LULULEMON ATHLETICA INC.

FORM 10-K
(Annual Report)

Filed 03/17/11 for the Period Ending 01/30/11

Telephone	604-732-6124
CIK	0001397187
Symbol	LULU
SIC Code	2300 - Apparel & Other Finishd Prods of Fabrics & Similar Matl
Industry	Apparel/Accessories
Sector	Consumer Cyclical
Fiscal Year	02/01

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended January 30, 2011

OR

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

Commission file number 001-33608

lululemon athletica inc.

(Exact name of registrant as specified in its charter)

Delaware	**20-3842867**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification 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 $0.01 per share	Nasdaq Global Select Market

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 of Section 15(d) of the Act.

Yes ☐ No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☑ No ☐

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

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

Large accelerated filer ☑ 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 ☑

The aggregate market value of the voting stock held by non-affiliates of the registrant on July 30, 2010 was approximately $1,954,124,791. 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 30, 2010. For purposes of determining this amount only, the registrant has defined affiliates as including the executive officers and directors of the registrant on July 30, 2010.

Common Stock:

At March 14, 2011 there were 53,563,117 shares of the registrant's common stock, par value $0.01 per share, outstanding.

Exchangeable and Special Voting Shares:

At March 14, 2011, there were outstanding 17,708,018 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 14, 2011, the registrant had outstanding 17,708,018 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 2011 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 30, 2011, our branded apparel was principally sold through 137 stores that are located in Canada, the United States and Australia. We believe our vertical retail strategy allows us to interact more directly with, and gain feedback from, our customers 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 customer loyalty. The key elements of our strategy are to:

- design and develop innovative athletic apparel that combines performance with style and incorporates real-time customer 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 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 customers.

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 $711.7 million in fiscal 2010, representing a 61% compound annual growth rate. Our net revenue increased from $452.9 million in fiscal 2009 to $711.7 million in fiscal 2010, representing a 57% increase. During fiscal 2010, our comparable store sales growth was 37% and we reported income from operations of $180.4 million. During fiscal 2009, our comparable store sales growth was 9% and we reported income from operations of $86.5 million. In fiscal 2010, our corporate-owned stores opened at least one year averaged sales of approximately $1,726 per square foot, compared to sales per square foot of approximately $1,318 for fiscal 2009. 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. The premium nature of our brand is reinforced by our vertical retail strategy and our selective distribution through yoga studios and fitness clubs that we believe are the most influential within the fitness communities of their respective markets. 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. Our retail concept is based on a community-centric philosophy designed to offer customers an inviting and educational experience. We believe that this environment encourages product trial, purchases and repeat visits. We coach our store sales associates, whom we refer to as "educators," to develop a personal connection with each customer. Our 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 customers 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, partnering with local fitness practitioners and creating in-store community boards. Each of our stores has a dedicated community coordinator who organizes fitness or philanthropic events designed to heighten the image of our brand in the community. 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 founder and Chief Innovation and Branding Officer, Mr. Wilson, plays a key role in corporate innovation strategy and in promoting our distinctive corporate culture. 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 30, 2011, our products were sold through 122 corporate-owned stores in North America, including 44 in Canada and 78 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 net 12 stores in the United States and Canada in fiscal 2010, including one franchised store that was reacquired, and we plan to open approximately 22 to 27 additional stores in fiscal 2011 in the United States and Canada.
- *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 has already expanded our customer base and supplemented our growing store base. We plan to continue developing our e-commerce

website to further reflect the distinctive retail experience that our customers enjoy in our stores while providing greater shopping flexibility and to enhance our online experience.

- *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.* We expect customers increasingly to purchase our products for activities such as yoga, running and general fitness as we educate them on the versatility of our products and expand our product categories;
  - *Expand Beyond North America.* As of January 30, 2011, we operated 11 corporate-owned stores and four showrooms in Australia, and one corporate-owned showroom in Hong Kong. We plan to open 2 additional lululemon stores in fiscal 2011 in Australia. Over time, we intend to expand on our own or pursue additional joint venture opportunities in other Asian and European markets; and
  - *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.
- *Grow 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 to expand this line.

Our Stores

As of January 30, 2011, our retail footprint included 44 stores in Canada, 82 stores in the United States, four of which are franchise stores, and 11 stores in Australia. While most of our stores are branded lululemon athletica, two of our corporate-owned stores are branded ivivva athletica and specialize in dance-inspired apparel for female youth. Our retail stores are located primarily on street locations, in lifestyle centers and in malls.

The following store list shows the number of branded stores (including corporate-owned stores and franchise stores) operated in each Canadian province, U.S. state, and internationally as of January 30, 2011:

	Corporate-Owned Stores	Franchise Stores	Total Stores
Canada			
Alberta	9	—	9
British Columbia	11	—	11
Manitoba	1	—	1
Nova Scotia	1	—	1
Ontario	17	—	17
Québec	4	—	4
Saskatchewan	1	—	1
Total Canada	44	—	44
United States			
Arizona	2	—	2
California	19	1	20
Colorado	—	3	3
Connecticut	2	—	2
District of Columbia	2	—	2
Florida	4	—	4
Georgia	1	—	1
Hawaii	1	—	1
Illinois	8	—	8
Maryland	2	—	2
Massachusetts	5	—	5
Michigan	1	—	1
Minnesota	2	—	2
Missouri	1	—	1
Nevada	1	—	1
New Jersey	3	—	3
New York	7	—	7
Ohio	1	—	1
Oregon	2	—	2
Pennsylvania	2	—	2
Tennessee	1	—	1
Texas	6	—	6
Virginia	2	—	2
Washington	3	—	3
Total United States	78	4	82
International			
Australia	11	—	11
Total International	11	—	11
Overall total, as of January 30, 2011	133	4	137
Overall total, as of January 31, 2010	110	14	124

Store Economics

We believe that our innovative retail concept and customer experience contribute to the success of our stores. During fiscal 2010 our corporate-owned stores open at least one year, which average approximately 2,874 square feet, averaged sales of approximately $1,726 per square foot.

Management performs an ongoing evaluation of our portfolio of corporate-owned store locations. In fiscal 2010 we closed one corporate-owned ivivva athletica store in British Columbia and one corporate-owned lululemon athletica store in Australia. As we continue our evaluation we may in future periods close additional corporate-owned store locations.

Store Expansion

From February 1, 2002 (when we had one store, in Vancouver) to January 30, 2011, we opened 121 net corporate-owned stores in North America. We opened our first corporate-owned store in the United States in 2003. 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. We opened net 12 stores in the United States and Canada in fiscal 2010, including one franchised store that was reacquired.

Direct to Consumer

In fiscal 2009 we launched our e-commerce website which, along with phone sales, makes up our direct to consumer channel. Direct to consumer is an increasingly substantial part of our business, representing approximately 8% of our net revenue in fiscal 2010, compared to 4% of our net revenue in fiscal 2009. 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.

International Stores

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. As of January 30, 2011, we had 11 corporate-owned stores and four showrooms in Australia and one showroom in Hong Kong.

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 fiscal 2010 and 2% of our net revenue in fiscal 2009. 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 30, 2011, we had four franchise stores in the United States. In fiscal 2010 we reacquired the franchise rights of nine Australia locations, which we previously held an equity interest in, and one Saskatchewan, Canada location, thereby decreasing the net revenue earned through our franchise channel. This channel represented 1% of our net revenue in fiscal 2010 and 3% of our net revenue in fiscal 2009. We began opening franchise stores in select markets in 2002 to expand our store network while limiting required capital expenditures. Opening new franchise stores is not part of our near-term store growth strategy. We continue to evaluate the ability to repurchase attractive franchises, which, in some cases, we can contractually acquire at a specified percentage of trailing 12-month sales. Unless otherwise approved by us, our franchisees are required to sell only our branded products, which are purchased from us at a discount to the suggested retail price.

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.

We believe the authenticity of our products is driven by a number of factors. These factors include our athlete-inspired design process, our use of technical materials, our sophisticated manufacturing methods and our innovative product features. Our athletic apparel is designed and manufactured using cutting-edge fabrics designed to deliver maximum function and athletic fit. We collaborate with leading fabric suppliers to develop advanced fabrics that we sell under our trademarks. Our in-house design team works closely with our suppliers to formulate fabrics that meet our performance and functional specifications such as stretch ability, capability to wick moisture, color fastness and durability, among others. Advanced fabrics that we currently incorporate in our products include:

- *Luon* , included in more than half of our products, wicks away moisture, moves with the body and is designed to eliminate irritation;
- *Luxtreme* , our inherently wicking fabric is primarily used in our running lines and is silky and lightweight; and
- *Silverescent* incorporates silver directly into the fabric to reduce odors as a result of the antibacterial properties of the silver in the fabric.

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

Our products are constructed with advanced sewing techniques, such as flat seaming, that increase comfort and functionality by reducing skin irritation and strengthening important seams. Our apparel products include innovative features to promote convenience, such as pockets designed to hold credit cards, keys, digital audio players and clips for heart rate monitors.

Our Culture and Values

Since our inception, the Company has 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. Our ambassadors, who are local fitness practitioners, share our core values and introduce our brand to their fitness classes and communities leading to interest in the brand, store visits and word-of-mouth marketing. Our in-store community boards further position our stores as community destinations designed to educate and enrich our customers. Each of our stores has a dedicated community coordinator who selectively organizes events that heighten the image of our brand in the community. Each of our community coordinators customizes a local marketing plan to focus on the important athletic and philanthropic activities within each community.

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. Our ambassadors have become an integral part of our product design process as they test and evaluate our products, providing real-time feedback on performance and functionality. Our design team also hosts meetings each year in many of our markets. In these meetings, local athletes, trainers, yogis and members of the fitness industry discuss our products and provide us with additional feedback and ideas. Members of our design team also regularly work at our stores, which gives them the opportunity to interact with and receive direct feedback from guests. Our design team incorporates all of this input to adjust fit, style, function and to detect new athletic trends and to identify desirable fabrics.

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. These specifications include characteristics such as stretch ability, capability to wick moisture, color fastness and durability, among others. In addition, to ensure the quality of our fabric and its authenticity, we test our products using a leading testing facility, as well as actual wear tests done on any potential fabric. We also 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.

