lululemon athletica inc.
Form 10-Q
December 09, 2010

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

Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended October 31, 2010

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 001-33608

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

Delaware	**20-3842867**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
400-1818 Cornwall Avenue, Vancouver, British Columbia	**V6J 1C7**
(Address of principal executive offices)	*(Zip Code)*

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

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

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

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

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

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

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

At December 6, 2010, there were 52,840,199 shares of the registrant s common stock, par value $0.01 per share, outstanding.

Exchangeable and Special Voting Shares:

At December 6, 2010, there were outstanding 18,160,042 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 6, 2010, the registrant had outstanding 18,160,042 shares of special voting stock, through which the holders of exchangeable shares of Lulu Canadian Holding, Inc. may exercise their voting rights with respect to the registrant. The special voting stock and the registrant s common stock generally vote together as a single class on all matters on which the common stock is entitled to vote.

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PART I
FINANCIAL INFORMATION

ITEM 1. ***FINANCIAL STATEMENTS***

lululemon athletica inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

	October 31, 2010 (Unaudited)	January 31, 2010
	(Amounts in thousands, except per share amounts)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 224,775	$ 159,573
Accounts receivable	9,121	8,238
Inventories	73,023	44,070
Prepaid expenses and other current assets	4,798	4,529
	311,717	216,410
Property and equipment, net	67,457	61,591
Goodwill and intangible assets, net	26,488	8,050
Deferred income taxes	9,817	15,102
Other non-current assets	3,493	6,105
	$ 418,972	$ 307,258
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 9,275	$ 11,028
Accrued liabilities	28,856	17,207
Accrued compensation and related expenses	11,454	10,626
Income taxes payable	5,518	7,742
Unredeemed gift card liability	8,918	11,699
Other current liabilities	255	376
	64,276	58,678
Other non-current liabilities	19,102	15,472
Deferred income taxes	8,921	
	92,299	74,150

Stockholders equity		
Undesignated preferred stock, $0.01 par value, 5,000 shares authorized, none issued and outstanding		
Exchangeable stock, no par value, 30,000 shares authorized, issued and outstanding 18,160 and 19,383 shares		
Special voting stock, $0.00001 par value, 30,000 shares authorized, issued and outstanding 18,160 and 19,383 shares		
Common stock, $0.01 par value, 200,000 shares authorized, issued and outstanding 52,840 and 51,126 shares	528	511
Additional paid-in capital	172,214	158,921
Retained earnings	134,890	67,809
Accumulated other comprehensive income	14,517	5,867
	322,149	233,108
Non-controlling interest	4,524	
	326,673	233,108
	$ 418,972	$ 307,258

See accompanying notes to the interim consolidated financial statements

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lululemon athletica inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS

	Thirteen Weeks Ended October 31, 2010	Thirteen Weeks Ended November 1, 2009	Thirty-Nine Weeks Ended October 31, 2010	Thirty-Nine Weeks Ended November 1, 2009
	(Unaudited)			
	(Amounts in thousands, except per share amounts)			
Net revenue	$ 175,800	$ 112,891	$ 466,305	$ 292,292
Cost of goods sold	78,968	56,553	214,818	155,766
Gross profit	96,832	56,338	251,487	136,526
Selling, general and administrative expenses	54,456	35,412	142,394	91,415
Income from operations	42,376	20,926	109,093	45,111
Other income (expense), net	91	(3)	2,345	98
Income before provision for income taxes	42,467	20,923	111,438	45,209
Provision for income taxes	16,532	6,855	44,207	15,379
Net income	25,935	14,068	67,231	29,830
Net income attributable to non-controlling interest	234		150	
Net income attributable to lululemon athletica inc.	$ 25,701	$ 14,068	$ 67,081	$ 29,830
Net basic earnings per share	$ 0.36	$ 0.20	$ 0.95	$ 0.42
Net diluted earnings per share	$ 0.36	$ 0.20	$ 0.93	$ 0.42
Basic weighted-average number of shares outstanding	70,938	70,279	70,786	70,205
Diluted weighted-average number of shares outstanding	71,835	71,100	71,782	70,759

See accompanying notes to the interim consolidated financial statements

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	Exchangeable Stock		Special Voting Stock		Common Stock		Additional		Other		Non-
	Shares	Par Value	Shares	Par Value	Shares	Par Value	Paid-in Capital	Retained Earnings	Comprehensive Income	Total	Controlli Interes
						(Unaudited)					
						(Amounts in thousands)					
ary 31,	19,383	$	19,383	$	51,126	$ 511	$ 158,921	$ 67,809	$ 5,867	$ 233,108	$
income:											
								67,081		67,081	
y tment									8,650	8,650	
income										75,731	
npensation							5,365			5,365	
fit from npensation							3,958			3,958	
ssued upon hangeable	(1,223)		(1,223)		1,223	12	(12)				
issuance					6						
ercised					485	5	3,982			3,987	
interest: tions from interests											4,374
butable to interests											150
ber 31,	18,160	$	18,160	$	52,840	$ 528	$ 172,214	$ 134,890	$ 14,517	$ 322,149	$ 4,524

See accompanying notes to the interim consolidated financial statements

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lululemon athletica inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Thirty-Nine Weeks Ended October 31, 2010	Thirty-Nine Weeks Ended November 1, 2009
	(Unaudited) (Amounts in thousands)	
Cash flows from operating activities		
Net income	$ 67,231	$ 29,830
Items not affecting cash		
Depreciation and amortization	18,416	15,236
Stock-based compensation	5,365	4,229
Deferred income taxes	18,170	1,365
Excess tax benefits from stock-based compensation	(3,958)	279
Gain on investment	(1,792)	
Other, including net changes in other non-cash balances		
Prepaid expenses and other current assets	(204)	(1,189)
Inventories	(24,023)	2,987
Accounts payable	(2,665)	842
Accrued liabilities	12,088	(1,876)
Income taxes payable	(1,973)	(1,879)
Other non-cash balances	1,262	1,949
Net cash provided by operating activities	87,917	51,773
Cash flows from investing activities		
Purchase of property and equipment	(21,951)	(9,024)
Investments in and advances to franchises		(1,190)
Acquisition of franchises	(12,482)	
Net cash used in investing activities	(34,433)	(10,214)
Cash flows from financing activities		
Proceeds from exercise of stock options	3,987	252
Excess tax benefits from stock-based compensation	3,958	(279)
Net cash provided by financing activities	7,945	(27)
Effect of exchange rate changes on cash	3,773	3,503
Increase in cash and cash equivalents	65,202	45,035
Cash and cash equivalents, beginning of period	$ 159,573	$ 56,797
Cash and cash equivalents, end of period	$ 224,775	$ 101,832

See accompanying notes to the interim consolidated financial statements

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

NOTE 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nature of operations

lululemon athletica inc., a Delaware corporation (lululemon and, together with its subsidiaries unless the context otherwise requires, the Company) is engaged in the design, manufacture and distribution of healthy lifestyle inspired athletic apparel, which is sold through a chain of corporate-owned and operated retail stores, direct to consumer through e-commerce, through independent franchises and through a network of wholesale accounts. The Company s primary markets are Canada, the United States and Australia, where 45, 74 and 11 corporate-owned stores were in operation as of October 31, 2010, respectively. There were 130 and 110 corporate-owned stores in operation as of October 31, 2010 and January 31, 2010, respectively.

Basis of presentation

The unaudited interim consolidated financial statements as of October 31, 2010 and for the thirteen and thirty-nine weeks ended October 31, 2010 and November 1, 2009 are presented using the United States dollar and have been prepared by the Company under the rules and regulations of the Securities and Exchange Commission (SEC). In the opinion of management, the financial information is presented in accordance with United States generally accepted accounting principles (GAAP) for interim financial information and, accordingly, do not include all of the information and footnotes required by GAAP for complete financial statements. The financial information as of January 31, 2010 is derived from the Company s audited consolidated financial statements and notes for the fiscal year ended January 31, 2010, included in Item 8 in the Company s fiscal 2009 Annual Report on Form 10-K. These unaudited interim consolidated financial statements reflect all adjustments which are in the opinion of management necessary to a fair statement of the results for the interim periods presented. These unaudited interim consolidated financial statements should be read in conjunction with the Company s consolidated financial statements and related notes included in the Company s fiscal 2009 Annual Report on Form 10-K filed with the SEC on March 25, 2010.

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 2010 will end on January 30, 2011 and will be a 52-week year.

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

United States income taxes and foreign withholding taxes are not provided for on undistributed earnings of foreign subsidiaries which are considered to be indefinitely reinvested in the operations of such subsidiaries. The total amount of these earnings was approximately $165,669 and $113,466 at October 31, 2010 and January 31, 2010, respectively. The Company recorded a deferred tax liability of $8,921 in the thirty-nine weeks ended October 31, 2010 for the estimated future income taxes and foreign withholding taxes attributable to the undistributed earnings of foreign subsidiaries for which it does not have plans for reinvestment in the operations of such subsidiaries.

Recent accounting pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, Fair Value Measurements and Disclosures Topic 820: Improving Disclosures about Fair Value Measurements (ASU 2010-06). ASU 2010-06 requires new disclosures regarding transfers in and out of the Level 1 and 2 and activity within Level 3 fair value measurements and clarifies existing disclosures of inputs and valuation techniques for Level 2 and 3 fair value measurements. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the

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NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

disclosure of activity within Level 3 fair value measurements, which is effective for fiscal years beginning after December 15, 2010, and for interim reporting periods within those years. The Company adopted the new disclosures effective January 31, 2010, except for the disclosure of activity within Level 3 fair value measurements. The Level 3 disclosures are effective for the Company at the beginning of Fiscal 2011. The adoption of ASU 2010-06 did not have a material impact, and is not expected to have a material impact, on the disclosures within the Company s consolidated financial statements.

In February 2010, the FASB amended Accounting Standards Codification (ASC) Topic 855 *Subsequent Events* (ASC 855). Under the amended guidance, SEC filers are no longer required to disclose the date through which subsequent events have been evaluated in originally issued and revised financial statements. This guidance was effective immediately and the Company adopted these new requirements in the first quarter of fiscal 2010.

In April 2010, the FASB amended ASC Topic 718 *Compensation* (ASC 718) to clarify that a share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity s equity securities trades should not be considered to contain a market, performance or service condition. Therefore, an entity should not classify such an award as a liability if it otherwise qualifies for classification in equity. This guidance is effective for interim and annual periods beginning on or after December 15, 2010 and is to be applied prospectively. The Company is evaluating the impact the amendment will have on its consolidated financial statements.

NOTE 3. STOCK-BASED COMPENSATION

Share option plans

The Company s employees participate in various stock-based compensation plans, which are either provided by a principal stockholder of the Company or by the Company directly.

Stock-based compensation expense charged to income for the plans was $5,365 and $4,229 for the thirty-nine weeks ended October 31, 2010 and November 1, 2009, respectively. Total unrecognized compensation cost as at October 31, 2010 was $14,390 for all stock option plans, which is expected to be recognized over a weighted-average period of 2.5 years.

Company stock options and performance stock units

A summary of the Company s stock option, performance stock unit and restricted share activity as of October 31, 2010 and changes during the period then ended is presented below:

	Number of Stock Options	Weighted-Average Exercise Price	Number of Performance Units	Weighted-Average Grant Fair Value	Number of Restricted Shares	Weighted-Average Grant Fair Value
Balance at January 31, 2010	2,194	$ 14.07		$	15	$ 13.83

Granted	142		37.40	81		41.43	6	38.74
Exercised	488		8.49				15	15.33
Forfeited	119		17.26	3		41.22	2	13.83
Balance at October 31, 2010	1,729	$	15.65	78	$	41.44	4	$ 38.74
Exercisable at October 31, 2010	374	$	19.49		$			$

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

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NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stockholder- sponsored stock options

During the thirty-nine weeks ended October 31, 2010, holders of exchangeable shares converted 1,223 exchangeable shares into 1,223 shares of common stock of the Company for no additional consideration. In connection with the exchange of exchangeable shares, an equal number of outstanding shares of the Company s special voting stock were cancelled.

