lululemon athletica inc.
Form 10-K
March 22, 2012
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended January 29, 2012**

**OR**

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

**Commission file number 001-33608**

# lululemon athletica inc.

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware** | **20-3842867** |
| **(State or other jurisdiction of** | **(I.R.S. Employer** |

| | |
|---|---|
| **incorporation or organization)** | **Identification Number)** |
| **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**

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

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

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

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

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 ¨

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

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

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant on July 29, 2011 was approximately $5,950,828,701. Such aggregate market value was computed by reference to the closing price of the common stock as reported on the Nasdaq Global Select Market on July 29, 2011. For purposes of determining this amount only, the registrant has defined affiliates as including the executive officers and directors of the registrant on July 29, 2011.

*Common Stock:*

At March 19, 2012 there were 111,054,699 shares of the registrant s common stock, par value $0.005 per share, outstanding.

*Exchangeable and Special Voting Shares:*

At March 19, 2012, there were outstanding 32,501,680 exchangeable shares of Lulu Canadian Holding, Inc., a wholly-owned subsidiary of the registrant. Exchangeable shares are exchangeable for an equal number of shares of the registrant s common stock.

In addition, at March 19, 2012, the registrant had outstanding 32,501,680 shares of special voting stock, through which the holders of exchangeable shares of Lulu Canadian Holding, Inc. may exercise their voting rights with respect to the registrant. The special voting stock and the registrant s common stock generally vote together as a single class on all matters on which the common stock is entitled to vote.

**DOCUMENTS INCORPORATED BY REFERENCE**

| DOCUMENT | PARTS INTO WHICH INCORPORATED |
|---|---|
| Portions of Proxy Statement for the 2012 Annual Meeting of Stockholders | Part III |

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## PART I

### Special Note Regarding Forward-Looking Statements

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

## ITEM 1. *BUSINESS*

### Overview

lululemon athletica inc. 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 brand name. We believe consumers associate our brand with innovative, technical apparel products. Our products are designed to offer performance, fit and comfort while incorporating both function and style. Our heritage of combining performance and style distinctly positions us to address the needs of female athletes as well as a growing core of consumers who desire everyday casual wear that is consistent with their active lifestyles. We also continue to broaden our product range to increasingly appeal to male athletes and athletic female youth. 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. As of January 29, 2012, our branded apparel was principally sold through 174 stores that are located in Canada, the United States, Australia and New Zealand. We believe our vertical retail strategy allows us to interact more directly with, and gain feedback from, our customers, whom we call guests, while providing us with greater control of our brand.

We have developed a distinctive community-based strategy that we believe enhances our brand and reinforces our guest loyalty. The key elements of our strategy are to:

- design and develop innovative athletic apparel that combines performance with style and incorporates real-time guest feedback;
- locate our stores in street locations, lifestyle centers and malls that position each lululemon athletica store as an integral part of its community;
- create an inviting and educational store environment that encourages product trial and repeat visits; and
- market on a grassroots level in each community, including through social media and influential fitness practitioners who embrace and create excitement around our brand.

We were founded in 1998 by Dennis Chip Wilson in Vancouver, British Columbia. Noting the increasing number of women participating in sports, and specifically yoga, Mr. Wilson developed lululemon athletica to address a void in the women s athletic apparel market. The founding principles established by Mr. Wilson drive

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our distinctive corporate culture with a mission of providing people with the components to live a longer, healthier and more fun life. Consistent with this mission, we promote a set of core values in our business, which include developing the highest quality products, operating with integrity, leading a healthy balanced life, and training our employees in self responsibility and goal setting. These core values attract passionate and motivated employees who are driven to succeed and share our vision of elevating the world from mediocrity to greatness. We believe the energy and passion of our employees allow us to successfully execute on our business strategy, enhance brand loyalty and create a distinctive connection with our guests.

We believe our culture and community-based business approach provides us with competitive advantages that are responsible for our strong financial performance. Our net revenue has increased from $40.7 million in fiscal 2004 to $1,000.8 million in fiscal 2011, representing a 58% compound annual growth rate. Our net revenue increased from $711.7 million in fiscal 2010 to $1,000.8 million in fiscal 2011, representing a 41% increase. During fiscal 2011, our comparable store sales growth was 22% and we reported income from operations of $287.0 million. During fiscal 2010, our comparable store sales growth was 37% and we reported income from operations of $180.4 million. In fiscal 2011, our corporate-owned stores opened at least one year, averaged sales of approximately $2,004 per square foot, compared to sales per square foot of approximately $1,726 for fiscal 2010. We believe this is among the best in the apparel retail sector.

**Our Market**

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

As women have continued to embrace a variety of fitness and athletic activities, including yoga, we believe other athletic apparel companies are not effectively addressing their unique style, fit and performance needs. We believe we have been able to help address this void in the marketplace by incorporating style along with comfort and functionality into our products through our vertical retail strategy. Although we were founded to address the unique needs of women, we are also successfully designing products for men and athletic female youth who also appreciate the technical rigor and premium quality of our products. We also believe longer-term growth in athletic participation will be reinforced as the aging Baby Boomer generation focuses more on longevity. In addition, we believe consumer purchase decisions are driven by both an actual need for functional products and a desire to create a particular lifestyle perception. As such, we believe the credibility and authenticity of our brand expands our potential market beyond just athletes to those who desire to lead an active, healthy, and balanced life.

**Our Competitive Strengths**

We believe the following strengths differentiate us from our competitors and are important to our success:

*Premium Active Brand.* lululemon athletica stands for leading a healthy, balanced and fun life. We believe customers associate the lululemon athletica brand with high quality premium athletic apparel that incorporates technically advanced materials, innovative functional features and style. We believe our focus on women differentiates us and positions lululemon athletica to address a void in the growing market for women s athletic apparel. While our brand has its roots in yoga, our products are increasingly being designed and used for other athletic and casual lifestyle pursuits, such as running and general fitness. We work with local athletes and fitness practitioners to enhance our brand awareness and broaden our product appeal.

*Distinctive Retail Experience.* We locate our stores in street locations, lifestyle centers and malls that position lululemon athletica stores to be an integral part of their communities. We coach our store sales associates, whom we refer to as educators, to develop a personal connection with each guest. Our

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educators receive approximately 30 hours of in-house training within the first three months of the start of their employment and are well prepared to explain the technical and innovative design aspects of each product.

*Innovative Design Process.* We offer high-quality premium apparel that is designed for performance, comfort, functionality and style. We attribute our ability to develop superior products to a number of factors, including:

- our feedback-based design process through which our design and product development team proactively and frequently seeks input from our guests and local fitness practitioners;

- close collaboration with our third-party suppliers to formulate innovative and technically-advanced fabrics and features for our products; and

- although we typically bring products from design to market in eight to 10 months, our vertical retail strategy enables us to bring select products to market in as little as two months, thereby allowing us to respond quickly to customer feedback, changing market conditions and apparel trends.

*Community-Based Marketing Approach.* We differentiate lululemon athletica through an innovative, community-based approach to building brand awareness and customer loyalty. We use a multi-faceted grassroots marketing strategy that includes social media, and creating in-store community boards. We believe this grassroots approach allows us to successfully increase brand awareness and broaden our appeal while reinforcing our premium brand image.

*Deep Rooted Culture Centered on Training and Personal Growth.* We believe our core values and distinctive corporate culture allow us to attract passionate and motivated employees who are driven to succeed and share our vision. We provide our employees with a supportive, goal-oriented environment and encourage them to reach their full professional, health and personal potential. We offer programs such as personal development workshops and goal coaching to assist our employees in realizing their long-term objectives. We believe our relationship with our employees is exceptional and a key contributor to our success.

*Experienced Management Team with Proven Ability to Execute.* Our Chief Executive Officer, Ms. Day, whose experience includes 20 years at Starbucks Corporation, most recently serving as President of Asia Pacific Group of Starbucks International from 2004 to 2007, joined us in January 2008. Ms. Day has assembled a management team with a complementary mix of retail, design, operations, product sourcing, marketing and information technology experience from leading apparel and retail companies such as Abercrombie & Fitch Co., The Gap, Inc., Nike, Inc. and Speedo International Limited. We believe our management team is well positioned to execute the long-term growth strategy for our business.

**Growth Strategy**

Key elements of our growth strategy are to:

*Grow our Store Base in North America.* As of January 29, 2012, our products were sold through 155 corporate-owned stores in North America, including 47 in Canada and 108 in the United States. We expect that most of our near-term store growth will occur in the United States. We plan to add new stores to strengthen existing markets and selectively enter new markets in the United States and Canada. We opened 33 stores in the United States and Canada in fiscal 2011, including our remaining four franchised stores that were reacquired, and we plan to open up to 30 stores in the United States and two ivivva athletica branded stores in Canada in fiscal 2012.

*Develop our Direct to Consumer Sales Channel.* We launched our retail website in the first quarter of fiscal 2009. The addition of e-commerce to our direct to consumer sales channel expanded our

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customer base and supplemented our growing store base over the past three years. We plan to continue developing our e-commerce website to provide a distinctive online shopping experience and extend our reach.

*Increase our Brand Awareness.* We will continue to increase brand awareness and customer loyalty through our grassroots marketing efforts, social media and planned store expansion. We believe that increased brand awareness will result in increased comparable store sales and store productivity over time.

*Introduce New Product Technologies.* We remain focused on developing and offering products that incorporate technology-enhanced fabrics and performance features that differentiate us in the market. Collaborating with leading fabric manufacturers, we have jointly developed and trademarked names for innovative fabrics such as Luon and Silverescent, and natural stretch fabrics using organic elements such as cotton and seaweed. Among our ongoing efforts, we are developing fabrics to provide advanced features such as UV protection and inherent reflectivity. In addition, we will continue to develop differentiated manufacturing techniques that provide greater support, protection, and comfort.

