

lululemon athletica inc.  
Form 10-Q  
December 06, 2018  
Table of Contents

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

Form 10-Q

(Mark One)

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

For the quarterly period ended October 28, 2018

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-33608

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

Delaware	20-3842867
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1818 Cornwall Avenue  
Vancouver, British Columbia  
(Address of principal executive offices) (Zip Code)  
Registrant's telephone number, including area code:  
604-732-6124

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

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

Edgar Filing: lululemon athletica inc. - Form 10-Q

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

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

At December 3, 2018, there were 122,627,574 shares of the registrant's common stock, par value \$0.005 per share, outstanding.

Exchangeable and Special Voting Shares:

At December 3, 2018, there were outstanding 9,776,421 exchangeable shares of Lulu Canadian Holding, Inc., a wholly-owned subsidiary of the registrant. Exchangeable shares are exchangeable for an equal number of shares of the registrant's common stock.

In addition, at December 3, 2018, the registrant had outstanding 9,776,421 shares of special voting stock, through which the holders of exchangeable shares of Lulu Canadian Holding, Inc. may exercise their voting rights with respect to the registrant. The special voting stock and the registrant's common stock generally vote together as a single class on all matters on which the common stock is entitled to vote.

---

Table of Contents

TABLE OF CONTENTS

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>FINANCIAL STATEMENTS:</u>	<u>3</u>
<u>CONSOLIDATED BALANCE SHEETS</u>	<u>3</u>
<u>CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME</u>	<u>4</u>
<u>CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY</u>	<u>5</u>
<u>CONSOLIDATED STATEMENTS OF CASH FLOWS</u>	<u>6</u>
<u>INDEX FOR NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS</u>	<u>7</u>
Item 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>20</u>
Item 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>36</u>
Item 4. <u>CONTROLS AND PROCEDURES</u>	<u>37</u>
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>LEGAL PROCEEDINGS</u>	<u>38</u>
Item 1A. <u>RISK FACTORS</u>	<u>38</u>
Item 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>47</u>
Item 6. <u>EXHIBITS</u>	<u>49</u>
<u>SIGNATURES</u>	<u>50</u>

Table of Contents

## PART I

## FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

lululemon athletica inc.

## CONSOLIDATED BALANCE SHEETS

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

	October 28, 2018	January 28, 2018
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$703,607	\$990,501
Accounts receivable	29,448	19,173
Inventories	495,991	329,562
Prepaid and receivable income taxes	76,593	48,948
Other prepaid expenses and other current assets	57,828	48,098
	1,363,467	1,436,282
Property and equipment, net	531,250	473,642
Goodwill and intangible assets, net	24,237	24,679
Deferred income tax assets	28,155	32,491
Other non-current assets	33,902	31,389
	\$1,981,011	\$1,998,483
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$153,140	\$24,646
Accrued inventory liabilities	11,446	13,027
Accrued compensation and related expenses	85,446	70,141
Current income taxes payable	24,545	15,700
Unredeemed gift card liability	63,474	82,668
Other current liabilities	105,620	86,416
	443,671	292,598
Non-current income taxes payable	54,112	48,268
Deferred income tax liabilities	1,582	1,336
Other non-current liabilities	74,889	59,321
	574,254	401,523
Stockholders' equity		
Undesignated preferred stock, \$0.01 par value: 5,000 shares authorized; none issued and outstanding	—	—
Exchangeable stock, no par value: 60,000 shares authorized; 9,776 and 9,781 issued and outstanding	—	—
Special voting stock, \$0.000005 par value: 60,000 shares authorized; 9,776 and 9,781 issued and outstanding	—	—
Common stock, \$0.005 par value: 400,000 shares authorized; 122,667 and 125,650 issued and outstanding	613	628
Additional paid-in capital	307,154	284,253
Retained earnings	1,310,452	1,455,002
Accumulated other comprehensive loss	(211,462 )	(142,923 )
	1,406,757	1,596,960
	\$1,981,011	\$1,998,483

See accompanying notes to the unaudited interim consolidated financial statements

3

---

Table of Contents

lululemon athletica inc.

## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

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

	Quarter Ended		Three Quarters Ended	
	October 28, 2018	October 29, 2017	October 28, 2018	October 29, 2017
Net revenue	\$747,655	\$619,018	\$2,120,861	\$1,720,379
Cost of goods sold	340,878	297,056	973,157	844,100
Gross profit	406,777	321,962	1,147,704	876,279
Selling, general and administrative expenses	270,874	215,367	773,288	640,032
Asset impairment and restructuring costs	—	21,007	—	36,524
Income from operations	135,903	85,588	374,416	199,723
Other income (expense), net	2,044	1,052	6,553	2,771
Income before income tax expense	137,947	86,640	380,969	202,494
Income tax expense	43,534	27,696	115,633	63,593
Net income	\$94,413	\$58,944	\$265,336	\$138,901
Other comprehensive (loss) income:				
Foreign currency translation adjustment	(7,318)	(31,018)	(68,539)	10,061
Comprehensive income	\$87,095	\$27,926	\$196,797	\$148,962
Basic earnings per share	\$0.71	\$0.44	\$1.98	\$1.02
Diluted earnings per share	\$0.71	\$0.43	\$1.97	\$1.02
Basic weighted-average number of shares outstanding	132,406	135,364	133,964	136,191
Diluted weighted-average number of shares outstanding	133,077	135,578	134,512	136,357
See accompanying notes to the unaudited interim consolidated financial statements				

Table of Contents

lululemon athletica inc.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited; Amounts in thousands)

	Exchangeable Stock	Special Voting Stock	Par Value	Common Stock Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Shares							
Balance at January 28, 2018	9,781	9,781	\$ —	125,650	\$ 628	\$ 284,253	\$ 1,455,002	\$ (142,923 )	\$ 1,596,960
Net income							265,336		265,336
Foreign currency translation adjustment								(68,539 )	(68,539 )
Common stock issued upon exchange of exchangeable shares	(5 )	(5 )	—	5	—	—			—
Stock-based compensation expense						18,616			18,616
Common stock issued upon settlement of stock-based compensation				524	3	17,254			17,257
Shares withheld related to net share settlement of stock-based compensation				(92 )	(1 )	(8,537 )			(8,538 )
Repurchase of common stock				(3,420 )	(17 )	(4,432 )	(409,886 )		(414,335 )
Balance at October 28, 2018	9,776	9,776	\$ —	122,667	\$ 613	\$ 307,154	\$ 1,310,452	\$ (211,462 )	\$ 1,406,757
See accompanying notes to the unaudited interim consolidated financial statements									

Table of Contents

lululemon athletica inc.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; Amounts in thousands)

	Three Quarters Ended October 28, 2018	October 29, 2017
Cash flows from operating activities		
Net income	\$ 265,336	\$ 138,901
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	87,115	80,129
Deferred income taxes	2,382	(18,385 )
Stock-based compensation expense	18,616	13,048
Asset impairment for ivivva restructuring	—	11,593
Settlement of derivatives not designated in a hedging relationship	(4,670 )	4,178
Changes in operating assets and liabilities:		
Inventories	(177,890 )	(95,475 )
Prepaid and receivable income taxes	(27,645 )	3,565
Other prepaid expenses and other current and non-current assets	(20,538 )	(6,759 )
Accounts payable	129,617	(11,141 )
Accrued inventory liabilities	(392 )	14,602
Accrued compensation and related expenses	18,009	6,579
Current income taxes payable	9,817	(26,420 )
Unredeemed gift card liability	(17,827 )	(18,272 )
Non-current income taxes payable	5,844	—



Edgar Filing: lululemon athletica inc. - Form 10-Q

Lease termination liabilities	(3,285)	)	12,164	
Other current and non-current liabilities	32,387		23,002	
Net cash provided by operating activities	316,876		131,309	
Cash flows from investing activities				
Purchase of property and equipment	(156,746)	)	(107,128)	)
Settlement of net investment hedges	(8,397)	)	(4,599)	)
Other investing activities	(771)	)	(8,324)	)
Net cash used in investing activities	(165,914)	)	(120,051)	)
Cash flows from financing activities				
Proceeds from settlement of stock-based compensation	17,257		1,648	
Taxes paid related to net share settlement of stock-based compensation	(8,538)	)	(3,086)	)
Repurchase of common stock	(414,335)	)	(99,269)	)
Other financing activities	(745)	)	—	
Net cash used in financing activities	(406,361)	)	(100,707)	)
Effect of exchange rate changes on cash and cash equivalents	(31,495)	)	4,657	
Decrease in cash and cash equivalents	(286,894)	)	(84,792)	)
Cash and cash equivalents, beginning of period	\$ 990,501		\$ 734,846	
Cash and cash equivalents, end of period	\$ 703,607		\$ 650,054	

See accompanying notes to the unaudited interim consolidated financial statements

Table of Contents

lululemon athletica inc.

INDEX FOR NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Note 1	<u>Nature of Operations and Basis of Presentation</u>	<u>8</u>
Note 2	<u>Recent Accounting Pronouncements</u>	<u>8</u>
Note 3	<u>Credit Facility</u>	<u>10</u>
Note 4	<u>Stock-Based Compensation and Benefit Plans</u>	<u>11</u>
Note 5	<u>Fair Value Measurement</u>	<u>12</u>
Note 6	<u>Derivative Financial Instruments</u>	<u>13</u>
Note 7	<u>Asset Impairment and Restructuring</u>	<u>15</u>
Note 8	<u>Income Taxes</u>	<u>16</u>
Note 9	<u>Earnings Per Share</u>	<u>17</u>
Note 10	<u>Supplementary Financial Information</u>	<u>17</u>
Note 11	<u>Segment Reporting</u>	<u>19</u>
Note 12	<u>Legal Proceedings and Other Contingencies</u>	<u>20</u>

Table of Contents

lululemon athletica inc.

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nature of operations

lululemon athletica inc., a Delaware corporation ("lululemon" and, together with its subsidiaries unless the context otherwise requires, the "Company") is engaged in the design, distribution, and retail of healthy lifestyle inspired athletic apparel. The Company primarily conducts its business through company-operated stores and direct to consumer through e-commerce. It also generates net revenue from outlets, sales from temporary locations, sales to wholesale accounts, showrooms, warehouse sales, and license and supply arrangements. The Company operates stores in the United States, Canada, Australia, China, the United Kingdom, New Zealand, Germany, Japan, South Korea, Singapore, France, Ireland, Sweden, and Switzerland. There were 426 and 404 company-operated stores in operation as of October 28, 2018 and January 28, 2018, respectively.

Basis of presentation

The unaudited interim consolidated financial statements as of October 28, 2018 and for the quarters and three quarters ended October 28, 2018 and October 29, 2017 are presented in United States dollars and have been prepared by the Company under the rules and regulations of the Securities and Exchange Commission ("SEC"). The financial information is presented in accordance with United States generally accepted accounting principles ("GAAP") for interim financial information and, accordingly, does not include all of the information and footnotes required by GAAP for complete financial statements. The financial information as of January 28, 2018 is derived from the Company's audited consolidated financial statements and related notes for the fiscal year ended January 28, 2018, which are included in Item 8 in the Company's fiscal 2017 Annual Report on Form 10-K filed with the SEC on March 27, 2018. These unaudited interim consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented. These unaudited interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and related notes included in Item 8 in the Company's fiscal 2017 Annual Report on Form 10-K.

The Company's fiscal year ends on the Sunday closest to January 31 of the following year, typically resulting in a 52-week year, but occasionally giving rise to an additional week, resulting in a 53-week year. Fiscal 2018 will end on February 3, 2019 and will be a 53-week year.

The Company's business is affected by the pattern of seasonality common to most retail apparel businesses.

Historically, the Company has recognized a significant portion of its operating profit in the fourth fiscal quarter of each year as a result of increased net revenue during the holiday season.

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

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS

Recently adopted accounting pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers ("ASC 606") which supersedes the revenue recognition requirements in ASC 605 Revenue Recognition. This ASU requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Company adopted ASC 606 on January 29, 2018 on a modified retrospective basis. There were no changes to the consolidated statement of operations as a result of the adoption, and the timing and amount of its revenue recognition remained substantially unchanged under this new guidance. Under the provisions of ASC 606, the Company is now required to present its provision for sales returns on a gross basis, rather than a net basis. The Company's liability for sales return refunds is recognized within other current liabilities, and the Company now presents an asset for the value of inventory which is expected to be returned within other prepaid expenses and other current assets on the

consolidated balance sheets. Under the modified retrospective approach, the comparative prior period information has not been restated for this change.