During the thirty-nine weeks ended October 31, 2010, there were no grants or forfeitures related to any of the stock options issued and outstanding under the stockholder-sponsored awards.

Employee stock purchase plan

The Company s Employee Stock Purchase Plan (ESPP) allows for the purchase of common stock of the Company by all eligible employees. Eligible employees may elect to have whatever portion of his or her base salary equates, after deduction of applicable taxes, to either 3%, 6% or 9% of his or her base salary withheld during each payroll period for purposes of purchasing shares of the Company s common stock under the ESPP. Additionally, the Company or the subsidiary of the Company employing the participant, will make a cash contribution as additional compensation to each participant equal to one-third of the aggregate amount of that participant s contribution for that pay period, which will be used to purchase shares of the Company s common stock, subject to certain limits as defined in the ESPP. The maximum number of shares available under the ESPP is 3,000 shares. During the thirty-nine weeks ended October 31, 2010, there were 30 shares purchased under the ESPP, which were funded by the Company through open market purchases.

NOTE 4. REACQUISITION OF FRANCHISED STORES

On May 12, 2010, the Company increased its investment in lululemon athletica australia PTY (lululemon australia) from 13 percent to 80 percent. The transaction provides the Company control over lululemon australia, which became a subsidiary of the Company on this date. lululemon australia is engaged in the distribution of healthy lifestyle inspired athletic apparel, which is sold through a chain of corporate-owned retail locations and through a network of wholesale accounts, in Australia. The Company previously accounted for its 13 percent interest in lululemon australia as an equity investment.

The acquired business contributed net revenues of $8,864 and income from operations of $950 to the Company from the date of acquisition to October 31, 2010. The following unaudited pro forma summary presents consolidated information of the Company as if the business combination had occurred on February 2, 2009:

	Thirteen Weeks Ended October 31, 2010	Thirteen Weeks Ended November 1, 2009	Thirty-Nine Weeks Ended October 31, 2010	Thirty-Nine Weeks Ended November 1, 2009
Net revenue	$ 175,800	$ 115,546	$ 470,929	$ 298,468
Income from operations	$ 42,376	$ 20,785	$ 109,831	$ 44,661

These amounts have been calculated after applying the Company s accounting policies and adjusting the results of lululemon australia to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to inventory and intangible assets had been applied from February 1, 2010, together with the consequential tax effects.

In 2010, the Company incurred $181 of acquisition-related costs. These costs are included in general and administrative expenses in the Company s consolidated statements of operations for the thirty-nine weeks ended October 31, 2010.

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NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables summarize the consideration transferred to acquire lululemon australia and the amounts of identified assets acquired and liabilities assumed at the acquisition date, as well as the fair value of the non-controlling interest in lululemon australia at the acquisition date:

Fair value of consideration transferred**:**

Cash	$ 5,872
Conversion of note receivable to equity	3,481
Total	9,353
Investment in lululemon australia held prior to the business combination	2,345
Fair value of the non-controlling interest in lululemon australia	3,554
	$ 15,252

The following table summarizes the fair values of the net assets acquired as of October 31, 2010:

Inventory	$ 3,053
Prepaid and other assets	709
Property and equipment	1,812
Goodwill and intangible assets	11,874
Total assets acquired	17,448
Current and non-current liabilities	2,196
Total liabilities assumed	2,196
Total identifiable net assets	$ 15,252

As a result of the Company obtaining control over lululemon australia, the Company s previously held 13 percent interest was remeasured to fair value, resulting in a gain of $1,792. This gain has been recognized in the line item Other income (expense), net in the Company s consolidated statements of operations.

The fair value of the non-controlling interest of $3,554 in lululemon australia was estimated by applying a market approach and an income approach. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement as defined in ASC 820. The fair value estimates use standard valuation techniques, including discounted cash flows, comparable transactions and internal projections, and include assumed adjustments due to the lack of control or lack of marketability that market participants would consider when estimating the fair value of the non-controlling interest in lululemon australia.

On July 20, 2010, the Company reacquired in an asset purchase transaction a franchised store in Saskatoon, Saskatchewan for total cash consideration of $6,610. Included in the Company s consolidated statements of operations for the unaudited thirteen and thirty-nine weeks ended October 31, 2010 are the results of the reacquired Saskatoon franchised store from the date of acquisition to October 31, 2010.

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lululemon athletica inc. and Subsidiaries

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the fair values of the net assets acquired as of October 31, 2010:

Inventory	$ 325
Prepaid and other current assets	9
Property and equipment	174
Goodwill	6,371
Total assets acquired	6,879
Current and non-current liabilities	269
Total liabilities assumed	269
Net assets acquired	$ 6,610

The reacquisition of the franchised stores is part of management s vertical retail growth strategy. Goodwill is reviewed for impairment annually, or as events occur or circumstances arise which may reduce the fair value of goodwill below carrying value.

NOTE 5. LEGAL PROCEEDINGS

On September 7, 2010, a former hourly Company employee filed a class action lawsuit in the United States District Court For the Northern District of Illinois, Eastern Division entitled Lydia Brown v. lululemon athletica inc. The lawsuit alleges that the Company requires employees to work off the clock without compensation. Plaintiff seeks on behalf of herself and other putative class members back wages, interest, attorneys fees and costs, and equitable relief under the Fair Labor Standards Act and the labor laws of each of the 30 states. The Company denies the allegations and intends to vigorously defend the matter.

The Company is a party to various other legal proceedings arising in the ordinary course of its business, but the Company is not currently a party to any legal proceeding that management believes would have a material adverse effect on the Company s consolidated financial position or results of operations.

NOTE 6. EARNINGS PER SHARE

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

	Thirteen Weeks Ended October 31, 2010	Thirteen Weeks Ended November 1, 2009	Thirty-Nine Weeks Ended October 31, 2010	Thirty-Nine Weeks Ended November 1, 2009
	$ 25,701	$ 14,068	$ 67,081	$ 29,830

Net income attributable to lululemon athletica inc.				
Basic weighted-average number of shares outstanding	70,938	70,279	70,786	70,205
Effect of stock options assume exercised	897	821	996	554
Diluted weighted-average number of shares outstanding	71,835	71,100	71,782	70,759
Net basic earnings per share	$ 0.36	$ 0.20	$ 0.95	$ 0.42
Net diluted earnings per share	$ 0.36	$ 0.20	$ 0.93	$ 0.42

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NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 thirty-nine weeks ended October 31, 2010 and November 1, 2009, 60 and 1,001 stock options, respectively, were anti-dilutive to earnings and therefore have been excluded from the computation of diluted earnings per share.

NOTE 7. SUPPLEMENTARY FINANCIAL INFORMATION

A summary of certain balance sheet accounts is as follows:

	October 31, 2010	January 31, 2010
Accounts receivable:		
Trade accounts receivable	$ 3,883	$ 4,656
Miscellaneous receivables	5,238	3,582
	$ 9,121	$ 8,238
Inventories:		
Finished goods	$ 74,963	$ 45,181
Raw materials	2,185	1,461
Provision to reduce inventory to market value	(4,125)	(2,572)
	$ 73,023	$ 44,070
Property and equipment:		
Leasehold improvements	$ 79,562	$ 63,999
Furniture and fixtures	17,503	17,776
Computer hardware and software	30,525	25,194
Equipment and vehicles	867	428
Accumulated amortization and depreciation	(61,000)	(45,806)
	$ 67,457	$ 61,591
Goodwill and intangible assets:		
Goodwill	$ 18,437	$ 738
Changes in foreign currency exchange rates	1,320	161
	19,757	899
Reacquired franchise rights	10,150	10,162
Non-competition agreements	694	694
Accumulated amortization	(5,947)	(4,868)

Changes in foreign currency exchange rates		1,834		1,163
		6,731		7,151
	$	26,488	$	8,050
Other non-current assets:				
Prepaid rent and security deposits	$	1,623	$	945
Deferred lease cost		1,870		1,487
Advances to and investments in franchise				3,673
	$	3,493	$	6,105

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lululemon athletica inc. and Subsidiaries

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	October 31, 2010	January 31, 2010
Accrued liabilities:		
Inventory purchases	$ 15,374	$ 7,664
Sales tax collected	4,641	2,758
Accrued rent	1,609	1,771
Lease exit costs	817	800
Other	6,415	4,214
	$ 28,856	$ 17,207
Other non-current liabilities:		
Deferred lease liability	$ 12,737	$ 10,822
Tenant inducements	6,365	4,650
	$ 19,102	$ 15,472

NOTE 8. SEGMENT REPORTING

The Company reports segments based on the financial information it uses in managing its business. Previously, the Company reported its franchise channel as an operating segment, however it has accounted for less than 10% of net revenue from operations in each of fiscal 2009 and fiscal 2008. Opening new franchise stores is not a significant part of the Company s near-term growth strategy and the Company does not expect that the revenue derived from franchises to be greater than 10% of net revenue in future years. Therefore, the Company has re-evaluated segment reporting in the first quarter of fiscal 2010. The Company s reportable segments are comprised of corporate-owned stores, direct to consumer and other. Direct to consumer includes sales from the Company s e-commerce website and phone sales. Franchise sales, wholesale, showrooms sales and outlet sales have been combined into other. Information for these segments is detailed in the table below:

	Thirteen Weeks Ended October 31, 2010	Thirteen Weeks Ended November 1, 2009	Thirty-Nine Weeks Ended October 31, 2010	Thirty-Nine Weeks Ended November 1, 2009
Net revenue:				
Corporate-owned stores	$ 143,214	$ 98,060	$ 388,231	$ 256,053
Direct to consumer	13,978	4,608	32,754	8,506
Other	18,608	10,223	45,320	27,733
	$ 175,800	$ 112,891	$ 466,305	$ 292,292

Income from operations before general corporate expense:				
Corporate-owned stores	$ 50,787	$ 30,760	$ 135,052	$ 72,408
Direct to consumer	3,901	1,811	9,417	3,035
Other	5,543	2,776	13,216	6,588
	60,231	35,347	157,685	82,031
General corporate	17,855	14,421	48,592	36,920
Net operating income	42,376	20,926	109,093	45,111
Other income (expense), net	91	(3)	2,345	98
Income before income taxes	$ 42,467	$ 20,923	$ 111,438	$ 45,209

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lululemon athletica inc. and Subsidiaries

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Thirteen Weeks Ended October 31, 2010	Thirteen Weeks Ended November 1, 2009	Thirty-Nine Weeks Ended October 31, 2010	Thirty-Nine Weeks Ended November 1, 2009
Capital expenditures:				
Corporate-owned stores	$ 9,005	$ 2,719	$ 13,122	$ 2,729
Corporate	1,375	962	8,829	3,295
	$ 10,380	$ 3,681	$ 21,951	$ 6,024
Depreciation:				
Corporate-owned stores	$ 4,457	$ 3,491	$ 12,218	$ 10,074
Corporate	2,036	2,193	6,198	5,162
	$ 6,493	$ 5,684	$ 18,416	$ 15,236

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

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

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

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

Our fiscal year ends on the Sunday closest to January 31 of the following year, typically resulting in a 52-week year, but occasionally gives rise to an additional week, resulting in a 53-week year. Fiscal 2010 will end on January 30, 2011 and will be a 52-week year.

Overview

The world economy and capital markets have shown some signs of improvement, however, many companies and consumers continue to be impacted by uncertainty in the macro-economy. This has proven to be challenging for retailers in past periods, where declines in comparable store sales were posted. Although our current quarter results demonstrate the success of our efforts to overcome instability in the economy, the current market volatility may still negatively affect our financial results in future periods.