We typically bring new products from design to market in approximately eight to 10 months; however, our vertical retail structure enables us to bring select new products to market in as little as two months. We believe our lead times are shorter than a typical apparel wholesaler due to our streamlined design and development process as well as the real-time input we receive from our consumers and ambassadors through our corporate-owned store locations. Our process does not involve edits by intermediaries, such as retail buyers or a sales force, and we believe it incorporates a shorter sample process than typical apparel wholesalers. This rapid turnaround time allows us to respond relatively quickly to trends or changing market conditions.

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, four of which produced approximately 65% of our products in fiscal 2010. During fiscal 2010, no single manufacturer produced more than 33% of our product offering. During fiscal 2010, approximately 60% of our products were produced in China, approximately 26% in South/South East Asia, approximately 4% in Canada and the remainder in the United States, Israel, Peru, Korea and Taiwan. 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 possible. 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.

Distribution Facilities

We centrally distribute finished products in North America from distribution facilities in Vancouver, British Columbia and Sumner, Washington. We operate the distribution facilities in Vancouver and Sumner, which are leased and are approximately 102,000 and 82,000 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 collection), Lucy Activewear Inc., and bebe stores, inc. (including the BEBE SPORT collection).

Our Employees

As of January 30, 2011, we had 4,572 employees, of which 2,321 were employed in Canada, 2,021 were employed in the United States, and 230 were employed internationally. Of the 2,321 Canadian employees, 1,783 were employed in our corporate-owned stores, 59 were employed in distribution, 110 were employed in design, merchandise and production, and the remaining 369 performed selling, general and administrative and other functions. Of the 2,021 employees in the United States, 1,935 were employed in our corporate-owned stores and showrooms, 44 were employed in distribution and 34 performed selling, general and administration functions. Of the 230 international employees, 183 were employed in our international retail locations, 13 were employed in distribution, and 24 performed design, merchandise, production, and administrative functions. None of our employees are 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.

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 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, Management Development and Compensation, and Nominating and Governance Committees of our Board of Directors. Information on our website does not constitute part of this annual report on Form 10-K or any other report we file or furnish with the SEC.

ITEM 1A. *RISK FACTORS*

An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below together with all of the other information included or incorporated by reference in this Form 10-K before making an investment decision. If any of the following risks actually occurs, our business, financial condition or results of operations could materially suffer. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.

Risks Related to Our Business

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

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

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

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

We have expanded our operations rapidly since our inception in 1998 and we have limited operating experience at our current size. We opened our first store in Canada in 1999 and our first store in the United States in 2003. Our net revenue increased from $40.7 million in fiscal 2004 to $711.7 million in fiscal 2010, representing a compound annual increase of approximately 61%. We expect our net revenue growth rate to slow as the number of new stores that we open in the future declines relative to our larger store base. Our substantial growth to date has placed a significant strain on our management systems and resources. If our operations continue to grow, of which there can be no assurance, we will be required to continue to expand our sales and marketing, product development and distribution functions, to upgrade our management information systems and other processes, and to obtain more space for our expanding administrative support and other headquarters personnel. Our continued growth could increase the strain on our resources, and we could experience serious operating difficulties, including difficulties in hiring, training and managing an increasing number of employees, difficulties in obtaining sufficient raw materials and manufacturing capacity to produce our products, and delays in production and shipments. These difficulties could result in the erosion of our brand image and lead to a decrease in net revenue, income from operations and the price of our common stock.

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

We are increasingly dependent on information systems to operate our e-commerce website, process transactions, respond to customer inquiries, manage inventory, purchase, sell and ship goods on a timely basis and maintain cost-efficient operations. Throughout the past few years, we upgraded certain of our information systems to support recent and expected future growth. These system upgrades improved our ability to capture, process and ship customer orders, and transfer product between channels. We incurred additional costs associated with these upgrades in fiscal 2010. We believe these systems are stable upon implementation, but there can be no assurance that future disruptions will not occur. We may experience operational problems with our information systems as a result of system failures, viruses, computer “hackers” or other causes. Any material disruption or slowdown of our systems, including a disruption or slowdown caused by our failure to successfully upgrade our systems, could cause information, including data related to customer orders, to be lost or delayed which could — especially if the disruption or slowdown occurred during the holiday season — result in delays in the delivery of merchandise to our stores and customers or lost sales, which could reduce demand for our merchandise and cause our sales to decline. Moreover, we may not be successful in developing or acquiring technology that is competitive and responsive to the needs of our customers and might lack sufficient resources to make the necessary investments in technology to compete with our competitors. Accordingly, if changes in technology cause our information systems to become obsolete, or if our information systems are inadequate to handle our growth, we could lose customers.

Our direct to consumer channel, which includes e-commerce, is an increasingly substantial part of our business, representing approximately 8% of our revenues in fiscal 2010. In addition to changing consumer preferences and buying trends relating to e-commerce, we are vulnerable to certain additional risks and uncertainties associated with e-commerce, including changes in required technology interfaces, website downtime and other technical failures, security breaches, and consumer privacy concerns. Our failure to successfully respond to these risks and uncertainties could reduce e-commerce sales and damage our brand’s reputation.

We have taken over certain portions of our information system needs that were previously outsourced to a third-party and continue making upgrades to our information systems. We may take over other outsourced portions of our information systems in the near future. If we are unable to manage these aspects of our information systems or the planned upgrades, our receipt and delivery of merchandise could be disrupted, which could result in a decline in our sales.

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

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

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

We do not own any of our store facilities, but instead lease all of our corporate-owned stores under operating leases. Our leases generally have initial terms of between five and 10 years, and generally can be extended only in five-year increments if at all. All of our leases require a fixed annual rent, and most require the payment of additional rent if store sales exceed a negotiated amount. Generally, our leases are “net” leases, which require us to pay all of the cost of insurance, taxes, maintenance and utilities. We generally cannot cancel these leases at our option. Payments under these operating leases account for a significant portion of our cost of goods sold. For example, as of January 30, 2011, we were a party to operating leases associated with our corporate-owned stores as well as other corporate facilities requiring future minimum lease payments aggregating $176.5 million through January 31, 2016 and approximately $72.5 million thereafter. We expect that any new stores we open will also be leased by us under operating leases, which will further increase our operating lease expenses.

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

- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our ability to obtain additional financing;

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

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

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

The fabrics used by our suppliers and manufacturers include synthetic fabrics whose raw materials include petroleum-based products. Our products also include natural fibers, including cotton. Our costs for raw materials are affected by, among other things, weather, consumer demand, speculation on the commodities market, the relative valuations and fluctuations of the currencies of producer versus consumer countries and other factors that are generally unpredictable and beyond our control. For example, during 2010, cotton prices hit their highest levels in 140 years. Increases in the cost of cotton can result in higher costs in the price we pay for our cotton yarn and cotton-based textiles. We are not always successful in our efforts to protect our business from the volatility of the market price of cotton and other raw materials, and our business can be adversely affected by dramatic movements in prices of raw materials. The ultimate effect of this change on our earnings cannot be quantified, as the effect of movements in raw materials prices on industry selling prices are uncertain, but any dramatic increase in these prices could have a material adverse effect on our business, results of operations, financial condition and cash flows.

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 2010, approximately 60% of our products were produced in China. Given that the majority of our manufacturing is conducted by third-party manufacturers located in China, 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, revenues 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 or Australia and harm our business.

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

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

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

- source sufficient inventory levels; and
- successfully integrate new stores into our existing operations and information technology systems.

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

We plan to open new stores in the near future to add to our existing store base. Of the 137 stores in operation as of January 30, 2011, we opened 12 net new stores in North America (including one franchise store that was reacquired) and 11 net new stores in Australia (including nine franchise stores that were reacquired) in fiscal 2010. In fiscal 2011, we expect to open a total of 20 to 25 additional lululemon stores and two ivivva stores in North America, as well as three additional lululemon stores in Australia. We estimate that we will incur approximately $15.0 million to $19.0 million of capital expenditures in fiscal 2011 to open these 25 to 30 additional stores. In addition, our new stores may not be immediately profitable and we may incur losses until these stores become profitable. There can be no assurance that we will open the planned number of new stores in fiscal 2011. Any failure to successfully open and operate new stores will harm our results of operations.

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

Our success depends on the value and reputation of the lululemon brand. The lululemon name is integral to our business as well as to the implementation of our strategies for expanding our business. Maintaining, promoting and positioning our brand will depend largely on the success of our marketing and merchandising efforts and our ability to provide a consistent, high quality customer experience. We rely on social media, as one of our marketing strategies, to have a positive impact on both our brand value and reputation. Our brand could be adversely affected if we fail to achieve these objectives or if our public image or reputation were to be tarnished by negative publicity. Any of these events could result in decreases in sales.

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

Our future growth depends, to a considerable extent, on our expansion efforts outside of Canada, especially in the United States. Our current operations are based largely in Canada and the United States. As of January 30, 2011, we had 44 corporate-owned stores in Canada, 82 corporate-owned stores in the United States, including four franchised stores, and 11 corporate-owned stores in Australia. We have limited experience with regulatory environments and market practices outside of Canada and the United States, and cannot guarantee that we will be able to penetrate or successfully operate in any market outside of North America. As previously disclosed, we have discontinued our operations in Japan. In connection with our initial expansion efforts outside of North America, we have encountered many obstacles we do not face in Canada or the United States, 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 customers' tastes and preferences.

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

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

Our approach to identifying locations for our stores typically favors street locations, 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 customers' lifestyle choices. Sales at these stores are derived, in part, from the volume of foot traffic in these locations. Store locations may become unsuitable due to, and our sales volume and customer traffic generally may be harmed by, among other things:

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

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

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

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

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

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

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

We may not be able to maintain the levels of comparable store sales that we have experienced historically. In addition, we may not be able to replicate outside of North America our historic average sales per square foot. Our sales per square foot in stores we have opened in new markets, which have primarily been in the United States, have generally been lower than those we have been able to achieve in Canada. As sales in new markets grow to become a larger percentage of our overall sales, our average sales per square foot will likely decline. The aggregate results of operations of our stores have fluctuated in the past and can be expected to continue to fluctuate in the future. For example, over the past three fiscal years, our comparable store sales have ranged from a decrease of 22% in the fourth quarter of fiscal 2008 to an increase of 32% in the fourth quarter of fiscal 2010. A variety of factors affect both comparable store sales and average sales per square foot, including foreign exchange fluctuations, fashion trends, competition, current economic conditions, pricing, inflation, the timing of the release of new merchandise and promotional events, changes in our merchandise mix, the success of marketing programs and weather conditions. These factors may cause our comparable store sales results to be materially lower than recent periods and our expectations, which could harm our results of operations and result in a decline in the price of our common stock.

