lululemon athletica inc.
Form 10-Q
June 11, 2009

Table of Contents

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

Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended May 3, 2009

OR

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

Commission file number 001-33608

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

Delaware	**20-3842867**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
2285 Clark Drive, Vancouver, British Columbia	**V5N 3G9**
(Address of principal executive offices)	*(Zip Code)*

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes **o** No **o**

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

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

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

At June 8, 2009, there were 50,729,300 shares of the registrant s common stock, par value $0.01 per share, outstanding.

Exchangeable and Special Voting Shares:

At June 8, 2009, there were outstanding 19,482,981 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 June 8, 2009, the registrant had outstanding 19,482,981 shares of special voting stock, through which the holders of exchangeable shares of Lulu Canadian Holding, Inc. may exercise their voting rights with respect to the registrant. The special voting stock and the registrant s common stock generally vote together as a single class on all matters on which the common stock is entitled to vote.

TABLE OF CONTENTS

PART I

FINANCIAL INFORMATION

ITEM 1. *FINANCIAL STATEMENTS*

lululemon athletica inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

	May 3, 2009 (Unaudited)	February 1, 2009
	(Amounts in thousands, except per share amounts)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 59,271	$ 56,797
Accounts receivable	3,868	4,029
Inventories	44,635	52,051
Prepaid expenses and other current assets	6,135	4,111
	113,909	116,988
Property and equipment, net	60,960	61,662
Goodwill and intangible assets, net	8,166	8,160
Deferred income taxes	19,097	19,373
Other non-current assets	5,654	5,453
	$ 207,786	$ 211,636
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 5,218	$ 5,269
Accrued liabilities	10,128	22,103
Accrued compensation and related expenses	5,084	5,862
Income taxes payable		2,133
Unredeemed gift card liability	6,493	9,278
Other current liabilities	452	690
	27,375	45,335
Other non-current liabilities	11,976	11,301
Deferred income taxes	165	158
	39,516	56,794

Stockholders equity		
Undesignated preferred stock, $0.01 par value, 5,000 shares authorized, none issued and outstanding		
Exchangeable stock, no par value, 30,000 shares authorized, issued and outstanding 19,502 and 19,517 shares		
Special voting stock, $0.00001 par value, 30,000 shares authorized, issued and outstanding 19,502 and 19,517 shares		
Common stock, $0.01 par value, 200,000 shares authorized, issued and outstanding 50,710 and 50,422 shares	507	504
Additional paid-in capital	157,677	155,961
Retained earnings	16,046	9,528
Accumulated other comprehensive loss	(5,960)	(11,151)
	168,270	154,842
	$ 207,786	$ 211,636

See accompanying notes to the interim consolidated financial statements

3

Table of Contents

lululemon athletica inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

	Thirteen Weeks Ended May 3, 2009	Thirteen Weeks Ended May 4, 2008
	(Unaudited) (Amounts in thousands, except per share amounts)	
Net revenue	$ 81,680	$ 77,030
Cost of goods sold	46,731	35,929
Gross profit	34,949	41,101
Selling, general and administrative expenses	25,096	29,154
Income from operations	9,853	11,947
Other income (expense), net	78	277
Income before income taxes	9,931	12,224
Provision for income taxes	3,413	3,753
Net income from continuing operations	6,518	8,471
Net income from discontinued operations		5
Net income	$ 6,518	$ 8,476
Basic earnings per share:		
Continuing operations	$ 0.09	$ 0.13
Discontinued operations		
Net basic earnings per share	$ 0.09	$ 0.13
Diluted earnings per share:		
Continuing operations	$ 0.09	$ 0.12
Discontinued operations		
Net diluted earnings per share	$ 0.09	$ 0.12
Basic weighted-average number of shares outstanding	70,131	67,678
Diluted weighted-average number of shares outstanding	70,331	71,651