We believe that through strong execution of our strategic plan, we are well placed to succeed in this market. In fiscal 2009, we were able to introduce our e-commerce website which has further increased our brand awareness and has made our product available in new markets, including those outside of North America. This sales channel offers product assortment with a higher margin than our other segments. During fiscal 2010 we have begun to increase our store base, when and where we see opportunities for success. For example, we have opened 24 net new corporate-owned stores and 32 net new showrooms in North America and Australia since the third quarter of fiscal 2009, including reacquired franchises. We believe our strong cash flow generation, solid balance sheet and healthy liquidity provide us with the financial flexibility to continue executing the initiatives which we believe will be

beneficial for us.

While we have committed to investment in stores, people and infrastructure enhancements and funding working capital requirements in fiscal 2010, we remain conscious of our discretionary spending. These expenditures are designed to position our business for long-term profitable growth and protect our brand integrity. We

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expect to continually assess the economic environment and market conditions to guide our decisions regarding our timing of investments.

Operating Segment Overview

lululemon is a designer and retailer of technical athletic apparel operating primarily in North America and Australia. Our yoga-inspired apparel is marketed under the lululemon athletica and ivivva athletica brand names. We offer a comprehensive line of apparel and accessories including fitness pants, shorts, tops and jackets designed for athletic pursuits such as yoga, running and general fitness, and dance-inspired apparel for female youth. As of October 31, 2010, our branded apparel was principally sold through 134 corporate-owned and franchise stores that are primarily located in Canada, the United States and Australia, and via our retail website through our direct to consumer channel. We believe our vertical retail strategy allows us to interact more directly with and gain insights from our customers while providing us with greater control of our brand. For the third quarter of fiscal 2010, approximately 52% of our net revenue was derived from sales of our products in Canada, 45% of our net revenue was derived from the sales of our products in the United States and 3% of our net revenue was derived from sales of our products outside of North America.

Our net revenue increased from $292.3 million in the first three quarters of fiscal 2009 to $466.3 million in the first three quarters of fiscal 2010, representing a 60% increase. Our ability to open new stores and grow sales in existing stores has been driven by increasing demand for our technical athletic apparel and a growing recognition of the lululemon athletica brand. We believe our superior products, strategic store locations, inviting store environment, grassroots marketing approach and distinctive corporate culture are responsible for our strong financial performance.

We have three reportable segments: corporate-owned stores, direct to consumer and other. We report our segments based on the financial information we use in managing our businesses. While we receive financial information for each corporate-owned store, we have aggregated all of the corporate-owned stores into one reportable segment due to the similarities in the economic and other characteristics of these stores. Our direct to consumer segment is an increasingly substantial part of our business, representing 7% of our net revenues in the first three quarters of fiscal 2010, 4% of our net revenue in fiscal 2009 and less than 1% of our net revenue in fiscal 2008. Expanding this sales channel is a significant part of our near-term growth strategy, and we therefore expect the revenue derived from our direct to consumer sales to comprise more than 10% of the net revenue we report in future fiscal years. Our other operations, which include franchise sales, wholesale, showrooms sales and outlet sales, accounted for less than 10% of our net revenues from continuing operations in each of the first three quarters of fiscal 2010, fiscal 2009 and fiscal 2008. We previously reported our franchise channel as an operating segment; however, opening new franchise stores is not a significant part of our near-term store growth strategy, and as such we expect net revenue from our franchised stores to continue to decrease, including as a percentage of total net revenue, in future years.

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Results of Operations

Thirteen Weeks Results

The following table summarizes key components of our results of operations for the thirteen weeks ended October 31, 2010 and November 1, 2009. The operating results are expressed in dollar amounts as well as relevant percentages, presented as a percentage of net revenue.

	Thirteen Weeks Ended October 31, 2010 and November 1, 2009			
	2010	2009	2010	2009
	(In thousands)		(Percentages)	
Net revenue	$ 175,800	$ 112,891	100.0	100.0
Cost of goods sold	78,968	56,553	44.9	50.1
Gross profit	96,832	56,338	55.1	49.9
Selling, general and administrative expenses	54,456	35,412	31.0	31.4
Income from operations	42,376	20,926	24.1	18.5
Other income (expense), net	91	(3)	0.0	(0.0)
Income before provision for income taxes	42,467	20,923	24.1	18.5
Provision for income taxes	16,532	6,855	9.4	6.0
Net income	25,935	14,068	14.7	12.5
Net income attributable to non-controlling interest	234		0.1	
Net income attributable to lululemon athletica inc.	$ 25,701	$ 14,068	14.6	12.5

Net Revenue

Net revenue increased $62.9 million, or 56%, to $175.8 million for the third quarter of fiscal 2010 from $112.9 million for the third quarter of fiscal 2009. Assuming the average exchange rate between the Canadian and United States dollars for the third quarter of fiscal 2009 remained constant, our net revenue would have increased $58.8 million, or 52%, for the third quarter of fiscal 2010.

The net revenue increase was driven by increased sales at locations in our comparable stores base, sales from new stores and showrooms opened, sales from franchised stores that were reacquired during the quarter and the growth of our e-commerce website sales included in our direct to consumer segment. The constant dollar increase in comparable store sales was driven primarily by the strength of our existing product lines, our successful introduction of new products and increasing recognition of the lululemon athletica brand name, especially at our U.S. stores.

Our net revenue on a segment basis for the thirteen weeks ended October 31, 2010 and November 1, 2009 are expressed in dollar amounts as well as relevant percentages, presented as a percentage of total net revenue below.

	Thirteen Weeks Ended October 31, 2010 and November 1, 2009			
	2010	2009	2010	2009
	(In thousands)		(Percentages)	
Corporate-owned stores	$ 143,214	$ 98,060	81.5	86.8
Direct to consumer	13,978	4,608	7.9	4.1
Other	18,608	10,223	10.6	9.1
Net revenue	$ 175,800	$ 112,891	100.0	100.0

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Corporate-Owned Stores. Net revenue from our corporate-owned stores segment increased $45.2 million, or 46%, to $143.2 million in the third quarter of fiscal 2010 from $98.1 million in the third quarter of fiscal 2009. The following contributed to the $45.2 million increase in net revenue from our corporate-owned stores segment:

- Comparable store sales increase of 29% in the third quarter of fiscal 2010 resulted in a $27.3 million increase to net revenue, excluding the effect of foreign currency fluctuations. Including the effect of foreign currency fluctuations, comparable store sales increased 32%, or $30.3 million, in the third quarter of fiscal 2010; and

- Net revenue from corporate-owned stores we opened subsequent to November 1, 2009, and therefore not included in the comparable store sales growth, contributed $14.9 million of the increase. Net new store openings since the third quarter of fiscal 2009 included four stores in Canada (including the Saskatoon franchised store that was reacquired), nine stores in the United States and 11 stores in Australia (including the nine franchised stores that were reacquired).

Direct to Consumer. Net revenue from our direct to consumer segment increased $9.4 million, or 203%, to $14.0 million in the third quarter of fiscal 2010 from $4.6 million in the third quarter of fiscal 2009. The increase was a result of net revenue from our e-commerce website, which has had increasing traffic since it was launched towards the end of the first quarter of fiscal 2009. Prior to the launch of our e-commerce website, our direct to consumer segment consisted only of phone sales.

Other. Net revenue from our other segment increased $8.4 million, or 82%, to $18.6 million in the third quarter of fiscal 2010 from $10.2 million in the third quarter of fiscal 2009. There were increases in net revenues across most of our sales channels included in our other segment: wholesale, showrooms and outlets. Net revenue also increased due to a warehouse sale held in the third quarter of fiscal 2010. Net revenues from our franchise channel decreased due to our reacquisition of 10 franchised stores in Australia and Canada. Our other segment continues to grow year over year through new showroom and outlet locations, new wholesale partners and net revenue growth at existing locations attributable to a strong product offering and brand interest. We continue to employ our other segment strategy to increase interest in our product in markets we have not otherwise entered with corporate-owned stores.

Gross Profit

Gross profit increased $40.5 million, or 72%, to $96.8 million for the third quarter of fiscal 2010 from $56.3 million for the third quarter of fiscal 2009. Increased net revenues as well as a strengthening Canadian dollar relative to the U.S. dollar improved product margin in all of our operating segments, and ultimately resulted in an increased gross profit.

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

Gross profit as a percentage of net revenue, or gross margin, increased by 520 basis points, to 55.1% in the third quarter of fiscal 2010 from 49.9% in the third quarter of fiscal 2009. The increase in gross margin resulted primarily from:

- a decrease in fixed costs, such as occupancy costs and depreciation, relative to the increase in net revenue, which had a leveraging effect on gross margin and contributed to an increase in gross margin of 260 basis points;

- an improvement in the Canadian dollar, relative to the U.S. dollar, decreased foreign exchange impacts on product costs and contributed to an increase in gross margin of 120 basis points;

a decrease in costs related to design, production, distribution and merchandising, relative to the increase in net revenue, which had a leveraging effect on gross margin and contributed to an increase in gross margin of 80 basis points; and

an increase in product margin in corporate-owned stores, direct to consumer and other segments, which contributed to an increase in gross margin of 60 basis points as a result of improved product costing on our

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fall assortment of merchandise and a higher proportion of total sales coming from our direct to consumer segment.

Our cost of goods sold in the third quarter of fiscal 2010 and fiscal 2009 included $0.3 million and $0.1 million, respectively, of stock-based compensation.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $19.0 million, or 54%, to $54.5 million in the third quarter of fiscal 2010 from $35.4 million in the third quarter of fiscal 2009. The $19.0 million increase in selling, general and administrative expenses was principally comprised of:

an increase in employee costs of $6.3 million as we experience natural growth in labor hours associated with new corporate-owned stores and showrooms, and growth at existing locations;

an increase in variable administrative costs of $4.3 million related to our direct to consumer segment, primarily associated with revenue growth of our e-commerce website sales channel;

an increase in other costs, including occupancy costs, depreciation and distribution not included in cost of goods sold, of $3.8 million as a result of the expansion of our business and relocation of our head office;

an increase in head office employee costs of $1.8 million, including options expense and management incentive-based compensation incurred in order to position us for long-term growth.

an increase in administrative costs of $1.6 million related to our Australian business, in which we increased our investment significantly in the second quarter of fiscal 2010; and

an increase in marketing costs of $1.1 million to build community relationships and increase our brand awareness in existing markets.

As a percentage of net revenue, selling, general and administrative expenses decreased 40 basis points, to 31.0% in the third quarter of fiscal 2010 from 31.4% in the third quarter of fiscal 2009. This improvement was largely due to leverage associated with increased net revenues.

Our selling, general and administrative expenses in the third quarter of fiscal 2010 and fiscal 2009 included $1.5 million and $1.3 million, respectively, of stock-based compensation expense.

Income from Operations

Income from operations increased $21.5 million, or 103%, to $42.4 million in the third quarter of fiscal 2010 from $20.9 million in the third quarter of fiscal 2009. The increase was a result of increased gross profit of $40.5 million, partially offset by increased selling, general and administrative costs of $19.0 million. The increase in selling, general and administrative costs was primarily driven by the increase in our business, as seen in our net revenue increases.

On a segment basis, we determine income from operations without taking into account our general corporate expenses such as corporate employee costs, travel expenses and corporate rent. For purposes of our management s analysis of our financial results, we have allocated some general product expenses to our corporate-owned stores segment. For example, all expenses related to our design, production, distribution and merchandising departments have been allocated to this segment.

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Income from operations (before general corporate expenses) for the thirteen weeks ended October 31, 2010 and November 1, 2009 are expressed in dollar amounts as well as percentages, presented as a percentage of net revenue of their respective operating segments below.

	Thirteen Weeks Ended October 31, 2010 and November 1, 2009			
	2010	2009	2010	2009
	(In thousands)		(Percentages)	
Corporate-owned stores	$ 50,787	$ 30,760	35.5	31.4
Direct to consumer	3,901	1,811	27.9	39.3
Other	5,543	2,776	29.8	27.2
Income from operations before general corporate expense	$ 60,231	$ 35,347		

Corporate-Owned Stores. Net income from our corporate-owned stores segment increased $20.0 million, or 65%, to $50.8 million for the third quarter of fiscal 2010 from $30.8 million for the third quarter of fiscal 2009 primarily due to an increase of $28.6 million in gross profit, which was offset partially by a natural increase in selling, general and administrative expenses related to employee costs as well as operating expenses associated with new stores and net revenue growth at existing stores.