*Broaden the Appeal of our Products.* We will selectively seek opportunities to expand the appeal of our brand to improve store productivity and increase our overall addressable market. To enhance our product appeal, we intend to:

*Expand our Product Categories.* We continue to expand our product offerings in complementary existing and new categories such as bags, underwear and outerwear;

*Increase the Range of Athletic Activities our Products Target.* Our guests purchase our products mainly for activities such as yoga, running and general fitness. We will continue to expand our product categories and educate our guests on the versatility of our products;

*Expand Beyond North America.* As of January 29, 2012, we operated 18 corporate-owned stores and four showrooms in Australia, one corporate-owned store and two showrooms in New Zealand, and one corporate-owned showroom in Hong Kong. We plan to open approximately five lululemon stores in fiscal 2012 in Australia and New Zealand. Over time, we intend to expand on our own or pursue additional joint venture opportunities in other Asian and European markets;

*Grow our Men s Business.* We believe the premium quality and technical rigor of our products will continue to appeal to men and that there is an opportunity to expand our men s business as a proportion of our total sales; and

*Develop our Youth Brand.* We launched our youth focused brand, ivivva athletica, in the fourth quarter of fiscal 2009. We believe the premium quality and technical rigor of our dance-inspired products designed for female youth serve an open market and provide us with an opportunity for future growth.

**Our Stores**

As of January 29, 2012, our retail footprint included 47 stores in Canada, 108 stores in the United States, 18 stores in Australia and one in New Zealand. While most of our stores are branded lululemon athletica, five of our corporate-owned stores are branded ivivva athletica and specialize in dance-inspired apparel for female youth. We no longer operate any franchised stores as we reacquired our four remaining franchises during fiscal 2011. Our retail stores are located primarily on street locations, in lifestyle centers and in malls.

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The following store list shows the number of corporate-owned stores operated in each Canadian province, U.S. state, and internationally:

| | January 29, 2012 | January 30, 2011 |
|---|---|---|
| **Canada** | | |
| Alberta | 11 | 9 |
| British Columbia | 12 | 11 |
| Manitoba | 1 | 1 |
| Nova Scotia | 1 | 1 |
| Ontario | 17 | 17 |
| Québec | 4 | 4 |
| Saskatchewan | 1 | 1 |
| **Total Canada** | 47 | 44 |
| **United States** | | |
| Alabama | 1 | 1 |
| Arizona | 3 | 2 |
| California | 23 | 19 |
| Colorado | 3 | |
| Connecticut | 3 | 2 |
| District of Columbia | 2 | 2 |
| Florida | 7 | 4 |
| Georgia | 1 | 1 |
| Hawaii | 1 | 1 |
| Illinois | 8 | 8 |
| Indiana | 1 | |
| Kansas | 1 | |
| Maryland | 2 | 2 |
| Massachusetts | 5 | 5 |
| Michigan | 1 | 1 |
| Minnesota | 3 | 2 |
| Missouri | 1 | 1 |
| Nevada | 1 | 1 |
| New Jersey | 5 | 3 |
| New York | 8 | 7 |
| North Carolina | 2 | |
| Ohio | 3 | 1 |
| Oregon | 2 | 2 |
| Pennsylvania | 4 | 2 |
| Tennessee | 1 | 1 |
| Texas | 10 | 6 |
| Virginia | 3 | 2 |
| Washington | 3 | 3 |
| **Total United States** | 108 | 78 |
| **Australia** | | |
| New South Wales | 6 | 5 |
| Queensland | 2 | |
| South Australia | 1 | |
| Victoria | 6 | 5 |
| Western Australia | 3 | 1 |
| **Total Australia** | 18 | 11 |

| | | |
|---|---|---|
| **New Zealand** | 1 | |
| **Total** | 174 | 133 |

### *Store Economics*

We believe that our innovative retail concept and guest experience contribute to the success of our stores. During fiscal 2011 our corporate-owned stores open at least one year, which average approximately 2,662 square feet, averaged sales of approximately $2,004 per square foot.

Management performs an ongoing evaluation of our portfolio of corporate-owned store locations. In fiscal 2011 we did not close any of our corporate-owned stores. As we continue our evaluation we may in future periods close corporate-owned store locations.

### *Store Expansion*

From February 1, 2002 (when we had one store, in Vancouver) to January 29, 2012, we opened or acquired 173 net corporate-owned stores in North America and Australia. We opened our first corporate-owned store in the United States in 2003 and in Australia in 2010. We opened 41 corporate-owned stores in the North America and Australia in fiscal 2011, including our remaining four franchised stores that were reacquired. Over the next few years, our new store growth will be primarily focused on corporate-owned stores in the United States, an attractive market with a population of over nine times that of Canada. Beyond North America, we intend to expand our global presence as part of our long-term business strategy. We believe that partnering with companies and individuals with significant experience and proven success in the target country is to our advantage.

### *Direct to Consumer*

In fiscal 2009 we launched our e-commerce website which makes up our direct to consumer channel. Direct to consumer is an increasingly substantial part of our business, representing approximately 11% of our net revenue in fiscal 2011, compared to 8% of our net revenue in fiscal 2010. We believe that a direct to consumer channel is convenient for our core customer and enhances the image of our brand. Our direct to consumer channel makes our product accessible in more markets than our corporate-owned store channel alone. We use this channel to build brand awareness, especially in new markets, including those outside of North America.

### *Wholesale Channel*

We also sell lululemon athletica products through premium yoga studios, health clubs and fitness centers. This channel represented 2% of our net revenue in both fiscal 2011 and fiscal 2010. We believe these premium wholesale locations offer an alternative distribution channel that is convenient for our core consumer and enhances the image of our brand. We do not intend wholesale to be a significant contributor to overall sales. Instead, we use the channel to build brand awareness, especially in new markets.

### *Franchise Stores*

As of January 29, 2012, we no longer have franchised stores. We reacquired our four remaining franchised stores in the United States during fiscal 2011, thereby decreasing the net revenue earned through our franchise channel. This channel represented 1% of our net revenue in fiscal 2010 and an immaterial amount in fiscal 2011.

## Our Products

We offer a comprehensive line of performance apparel and accessories for women, men and female youth. Our apparel assortment, including items such as fitness pants, shorts, tops and jackets, is designed for healthy lifestyle activities such as yoga, running and general fitness. Although we benefit from the growing number of people that participate in yoga, we believe the percentage of our products sold for other activities will continue to increase as we broaden our product range to address other activities. Our fitness-related accessories include an array of items such as bags, socks, underwear, yoga mats, instructional yoga DVDs and water bottles.

Our design team continues to develop fabrics that we believe will help advance our product line and differentiate us from the competition.

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**Our Culture and Values**

Since our inception, we have developed a distinctive corporate culture with a mission to provide people with components to live a longer, healthier and more fun life. We promote a set of core values in our business, which include developing the highest quality products, operating with integrity, leading a healthy balanced life and instilling in our employees a sense of self responsibility and personal achievement. These core values allow us to attract passionate and motivated employees who are driven to succeed and share our vision of elevating the world from mediocrity to greatness.

**Community-Based Marketing**

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

**Product Design and Development**

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

To ensure that we continue to provide our guests with functional fabrics, our design team works closely with our suppliers to incorporate innovative fabrics that bring particular specifications to our products. We partner with a leading independent inspection, verification, testing and certification company, which conducts a battery of tests before each season on our fabrics, testing for a variety of performance characteristics including pilling, shrinkage, abrasion resistance and colorfastness. We collaborate with leading fabric suppliers to develop fabrics that we ultimately trademark for brand recognition whenever possible.

**Sourcing and Manufacturing**

We do not own or operate any manufacturing facilities, nor do we contract directly with third-party vendors for fabrics and finished goods. The fabric used in our products is sourced by our manufacturers from a limited number of pre-approved suppliers. We work with a group of approximately 45 manufacturers, five of which produced approximately 67% of our products in fiscal 2011. During fiscal 2011, no single manufacturer produced more than 36% of our product offering. During fiscal 2011, approximately 49% of our products were produced in China, approximately 41% in South/South East Asia, approximately 3% in Canada and the remainder in the United States, Peru, Israel, Egypt and other countries. Our North American manufacturers provide us with the speed to market necessary to respond quickly to changing trends and increased demand. While we plan to support future growth through manufacturers outside of North America, our intent is also to maintain production in Canada and the United States whenever practicable. We have developed long-standing relationships with a number of our vendors and take great care to ensure that they share our commitment to quality and ethics. We do not, however, have any long-term agreements requiring us to use any manufacturer, and no manufacturer is required to produce our products in the long-term. We require that all of our manufacturers adhere to a code of conduct regarding quality of manufacturing, working conditions and other social concerns. We currently also work with a leading inspection and verification firm to closely monitor each supplier s compliance with applicable law and our workplace code of conduct. We believe that the services of additional, or other, producers of our fabrics could be obtained with little or no additional expense to us and/or delay in the timeliness of our production process.

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**Distribution Facilities**

We centrally distribute finished products in from distribution facilities in Vancouver, British Columbia, Sumner, Washington, and Melbourne, Victoria. We operate the distribution facilities in Vancouver, Sumner and Melbourne which are leased and are approximately 120,000, 167,000 and 54,000 square feet, respectively. We believe these modern facilities enhance the efficiency of our operations. We believe our distribution infrastructure will be sufficient to accommodate our expected store growth and expanded product offerings over the next several years. Merchandise is typically shipped to our stores through third-party delivery services multiple times per week, providing them with a steady flow of new inventory.

**Competition**

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

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

**Our Employees**

As of January 29, 2012, we had 5,807 employees, of which 2,511 were employed in Canada, 2,869 were employed in the United States, and 427 were employed internationally. Of the 2,511 Canadian employees, 1,790 were employed in our retail locations, 71 were employed in distribution, 132 were employed in design, merchandise and production, and the remaining 518 performed selling, general and administrative and other functions. Of the 2,869 employees in the United States, 2,739 were employed in our retail locations, 63 were employed in distribution and 67 performed selling, general and administration functions. Of the 427 international employees, 343 were employed in our international retail locations, 23 were employed in distribution, and 61 performed merchandise, production, and administrative functions. None of our employees is currently covered by a collective bargaining agreement. We have had no labor-related work stoppages and we believe our relations with our employees are excellent.