See accompanying notes to the interim consolidated financial statements

4

Table of Contents

lululemon athletica inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	Exchangeable Stock		Special Voting Stock		Common Stock		Additional		Accumulated Other	
	Shares	Par Value	Shares	Par Value	Shares	Par Value	Paid-in Capital	Retained Earnings	Comprehensive Loss	Total
					(Unaudited) (Amounts in thousands)					
ance at February 1, 9	19,517	$	19,517	$	50,422	$ 504	$ 155,961	$9,528	$(11,151)	$ 154,8
nprehensive income:										
income								6,518		6,5
eign currency slation adjustment									5,191	5,1
nprehensive income										11,7
ck-based compensation							1,369			1,3
ess tax benefit from k-based compensation							192			1
ck options exercised					273	3	155			1
nmon stock issued upon hange of exchangeable res	(15)		(15)		15					
ance at May 3, 2009	19,502	$	19,502	$	50,710	$ 507	$ 157,677	$16,046	$(5,960)	$ 168,2

See accompanying notes to the interim consolidated financial statements

Table of Contents

lululemon athletica inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Thirteen Weeks Ended May 3, 2009	Thirteen Weeks Ended May 4, 2008
	(Unaudited) (Amounts in thousands)	
Cash flows from operating activities		
Net income	$ 6,518	$ 8,476
Net income from discontinued operations		5
Net income from continuing operations	6,518	8,471
Items not affecting cash		
Depreciation and amortization	4,278	3,381
Stock-based compensation	1,369	2,172
Deferred income taxes	508	(144)
Excess tax benefit from stock-based compensation	(192)	
Other, including net changes in other non-cash balances		
Prepaid expenses and other current assets	(1,965)	(2,325)
Inventories	8,269	(16,262)
Accounts payable	(622)	(719)
Accrued liabilities	(11,590)	1,838
Other non-cash balances	(3,754)	(6,669)
Net cash provided by (used in) operating activity continuing operations	2,819	(10,257)
Net cash provided by operating activity discontinued operations		7
	2,819	(10,264)
Cash flows from investing activities		
Purchase of property and equipment	(2,281)	(8,438)
Advances to and investments in franchise	(274)	
Net cash used in investing activity continuing operations	(2,555)	(8,438)
Net cash used in investing activity discontinued operations		(122)
	(2,555)	(8,560)
Cash flows from financing activities		
Proceeds from exercise of stock options	158	54
Excess tax benefit from stock-based compensation	192	
Net cash provided by financing activity continuing operations	350	54

Net cash provided by financing activity discontinued operations				
		350		54
Effect of exchange rate changes on cash		1,860		(577)
Increase (decrease) in cash and cash equivalents		2,474		(19,347)
Cash and cash equivalents from continuing operations, beginning of period	$	56,797	$	52,545
Cash and cash equivalents from continuing operations, end of period	$	59,271	$	33,198

See accompanying notes to the interim consolidated financial statements

lululemon athletica inc. and Subsidiaries

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

NOTE 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nature of operations

lululemon athletica inc., a Delaware corporation (lululemon or LAI and, together with its subsidiaries unless the context otherwise requires, the Company) is engaged in the design, manufacture and distribution of healthy lifestyle inspired athletic apparel, which is sold through a chain of corporate-owned and operated retail stores, direct to consumers through our e-commerce sales channel, through independent franchises and through a network of wholesale accounts. The Company s primary markets are Canada, the United States and Australia, where 42, 61 and nil corporate-owned stores were in operation as at May 3, 2009, respectively. There were 103 corporate-owned stores in operation as of both May 3, 2009 and February 1, 2009.