Direct to Consumer. Net income from our direct to consumer segment increased $2.1 million, or 115%, to $3.9 million for the third quarter of fiscal 2010 from $1.8 million for the third quarter of fiscal 2009. Prior to the launch of our e-commerce website, our direct to consumer segment consisted only of phone sales. The addition of our e-commerce website towards the end of the first quarter of fiscal 2009 has driven the increase in income from operations for our direct to consumer segment. Income from operations as a percentage of direct to consumer revenues decreased in the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009 due to the introduction of promotional shipping.

Other. Net income from our other segment increased $2.8 million, or 100%, to $5.5 million for the third quarter of fiscal 2010 from $2.8 million for the third quarter of fiscal 2009. Gross profit related to our other segment increased $3.7 million in the third quarter of fiscal 2010 from the third quarter of fiscal 2009 primarily due to a higher proportion of full margin sales channels in the current period, such as our showroom sales channel, than in the same period of last year.

Other Income (Expense), Net

Other income (expense), net increased $0.1 million, or 3,516%, to $0.1 million in the third quarter of fiscal 2010 from $nil in the third quarter of fiscal 2009. The increase was primarily a result of increased interest income due to higher interest rates offered on cash balances compared to the same period of last year.

Provision for Income Taxes

Provision for income taxes increased $9.7 million, or 141%, to $16.5 million in the third quarter of fiscal 2010 from $6.9 million in the third quarter of fiscal 2009. In the third quarter of fiscal 2010, our effective tax rate was 38.9% compared to 32.8% in the third quarter of fiscal 2009. The increase in the effective tax rate was primarily a result of recording a deferred tax liability of $3.6 million in the third quarter of fiscal 2010 for estimated future income taxes

and foreign withholding taxes attributable to the undistributed earnings of Canadian subsidiaries which are in excess of our reinvestment plans for those subsidiaries.

Net Income

Net income increased $11.6 million to $25.7 million for the third quarter of fiscal 2010 from $14.1 million for the third quarter of fiscal 2009. The increase in net income of $11.6 million for the third quarter of fiscal 2010 was a result of an increase in gross profit of $40.5 million resulting from decreased product costs, including improved foreign exchange differences, and an increase in other income (expense), net of $0.1 million, offset by increases in selling, general and administrative expenses of $19.0 million and an increase of $9.7 million in provision for income taxes.

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Thirty-Nine Week Results

The following table summarizes key components of our results of operations for the thirty-nine weeks ended October 31, 2010 and November 1, 2009. The operating results are expressed in dollar amounts as well as relevant percentages, presented as a percentage of net revenue.

	Thirty-Nine Weeks Ended October 31, 2010 and November 1, 2009			
	2010	2009	2010	2009
	(In thousands)		(Percentages)	
Net revenue	$ 466,305	$ 292,292	100.0	100.0
Cost of goods sold	214,818	155,766	46.1	53.3
Gross profit	251,487	136,526	53.9	46.7
Selling, general and administrative expenses	142,394	91,415	30.5	31.3
Income from operations	109,093	45,111	23.4	15.4
Other income (expense), net	2,345	98	0.5	0.1
Income before provision for income taxes	111,438	45,209	23.9	15.5
Provision for income taxes	44,207	15,379	9.5	5.3
Net income	67,231	29,830	14.4	10.2
Net income attributable to non-controlling interest	150		0.0	
Net income attributable to lululemon athletica inc.	$ 67,081	$ 29,830	14.4	10.2

Net Revenue

Net revenue increased $174.0 million, or 60%, to $466.3 million for the first three quarters of fiscal 2010 from $292.3 million for the first three quarters of fiscal 2009. Assuming the average exchange rate between the Canadian and United States dollars for the first three quarters of fiscal 2009 remained constant, our net revenue would have increased $149.5 million, or 51%, for the first three quarters of fiscal 2010.

The net revenue increase was driven by increased sales at locations in our comparable stores base, sales from new stores opened, sales from franchised stores that were reacquired during the second quarter and the growth of our e-commerce website sales included in our direct to consumer segment. The constant dollar increase in comparable store sales was driven primarily by the strength of our existing product lines, our successful introduction of new products and increasing recognition of the lululemon athletica brand name, especially at our U.S. stores.

Our net revenue on a segment basis for the thirty-nine weeks ended October 31, 2010 and November 1, 2009 are expressed in dollar amounts as well as relevant percentages, presented as a percentage of total net revenue below.

	Thirty-Nine Weeks Ended October 31, 2010 and November 1, 2009

	2010	2009	2010	2009
	(In thousands)		(Percentages)	
Corporate-owned stores	$ 388,231	$ 256,053	83.3	87.6
Direct to consumer	32,754	8,506	7.0	2.9
Other	45,320	27,733	9.7	9.5
Net revenue	$ 466,305	$ 292,292	100.0	100.0

Corporate-Owned Stores. Net revenue from our corporate-owned stores segment increased $132.2 million, or 52%, to $388.2 million in the first three quarters of fiscal 2010 from $256.1 million in the first three quarters of

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fiscal 2009. The following contributed to the $132.2 million increase in net revenue from our corporate-owned stores segment:

- Comparable store sales increase of 31% in the first three quarters of fiscal 2010 resulted in a $76.7 million increase to net revenue, excluding the effect of foreign currency fluctuations. Including the effect of foreign currency fluctuations, comparable store sales increased 39%, or $96.2 million, in the first three quarters of fiscal 2010; and

- Net revenue from corporate-owned stores we opened subsequent to November 1, 2009, and therefore not included in the comparable store sales growth, contributed $37.2 million of the increase. Net new store openings since the first three quarters of fiscal 2009 included four stores in Canada (including a franchised store that was reacquired), nine stores in the United States, and 11 stores in Australia (including nine franchised stores that were reacquired).

The increase was partially offset by a decrease in net revenue related to gift card breakage. In the first quarter of fiscal 2009 we recorded a one-time credit of $1.3 million related to a change in our estimated rate of redemption.

Direct to consumer. Net revenue from our direct to consumer segment increased $24.2 million, or 285%, to $32.8 million in the first three quarters of fiscal 2010 from $8.5 million in the first three quarters of fiscal 2009. The increase was a result of net revenue from our e-commerce website, which has had increasing traffic since it was launched towards the end of the first quarter of fiscal 2009. Prior to the launch of our e-commerce website, our direct to consumer segment consisted only of phone sales.

Other. Net revenue from our other segment increased $17.6 million, or 63%, to $45.3 million in the first three quarters of fiscal 2010 from $27.7 million in the first three quarters of fiscal 2009. There were increases in net revenues across all operating channels included in our other segment: wholesale, showrooms and outlets. Net revenues from our other segment continues to grow year over year through new showroom and outlet locations, new wholesale partners and net revenue growth at existing locations attributable to a strong product offering and brand interest. We continue to employ our other segment strategy to increase interest in our product in markets we have not otherwise entered with corporate-owned stores.

Gross Profit

Gross profit increased $115.0 million, or 84%, to $251.5 million for the first three quarters of fiscal 2010 from $136.5 million for the first three quarters of fiscal 2009. Increased net revenues as well as a strengthening Canadian dollar relative to the U.S. dollar improved product margin in all of our operating segments, and ultimately resulted in an increased gross profit.

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

Gross profit as a percentage of net revenue, or gross margin, increased by 720 basis points, to 53.9% in the first three quarters of fiscal 2010 from 46.7% in the first three quarters of fiscal 2009. The increase in gross margin resulted primarily from:

- a decrease in fixed costs, such as occupancy costs and depreciation, relative to the increase in net revenue, which had a leveraging effect on gross margin and contributed to an increase in gross margin of 290 basis points;

an increase in product margins in corporate-owned stores, direct to consumer and other segments, which contributed to an increase in gross margin of 230 basis points as a result of improved product costing on our spring, summer, and fall assortment of merchandise and a higher proportion of total sales coming from our direct to consumer segment;

an improvement in the Canadian dollar, relative to the U.S. dollar, decreased foreign exchange impacts on product costs and contributed to an increase in gross margin of 170 basis points; and

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a decrease in costs related to design, production, distribution and merchandising, relative to the increase in net revenue, which had a leveraging effect on gross margin and contributed to an increase in gross margin of 30 basis points.

Our costs of goods sold in the first three quarters of fiscal 2010 and fiscal 2009 included $1.1 million and $0.6 million, respectively, of stock-based compensation expense.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $51.0 million, or 56%, to $142.4 million in the first three quarters of fiscal 2010 from $91.4 million in the first three quarters of fiscal 2009. The $51.0 million increase in selling, general and administrative expenses was principally comprised of:

an increase in employee costs of $17.3 million as we experience natural growth in labor hours associated with new corporate-owned stores, showrooms, outlets and other, and growth at existing locations;

an increase in variable administrative costs of $10.7 million related to our direct to consumer segment, primarily associated with revenue growth in our e-commerce website sales channel;

an increase in other costs, including occupancy costs, depreciation and distribution not included in cost of goods sold, of $8.7 million as a result of the expansion of our business;

an increase in head office employee costs, including options expense and management incentive-based compensation, of $5.7 million incurred in order to position us for long-term growth;

an increase in administrative costs of $3.6 million related to our Australian business, in which we increased our investment significantly in the second quarter of fiscal 2010;

an increase in professional fees, of $2.9 million, which includes consulting fees for recruiting, store development and information systems, legal fees associated with reacquisition of franchise rights, employment matters and legal settlement costs; and

an increase in marketing efforts, including initiatives associated with the Olympic games, of $2.2 million to increase our brand awareness in both new and existing markets.

As a percentage of net revenue, selling, general and administrative expenses decreased 80 basis points, to 30.5% in the first three quarters of fiscal 2010 from 31.3% in the first three quarters of fiscal 2009. The improvement was largely due to leverage associated with increased net revenues.

Our selling, general and administrative expenses in the first three quarters of fiscal 2010 and fiscal 2009 included $4.3 million and $3.7 million, respectively, of stock-based compensation expense.

Income from Operations

Income from operations increased $64.0 million, or 142%, to $109.1 million in the first three quarters of fiscal 2010 from $45.1 million in the first three quarters of fiscal 2009. The increase was a result of increased gross profit of $115.0 million, partially offset by increased selling, general and administrative costs of $51.0 million. The increase in selling, general and administrative costs was primarily driven by the increase in our business, as seen in our net

revenue increases.

On a segment basis, we determine income from operations without taking into account our general corporate expenses such as corporate employee costs, travel expenses and corporate rent. For purposes of our management s analysis of our financial results, we have allocated some general product expenses to our corporate-owned stores segment. For example, all expenses related to our design, production, distribution and merchandising departments have been allocated to this segment.

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Income from operations (before general corporate expenses) for the thirty-nine weeks ended October 31, 2010 and November 1, 2009 are expressed in dollar amounts as well as percentages, presented as a percentage of net revenue of their respective operating segments below.

	Thirty-Nine Weeks Ended October 31, 2010 and November 1, 2009			
	2010	2009	2010	2009
	(In thousands)		(Percentages)	
Corporate-owned stores	$ 135,052	$ 72,408	34.8	28.3
Direct to consumer	9,417	3,035	28.8	35.7
Other	13,216	6,588	29.2	23.8
Income from operations before general corporate expense	$ 157,685	$ 82,031		

Corporate-Owned Stores. Net income from our corporate-owned stores segment increased $62.6 million, or 87%, to $135.1 million for the first three quarters of fiscal 2010 from $72.4 million for the first three quarters of fiscal 2009 primarily due to an increase of $89.6 million in gross profit, which was offset partially by a natural increase in selling, general and administrative expenses related to employee costs as well as operating expenses associated with new stores and net revenue growth at existing stores.