**Intellectual Property**

We believe we own the material trademarks used in connection with the marketing, distribution and sale of all of our products in Canada, the United States and in the other countries in which our products are currently or intended to be either sold or manufactured. Our major trademarks include lululemon athletica & design, the logo design (WAVE design) and lululemon as a word mark. In addition to the registrations in Canada and the United States, lululemon s design and word mark are registered in over 66 other jurisdictions which cover over 114 countries. We own trademark registrations for names of several of our fabrics including Luon, Silverescent, VitaSea, Soyla, Boolux and Luxtreme. In addition to trademarks, we own 16 industrial design registrations in Canada protecting our distinctive apparel and accessory designs, as well as a number of corresponding design patent applications in the United States and design registrations in Europe.

**Securities and Exchange Commission Filings**

Our website address is www.lululemon.com. We provide free access to various reports that we file with, or furnish to, the United States Securities and Exchange Commission, or the SEC, through our website, as soon as

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reasonably practicable after they have been filed or furnished. These reports include, but are not limited to, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports. Our SEC reports can also be accessed through the SEC s website at www.sec.gov. Also available on our website are printable versions of our Code of Business Conduct and Ethics and charters of the Audit, Compensation, and Nominating and Governance Committees of our Board of Directors. Information on our website does not constitute part of this annual report on Form 10-K or any other report we file or furnish with the SEC.

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## ITEM 1A. *RISK FACTORS*

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

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

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

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

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

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

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

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

Our success depends on our ability to identify and originate product trends as well as to anticipate and react to changing consumer demands in a timely manner. All of our products are subject to changing consumer

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

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

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

Inventory levels in excess of 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. Conversely, 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 damage to our reputation and customer relationships.

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

We have expanded our operations rapidly since our inception in 1998 and our net revenue has increased from $40.7 million in fiscal 2004 to $1,000.8 million in fiscal 2011. If our operations continue to grow at a rapid pace, we may experience difficulties in obtaining sufficient raw materials and manufacturing capacity to produce our products, as well as delays in production and shipments, as our products are subject to risks associated with overseas sourcing and manufacturing. We could be required to continue to expand our sales and marketing, product development and distribution functions, to upgrade our management information systems and other processes and technology, and to obtain more space for our expanding workforce. This expansion could increase the strain on our resources, and we could experience serious operating difficulties, including difficulties in hiring, training and managing an increasing number of employees. These difficulties could result in the erosion of our brand image which could have a material adverse effect on our financial condition.

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

The fabrics used by our suppliers and manufacturers include synthetic fabrics whose raw materials include petroleum-based products. Our products also include natural fibers, including cotton. Our costs for raw materials are affected by, among other things, weather, consumer demand, speculation on the commodities market, the

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relative valuations and fluctuations of the currencies of producer versus consumer countries and other factors that are generally unpredictable and beyond our control. Increases in the cost of raw materials, including petroleum or the prices we pay for our cotton yarn and cotton-based textiles, could have a material adverse effect on our cost of goods sold, results of operations, financial condition and cash flows.

***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 2011, approximately 67% of our products were produced by our top five manufacturing suppliers. We have no long term contracts with our suppliers or manufacturing sources, and we compete with other companies for fabrics, raw materials, production and import quota capacity.

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

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

The market for technical athletic apparel is highly competitive. Competition may result in pricing pressures, reduced profit margins or lost market share or a failure to grow our market share, any of which could substantially harm our business and results of operations. We compete directly against wholesalers and direct retailers of athletic apparel, including large, diversified apparel companies with substantial market share and established companies expanding their production and marketing of technical athletic apparel, as well as against retailers specifically focused on women s athletic apparel. We also face competition from wholesalers and direct retailers of traditional commodity athletic apparel, such as cotton T-shirts and sweatshirts. Many of our competitors are large apparel and sporting goods companies with strong worldwide brand recognition, such as Nike, Inc., adidas AG, which includes the adidas and Reebok brands, and The Gap, Inc, which includes the

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Athleta brand. Because of the fragmented nature of the industry, we also compete with other apparel sellers, including those specializing in yoga apparel. Many of our competitors have significant competitive advantages, including longer operating histories, larger and broader customer bases, more established relationships with a broader set of suppliers, greater brand recognition and greater financial, research and development, store development, marketing, distribution and other resources than we do. In addition, our technical athletic apparel is sold at a price premium to traditional athletic apparel.

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

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

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

We are increasingly dependent on information systems to operate our e-commerce website, process transactions, respond to guest inquiries, manage inventory, purchase, sell and ship goods on a timely basis and maintain cost-efficient operations. Any material disruption or slowdown of our systems, including a disruption or slowdown caused by our failure to successfully upgrade our systems, system failures, viruses, computer hackers or other causes, could cause information, including data related to 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. 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.

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

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

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

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

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

During fiscal 2011, approximately 49% of our products were produced in China and increases in the costs of labor and other costs of doing business in China could significantly increase our costs to produce our products and could have a negative impact on our operations, revenue and earnings. Factors that could negatively affect our business include a potential significant revaluation of the Chinese Yuan, which may result in an increase in the cost of producing products in China, labor shortage and increases in labor costs in China, and difficulties in moving products manufactured in China out of Asia and through the ports on the western coast of North America, whether due to port congestion, labor disputes, product regulations and/or inspections or other factors, and natural disasters or health pandemics impacting China. Also, the imposition of trade sanctions or other regulations against products imported by us from, or the loss of normal trade relations status with, China, could significantly increase our cost of products imported into North America, Australia or New Zealand and harm our business.

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

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

- identify suitable store locations, the availability of which is outside of our control;
- negotiate acceptable lease terms, including desired tenant improvement allowances;
- hire, train and retain store personnel and field management;
- 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.

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

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

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

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

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

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

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

Our future success is substantially dependent on the continued service of our senior management and other key employees. The loss of the services of our senior management or other key employees 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 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 business is affected by seasonality.***

Our business is affected by the general seasonal trends common to the retail apparel industry. Our annual net sales are weighted more heavily toward our fourth fiscal quarter, reflecting our historical strength in sales during the holiday season, while our operating expenses are more equally distributed throughout the year. As a result, a substantial portion of our operating profits are generated in the fourth quarter of our fiscal year. For example, we generated approximately 37%, 36% and 39% of our full year gross profit during the fourth quarters of fiscal 2011, fiscal 2010 and fiscal 2009, respectively. This seasonality may adversely affect our business and cause our results of operations to fluctuate, and, as a result, we believe that comparisons of our operating results between different quarters within a single fiscal year are not necessarily meaningful and that results of operations in any period should not be considered indicative of the results to be expected for any future period.

***Because a significant portion of our sales are generated in 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 net revenue 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. Additionally, a portion of our net revenue is generated in each of Australia. 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 2011 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 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 $15.4 million in fiscal 2011 and approximately $11.3 million in fiscal 2010. Similarly, a 10% depreciation in the relative value of the Australian dollar compared to the U.S. dollar would have resulted in lost income from operations of approximately $0.4 million in fiscal 2011 and $0.1 million in fiscal 2010. 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 2011, approximately 3% of our products were produced in Canada, approximately 49% in China, approximately 41% in South and South East Asia and the remainder in the United States, Peru, Israel, Egypt and other countries. As a result of our international suppliers, we are subject to risks associated with doing business abroad, including:

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

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

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

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

The United States and the countries in which our products are produced or sold internationally have imposed and may impose additional quotas, duties, tariffs, or other restrictions or regulations, or may adversely adjust prevailing quota, duty or tariff levels. 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.

***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.

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

Our future growth depends, to an extent, on our international expansion efforts. We have limited experience with regulatory environments and market practices internationally, and we may not be able to penetrate or successfully operate in any new market. In connection with our initial expansion efforts in Japan, we encountered

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obstacles we did not face in North America, including cultural and linguistic differences, differences in regulatory environments, labor practices and market practices, difficulties in keeping abreast of market, business and technical developments and foreign guests tastes and preferences. We may also encounter difficulty expanding into new international markets because of limited brand recognition leading to delayed acceptance of our technical athletic apparel by guests in these new international markets. Our failure to develop new international markets or disappointing growth outside of existing markets will harm our business and results of operations.

***Our founder controls a significant percentage of our stock and is able to exercise significant influence over our affairs.***

Our founder, Dennis Wilson, beneficially owns approximately 30% of our common stock. As a result, Mr. Wilson is able to influence or control matters requiring approval by our stockholders, including the election of directors and the approval of mergers, acquisitions or other extraordinary transactions. This concentration of ownership may have various effects including, but not limited to, delaying, preventing or deterring a change of control of our company.

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

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

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

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

**ITEM 2.** ***PROPERTIES***

Our principal executive and administrative offices are located at 1818 Cornwall Avenue, Vancouver, British Columbia, Canada, V6J 1C7. We expect that our current administrative offices are sufficient for our expansion plans for the foreseeable future. In March 2011, we purchased the building that currently houses our administrative offices. We currently operate three distribution centers located in Vancouver, British Columbia, Sumner, Washington, and Melbourne, Victoria which together are capable of accommodating our expansion plans through the foreseeable future.

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The general location, use, approximate size and lease renewal date of our properties at January 29, 2012, are set forth below:

| Location | Use | Approximate Square Feet | Lease Renewal Date |
|---|---|---|---|
| Sumner, WA | Distribution Center | 167,000 | April 2020 |
| Vancouver, BC | Distribution Center | 120,000 | November 2017 |
| Vancouver, BC | Executive and Administrative Offices | 78,000 | n/a |
| Melbourne, VIC | Distribution Center | 54,000 | September 2016 |
| Melbourne, VIC | Executive and Administrative Offices | 19,000 | September 2013 |

As of January 29, 2012, we leased approximately 494,000 gross square feet relating to our 174 corporate-owned stores. Our leases generally have initial terms of between five and 10 years, and generally can be extended only in five-year increments, if at all. All of our leases require a fixed annual rent, and most require the payment of additional rent if store sales exceed a negotiated amount. Generally, our leases are net leases, which require us to pay all of the cost of insurance, taxes, maintenance and utilities. We generally cannot cancel these leases at our option.

**ITEM 3.** ***LEGAL PROCEEDINGS***

We are a party to various legal proceedings arising in the ordinary course of our business, but we are not currently a party to any legal proceeding that management believes would have a material adverse effect on our consolidated financial position or results of operations.