Table of Contents

The effect of adoption of ASC 606 on the Company's consolidated balance sheet as of October 28, 2018 was as follows:

	October 28, 2018	
	As Reported	Balances Without Adoption of ASC 606
	Adjustment for ASC 606	
	(In thousands)	
Other prepaid expenses and other current assets	\$57,828 \$ (3,090 )	\$ 54,738
Current assets	1,363,467 (3,090 )	1,360,377
Total assets	1,981,011 (3,090 )	1,977,921
Other current liabilities	105,620 3,090	108,710
Current liabilities	443,671 3,090	446,761
Total liabilities	574,254 3,090	577,344

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

Accounting policies as a result of recently adopted accounting pronouncements

#### Revenue recognition

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

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

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

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

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

Recently issued accounting pronouncements

In February 2016, the FASB issued ASC 842, Leases ("ASC 842") to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the new guidance, lessees are required to recognize a lease liability, which represents the discounted obligation to make future minimum lease payments, and a corresponding right-of-use asset on the balance sheet for most leases. This guidance will be effective for the Company beginning in its first quarter of fiscal 2019, with early application permitted. The new guidance can be applied using a modified retrospective approach at the beginning of the earliest period presented, or at the beginning of the period in which it is adopted.

## Table of Contents

The Company will adopt ASC 842 on February 4, 2019 and anticipates applying the modified retrospective approach from the beginning of the period in which the standard is adopted.

The Company expects to apply the transition package of three practical expedients which allow companies not to reassess whether agreements contain leases, the classification of leases, and the capitalization of initial direct costs. The Company expects to make an accounting policy election to recognize lease expense for leases with a term of 12 months or less on a straight-line basis over the lease term and recognize no right of use asset or lease liability for those leases.

The Company is nearing completion of the implementation of new lease accounting software and continues to evaluate the impact this standard will have on its consolidated financial statements, disclosures, and internal controls. It is expected that the primary financial statement impact upon adoption will be the recognition, on a discounted basis, of the Company's minimum commitments under noncancelable operating leases as right of use assets and obligations on the consolidated balance sheets. It is expected that this will result in a significant increase in assets and liabilities on the consolidated balance sheets. The standard is not expected to have a material impact on the Company's net income or cash flows.

In August 2017, the FASB amended ASC 815, Derivatives and Hedging to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. It will make more financial and nonfinancial hedging strategies eligible for hedge accounting. It also amends the presentation and disclosure requirements and changes how companies assess effectiveness. This guidance will be effective for the Company beginning in its first quarter of fiscal 2019, with early application permitted. This standard is not expected to have a material impact on the Company's consolidated financial statements.

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

In February 2018, the FASB amended ASC 220, Income Statement—Reporting Comprehensive Income. ASC 740, Income Taxes, requires that the effect of a change in tax laws or rates on deferred tax assets and liabilities be included in income from continuing operations. In situations in which the tax effects of a transaction were initially recognized directly in other comprehensive income, this results in "stranded" amounts in accumulated other comprehensive income related to the income tax rate differential. The amendments to ASC 220 allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the enactment of the U.S. tax reform. The guidance in the ASU is effective for the Company beginning in its first quarter of fiscal 2019 with early adoption permitted. The Company does not expect to elect to reclassify "stranded" amounts from accumulated other comprehensive income to retained earnings.

### NOTE 3. CREDIT FACILITY

On June 6, 2018, the Company entered into Amendment No. 1 to its credit agreement. This amends the credit agreement to provide for (i) an increase in the aggregate commitments under the unsecured five-year revolving credit facility to \$400.0 million, with an increase of the sub-limits for the issuance of letters of credit and extensions of swing line loans to \$50.0 million for each, (ii) an increase in the option, subject to certain conditions as set forth in the credit agreement, to request increases in commitments under the revolving facility from \$400.0 million to \$600.0 million, and (iii) an extension in the maturity of the revolving facility from December 15, 2021 to June 6, 2023.

In addition, this amendment decreases the applicable margins for LIBOR loans from 1.00%-1.75% to 1.00%-1.50% and for alternate base rate loans from 0.00%-0.75% to 0.00%-0.50%, reduces the commitment fee on average daily unused amounts under the revolving facility from 0.125%-0.200% to 0.10%-0.20%, and reduces fees for unused

letters of credit from 1.00%-1.75% to 1.00%-1.50%.

The Company had no borrowings outstanding under this credit facility as of October 28, 2018 and January 28, 2018. As of October 28, 2018, the Company had letters of credit of \$1.2 million outstanding.



Table of Contents**NOTE 4. STOCK-BASED COMPENSATION AND BENEFIT PLANS**

## Stock-based compensation plans

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

Stock-based compensation expense charged to income for the plans was \$19.0 million and \$13.0 million for the three quarters ended October 28, 2018 and October 29, 2017, respectively. Total unrecognized compensation cost for all stock-based compensation plans was \$63.7 million at October 28, 2018, which is expected to be recognized over a weighted-average period of 2.2 years.

A summary of the balances of the Company's stock-based compensation plans as of October 28, 2018, and changes during the first three quarters then ended, is presented below:

	Stock Options		Performance-Based Restricted Stock Units		Restricted Shares		Restricted Stock Units		Restricted Stock Units (Liability Accounting)
	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	Weighted-Average Fair Value
(In thousands, except per share amounts)									
Balance at January 28, 2018	1,117	\$ 56.44	329	\$ 60.42	21	\$ 52.45	427	\$ 57.54	— \$ —
Granted	382	96.70	122	102.40	6	124.19	253	88.34	44 134.82
Exercised/released	307	56.25	39	63.04	21	52.45	170	58.83	— —
Forfeited/expired	299	59.07	130	61.47	—	—	56	65.59	— —
Balance at October 28, 2018	893	\$ 72.84	282	\$ 77.78	6	\$ 124.19	454	\$ 73.22	44 \$ 134.82
Exercisable at October 28, 2018	168	\$ 55.01							

The grant date fair value of each stock option granted is estimated on the date of grant using the Black-Scholes model. The assumptions used to calculate the fair value of the options granted are evaluated and revised, as necessary, to reflect market conditions and the Company's historical experience. The expected term of the options is based upon the historical experience of similar awards, giving consideration to expectations of future employee behavior. Expected volatility is based upon the historical volatility of the Company's common stock for the period corresponding with the expected term of the options. The risk-free interest rate is based on the U.S. Treasury yield curve for the period corresponding with the expected term of the options. The following are weighted averages of the assumptions that were used in calculating the fair value of stock options granted during the first three quarters of fiscal 2018:

	Three Quarters Ended October 28, 2018	
Expected term	3.75	years
Expected volatility	36.87	%
Risk-free interest rate	2.46	%
Dividend yield	—	%

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

date. Expense for performance-based restricted stock units is recognized when it is probable that the performance goal will be achieved.

The grant date 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. Restricted stock units that are settled in cash or common stock at the election of the employee

Table of Contents

are remeasured to fair value at the end of each reporting period until settlement. This fair value is based on the closing price of the Company's common stock on the last business day before each period end.

**Employee share purchase plan**

The Company's board of directors and stockholders approved the Company's Employee Share Purchase Plan ("ESPP") in September 2007. Contributions are made by eligible employees, subject to certain limits defined in the ESPP, and the Company matches one-third of the contribution. The maximum number of shares authorized to be purchased under the ESPP is 6.0 million shares. All shares purchased under the ESPP are purchased in the open market. During the quarter ended October 28, 2018, there were 17.7 thousand shares purchased.

**Defined contribution pension plans**

The Company offers defined contribution pension plans to its eligible employees in Canada and the United States. Participating employees may elect to defer and contribute a portion of their eligible compensation to a plan up to limits stated in the plan documents, not to exceed the dollar amounts set by applicable laws. The Company matches 50% to 75% of the contribution depending on the participant's length of service, and the contribution is subject to a two year vesting period. The Company's net expense for the defined contribution plans was \$4.7 million and \$3.9 million in the first three quarters of fiscal 2018 and fiscal 2017, respectively.

**NOTE 5. FAIR VALUE MEASUREMENT**

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

• Level 1 - defined as observable inputs such as quoted prices in active markets;

• Level 2 - defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and

• Level 3 - defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Assets and liabilities measured at fair value on a recurring basis

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

	October 28, 2018	Level 1	Level 2	Level 3	Balance Sheet Classification
	(In thousands)				
Money market funds	\$73,198	\$73,198	\$	—	Cash and cash equivalents
Treasury bills	15,266	15,266	—	—	Cash and cash equivalents
Term deposits	357,013	—	357,013	—	Cash and cash equivalents
Net forward currency contract assets	1,661	—	1,661	—	Other prepaid expenses and other current assets
Net forward currency contract liabilities	4,743	—	4,743	—	Other current liabilities
	January 28, 2018	Level 1	Level 2	Level 3	Balance Sheet Classification
	(In thousands)				
Term deposits	\$258,238	\$	—	\$258,238	Cash and cash equivalents
Net forward currency contract assets	7,889	—	7,889	—	Other prepaid expenses and other current assets
Net forward currency contract liabilities	8,771	—	8,771	—	Other current liabilities

The Company records accounts receivable, accounts payable, accrued liabilities, and borrowings under the revolving credit facility at cost. The carrying values of these instruments approximate their fair value due to their short-term

maturities.

12

---

## Table of Contents

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

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

Assets and liabilities measured at fair value on a non-recurring basis

In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Company has impaired certain long-lived assets and recorded them at their estimated fair value on a non-recurring basis. The fair value of these long-lived assets was determined using Level 3 inputs, principally the present value of the estimated future cash flows expected from their use and eventual disposition. Please refer to Note 7 of these unaudited interim consolidated financial statements for further details regarding the impairment of long-lived assets as a result of the ivivva restructuring.

The Company has also recorded certain lease termination liabilities at fair value on a non-recurring basis, determined using Level 3 inputs based on remaining lease rentals and reduced by estimated sublease income. As of October 28, 2018 and January 28, 2018, the Company had lease termination liabilities of \$2.8 million and \$6.4 million, respectively. This was primarily as a result of the ivivva restructuring.

### NOTE 6. DERIVATIVE FINANCIAL INSTRUMENTS

#### Foreign exchange risk

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

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

#### Net investment hedges

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

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

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

#### Derivatives not designated as hedging instruments

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

During the first three quarters of fiscal 2018, the Company entered into certain forward currency contracts designed to economically hedge the foreign exchange revaluation gains and losses that are recognized by its Canadian subsidiaries

on U.S.

13

---

Table of Contents

dollar denominated monetary assets and liabilities. The Company has not applied hedge accounting to these instruments and the change in fair value of these derivatives is recorded within selling, general and administrative expenses.

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

#### Outstanding notional amounts

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

	October 28, 2018	January 28, 2018
	(In thousands)	

Derivatives designated as net investment hedges	\$389,000	\$262,000
---	-----------	-----------

Derivatives not designated in a hedging relationship	340,000	240,000
--	---------	---------

The forward currency contracts designated as net investment hedges outstanding as of October 28, 2018 mature on different dates between December 2018 and April 2019.

The forward currency contracts not designated in a hedging relationship outstanding as of October 28, 2018 mature on different dates between November 2018 and March 2019.

#### Quantitative disclosures about derivative financial instruments

The Company presents its derivative assets and derivative liabilities at their gross fair values within other prepaid expenses and other current assets and other current liabilities on the consolidated balance sheets. However, the Company's Master International Swap Dealers Association, Inc., Agreements and other similar arrangements allow net settlements under certain conditions. As of October 28, 2018, there were derivative assets of \$1.7 million and derivative liabilities of \$4.7 million subject to enforceable netting arrangements.

The fair values of forward currency contracts were as follows:

	October 28, 2018	January 28, 2018
	(In thousands)	

Net forward currency contract assets, recognized within other prepaid expenses and other current assets:

Derivatives designated as net investment hedges	\$1,661	\$	—
---	---------	----	---

Derivatives not designated in a hedging relationship	—	7,889	
--	---	-------	--

Net forward currency contract liabilities, recognized within other current liabilities:

Derivatives designated as net investment hedges	—	8,771
---	---	-------

Derivatives not designated in a hedging relationship	4,743	—
--	-------	---

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

	Quarter Ended	Three Quarters Ended
	October 28, 2018	October 29, 2018
	October 29, 2017	October 29, 2017
	(In thousands)	

Gains (losses) recognized in foreign currency translation adjustment:

Derivatives designated as net investment hedges	\$2,291	\$1,424	\$18,829	\$(7,501)
---	---------	---------	----------	-----------

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

Table of Contents

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

	Quarter Ended October 28, 2018		Three Quarters Ended October 29, 2018	
	2018	2017	2018	2017
	(In thousands)			
Gains (losses) recognized in selling, general and administrative expenses:				
Foreign exchange gains	\$395	\$ 3,871	\$12,999	\$ 360
Derivatives not designated in a hedging relationship	(1,715 )	(1,137 )	(17,301 )	6,497
Net foreign exchange and derivative (losses) gains	\$(1,320)	\$ 2,734	\$(4,302)	\$ 6,857
Credit risk				

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

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

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

**NOTE 7. ASSET IMPAIRMENT AND RESTRUCTURING**

During fiscal 2017, the Company restructured its ivivva operations. On August 20, 2017, the Company closed 48 of its 55 ivivva branded company-operated stores and all other ivivva branded temporary locations. As a result of this restructuring, the Company recognized aggregate pre-tax charges of \$47.2 million during fiscal 2017, inclusive of \$45.4 million recognized during the first three quarters of fiscal 2017.