Direct to consumer. Net income from our direct to consumer segment increased $6.4 million, or 210%, to $9.4 million for the first three quarters of fiscal 2010 from $3.0 million for the first three quarters of fiscal 2009. Prior to the launch of our e-commerce website, our direct to consumer segment consisted only of phone sales. The addition of our e-commerce website towards the end of the first quarter of fiscal 2009 has driven the increase in income from operations for our direct to consumer segment. Income from operations as a percentage of direct to consumer revenues decreased in the first three quarters of fiscal 2010 compared to the first three quarters of fiscal 2009 due to the introduction of promotional shipping.

Other. Net income from our other segment increased $6.6 million, or 101%, to $13.2 million for the first three quarters of fiscal 2010 from $6.6 million for the first three quarters of fiscal 2009. Gross profit related to our other segment increased in the first three quarters of fiscal 2010 from the first three quarters of fiscal 2009 primarily due to a higher proportion of full margin sales channels in the current period, such as our showroom sales channel, than in the same period of last year. There was an increase in selling, general and administrative expenses as a result of opening and operating an increased number of showrooms in the first three quarters of fiscal 2010 compared to the first three quarters of fiscal 2009, which offset a portion of the gross profit increase.

Other Income (Expense), Net

Other income (expense), net increased $2.2 million, or 2286%, to $2.3 million in the first three quarters of fiscal 2010 from $0.1 million in the first three quarters of fiscal 2009. The increase was primarily a result of re-measuring our 13 percent non-controlling equity investment in Australia immediately before obtaining control of such business.

Provision for Income Taxes

Provision for income taxes increased $28.8 million, or 188%, to $44.2 million in the first three quarters of fiscal 2010 from $15.4 million in the first three quarters of fiscal 2009. In the first three quarters of fiscal 2010, our effective tax

rate was 39.7% compared to 34.0% in the first three quarters of fiscal 2009. The increase in the effective tax rate was primarily a result of recording a deferred tax liability of $8.8 million in the first three quarters of fiscal 2010 for estimated future income taxes and foreign withholding taxes attributable to the undistributed earnings of Canadian subsidiaries which are in excess of our reinvestment plans for those subsidiaries.

Net Income

Net income increased $37.3 million to $67.1 million for the first three quarters of fiscal 2010 from $29.8 million for the first three quarters of fiscal 2009. The increase in net income of $37.3 million for the first

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three quarters of fiscal 2010 was a result of an increase in gross profit of $115.0 million resulting from decreased product costs, including improved foreign exchange differences, and an increase in Other income (expense), net of $2.2 million, offset by increases in selling, general and administrative expenses of $51.0 million and an increase of $28.8 million in provision for income taxes.

Seasonality

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

Liquidity and Capital Resources

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

At October 31, 2010, our working capital (excluding cash and cash equivalents) was $22.7 million and our cash and cash equivalents were $224.8 million.

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

	Thirty-Nine Weeks Ended October 31, 2010	Thirty-Nine Weeks Ended November 1, 2009
	(In thousands)	
Total cash provided by (used in):		
Operating activities	$ 87,917	$ 51,773
Investing activities	(34,433)	(10,214)
Financing activities	7,945	(27)
Effect of exchange rate changes	3,773	3,503
Increase in cash and cash equivalents	$ 65,202	$ 45,035

Operating Activities

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

Cash provided by operating activities increased $36.1 million, to $87.9 million for the first three quarters of fiscal 2010 compared to $51.8 million for the first three quarters of fiscal 2009. The $36.1 million increase was primarily a result of an increase in net income due to improvement in store productivity, an increase in our store base, and a net decrease in the change in other working capital balances.

Investing Activities

Investing Activities relate entirely to capital expenditures, advances to and investments in franchises and reacquisition of franchises.

Cash used in investing activities increased $24.2 million, to $34.4 million for the first three quarters of fiscal 2010 from $10.2 million for the first three quarters of fiscal 2009. The $24.2 million increase was a result of our

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reacquisition of franchised stores in Australia and Canada as well as increased corporate-owned store openings. In the first three quarters of fiscal 2010 we opened or acquired twenty new corporate-owned stores compared to three new corporate-owned stores we opened in the first three quarters of fiscal 2009.

Financing Activities

Financing Activities consist primarily of cash received on the exercise of stock options and excess tax benefits from stock-based compensation. Cash provided by financing activities increased $8.0 million to $7.9 million for the first three quarters of fiscal 2010 from $nil for the first three quarters of fiscal 2009.

We believe that our cash from operations and borrowings available to us under our revolving credit facility will be adequate to meet our liquidity needs and capital expenditure requirements for at least the next 24 months. Our cash from operations may be negatively impacted by a decrease in demand for our products as well as the other factors described in Risk Factors and elsewhere in this report. In addition, we may make discretionary capital improvements with respect to our stores, distribution facility, headquarters, or other systems, which we would expect to fund through the issuance of debt or equity securities or other external financing sources to the extent we were unable to fund such capital expenditures out of our cash from operations.

Revolving Credit Facility

In April 2007, we executed a credit facility with the Royal Bank of Canada that provided for a CDN$20,000,000 uncommitted demand revolving credit facility to fund our working capital requirements. Borrowings under this uncommitted credit facility are made on a when-and-as-needed basis at our discretion.

Borrowings under the credit facility can be made either as i) *Revolving Loans* Revolving loan borrowings will bear interest at a rate equal to the bank s CA$ or US$ annual base rate (defined as zero% plus the lender s annual prime rate) per annum, ii) *Offshore Loans* Offshore rate loan borrowings will bear interest at a rate equal to a base rate based upon LIBOR for the applicable interest period, plus 1.125% per annum, iii) *Bankers Acceptances* Bankers acceptance borrowings will bear interest at the bankers acceptance rate plus 1.125% per annum, or iv) *Letters of Credit and Letters of Guarantee* Borrowings drawn down under letters of credit or guarantee issued by the banks will bear a 1.125% per annum fee.

At October 31, 2010, aside from letters of credit and guarantees, there were no borrowings outstanding under this credit facility.

Off-Balance Sheet Arrangements

We enter into documentary letters of credit to facilitate the international purchase of merchandise. We also enter into standby letters of credit to secure certain of our obligations, including insurance programs and duties related to import purchases. As of October 31, 2010, letters of credit and letters of guarantee totaling $1.5 million have been issued.

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

Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. Predicting future events is inherently an imprecise activity and, as such, requires the use of judgment.

Actual results may vary from estimates in amounts that may be material to the financial statements. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact our consolidated financial statements. Our critical accounting policies and estimates are discussed in our fiscal 2009 Annual Report on Form 10-K filed with the SEC on March 25, 2010, and in Note 2 included in Item 1 of Part I of this Quarterly Report on Form 10-Q.

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We believe that there have been no other significant changes during the thirty-nine weeks ended October 31, 2010 to our critical accounting policies.

Operating Locations

Our operating locations by Canadian province, U.S. state and internationally as of October 31, 2010, and the overall totals as of October 31, 2010 and January 31, 2010, are summarized in the table below. While most of our stores are branded lululemon athletica, three of our corporate-owned stores are branded ivivva athletica and specialize in dance-inspired apparel for female youth.

	Corporate-Owned Stores	Franchise Stores	Total Stores
Canada			
Alberta	9		9
British Columbia	12		12
Manitoba	1		1
Nova Scotia	1		1
Ontario	17		17
Québec	4		4
Saskatchewan	1		1
Total Canada	45		45
United States			
Arizona	1		1
California	19	1	20
Colorado		3	3
Connecticut	2		2
District of Columbia	2		2
Florida	3		3
Hawaii	1		1
Illinois	8		8
Maryland	2		2
Massachusetts	5		5
Michigan	1		1
Minnesota	2		1
Missouri	1		1
Nevada	1		1
New Jersey	3		3
New York	7		7
Oregon	2		1
Pennsylvania	2		2
Tennessee	1		1
Texas	6		6
Virginia	2		2
Washington	3		3

Total United States	74	4	78

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	Corporate-Owned Stores	Franchise Stores	Total Stores
International			
Australia	11		11
Total International	11		11
Overall total, as of October 31, 2010	130	4	134
Overall total, as of January 31, 2010	110	14	124

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

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

Foreign Currency Exchange Risk. We currently generate a majority of our net revenue in Canada. The reporting currency for our consolidated financial statements is the United States dollar. Historically, our operations were based largely in Canada. As of October 31, 2010, we operated 45 stores in Canada. As a result, we have been impacted by changes in exchange rates and may be impacted materially for the foreseeable future. For example, because we recognize net revenue from sales in Canada in Canadian dollars, if the United States dollar strengthens it would have a negative impact on our Canadian operating results upon translation of those results into United States dollars for the purposes of consolidation. Any hypothetical loss in net revenue could be partially or completely offset by lower cost of sales and lower selling, general and administrative expenses that are generated in Canadian dollars. A 10% depreciation in the relative value of the Canadian dollar compared to the U.S. dollar would have resulted in lost income from operations of approximately $6.6 million for the first three quarters of fiscal 2010. To the extent the ratio between our net revenue generated in Canadian dollars increases as compared to our expenses generated in Canadian dollars, we expect that our results of operations will be further impacted by changes in exchange rates. We do not currently hedge foreign currency fluctuations. However, in the future, in an effort to mitigate losses associated with these risks, we may at times enter into derivative financial instruments, although we have not historically done so. These may take the form of forward sales contracts and option contracts. We do not, and do not intend to, engage in the practice of trading derivative securities for profit.

Interest Rate Risk. In April 2007, we entered into an uncommitted senior secured demand revolving credit facility with Royal Bank of Canada which replaced our previous credit facility. Because our revolving credit facility bears interest at a variable rate, we are exposed to market risks relating to changes in interest rates, if we have a meaningful outstanding balance. At October 31, 2010, we had no outstanding borrowings on our revolving facility. We do not believe we currently are significantly exposed to changes in interest rate risk. We currently do not engage in any interest rate hedging activity and currently have no intention to do so in the foreseeable future. However, in the future, if we have a meaningful outstanding balance, 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 sales contracts, option contracts, and interest rate swaps. We do not, and do not intend to, engage in the practice of trading derivative securities for profit.

ITEM 4. ***CONTROLS AND PROCEDURES***

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

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Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act), at October 31, 2010. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, at October 31, 2010, our disclosure controls and procedures were effective.

There was no change in internal control over financial reporting during the fiscal quarter ended October 31, 2010 that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

PART II

OTHER INFORMATION

ITEM 1. *LEGAL PROCEEDINGS*

On September 7, 2010, a former hourly employee filed a class action lawsuit in the United States District Court For the Northern District of Illinois, Eastern Division entitled Lydia Brown v. lululemon athletica inc. The lawsuit alleges that we require employees to work off the clock without compensation. Plaintiff seeks on behalf of herself and other putative class members back wages, interest, attorneys fees and costs, and equitable relief under the Fair Labor Standards Act and the labor laws of each of the 30 states. We deny the allegations and intend to vigorously defend the matter.

We are, from time to time, involved in routine legal matters incidental to our business. Management believes that the ultimate resolution of any such current proceedings will not have a material adverse effect on our continued financial position, results of operations or cash flows.

ITEM 1A. *RISK FACTORS*

Our past performance may not be a reliable indicator of future performance because actual future results and trends may differ materially depending on a variety of factors, including, but not limited to, the risks and uncertainties discussed below. In addition, historical trends should not be used to anticipate results or trends in future periods. Factors that might cause our actual results to differ materially from the forward looking statements discussed elsewhere in this report, as well as affect our ability to achieve our financial and other goals, include, but are not limited to, those set forth below.

General economic conditions and volatility in the worldwide economy has adversely affected consumer spending, which has negatively affected our results of operations and may continue to do so in the future.