Basis of presentation

The unaudited interim consolidated financial statements as of May 3, 2009 and for the thirteen week periods ended May 3, 2009 and May 4, 2008 are presented using the United States dollar and have been prepared by the Company under the rules and regulations of the Securities and Exchange Commission (SEC). In the opinion of management, the financial information is presented in accordance with United States generally accepted accounting principles (GAAP) for interim financial information and, accordingly, do not include all of the information and footnotes required by GAAP for complete financial statements. The financial information as of February 1, 2009 is derived from the Company s audited consolidated financial statements and notes for the fiscal year ended February 1, 2009, included in Item 8 in the fiscal 2008 Annual Report on Form 10-K. These unaudited interim consolidated financial statements reflect all adjustments which are in the opinion of management are necessary to a fair statement of the results for the interim periods presented. These unaudited interim consolidated financial statements should be read in conjunction with the Company s consolidated financial statements and related notes included in the Company s 2008 Annual Report on Form 10-K filed with the SEC on March 27, 2009.

The Company s fiscal year ends on the Sunday closest to January 31st of the following year. This typically results in a fifty-two week year, but occasionally gives rise to an additional week, resulting in a fifty-three week year.

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

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

While the Company will continue to honor all gift cards presented for payment, management may determine the likelihood of redemption to be remote for certain card balances due to, among other things, long periods of inactivity.

In these circumstances, to the extent management determines there is no requirement for remitting card balances to government agencies under unclaimed property laws, card balances may be recognized in the consolidated statements of earnings in Net revenue. For the first quarter of fiscal 2009, net revenue recognized on unredeemed gift card balances was $1.5 million, of which $1.3 million relates to periods prior to fiscal 2009. There was no net revenue recognized on unredeemed gift card balances during the fiscal years ended February 1, 2009 or February 3, 2008.

lululemon athletica inc. and Subsidiaries

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Recent accounting pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard No. 141R, *Business Combinations (revised 2007)* (SFAS 141R). SFAS 141R replaces SFAS 141 and requires the acquirer of a business to recognize and measure the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at fair value. SFAS 141R also requires transaction costs related to the business combination to be expensed as incurred. The effective date, as well as the adoption date for the Company, was February 2, 2009. Although SFAS 141R may impact the Company s reporting in future financial periods, the Company has determined that the standard did not have any impact on its historical consolidated financial statements at the time of adoption.

In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-2 (FSP 157-2) that partially delays the effective date of SFAS No. 157, *Fair Value Measurements* (SFAS 157) for one year for non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis. The effective date, as well as the adoption date for the Company, was February 2, 2009 for non-financial assets and liabilities that are recognized or disclosed at fair value on a recurring basis. The Company has determined that the provisions of the standard which have been adopted did not have any impact on its consolidated financial statements at the time of adoption. The Company is currently evaluating the potential impact of adopting the remaining provisions of SFAS 157.

In April 2008 the FASB issued FSP No. 142-3, *Determination of the Useful Life of Intangible Assets*, (FSP 142-3) which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142. This pronouncement requires enhanced disclosures concerning a company s treatment of costs incurred to renew or extend the term of a recognized intangible asset. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The effective date, as well as the adoption date for the Company, was February 2, 2009. Although FSP 142-3 may impact the Company s reporting in future financial periods, the Company has determined that the standard did not have any impact on its historical consolidated financial statements at the time of adoption.

NOTE 3. STOCK-BASED COMPENSATION

Share option plans

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

Stock-based compensation expense charged to income for the plans was $1,369 and $2,172 for the thirteen weeks ended May 3, 2009 and May 4, 2008, respectively. Total unrecognized compensation cost as at May 3, 2009 was $13,267 for all stock option plans, which is expected to be recognized over a weighted-average period of 2.7 years.

lululemon athletica inc. and Subsidiaries

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Company stock options

A summary of the Company s stock options and restricted shares activity as of May 3, 2009 and changes during the period then ended is presented below:

	Number of Stock Options	Weighted-Average Exercise Price	Number of Restricted Shares	Weighted-Average Grant Fair Value
Balance at February 1, 2009	1,905	$ 10.83	9	$ 24.04
Granted	497	$ 8.28		
Exercised	273	$ 0.58		
Forfeited		$		
Balance at May 3, 2009	2,129	$ 11.54	9	$ 24.04
Exercisable at May 3, 2009	354	$ 8.26		$

Stockholder- sponsored stock options

During the thirteen weeks ended May 3, 2009 holders of the exchangeable shares converted 15 exchangeable shares into 15 shares of common stock of the Company for no additional consideration. In connection with the exchange of exchangeable shares, an equal number of outstanding shares of the Company s special voting stock were cancelled.