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

	Quarter Ended October 28, 2018	Three Quarters Ended October 29, 2018
	(In thousands)	
Costs recorded in cost of goods sold:		
Provision to reduce inventories to net realizable value	\$-\$1,934	\$-\$4,838
Loss (reversal of loss) on committed inventory purchases	—(2,286 )	—250
Accelerated depreciation	—1,530	—3,753
	—1,178	—8,841
Costs recorded in operating expenses:		
Lease termination costs	—19,441	—19,884
Impairment of property and equipment	—	—11,593
Employee related costs	—804	—4,000
Other restructuring costs	—762	—1,047
Asset impairment and restructuring costs	—21,007	—36,524
Restructuring and related costs	\$-\$22,185	\$-\$45,365



Income tax recoveries of \$5.8 million and \$11.9 million were recorded on the above items in the third quarter and the first three quarters of fiscal 2017, respectively. These income tax recoveries were based on the expected annual tax rate of the applicable tax jurisdictions.

Table of Contents

Costs recorded in cost of goods sold

During the first three quarters of fiscal 2017, the Company recognized expenses of \$8.8 million in cost of goods sold as a result of the restructuring of its ivivva operations. This included \$4.8 million to reduce inventories to their estimated net realizable value, and \$0.3 million for the losses the Company expected to incur on certain inventory and fabric purchase commitments.

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

The Company also recorded accelerated depreciation charges of \$3.8 million during the first three quarters of fiscal 2017, primarily related to leasehold improvements and furniture and fixtures for company operated-stores that closed during the third quarter of fiscal 2017.

Costs recorded in operating expenses

The Company recognized asset impairment and restructuring costs of \$36.5 million during the first three quarters of fiscal 2017 as a result of the restructuring of its ivivva operations.

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

During the first three quarters of fiscal 2017, the Company recognized lease termination costs of \$19.9 million, employee related expenses as a result of the restructuring of \$4.0 million as well as other restructuring costs of \$1.0 million.

NOTE 8. INCOME TAXES

The U.S. tax reform was enacted on December 22, 2017 and introduced significant changes to U.S. income tax laws. The U.S. tax reform reduced the U.S. federal income tax rate from 35% to 21%, introduced a shift to a territorial tax system and changed how foreign earnings are subject to U.S. tax, and imposed a mandatory one-time transition tax on the deemed repatriation of accumulated undistributed earnings of foreign subsidiaries. The U.S. tax reform also introduced new taxes on certain foreign-sourced earnings and certain related-party payments, which are referred to as the GILTI tax and the base erosion anti-abuse tax. Accounting for the income tax effects of the U.S. tax reform is complex and requires significant judgement and estimates in the interpretation and calculations of its provisions. The SEC issued Staff Accounting Bulletin 118 ("SAB 118") which allows companies to record and adjust provisional estimates of the impacts of the U.S. tax reform within a one year measurement period. As disclosed in Note 14 to the audited consolidated financial statements included in Item 8 of the Company's fiscal 2017 Annual Report on Form 10-K filed with the SEC on March 27, 2018, the Company recorded certain provisional amounts in the fourth quarter of fiscal 2017.

During the third quarter of fiscal 2018, the Company adjusted the provisional amount recorded for the mandatory one-time transition tax as a result of completing its U.S. federal income tax return and incorporating recently issued guidance into its calculations. This resulted in the recognition of an additional tax expense of \$5.2 million during the third quarter of fiscal 2018 which increased the Company's effective tax rate by 380 basis points during the third quarter and by 140 basis points during the first three quarters of fiscal 2018. The Company continues to analyze additional interpretations and guidance that are issued, and is continuing to assess the impact of the mandatory one-time transition tax on U.S. state income taxes. Any additional adjustments may materially impact the provision for income taxes and the effective income tax rate in the period in which the adjustments are made.

As of October 28, 2018, no deferred income tax liabilities have been recognized on any of the undistributed earnings of the Company's foreign subsidiaries as these earnings were indefinitely reinvested outside of the United States. The Company is continuing to evaluate the impact that the U.S. tax reform will have upon the taxes which may become

payable upon repatriation, its reinvestment plans, and the most efficient means of deploying its capital resources globally. As this analysis has not yet been completed, it is possible that amounts determined to be indefinitely reinvested outside of the U.S. may ultimately be repatriated, resulting in additional tax liabilities being recognized. The Company expects the accounting for the income tax effects of the U.S. tax reform to be completed in fiscal 2018.

Table of Contents**NOTE 9. EARNINGS PER SHARE**

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

	Quarter Ended		Three Quarters Ended	
	October 28, 2018		October 29, 2017	
	2018	2017	2018	2017
(In thousands, except per share amounts)				
Net income	\$94,413	\$ 58,944	\$265,336	\$ 138,901
Basic weighted-average number of shares outstanding	132,406	135,364	133,964	136,191
Assumed conversion of dilutive stock options and awards	671	214	548	166
Diluted weighted-average number of shares outstanding	133,077	135,578	134,512	136,357
Basic earnings per share	\$0.71	\$ 0.44	\$1.98	\$ 1.02
Diluted earnings per share	\$0.71	\$ 0.43	\$1.97	\$ 1.02

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 three quarters ended October 28, 2018 and October 29, 2017, 41.5 thousand and 0.2 million stock options and awards, respectively, were anti-dilutive to earnings per share and therefore have been excluded from the computation of diluted earnings per share.

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

On November 29, 2017, the Company's board of directors approved a stock repurchase program for up to \$200.0 million. On June 6, 2018, the board of directors approved an increase to this stock repurchase program, authorizing the repurchase of up to a total of \$600.0 million of the Company's common shares on the open market or in privately negotiated transactions. Common shares repurchased on the open market are at prevailing market prices, including under plans complying with the provisions of Rule 10b5-1 and Rule 10b-18 of the Securities Exchange Act of 1934. The timing and actual number of common shares to be repurchased will depend upon market conditions, eligibility to trade, and other factors, in accordance with Securities and Exchange Commission requirements, and the repurchase program is expected to be completed by November 2019. As of October 28, 2018, the remaining aggregate value of shares available to be repurchased under this program was \$184.7 million.

During the three quarters ended October 28, 2018 and October 29, 2017, 3.4 million and 1.8 million shares, respectively, were repurchased under the program at a total cost of \$414.3 million and \$99.3 million, respectively. Subsequent to October 28, 2018, and up to December 3, 2018, 41.5 thousand shares were repurchased at a total cost of \$5.2 million.

**NOTE 10. SUPPLEMENTARY FINANCIAL INFORMATION**

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

	October 28, 2018		January 28, 2018	
	2018		2018	
(In thousands)				
Inventories:				
Finished goods	\$513,800		\$344,695	
Provision to reduce inventories to net realizable value	(17,809 )		(15,133 )	
	\$495,991		\$329,562	

Table of Contents

	October 28, 2018	January 28, 2018
	(In thousands)	
Property and equipment, net:		
Land	\$ 78,608	\$ 83,048
Buildings	38,020	39,278
Leasehold improvements	330,501	301,449
Furniture and fixtures	98,681	91,778
Computer hardware	63,033	61,734
Computer software	216,783	173,997
Equipment and vehicles	14,874	14,806
Work in progress	74,689	51,260
Property and equipment, gross	915,189	817,350
Accumulated depreciation	(383,939 )	(343,708 )
	\$ 531,250	\$ 473,642
Goodwill and intangible assets, net:		
Goodwill	\$ 25,496	\$ 25,496
Changes in foreign currency exchange rates	(1,259 )	(890 )
	24,237	24,606
Intangible assets, net	—	73
	\$ 24,237	\$ 24,679
Other non-current assets:		
Security deposits	\$ 14,402	\$ 11,599
Deferred lease assets	9,409	10,458
Other	10,091	9,332
	\$ 33,902	\$ 31,389
Other current liabilities:		
Accrued duty, freight, and other operating expenses	\$ 50,952	\$ 33,695
Sales tax collected	11,286	11,811
Sales return allowance	9,718	6,293
Accrued capital expenditures	9,121	5,714
Accrued rent	5,978	7,074
Forward currency contract liabilities	4,743	8,771
Lease termination liabilities	2,845	6,427
Other	10,977	6,631
	\$ 105,620	\$ 86,416
Other non-current liabilities:		
Deferred lease liabilities	\$ 32,499	\$ 27,186
Tenant inducements	36,858	26,250
Other	5,532	5,885
	\$ 74,889	\$ 59,321

Table of Contents

## NOTE 11. SEGMENT REPORTING

The Company applies ASC Topic 280, Segment Reporting ("ASC 280"), in determining reportable segments for its financial statement disclosure. The Company reports segments based on the financial information it uses in managing its business. The Company's reportable segments are comprised of company-operated stores and direct to consumer. Direct to consumer represents sales from the Company's e-commerce websites and mobile apps. Outlets, temporary locations, sales to wholesale accounts, showrooms, warehouse sale net revenue, and license and supply arrangements have been combined into other. During the first quarter of fiscal 2018, the Company reviewed its general corporate expenses and determined certain costs which were previously classified as general corporate expense are more appropriately classified within the direct to consumer segment. Accordingly, comparative figures have been reclassified to conform to the financial presentation adopted for the current year.

	Quarter Ended		Three Quarters Ended	
	October 28,	October 29,	October 28,	October 29,
	2018	2017	2018	2017
	(In thousands)			
Net revenue:				
Company-operated stores	\$476,877	\$ 425,084	\$1,396,376	\$1,218,127
Direct to consumer	189,375	131,181	514,623	341,453
Other	81,403	62,753	209,862	160,799
	\$747,655	\$ 619,018	\$2,120,861	\$1,720,379
Segmented income from operations:				
Company-operated stores	\$117,804	\$ 97,015	\$342,959	\$267,178
Direct to consumer	76,435	50,229	205,735	123,045
Other	15,019	9,319	39,336	19,076
	209,258	156,563	588,030	409,299
General corporate expense	73,355	48,790	213,614	164,211
Restructuring and related costs	—	22,185	—	45,365
Income from operations	135,903	85,588	374,416	199,723
Other income (expense), net	2,044	1,052	6,553	2,771
Income before income tax expense	\$137,947	\$ 86,640	\$380,969	\$202,494
Capital expenditures:				
Company-operated stores	\$38,053	\$ 29,747	\$85,054	\$53,549
Direct to consumer	540	7,582	1,854	16,423
Corporate and other	34,146	19,910	69,838	37,156
	\$72,739	\$ 57,239	\$156,746	\$107,128
Depreciation and amortization:				
Company-operated stores	\$19,383	\$ 16,549	\$54,954	\$47,630
Direct to consumer	2,336	3,740	7,237	10,087
Corporate and other	9,967	8,271	24,924	22,412
	\$31,686	\$ 28,560	\$87,115	\$80,129

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

Table of Contents

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

	Quarter Ended		Three Quarters Ended	
	October 28, 2018	October 29, 2017	October 28, 2018	October 29, 2017
	(In thousands)			
United States	\$527,331	\$ 433,509	\$1,502,013	\$1,226,610
Canada	137,991	125,564	374,418	325,656
Outside of North America	82,333	59,945	244,430	168,113
	\$747,655	\$ 619,018	\$2,120,861	\$1,720,379

**NOTE 12. LEGAL PROCEEDINGS AND OTHER CONTINGENCIES**

In addition to the legal proceedings described below, the Company is, from time to time, involved in routine legal matters, and audits and inspections by governmental agencies and other third parties which are incidental to the conduct of its business. This includes legal matters such as initiation and defense of proceedings to protect intellectual property rights, personal injury claims, product liability claims, employment claims, and similar matters. The Company believes the ultimate resolution of any such legal proceedings, audits, and inspections will not have a material adverse effect on its consolidated balance sheets, results of operations or cash flows.

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

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

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

Some of the statements contained in this Form 10-Q and any documents incorporated herein by reference constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements, other than statements of historical facts, included or incorporated in this Form 10-Q are forward-looking statements, particularly statements which relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts, such as statements regarding our future financial condition or results of operations, our prospects and strategies for future growth, the development and introduction of new products, and the implementation of our marketing and branding strategies. In many cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "intends," "predicts," "potential" or the negative of these terms or other comparable terminology.