Our net sales are affected by direct to consumer sales.

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

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

The labeling, distribution, importation and sale of our products are subject to extensive regulation by various federal agencies, including the Federal Trade Commission, or the FTC, state attorneys general in the U.S., the Competition Bureau and Health Canada in Canada as well as by various other federal, state, provincial, local and international regulatory authorities in the countries in which our products are distributed or sold. If we fail to comply with those regulations, we could become subject to significant penalties or claims, which could harm our results of operations or our ability to conduct our business. In addition, the adoption of new regulations or changes in 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.

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

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

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

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

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

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

We do not manufacture our products or the raw materials for them and rely instead on third-party suppliers. Many of the specialty fabrics used in our products are technically advanced textile products developed and manufactured by third parties and may be available, in the short-term, from only one or a very limited number of sources. For example, Luon fabric, which is included in many of our products, is supplied to the mills we use by a single manufacturer in Taiwan, and the fibers used in manufacturing Luon fabric are supplied to our Taiwanese manufacturer by a single company. In fiscal 2010, approximately 69% of our products were produced by our top five manufacturing suppliers.

If we experience significant increased demand, or need to replace an existing manufacturer, there can be no assurance that additional supplies of fabrics or raw materials or additional manufacturing capacity will be available when required on terms that are acceptable to us, or at all, or that any supplier or manufacturer would allocate sufficient capacity to us in order to meet our requirements or fill our orders in a timely manner. Even if we are able to expand existing or find new manufacturing or fabric sources, we may encounter delays in production and added costs as a result of the time it takes to train our suppliers and manufacturers in our methods, products and quality control standards. Delays related to supplier changes could also arise due to an increase in shipping times if new suppliers are located farther away from our markets or from other participants in our supply chain. Any delays, interruption or increased costs in the supply of fabric or manufacture of our products could have an adverse effect on our ability to meet customer demand for our products and result in lower net revenue and income from operations both in the short and long-term.

There can be no assurance that our suppliers and manufacturers will continue to provide fabrics and raw materials or manufacture products that comply with our technical specifications and are consistent with our standards. We have occasionally received, and may in the future continue to receive, shipments of products that fail to comply with our technical specifications or that fail to conform to our quality control standards. In that event, unless we are able to obtain replacement products in a timely manner, we risk the loss of net revenue resulting from the inability to sell those products and related increased administrative and shipping costs.

Additionally, if defects in the manufacture of our products are not discovered until after such products are purchased by our customers, our customers could lose confidence in the technical attributes of our products and our results of operations could suffer and our business could be harmed.

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

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

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

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

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

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

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

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

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

We have experienced, and expect to continue to experience, significant seasonal variations in our net revenue and income from operations. Seasonal variations in our net revenue are primarily related to increased sales of our products during our fourth fiscal quarter, reflecting our historical strength in sales during the holiday season. We generated approximately 36%, 39% and 29% of our full year gross profit during the fourth quarters of fiscal 2010, fiscal 2009 and fiscal 2008, respectively. Historically, seasonal variations in our income from operations have been driven principally by increased net revenue in our fourth fiscal quarter.

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

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

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

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

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

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

Inventory levels in excess of customer demand may result in inventory write-downs or write-offs and the sale of excess inventory at discounted prices, which would cause our gross margin to suffer and could impair the strength and exclusivity of our brand. We wrote-off $1.0 million, $0.8 million and $0.9 million of inventory in fiscal 2010, fiscal 2009 and fiscal 2008, respectively. In addition, if we underestimate customer demand for our products, our manufacturers may not be able to deliver products to meet our requirements, and this could result in delays in the shipment of products to our stores and may damage our reputation and customer relationships. There can be no assurance that we will be able to successfully manage our inventory at a level appropriate for future customer demand.

Our current and future joint ventures may not be successful.

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

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

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

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

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

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

The reporting currency for our consolidated financial statements is the U.S. dollar. In the future, we expect to continue to derive a significant portion of our 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. A portion of our net revenue is generated in 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 2010 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 $11.3 million in fiscal 2010 and approximately $11.2 million in fiscal 2009. 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 $0.1 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 2010, approximately 4% of our products were produced in Canada, approximately 60% in China, approximately 26% in South and South East Asia and the remainder in the United States, Israel, Peru and Taiwan. As a result of our international suppliers, we are subject to risks associated with doing business abroad, including:

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

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

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

The United States and the countries in which our products are produced or sold internationally have imposed and may impose additional quotas, duties, tariffs, or other restrictions or regulations, or may adversely adjust prevailing quota, duty or tariff levels. For example, under the provisions of the World Trade Organization, or the WTO, Agreement on Textiles and Clothing, effective as of January 1, 2005, the United States and other WTO member countries eliminated quotas on textiles and apparel-related products from WTO member countries. In 2005, China's exports into the United States surged as a result of the eliminated quotas. In response to the perceived disruption of the market, the United States imposed new quotas, which remained in place through the end of 2008, on certain categories of natural-fiber products that we import from China. These quotas were lifted on January 1, 2009, but we have expanded our relationships with suppliers outside of China, which among other things has resulted in increased costs and shipping times for some products. Countries impose, modify and remove tariffs and other trade restrictions in response to a diverse array of factors, including global and national economic and political conditions, which make it impossible for us to predict future developments regarding tariffs and other trade restrictions. Trade restrictions, including tariffs, quotas, embargoes, safeguards and customs restrictions, could increase the cost or reduce the supply of products available to us or may require us to modify our supply chain organization or other current business practices, any of which could harm our business, financial condition and results of operations.

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

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

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

As of January 30, 2011, we had four franchise stores in the United States. Franchisees are independent business operators and are not our employees, and we do not exercise control over the day-to-day operations of their retail stores. We provide training and support to franchisees, and set and monitor operational standards, but the quality of franchise store operations may decline due to diverse factors beyond our control. For example, franchisees may not successfully operate stores in a manner consistent with our standards and requirements, or may not hire and train qualified employees, which could harm their sales and as a result harm our results of operations or cause our brand image to suffer.

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

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

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

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

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.

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

Ongoing reporting obligations as a public company and our continued growth are likely to place a considerable strain on our financial and management systems, processes and controls, as well as on our personnel. In addition, as a public company we are required to document and test our internal controls over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 so that our management can certify the effectiveness of our internal controls and our independent registered public accounting firm can render an opinion on our internal control over financial reporting on an annual basis. As a result, we have implemented the required financial and managerial controls, reporting systems and procedures and we incurred substantial expenses to test our systems and to make additional improvements and to hire additional personnel. If our management is unable to certify the effectiveness of our internal controls or if our independent registered public accounting firm cannot render an opinion on the effectiveness of our internal control over financial reporting, or if material weaknesses in our internal controls are identified, we could be subject to regulatory scrutiny and a loss of public confidence, which could harm our business and cause a decline in our stock price. In addition, if we do not maintain adequate financial and management personnel, processes and controls, we may not be able to accurately report our financial performance on a timely basis, which could cause a decline in our stock price and harm our ability to raise capital. Failure to accurately report our financial performance on a timely basis could also jeopardize our continued listing on the Nasdaq Global Select Market, the Toronto Stock Exchange or any other stock exchange on which our common stock may be listed. Delisting of our common stock on any exchange would reduce the liquidity of the market for our common stock, which could reduce the price of our stock and increase the volatility of our stock price.

Risks Related to Our Common Stock

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

The market price of our common stock has been subject to significant fluctuations and may continue to fluctuate or decline. Since our initial public offering in July 2007 until January 30, 2011, the closing price of our common stock has ranged from a low of $4.49 to a high of $73.51 on the Nasdaq Global Select Market and from a low of CDN $5.79 to a high of CDN $74.71 on the Toronto Stock Exchange. Broad market and industry factors may harm the price of our common stock, regardless of our actual operating performance. Factors that could cause fluctuation in the price of our common stock may include, among other things:

- actual or anticipated fluctuations in quarterly operating results or other operating metrics, such as comparable store sales, that may be used by the investment community;
- changes in financial estimates by us or by any securities analysts who might cover our stock;
- reductions in consumer spending and macroeconomic factors that may adversely affect consumer spending;
- speculation about our business in the press or the investment community;
- conditions or trends affecting our industry or the economy generally, including fluctuations in foreign currency exchange rates;
- stock market price and volume fluctuations of other publicly traded companies and, in particular, those that are in the technical athletic apparel industry;
- announcements by us or our competitors of new products, significant acquisitions, strategic partnerships or divestitures;

- changes in product mix between high and low margin products;
- capital commitments;
- our entry into new markets;
- timing of new store openings;
- percentage of sales from new stores versus established stores;
- additions or departures of key personnel;
- actual or anticipated sales of our common stock, including sales by our directors, officers or significant stockholders;
- significant developments relating to our manufacturing, distribution, joint venture or franchise relationships;
- customer purchases of new products from us and our competitors;
- investor perceptions of the apparel industry in general and our company in particular;
- changes in accounting standards, policies, guidance, interpretation or principles; and
- speculative trading of our common stock in the investment community.

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

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

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

Our current directors and executive officers own a significant percentage of our stock and will be able to exercise significant influence over our affairs.

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

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

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

- the classification of our board of directors into three classes, with one class elected each year;
- prohibiting cumulative voting in the election of directors;
- the ability of our board of directors to issue preferred stock without stockholder approval;
- the ability to remove a director only for cause and only with the vote of the holders of at least 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 two distribution centers located in Vancouver, British Columbia and Sumner, Washington, which together are capable of accommodating our expansion plans through the foreseeable future.