During the thirteen weeks ended May 3, 2009 there were no grants or forfeitures related to any of the stock options issued and outstanding under the stockholder-sponsored awards.

Employee stock purchase plan

The Company s Board of Directors and stockholders approved the Company s Employee Stock Purchase Plan (ESPP) in September 2007. The ESPP allows for the purchase of common stock of the Company by all eligible employees. Eligible employees may elect to have whatever portion of his or her base salary equates, after deduction of applicable taxes, to either 3%, 6% or 9% of his or her base salary withheld during each payroll period for purposes of purchasing shares of our common stock under the ESPP. Additionally, we, or the subsidiary employing the participant, will make a cash contribution as additional compensation to each participant equal to one-third of the aggregate amount of that participant s contribution for that pay period, which will be used to purchase shares of our common stock, subject to certain limits as defined in the ESPP. The maximum number of shares available under the ESPP is 3,000 shares. During the quarter ended May 3, 2009, there were 26 shares purchased under the ESPP, which were funded by the Company through open market purchases.

NOTE 4. PROVISION FOR IMPAIRMENT AND LEASE EXIT COSTS

In accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144), the Company reviews its long-lived assets for impairment when changes in circumstances indicate that the carrying amount of the asset may not be recoverable. SFAS 144 requires that long-lived assets to be held and used be recorded at the lower of carrying amount or fair value. Long-lived assets to be disposed of are to be recorded at the lower of carrying amount or fair value, less estimated cost to sell.

In conjunction with the Company s ongoing assessment to ensure that each of the Company s corporate-owned stores fit into the Company s long-term growth strategy, the Company closed one of its corporate-owned stores in the fourth quarter of fiscal 2008. The Company recorded a $738 charge during fiscal 2008, which included a $521 provision for asset impairment and a $216 accrual for lease exit costs. The fair market values were estimated using an expected present value technique.

lululemon athletica inc. and Subsidiaries

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company has identified four other corporate-owned store locations where the carrying amount of the assets exceeded management s estimate of the fair value of the location. The Company recorded a $3,667 charge during fiscal 2008, which included a provision for asset impairment of $2,478 and a $1,189 accrual for lease exit costs. At May 3, 2009 the accrual for lease exit costs was $1,147.

NOTE 5. LEGAL PROCEEDINGS

On April 2, 2009, three former hourly Company employees filed a class action lawsuit in San Diego Superior Court entitled *Mia Stephens et al v. lululemon athletica inc.* The lawsuit alleges that the Company violated various California Labor Code sections by requiring employees to wear lululemon clothing during working hours without reimbursing such employees for the cost of the clothing and by paying certain bonus payments to its employees in the form of lululemon gift cards redeemable only for lululemon merchandise. The complaint also alleges that the Company owes waiting time penalties as the result of failing to pay employees all wages due at the time of termination. The plaintiffs are seeking an unspecified amount of damages. The Company intends to vigorously defend the matter.

On March 26, 2009, a former hourly Company employee filed a class action lawsuit in Orange County Superior Court, California entitled *Brett Kohlenberg et al v. lululemon athletica inc.* The lawsuit alleges that the Company violated various California Labor Code sections by failing to pay its employees for certain rest and meal breaks and off the clock work, and for penalties related to waiting times and failure to provide itemized wage statements. The plaintiff is seeking an unspecified amount of damages. The Company intends to vigorously defend the matter.