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## PART II

**ITEM 5.** ***MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES***

**Market Information and Dividends**

Our common stock is quoted on the Nasdaq Global Select Market under the symbol LULU and on the Toronto Stock Exchange under the symbol LLL. The following table sets forth, for the periods indicated, the high and low closing sale prices (adjusted to account for our two-for-one stock split that became legally effective July 1, 2011) of our common stock reported by the Nasdaq Global Select Market for the last two fiscal years:

| | Common Stock Price (Nasdaq Global Select Market) | |
|---|---|---|
| | High | Low |
| **Fiscal Year Ending January 29, 2012** | | |
| Fourth Quarter | $ 64.12 | $ 43.61 |
| Third Quarter | $ 62.15 | $ 44.80 |
| Second Quarter | $ 63.76 | $ 41.54 |
| First Quarter | $ 51.08 | $ 34.34 |
| **Fiscal Year Ending January 30, 2011** | | |
| Fourth Quarter | $ 36.76 | $ 22.32 |
| Third Quarter | $ 23.74 | $ 15.95 |
| Second Quarter | $ 22.79 | $ 17.91 |
| First Quarter | $ 22.53 | $ 13.14 |

As of January 29, 2012, there were approximately 149 holders of record of our common stock.

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

**Stock Performance Graph**

The graph set forth below compares the cumulative total stockholder return on our common stock between July 27, 2007 (the date of our initial public offering) and January 29, 2012, with the cumulative total return of (i) the S&P 500 Index and (ii) S&P Retail Index, over the same period. This graph assumes the investment of $100 on July 27, 2007 in our common stock, the S&P 500 Index and the S&P Retail Index and assumes the reinvestment of dividends, if any. The graph assumes the initial value of our common stock on July 27, 2007 was the closing sale price of $14.00 per share, on a post-split basis.

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

| | 27-Jul-07 | 3-Feb-08 | 1-Feb-09 | 31-Jan-10 | 30-Jan-11 | 29-Jan-12 |
|---|---|---|---|---|---|---|
| lululemon athletica inc | $ 100.00 | $ 124.64 | $ 24.29 | $ 100.86 | $ 245.04 | $ 458.00 |
| S&P 500 Index | $ 100.00 | $ 95.65 | $ 56.61 | $ 73.61 | $ 87.48 | $ 90.22 |
| S&P Retail Index | $ 100.00 | $ 87.67 | $ 53.70 | $ 82.13 | $ 103.04 | $ 115.29 |

**Issuer Purchase of Equity Securities**

The following table provides information regarding our Employee Share Purchase Plan (ESPP) repurchases of our common stock, on a post-split basis, during the thirteen week period ended January 29, 2012:

| 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) |
|---|---|---|---|---|
| October 31, 2011 November 27, 2011 | 5,994 | $ 51.51 | 5,994 | 5,615,777 |
| November 28, 2011 January 1, 2012 | 6,939 | 47.96 | 6,939 | 5,608,838 |
| January 2, 2012 January 29, 2012 | 5,488 | 57.08 | 5,488 | 5,603,350 |
| Total | 18,421 | | 18,421 | |

(1) Monthly information is presented by reference to our fiscal months during our fourth quarter of fiscal 2011.

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(2) Our ESPP was approved by our Board of Directors and stockholders in September 2007. All shares purchased under the ESPP will be 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 available for issuance under the ESPP is 6,000,000.

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**ITEM 6.** ***SELECTED CONSOLIDATED FINANCIAL DATA***

The selected consolidated financial data set forth below are derived from our consolidated financial statements and should be read in conjunction with our consolidated financial statements and the related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this Form 10-K. The consolidated statement of operations data for each of the years ended January 29, 2012, January 30, 2011, January 31, 2010, February 1, 2009 and February 3, 2008 and the consolidated balance sheet data as of January 29, 2012, January 30, 2011, January 31, 2010, February 1, 2009 and February 3, 2008 are derived from, and qualified by reference to, our audited consolidated financial statements and related notes appearing elsewhere in this Annual Report.

We completed a corporate reorganization on July 26, 2007. The financial data below reflects our operations as if the reorganization had occurred prior to the first period presented.

| | Fiscal Year Ended | | | | |
|---|---|---|---|---|---|
| | January 29, 2012 | January 30, 2011 | January 31, 2010 | February 1, 2009 | February 3, 2008 |
| | (In thousands, except per share data) | | | | |
| **Consolidated statement of operations data:** | | | | | |
| Net revenue | $ 1,000,839 | $ 711,704 | $ 452,898 | $ 353,488 | $ 269,942 |
| Cost of goods sold | 431,569 | 316,757 | 229,812 | 174,421 | 125,015 |
| Gross profit | 569,270 | 394,947 | 223,086 | 179,067 | 144,927 |
| Operating expenses: | | | | | |
| Selling, general and administrative expenses | 282,312 | 212,784 | 136,161 | 118,098 | 93,376 |
| Provision for impairment and lease exit costs | | 1,722 | 379 | 4,405 | |
| Income from operations | 286,958 | 180,391 | 86,546 | 56,564 | 51,551 |
| Other income (expense), net | 2,500 | 2,886 | 164 | 821 | 1,029 |
| Income before provision for income taxes | 289,458 | 183,277 | 86,710 | 57,385 | 52,580 |
| Provision for income taxes | 104,494 | 61,080 | 28,429 | 16,884 | 20,464 |
| Net income from continuing operations | 184,964 | 122,197 | 58,281 | 40,501 | 32,116 |
| Net income attributable to non-controlling interest | 901 | 350 | | | |
| Net loss from discontinued operations | | | | (1,138) | (1,273) |
| Net income attributable to lululemon athletica inc. | $ 184,063 | $ 121,847 | $ 58,281 | $ 39,363 | $ 30,843 |
| Basic earnings (loss) per share | | | | | |
| Continuing operations | $ 1.29 | $ 0.86 | $ 0.41 | $ 0.30 | $ 0.24 |
| Discontinued operations | | | | (0.01) | (0.01) |
| Net basic earnings per share | $ 1.29 | $ 0.86 | $ 0.41 | $ 0.29 | $ 0.23 |
| Diluted earnings (loss) per share | | | | | |
| Continuing operations | $ 1.27 | $ 0.85 | $ 0.41 | $ 0.29 | $ 0.23 |
| Discontinued operations | | | | (0.01) | (0.01) |
| Net diluted earnings per share | $ 1.27 | $ 0.85 | $ 0.41 | $ 0.28 | $ 0.22 |
| Basic weighted-average number of shares outstanding | 143,196 | 141,720 | 140,502 | 137,422 | 132,860 |
| Diluted weighted-average number of shares outstanding | 145,278 | 143,858 | 141,898 | 141,884 | 138,596 |

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| | As of | | | | |
|---|---|---|---|---|---|
| | January 29, 2012 | January 30, 2011 | January 31, 2010 (In thousands) | February 1, 2009 | February 3, 2008 |
| **Consolidated balance sheet data:** | | | | | |
| Cash and cash equivalents | $ 409,437 | $ 316,286 | $ 159,573 | $ 56,797 | $ 52,545 |
| Total assets | 734,634 | 499,302 | 307,258 | 211,636 | 155,092 |
| Total stockholders equity | 606,181 | 394,293 | 233,108 | 154,843 | 112,034 |
| Non-controlling interest | 4,805 | 3,904 | | | |

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

This discussion summarizes our consolidated operating results, financial condition and liquidity during the three-year period ending January 29, 2012. Our fiscal year ends on the Sunday closest to January 31 of the following year, typically resulting in a 52 week year, but occasionally giving rise to an additional week, resulting in a 53 week year. Fiscal 2011, 2010 and 2009 ended on January 29, 2012, January 30, 2011 and January 31, 2010, respectively. The following discussion and analysis should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K.

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

**Overview**

Our results for fiscal 2011 demonstrate the ongoing success of our efforts to overcome the instability in the economy for the last three fiscal years. At the end of last year, we set goals for fiscal 2011 which required continued investment in our stores and our people, making infrastructure enhancements and funding working capital requirements, while remaining conscious of our discretionary spending. These goals included growing revenue year-over-year while maintaining operating margins, as well as positioning the Company for long-term growth. We continually assess the economic environment and market conditions when making decisions regarding timing of our investments.

Our investments in our stores and people were reflected in our comparable stores net revenue growth, which leveraged our fixed operating costs and in turn led to increased operating margins. We increased our store base through execution of our real estate strategy, when and where we saw opportunities for success. For example, we opened 41 new corporate-owned stores in North America, Australia, and New Zealand since fiscal 2010, including our remaining four reacquired franchises. Where we find opportunities for growth through opening showrooms, or other community presence efforts, we expect to expand our store base and therefore our business. 12 to 14 of our planned store openings in fiscal 2012 are expected to be in markets seeded by showrooms in fiscal 2012.

Throughout fiscal 2011, we were able to grow our e-commerce business 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 a higher operating margin than our other segments and accounted for 13.5% of total revenue in the fourth quarter of fiscal 2011 compared to 10.0% of total revenue in the same period of the prior year. Continuing increases in traffic and conversion rates on our e-commerce website lead us to believe that there is potential for our direct to consumer segment to become an increasingly substantial part of our business and we plan to continue to commit a portion of our resources to further developing this channel.

We believe that our brand is recognized as premium in our offerings of run and yoga assortment, as well as a leader in technical fabrics and quality construction. This has made our product desirable to our consumers and has driven demand, which we are able to meet given our increased product depth in stores compared to last year. In fiscal 2012, we plan on investing in new and legacy information technology systems to gain further efficiencies in our vertical retail strategy. We also plan on investing in international expansion opportunities where we have determined there is growth opportunity, including adding country-specific e-commerce websites and opening additional international showrooms. 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.

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**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 primarily 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 January 29, 2012, our branded apparel was principally sold through 174 corporate-owned and franchise stores that are located in Canada, the United States, Australia and New Zealand and via our e-commerce website through our direct to consumer sales 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. In fiscal 2011, 43% of our net revenue was derived from sales of our products in Canada, 53% of our net revenue was derived from the sales of our products in the United States and 4% of our net revenue was derived from sales of our products outside of North America. In fiscal 2010, 52% of our net revenue was derived from sales of our products in Canada, 46% of our net revenue was derived from the sales of our products in the United States and 2% of our net revenue was derived from sales of our products outside of North America. In fiscal 2009, 60% of our net revenue was derived from sales of our products in Canada, 40% of our net revenue was derived from the sales of our products in the United States and an immaterial amount of our net revenue was derived from sales of our products outside of North America.