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

not limited to, those factors described in "Risk Factors" and elsewhere in this report.

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



## Table of Contents

This information should be read in conjunction with the unaudited interim consolidated financial statements and the notes included in Item 1 of Part I of this Quarterly Report on Form 10-Q and the audited consolidated financial statements and notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations, contained in our fiscal 2017 Annual Report on Form 10-K filed with the SEC on March 27, 2018.

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

### Overview

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

Our healthy lifestyle inspired athletic apparel and accessories are marketed under the lululemon and ivivva brand names. We offer a comprehensive line of apparel and accessories for women, men, and female youth. Our apparel assortment includes items such as pants, shorts, tops, and jackets designed for a healthy lifestyle and athletic activities such as yoga, running, training, and most other sweaty pursuits. We also offer fitness-related accessories, including items such as bags, socks, underwear, yoga mats and equipment, and water bottles.

During fiscal 2017, we restructured our ivivva operations. On August 20, 2017, we closed 48 of our 55 ivivva branded company-operated stores and all other ivivva branded temporary locations. We now operate ivivva primarily as an e-commerce business.

### Financial Highlights

The summary below provides both GAAP and adjusted non-GAAP financial measures. During the third quarter of fiscal 2018, we adjusted the provisional amount recorded for the transition tax under the U.S. Tax Cuts and Jobs Act, resulting in the recognition of an additional tax expense of \$5.2 million. In the third quarter of fiscal 2017, in connection with the restructuring of our ivivva operations, we recognized pre-tax costs totaling \$22.2 million, and a related tax recovery of \$5.8 million. The adjusted financial measures for the third quarters of fiscal 2018 and 2017 exclude these items.

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

• Net revenue increased 21% to \$747.7 million. On a constant dollar basis, net revenue increased 22%.

• Total comparable sales, which includes comparable store sales and direct to consumer, increased 17%. On a constant dollar basis, total comparable sales increased 18%.

• Comparable store sales increased 6%, or increased 7% on a constant dollar basis.

• Direct to consumer net revenue increased 44%, or increased 46% on a constant dollar basis.

• Gross profit increased 26% to \$406.8 million. It increased 26% compared to adjusted gross profit for the third quarter of fiscal 2017.

• Gross margin increased 240 basis points to 54.4%. It increased 220 basis points compared to adjusted gross margin for the third quarter of fiscal 2017.

• Income from operations increased 59% to \$135.9 million. It increased 26% compared to adjusted income from operations for the third quarter of fiscal 2017.

• Operating margin increased 440 basis points to 18.2%. It increased 80 basis points compared to adjusted operating margin for the third quarter of fiscal 2017.

• Income tax expense increased 57% to \$43.5 million. Our effective tax rate for the third quarter of fiscal 2018 was 31.6% compared to 32.0% for the third quarter of fiscal 2017. The adjusted effective tax rate was 27.8% compared to 30.8% in the third quarter of fiscal 2017.



Table of Contents

Diluted earnings per share were \$0.71 compared to \$0.43 in the third quarter of fiscal 2017. Adjusted diluted earnings per share were \$0.75 compared to \$0.56 for the third quarter of fiscal 2017.

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

## Results of Operations

## Third Quarter Results

The following table summarizes key components of our results of operations for the quarters ended October 28, 2018 and October 29, 2017. The percentages are presented as a percentage of net revenue.

	Quarter Ended		Quarter Ended		
	October 28, 2018	October 29, 2017	October 28, 2018	October 29, 2017	
	(In thousands)		(Percentages)		
Net revenue	\$747,655	\$ 619,018	100.0 %	100.0 %	
Cost of goods sold	340,878	297,056	45.6	48.0	
Gross profit	406,777	321,962	54.4	52.0	
Selling, general and administrative expenses	270,874	215,367	36.2	34.8	
Asset impairment and restructuring costs	—	21,007	—	3.4	
Income from operations	135,903	85,588	18.2	13.8	
Other income (expense), net	2,044	1,052	0.3	0.2	
Income before income tax expense	137,947	86,640	18.5	14.0	
Income tax expense	43,534	27,696	5.8	4.5	
Net income	\$94,413	\$ 58,944	12.6 %	9.5 %	
Net Revenue					

Net revenue increased \$128.6 million, or 21%, to \$747.7 million for the third quarter of fiscal 2018 from \$619.0 million for the third quarter of fiscal 2017. On a constant dollar basis, assuming the average exchange rates for the third quarter of fiscal 2018 remained constant with the average exchange rates for the third quarter of fiscal 2017, net revenue increased \$138.0 million, or 22%.

The increase in net revenue was primarily due to increased direct to consumer net revenue, increased company-operated store net revenue, including from new company-operated stores as well as an increase in comparable store sales, and an increase in net revenue from our other retail locations. Total comparable sales, which includes comparable store sales and direct to consumer, increased 17% in the third quarter of fiscal 2018 compared to the third quarter of fiscal 2017. Total comparable sales increased 18% on a constant dollar basis.

Net revenue on a segment basis for the quarters ended October 28, 2018 and October 29, 2017 is summarized below. The percentages are presented as a percentage of total net revenue.

	Quarter Ended		Quarter Ended		
	October 28, 2018	October 29, 2017	October 28, 2018	October 29, 2017	
	(In thousands)		(Percentages)		
Company-operated stores	\$476,877	\$ 425,084	63.8 %	68.7 %	
Direct to consumer	189,375	131,181	25.3	21.2	
Other	81,403	62,753	10.9	10.1	
Net revenue	\$747,655	\$ 619,018	100.0 %	100.0 %	



## Table of Contents

**Company-Operated Stores.** Net revenue from our company-operated stores segment increased \$51.8 million, or 12%, to \$476.9 million in the third quarter of fiscal 2018 from \$425.1 million in the third quarter of fiscal 2017. The following contributed to the increase in net revenue from our company-operated stores segment:

- Net revenue from company-operated stores we opened or significantly expanded subsequent to October 29, 2017, and therefore not included in comparable store sales, contributed \$41.3 million to the increase. We opened 38 net new lululemon branded company-operated stores since the third quarter of fiscal 2017, including 18 stores in North America, 11 stores in Asia, seven stores in Europe, and two stores in Australia/New Zealand.
- A comparable store sales increase of 6% in the third quarter of fiscal 2018 compared to the third quarter of fiscal 2017 resulted in a \$16.7 million increase to net revenue. Comparable store sales increased 7%, or \$21.4 million on a constant dollar basis. The increase in comparable store sales was primarily a result of increased store traffic and improved conversion rates. This was partially offset by a decrease in dollar value per transaction.
- The increase in net revenue was partially offset by the closure of 48 of our ivivva branded company-operated stores as part of the restructuring of our ivivva operations. These closures reduced our net revenue from company-operated stores for the third quarter of fiscal 2018 by \$6.2 million compared to the third quarter of fiscal 2017.
- Direct to Consumer.** Net revenue from our direct to consumer segment increased \$58.2 million, or 44%, to \$189.4 million in the third quarter of fiscal 2018 from \$131.2 million in the third quarter of fiscal 2017. Direct to consumer net revenue increased 46% on a constant dollar basis. This was primarily a result of increased website traffic and improved conversion rates. This was partially offset by a decrease in dollar value per transaction.
- Other.** Net revenue from our other segment increased \$18.7 million, or 30%, to \$81.4 million in the third quarter of fiscal 2018 from \$62.7 million in the third quarter of fiscal 2017. This increase was primarily the result of an increased number of temporary locations, including seasonal stores, open during the third quarter of fiscal 2018 compared to the third quarter of fiscal 2017.

### **Gross Profit**

Gross profit increased \$84.8 million, or 26%, to \$406.8 million for the third quarter of fiscal 2018 from \$322.0 million for the third quarter of fiscal 2017.

Gross profit as a percentage of net revenue, or gross margin, increased 240 basis points to 54.4% in the third quarter of fiscal 2018 from 52.0% in the third quarter of fiscal 2017. The increase in gross margin was primarily the result of:

- an increase in product margin of 280 basis points, which was primarily due to lower product costs, a favorable mix of higher margin product, lower markdowns, and lower inventory provision expense; and

- the costs incurred in the third quarter of fiscal 2017 in connection with the restructuring of our ivivva operations, which reduced gross margin in that quarter by 20 basis points.

This was partially offset by an increase in costs as a percentage of revenue related to our distribution centers and additional costs related to our product departments of 30 basis points, and an unfavorable impact of foreign exchange rates of 30 basis points.

During the third quarter of fiscal 2017, as a result of the restructuring of our ivivva operations, we recognized costs totaling \$1.2 million within costs of goods sold, as outlined in Note 7 to the unaudited interim consolidated financial statements included in Item 1 of Part I of this report. Excluding these charges from the comparatives for the third quarter of fiscal 2017, gross profit increased 26% and gross margin increased 220 basis points.

### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased \$55.5 million, or 26%, to \$270.9 million in the third quarter of fiscal 2018 from \$215.4 million in the third quarter of fiscal 2017. The increase in selling, general and administrative expenses was primarily due to:

- an increase in costs related to our operating channels of \$28.6 million, comprised of:
  - an increase in employee costs of \$12.9 million primarily from a growth in labor hours and benefits, mainly associated with new company-operated stores and other new operating locations, and due to higher retail bonus expenses;

Table of Contents

an increase in variable costs of \$10.8 million primarily due to an increase in distribution costs, credit card fees, and packaging costs as a result of increased net revenue; and

an increase in other costs of \$5.0 million primarily due to an increase in digital marketing expenses and other costs associated with our operating locations;

an increase in head office costs of \$22.9 million, comprised of:

an increase in employee costs of \$10.0 million primarily due to additional employees to support the growth in our business and increased incentive and stock-based compensation expense; and

an increase in other costs of \$12.8 million primarily due to increases in brand and community costs, information technology costs, professional fees, depreciation, and other head office costs; and

an increase in net foreign exchange and derivative revaluation losses of \$4.1 million.

As a percentage of net revenue, selling, general and administrative expenses increased 140 basis points, to 36.2% in the third quarter of fiscal 2018 from 34.8% in the third quarter of fiscal 2017.

#### Asset Impairment and Restructuring Costs

During the third quarter of fiscal 2017, we incurred asset impairment and restructuring costs totaling \$21.0 million in connection with the restructuring of our ivivva operations. This included lease termination costs of \$19.4 million, employee related costs of \$0.8 million, and other restructuring costs of \$0.8 million. Please refer to Note 7 to the unaudited interim consolidated financial statements included in Item 1 of Part I of this report.

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

#### Income from Operations

Income from operations increased \$50.3 million, or 59%, to \$135.9 million in the third quarter of fiscal 2018 from \$85.6 million in the third quarter of fiscal 2017. Operating margin increased 440 basis points to 18.2% compared to 13.8% in the third quarter of fiscal 2017.

In connection with the restructuring of our ivivva operations, we recognized pre-tax costs totaling \$22.2 million in the third quarter of fiscal 2017. This included costs of \$1.2 million recognized in cost of goods sold, and asset impairment and restructuring costs totaling \$21.0 million. Excluding these charges from the comparatives for the third quarter of fiscal 2017, income from operations increased 26% and operating margin increased 80 basis points.

On a segment basis, we determine income from operations without taking into account our general corporate expenses and the costs we incurred in connection with the restructuring of our ivivva operations. In the first quarter of fiscal 2018, we reviewed our general corporate expenses and determined certain costs which were previously classified as general corporate expenses are more appropriately classified within our direct to consumer segment. Accordingly, comparative figures have been reclassified to conform to the financial presentation adopted for the current year. Segmented income from operations for the quarters ended October 28, 2018 and October 29, 2017 is summarized below. The percentages are presented as a percentage of net revenue of the respective operating segments.

	Quarter Ended		Quarter Ended		
	October 28, 2018	October 29, 2017	October 28, 2018	October 29, 2017	
	(In thousands)		(Percentage of segment revenue)		
Segmented income from operations:					
Company-operated stores	\$117,804	\$ 97,015	24.7%	22.8	%
Direct to consumer	76,435	50,229	40.4	38.3	
Other	15,019	9,319	18.5	14.9	
	209,258	156,563			
General corporate expense	73,355	48,790			
Restructuring and related costs	—	22,185			
Income from operations	\$135,903	\$ 85,588			



## Table of Contents

**Company-Operated Stores.** Income from operations from our company-operated stores segment increased \$20.8 million, or 21%, to \$117.8 million for the third quarter of fiscal 2018 from \$97.0 million for the third quarter of fiscal 2017. The increase was primarily the result of increased gross profit of \$32.3 million which was primarily due to increased net revenue and higher gross margin. This was partially offset by an increase in selling, general and administrative expenses, primarily due to an increase in employee costs as well as increased store operating expenses including higher credit card fees, distribution costs, and packaging costs as a result of higher net revenue. Income from operations as a percentage of company-operated stores net revenue increased 190 basis points due to higher gross margin and leverage on selling, general and administrative expenses.