The general location, use, approximate size and lease renewal date of our properties, none of which we owned at January 30, 2011, are set forth below:

Location	Use	Approximate Square Feet	Lease Renewal Date
Vancouver, BC	Executive and Administrative Offices	78,000	November 2015
Vancouver, BC	Former Executive and Administrative Offices	50,000	January 2014
Vancouver, BC	Distribution Center	102,000	November 2017
Sumner, WA	Distribution Center	82,000	April 2020

As of January 30, 2011, we leased approximately 376,000 gross square feet relating to our 133 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***

On September 7, 2010, a former hourly employee filed a class action lawsuit in the United States District Court For the Northern District of Illinois, Eastern Division entitled Lydia Brown v. lululemon athletica inc. The lawsuit alleges that we require employees to work “off the clock” without compensation. The plaintiff seeks on behalf of herself and other putative class members back wages, interest, attorney fees and costs, and equitable relief under the Fair Labor Standards Act and the Illinois Wage Payment and Collection Act. On February 24, 2011, the District Court granted our motion to dismiss the plaintiff’s claims in their entirety without prejudice. The plaintiff was granted leave to file an amended complaint on or before March 17, 2011. We continue to deny the allegations and intend to vigorously defend the matter.

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.

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 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 30, 2011		
Fourth Quarter	$73.51	$44.63
Third Quarter	$47.48	$31.90
Second Quarter	$45.58	$35.82
First Quarter	$45.07	$26.27
Fiscal Year Ending January 31, 2010		
Fourth Quarter	$32.50	$24.69
Third Quarter	$27.90	$18.57
Second Quarter	$17.72	$11.30
First Quarter	$14.47	$ 4.49

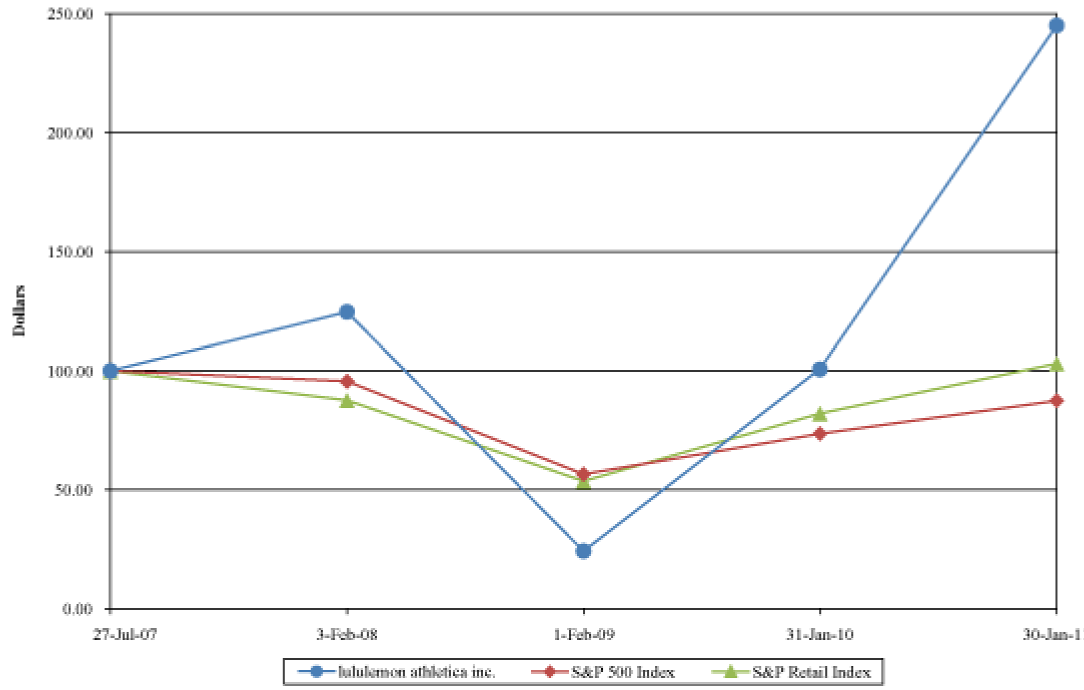
As of January 30, 2011, there were approximately 140 holders of record of our common stock.

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 30, 2011, 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 $28.00 per share.

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
lululemon athletica inc	$100.00	$124.64	$24.29	$100.86	$245.04
S&P 500 Index	$100.00	$ 95.65	$56.61	$ 73.61	$ 87.48
S&P Retail Index	$100.00	$ 87.67	$53.70	$ 82.13	$103.04

Issuer Purchase of Equity Securities

The following table provides information regarding our Employee Share Purchase Plan (ESPP) repurchases of our common stock during the thirteen week period ended January 30, 2011:

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)
November 1, 2010 — November 28, 2010	2,562	$ 52.69	2,562	2,841,113
November 29, 2010 — January 2, 2011	2,264	68.80	2,264	2,838,849
January 3, 2011 — January 30, 2011	2,424	68.19	2,424	2,836,425
Total	7,250		7,250	

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

(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 3,000,000.

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 30, 2011, January 31, 2010, February 1, 2009 and February 3, 2008 and the consolidated balance sheet data as of 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. The consolidated statement of operations data for the fiscal year ended January 31, 2007 and the consolidated balance sheet data as of January 31, 2007 are derived from our underlying accounting records. The consolidated statements of income for the fiscal year ended January 31, 2007 and balance sheet for the fiscal year ended January 31, 2007 have been prepared on the same basis as our audited consolidated financial statements and, in the opinion of management, contain all adjustments necessary to fairly present the information set forth below.

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 30, 2011	January 31, 2010	February 1, 2009	February 3, 2008	January 31, 2007
	(In thousands, except per share data)				
Consolidated statement of operations data:					
Net revenue	$ 711,704	$ 452,898	$ 353,488	$ 269,942	$ 147,964
Cost of goods sold	316,757	229,812	174,421	125,015	72,249
Gross profit	394,947	223,086	179,067	144,927	75,715
Operating expenses:					
Selling, general and administrative expenses	212,784	136,161	118,098	93,376	51,863
Provision for impairment and lease exit costs	1,772	379	4,405	—	—
Settlement of lawsuit	—	—	—	—	7,228
Income from operations	180,391	86,546	56,564	51,551	16,624
Other income (expense), net	2,886	164	821	1,029	104
Income before provision for income taxes	183,277	86,710	57,385	52,580	16,728
Provision for income taxes	61,080	28,429	16,884	20,464	8,752
Net income from continuing operations	122,197	58,281	40,501	32,116	7,976
Net income attributable to non-controlling interest	350	—	—	—	—
Net loss from discontinued operations	—	—	(1,138)	(1,273)	(310)
Net income attributable to lululemon athletica inc.	$ 121,847	$ 58,281	$ 39,363	$ 30,843	$ 7,666
Basic earnings (loss) per share					
Continuing operations	$ 1.72	$ 0.83	$ 0.59	$ 0.48	$ 0.12
Discontinued operations	—	—	(0.02)	(0.02)	—
Net basic earnings per share	$ 1.72	$ 0.83	$ 0.57	$ 0.46	$ 0.12
Diluted earnings (loss) per share					
Continuing operations	$ 1.69	$ 0.82	$ 0.57	$ 0.47	$ 0.12
Discontinued operations	—	—	(0.02)	(0.02)	—
Net diluted earnings per share	$ 1.69	$ 0.82	$ 0.55	$ 0.45	$ 0.12
Basic weighted-average number of shares outstanding	70,860	70,251	68,711	66,430	65,157
Diluted weighted-average number of shares outstanding	71,929	70,949	70,942	69,298	65,304

	As of				
	January 30, 2011	January 31, 2010	February 1, 2009	February 3, 2008	January 31, 2007
	(In thousands)				
Consolidated balance sheet data:					
Cash and cash equivalents	$ 316,286	$ 159,573	$ 56,797	$ 52,545	$ 15,494
Total assets	499,302	307,258	211,636	155,092	71,325
Total stockholders' equity	394,293	233,108	154,843	112,034	37,379
Non-controlling interest	3,904	—	—	—	—

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

This discussion summarizes our consolidated operating results, financial condition and liquidity during the three-year period ending January 30, 2011. 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 2010, 2009 and 2008 ended on January 30, 2011, January 31, 2010 and February 1, 2009, 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 2010 demonstrate the ongoing success of our efforts to overcome the instability in the economy for the last two fiscal years. In fiscal 2010, we committed to investing in our stores and our people, making infrastructure enhancements and funding working capital requirements, while remaining conscious of our discretionary spending. These expenditures were designed to position our business for long-term profitable growth and protect our brand integrity. We continually assess the economic environment and market conditions when making decisions regarding timing of our investments.

These strong efforts to execute our strategic plan are reflected in our comparable stores net revenue growth, which leveraged our fixed operating costs and in turn led to higher income from operations. 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.

Throughout fiscal 2010, we were able to grow our e-commerce website which has further increased our brand awareness and has made our product available in new markets, including those outside of North America. This sales channel offers product assortment with a higher margin than our other segments. We also increased our store base through execution of our real estate strategy, when and where we saw opportunities for success. For example, we opened 23 net new corporate-owned stores and 39 net new showrooms in North America and Australia since fiscal 2009, including reacquired franchises. We believe our strong cash flow generation, solid balance sheet and healthy liquidity provide us with the financial flexibility to continue executing the initiatives which we believe will be beneficial for the Company.

In fiscal 2011, we will continue to focus on the execution of our strategic plan. Where we have found opportunities for growth through opening showrooms, or other community presence efforts, we will expand our store base and therefore our business. 12 to 15 of our planned store openings in fiscal 2011 will be in markets seeded by showrooms in fiscal 2010. 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 continue to commit a portion of our resources to further developing this channel. Further, we see our e-commerce website as an opportunity to increase our brand awareness in international markets.

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 30, 2011, our branded apparel was principally sold through 137 corporate-owned and franchise stores that are primarily located in Canada, the United States, and Australia 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

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. In fiscal 2008, 69% of our net revenue was derived from sales of our products in Canada, 31% 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 $40.7 million in fiscal 2004 to $711.7 million in fiscal 2010 representing a 61% compound annual growth rate. Our net revenue from continuing operations also increased from $452.9 million in fiscal 2009 to $711.7 million in fiscal 2010, representing a 57% increase. Our increase in net revenue from fiscal 2004 to fiscal 2010 resulted from the net addition of 23 retail locations in fiscal 2010, seven retail locations and our e-commerce sales channel in fiscal 2009, 35 retail locations in fiscal 2008, 31 retail locations in fiscal 2007, 14 retail locations in fiscal 2006 and 17 retail locations in fiscal 2005, including reacquired franchises, and comparable store sales growth of 37%, 9%, 0%, 34% and 25% in fiscal 2010, fiscal 2009, fiscal 2008, fiscal 2007 and fiscal 2006, respectively. 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 8% of our net revenues from continuing operations in fiscal 2010, 4% in fiscal 2009 and 1% in fiscal 2008. 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 revenues from continuing operations in each of fiscal 2010, fiscal 2009 and fiscal 2008. We previously reported our franchise channel as an operating segment; however, opening new franchise stores is not part of our near-term store growth strategy, and as such we expect net revenue from our franchise stores to continue to decrease, including as a percentage of total net revenue, in future years.