Our net revenue increased from $711.7 million in fiscal 2010 to $1,000.8 million in fiscal 2011, representing a 41% increase. Our increase in net revenue from fiscal 2010 to fiscal 2011 resulted from the net addition of 41 retail locations, including our remaining four reacquired franchises, and comparable store sales growth of 22% in fiscal 2011. 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 accounted for 11% of our net revenue in fiscal 2011, 8% in fiscal 2010 and 4% in fiscal 2009. Our other segment, consisting of franchise sales, wholesale accounts, sales from company-operated showrooms, warehouse sales and outlets, each accounted for less than 10% of our net revenue in each of fiscal 2011, fiscal 2010 and fiscal 2009. We previously reported our franchise channel as an operating segment; however, we reacquired our remaining four franchised stores in fiscal 2011 and opening new franchise stores is not part of our growth strategy.

As of January 29, 2012, we sold our products through 174 corporate-owned stores located in Canada, the United States, Australia, and New Zealand. We plan to increase our net revenue in North America and Australia by opening additional corporate-owned stores in new and existing markets. Corporate-owned stores accounted for 82% of total net revenue in fiscal 2011, 83% of total net revenue in fiscal 2010 and 87% of total net revenue in fiscal 2009.

As of January 29, 2012, our direct to consumer segment included our e-commerce website. E-commerce sales are taken directly from retail customers through www.lululemon.com. Our direct to consumer segment is an increasingly substantial part of our growth strategy, and now represents more than 10% of our net revenue.

In addition to deriving revenue from sales through our corporate-owned stores and direct to consumer, we also derive other net revenue, which includes wholesale customers, as well as franchise sales, warehouse sales and sales through a number of company-operated showrooms. Wholesale customers include select premium yoga studios, health clubs and fitness centers. We reacquired our four remaining franchise stores during fiscal 2011,

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and as such, franchise sales, which included inventory sales and royalties, will no longer be a part of our other net revenue in future fiscal years. Warehouse sales are typically held one or more times a year to sell slow moving inventory or inventory from prior seasons to retail customers at discounted prices. Our showrooms are typically small locations that we open from time to time when we enter new markets and feature a limited selection of our product offering during select hours. Other net revenue accounted for 7% of total revenue in fiscal 2011, 9% of total net revenue in fiscal 2010 and 9% of total net revenue in fiscal 2009.

We believe that our athletic apparel has and will continue to appeal to consumers outside of North America who value its technical attributes as well as its function and style. In 2004, we opened our first store in Australia which was operated under a franchise license. In fiscal 2009 we made a 13% equity investment in lululemon athletica australia Pty, our franchise operator. During fiscal 2010 we increased our investment to 80% which has provided us control over lululemon athletica australia Pty. In fiscal 2008, we opened a company-operated showroom in Hong Kong.

In the past, we have entered into franchise agreements to distribute lululemon athletica branded products to more quickly disseminate our brand name and increase our net revenue and net income. In exchange for the use of our brand name and the ability to operate lululemon athletica stores in certain regions, our franchisees generally pay us a one-time franchise fee and ongoing royalties based on their gross revenue. Additionally, unless otherwise approved by us, our franchisees are required to sell only lululemon athletica branded products, which are purchased from us at a discount to the suggested retail price. Pursuing new franchise partnerships or opening new franchise stores is not part of our near-term store growth strategy, and we reacquired our four remaining franchise stores in fiscal 2011.

**Basis of Presentation**

*Net revenue* is comprised of:

- corporate-owned store net revenue, which includes sales to customers through corporate-owned stores in North America and Australia;
- direct to consumer revenue, which includes sales from our e-commerce website; and
- other net revenue, which includes wholesale accounts, franchises net revenue, which consists of royalties as well as sales of our products to franchises, warehouse sales, outlets and sales from company-operated showrooms.

in each case, net of an estimated allowance for sales returns and discounts.

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

By measuring the change in year-over-year net revenue in stores that have been open for 12 months or more, comparable store sales allows us to evaluate how our core store base is performing. Various factors affect comparable store sales, including:

- the location of new stores relative to existing stores;
- consumer preferences, buying trends and overall economic trends;

our ability to anticipate and respond effectively to customer preferences for technical athletic apparel;

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- competition;
- changes in our merchandise mix;
- pricing;
- the timing of our releases of new merchandise and promotional events;
- the effectiveness of our grassroots marketing efforts;
- the level of customer service that we provide in our stores;
- our ability to source and distribute products efficiently; and
- the number of stores we open, close (including for temporary renovations) and expand in any period.

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

*Cost of goods sold* includes:

- the cost of purchased merchandise, which includes acquisition and production costs including raw material and labor, as applicable;
- the cost incurred to deliver inventory to our distribution centers including freight, non-refundable taxes, duty and other landing costs;
- the cost of our distribution centers (such as labor, rent and utilities) and the depreciation and amortization related to our distribution centers;
- the cost of our production, merchandise and design departments including salaries, stock-based compensation and benefits, and operating expenses;
- the cost of occupancy related to store operations (such as rent and utilities) and the depreciation and amortization related to store-level capital expenditures;
- hemming; and
- shrink and valuation reserves.

Cost of goods sold also may change as we open or close stores because of the resulting change in related occupancy costs. The primary drivers of the costs of individual goods are the costs of raw materials and labor in the countries where we source our merchandise.

*Selling, general and administrative expenses* consist of all operating costs not otherwise included in cost of goods sold and provision for impairment and lease exit costs. Our selling, general and administrative expenses include marketing costs, accounting costs, information technology costs, human resource costs, professional fees, corporate facility costs, corporate and store-level payroll and benefits expenses, stock-based compensation and occupancy, depreciation and amortization expense for all assets other than depreciation and amortization expenses related to store-level capital expenditures and our distribution centers, each of which are included in cost of goods sold. We anticipate that our selling, general and administrative expenses will increase in absolute dollars due to anticipated continued growth of our corporate support staff and store-level employees.

*Provision for impairment and lease exit costs* consists of asset impairments, lease exit and other related costs associated with the relocation of our administrative offices and the closure of one Canadian corporate-owned store in fiscal 2010, as well as management s evaluation of corporate-owned locations. Also included in prior years are one US corporate-owned store in the first quarter of fiscal 2009 as well as an asset impairment provision based on management s ongoing evaluation of its portfolio of corporate-owned store locations. Long-lived assets are reviewed at the store-level periodically for impairment or whenever events or changes in

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circumstances indicate that full recoverability of net assets through future cash flows is in question. Factors used in the evaluation include, but are not limited to, management s plans for future operations, recent operating results and projected cash flows.

*Other income (expense), net* includes interest earned on our cash balances and our advances to franchise, interest costs associated with our credit facilities and with letters of credit drawn under these facilities for the purchase of merchandise and our share of the operations of our investment in lululemon athletica australia PTY prior to obtaining control in fiscal 2010, including the remeasurement of our investment immediately before obtaining control of the business. We expect to continue to generate interest income to the extent that our cash generated from operations exceeds our cash used for investment. We have maintained relatively small outstanding balances on our credit facilities and expect to continue to do so.

*Provision for income taxes* depends on the statutory tax rates in the countries where we sell our products. Historically we had generated taxable income in Canada and we had generated tax losses in the United States. In fiscal 2010 we earned taxable income in the United States and fully utilized any net operating losses available from prior periods. We anticipate continued growth in the United States and consequently foresee and increase in taxable income reported. We have recorded deferred tax assets in respect of deductible temporary differences of 8.6 million.

Several factors have contributed to our effective tax rate fluctuating from prior periods. Our effective tax rate for fiscal 2011 was 2.8% higher than the effective rate for fiscal 2010 due primarily to the change in geographic mix of earnings. A larger percentage of our earnings in fiscal 2011 were attributable to operations in the United States, where the statutory tax rate is generally higher than the tax rate on operations outside of the United States. Secondly, in fiscal 2011 we incurred stock based compensation expense of $10.3 million compared to $7.3 million in fiscal 2010, a portion of which were not deductible for tax purposes in Canada and the United States during these periods. Lastly, the Canadian corporate tax rate decreased to 28.7% in fiscal 2011 from 31.6% in fiscal 2010. Our effective tax rate in fiscal 2011 was 36.1%, compared to 33.3% in fiscal 2010 and 33% in fiscal 2009.

We anticipate that in the future we may start to sell our products directly to some customers located outside of Canada, the United States, Australia and New Zealand, in which case we would become subject to taxation based on the foreign statutory rates in the countries where these sales take place and our effective tax rate could fluctuate accordingly.

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**Results of Operations**

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

| | Fiscal Year Ended | | |
|---|---|---|---|
| | January 29, 2012 | January 30, 2011 (In thousands) | January 31, 2010 |
| **Consolidated statements of operations:** | | | |
| Net revenue | $ 1,000,839 | $ 711,704 | $ 452,898 |
| Cost of goods sold | 431,569 | 316,757 | 229,812 |
| Gross profit | 569,270 | 394,947 | 223,086 |
| Operating expenses: | | | |
| Selling, general and administrative expenses | 282,312 | 212,784 | 136,161 |
| Provision for impairment and lease exit costs | | 1,772 | 379 |
| Income from operations | 286,958 | 180,391 | 86,546 |
| Other income (expense), net | 2,500 | 2,886 | 164 |
| Income before provision for income taxes | 289,458 | 183,277 | 86,710 |
| Provision for income taxes | 104,494 | 61,080 | 28,429 |
| Net income | 184,964 | 122,197 | 58,281 |
| Net income attributable to non-controlling interest | 901 | 350 | |
| Net income attributable to lululemon athletica inc. | $ 184,063 | $ 121,847 | $ 58,281 |

| | Fiscal Year Ended | | |
|---|---|---|---|
| | January 29, 2012 | January 30, 2011 (% of net revenue) | January 31, 2010 |
| Net revenue | 100.0 | 100.0 | 100.0 |
| Cost of goods sold | 43.1 | 44.5 | 50.7 |
| Gross profit | 56.9 | 55.5 | 49.3 |
| Operating expenses: | | | |
| Selling, general and administrative expenses | 28.2 | 29.9 | 30.1 |
| Provision for impairment and lease exit costs | | 0.2 | 0.1 |
| Income from operations | 28.7 | 25.4 | 19.1 |
| Other income (expense), net | 0.2 | 0.4 | 0.1 |
| Income before provision for income taxes | 28.9 | 25.8 | 19.2 |
| Provision for income taxes | 10.4 | 8.6 | 6.3 |
| Net income | 18.5 | 17.2 | 12.9 |

| | | | |
|---|---|---|---|
| Net income attributable to non-controlling interest | 0.1 | 0.1 | |
| Net income attributable to lululemon athletica inc. | 18.4 | 17.1 | 12.9 |

**Comparison of Fiscal 2011 to Fiscal 2010**

***Net Revenue***

Net revenue increased $289.1 million, or 41%, to $1,000.8 million in fiscal 2011 from $711.7 million in fiscal 2010. Assuming the average exchange rate between the Canadian and United States dollars and the Australian and United States dollars in fiscal 2010 remained constant, our net revenue would have increased $274.7 million, or 39%, in fiscal 2011.