**Direct to Consumer.** Income from operations from our direct to consumer segment increased \$26.2 million, or 52%, to \$76.4 million for the third quarter of fiscal 2018 from \$50.2 million for the third quarter of fiscal 2017. The increase was primarily the result of increased gross profit of \$38.3 million which was primarily due to increased net revenue. This was partially offset by an increase in selling, general and administrative expenses primarily due to higher variable costs including distribution costs and credit card fees as a result of higher net revenue, as well as higher digital marketing expenses and increased employee costs. Income from operations as a percentage of direct to consumer net revenue increased 210 basis points primarily due to leverage on selling, general and administrative expenses.

**Other.** Other income from operations increased \$5.7 million, or 61%, to \$15.0 million for the third quarter of fiscal 2018 from \$9.3 million for the third quarter of fiscal 2017. The increase was primarily the result of increased gross profit of \$13.1 million which was primarily due to increased net revenue and higher gross margin. The increase in gross profit was partially offset by an increase in selling, general and administrative expenses, primarily due to increased employee costs, increased operating expenses including increases in professional fees, repairs and maintenance costs, security costs, and higher distribution costs and credit card fees as a result of higher net revenue, and higher community costs. Income from operations as a percentage of other net revenue increased 360 basis points due to higher gross margin and leverage on selling, general and administrative expenses.

**General Corporate Expense.** General corporate expense increased \$24.6 million, or 50%, to \$73.4 million for the third quarter of fiscal 2018 from \$48.8 million for the third quarter of fiscal 2017. This increase was primarily due to increases in head office employee costs, brand and community costs, information technology costs, professional fees, depreciation, and an increase in net foreign exchange and derivative revaluation losses of \$4.1 million.

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

Other income, net increased \$1.0 million, or 94%, to \$2.0 million for the third quarter of fiscal 2018 from income of \$1.1 million for the third quarter of fiscal 2017. The increase was primarily due to an increase in net interest income, primarily due to higher rates of return on our cash and cash equivalents, including money market funds, treasury bills, and term deposits, and due to an increase in cash and cash equivalents in the third quarter of fiscal 2018 compared to third quarter of fiscal 2017. This was partially offset by an increase in interest expense primarily related to borrowings on our revolving credit facility during the third quarter of fiscal 2018. We repaid the outstanding balance on our revolving credit facility during the third quarter of fiscal 2018 and had no borrowings outstanding under this credit facility as of October 28, 2018.

### **Income Tax Expense**

Income tax expense increased \$15.8 million, or 57%, to \$43.5 million for the third quarter of fiscal 2018 from \$27.7 million for the third quarter of fiscal 2017.

The U.S. Tax Cuts and Jobs Act ("U.S. tax reform") was enacted on December 22, 2017 and introduced significant changes to U.S. income tax law. We recorded certain provisional amounts in the fourth quarter of fiscal 2017. During the third quarter of fiscal 2018, we adjusted the provisional amount recorded for the mandatory one-time transition tax on the deemed repatriation of accumulated undistributed earnings of foreign subsidiaries. This resulted in the recognition of an additional tax expense of \$5.2 million. We expect the accounting for the income tax effects of the U.S. tax reform to be completed in fiscal 2018. Please refer to Note 8 to the unaudited interim consolidated financial statements included in Item 1 of Part I of this report.



During the third quarter of fiscal 2017, we recognized a net income tax recovery of \$5.8 million on the costs recognized in connection with the ivivva restructuring. Please refer to Note 7 to the unaudited interim consolidated financial statements included in Item 1 of Part I of this report.

The effective tax rate for the third quarter of fiscal 2018 was 31.6% compared to 32.0% for the third quarter of fiscal 2017. Excluding the above tax adjustments, the adjusted effective tax rate was 27.8% compared to 30.8% for the third quarter of fiscal 2017. The decrease in the adjusted effective tax rate was primarily due to the lower U.S. federal income tax rate as a

Table of Contents

result of the U.S. tax reform, partially offset by the amounts recognized for global intangible low-taxed income ("GILTI") taxes. During the third quarter of fiscal 2018 we reduced our expected effective tax rate for fiscal 2018 as a result of a more favorable mix of earnings amongst jurisdictions with differing statutory tax rates, certain adjustments resulting from the filing of tax returns, and higher than expected tax credits related to research and development. This reduced the effective tax rate for the third quarter of fiscal 2018.

**Net Income**

Net income increased \$35.5 million, or 60%, to \$94.4 million for the third quarter of fiscal 2018 from \$58.9 million for the third quarter of fiscal 2017. This was primarily due to an increase in gross profit of \$84.8 million, a reduction in asset impairment and restructuring costs of \$21.0 million, and an increase in other income (expense), net of \$1.0 million, partially offset by an increase in selling, general and administrative expenses of \$55.5 million and an increase in income tax expense of \$15.8 million.

**First Three Quarters Results**

The following table summarizes key components of our results of operations for the first three quarters ended October 28, 2018 and October 29, 2017. The percentages are presented as a percentage of net revenue.

	Three Quarters Ended			
	October 28, 2018	October 29, 2017	October 28, 2018	October 29, 2017
	(In thousands)		(Percentages)	
Net revenue	\$2,120,861	\$1,720,379	100.0%	100.0%
Cost of goods sold	973,157	844,100	45.9	49.1
Gross profit	1,147,704	876,279	54.1	50.9
Selling, general and administrative expenses	773,288	640,032	36.5	37.2
Asset impairment and restructuring costs	—	36,524	—	2.1
Income from operations	374,416	199,723	17.7	11.6
Other income (expense), net	6,553	2,771	0.3	0.2
Income before income tax expense	380,969	202,494	18.0	11.8
Income tax expense	115,633	63,593	5.5	3.7
Net income	\$265,336	\$138,901	12.5%	8.1%

**Net Revenue**

Net revenue increased \$400.5 million, or 23%, to \$2.121 billion for the first three quarters of fiscal 2018 from \$1.720 billion for the first three quarters of fiscal 2017. On a constant dollar basis, assuming the average exchange rates for the first three quarters of fiscal 2018 remained constant with the average exchange rates for the first three quarters of fiscal 2017, net revenue increased \$397.9 million, or 23%.

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

Net revenue on a segment basis for the first three quarters ended October 28, 2018 and October 29, 2017 is summarized below. The percentages are presented as a percentage of total net revenue.

	Three Quarters Ended			
	October 28, 2018	October 29, 2017	October 28, 2018	October 29, 2017
	(In thousands)		(Percentages)	
Company-operated stores	\$1,396,376	\$1,218,127	65.8%	70.8%
Direct to consumer	514,623	341,453	24.3	19.8
Other	209,862	160,799	9.9	9.4
Net revenue	\$2,120,861	\$1,720,379	100.0%	100.0%



## Table of Contents

**Company-Operated Stores.** Net revenue from our company-operated stores segment increased \$178.2 million, or 15%, to \$1.396 billion in the first three quarters of fiscal 2018 from \$1.218 billion in the first three quarters of fiscal 2017.

The following contributed to the increase in net revenue from our company-operated stores segment:

Net revenue from company-operated stores we opened or significantly expanded subsequent to October 29, 2017, and therefore not included in comparable store sales, contributed \$134.5 million to the increase. We opened 38 net new lululemon branded company-operated stores since the third quarter of fiscal 2017, including 18 stores in North America, 11 stores in Asia, seven stores in Europe, and two stores in Australia/New Zealand.

A comparable store sales increase of 8% in the first three quarters of fiscal 2018 compared to the first three quarters of fiscal 2017 resulted in a \$75.4 million increase to net revenue. Comparable store sales increased 8%, or \$74.5 million on a constant dollar basis. The increase in comparable store sales was primarily a result of increased store traffic and improved conversion rates.

The increase in net revenue was partially offset by the closure of 48 of our ivivva branded company-operated stores as part of the restructuring of our ivivva operations. These closures reduced our net revenue from company-operated stores for the first three quarters of fiscal 2018 by \$31.6 million compared to the first three quarters of fiscal 2017.

**Direct to Consumer.** Net revenue from our direct to consumer segment increased \$173.2 million, or 51%, to \$514.6 million in the first three quarters of fiscal 2018 from \$341.5 million in the first three quarters of fiscal 2017. Direct to consumer net revenue increased 50% on a constant dollar basis. This was primarily a result of increased website traffic and improved conversion rates, and due to increased dollar value per transaction. During the second quarter of fiscal 2017, we held an online warehouse sale in the United States and Canada which generated net revenue of \$12.3 million. We did not hold any online warehouse sales during the first three quarters of fiscal 2018.

**Other.** Net revenue from our other segment increased \$49.1 million, or 31%, to \$209.9 million in the first three quarters of fiscal 2018 from \$160.8 million in the first three quarters of fiscal 2017. This increase was primarily the result of an increase in net revenue from new and existing outlets during the first three quarters of fiscal 2018 compared to the first three quarters of fiscal 2017. There was also an increased number of temporary locations, including seasonal stores, open during the first three quarters of fiscal 2018 compared to the first three quarters of fiscal 2017. The increase in net revenue from our other segment was partially offset by lower net revenue from showrooms, primarily due to a decreased number of showrooms open during the first three quarters of fiscal 2018 compared to the first three quarters of fiscal 2017.

### **Gross Profit**

Gross profit increased \$271.4 million, or 31%, to \$1.148 billion for the first three quarters of fiscal 2018 from \$876.3 million for the first three quarters of fiscal 2017.

Gross profit as a percentage of net revenue, or gross margin, increased 320 basis points, to 54.1% in the first three quarters of fiscal 2018 from 50.9% in the first three quarters of fiscal 2017. The increase in gross margin was primarily the result of:

- an increase in product margin of 230 basis points, which was primarily due to lower product costs, a favorable mix of higher margin product, lower markdowns, and lower inventory provision expense;
- a decrease in occupancy and depreciation costs as a percentage of revenue of 50 basis points; and
- the costs incurred in the first three quarters of fiscal 2017 in connection with the restructuring of our ivivva operations, which reduced gross margin in that quarter by 50 basis points.

This was partially offset by an increase in costs as a percentage of revenue related to our distribution centers of 10 basis points.

During the first three quarters of fiscal 2017, as a result of the restructuring of our ivivva operations, we recognized costs totaling \$8.8 million within costs of goods sold, as outlined in Note 7 to the unaudited interim consolidated financial statements included in Item 1 of Part I of this report. Excluding these charges from the comparatives for the first three quarters of fiscal 2017, gross profit increased 30% and gross margin increased 270 basis points.

## Table of Contents

### Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$133.3 million, or 21%, to \$773.3 million in the first three quarters of fiscal 2018 from \$640.0 million in the first three quarters of fiscal 2017. The increase in selling, general and administrative expenses was primarily due to:

- an increase in costs related to our operating channels of \$80.9 million, comprised of:

- an increase in employee costs of \$35.3 million primarily from a growth in labor hours and benefits, mainly associated with new company-operated stores and other new operating locations, and due to higher retail bonus expenses;

- an increase in variable costs of \$28.4 million primarily due to an increase in distribution costs, credit card fees, and packaging costs as a result of increased net revenue; and

- an increase in other costs of \$17.1 million primarily due to an increase in digital marketing expenses, brand and community costs, and other costs associated with our operating locations including security and repairs and maintenance;

- an increase in head office costs of \$41.3 million, comprised of:

- an increase in employee costs of \$22.8 million primarily due to additional employees to support the growth in our business and increased incentive and stock-based compensation expense; and

- an increase in other costs of \$18.5 million primarily due to an increase in brand and community costs, information technology costs, depreciation, professional fees, and other head office costs; and

- an increase in net foreign exchange and derivative revaluation losses of \$11.2 million.

As a percentage of net revenue, selling, general and administrative expenses decreased 70 basis points, to 36.5% in the first three quarters of fiscal 2018 from 37.2% in the first three quarters of fiscal 2017.

### Asset Impairment and Restructuring Costs

During the first three quarters of fiscal 2017, we incurred asset impairment and restructuring costs totaling \$36.5 million in connection with the restructuring of our ivivva operations. This included lease termination costs of \$19.9 million, long-lived asset impairment charges of \$11.6 million, employee related costs of \$4.0 million, and other restructuring costs of \$1.0 million. Please refer to Note 7 to the unaudited interim consolidated financial statements included in Item 1 of Part I of this report.

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

### Income from Operations

Income from operations increased \$174.7 million, or 87%, to \$374.4 million in the first three quarters of fiscal 2018 from \$199.7 million in the first three quarters of fiscal 2017. Operating margin increased 610 basis points to 17.7% compared to 11.6% in the first three quarters of fiscal 2017.