As of January 30, 2011, we sold our products through 133 corporate-owned stores located in Canada, the United States and Australia. 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 83% of total net revenue in fiscal 2010, 87% of total net revenue in fiscal 2009 and 89% of total net revenue in fiscal 2008.

As of January 30, 2011, our direct to consumer segment included our e-commerce and phone sales channels. E-commerce sales are taken directly from retail customers through www.lululemon.com. Phone sales are taken directly from retail customers through our call center. Our direct to consumer segment is an increasingly substantial part of our growth strategy, and we therefore expect the revenue derived from our direct to consumer sales to comprise more than 10% of the net revenue we report in future fiscal years.

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. Franchise sales include inventory sales and royalties related to our four franchise stores located in the United States. 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 9% of total revenue in fiscal 2010, 9% of total net revenue in fiscal 2009 and 10% of total net revenue in fiscal 2008.

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 2008 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. In some cases, we may exercise our contractual rights to purchase franchises where it is attractive to us.

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 phone sales; 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;
- 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, inbound freight, duty and non-refundable taxes incurred in delivering goods to our distribution centers;
- 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 and one US corporate-owned store in the fourth quarter of fiscal 2008 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 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.

Stock-based compensation expense includes charges incurred in recognition of compensation expense associated with grants of stock options, performance stock units and restricted stock units. We recognize stock-based compensation expense for both awards granted by us and awards granted under a stockholder sponsored plan. Stock-based compensation expense is measured at the grant date, based on the fair value of the award and is recognized as an expense over the requisite service period.

We record our stock-based compensation expense in cost of goods sold and selling, general and administrative expenses as stock-based awards have been made to employees whose salaries are classified in both expense categories.

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, 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 have generated taxable income in Canada and we have generated tax losses in the United States. For periods up to and including the second quarter of fiscal 2007, we recorded a full valuation allowance against our losses in the United States. In the third and fourth quarters of fiscal 2007, we earned taxable income in the United States. During the second quarter of fiscal 2008, after considering a number of factors, including recent taxable income, utilization of previously unrealized net operating losses, or NOLs, our growth strategy as well as other business and macroeconomic factors, we determined that we would more likely than not realize the benefit of deferred tax assets through future taxable income. We have recorded deferred tax assets in respect of foreign tax credits and other deductible temporary differences of $7.9 million as at January 30, 2011.

Several factors have contributed to our effective tax rate fluctuating in recent periods. First, in fiscal 2008 and fiscal 2007, we generated losses in the United States which we were unable to offset against our income in Canada. Second, we incurred stock-based compensation expense of $7.3 million, $5.6 million and $6.5 million in fiscal 2010, fiscal 2009 and fiscal 2008, respectively, a portion of which were not deductible for tax purposes in Canada and the United States during these periods. Third, the Canadian corporate tax rate decreased from 35% to 32% in fiscal 2008. Fourth, in fiscal 2008 we began to release the valuation against US loss carry forwards. Our effective tax rate in fiscal 2010 was 33%, compared to 33% in fiscal 2009 and 29% in fiscal 2008.

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

Results of Operations

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

	Fiscal Year Ended		
	January 30, 2011	January 31, 2010	February 1, 2009
		(In thousands)	
Consolidated statements of operations:			
Net revenue	$ 711,704	$ 452,898	$ 353,488
Cost of goods sold	316,757	229,812	174,421
Gross profit	394,947	223,086	179,067
Operating expenses:			
Selling, general and administrative expenses	212,784	136,161	118,098
Provision for impairment and lease exit costs	1,772	379	4,405
Income from operations	180,391	86,546	56,564
Other income (expense), net	2,886	164	821
Income before provision for income taxes	183,277	86,710	57,385
Provision for income taxes	61,080	28,429	16,884
Net income from continuing operations	122,197	58,281	40,501
Net income attributable to non-controlling interest	350	—	—
Net loss from discontinued operations	—	—	(1,138)
Net income attributable to lululemon athletica inc.	$ 121,847	$ 58,281	$ 39,363

	Fiscal Year Ended		
	January 30, 2011	January 31, 2010	February 1, 2009
		(% of net revenue)}	
Net revenue	100.0	100.0	100.0
Cost of goods sold	44.5	50.7	49.3
Gross profit	55.5	49.3	50.7
Operating expenses:			
Selling, general and administrative expenses	29.9	30.1	33.5
Provision for impairment and lease exit costs	0.2	0.1	1.2
Income from operations	25.4	19.1	16.0
Other income (expense), net	0.4	0.1	0.2
Income before provision for income taxes	25.8	19.2	16.2
Provision for income taxes	8.6	6.3	4.8
Net income from continuing operations	17.2	12.9	11.4
Net income attributable to non-controlling interest	0.1	—	—
Net loss from discontinued operations	—	—	(0.3)
Net income attributable to lululemon athletica inc	17.1	12.9	11.1

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 for 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.

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 $197.6 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 revenues across most of our sales channels included in our other segment: wholesale, showrooms, warehouse sales and outlets. Net revenues 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 revenues 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.

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

Our costs of goods sold in fiscal 2010 and fiscal 2009 included $1.4 million and $0.8 million, respectively, of stock-based compensation expense.

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 channel.

Our selling, general and administrative expenses in fiscal 2010 and fiscal 2009 included $5.9 million and $4.8 million, respectively, of stock-based compensation expense.

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 such as corporate employee costs, travel expenses and corporate rent. For purposes of our management's analysis of our financial results, we have allocated some general product expenses to our corporate-owned stores segment. For example, all expenses related to our production, design, merchandise and distribution departments have been allocated to this segment.

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	$215,154	$121,614	36.4	30.9
Direct to consumer	16,364	6,288	28.5	34.4
Other	18,004	10,845	28.4	26.3
Income from operations before general corporate expense	$249,522	$138,747		

Corporate-Owned Stores. Net income from our corporate-owned stores segment increased $93.5 million, or 77%, to $215.2 million for fiscal 2010 from $121.6 million for fiscal 2009 primarily due to an increase of $134.0 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 $10.1 million, or 160%, to $16.4 million in fiscal 2010 from $6.3 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 revenues 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 $7.2 million, or 66%, to $18.0 million in fiscal 2010 from $10.8 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.

Income from operations also includes general corporate expenses. General corporate expenses increased $16.9 million, or 32%, to $69.1 million in fiscal 2010 from $52.2 million in fiscal 2009 primarily due to an increase in expenses related to our head office growth of $13.6 million, as well as increased depreciation and amortization expense of $1.2 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.

Comparison of Fiscal 2009 to Fiscal 2008

Net Revenue

Net revenue increased $99.4 million, or 28%, to $452.9 million in fiscal 2009 from $353.5 million in fiscal 2008. Assuming the average exchange rate between the Canadian and United States dollars in fiscal 2008 remained constant, our net revenue would have increased $103.0 million, or 29%, in fiscal 2009.

The net revenue increase was primarily the result of increased sales at locations in our comparable stores base as well as sales from new stores opened. 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.

Our net revenue on a segment basis for fiscal 2009 and fiscal 2008 are expressed in dollar amounts as well as relevant percentages, presented as a percentage of total net revenue below.

	Fiscal Year Ended January 31, 2010 and February 1, 2009			
	2009	2008	2009	2008
	(In thousands)		(Percentages)	
Corporate-owned stores	$393,451	$315,548	86.9	89.3
Direct to consumer	18,257	1,629	4.0	0.5
Other	41,190	36,311	9.1	10.2
Net revenue	$452,898	$353,488	100.0	100.0

Corporate-Owned Stores. Net revenue from our corporate-owned stores segment increased $77.9 million, or 25%, to $393.5 million in fiscal 2009 from $315.5 million in fiscal 2008. The following contributed to the $77.9 million increase in net revenue from our corporate-owned stores segment:

- Net revenue from corporate-owned stores we opened during fiscal 2009, and during fiscal 2008 prior to sales from such stores becoming part of our comparable stores base, contributed $46.5 million of the increase. Net new store openings in fiscal 2009 included two stores in Canada and five stores in the United States;

- Comparable store sales increase of 9% in fiscal 2009 resulted in a $26.6 million increase to net revenue, excluding the effect of foreign currency fluctuations. Including the effect of foreign currency fluctuations, comparable store sales increased 8%, or $24.1 million, in fiscal 2009;
- Net revenue related to gift card breakage contributed $2.2 million of the increase. Based on historical gift card breakage, we recognize into revenue a portion of gift card sales for which we estimate redemption is remote over the estimated period of redemption. This includes a one-time credit of $1.3 million recorded in the first quarter of fiscal 2009 related to a change in our estimated rate of redemption; and
- The acquisition of two Victoria, British Columbia and one Bellevue, Washington franchise stores in September 2008 contributed $5.1 million before entering the comparative store base.

Direct to Consumer. Net revenue from our direct to consumer segment increased $16.6 million, or 1,020%, to $18.3 million in fiscal 2009 from $1.6 million in fiscal 2008. The increase in net revenue from our direct to consumer segment was primarily due to the launch of our e-commerce in fiscal 2009, which contributed $16.8 million in net revenues. This increase was offset by decreased phonesale revenue, which shifted to e-commerce, of $0.2 million.

Other. Net revenue from our other segment increased $4.9 million, or 13%, to $41.2 million in fiscal 2009 from $36.3 million in fiscal 2008. An increase in outlet revenues of $5.0 million contributed to the increase in net revenues from our other segment. This increase in outlet revenue resulted from a $3.2 million increase in revenue at existing outlet locations and a $1.8 million increase in net revenue from two new outlet locations that opened in fiscal 2009. New and existing wholesale accounts contributed $4.4 million to the increase, and increased showroom sales revenue contributed $1.6 million. The increase in net revenue from our other segment was offset by temporary store locations opened in fiscal 2008 but not fiscal 2009, which had contributed $3.2 million, and decreased warehouse revenue due to fewer warehouse sales in fiscal 2009 compared to fiscal 2008, of $0.6 million. $2.2 million of franchise net revenue shifted to the corporate-owned stores segment when we acquired two franchise stores in Victoria, British Columbia and one franchise store in Bellevue, Washington.