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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 fiscal 2011 and the growth of our direct to consumer segment. The constant dollar increase in comparable store sales was driven primarily by the strength of our existing product lines, successful introduction of new products and increasing recognition of the lululemon athletica brand name, especially at our U.S. stores.

Our net revenue on a segment basis for fiscal 2011 and fiscal 2010 are expressed in dollar amounts as well as relevant percentages, presented as a percentage of total net revenue below.

| | Fiscal Year Ended January 29, 2012 and January 30, 2011 | | | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | (In thousands) | | (Percentages) | |
| Corporate-owned stores | $ 817,318 | $ 591,031 | 81.7 | 83.0 |
| Direct to consumer | 106,313 | 57,348 | 10.6 | 8.1 |
| Other | 77,208 | 63,325 | 7.7 | 8.9 |
| Net revenue | $ 1,000,839 | $ 711,704 | 100.0 | 100.0 |

*Corporate-Owned Stores.* Net revenue from our corporate-owned stores segment increased $226.3 million, or 38%, to $817.3 million in fiscal 2011 from $591.0 million in fiscal 2010. The following contributed to the increase in net revenue from our corporate-owned stores segment:

Comparable store sales increase of 22% in fiscal 2011 resulted in a $125.2 million increase to net revenue, including the effect of foreign currency fluctuations. Excluding the effect of foreign currency fluctuations, comparable store sales increased 20%, or $114.2 million, in fiscal 2011;

Net revenue from corporate-owned stores we opened during fiscal 2011, and during fiscal 2010 prior to sales from such stores becoming part of our comparable stores base, contributed $94.6 million of the increase. Net new store openings in fiscal 2011 included three stores in Canada, 26 stores in the United States, seven in Australia, and one in New Zealand; and

The reacquisition of four U.S. franchise stores in fiscal 2011 contributed $6.5 million of the increase.

*Direct to Consumer.* Net revenue from our direct to consumer segment increased $49.0 million, or 85%, to $106.3 million in fiscal 2011 from $57.3 million in fiscal 2010. The increase in net revenue from our direct to consumer segment was a result of increasing traffic, conversion rates, and average order value on our e-commerce website.

*Other.* Net revenue from our other segment increased $13.9 million, or 22%, to $77.2 million in fiscal 2011 from $63.3 million in fiscal 2010. The increase was a result of increasing net revenue across most of our sales channels included in our other segment: wholesales, showrooms, warehouse sales and outlets. Net revenue from our franchise channel decreased due to the reacquisition of our remaining four remaining franchise stores in the United States, now included in our corporate-owned stores segment. Our other segment continues to grow year over year through new showroom 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 may have corporate-owned stores.

***Gross Profit***

Gross profit increased $174.3 million, or 44%, to $569.3 million in fiscal 2011 from $394.9 million in fiscal 2010. Increased net revenue 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.

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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 140 basis points, to 56.9% in fiscal 2011 from 55.5% in fiscal 2010. 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 80 basis points;
- strengthening of the Canadian and Australian dollars, relative to the U.S. dollar, decreased foreign exchange impacts on product costs and contributed to an increase in gross margin of 70 basis points; and
- a decrease in expenses related to our product and supply chain departments, relative to the increase in net revenue, which had a leveraging effect on gross margin and contributed to an increase in gross margin of 10 basis points.

The increase in gross margin was partially offset by a decrease in product margins, which contributed to a decrease in gross margin of 20 basis points. This was primarily a result of product cost pressures from raw materials and labour costs which were partially offset by strong sell through of merchandise with fewer markdowns and discounts than in fiscal 2010.

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

Selling, general and administrative expenses, including provision for impairment and lease exit costs, increased $67.8 million, or 32%, to $282.3 million in fiscal 2011 from $214.6 million in fiscal 2010. The increase in selling, general and administrative expenses was principally comprised of:

- an increase in employee costs of $29.1 million as we experience natural growth in labor hours associated with new and existing corporate-owned stores, outlets and other, as well as an increase in wages as we invest in our employees;
- an increase in head office employee costs, including stock-based compensation expense and management incentive-based compensation, of $15.4 million incurred in order to position us for long-term growth;
- an increase in other head office costs of $12.4 million as a result of the expansion of our business;
- an increase in other costs, including occupancy costs and depreciation not included in cost of goods sold, of $7.0 million associated with new and existing corporate-owned stores, outlets and other;
- an increase in variable store costs of $6.7 million as a result of increased sales volume from new and existing corporate-owned stores, outlets and other; and
- an increase in administrative costs of $3.3 million related to our Australian business, in which we increased our investment significantly in the second quarter of fiscal 2010, which we now report on a consolidated basis.

The increase in selling, general and administrative expenses was partially offset by a decrease in administrative costs of $6.1 million related to our direct to consumer segment. This decrease was primarily associated with a reduction in professional fees resulting from bringing our e-commerce operations in-house in the first half of fiscal 2011, offset by higher costs associated with volume growth in this channel.

As a percentage of net revenue, selling, general and administrative expenses decreased 190 basis points, to 28.2% in fiscal 2011 from 30.1% in fiscal 2010.

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We expect selling, general and administrative expenses to increase throughout fiscal 2012 as we add administrative and sales personnel and increase our infrastructure to support the growth in our store base.

***Income from Operations***

Income from operations increased $106.6 million, or 59%, to $287.0 million in fiscal 2011 from $180.4 million in fiscal 2010. The increase was a result of increased gross profit of $174.3 million, partially offset by increased selling, general and administrative costs of $67.8 million. The increase in selling, general and administrative costs was primarily driven by the increase in our business, as seen in our net revenue increases.

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

Income from operations (before general corporate expenses) for fiscal 2011 and fiscal 2010 are expressed in dollar amounts as well as percentages, presented as a percentage of net revenue of their respective operating segments below.

| | Fiscal Year Ended January 29, 2012 and January 30, 2011 | | | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| | **(In thousands)** | | **(Percentages)** | |
| Corporate-owned stores | $ 298,974 | $ 207,992 | 36.6 | 35.2 |
| Direct to consumer | 44,168 | 14,016 | 41.5 | 24.4 |
| Other | 21,225 | 17,059 | 27.5 | 26.9 |
| Income from operations before general corporate expense | $ 364,367 | $ 239,067 | | |

*Corporate-Owned Stores.* Net income from our corporate-owned stores segment increased $91.0 million, or 44%, to $299.0 million for fiscal 2011 from $208.0 million for fiscal 2010 primarily due to an increase of $137.2 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. Income from operations as a percentage of corporate-owned stores revenue increased by 140 basis points primarily from leverage gained over fixed costs.

*Direct to consumer.* Net income from our direct to consumer segment increased $30.2 million, or 215%, to $44.2 million in fiscal 2011 from $14.0 million in fiscal 2010 due to increasing traffic and conversion rates on our e-commerce website. Income from operations as a percentage of direct to consumer revenue increased by 1710 basis points in fiscal 2011 compared to fiscal 2010 due to decreased professional fees paid as our e-commerce operations were brought in-house near the beginning of fiscal 2011. We discontinued our phone sales channel during fiscal 2011, and therefore our direct to consumer segment will only include e-commerce sales in future fiscal years.

*Other.* Net income from our other segment increased $4.2 million, or 24%, to $21.2 million in fiscal 2011 from $17.1 million in fiscal 2010. This increase was primarily the result of temporary locations open in the fourth quarter of fiscal 2011 and additional warehouse sales held during the fourth quarter of fiscal 2011 compared to fiscal 2010. This increase was also a result of increased income from strategic sales, showrooms and outlets, partially offset by decreased income from our franchise operating channel. We reacquired our four remaining franchised locations during the third quarter of fiscal 2011; as a result, income from operations from the reacquired stores is now included in our corporate-owned stores segment. 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.

Income from operations also includes general corporate expenses. General corporate expenses increased $18.7 million, or 32%, to $77.4 million in fiscal 2011 from $58.7 million in fiscal 2010. This increase was primarily due to an increase in expenses related to our head office growth of $14.8 million, which was largely related to the growth of our information technology and human resources departments to support the growth of our business. Income from operations also increased as a result of increased stock-based compensation expense of $2.2 million, an increase in foreign exchange losses of $1.2 million, and increased depreciation and amortization expense of $0.5 million. The increase was partially offset by a decreased provision for impairment and lease exit costs of $1.8 million. General corporate expenses are expected to continue to increase in future years as we grow our overall business and require increased efforts at our head office to support our corporate-owned stores, franchises and other segments.

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

Other income (expense), net decreased $0.4 million, to $2.5 million in fiscal 2011 from $2.9 million in fiscal 2010. The decrease was primarily a result of re-measuring our 13 percent non-controlling equity investment in Australia immediately prior to obtaining control of the business, which led to a $1.8 million gain on investment in fiscal 2010. This was offset by increased interest income earned in fiscal 2011 compared to fiscal 2010 on our increased cash balances.