In connection with the restructuring of our ivivva operations, we recognized pre-tax costs totaling \$45.4 million in the first three quarters of fiscal 2017. This included costs of \$8.8 million recognized in cost of goods sold, and asset impairment and restructuring costs totaling \$36.5 million. Excluding these charges from the comparatives for the first three quarters of fiscal 2017, income from operations increased 53% and operating margin increased 350 basis points.

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

Table of Contents

Segmented income from operations for the first three quarters ended October 28, 2018 and October 29, 2017 is summarized below. The percentages are presented as a percentage of net revenue of the respective operating segments.

	Three Quarters Ended			
	October 28, 2018	October 29, 2017	October 28, 2018	October 29, 2017
	(In thousands)		(Percentage of segment revenue)	
Segmented income from operations:				
Company-operated stores	\$342,959	\$267,178	24.6%	21.9%
Direct to consumer	205,735	123,045	40.0	36.0
Other	39,336	19,076	18.7	11.9
	588,030	409,299		
General corporate expense	213,614	164,211		
Restructuring and related costs	—	45,365		
Income from operations	\$374,416	\$199,723		

**Company-Operated Stores.** Income from operations from our company-operated stores segment increased \$75.8 million, or 28%, to \$343.0 million for the first three quarters of fiscal 2018 from \$267.2 million for the first three quarters of fiscal 2017. The increase was primarily the result of increased gross profit of \$110.5 million which was primarily due to increased net revenue and higher gross margin. This was partially offset by an increase in selling, general and administrative expenses, primarily due to increased employee costs, increased store operating expenses including higher credit card fees, distribution costs, and packaging costs as a result of higher net revenue, and due to increased community costs. Income from operations as a percentage of company-operated stores net revenue increased by 270 basis points, primarily due to an increase in gross margin and leverage on selling, general and administrative expenses.

**Direct to Consumer.** Income from operations from our direct to consumer segment increased \$82.7 million, or 67%, to \$205.7 million for the first three quarters of fiscal 2018 from \$123.0 million for the first three quarters of fiscal 2017. The increase was primarily the result of increased gross profit of \$118.9 million which was primarily due to increased net revenue and higher gross margin. This was partially offset by an increase in selling, general and administrative expenses primarily due to higher variable costs including distribution costs, credit card fees, and packaging costs as a result of higher net revenue, higher digital marketing expenses, and increased employee costs. Income from operations as a percentage of direct to consumer net revenue increased 400 basis points, primarily due to leverage on selling, general and administrative expenses and an increase in gross margin.

**Other.** Other income from operations increased \$20.3 million, or 106%, to \$39.3 million for the first three quarters of fiscal 2018 from \$19.1 million for the first three quarters of fiscal 2017. The increase was primarily the result of increased gross profit of \$33.2 million which was primarily due to increased net revenue and higher gross margin. The increase in gross profit was partially offset by an increase in selling, general and administrative expenses, including increased employee costs, increased operating expenses including higher distribution costs and higher credit card fees as a result of higher net revenue, and due to higher community costs. Income from operations as a percentage of other net revenue increased 680 basis points, primarily due to an increase in gross margin and leverage on selling, general and administrative expenses.

**General Corporate Expense.** General corporate expense increased \$49.4 million, or 30%, to \$213.6 million for the first three quarters of fiscal 2018 from \$164.2 million for the first three quarters of fiscal 2017. This increase was primarily due to increases in head office employee costs, brand and community costs, information technology costs, professional fees, and depreciation and an increase in net foreign exchange and derivative revaluation losses of \$11.2 million.

Other Income (Expense), Net

Other income, net increased \$3.8 million, or 136%, to \$6.6 million for the first three quarters of fiscal 2018 from income of \$2.8 million for the first three quarters of fiscal 2017. The increase was primarily due to an increase in net interest income, primarily due to higher rates of return on our cash and cash equivalents, including money market funds, treasury bills, and term deposits, and due to an increase in cash and cash equivalents in the first three quarters of fiscal 2018 compared to the first three quarters of fiscal 2017. This was partially offset by an increase in interest expense, primarily related to borrowings on our revolving credit facility during the first three quarters of fiscal 2018. We repaid the outstanding balance on our revolving credit facility during the third quarter of fiscal 2018 and had no borrowings outstanding under this credit facility as of October 28, 2018.

## Table of Contents

### Income Tax Expense

Income tax expense increased \$52.0 million, or 82%, to \$115.6 million for the first three quarters of fiscal 2018 from \$63.6 million for the first three quarters of fiscal 2017.

U.S. tax reform was enacted on December 22, 2017 and introduced significant changes to U.S. income tax law. We recorded certain provisional amounts in the fourth quarter of fiscal 2017. During the third quarter of fiscal 2018, we adjusted the provisional amount recorded for the mandatory one-time transition tax on the deemed repatriation of accumulated undistributed earnings of foreign subsidiaries. This resulted in the recognition of an additional tax expense of \$5.2 million. We expect the accounting for the income tax effects of the U.S. tax reform to be completed in fiscal 2018. Please refer to Note 8 to the unaudited interim consolidated financial statements included in Item 1 of Part I of this report.

During the first three quarters of fiscal 2017, we recognized a net income tax recovery of \$11.9 million on the costs recognized in connection with the ivivva restructuring. Please refer to Note 7 to the unaudited interim consolidated financial statements included in Item 1 of Part I of this report.

The effective tax rate for the first three quarters of fiscal 2018 was 30.4% compared to 31.4% for the first three quarters of fiscal 2017. Excluding the above tax adjustments, the adjusted effective tax rate was 29.0% for the first three quarters of fiscal 2018 compared to 30.5% for the first three quarters of fiscal 2017. The decrease in the adjusted effective tax rate was primarily due to the lower U.S. federal income tax rate as a result of the U.S. tax reform, as well as increased tax deductions related to stock-based compensation and increased research and development tax credits. This was partially offset by the amounts recognized for GILTI taxes.

### Net Income

Net income increased \$126.4 million, or 91%, to \$265.3 million for the first three quarters of fiscal 2018 from \$138.9 million for the first three quarters of fiscal 2017. This was primarily due to an increase in gross profit of \$271.4 million, a reduction in long-lived asset impairment and restructuring costs of \$36.5 million, and an increase in other income (expense), net of \$3.8 million, partially offset by an increase in selling, general and administrative expenses of \$133.3 million and an increase in income tax expense of \$52.0 million.

### Comparable Store Sales and Total Comparable Sales

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

### Non-GAAP Financial Measures

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

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

Adjusted gross profit, gross margin, income from operations, operating margin, income tax expense, effective tax rates, and diluted earnings per share exclude the amounts recognized in connection with the U.S. tax reform and the costs and related tax effects recognized in connection with the restructuring of our ivivva operations. We believe these



adjusted financial measures are useful to investors as the adjustments do not directly relate to our ongoing business operations and therefore do not contribute to a meaningful evaluation of the trend in our operating performance. Furthermore, we do not believe the adjustments are reflective of our expectations of our future operating performance and believe these non-GAAP measures are useful to investors because of their comparability to our historical information.

Table of Contents

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

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

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

	Quarter Ended October 28, 2018 (In thousands)(Percentages)			Three Quarters Ended October 28, 2018 (In thousands)(Percentages)		
Change in net revenue	\$128,637	21	%	\$400,482	23	%
Adjustments due to foreign exchange rate changes	9,324	1		(2,567)	—	
Change in net revenue in constant dollars	\$137,961	22	%	\$397,915	23	%

	Quarter Ended October 28, 2018		Three Quarters Ended October 28, 2018	
Change in total comparable sales <sup>(1),(2)</sup>	17	%	19	%
Adjustments due to foreign exchange rate changes	1		—	
Change in total comparable sales in constant dollars <sup>(1),(2)</sup>	18	%	19	%

	Quarter Ended October 28, 2018 (In thousands)(Percentages)			Three Quarters Ended October 28, 2018 (In thousands)(Percentages)		
Change in comparable store sales <sup>(2)</sup>	\$16,719	6	%	\$75,376	8	%
Adjustments due to foreign exchange rate changes	4,674	1		(847)	—	
Change in comparable store sales in constant dollars <sup>(2)</sup>	\$21,393	7	%	\$74,529	8	%

	Quarter Ended October 28, 2018		Three Quarters Ended October 28, 2018	
Change in direct to consumer net revenue	44	%	51	%
Adjustments due to foreign exchange rate changes	2		(1)	
Change in direct to consumer net revenue in constant dollars	46	%	50	%

<sup>(1)</sup> Total comparable sales includes comparable store sales and direct to consumer sales.

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



Table of Contents

## Adjusted financial measures

The following tables reconcile the adjusted financial measures with the most directly comparable measures calculated in accordance with GAAP. The adjustments relate to U.S. tax reform and the restructuring of our ivivva operations and its related tax effects. Please refer to Notes 7 and 8 to the unaudited interim consolidated financial statements included in Item 1 of Part I of this report for further information on these adjustments.

	Quarter Ended October 28, 2018			Quarter Ended October 29, 2017		
	GAAP Results	U.S. Tax Reform	Adjusted Results (Non-GAAP)	GAAP Results	Restructuring of ivivva Operations Adjustments	Adjusted Results (Non-GAAP)
	(In thousands, except per share amounts)					
Gross profit	\$406,777	\$—	\$406,777	\$321,962	\$ 1,178	\$ 323,140
Gross margin	54.4 %	— %	54.4 %	52.0 %	0.2 %	52.2 %
Income from operations	135,903	—	135,903	85,588	22,186	107,774
Operating margin	18.2 %	— %	18.2 %	13.8 %	3.6 %	17.4 %
Income before income tax expense	137,947	—	137,947	86,640	22,185	108,825
Income tax expense	43,534	(5,163)	38,371	27,696	5,813	33,509
Effective tax rate	31.6 %	(3.8 )%	27.8 %	32.0 %	(1.2 )%	30.8 %
Diluted earnings per share	\$0.71	\$0.04	\$0.75	\$0.43	\$ 0.13	\$ 0.56
	Three Quarters Ended October 28, 2018			Three Quarters Ended October 29, 2017		
	GAAP Results	U.S. Tax Reform	Adjusted Results (Non-GAAP)	GAAP Results	Restructuring of ivivva Operations Adjustments	Adjusted Results (Non-GAAP)
	(In thousands, except per share amounts)					
Gross profit	\$1,147,704	\$—	\$1,147,704	\$876,279	\$ 8,841	\$ 885,120
Gross margin	54.1 %	— %	54.1 %	50.9 %	0.5 %	51.4 %
Income from operations	374,416	—	374,416	199,723	45,365	245,088
Operating margin	17.7 %	— %	17.7 %	11.6 %	2.6 %	14.2 %
Income before income tax expense	380,969	—	380,969	202,494	45,365	247,859
Income tax expense	115,633	(5,163)	110,471	63,593	11,886	75,479
Effective tax rate	30.4 %	(1.4 )%	29.0 %	31.4 %	(0.9 )%	30.5 %
Diluted earnings per share	\$1.97	\$0.04	\$2.01	\$1.02	\$ 0.24	\$ 1.26

## Seasonality

Our business is affected by the general seasonal trends common to the retail apparel industry. Our annual net revenue is weighted more heavily toward our fourth fiscal quarter, reflecting our historical strength in sales during the holiday season, while our operating expenses are more equally distributed throughout the year. As a result, a substantial portion of our operating profits are generated in the fourth quarter of our fiscal year. For example, we generated approximately 56%, 47%, and 45% of our full year operating profit during the fourth quarters of fiscal 2017, fiscal 2016, and fiscal 2015, respectively. Excluding the costs we incurred in connection with the ivivva restructuring, we generated approximately 51% of our operating profit during the fourth quarter of fiscal 2017.

## Liquidity and Capital Resources

Our primary sources of liquidity are our current balances of cash and cash equivalents, cash flows from operations, and capacity under our revolving credit facility. Our primary cash needs are capital expenditures for opening new stores and remodeling or relocating existing stores, making information technology system investments and enhancements, funding working capital requirements, and making other strategic capital investments both in North

America and internationally. We may also use cash to repurchase shares of our common stock. Cash and cash equivalents in excess of our needs are held in interest bearing accounts with financial institutions, as well as in money market funds, treasury bills, and term deposits.

Table of Contents

As of October 28, 2018, our working capital, excluding cash and cash equivalents, was \$216.2 million, our cash and cash equivalents were \$703.6 million, and our capacity under our revolving facility was \$398.8 million.