Brian Bacon, a former employee, filed suit against the Company in the Supreme Court of British Columbia, Canada on May 6, 2008. In the action, captioned *Brian Bacon v. Lululemon Athletica Canada Inc.*, Case No. S083254, Mr. Bacon claims that we terminated his employment contract without cause and without reasonable notice resulting in breach of contract, losses and damages. Mr. Bacon seeks damages in an unspecified amount, plus costs and interest related primarily to loss from participation in the stockholder sponsored LIPO USA awards. We believe this claim is without merit and are vigorously defending against it.

We are a party to various other 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.

Table of Contents

lululemon athletica inc. and Subsidiaries

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6. EARNINGS PER SHARE

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

	Thirteen Weeks Ended May 3, 2009		Thirteen Weeks Ended May 4, 2008	
Net income from continuing operations	$	6,518	$	8,471
Net income from discontinued operations				5
Net income	$	6,518	$	8,476
Basic weighted-average number of shares outstanding		70,131		67,678
Basic earnings per share				
Net income from continuing operations	$	0.09	$	0.13
Net income from discontinued operations				
Net basic earnings per share	$	0.09	$	0.13
Basic weighted-average number of shares outstanding		70,131		67,678
Effect of stock options assume exercised		200		3,973
Diluted weighted-average number of shares outstanding		70,331		71,651
Diluted earnings per share				
Net income from continuing operations	$	0.09	$	0.12
Net income from discontinued operations				
Diluted earnings per share	$	0.09	$	0.12

Our calculation of weighted-average shares includes the common stock of the Company as well as the exchangeable shares. Exchangeable shares are the equivalent of common shares in all respects. All classes of stock have in effect the same rights and share equally in undistributed net income. For the thirteen weeks ended May 3, 2009 and May 4, 2008, 2,171 and 249 stock options, respectively, were anti-dilutive to earnings and therefore have been excluded from the computation of diluted earnings per share.

Table of Contents

lululemon athletica inc. and Subsidiaries

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7. SUPPLEMENTARY FINANCIAL INFORMATION

A summary of certain balance sheet accounts is as follows:

	May 3, 2009	February 1, 2009
Accounts receivable:		
Trade accounts receivable	$ 3,284	$ 3,171
Other accounts receivable	589	863
Allowance for doubtful accounts	(5)	(5)
	$ 3,868	$ 4,029
Inventories:		
Finished goods	$ 43,004	$ 52,828
Raw materials	2,040	558
Provision to reduce inventory to market value	(409)	(1,335)
	$ 44,635	$ 52,051
Property and equipment:		
Leasehold improvements	$ 53,570	$ 52,101
Furniture and fixtures	17,358	16,581
Computer hardware and software	21,263	19,411
Equipment and vehicles	289	279
Accumulated amortization and depreciation	(31,520)	(26,710)
	$ 60,960	$ 61,662
Goodwill and intangible assets:		
Goodwill	$ 738	$ 738
Changes in foreign currency exchange rates	68	36
	806	774
Reacquired franchise rights	10,162	10,162
Non-competition agreements	694	694
Accumulated amortization	(3,544)	(3,162)
Changes in foreign currency exchange rates	48	(308)
	7,360	7,386

	$	8,166	$	8,160
Other non-current assets:				
Prepaid rent and security deposits	$	848	$	872
Deferred lease cost		1,668		1,718
Advances to and investments in franchise		3,138		2,863
	$	5,654	$	5,453
Accrued liabilities:				
Inventory purchases	$	3,764	$	15,772
Sales tax collected		1,968		1,681
Accrued rent		1,127		1,147
Lease exit costs		1,147		1,189
Other		2,122		2,314
	$	10,128	$	22,103
Other non-current liabilities:				
Deferred lease liability	$	8,360	$	7,326
Tenant inducements		3,616		3,975
	$	11,976	$	11,301

Table of Contents

lululemon athletica inc. and Subsidiaries

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8. SEGMENT REPORTING

The Company s reportable segments are comprised of corporate-owned stores, franchises and other. Phone sales, warehouse sales, e-commerce sales and showrooms sales have been combined into our other segment. Information for these segments is detailed in the table below:

	Thirteen Weeks Ended May 3, 2009	Thirteen Weeks Ended May 4, 2008
Net revenue:		
Corporate-owned stores	$ 72,902	$ 69,351
Franchises	2,691	4,538
Other	6,087	3,141
	$ 81,680	$ 77,030
Income from operations before general corporate expense:		
Corporate-owned stores	$ 18,045	$ 23,167
Franchises	939	2,079
Other	1,891	1,886
	20,875	27,132
General corporate expense	11,022	15,185
Income from operations	9,853	11,947
Other income (expense), net	78	277
Income before income taxes	$ 9,931	$ 12,224
Capital expenditures:		
Corporate-owned stores	$ 1,013	$ 5,052
Corporate	1,267	3,548
	$ 2,280	$ 8,600
Depreciation:		
Corporate-owned stores	$ 3,121	$ 2,100
Corporate	1,157	1,243
	$ 4,278	$ 3,343

NOTE 9. DISCONTINUED OPERATIONS

During the first quarter of fiscal 2008 the Company committed to plans to wind-up operations in Japan and in the second quarter of fiscal 2008 the plans were finalized and disposition of the assets commenced with closure of three of the four corporate-owned stores that the Company was operating as a joint venture with Descente Ltd. The fourth corporate-owned store was closed during the third quarter of fiscal 2008. The shut down costs related to the closure of the stores in Japan were fully accrued in the second quarter of fiscal 2008. The Company and Descente Ltd. agreed to end all operations as a joint venture in the third quarter of fiscal 2008.

Table of Contents

lululemon athletica inc. and Subsidiaries

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The results of discontinued operations are summarized as follows:

	Thirteen Weeks Ended May 3, 2009	Thirteen Weeks Ended May 4, 2008
Revenue	$	$ 1,137
Expenses		1,077
Minority interest		(55)
Net income from discontinued operations	$	$ 5

Table of Contents

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

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

The forward-looking statements contained in this Form 10-Q and any documents incorporated herein by reference reflect our current views about future events and are subject to risks, uncertainties, assumptions and changes in circumstances that may cause events or our actual activities or results to differ significantly from those expressed in any forward-looking statement. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future events, results, actions, levels of activity, performance or achievements. Readers are cautioned not to place undue reliance on these forward-looking statements. A number of important factors could cause actual results to differ materially from those indicated by the forward-looking statements, including, but not limited to, those factors described in Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K for fiscal 2008 filed on March 27, 2009. These factors include without limitation:

our ability to sustain operational and performance levels in a volatile worldwide economy;

our ability to manage operations at our current size or manage growth effectively;

our ability to locate suitable locations to open new stores and to attract customers to our stores;

our ability to successfully expand in new markets outside of North America;

our ability to finance our growth and maintain sufficient levels of cash flow;

increased competition causing us to reduce the prices of our products or to increase significantly our marketing efforts in order to avoid losing market share;

our ability to effectively market and maintain a positive brand image;

our ability to maintain our historical levels of comparable store sales or average sales per square foot;

our ability to continually innovate and provide our consumers with improved products;

the ability of our suppliers or manufacturers to produce or deliver our products in a timely or cost-effective manner;

our lack of long-term supplier contracts;

our lack of patents or exclusive intellectual property rights in our fabrics and manufacturing technology;

our ability to attract and maintain the services of our senior management and key employees;

the availability and effective operation of management information systems and other technology;

changes in consumer preferences or changes in demand for technical athletic apparel and other products;

our ability to accurately forecast consumer demand for our products;

our ability to accurately anticipate and respond to seasonal or quarterly fluctuations in our operating results;

Table of Contents

- our ability to maintain effective internal controls; and

- changes in general economic or market conditions, including as a result of political or military unrest or terrorist attacks.

The forward-looking statements contained in this Form 10-Q reflect our views and assumptions only as of the date of this Form 10-Q and are expressly qualified i