***Provision for Income Taxes***

Provision for income taxes increased $43.4 million, or 71%, to $104.5 million in fiscal 2011 from $61.1 million in fiscal 2010. In fiscal 2011, our effective tax rate was 36.1% compared to 33.3% in fiscal 2010. The higher effective tax rate was due to the proportional increase of taxable income in the United States in fiscal 2011 compared to taxable income in Canada which is taxed at a rate lower than the US statutory rate combined with the declining Canadian corporate tax rate. We expect this trend to continue as we expect to generate a higher proportion of our future taxable income in the United States.

We have not recorded deferred taxes on undistributed earnings and other temporary differences of our Canadian subsidiary which are considered to be indefinitely reinvested. If management s intentions with respect to these undistributed earnings and other temporary differences were to change in the future, deferred taxes may need to be provided that could materially impact our financial results.

***Net Income***

Net income increased $62.2 million, or 51%, to $184.1 million in fiscal 2011 from $121.8 million in fiscal 2010. The increase in net income in fiscal 2011 was primarily due to a $174.3 million increase in gross profit resulting from sales growth at existing and additional corporate-owned stores opened during fiscal 2011 and increasing traffic on our e-commerce website, offset by an increase of $67.8 million in selling, general and administrative expenses, including provision for impairment and lease exit costs, an increase of $43.4 million in provision for income taxes, and a $0.4 million decrease in other income (expense), net.

**Comparison of Fiscal 2010 to Fiscal 2009**

***Net Revenue***

Net revenue increased $258.8 million, or 57%, to $711.7 million in fiscal 2010 from $452.9 million in fiscal 2009. Assuming the average exchange rate between the Canadian and United States dollars in fiscal 2009 remained constant, our net revenue would have increased $229.6 million, or 51%, in 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 fiscal 2010 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, the successful introduction of new products and increasing recognition of the lululemon athletica brand name, especially at our U.S. stores.

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Our net revenue on a segment basis for fiscal 2010 and fiscal 2009 are expressed in dollar amounts as well as relevant percentages, presented as a percentage of total net revenue below.

| | Fiscal Year Ended January 30, 2011 and January 31, 2010 | | | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | (In thousands) | | (Percentages) | |
| Corporate-owned stores | $ 591,031 | $ 393,451 | 83.0 | 86.9 |
| Direct to consumer | 57,348 | 18,257 | 8.1 | 4.0 |
| Other | 63,325 | 41,190 | 8.9 | 9.1 |
| Net revenue | $ 711,704 | $ 452,898 | 100.0 | 100.0 |

*Corporate-Owned Stores.* Net revenue from our corporate-owned stores segment increased $197.6 million, or 50%, to $591.0 million in fiscal 2010 from $393.5 million in fiscal 2009. The following contributed to the $196.9 million increase in net revenue from our corporate-owned stores segment:

Comparable store sales increase of 37% in fiscal 2010 resulted in a $136.1 million increase to net revenue, including the effect of foreign currency fluctuations. Excluding the effect of foreign currency fluctuations, comparable store sales increased 30%, or $112.2 million, in fiscal 2010;

Net revenue from corporate-owned stores we opened during fiscal 2010, and during fiscal 2009 prior to sales from such stores becoming part of our comparable stores base, contributed $42.3 million of the increase. Net new store openings in fiscal 2010 included 12 stores in the United States and two in Australia; and

The acquisition of one Canadian and nine Australian franchise stores in fiscal 2010 contributed $20.4 million of the increase. The increase was partially offset by a decrease in net revenue related to gift card breakage. In 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 $39.1 million, or 214%, to $57.3 million in fiscal 2010 from $18.3 million in fiscal 2009. The increase in net revenue from our direct to consumer segment was a result of increasing traffic and conversion rates on our e-commerce website since it launched near the beginning of fiscal 2009. Prior to the launch of our e-commerce website, our direct to consumer segment consisted only of phone sales, and ultimately resulted in an increased gross profit.

*Other.* Net revenue from our other segment increased $22.1 million, or 54%, to $63.3 million in fiscal 2010 from $41.2 million in fiscal 2009. There were increases in net revenue across most of our sales channels included in our other segment: wholesale, showrooms, warehouse sales and outlets. Net revenue from our franchise channel decreased due to our reacquisition of one franchised store in Canada and nine franchised stores in Australia. Our other segment continues to grow year over year through new showroom 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 171.9 million, or 77%, to 394.9 million in fiscal 2010 from $223.1 million in fiscal 2009. The increase in gross profit was driven principally by increased net revenue as well as a strengthening Canadian dollar relative to the U.S. dollar, which improved product margin in all of our operating segments, and ultimately resulted in an increased gross profit.

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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 620 basis points, to 55.5% in fiscal 2010 from 49.3% in 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 250 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 180 basis points primarily 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;

- strengthening of 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 140 basis points; and

- 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 50 basis points.

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

Selling, general and administrative expenses, including provision for impairment and lease exit costs, increased $78.0 million, or 57%, to $214.6 million in fiscal 2010 from $136.5 million in fiscal 2009. The $78.0 million increase in selling, general and administrative expenses was principally comprised of:

- an increase in employee costs of $24.8 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 $18.4 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, distribution and provision for impairment and lease exist costs not included in cost of goods sold, of $14.5 million as a result of the expansion of our business;

- an increase in head office employee costs, including stock-based compensation expense and management incentive-based compensation, of $9.6 million incurred in order to position us for long-term growth;

- an increase in administrative costs of $6.5 million related to our Australian business, in which we increased our investment significantly in the second quarter of fiscal 2010, which we now report on a consolidated basis;

- an increase in marketing efforts, including initiatives associated with the Olympic games, of $3.3 million to increase our brand awareness in both new and existing markets; and an increase in professional fees of $0.9 million which includes consulting fees for recruiting, store development and information systems, legal fees associated with reacquisition of franchise rights, and employment matters.

As a percentage of net revenue, selling, general and administrative expenses were 30.1% in both fiscal 2010 and fiscal 2009.

We expect selling, general and administrative expenses to increase throughout fiscal 2011 as we add administrative and sales personnel and increase our infrastructure to support the growth in our store base and invest in our e-commerce website.

***Income from Operations***

Income from operations increased $93.8 million, or 108%, to $180.4 million in fiscal 2010 from $86.5 million in fiscal 2009. The increase of $93.8 million in income from operations for fiscal 2010 was primarily due to a $171.9 million increase in gross profit resulting from sales growth at existing and additional corporate-owned stores opened during fiscal 2010 and increasing traffic on our e-commerce website, offset by an increase of $78.0 million in selling, general and administrative expenses, including provision for impairment and lease exit costs.

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

Income from operations (before general corporate expenses) for fiscal 2010 and fiscal 2009 are expressed in dollar amounts as well as percentages, presented as a percentage of net revenue of their respective operating segments below.

| | Fiscal Year Ended January 30, 2011 and January 31, 2010 | | | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| | **(In thousands)** | | **(Percentages)** | |
| Corporate-owned stores | $ 207,992 | $ 113,428 | 35.2 | 28.8 |
| Direct to consumer | 14,016 | 5,394 | 24.4 | 29.5 |
| Other | 17,059 | 10,583 | 26.9 | 25.7 |
| Income from operations before general corporate expense | $ 239,067 | $ 129,405 | | |

*Corporate-Owned Stores.* Net income from our corporate-owned stores segment increased $94.6 million, or 83%, to $208.0 million for fiscal 2010 from $113.4 million for fiscal 2009 primarily due to an increase of $127.9 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 $8.6 million, or 160%, to $14.0 million in fiscal 2010 from $5.4 million in 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 near the beginning 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 revenue decreased in fiscal 2010 compared to fiscal 2009 due to the introduction of promotional shipping and increased costs related to our digital strategy associated with this selling channel.

*Other.* Net income from our other segment increased $6.5 million, or 61%, to $17.1 million in fiscal 2010 from $10.6 million in fiscal 2009. Gross profit related to our other segment increased in fiscal 2010 from fiscal 2009 primarily due to a higher proportion of full margin sales channels in the current year, such as our showroom sales channel, than in the prior year. There was an increase in selling, general and administrative expenses as a result of opening and operating an increased number of showrooms in fiscal 2010 compared to fiscal 2009, which offset a portion of the gross profit increase.

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Income from operations also includes general corporate expenses. General corporate expenses increased $15.8 million, or 37%, to $58.7 million in fiscal 2010 from $42.9 million in fiscal 2009 primarily due to an increase in expenses related to our head office growth of $12.1 million, as well as increased depreciation and amortization expense of $1.6 million, increased stock-based compensation expense of $1.0 million and increased provision for impairment and lease exist costs of $1.4 million. The increase was partially offset by increases in realized foreign exchange gains of $0.3 million. General corporate expenses are expected to continue to increase in future years as we grow our overall business and require increased efforts at our head office to support our corporate-owned stores, franchises and other segments.

Our $1.8 million provision for impairment and lease exit costs was a result of management s review of our portfolio of corporate-owned store locations and the relocation of our administrative offices. In conjunction with our ongoing evaluation to ensure that each of our corporate-owned stores fit into our long-term growth strategy, we closed two of our corporate-owned stores in the fourth quarter of fiscal 2010. We recorded a $0.7 million provision for impairment and lease exit costs related to the two fiscal 2010 closures, and a $0.9 million provision for impairment and lease exit costs related to the relocation of our administrative offices. We also closed one of our corporate-owned stores in the first quarter of fiscal 2009; this closure was fully accrued in fiscal 2008. The fair market values were estimated using an expected present value technique.

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

Other income (expense), net increased $2.7 million, to $2.9 million in fiscal 2010 from $0.2 million in fiscal 2009. The increase was primarily a result of re-measuring our 13 percent non-controlling equity investment in Australia immediately prior to obtaining control of the business, which led to a $1.8 million gain on investment. Additionally, we earned more interest income in fiscal 2010 compared to fiscal 2009 on our increased cash balances.

***Provision for Income Taxes***

Provision for income taxes increased $32.7 million, or 115%, to $61.1 million in fiscal 2010 from $28.4 million in fiscal 2009. In fiscal 2010, our effective tax rate was 33.3% compared to 32.8% in fiscal 2009. The higher effective tax rate was due to the proportional increase of taxable income in the United States in fiscal 2010 compared to taxable income in Canada which is taxed at a rate lower than the US statutory rate combined with the declining Canadian Corporate tax rate. We expect this trend to continue as we expect to generate a higher proportion of our future taxable income in the United States.