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

	Three Quarters Ended	
	October	October
	28, 2018	29, 2017
	(In thousands)	
Total cash provided by (used in):		
Operating activities	\$316,876	\$131,309
Investing activities	(165,914 )	(120,051 )
Financing activities	(406,361 )	(100,707 )
Effect of exchange rate changes on cash	(31,495 )	4,657
Decrease in cash and cash equivalents	\$(286,894)	\$(84,792 )

**Operating Activities**

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

Cash provided by operating activities increased \$185.6 million, to \$316.9 million for the first three quarters of fiscal 2018 compared to \$131.3 million for the first three quarters of fiscal 2017, primarily as a result of the following:

**Net income and non-cash items**

an increase of \$126.4 million in net income, and an increase of \$12.9 million in non-cash expenses primarily related to an increase in deferred income taxes, depreciation, and stock-based compensation, partially offset by a decrease in asset impairment costs related to the restructuring of our ivivva operations and the settlement of derivatives not designated in a hedging relationship.

**Changes in operating assets and liabilities**

an increase of \$46.3 million in the change in operating assets and liabilities, primarily due to the following:

— an increase of \$140.8 million related to accounts payable, primarily due to a change in our payment terms;

— partially offset by an increase of \$97.4 million related to inventory, primarily due to an increase in inventory purchases.

**Investing Activities**

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

Cash used in investing activities increased \$45.9 million to \$165.9 million for the first three quarters of fiscal 2018 from \$120.1 million for the first three quarters of fiscal 2017. The increase was primarily the result of an increase in corporate capital expenditures related to information technology and business systems. Increased capital expenditures related to our company-operated stores also contributed to the increase in cash used in investing activities, primarily as a result of an increase in renovations and relocations of existing stores. The increase in cash used in investing activities was partially offset by a decrease in direct to consumer capital expenditures.

**Financing Activities**

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

Cash used in financing activities increased \$305.7 million to \$406.4 million for the first three quarters of fiscal 2018 compared to \$100.7 million for the first three quarters of fiscal 2017. The increase was primarily the result of our

stock repurchases.

33

---

## Table of Contents

On December 1, 2016, our board of directors approved a program to repurchase shares of our common stock up to an aggregate value of \$100.0 million. This stock repurchase program was completed during the third quarter of fiscal 2017. On November 29, 2017, our board of directors approved a program to repurchase shares of our common stock up to an aggregate value of \$200.0 million. On June 6, 2018, the board of directors approved an increase to this stock repurchase program, authorizing the repurchase of up to a total of \$600.0 million of our common shares on the open market or in privately negotiated transactions.

Our cash used in financing activities for the first three quarters of fiscal 2018 included \$414.3 million to repurchase 3.4 million shares of our common stock compared to \$99.3 million to repurchase 1.8 million shares for the first three quarters of fiscal 2017. During the second quarter of fiscal 2018, we repurchased 3.3 million shares in a private transaction. The other common stock was repurchased in the open market at prevailing market prices, including under plans complying with the provisions of Rule 10b5-1 and Rule 10b-18 of the Securities Exchange Act of 1934, with the timing and actual number of shares repurchased depending upon market conditions, eligibility to trade, and other factors.

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

### Revolving Credit Facility

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

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

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

We are also required to maintain a consolidated rent-adjusted leverage ratio of not greater than 3.50:1.00 and we are not permitted to allow the ratio of consolidated EBITDAR to consolidated interest charges (plus rent) to be less than 2.00:1.00. The credit agreement also contains certain customary representations, warranties, affirmative covenants,



and events of default (including, among others, an event of default upon the occurrence of a change of control). If an event of default occurs, the credit agreement may be terminated and the maturity of any outstanding amounts may be accelerated.

On June 6, 2018, we entered into Amendment No. 1 to the credit agreement. The Amendment amends the credit agreement to provide for (i) an increase in the aggregate commitments under the unsecured five-year revolving credit facility to \$400.0 million, with an increase of the sub-limits for the issuance of letters of credit and extensions of swing line loans to \$50.0 million for each, (ii) an increase in the option, subject to certain conditions as set forth in the credit agreement, to request increases in commitments under the revolving facility from \$400.0 million to \$600.0 million and (iii) an extension in the maturity of the revolving facility from December 15, 2021 to June 6, 2023.

Table of Contents

In addition, the Amendment decreases the applicable margins for LIBOR loans from 1.00%-1.75% to 1.00%-1.50% and for alternate base rate loans from 0.00%-0.75% to 0.00%-0.50%, reduces the commitment fee on average daily unused amounts under the revolving facility from 0.125%-0.200% to 0.10%-0.20%, and reduces fees for unused letters of credit from 1.00%-1.75% to 1.00%-1.50%.

As of October 28, 2018, aside from letters of credit of \$1.2 million, we had no other borrowings outstanding under this credit facility.

**Off-Balance Sheet Arrangements**

We enter into standby letters of credit to secure certain of our obligations, including leases, taxes, and duties. As of October 28, 2018, letters of credit and letters of guarantee totaling \$1.2 million had been issued.

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

**Critical Accounting Policies and Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions. Predicting future events is inherently an imprecise activity and, as such, requires the use of judgment. Actual results may vary from our estimates in amounts that may be material to the financial statements. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact our consolidated financial statements. Our critical accounting policies and estimates are discussed in our fiscal 2017 Annual Report on Form 10-K filed with the SEC on March 27, 2018, and in Notes 2, 5, and 6 included in Item 1 of Part I of this Quarterly Report on Form 10-Q.

**Operating Locations**

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

	October 28, 2018	January 28, 2018
United States <sup>(1)</sup>	282	274
Canada	61	60
Australia	29	28
China <sup>(2)</sup>	17	15
United Kingdom	12	9
New Zealand	6	6
Germany	4	2
Japan	4	2
South Korea	4	3
Singapore	3	3
France	1	—
Ireland	1	1
Sweden	1	—
Switzerland	1	1
Total company-operated stores	426	404

---

(1)

Edgar Filing: lululemon athletica inc. - Form 10-Q

Included within the United States as of January 28, 2018, was one company-operated store in the Commonwealth of Puerto Rico. This store permanently closed during the second quarter of fiscal 2018.

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

## Table of Contents

Retail locations operated by third parties under license and supply arrangements are not included in the above table. As of October 28, 2018, there were seven licensed locations, including three in Mexico, three in the United Arab Emirates, and one in Qatar.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

As of October 28, 2018, we had certain forward currency contracts outstanding in order to hedge a portion of the foreign currency exposure that arises on translation of a Canadian subsidiary into U.S. dollars. We also had certain forward currency contracts outstanding in an effort to reduce our exposure to the foreign exchange revaluation gains and losses that are recognized by our Canadian subsidiaries on U.S. dollar denominated monetary assets and liabilities. Please refer to Note 6 to the unaudited interim consolidated financial statements included in Item 1 of Part I of this report for further information, including details of the notional amounts outstanding.

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

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

the following impacts to the consolidated statements of operations:

an increase in our net revenue upon translation of the sales made by our Canadian operations into U.S. dollars for the purposes of consolidation;

an increase in our selling, general and administrative expenses incurred by our Canadian operations upon translation into U.S. dollars for the purposes of consolidation;

foreign exchange revaluation losses by our Canadian subsidiaries on U.S. dollar denominated monetary assets and liabilities; and

derivative valuation gains on forward currency contracts not designated in a hedging relationship;

the following impacts to the consolidated balance sheets:

an increase in the foreign currency translation adjustment which arises on the translation of our Canadian subsidiaries' balance sheets into U.S. dollars; and

a decrease in the foreign currency translation adjustment from derivative valuation losses on forward currency contracts, entered into as net investment hedges of a Canadian subsidiary.

During the first three quarters of fiscal 2018, the change in the relative value of the U.S. dollar against the Canadian dollar resulted in a \$66.9 million increase in accumulated other comprehensive loss within stockholders' equity.

During the first three quarters of fiscal 2017, the change in the relative value of the U.S. dollar against the Canadian dollar resulted in a \$13.8 million reduction in accumulated other comprehensive loss within stockholders' equity.

A 10% depreciation in the relative value of the U.S. dollar against the Canadian dollar compared to the exchange rates in effect for the first three quarters of fiscal 2018 would have resulted in additional income from operations of approximately \$4.6 million in the first three quarters of fiscal 2018. This assumes a consistent 10% depreciation in the

U.S. dollar against the Canadian dollar throughout the first three quarters of fiscal 2018. The timing of changes in the relative value of the U.S. dollar

Table of Contents

combined with the seasonal nature of our business, can affect the magnitude of the impact that fluctuations in foreign exchange rates have on our income from operations.

**Interest Rate Risk.** Our revolving credit facility provides us with available borrowings in an amount up to \$400.0 million in the aggregate. Because our revolving credit facility bears interest at a variable rate, we will be exposed to market risks relating to changes in interest rates, if we have a meaningful outstanding balance. As of October 28, 2018, aside from letters of credit of \$1.2 million, we had no other borrowings outstanding under this credit facility. We currently do not engage in any interest rate hedging activity and currently have no intention to do so. However, in the future, if we have a meaningful outstanding balance under our revolving facility, in an effort to mitigate losses associated with these risks, we may at times enter into derivative financial instruments, although we have not historically done so. These may take the form of forward contracts, option contracts, or interest rate swaps. We do not, and do not intend to, engage in the practice of trading derivative securities for profit.

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

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

**Inflation**

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

**ITEM 4. CONTROLS AND PROCEDURES**

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

Our management, including our principal executive officer and principal financial and accounting officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act) at October 28, 2018. Based on that evaluation, our principal executive officer and principal financial and accounting officer concluded that, at October 28, 2018, our disclosure controls and procedures were effective.

There were no changes in our internal control over financial reporting during the quarter ended October 28, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In addition to the legal matters described in Note 12 to the unaudited interim consolidated financial statements included in Item 1 of Part I of this report and in our fiscal 2017 Annual Report on Form 10-K, we are, from time to time, involved in routine legal matters incidental to the conduct of our business, including legal matters such as initiation and defense of proceedings to protect intellectual property rights, personal injury claims, product liability claims, employment claims, and similar matters. We believe the ultimate resolution of any such current proceeding will not have a material adverse effect on our continued financial position, results of operations or cash flows.

ITEM 1A. RISK FACTORS

In addition to the other information contained in this Form 10-Q and in our Annual Report on Form 10-K for our 2017 fiscal year, the following risk factors should be considered carefully in evaluating our business. Our business, financial condition, or results of operations could be materially adversely affected by any of these risks. Please note that additional risks not presently known to us or that we currently deem immaterial could also impair our business and operations.

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

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

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

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

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

The market for technical athletic apparel is highly competitive. Competition may result in pricing pressures, reduced profit margins or lost market share, or a failure to grow or maintain our market share, any of which could substantially harm our business and results of operations. We compete directly against wholesalers and direct retailers of athletic apparel, including large, diversified apparel companies with substantial market share and established companies expanding their production and marketing of technical athletic apparel, as well as against retailers specifically focused on women's athletic apparel. We also face competition from wholesalers and direct retailers of traditional commodity athletic apparel, such as cotton T-shirts and sweatshirts. Many of our competitors are large apparel and sporting goods companies with strong worldwide brand recognition. Because of the fragmented nature of the industry, we also

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



## Table of Contents

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

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

Our reliance on suppliers to provide fabrics for and to produce our products could cause problems in our supply chain. We do not manufacture our products or the raw materials for them and rely instead on suppliers. Many of the specialty fabrics used in our products are technically advanced textile products developed and manufactured by third parties and may be available, in the short-term, from only one or a very limited number of sources. We work with a group of approximately 65 suppliers to provide the fabrics for our products. In fiscal 2017, approximately 59% of our fabrics were produced by our top five fabric suppliers, and the largest single manufacturer produced approximately 35% of raw materials used. We work with a group of approximately 47 vendors that manufacture our products, five of which produced approximately 64% of our products in fiscal 2017. During fiscal 2017, the largest single manufacturer produced approximately 25% of our product offerings. We have no long-term contracts with any of our suppliers or manufacturing sources for the production and supply of our fabrics and garments, and we compete with other companies for fabrics, raw materials, and production.

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

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

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

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

Table of Contents

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

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

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

To ensure adequate inventory supply, we must forecast inventory needs and place orders with our manufacturers based on our estimates of future demand for particular products. Our ability to accurately forecast demand for our products could be affected by many factors, including an increase or decrease in guest demand for our products or for products of our competitors, our failure to accurately forecast guest acceptance of new products, product introductions by competitors, unanticipated changes in general market conditions, and weakening of economic conditions or consumer confidence in future economic conditions. If we fail to accurately forecast guest demand, we may experience excess inventory levels or a shortage of products available for sale in our stores or for delivery to guests. Inventory levels in excess of guest demand may result in inventory write-downs or write-offs and the sale of excess inventory at discounted prices, which would cause our gross margin to suffer and could impair the strength and exclusivity of our brand. Conversely, if we underestimate guest demand for our products, our manufacturers may not be able to deliver products to meet our requirements, and this could result in damage to our reputation and guest relationships.