Gross Profit

Gross profit increased $44.0 million, or 25%, to $223.1 million in fiscal 2009 from $179.1 million in fiscal 2008. The increase in gross profit was driven principally by increased net revenues which ultimately resulted in an increased gross profit.

The increase in gross profit was partially offset by increased fixed costs, such as occupancy and depreciation, increased costs related to our design, production, distribution and merchandising departments, as well as increased discounts, shrinkage and other as a result of increased sales volume.

Gross profit, as a percentage of net revenue, or gross margin, decreased 140 basis points, to 49.3% in fiscal 2009 from 50.7% in fiscal 2008. The decrease in gross margin resulted from:

- unfavorable foreign exchange differences of 130 basis points on product costs, depreciation, occupancy and production, design, merchandising and distribution departments as a result of the weakening Canadian dollar;
- a decrease in corporate-owned stores, franchise and other product margins, which contributed a decrease in gross margin of 60 basis points as a result of increased direct product costs, markdowns and discounts; and
- an increase in write-downs and other of 10 basis points.

This was partially offset by a decrease in expenses related to our production, design, merchandising and distribution departments, relative to the increase in net revenue, which had a leveraging effect on gross margin and contributed an increase of 60 basis points.

Our costs of goods sold in fiscal 2009 and fiscal 2008 included $0.8 million and $0.8 million, respectively, of stock-based compensation expense.

Selling, General and Administrative Expenses

Selling, general and administrative expenses, including the provision for impairment and lease exit costs, increased $14.0 million, or 11%, to $136.5 million in fiscal 2009 from $122.5 million in fiscal 2008. As a percentage of net revenue, selling, general and administrative expenses decreased 460 basis points, to 30.1%, in fiscal 2009 from 34.7% in fiscal 2008. Of the $14.0 million increase in selling, general and administrative expenses:

- an increase in administrative costs related to our direct to consumer segment, primarily associated with the launch in fiscal 2009 of our new e-commerce website, of $5.6 million;
- an increase of $3.8 million primarily associated with employment-related legal matters, professional fees and legal costs associated with ongoing litigation, including legal settlement costs;
- an increase in employee compensation, including options expense, of $2.7 million related to an increase in employee head count in our corporate-owned store locations and store support center, as our net revenue growth recovered in the latter half of fiscal 2009, as well as increased store labor hours due to opening additional corporate-owned stores, partially offset by a one-time charge in fiscal 2008 related to the acceleration of performance-based awards;
- an increase of $2.3 million related to higher management incentive-based compensation;
- an increase in credit card fees of $1.9 million resulting from increased sales volume at corporate-owned stores and the addition of e-commerce sales;
- an increase in depreciation costs of $1.8 million primarily related to IT projects placed in use as well as the retirement of fixed assets no longer in use;
- an increase in other costs of $0.7 million as a result of the expansion of our business;
- an increase in distribution costs of $0.5 million as a result of increased sales volume; and
- an increase in occupancy costs of $0.4 million related to our other segment as we opened additional outlet locations in fiscal 2009.

These amounts were partially offset by a decrease in the provision for impairment and lease exit costs of $4.0 million, and a decrease in discretionary spending of $1.7 million related to travel, meals and entertainment and supplies.

Our selling, general and administrative expenses in fiscal 2009 and fiscal 2008 included $4.8 million and $5.8 million, respectively, of stock-based compensation expense.

Income from Operations

Income from operations increased $30.0 million, or 53%, to $86.5 million in fiscal 2009 from $56.6 million in fiscal 2008. The increase of $30.0 million in income from operations for fiscal 2009 was primarily due to a $44.0 million increase in gross profit resulting from sales by additional corporate-owned stores opened during fiscal 2009 and fiscal 2008, offset by an increase of $14.0 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 such as corporate employee costs, travel expenses and corporate rent. For purposes of our management's analysis of our financial results, we have allocated some general product expenses to our corporate-owned stores segment. For example, all expenses related to our production, design, merchandise and distribution departments have been allocated to this segment.

Income from operations (before general corporate expenses) for fiscal 2009 and fiscal 2008 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 31, 2010 and February 1, 2009			
	2009	2008	2009	2008
	(In thousands)		(Percentages)	
Corporate-owned stores	$121,614	$ 94,867	30.9	30.1
Direct to consumer	6,288	663	34.4	40.7
Other	10,845	11,550	26.3	31.8
Income from operations before general corporate expense	$138,747	$107,080		

Corporate-owned Stores. Net income from our corporate-owned stores segment increased $26.7 million, or 28%, to $121.6 million for fiscal 2009 from $94.9 million for fiscal 2008 primarily due to an increase in corporate-owned stores product margin of $45.9 million, which was offset by an increase of $11.6 million in occupancy and depreciation costs, $4.5 million in store employee expenses, $1.5 million in administrative expenses and $1.5 million in other store expenses.

Direct to Consumer. Net income from our direct to consumer segment increased $5.6 million, or 849%, to $6.3 million in fiscal 2009 from $0.7 million in fiscal 2008. This increase was primarily due to the launch of our e-commerce in fiscal 2009. Our direct to consumer sales segment is an increasingly substantial part of our business and we expect income from operations to continue to increase in future years as a result of this growth.

Other. Net income from our other segment decreased $0.7 million, or 6%, to $10.8 million in fiscal 2009 from $11.6 million in fiscal 2008. This decrease was partially a result of franchise income from operations of $2.2 million shifting to corporate-owned stores income from operations when we acquired two franchise stores in Victoria, British Columbia and one franchise store in Bellevue, Washington. The decrease was partially offset by increased income from operations from our wholesale channel, showroom, outlet and remaining franchise locations. Opening new franchise stores is not a significant part of our near-term store growth strategy, and as such we do not expect income from operations from our franchises to grow in future years as a result of adding franchise locations. Increased outlet, wholesale, and showroom income from operations contributed to the remaining difference.

Income from operations also includes general corporate expenses. General corporate expenses increased $1.7 million, or 3%, to $52.2 million in fiscal 2009 from $50.5 million in fiscal 2008 primarily due to an increase in expenses related to our head office growth of $5.1 million and an increase in depreciation and amortization expense of $1.8 million, offset by a decrease in provision for impairment and lease exit costs of $4.0 million and a decrease in other corporate expenses of $1.2 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 $0.4 million provision for impairment and lease exit costs was a result of management's review of our portfolio of corporate-owned store locations. In conjunction with our ongoing evaluation to ensure that each of our corporate-owned stores fit into our long-term growth strategy, we closed one of our corporate-owned stores in the first quarter of fiscal 2009. This closure was fully accrued in fiscal 2008. We also closed one of our corporate-owned stores in the fourth quarter of fiscal 2008. We recorded a $0.7 million charge related to this closure, which included a $0.5 million asset impairment and a $0.2 million accrual for lease exit costs. The fair market values were estimated using an expected present value technique.

Other Income (Expense), Net

Other income (expense), net decreased $0.7 million, or 80%, to $0.2 million in fiscal 2009 from $0.8 million in fiscal 2008. Of the $0.7 million decrease in other income (expense), net:

- $0.5 million resulted from a decrease in interest income due to lower interest rates offered on cash balances; and
- $0.1 million resulted from an increase in interest expense.

Provision for Income Taxes

Provision for income taxes increased $11.5 million, or 68%, to $28.4 million in fiscal 2009 from $16.9 million in fiscal 2008. In fiscal 2009, our effective tax rate was 32.8% compared to 29.4% in fiscal 2008. The lower effective tax rate in fiscal 2008 was due to the release of the valuation allowance against U.S. loss carry forwards in fiscal 2008. We generated taxable income in the United States in fiscal 2009 which contributed to the increase in the effective tax rate.

During fiscal 2009 an adjustment was made to deferred tax assets and additional paid-in capital in the amount of $4,963 relating to windfall recorded in the year ended February 1, 2009 in excess of taxes payable. We concluded that the adjustment was not material to the financial statements.

Net Income

Net income increased $18.9 million, or 48%, to $58.3 million in fiscal 2009 from $39.4 million in fiscal 2008. The increase in net income of $18.9 million in fiscal 2009 was a result of an increase in gross profit of $44.0 million increase in gross profit resulting from sales by additional corporate-owned stores opened during fiscal 2009 and fiscal 2008, offset by an increase of $14.0 million in selling, general and administrative expenses including provision for impairment and lease exit costs, an increase of $11.5 million in provision for income taxes and a decrease of $0.7 million in other income (expense), net.

Seasonality

In fiscal 2010, fiscal 2009, and fiscal 2008, 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 36%, 39%, and 29% of our full year gross profit in the fourth quarter in fiscal 2010, fiscal 2009 and fiscal 2008, 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 30, 2011, our working capital (excluding cash and cash equivalents) was a deficit of $12.4 million and our cash and cash equivalents were $316.3 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 30, 2011	January 31, 2010	February 1, 2009
		(In thousands)	
Total cash provided by (used in):			
Operating activities	$ 179,995	$ 117,960	$ 46,438
Investing activities	(42,839)	(16,307)	(46,795)
Financing activities	13,699	(2,649)	13,460
Effect of exchange rate changes	5,858	3,772	(8,851)
Increase in cash and cash equivalents	$ 156,713	$ 102,776	$ 4,252

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 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 2010, cash provided by operating activities increased $62.0 million, to $180.0 million compared to cash provided by operating activities of $118.0 million in fiscal 2009. The $62.0 million increase was primarily a result of increased net income as we expanded our store base, an increase in items not affecting cash and a net decrease in the change in other working capital balances. The net increase in items not affecting cash was primarily due to an increase in depreciation and amortization related to our increased store base, a net decrease in deferred income taxes and an increase in stock-based compensation. The net decrease in the change in other working capital balances was primarily due to an increase in income taxes payable and an increase in other current liabilities resulting from a increased accrued compensation and unredeemed gift card liabilities.

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.