Our operations and performance depend significantly on economic conditions, particularly those in Canada and the United States, and their impact on levels of consumer spending. Consumer spending on non-essential items is affected by a number of factors, including consumer confidence in the strength of economies, fears of recession, the tightening of credit markets, higher levels of unemployment, higher tax rates, the cost of consumer credit and other factors. The current volatility in the United States economy in particular has resulted in an overall slowing in growth in the retail sector because of decreased consumer spending, which may remain depressed for the foreseeable future. These unfavorable economic conditions may continue to lead our customers to delay or reduce purchase of our products.

In addition, we could experience reduced traffic in our stores and limitations on the prices we can charge for our products, which may include price discounts, either of which could reduce our sales and profit margins. Economic factors such as those listed above and increased transportation costs, inflation, higher costs of labor, insurance and healthcare, and changes in other laws and regulations may increase our cost of sales and our operating, selling, general

and administrative expenses. These and other economic factors could have a material adverse affect on the demand for our products and on our financial conditions, operating results and stock price.

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We have grown rapidly in recent years and we have limited operating experience at our current scale of operations; if we are unable to manage our operations at our current size or to manage any future growth effectively, our brand image and financial performance may suffer.

We have expanded our operations rapidly since our inception in 1998 and we have limited operating experience at our current size. We opened our first store in Canada in 1999 and our first store in the United States in 2003. Our net revenue increased from $40.7 million in fiscal 2004 to $452.9 million in fiscal 2009, representing a compound annual increase of approximately 62%. We expect our net revenue growth rate to slow as the number of new stores that we open in the future declines relative to our larger store base. Our substantial growth to date has placed a significant strain on our management systems and resources. If our operations continue to grow, of which there can be no assurance, we will 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 to obtain more space for our expanding administrative support and other headquarters personnel. Our continued growth could increase the strain on our resources, and we could experience serious operating difficulties, including difficulties in hiring, training and managing an increasing number of employees, difficulties in obtaining sufficient raw materials and manufacturing capacity to produce our products, and delays in production and shipments. These difficulties would likely result in the erosion of our brand image and lead to a decrease in net revenue, income from operations and the price of our common stock.

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

We are increasingly dependent on information systems to operate our website, process transactions, respond to customer inquiries, manage inventory, purchase, sell and ship goods on a timely basis and maintain cost-efficient operations. Throughout fiscal 2009 and fiscal 2008, we upgraded certain of our information systems to support recent and expected future growth. These system upgrades improved our ability to capture, process and ship customer orders, and transfer product between channels. We incurred additional costs associated with these upgrades in fiscal 2009 and fiscal 2008. We believe these systems are stable upon implementation, but there can be no assurance that future disruptions will not occur. We may experience operational problems with our information systems as a result of system failures, viruses, computer hackers or other causes. Any material disruption or slowdown of our systems, including a disruption or slowdown caused by our failure to successfully upgrade our systems, could cause information, including data related to customer 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 merchandise to our stores and customers or lost sales, which could reduce demand for our merchandise and cause our sales to decline. Moreover, we may not be successful in developing or acquiring technology that is competitive and responsive to the needs of our customers and might lack sufficient resources to make the necessary investments in technology to compete with our competitors. Accordingly, 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 customers.

Our direct to consumer channel, which includes e-commerce, is an increasingly substantial part of our business, representing approximately 7% of our net revenue in the first three quarters of fiscal 2010, 4% of our revenue in fiscal 2009 and less than 1% of our net revenue in fiscal 2008. In addition to changing consumer preferences and buying trends relating to e-commerce, we are vulnerable to certain additional risks and uncertainties associated with e-commerce, including changes in required technology interfaces, website downtime and other technical failures, security breaches, and consumer privacy concerns. Our failure to successfully respond to these risks and uncertainties could reduce e-commerce sales and damage our brand s reputation.

We have taken over certain portions of our information systems needs that were previously outsourced to a third-party and are making upgrades to our information systems. We may take over other outsourced portions of our information systems in the near future. If we are unable to manage these aspects of our information systems or the planned

upgrades, our receipt and delivery of merchandise could be disrupted, which could result in a decline in our sales.

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Problems with our distribution system could harm our ability to meet customer expectations, manage inventory, complete sales and achieve objectives for operating efficiencies.

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

We are subject to risks associated with leasing retail space subject to long-term non-cancelable leases and are required to make substantial lease payments under our operating leases, and any failure to make these lease payments when due would likely harm our business, profitability and results of operations.

We do not own any of our store facilities or real estate, but instead lease all of our corporate-owned stores under operating leases. Our leases generally have initial terms of between five and 10 years, and generally can be extended only in five-year increments if at all. All of our leases require a fixed annual rent, and most require the payment of additional rent if store sales exceed a negotiated amount. Generally, our leases are net leases, which require us to pay all of the cost of insurance, taxes, maintenance and utilities. We generally cannot cancel these leases at our option. Payments under these operating leases account for a significant portion of our cost of goods sold. For example, as of October 31, 2010, we were a party to operating leases associated with our corporate-owned stores as well as other corporate facilities requiring future minimum lease payments aggregating $215.2 million through January 31, 2015 and approximately $72.4 million thereafter. We expect that any new stores we open will also be leased by us under operating leases, which will further increase our operating lease expenses.

Our substantial operating lease obligations could have significant negative consequences, including:

- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our ability to obtain additional financing;
- requiring a substantial portion of our available cash to pay our rental obligations, thus reducing cash available for other purposes;
- limiting our flexibility in planning for or reacting to changes in our business or in the industry in which we compete; and
- placing us at a disadvantage with respect to some of our competitors.

We depend on cash flow from operations to pay our lease expenses and to fulfill our other cash needs. If our business does not generate sufficient cash flow from operating activities, and sufficient funds are not otherwise available to us from borrowings under our available credit facilities or from other sources, we may not be able to service our operating lease expenses, grow our business, respond to competitive challenges or fund our other liquidity and capital needs, which would harm our business.

The 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 natural fibers, including cotton. Significant price fluctuations or shortages in petroleum or other raw materials may increase our cost of goods sold and cause our results of operations and financial condition to suffer.

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

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

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

negotiate acceptable lease terms, including desired tenant improvement allowances;

hire, train and retain store personnel and field management;

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

source sufficient inventory levels; and

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

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

We plan to open new stores in the near future to add to our existing store base. Of the 134 stores in operation as of October 31, 2010, we reacquired the franchise rights for one store in Canada, opened eight new stores in the United States, reacquired the franchise rights for nine stores in Australia and opened two new stores in Australia in the first three quarters of fiscal 2010. We expect to open a total of four additional stores during the remainder of fiscal 2010 in Canada, the United States and Australia. We estimate that we will incur between approximately $2.4 million and $2.5 million of capital expenditures in fiscal 2010 to open these four additional stores. In addition, our new stores may not be immediately profitable and we may incur losses until these stores become profitable. There can be no assurance that we will open the planned number of new stores in fiscal 2010. Any failure to successfully open and operate new stores will harm our results of operations.

If we fail to maintain the value and reputation of our brand, our sales are likely to decline.

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 customer experience. We rely on social media, as one of our marketing strategies, to have a positive impact on both our brand value and reputation. Our brand could be adversely affected if we fail to achieve these objectives or if our public image or reputation were to be tarnished by negative publicity. Any of these events could result in decreases in sales.

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

Our future growth depends, to a considerable extent, on our expansion efforts outside of Canada, especially in the United States. Our current operations are based largely in Canada and the United States. As of October 31, 2010, we had 45 corporate-owned stores in Canada, 74 corporate-owned stores in the United States, 11 corporate-owned stores in Australia and four franchise stores in the United States. We have limited experience with regulatory environments and market practices outside of Canada and the United States, and cannot guarantee that we will be able to penetrate or successfully operate in any market outside of North America. As previously disclosed, we have discontinued our operations in Japan. In connection with our initial expansion efforts outside of North America, we

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have encountered many obstacles we do not face in Canada or the United States, including cultural and linguistic differences, differences in regulatory environments and market practices, difficulties in keeping abreast of market, business and technical developments and foreign customers tastes and preferences.

We may also encounter difficulty expanding into new markets because of limited brand recognition leading to delayed acceptance of our technical athletic apparel by customers in these new markets. In particular, we have no assurance that our grassroots marketing efforts will prove successful outside of the narrow geographic regions in which they have been used in the United States and Canada. We anticipate that as our business expands into new markets and as the market becomes increasingly competitive, maintaining and enhancing our brand may become increasingly difficult and expensive. Conversely, as we penetrate these markets and our brand becomes more widely available, it could potentially detract from the appeal stemming from the scarcity of our brand. Our brand may also be adversely affected if our public image or reputation is tarnished by negative publicity. Maintaining and enhancing our brand will depend largely on our ability to be a leader in the athletic apparel industry, to offer a unique store experience to our customers and to continue to provide high quality products and services, which we may not do successfully. Failure to develop new markets outside of North America or disappointing growth outside of North America will harm our business and results of operations. In addition, if we are unable to maintain or enhance our brand image our results of operations may suffer and our business may be harmed.

Our ability to attract customers to our stores depends heavily on successfully locating our stores in suitable locations and any impairment of a store location, including any decrease in customer traffic, could cause our sales to be less than expected.

Our approach to identifying locations for our stores typically favors street locations and lifestyle centers where we can be a part of the community. As a result, our stores are typically located near retailers or fitness facilities that we believe are consistent with our customers lifestyle choices. Sales at these stores are derived, in part, from the volume of foot traffic in these locations. Store locations may become unsuitable due to, and our sales volume and customer traffic generally may be harmed by, among other things:

- economic downturns in a particular area;
- competition from nearby retailers selling athletic apparel;
- changing consumer demographics in a particular market;
- changing lifestyle choices of consumers in a particular market; and
- the closing or decline in popularity of other businesses located near our store.

Changes in areas around our store locations that result in reductions in customer foot traffic or otherwise render the locations unsuitable could cause our sales to be less than expected.

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

The market for technical athletic apparel is highly competitive. Competition may result in pricing pressures, reduced profit margins or lost market share or a failure to grow our market share, any of which could substantially harm our business and results of operations. We compete directly against wholesalers and direct retailers of athletic apparel, including large, diversified apparel companies with substantial market share and established companies expanding

their production and marketing of technical athletic apparel, as well as against retailers specifically focused on women s athletic apparel. We also face competition from wholesalers and direct retailers of traditional commodity athletic apparel, such as cotton T-shirts and sweatshirts. Many of our competitors are large apparel and sporting goods companies with strong worldwide brand recognition, such as Nike, Inc. and adidas AG, which includes the adidas and Reebok brands. Because of the fragmented nature of the industry, we also compete with other apparel sellers, including those specializing in yoga apparel. Many of our competitors have significant competitive advantages, including longer operating histories, larger and broader customer bases, more established relationships with a broader set of suppliers, greater brand recognition and greater financial, research and

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development, marketing, distribution and other resources than we do. In addition, our technical athletic apparel is sold at a premium to traditional athletic apparel.

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

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

Our inability to maintain recent levels of comparable store sales or average sales per square foot could cause our stock price to decline.

We may not be able to maintain the levels of comparable store sales that we have experienced historically. In addition, we may not be able to replicate outside of North America our historic average sales per square foot. Our sales per square foot in stores we have opened in new markets, which have primarily been in the United States, have generally been lower than those we have been able to achieve in Canada. As sales in new markets grow to become a larger percentage of our overall sales, our average sales per square foot will likely decline. The aggregate results of operations of our stores have fluctuated in the past and can be expected to continue to fluctuate in the future. For example, for the three most recently ended fiscal years, our comparable store sales have ranged from a decrease of 22% in the fourth quarter of fiscal 2008 to an increase of 51% in the first quarter of fiscal 2010. A variety of factors affect both comparable store sales and average sales per square foot, including foreign exchange fluctuations, fashion trends, competition, current economic conditions, pricing, inflation, the timing of the release of new merchandise and promotional events, changes in our merchandise mix, the success of marketing programs and weather conditions. These factors may cause our comparable store sales results to be materially lower than recent periods and our expectations, which could harm our results of operations and result in a decline in the price of our common stock.