Our inability to safeguard against security breaches or our failure to comply with data privacy laws could damage our customer relationships and expose us to litigation risks and potential fines.

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

Additionally, the European Union has adopted a comprehensive General Data Privacy Regulation (the "GDPR"). The GDPR requires companies to satisfy new requirements regarding the handling of personal and sensitive data, including its use, protection and the ability of persons whose data is stored to correct or delete such data about themselves. Failure to comply with GDPR requirements could result in penalties of up to four percent of worldwide revenue. The GDPR and other similar laws and regulations, as well as any associated inquiries or investigations or any

other government actions, may be costly to comply with, increase our operating costs, require significant management time and attention, and subject us to remedies that may harm our business, including fines, negative publicity, or demands or orders that we modify or cease existing business practices.

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

We are increasingly dependent on information technology systems and third-parties to operate our e-commerce websites, process transactions, respond to guest inquiries, manage inventory, purchase, sell and ship goods on a timely basis, and

## Table of Contents

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

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

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

We sell our products through a variety of trade channels, with a significant portion through traditional brick-and-mortar retail channels. As strong e-commerce channels emerge and develop, we are evolving towards an omni-channel approach to support the shopping behavior of our guests. This involves country and region specific websites, social media, product notification emails, mobile apps, including mobile apps on in-store devices that allow demand to be fulfilled via our distribution centers, and online order fulfillment through stores. The diversion of sales from our company-operated stores could adversely impact our return on investment and could lead to store closures and impairment charges. We could have difficulty in recreating the in-store experience through direct channels. We could also be exposed to liability for online content. Our failure to successfully integrate our digital and physical channels and respond to these risks might adversely impact our business and results of operations, as well as damage our reputation and brands.

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

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

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

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

Table of Contents

new international markets or disappointing growth outside of existing markets could harm our business and results of operations.

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

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

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

The intellectual property rights in the technology, fabrics, and processes used to manufacture our products generally are owned or controlled by our suppliers and are generally not unique to us. Our ability to obtain intellectual property protection for our products is therefore limited and we do not generally own patents or hold exclusive intellectual property rights in the technology, fabrics or processes underlying our products. As a result, our current and future competitors are able to manufacture and sell products with performance characteristics, fabrics and styling similar to our products. Because many of our competitors have significantly greater financial, distribution, marketing, and other resources than we do, they may be able to manufacture and sell products based on our fabrics and manufacturing technology at lower prices than we can. If our competitors do sell similar products to ours at lower prices, our net revenue and profitability could suffer.

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

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

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

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

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

Current economic and political conditions make tax rules in any jurisdiction, including the United States and Canada, subject to significant change. Changes in applicable U.S., Canadian, or other or foreign tax laws and regulations, or

their interpretation and application, including the possibility of retroactive effect, could affect our income tax expense and profitability, as they have in fiscal 2017 upon passage of the U.S. Tax Cuts and Jobs Act.



Table of Contents

We recorded provisional amounts in fiscal 2017 in relation to the U.S. Tax Cuts and Jobs Act and have made adjustments to those provisional amounts in fiscal 2018. We may make additional adjustments to the provisional amounts as additional information is collected and analyzed, and as we complete our assessment of the impact that the U.S. Tax Cuts and Jobs Act has, if any, upon our reinvestment plans for the accumulated earnings of our foreign subsidiaries. As we complete our analysis of the U.S. Tax Cuts and Jobs Act, we may also make adjustments to incorporate any additional interpretations or guidance that may be issued. We may also identify additional effects of the U.S. Tax Cuts and Jobs Act that are not reflected as of October 28, 2018. Any such adjustments may materially impact the provision for income taxes and our effective income tax rate in the period in which the adjustments are made, and in future periods.

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

We have expanded our operations rapidly since our inception in 1998 and our net revenue has increased from \$40.7 million in fiscal 2004 to \$2.6 billion in fiscal 2017. If our operations continue to grow at a rapid pace, we may experience difficulties in obtaining sufficient raw materials and manufacturing capacity to produce our products, as well as delays in production and shipments, as our products are subject to risks associated with overseas sourcing and manufacturing. We could be required to continue to expand our sales and marketing, product development and distribution functions, to upgrade our management information systems and other processes and technology, and to obtain more space for our expanding workforce. This expansion could increase the strain on our resources, and we could experience operating difficulties, including difficulties in hiring, training, and managing an increasing number of employees. These difficulties could result in the erosion of our brand image which could have a material adverse effect on our financial condition.

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

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

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

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

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

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

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

A significant portion of our products are produced in South and South East Asia and increases in the costs of labor and other costs of doing business in the countries in this area could significantly increase our costs to produce our products and

## Table of Contents

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

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

Almost all of our suppliers are located outside of North America. During fiscal 2017, approximately 53% of our products were manufactured in South East Asia, approximately 25% in South Asia, approximately 10% in China, approximately 8% in the Americas, and the remainder in other regions.

As a result of our international suppliers, we are subject to risks associated with doing business abroad, including: political unrest, terrorism, labor disputes, and economic instability resulting in the disruption of trade from foreign countries in which our products are manufactured;

the imposition of new laws and regulations, including those relating to labor conditions, quality and safety standards, imports, duties, taxes and other charges on imports, as well as trade restrictions and restrictions on currency exchange or the transfer of funds;

reduced protection for intellectual property rights, including trademark protection, in some countries, particularly China;

disruptions or delays in shipments; and

changes in local economic conditions in countries where our manufacturers, suppliers, or guests are located.

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

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

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

identify suitable store locations, the availability of which is outside of our control;

negotiate acceptable lease terms, including desired tenant improvement allowances;

hire, train and retain store personnel and field management;

immerse new store personnel and field management into our corporate culture;

source sufficient inventory levels; and

successfully integrate new stores into our existing operations and information technology systems.

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

Table of Contents

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, any audits and inspections by governmental agencies related to these matters could result in significant settlement amounts, damages, fines, or other penalties, divert financial and management resources, and result in significant legal fees. An unfavorable outcome of any particular proceeding could have an adverse impact on our business, financial condition, and results of operations. In addition, the adoption of new regulations or changes in the interpretation of existing regulations may result in significant compliance costs or discontinuation of product sales and could impair the marketing of our products, resulting in significant loss of net revenue.

Our international operations are also subject to compliance with the U.S. Foreign Corrupt Practices Act, or FCPA, and other anti-bribery laws applicable to our operations. In many foreign countries, particularly in those with developing economies, it may be a local custom that businesses operating in such countries engage in business practices that are prohibited by the FCPA or other U.S. and foreign laws and regulations applicable to us. Although we have implemented procedures designed to ensure compliance with the FCPA and similar laws, some of our employees, agents, or other channel partners, as well as those companies to which we outsource certain of our business operations, could take actions in violation of our policies. Any such violation could have a material and adverse effect on our business.

Our future success is substantially dependent on the service of our senior management and other key employees. In the last few years, we have had changes to our senior management team including new hires, departures, and role and responsibility changes. The performance of our senior management team and other key employees may not meet our needs and expectations. Also, the loss of services of any of these key employees, or any negative public perception with respect to these individuals, may be disruptive to, or cause uncertainty in, our business and could have a negative impact on our ability to manage and grow our business effectively. Such disruption could have a material adverse impact on our financial performance, financial condition, and the market price of our stock.

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

Our business is affected by seasonality.

Our business is affected by the general seasonal trends common to the retail apparel industry. This seasonality may adversely affect our business and cause our results of operations to fluctuate, and, as a result, we believe that comparisons of our operating results between different quarters within a single fiscal year are not necessarily meaningful and that results of operations in any period should not be considered indicative of the results to be expected for any future period.

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

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

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

Table of Contents

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

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

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

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

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

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

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

Our business could be negatively affected as a result of actions of activist stockholders or others.

We may be subject to actions or proposals from activist stockholders or others that may not align with our business strategies or the interests of our other stockholders. Responding to such actions can be costly and time-consuming, disrupt our business and operations, and divert the attention of our board of directors, management, and employees from the pursuit of our business strategies. Such activities could interfere with our ability to execute our strategic plan. Activist stockholders or others may create perceived uncertainties as to the future direction of our business or strategy which may be exploited by our competitors and may make it more difficult to attract and retain qualified personnel and potential guests, and may affect our relationships with current guests, vendors, investors, and other third parties. In addition, a proxy contest for the election of directors at our annual meeting would require us to incur significant legal fees and proxy solicitation expenses and require significant time and attention by management and our board of directors. The perceived uncertainties as to our future direction also could affect the market price and volatility of our securities.



Table of Contents

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

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

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

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

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

The following table provides information regarding our purchases of shares of our common stock during the quarter ended October 28, 2018 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>
July 30, 2018 - August 26, 2018	63,043	\$ 124.70	63,043	\$ 184,901,373
August 27, 2018 - September 30, 2018	75	135.00	75	184,891,248
October 1, 2018 - October 28, 2018	1,611	134.45	1,611	184,674,644
Total	64,729		64,729	

<sup>(1)</sup> Monthly information is presented by reference to our fiscal periods during our third quarter of fiscal 2018.

Our stock repurchase program was approved by our board of directors in November 2017 for the repurchase of up to \$200 million common shares. In June 2018, our board of directors approved an increase to this stock repurchase program, authorizing the repurchase of up to a total of \$600 million of our common shares on the open market or

<sup>(2)</sup> in privately negotiated transactions. Common shares repurchased on the open market are at prevailing market prices, including under plans complying with the provisions of Rule 10b5-1 and Rule 10b-18 of the Securities Exchange Act of 1934. The timing and actual number of common shares to be repurchased will depend upon market conditions, eligibility to trade, and other factors. The repurchases are expected to be completed by November 2019.



Table of Contents

The following table provides information regarding our purchases of shares of our common stock during the quarter ended October 28, 2018 related to our Employee Share Purchase Plan:

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 Number of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(2)</sup>
July 30, 2018 - August 26, 2018	6,169	\$ 133.62	6,169	4,840,447
August 27, 2018 - September 30, 2018	5,832	153.73	5,832	4,834,615
October 1, 2018 - October 28, 2018	5,713	145.03	5,713	4,828,902
Total	17,714		17,714	

<sup>(1)</sup> Monthly information is presented by reference to our fiscal periods during our third quarter of fiscal 2018.

Our Employee Share Purchase Plan (ESPP) was approved by our board of directors and stockholders in September 2007. All shares purchased under the ESPP are purchased on the Nasdaq Global Select Market (or such other stock

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

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

Table of Contents

## ITEM 6. EXHIBITS

Exhibit No.	Exhibit Title	Filed Herewith	Incorporated by Reference		
			Form	Exhibit No.	File No. Filing Date
10.1*	<u>Executive Employment Agreement with Michelle (Sun) Choe, dated September 10, 2018</u>	X			
31.1	<u>Certification of principal executive officer Pursuant to Exchange Act Rule 13a-14(a)</u>	X			
31.2	<u>Certification of principal financial and accounting officer Pursuant to Exchange Act Rule 13a-14(a)</u>	X			
32.1**	<u>Certification of principal executive officer and principal financial and accounting officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>				
101	The following unaudited interim consolidated financial statements from the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended October 28, 2018, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations and Comprehensive Income, (iii) Consolidated Statements of Stockholders' Equity, (iv) Consolidated Statements of Cash Flows (v) Notes to the Unaudited Interim Consolidated Financial Statements	X			

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

\*\*Furnished herewith.

Table of Contents

SIGNATURES

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

lululemon athletica inc.

By: /s/ PATRICK J. GUIDO

Patrick J. Guido

Chief Financial Officer

(principal financial and accounting officer)

Dated: December 6, 2018

50

---

Table of Contents

## Exhibit Index

Exhibit No.	Exhibit Title	Filed Herewith	Incorporated by Reference		
			Form No.	Exhibit No.	Filing Date
10.1*	Executive Employment Agreement with Michelle (Sun) Choe, dated September 10, 2018	X			
31.1	Certification of principal executive officer Pursuant to Exchange Act Rule 13a-14(a)	X			
31.2	Certification of principal financial and accounting officer Pursuant to Exchange Act Rule 13a-14(a)	X			
32.1**	Certification of principal executive officer and principal financial and accounting officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
101	The following unaudited interim consolidated financial statements from the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended October 28, 2018, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations and Comprehensive Income, (iii) Consolidated Statements of Stockholders' Equity, (iv) Consolidated Statements of Cash Flows (v) Notes to the Unaudited Interim Consolidated Financial Statements	X			

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

\*\*Furnished herewith.