We have not recorded deferred taxes on undistributed earnings and other temporary differences of our Canadian subsidiary which are considered to be indefinitely reinvested. If management s intentions with respect to these undistributed earnings and other temporary differences were to change in the future, deferred taxes may need to be provided that could materially impact our financial results.

***Net Income***

Net income increased $63.6 million, or 109%, to $121.8 million in fiscal 2010 from $58.3 million in fiscal 2009. The increase in net income of $63.6 million in fiscal 2010 was primarily due to a $171.9 million increase in gross profit resulting from sales growth at existing and additional corporate-owned stores opened during fiscal 2010 and increasing traffic on our e-commerce website, and a $2.7 million increase in other income (expense), net, offset by an increase of $78.0 million in selling, general and administrative expenses, including provision for impairment and lease exist costs, and an increase of $32.7 million in provision for income taxes.

**Seasonality**

In fiscal 2011, fiscal 2010, and fiscal 2009, we recognized a significant amount of our net revenue in the fourth quarter due to significant increases in sales during the holiday season. We recognized 37%, 36%, and 39%

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of our full year gross profit in the fourth quarter in fiscal 2011, fiscal 2010 and fiscal 2009, respectively. Despite the fact that we have experienced a significant amount of our net revenue and gross profit in the fourth quarter of our 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. As our expected growth rate slows, we believe that we will experience fourth quarter gross profits as a percentage of full year gross profits as high, or higher, than in the current year.

The level of our working capital reflects the seasonality of our business. We expect inventory, accounts payable and accrued expenses to be higher in the third and fourth quarters in preparation for the holiday selling season. Because our products are sold primarily through our stores, order backlog is not material to our business.

**Liquidity and Capital Resources**

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

As of January 29, 2012, our working capital (excluding cash and cash equivalents) was $3.6 million and our cash and cash equivalents were $409.4 million.

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

| | Fiscal Year Ended | | |
|---|---|---|---|
| | January 29, 2012 | January 30, 2011 (In thousands) | January 31, 2010 |
| Total cash provided by (used in): | | | |
| Operating activities | $ 203,615 | $ 179,995 | $ 117,960 |
| Investing activities | (122,311) | (42,839) | (16,307) |
| Financing activities | 15,364 | 13,699 | (2,649) |
| Effect of exchange rate changes | (3,517) | 5,858 | 3,772 |
| Increase in cash and cash equivalents | $ 93,151 | $ 156,713 | $ 102,776 |

***Operating Activities***

*Operating Activities* consist primarily of net income adjusted for certain non-cash items, including depreciation and amortization, deferred income taxes, realized gains and losses on disposal of property and equipment, stock-based compensation expense and the effect of the changes in non-cash working capital items, principally accounts receivable, inventories, accounts payable and accrued expenses.

In fiscal 2011, cash provided by operating activities increased $23.6 million, to $203.6 million compared to cash provided by operating activities of $180.0 million in fiscal 2010. The increase was primarily a result of increased net income, an increase in items not affecting cash, and an increase in accrued liabilities, offset by increased inventory purchases. The net increase in items not affecting cash was primarily due to an increase in depreciation and amortization related to our increased store base, and an increase in stock-based compensation. The increase in accrued liabilities was primarily a result of increased sales tax collected as a result of our increased sales.

*Depreciation and amortization* relate almost entirely to leasehold improvements, furniture and fixtures, computer hardware and software, equipment and vehicles in our stores and other corporate buildings.

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Depreciation and amortization increased $5.6 million to $30.3 million in fiscal 2011 from $24.6 million in fiscal 2010. Depreciation for our corporate-owned store segment was $18.5 million, $15.6 million, and $13.5 million in fiscal 2011, fiscal 2010 and fiscal 2009, respectively. Depreciation for our direct to consumer segment was $2.4 million, $0.2 million and $0.2 million in fiscal 2011, fiscal 2010 and fiscal 2009, respectively. Depreciation related to corporate activities was $9.4 million, $8.8 million, and $7.2 million fiscal 2011, fiscal 2010 and fiscal 2009, respectively. We have not allocated any depreciation to our other segment as these amounts to date have been immaterial.

***Investing Activities***

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

Cash used in investing activities increased $79.5 million, to $122.3 million in fiscal 2011 from $42.8 million in fiscal 2010. This increase in cash used in investing activities represents an increase in the number of new stores opened in fiscal 2011 compared to fiscal 2010, as well as our reacquisition of our remaining four franchised stores. Capital expenditures for our corporate-owned stores segment were $34.1 million in fiscal 2011 which included $21.9 million to open 41 corporate-owned stores and $14.5 million in fiscal 2010 which included $7.0 million to open 14 corporate-owned stores. The remaining capital expenditures for our corporate-owned stores segment in each period were for ongoing store refurbishment. Capital expenditures for our direct to consumer segment were $6.7 million and $4.6 in fiscal 2011 and fiscal 2010, respectively. Capital expenditures related to corporate activities and administration were $76.1 million and $11.2 million in fiscal 2011 and fiscal 2010, respectively. The increase in capital expenditures related to corporate activities and administration compared to fiscal 2010 was primarily due to the purchase of our principal executive and administrative offices for $65.1 million plus acquisition-related costs. The capital expenditures in each period for corporate activities and administration were for improvements at our head office and other corporate buildings as well as investments in information technology and business systems.

Capital expenditures are expected to range between $70 million to $75 million in fiscal 2012, including approximately $25 million for approximately 37 new stores and the remainder reflecting renovation capital for existing stores, information technology enhancements and other corporate activities.

***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 $1.7 million, to cash provided of $15.4 million in fiscal 2011 from cash used of $13.7 million in fiscal 2010.

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. 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 entered into an uncommitted senior secured demand revolving credit facility with Royal Bank of Canada. The revolving credit facility provides us with available borrowings in an amount up to CDN$20.0 million. The revolving credit facility must be repaid in full on demand and is available by way of prime loans in Canadian currency, U.S. base rate loans in U.S. currency, bankers acceptances, LIBOR based loans in U.S. currency or Euro currency, letters of credit in Canadian currency or U.S. currency and letters of guaranty in Canadian currency or U.S. currency. The revolving credit facility bears interest on the outstanding balance in accordance with the following: (i) prime rate for prime loans; (ii) U.S. base rate for U.S. based loans; (iii) a fee of 1.125% per annum on bankers acceptances; (iv) LIBOR plus 1.125% per annum for LIBOR based loans; (v) a 1.125% annual fee for letters of credit; and (vi) a 1.125% annual fee for letters of guaranty. Both lululemon usa inc. and lululemon FC USA inc., Inc. provided Royal Bank of Canada with guarantees and postponements of claims in the amounts of CDN$20.0 million with respect to lululemon athletica canada inc. s obligations under the revolving credit facility. The revolving credit facility is also secured by all of our present and after acquired personal property, including all intellectual property and all of the outstanding shares we own in our subsidiaries. As of January 29, 2012, aside from the letters of credit and guarantees, we had $nil in borrowings outstanding under this credit facility.

**Contractual Obligations and Commitments**

*Leases.* We lease certain corporate-owned store locations, storage spaces, building and equipment under non-cancelable operating leases. Our leases generally have initial terms of between five and 10 years, and generally can be extended only in five-year increments, if at all. Our leases expire at various dates between 2011 and 2021, excluding extensions at our option. A substantial number of our leases for corporate-owned store premises include renewal options and certain of our leases include rent escalation clauses, rent holidays and leasehold rental incentives, none of which are reflected in the following table. Most of our leases for corporate-owned store premises also include contingent rental payments based on sales volume, the impact of which also are not reflected in the following table. The following table summarizes our contractual arrangements as of January 29, 2012, and the timing and effect that such commitments are expected to have on our liquidity and cash flows in future periods:

| | | Payments Due by Fiscal Year | | | | | |
|---|---|---|---|---|---|---|---|
| | Total | 2012 | 2013 | 2014 | 2015 | 2016 | Thereafter |
| | | | | (In thousands) | | | |
| Operating Leases (minimum rent) | $ 270,783 | $ 46,020 | $ 45,569 | $ 44,915 | $ 41,847 | $ 37,129 | $ 55,303 |

**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 January 29, 2012, letters of credit and letters of guarantee totaling $1.5 million have been issued.

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

**Critical Accounting Policies and Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions. Predicting future events is inherently an imprecise activity and, as such, requires the use of judgment. Actual results may vary from estimates in amounts that may be material to the financial statements. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact our consolidated financial statements.

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

*Revenue Recognition.* Net revenue is comprised of corporate-owned store net revenue, direct to consumer sales through www.lululemon.com, and other net revenue, which includes, franchise royalties as well as sales of products to franchisees, sales to wholesale accounts, warehouse sales and sales from company-operated showrooms, in each case, net of an estimated allowance for sales returns and discounts. Sales to customers through corporate-owned stores and company-operated showrooms are recognized at the point of sale, net of an estimated allowance for sales returns. Direct to consumer sales are recognized when goods are shipped and collection is reasonably assured, net of an estimated allowance for sales returns. Other net revenue related to franchise royalties are recognized when earned, in accordance with the terms of the franchise/license agreements. Royalties are based on a percentage of the franchisees sales and recognized when those sales occur. Other net revenue related to warehouse sales is recognized when these sales occur. Amounts billed to customers for shipping and handling are recognized at the time of shipment.

Sales are reported on a net revenue basis, which is computed by deducting from our gross sales the amount of sales taxes, actual product returns received, discounts and an amount established for anticipated sales returns. Our estimated allowance for sales returns is a subjective critical estimate that has a direct impact on reported net revenue. This allowance is calculated based on a history of actual returns, estimated future returns and any significant future known or anticipated events. Consideration of these factors results in an estimated allowance for sales returns. Our standard terms for retail sales limit returns to approximately 14 days after the sale of the merchandise. For our wholesale sales, we allow returns from our wholesale customers if properly requested and approved. Employee discounts are classified as a reduction of net revenue.

Revenue from our gift cards are recognized when tendered for payment, or upon redemption. Outstanding customer balances are included in Unredeemed gift card liability on the consolidated balanc