Our net sales are affected by direct to consumer sales.

We sell merchandise over the Internet through our website. Our e-commerce operations, included in our direct to consumer channel, are subject to numerous risks, including reliance on third party computer hardware/software, rapid technological change, diversion of sales from our stores, liability for online content, violations of state or federal laws, including those relating to online privacy, credit card fraud, risks related to the failure of the computer systems that operate our websites and their related support systems, including computer viruses, telecommunications failures and electronic break-ins and similar disruptions. There is no assurance that our e-commerce operations will continue to achieve sales and profitability growth.

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

The labeling, distribution, importation and sale of our products are subject to extensive regulation by various federal agencies, including the Federal Trade Commission, or the FTC, state attorneys general in the U.S., 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 those regulations, we could become subject to significant penalties or claims, which could harm our results of operations or our ability to conduct our business. In addition, the adoption of new regulations or changes in

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the interpretation of existing regulations may result in significant compliance costs or discontinuation of product sales and may impair the marketing of our products, resulting in significant loss of net sales.

In addition, our failure to comply with FTC or state regulations, or with regulations in foreign markets that cover our product claims and advertising, including direct claims and advertising by us, may result in enforcement actions and imposition of penalties or otherwise harm the distribution and sale of our products.

Our plans to improve and expand our product offerings may not be successful, and implementation of these plans may divert our operational, managerial and administrative resources, which could harm our competitive position and reduce our net revenue and profitability.

In addition to our store expansion strategy, we plan to grow our business by improving and expanding our product offerings, which includes introducing new product technologies, increasing the range of athletic activities our products target, growing our men s and female youth businesses and expanding our accessories, undergarments and outerwear offerings. The principal risks to our ability to successfully carry out our plans to improve and expand our product offering are that:

- introduction of new products may be delayed, allowing our competitors to introduce similar products in a more timely fashion, which could hurt our goal to be viewed as a leader in technical athletic apparel innovation;
- if our expanded product offerings fail to maintain and enhance our distinctive brand identity, our brand image may be diminished and our sales may decrease;
- implementation of these plans may divert management s attention from other aspects of our business and place a strain on our management, operational and financial resources, as well as our information systems; and
- incorporation of novel technologies into our products that are not accepted by our customers or that are inferior to similar products offered by our competitors.

In addition, our ability to successfully carry out our plans to improve and expand our product offerings may be affected by economic and competitive conditions, changes in consumer spending patterns and changes in consumer athletic preferences and style trends. These plans could be abandoned, could cost more than anticipated and could divert resources from other areas of our business, any of which could impact our competitive position and reduce our net revenue and profitability.

We rely on third-party suppliers to provide fabrics for and to produce our products, and we have limited control over them and may not be able to obtain quality products on a timely basis or in sufficient quantity.

We do not manufacture our products or the raw materials for them and rely instead on third-party suppliers. Many of the specialty fabrics used in our products are technically advanced textile products developed and manufactured by third parties and may be available, in the short-term, from only one or a very limited number of sources. For example, Luon fabric, which is included in many of our products, is supplied to the mills we use by a single manufacturer in Taiwan, and the fibers used in manufacturing Luon fabric are supplied to our Taiwanese manufacturer by a single company. In fiscal 2009, approximately 85% of our products were produced by our top 10 manufacturing suppliers.

If we experience significant increased demand, or need to replace an existing manufacturer, there can be no assurance that additional supplies of fabrics or raw materials or additional manufacturing capacity will be available when required on terms that are acceptable to us, or at all, or that any supplier or manufacturer would allocate sufficient capacity to us in order to meet our requirements or fill our orders in a timely manner. 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,

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interruption or increased costs in the supply of fabric or manufacture of our products could have an adverse effect on our ability to meet customer demand for our products and result in lower net revenue and income from operations both in the short and long-term.

In addition, there can be no assurance that our suppliers and manufacturers will continue to provide fabrics and raw materials or manufacture products that comply with our technical specifications and are consistent with our standards. We have occasionally received, and may in the future continue to receive, shipments of products that fail to comply with our technical specifications or that fail to conform to our quality control standards. In that event, 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 defects in the manufacture of our products are not discovered until after such products are purchased by our customers, our customers could lose confidence in the technical attributes of our products and our results of operations could suffer and our business may be harmed.

We do not have long-term contracts with our suppliers and accordingly could face significant disruptions in supply from our current sources.

We generally do not enter into long-term formal written agreements with our suppliers, including those for Luon, and typically transact business with our suppliers on an order-by-order basis. There can be no assurance that there will not be a significant disruption in the supply of fabrics or raw materials from current sources or, in the event of a disruption, that we would be able to locate alternative suppliers of materials of comparable quality at an acceptable price, or at all. Identifying a suitable supplier is an involved process that requires us to become satisfied with their quality control, responsiveness and service, financial stability and labor and other ethical practices. Any delays, interruption or increased costs in the supply of fabric or manufacture of our products arising from a lack of long-term contracts could have an adverse effect on our ability to meet customer demand for our products and result in lower net revenue and income from operations both in the short and long-term. Similarly, there can no assurance that the suppliers of our fabrics, such as Luon, will not sell the same fabric to our competitors.

We do not have patents or exclusive intellectual property rights in our fabrics and manufacturing technology. If our competitors sell similar products to ours, our net revenue and profitability could suffer.

The intellectual property rights in the technology, fabrics and processes used to manufacture our products are owned or controlled by our suppliers and are generally not unique to us. Our ability to obtain intellectual property protection for our products is therefore limited and we currently own no patents or exclusive intellectual property rights in the technology, fabrics or processes underlying our products. As a result, our current and future competitors are able to manufacture and sell products with performance characteristics, fabrics and styling similar to our products. Because many of our competitors, such as Nike, Inc. and adidas AG, which includes the adidas and Reebok brands, 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 future success is substantially dependent on the continued service of our senior management.

Our future success is substantially dependent on the continued service of our senior management. The loss of the services of our senior management could make it more difficult to successfully operate our business and achieve our business goals.

We also may be unable to retain existing management, technical, sales and client support personnel that are critical to our success, which could result in harm to our customer and employee relationships, loss of key information, expertise or know-how and unanticipated recruitment and training costs.

We do not maintain a key person life insurance policy on Mr. Wilson, Ms. Day or any of the other 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.

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Our operating results are subject to seasonal and quarterly variations in our net revenue and income from operations, which could cause the price of our common stock to decline.

We have experienced, and expect to continue to experience, significant seasonal variations in our net revenue and income from operations. Seasonal variations in our net revenue are primarily related to increased sales of our products during our fourth fiscal quarter, reflecting our historical strength in sales during the holiday season. We generated approximately 39%, 29% and 39% of our full year gross profit during the fourth quarters of fiscal 2009, fiscal 2008 and fiscal 2007, respectively. Historically, seasonal variations in our income from operations have been driven principally by increased net revenue in our fourth fiscal quarter.

Our quarterly results of operations may also fluctuate significantly as a result of a variety of other factors, including, among other things, the following:

- the timing of new store openings;
- net revenue and profits contributed by new stores;
- increases or decreases in comparable store sales;
- increases or decreases in our e-commerce sales;
- changes in our product mix; and
- the timing of new advertising and new product introductions.

As a result of these seasonal and quarterly fluctuations, we believe that comparisons of our operating results between different quarters within a single fiscal year are not necessarily meaningful and that these comparisons cannot be relied upon as indicators of our future performance.

Any future seasonal or quarterly fluctuations in our results of operations may not match the expectations of market analysts and investors. Disappointing quarterly results could cause the price of our common stock to decline. Seasonal or quarterly factors in our business and results of operations may also make it more difficult for market analysts and investors to assess the longer-term profitability and strength of our business at any particular point, which could lead to increased volatility in our stock price. Increased volatility could cause our stock price to suffer in comparison to less volatile investments.

If we are unable to accurately forecast customer demand for our products our manufacturers may not be able to deliver products to meet our requirements, and this could result in delays in the shipment of products to our stores and may harm our results of operations and customer relationships.

We stock our stores based on our estimates of future demand for particular products. If our inventory and planning team fails to accurately forecast customer demand, we may experience excess inventory levels or a shortage of products available for sale in our stores. There can be no assurance that we will be able to successfully manage our inventory at a level appropriate for future customer demand.

Inventory levels in excess of customer 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. We wrote-off $0.8 million, $0.9 million and $0.8 million of inventory in fiscal 2009, fiscal 2008 and fiscal 2007, respectively. In addition, if we underestimate customer demand for our products, our

manufacturers may not be able to deliver products to meet our requirements, and this could result in delays in the shipment of products to our stores and may damage our reputation and customer relationships. There can be no assurance that we will be able to successfully manage our inventory at a level appropriate for future customer demand.

Our current and future joint ventures may not be successful.

As part of our long-term growth strategy, we plan to expand our stores and sales of our products into new locations outside North America. Our successful expansion and operation of new stores outside North America may depend on our ability to find suitable partners and to successfully implement and manage joint venture

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relationships. If we are able to find a joint venture partner in a specific geographic area, there can be no guarantee that such a relationship will be successful. Such a relationship often creates additional risk. For example, our partners in joint venture relationships may have interests that differ from ours or that conflict with ours, such as the timing of new store openings and the pricing of our products, or our partners may become bankrupt which may as a practical matter subject us to such partners liabilities in connection with the joint venture. In addition, joint ventures can magnify several other risks for us, including the potential loss of control over our cultural identity in the markets where we enter into joint ventures and the possibility that our brand image could be impaired by the actions of our partners. Although we generally will seek to maintain sufficient control of any investment to permit our objectives to be achieved, we might not be able to take action without the approval of our partners. Reliance on joint venture relationships and our partners exposes us to increased risk that our joint ventures will not be successful and will result in competitive harm to our brand image that could cause our expansion efforts, profitability and results of operations to suffer.

If our independent manufacturers fail to use ethical business practices and comply with applicable laws and regulations, our brand image could be harmed due to negative publicity.

Our core values, which include developing the highest quality products while operating with integrity, are an important component of our brand image, which makes our reputation particularly sensitive to allegations of unethical business practices. While our internal and vendor operating guidelines promote ethical business practices such as environmental responsibility, fair wage practices, and compliance with child labor laws, among others, and we, along with a third-party that we retain for this purpose, monitor compliance with those guidelines, we do not control our independent manufacturers or their business practices. Accordingly, we cannot guarantee their compliance with our guidelines. A lack of demonstrated compliance could lead us to seek alternative suppliers, which could increase our costs and result in delayed delivery of our products, product shortages or other disruptions of our operations.

Violation of labor or other laws by our independent manufacturers or the divergence of an independent manufacturer s labor or other practices from those generally accepted as ethical in Canada, the United States or other markets in which we do business could also attract negative publicity for us and our brand. This could diminish the value of our brand image and reduce demand for our merchandise if, as a result of such violation, we were to attract negative publicity. Other apparel manufacturers have encountered significant problems in this regard, and these problems have resulted in organized boycotts of their products and significant adverse publicity. If we, or other manufacturers in our industry, encounter similar problems in the future, it could harm our brand image, stock price and results of operations.

Monitoring compliance by independent manufacturers is complicated by the fact that expectations of ethical business practices continually evolve, may be substantially more demanding than applicable legal requirements and are driven in part by legal developments and by diverse groups active in publicizing and organizing public responses to perceived ethical shortcomings. Accordingly, we cannot predict how such expectations might develop in the future and cannot be certain that our guidelines would satisfy all parties who are active in monitoring and publicizing perceived shortcomings in labor and other business practices worldwide.

Because a significant portion of our sales are generated in Canada, fluctuations in foreign currency exchange rates have negatively affected our results of operations and may continue to do so in the future.