Depreciation and amortization increased $3.8 million to $24.6 million in fiscal 2010 from $20.8 million in fiscal 2009. Depreciation for our corporate-owned store segment was $16.3 million, $13.7 million, and $10.6 million in fiscal 2010, fiscal 2009 and fiscal 2008, respectively. There was no depreciation for our direct to consumer segment in fiscal 2010, fiscal 2009, and fiscal 2008. Depreciation related to corporate activities was $8.3 million, $7.1 million, and $5.3 million fiscal 2010, fiscal 2009 and fiscal 2008, 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 $26.5 million, to $42.8 million in fiscal 2010 from $16.3 million in fiscal 2009. This increase in cash used in investing activities represents an increase in the number of new stores opened in fiscal 2010 compared to fiscal 2009, as well as our reacquisition of franchised stores in Australia and Canada. Capital expenditures for our corporate-owned stores segment were $14.5 million in fiscal 2010 which included $7.0 million to open 14 corporate-owned stores and $10.2 million in fiscal 2009 which included $4.8 million to open ten 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 $4.6 million and $nil in fiscal 2010 and fiscal 2009, respectively. Capital expenditures related to corporate activities and administration were $11.2 million and $5.3 million in fiscal 2010 and fiscal 2009, respectively. The capital expenditures in each period for corporate activities and administration were for improvements at our head office and other corporate buildings as well as investments in information technology and business systems.

Capital expenditures are expected to range between $110.0 million to $115.0 million in fiscal 2011, including approximately $15.0 million to $19.0 million for approximately 25 to 30 new stores and the remainder reflecting the store support center purchase, 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 $16.3 million, to cash provided of $13.7 million in fiscal 2010 from cash used of $2.6 million in fiscal 2009.

We believe that our cash from operations and borrowings available to us under our revolving credit facility will be adequate to meet our liquidity needs and capital expenditure requirements for at least the next 24 months. Our cash from operations may be negatively impacted by a decrease in demand for our products as well as the other factors described in “Risk Factors.” 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 30, 2011, 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 30, 2011, 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	2011	2012	2013	2014	2015	Thereafter
	(In thousands)						
Operating Leases (minimum rent)	$248,999	$36,958	$36,329	$35,693	$35,277	$32,277	$72,465

Franchise Agreements. As of January 30, 2011, we operated four stores in the United States through franchise agreements. Under the terms of our franchise agreements, unless otherwise approved by us, franchisees are permitted to sell only lululemon athletica products, are required to purchase their inventory from us, which we sell at a slight premium to our cost, and are required to pay us a royalty based on a percentage of their gross sales. Under some of our franchise agreements, we have the ability to repurchase franchises at a price equal to a specified percentage of trailing 12-month sales.

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 30, 2011, 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.

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 phone sales, 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.

Revenues 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 balance sheets. There are no expiration dates on our gift cards, and lululemon does not charge any service fees that cause a decrement to customer balances.

While we will continue to honor all gift cards presented for payment, management may determine the likelihood of redemption to be remote for certain card balances due to, among other things, long periods of inactivity. In these circumstances, to the extent management determines there is no requirement for remitting card balances to government agencies under unclaimed property laws, card balances may be recognized in the consolidated statements of operations in "Net revenue."

Accounts Receivable. Accounts receivable primarily arise out of sales to wholesale accounts, sales of products and royalties on sales owed to us by our franchises, and landlord deferred lease inducements. The allowance for doubtful accounts represents management's best estimate of probable credit losses in accounts receivable. This allowance is established based on the specific circumstances associated with the credit risk of the receivable, the size of the accounts receivable balance, aging of accounts receivable balances and our collection history and other relevant information. The allowance for doubtful accounts is reviewed on a monthly basis. Receivables are charged to the allowance when management believes the account will not be recovered.

Inventory. Inventory is valued at the lower of cost and market. Cost is determined using weighted-average costs. For finished goods, market is defined as net realizable value, and for raw materials, market is defined as replacement cost. Cost of inventories includes acquisition and production costs including raw material and labor, as applicable, and all costs incurred to deliver inventory to our distribution centers including freight, non-refundable taxes, duty and other landing costs.

We periodically review our inventories and make provisions as necessary to appropriately value obsolete or damaged goods. The amount of the provision is equal to the difference between the book cost of the inventory and its estimated market value based upon assumptions about future demands, selling prices and market conditions. In addition, as part of inventory valuations, we provide for inventory shrinkage based on historical trends from actual physical inventories. Inventory shrinkage estimates are made to reduce the inventory value for lost or stolen items. We perform physical inventory counts throughout the year and adjust the shrink provision accordingly. In fiscal 2010, we wrote-off $1.0 million of inventory and in fiscal 2009 we wrote-off $0.8 million of inventory.

Property and Equipment. Property and equipment are recorded at cost less accumulated depreciation. Direct internal and external costs related to software used for internal purposes which are incurred during the application development stage or for upgrades that add functionality are capitalized. All other costs related to internal use software are expensed as incurred. Leasehold improvements are amortized on a straight-line basis over the lesser of the length of the lease, without consideration of option renewal periods and the estimated useful life of the assets, up to a maximum of five years. All other property and equipment are amortized using the declining balance method as follows:

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

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

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

Long-Lived Assets. Long-lived assets, including intangible assets with finite useful lives, held for use are evaluated for impairment when the occurrence of events or changes in circumstances indicates that the carrying value of the assets may not be recoverable as measured by comparing their net book value to the estimated future cash flows generated by their use and eventual disposition. Impaired assets are recorded at fair value, determined principally by the estimated future cash flows expected from their use and eventual disposition. Reductions in asset values resulting from impairment valuations are recognized in income in the period that the impairment is determined. Long-lived assets, including intangible assets with finite useful lives, held for sale are reported at the lower of the carrying value of the asset and fair value less cost to sell. Any write-downs to reflect fair value less selling cost is recognized in income when the asset is classified as held for sale. Gains or losses on assets held for sale and asset dispositions are included in provision for impairment and lease exit costs.

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

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

For financial reporting purposes, we generally provide taxes at the rate applicable for the appropriate tax jurisdiction. Because our present intention is to reinvest the unremitted earnings in our foreign operations, we do not provide U.S. income taxes on unremitted earnings of foreign subsidiaries. Management periodically assesses the need to utilize these unremitted earnings to finance our foreign operations. This assessment is based on cash flow projections that are the result of estimates of future production, fiscal requirements by tax jurisdiction of our operations and operational and fiscal objectives by tax jurisdiction for our operations. Such estimates are inherently imprecise since many assumptions utilized in the cash flow projections are subject to revision in the future.

We file income tax returns in the United States, Canada and various foreign and state jurisdictions. We are subject to income tax examination by tax authorities in all jurisdictions from our inception to date. Our policy is to recognize interest expense and penalties related to income tax matters as tax expense. At January 30, 2011, we do not have any significant accruals for interest related to unrecognized tax benefits or tax penalties. Our intercompany transfer pricing policies will be subject to audits by various foreign tax jurisdictions. Although we believe that our intercompany transfer pricing policies and tax positions are reasonable, the final determination of tax audits or potential tax disputes may be materially different from that which is reflected in our income tax provisions and accruals.

Goodwill and Intangible Assets. Intangible assets are recorded at cost. Non-competition agreements are amortized on a straight-line basis over their estimated useful life of five years. Reacquired franchise rights are amortized on a straight-line basis over their estimated useful lives of 10 years. Goodwill represents the excess of the purchase price over the fair market value of identifiable net assets acquired and is not amortized. Goodwill and intangible assets with indefinite useful lives are tested for impairment annually or more frequently when an event or circumstance indicates that goodwill or indefinite useful live intangible assets might be impaired. We use our best estimates and judgment based on available evidence in conducting the impairment testing. When the carrying amount exceeds the fair value, an impairment loss is recognized in an amount equal to the excess of the carrying value over its fair market value.

Stock-Based Compensation. We account for stock-based compensation using the fair value method. The fair value of awards granted is estimated at the date of grant and recognized as employee compensation expense on a straight-line basis over the requisite service period with the offsetting credit to additional paid-in capital. Our calculation of stock-based compensation requires us to make a number of complex and subjective estimates and assumptions, including future forfeitures, stock price volatility, expected life of the options and related tax effects. The estimation of stock awards that will ultimately vest requires judgment, and to the extent actual results differ from our estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised. We consider several factors when estimating expected forfeitures, such as types of awards, size of option holder group and anticipated employee retention. Actual results may differ substantially from these estimates. Expected volatility of the stock is based on our review of companies we believe of similar growth and maturity and our peer group in the industry in which we do business because we do not have sufficient historical volatility data for our own stock. The expected term of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. In the future, as we gain historical data for volatility in our own stock and the actual term employees hold our options, expected volatility and expected term may change which could substantially change the grant-date fair value of future awards of stock options and, ultimately, the expense we record. For awards with service and/or performance conditions, the total amount of compensation expense to be recognized is based on the number of awards that are expected to vest and is adjusted to reflect those awards that do ultimately vest. For awards with performance conditions, we recognize the compensation expense over the requisite service period as determined by a range of probability weighted outcomes. For awards with market and or performance conditions, all compensation expense is recognized if the underlying market or performance conditions are fulfilled. Certain employees are entitled to share-based awards from one of our principal stockholders. These awards are accounted for as employee compensation expense in accordance with the above noted policies.

Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (or FASB) issued Accounting Standards Update (or ASU) 2010-06, Fair Value Measurements and Disclosures Topic 820: Improving Disclosures about Fair Value Measurements (or ASU 2010-06). ASU 2010-06 requires new disclosures regarding transfers in and out of the Level 1 and 2 and activity within Level 3 fair value measurements and clarifies existing disclosures of inputs and valuation techniques for Level 2 and 3 fair value measurements. The new disclosures and clarifications of existing disclosures are effective for interim and Annual Reporting periods beginning after December 15, 2009, except for the disclosure of activity within Level 3 fair value measurements, which is effective for fiscal years beginning after December 15, 2010, and for interim reporting periods within those years. We adopted the new disclosures effective January 31, 2010, except for the disclosure of activity within Level 3 fair value measurements. The Level 3 disclosures are effective for us at the beginning of fiscal 2011. The adoption of ASU 2010-06 did not have a material impact, and is not expected to have a material impact, on the disclosures within our consolidated financial statements.

