed with the Securities and Exchange Commission to correct an accounting error due to material noncompliance with any financial reporting requirement under the U. S. federal securities laws within three (3) years after the date of the first public issuance or filing of such financial results, the Company will seek to recover, at the direction of the Management Development and Compensation Committee (the “*Committee*”) of the Board of Directors after it has reviewed the facts and circumstances that led to the requirement for the restatement and the costs and benefits of seeking recovery, incentive compensation awarded or paid to a covered officer whose intentional misconduct caused or contributed to the need for the restatement for a fiscal period if a lower award or payment would have been made to such covered officer based upon the restated financial results. The Committee will determine in its discretion the amount, if any, the Company will seek to recover from such covered officer. The Company may offset the recoupment amount against current or future incentive and non-incentive compensation and through cancellation of unvested or vested equity awards. In addition, the Committee may, to the extent permitted by law, take other remedial and recovery action, as determined by the Committee. The recoupment of incentive compensation under this policy is in addition to any other right or remedy available to the Company.

For purposes of this policy, the term “covered officer” shall mean executive officers of the Company as defined under the Securities Exchange Act of 1934, as amended, and such other senior executives as may be determined by the Committee. This policy extends to individuals who were covered officers on or after adoption of the policy but ceased being a covered officer before a restatement triggering recoupment under this policy occurs.

The Committee shall have full and final authority to make all determinations under this policy. The Company shall take such action as it deems necessary or appropriate to implement this Policy, including requiring all covered officers to acknowledge the rights and powers of the Company and the Committee hereunder.

This policy shall be effective as of the date adopted by the Board of Directors as set forth below and shall apply to incentive compensation that is approved, awarded or granted on or after that date.

Adopted September 8, 2010  
Board of Directors  
lululemon athletica inc.



<b>Outside Director Compensation Plan (a)</b>
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(Effective February 2015)

**Annual Cash Retainer:**

Board Member	<b>\$60,000</b>
Non-Executive Chairman of the Board	\$125,000
Lead Director	\$50,000
Audit Committee Chair	\$20,000
Audit Committee Member	No additional compensation
Compensation Committee Chair	\$15,000
Compensation Committee Member	No additional compensation
Nominating Committee Chair	\$10,000
Nominating Committee Member	No additional compensation

**Additional Payments:**

Attendance Fee for In Person Attendance at Board Meeting	\$1,500
Attendance Fee for Telephonic Attendance at Board Meeting	\$1,000
Attendance Fee for Committee Meeting Attendance	\$1,000

**Equity Grant Upon Initial Election or Appointment**

New directors – on the date of initial election or appointment to the Board, new directors (other than directors elected at the annual meeting of stockholders who will receive the annual grant of restricted stock as set forth below) will be entitled to a pro-rata portion of the annual restricted stock award grant

Pro-rata for partial year of service based on the date of initial election or appointment, relative to the date of the preceding Annual Meeting of Stockholders

**Annual Grant of Restricted Stock (b)****\$125,000**

**Expense Reimbursement** – for travel, lodging and other reasonable out-of-pocket expenses incurred in attending board and committee meetings.

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All amounts listed above are in United States dollars.

- (a) Each member of the Board, other than a director employed by the Company, is entitled to receive compensation under this plan.
- (b) Each share of restricted stock will be fully vested on the earlier of (1) first anniversary of the grant date and (2) the Company's next Annual General Meeting.

The number of shares issued for restricted stock awards shall equal the specified dollar value of the restricted stock award divided by the applicable per share ASC 718 charge as of the grant date as determined by the company for financial reporting purposes.

*Timing of Director Compensation: Each Director shall receive an initial restricted stock award the day of the director's election or appointment to the board. Thereafter, on the date of each annual meeting of stockholders, each person who is either elected to the Board at the annual meeting or continues to serve on the Board upon the conclusion of the annual meeting will receive all of his or her restricted stock award, which grant will be subject to one year vesting.*

The cash retainer and other fees will be paid in arrears, quarterly or semi-annually at the Company's discretion.

**lululemon athletica inc.****SUBSIDIARIES OF THE REGISTRANT**

Listed below are the subsidiaries of lululemon athletica inc. as of February 1, 2015 . The list indicates the respective jurisdiction of incorporation or organization of each entity.

**DELAWARE**

8890 LLC

**NEVADA**

lululemon usa inc.

ivivva usa inc.

**ALBERTA**

Lululemon Callco ULC

**BRITISH COLUMBIA**

Lulu Canadian Holding Inc.

lululemon athletica canada inc.

0902600 B.C. Ltd.

ivivva athletica canada inc.

Constellation Capital Ltd.

410 Bernard Avenue Holdings Ltd.

**CANADA**

7923040 Canada Inc.

**VICTORIA**

lululemon athletica australia holding Pty Ltd.

lululemon australia Pty Ltd.

**NEW ZEALAND**

lululemon athletica new zealand limited

**HONG KONG**

lululemon Hong Kong Limited

**JAPAN**lululemon athletica JP GK <sup>(1)</sup>**PEOPLE'S REPUBLIC OF CHINA**lululemon athletica Trading (Shanghai) Co., ltd. <sup>(1)</sup>**KOREA**

lululemon athletica KR ltd.

**MALAYSIA**

lululemon athletica Malaysia Sdn. Bhd.

**SINGAPORE**

lululemon athletica SG Pte. ltd.

**TAIWAN**lululemon athletica TW ltd. <sup>(1)</sup>**FRANCE**

lululemon athletica FR SARL

**GERMANY**

lululemon athletica DE GmbH

**LUXEMBOURG**

lululemon LU holdings S.a.r.l.

**NETHERLANDS**

lululemon athletica NL BV

**SWEDEN**

lululemon Sweden AB

**SWITZERLAND**

lululemon athletica CH GmbH

**UNITED KINGDOM**

lululemon athletica UK ltd.

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<sup>(1)</sup> This is the English equivalent name.

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-198725 and No. 333-146378), Form S-3ASR (No. 333-189818 and No. 333-185899) of lululemon athletica inc. of our report dated March 25, 2015 relating to the consolidated financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

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Vancouver, British Columbia

March 25, 2015

I, Laurent Potdevin, certify that:

1. I have reviewed this Annual Report on Form 10-K of lululemon athletica inc.;

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

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

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

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

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

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

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

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

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

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

By: /s/ LAURENT POTDEVIN

Laurent Potdevin

Chief Executive Officer and Director

(Principal Executive Officer)

Date: March 25, 2015

I, Stuart C. Haselden, certify that:

1. I have reviewed this Annual Report on Form 10-K of lululemon athletica inc.;

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

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

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

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

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

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

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

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

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

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

By: /s/ STUART C. HASELDEN

Stuart C. Haselden  
Chief Financial Officer  
(Principal Financial Officer and  
Principal Accounting Officer)

Date: March 25, 2015

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

In connection with the Annual Report of lululemon athletica inc. (the "Company") on Form 10-K for the fiscal year ended February 1, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ LAURENT POTDEVIN

Laurent Potdevin

Chief Executive Officer and Director

(Principal Executive Officer)

Dated: March 25, 2015

/s/ STUART C. HASELDEN

Stuart C. Haselden

Chief Financial Officer

(Principal Financial Officer)

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