The reporting currency for our consolidated financial statements is the U.S. dollar. In the future, we expect to continue to derive a significant portion of our sales and incur a significant portion of our operating costs in Canada, and changes in exchange rates between the Canadian dollar and the U.S. dollar may have a significant, and potentially adverse, effect on our results of operations. Our primary risk of loss regarding foreign currency exchange rate risk is caused by fluctuations in the exchange rates between the U.S. dollar, Canadian dollar and Australian dollar. Because

we recognize net revenue from sales in Canada in Canadian dollars, if the Canadian dollar weakens against the U.S. dollar it would have a negative impact on our Canadian operating results upon translation of those results into U.S. dollars for the purposes of consolidation. The exchange rate of the Canadian dollar against the U.S. dollar has increased over fiscal 2009 and our results of operations have benefited from the strength in the Canadian dollar. If the Canadian dollar were to weaken relative to the U.S. dollar, our net revenue would decline and

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our income from operations and net income could be adversely affected. A 10% depreciation in the relative value of the Canadian dollar compared to the U.S. dollar would have resulted in lost income from operations of approximately $6.6 million in the first three quarters of fiscal 2010 and approximately $3.6 million in the first three quarters of fiscal 2009. We have not historically engaged in hedging transactions and do not currently contemplate engaging in hedging transactions to mitigate foreign exchange risks. As we continue to recognize gains and losses in foreign currency transactions, depending upon changes in future currency rates, such gains or losses could have a significant, and potentially adverse, effect on our results of operations.

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

Almost all of our suppliers are located outside the United States. During fiscal 2009, approximately 5% of our products were produced in Canada, approximately 75% in China, approximately 8% in Southeast Asia and the remainder in the United States, Israel, Peru and Taiwan. 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 customers are located.

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

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

The United States and the countries in which our products are produced or sold internationally have imposed and may impose additional quotas, duties, tariffs, or other restrictions or regulations, or may adversely adjust prevailing quota, duty or tariff levels. For example, under the provisions of the World Trade Organization, or the WTO, Agreement on Textiles and Clothing, effective as of January 1, 2005, the United States and other WTO member countries eliminated quotas on textiles and apparel-related products from WTO member countries. In 2005, China s exports into the United States surged as a result of the eliminated quotas. In response to the perceived disruption of the market, the United States imposed new quotas, which remained in place through the end of 2008, on certain categories of natural-fiber products that we import from China. These quotas were lifted on January 1, 2009, but 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.

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We may be subject to potential challenges relating to overtime pay and other regulations that impact our employees, which could cause our business, financial condition, results of operations or cash flows to suffer.

Various labor laws, including U.S. federal, U.S. state and Canadian provincial laws, among others, govern our relationship with our employees and affect our operating costs. These laws include minimum wage requirements, overtime pay, unemployment tax rates, workers compensation rates and citizenship requirements. These laws change frequently and may be difficult to interpret and apply. In particular, as a retailer, we may be subject to challenges regarding the application of overtime and related pay regulations to our employees. A determination that we do not comply with these laws could harm our brand image, business, financial condition and results of operation. Additional government-imposed increases in minimum wages, overtime pay, paid leaves of absence or mandated health benefits could also cause our business, financial condition, results of operations or cash flows to suffer.

Our franchisees may take actions that could harm our business or brand, and franchise regulations and contracts limit our ability to terminate or replace under-performing franchises.

As of October 31, 2010, we had four franchise stores in the United States. Franchisees are independent business operators and are not our employees, and we do not exercise control over the day-to-day operations of their retail stores. We provide training and support to franchisees, and set and monitor operational standards, but the quality of franchise store operations may decline due to diverse factors beyond our control. For example, franchisees may not successfully operate stores in a manner consistent with our standards and requirements, or may not hire and train qualified employees, which could harm their sales and as a result harm our results of operations or cause our brand image to suffer.

Franchisees, as independent business operators, may from time to time disagree with us and our strategies regarding the business or our interpretation of our respective rights and obligations under applicable franchise agreements. This may lead to disputes with our franchisees, and we expect such disputes to occur from time to time, such as the collection of royalty payments or other matters related to the franchisee s successful operation of the retail store. Such disputes could divert the attention of our management and our franchisees from our operations, which could cause our business, financial condition, results of operations or cash flows to suffer.

In addition, as a franchisor, we are subject to Canadian, U.S. federal, U.S. state and international laws regulating the offer and sale of franchises. These laws impose registration and extensive disclosure requirements on the offer and sale of franchises, frequently apply substantive standards to the relationship between franchisor and franchisee and limit the ability of a franchisor to terminate or refuse to renew a franchise. We may therefore be required to retain an under- performing franchise and may be unable to replace the franchisee, which could harm our results of operations. We cannot predict the nature and effect of any future legislation or regulation on our franchise operations.

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

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

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

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

We will continue to incur significant expenses as a result of being a public company, which will negatively impact our financial performance and could cause our results of operations and financial condition to suffer.

We will continue to incur significant legal, accounting, insurance and other expenses as a result of being a public company. We expect that compliance with the Sarbanes-Oxley Act of 2002, as well as related rules implemented by the SEC and the securities regulators in each of the provinces and territories of Canada and by The Nasdaq Stock Market LLC, will continue to impact our expenses, including our legal and accounting costs, and make some activities more time consuming and costly. We also expect these laws, rules and regulations to make it more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as officers. As a result of the foregoing, we have experienced a substantial increase in legal, accounting, insurance and certain other expenses and we expect we may incur higher expenses in the future, which will negatively impact our financial performance and could cause our results of operations and financial condition to suffer.

Failure to maintain adequate financial and management processes and controls could lead to errors in our financial reporting, which could harm our business and cause a decline in our stock price.

Ongoing reporting obligations as a public company and our continued growth are likely to place a considerable strain on our financial and management systems, processes and controls, as well as on our personnel. In addition, as a public company we are required to document and test our internal controls over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 so that our management can certify the effectiveness of our internal controls and our independent registered public accounting firm can render an opinion on our internal control over financial reporting on an annual basis. As a result, we have implemented the required financial and managerial controls, reporting systems and procedures and we incurred substantial expenses to test our systems and to make additional improvements and to hire additional personnel. If our management is unable to certify the effectiveness of our internal controls or if our independent registered public accounting firm cannot render an opinion on the effectiveness of our internal control over financial reporting, or if material weaknesses in our internal controls are identified, we could be subject to regulatory scrutiny and a loss of public confidence, which could harm our business and cause a decline in our stock price. In addition, if we do not maintain adequate financial and management personnel, processes and controls, we may not be able to accurately report our financial performance on a timely basis, which could cause a

decline in our stock price and harm our ability to raise capital. Failure to accurately report our financial performance on a timely basis could also jeopardize our continued listing on the Nasdaq Global Select Market, the Toronto Stock Exchange or any other stock exchange on which our common stock may be listed.

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Delisting of our common stock on any exchange would reduce the liquidity of the market for our common stock, which would reduce the price of our stock and increase the volatility of our stock price.

Our stock price has been volatile and your investment in our common stock could suffer a decline in value.

The market price of our common stock has been subject to significant fluctuations and may continue to fluctuate or decline. Since our initial public offering in July 2007 until October 31, 2010, the price of our common stock has ranged from a low of $4.33 to a high of $60.70 on the Nasdaq Global Select Market and from a low of CDN $5.60 to a high of CDN $58.77 on the Toronto Stock Exchange. Broad market and industry factors may harm the price of our common stock, regardless of our actual operating performance. Factors that could cause fluctuation in the price of our common stock may include, among other things:

- actual or anticipated fluctuations in quarterly operating results or other operating metrics, such as comparable store sales, that may be used by the investment community;
- changes in financial estimates by us or by any securities analysts who might cover our stock;
- reductions in consumer spending and macroeconomic factors that may adversely affect consumer spending;
- speculation about our business in the press or the investment community;
- conditions or trends affecting our industry or the economy generally, including fluctuations in foreign currency exchange rates;
- stock market price and volume fluctuations of other publicly traded companies and, in particular, those that are in the technical athletic apparel industry;
- announcements by us or our competitors of new products, significant acquisitions, strategic partnerships or divestitures;
- changes in product mix between high and low margin products;
- capital commitments;
- our entry into new markets;
- timing of new store openings;
- percentage of sales from new stores versus established stores;
- additions or departures of key personnel;
- actual or anticipated sales of our common stock, including sales by our directors, officers or significant stockholders;
- significant developments relating to our manufacturing, distribution, joint venture or franchise relationships;
- customer purchases of new products from us and our competitors;

investor perceptions of the apparel industry in general and our company in particular;

changes in accounting standards, policies, guidance, interpretation or principles; and

speculative trading of our common stock in the investment community.

In the past, securities class action litigation has often been instituted against companies following periods of volatility in their stock price. This type of litigation, even if it does not result in liability for us, could result in substantial costs to us and divert management s attention and resources.

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A significant number of our outstanding shares are eligible for resale and may be sold on the Nasdaq Global Select Market and the Toronto Stock Exchange. The large number of shares eligible for public sale could depress the market price of our common stock.

The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market, and the perception that these sales could occur may also depress the market price of our common stock. On July 31, 2008, we filed a registration statement on Form S-3ASR (as subsequently amended by a post-effective amendment on Form S-3 filed on March 30, 2009) in the United States registering the issuance of up to 20,935,041 shares of our common stock upon the exchange of the then-outstanding exchangeable shares of Lulu Canadian Holding, Inc. Sales of our common stock in the public market may make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. Additionally, we filed a universal shelf registration statement on Form S-3ASR on July 6, 2010, registering the possible issuance and/or resale of shares of our common stock, preferred stock, debt securities, warrants and units. These sales also could cause our stock price to fall and make it more difficult for you to sell shares of our common stock.

Our principal stockholders and management own a significant percentage of our stock and will be able to exercise significant influence over our affairs.

Our current directors and executive officers beneficially own 33% of our common stock. As a result, these stockholders, if acting together, would be able to influence or control matters requiring approval by our stockholders, including the election of directors and the approval of mergers, acquisitions or other extraordinary transactions. They may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. This concentration of ownership may have the effect of delaying, preventing or deterring a change of control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock.

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 662/3% of our voting stock;

a special meeting of stockholders may only be called by our Chairman or Chief Executive Officer, or upon a resolution adopted by an affirmative vote of a majority of the board of directors, and not by our stockholders;

prohibiting stockholder action by written consent; and

our stockholders must comply with advance notice procedures in order to nominate candidates for election to our board of directors or to place stockholder proposals on the agenda for consideration at any meeting of our

stockholders.

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

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

The following table provides information regarding our purchases of our common stock during the thirteen weeks ended October 31, 2010:

Period(1)		Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(2)
August 2, 2010	August 29, 2010	3,078	$ 39.18	3,078	2,851,049
August 30, 2010	October 3, 2010	4,466	42.14	4,466	2,846,583
October 4, 2010	October 31, 2010	2,908	45.37	2,908	2,843,675
Total		10,452		10,452	

(1) Monthly information is presented by reference to our fiscal months during our third quarter of fiscal 2010.

(2) Our Employee Share Purchase Plan (ESPP) was approved by our Board of Directors and stockholders in September 2007. All shares purchased under the ESPP are purchased on the Toronto Stock Exchange or the Nasdaq Global Select Market (or such other stock exchange as we may designate from time to time). Unless our Board of Directors terminates the ESPP earlier, the ESPP will continue until all shares authorized for purchase under the ESPP have been purchased. The maximum number of shares authorized to be purchased under the ESPP is 3,000,000.

ITEM 6. ***EXHIBITS***

Exhibit No.	Exhibit Title	Filed Herewith	Incorporated by Reference			
			Form	Exhibit No.	File No.	Filing Date
31.1	Certification of Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a)	X				
31.2	Certification of Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a)	X				
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to	X				

Section 906
of the Sarbanes-Oxley Act of 2002

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SIGNATURES

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

lululemon athletica inc.

By: /s/ John E. Currie

John E. Currie
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Dated: December 8, 2010

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31.2	Certification of Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a)	X				
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X				