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

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

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

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

Foreign Currency Exchange Risk. We currently generate a significant portion of our net revenue in Canada. The reporting currency for our consolidated financial statements is the U.S. dollar. Historically, our operations were based largely in Canada. As of January 30, 2011, we operated 44 stores in Canada. As a result, we have been impacted by changes in exchange rates and may be impacted materially for the foreseeable future. As we recognize net revenue from sales in Canada in Canadian dollars, and the U.S. dollar has weakened during fiscal 2010, it has had a positive impact on our Canadian operating results upon translation of those results into U.S. dollars for the purposes of consolidation. However, the gain in net revenue was partially offset by higher cost of sales and higher selling, general and administrative expenses that are generated in Canadian dollars. A 10% depreciation in the relative value of the Canadian dollar compared to the U.S. dollar would have resulted in lost income from operations of approximately $11.3 million in fiscal 2010 and approximately $11.2 million in fiscal 2009. To the extent the ratio between our net revenue generated in Canadian dollars increases as compared to our expenses generated in Canadian dollars, we expect that our results of operations will be further impacted by changes in exchange rates. A portion of our net revenue is generated in Australia. 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 $0.1 million in fiscal 2010. We do not currently hedge foreign currency fluctuations. However, in the future, in an effort to mitigate losses associated with these risks, we may at times enter into derivative financial instruments, although we have not historically done so. We do not, and do not intend to, engage in the practice of trading derivative securities for profit.

Interest Rate Risk. In April 2007, we entered into an uncommitted senior secured demand revolving credit facility with Royal Bank of Canada. The revolving credit facility provides us with available borrowings in an amount up to CDN$20.0 million. Because our revolving credit facility bears interest at a variable rate, we will be exposed to market risks relating to changes in interest rates, if we have a meaningful outstanding balance. As of January 30, 2011, we had no outstanding borrowings under our revolving facility. We had small outstanding balances under our revolving facility during fiscal 2010 as we built inventory and working capital for the holiday selling season, but we do not believe we are significantly exposed to changes in interest rate risk. We currently do not engage in any interest rate hedging activity and currently have no intention to do so in the foreseeable future. However, in the future, if we have a meaningful outstanding balance under our revolving facility, in an effort to mitigate losses associated with these risks, we may at times enter into derivative financial instruments, although we have not historically done so. These may take the form of forward sales contracts, option contracts, and interest rate swaps. We do not, and do not intend to, engage in the practice of trading derivative securities for profit.

Inflation

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

ITEM 8. *FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA*

lululemon athletica inc. and Subsidiaries

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Financial Statements:

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of lululemon athletica inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders' equity and cash flows present fairly, in all material respects, the financial position of lululemon athletica inc. at January 30, 2011 and January 31, 2010, and the results of its operations and its cash flows for each of the three years in the period ended January 30, 2011 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 30, 2011, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our audits (which were integrated audits for the years ended January 30, 2011 and January 31, 2010). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Chartered Accountants
Vancouver, BC

March 16, 2011

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lululemon athletica inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

	January 30, 2011	January 31, 2010
	(Amounts in thousands, except per share amounts)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 316,286	$ 159,573
Accounts receivable	9,116	8,238
Inventories	57,469	44,070
Prepaid expenses and other current assets	6,408	4,529
	389,279	216,410
Property and equipment, net	70,954	61,591
Goodwill and intangible assets, net	27,112	8,050
Deferred income taxes	7,894	15,102
Other non-current assets	4,063	6,105
	$ 499,302	$ 307,258
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 6,659	$ 11,028
Accrued liabilities	25,266	17,583
Accrued compensation and related expenses	16,872	10,626
Income taxes payable	18,399	7,742
Unredeemed gift card liability	18,168	11,699
	85,364	58,678
Other non-current liabilities	19,645	15,472
	105,009	74,150
Stockholders' equity		
Undesignated preferred stock, $0.01 par value, 5,000 shares authorized, none issued and outstanding	—	—
Exchangeable stock, no par value, 30,000 shares authorized, issued and outstanding 17,818 and 19,383	—	—
Special voting stock, $0.00001 par value, 30,000 shares authorized, issued and outstanding 17,818 and 19,383	—	—
Common stock, $0.01 par value, 200,000 shares authorized, issued and outstanding 53,378 and 51,126	534	511
Additional paid-in capital	179,870	158,921
Retained earnings	189,656	67,809
Accumulated other comprehensive income	20,329	5,867
	390,389	233,108
Non-controlling interest	3,904	—
	$ 499,302	$ 307,258

See accompanying notes to the consolidated financial statements

lululemon athletica inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Year Ended		
	January 30, 2011	January 31, 2010	February 1, 2009
	(Amounts in thousands, except per share amounts)		
Net revenue	$ 711,704	$ 452,898	$ 353,488
Cost of goods sold	316,757	229,812	174,421
Gross profit	394,947	223,086	179,067
Operating expenses:			
Selling, general and administrative expenses	212,784	136,161	118,098
Provision for impairment and lease exit costs	1,772	379	4,405
Income from operations	180,391	86,546	56,564
Other income (expense), net	2,886	164	821
Income before provision for income taxes	183,277	86,710	57,385
Provision for income taxes	61,080	28,429	16,884
Net income from continuing operations	122,197	58,281	40,501
Net income attributable to non-controlling interest	350	—	—
Net loss from discontinued operations	—	—	(1,138)
Net income attributable to lululemon athletica inc.	$ 121,847	$ 58,281	$ 39,363
Basic earnings (loss) per share			
Continuing operations	$ 1.72	$ 0.83	$ 0.59
Discontinued operations	—	—	(0.02)
Net basic earnings per share	$ 1.72	$ 0.83	$ 0.57
Diluted earnings (loss) per share			
Continuing operations	$ 1.69	$ 0.82	$ 0.57
Discontinued operations	—	—	(0.02)
Net diluted earnings per share	$ 1.69	$ 0.82	$ 0.55
Basic weighted-average number of shares outstanding	70,860	70,251	68,711
Diluted weighted-average number of shares outstanding	71,929	70,949	70,942

See accompanying notes to the consolidated financial statements

lululemon athletica inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Amounts in thousands)

	Exchangeable Stock Shares	Exchangeable Stock Par Value	Special Voting Stock Shares	Special Voting Stock Par Value	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings	Other Comprehensive Income (Loss)	Total	Non-Controlling Interest	Total
Balance at February 3, 2008	20,935	$ —	20,935	$ —	46,685	$ 467	$ 136,006	$ (29,835)	$ 5,397	$112,035	$ —	$112,035
Comprehensive income:												
Net income attributable to lululemon athletica inc.								39,363		39,363		39,363
Foreign currency translation adjustment									(16,548)	(16,548)		(16,548)
Comprehensive income										22,815		22,815
Stock-based compensation							6,532			6,532		6,532
Excess tax benefit from stock-based compensation							12,024			12,024		12,024
Common stock issued upon exchange of exchangeable shares	(1,418)	—	(1,418)	—	1,418	14	(14)			—		—
Restricted stock issuance					9					—		—
Stock option exercises					2,310	23	1,413			1,436		1,436
Balance at February 1, 2009	19,517	$ —	19,517	$ —	50,422	$ 504	$ 155,961	$ 9,528	$ (11,151)	$154,842	$ —	$154,842
Comprehensive income:												
Net income attributable to lululemon athletica inc.								58,281		58,281		58,281
Foreign currency translation adjustment									17,018	17,018		17,018
Comprehensive income										75,299		75,299
Stock-based compensation							5,616			5,616		5,616
Excess tax benefit from stock-based compensation							(3,858)			(3,858)		(3,858)
Common stock issued upon exchange of exchangeable shares	(134)	—	(134)	—	134	1	(1)			—		—
Restricted stock issuance					15	—	—			—		—
Stock option exercises					555	6	1,203			1,209		1,209
Balance at January 31, 2010	19,383	$ —	19,383	$ —	51,126	$ 511	$ 158,921	$ 67,809	$ 5,867	$233,108	$ —	$233,108
Net income attributable to lululemon athletica inc.								121,847		121,847		121,847
Foreign currency translation adjustment									14,462	14,462		14,462
Comprehensive income										136,309		136,309
Stock-based compensation							7,273			7,273		7,273
Excess tax benefit from stock-based compensation							7,863			7,863		7,863
Common stock issued upon exchange of exchangeable shares	(1,565)	—	(1,565)	—	1,565	16	(16)			—		—
Restricted stock issuance					6	—	—			—		—
Stock option exercises					681	7	5,829			5,836		5,836
Non-controlling interest:												
Non-controlling interests recognized on acquisition											3,554	3,554
Net income attributable to non-controlling interests											350	350
Balance at January 30, 2011	17,818	$ —	17,818	$ —	53,378	$ 534	$ 179,870	$ 189,656	$ 20,329	$390,389	$ 3,904	$394,293

See accompanying notes to the consolidated financial statements

lululemon athletica inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Year Ended		
	January 30, 2011	January 31, 2010	February 1, 2009
	(Amounts in thousands)		
Cash flows from operating activities			
Net income attributable to lululemon athletica inc.	$ 121,847	$ 58,281	$ 39,363
Net income attributable to non-controlling interest	350	—	—
Net loss from discontinued operations	—	—	(1,138)
Net income from continuing operations	122,197	58,281	40,501
Items not affecting cash			
Depreciation and amortization	24,614	20,832	15,823
Stock-based compensation	7,273	5,616	6,532
Provision for impairment and lease exit costs	1,772	379	4,405
Derecognition of unredeemed gift card liability	(1,406)	(2,183)	—
Deferred income taxes	11,234	387	(6,441)
Excess tax benefits from stock-based compensation	(7,863)	3,858	(12,024)
Gain on investment	(1,792)	—	—
Other, including net changes in other non-cash balances	23,966	30,790	(3,363)
Net cash provided by operating activities — continuing operations	179,995	117,960	45,433
Net cash provided by operating activities — discontinued operations	—	—	1,005
	179,995	117,960	46,438
Cash flows from investing activities			
Purchase of property and equipment	(30,357)	(15,497)	(40,530)
Investment in and advances to franchise	—	(810)	(2,863)
Acquisition of franchises	(12,482)	—	(3,402)
Net cash used in investing activities — continuing operations	(42,839)	(16,307)	(46,795)
Net cash used in investing activities — discontinued operations	—	—	—
	(42,839)	(16,307)	(46,795)
Cash flows from financing activities			
Proceeds from exercise of stock options	5,836	1,209	1,436
Excess tax benefits from stock-based compensation	7,863	(3,858)	12,024
Net cash provided by financing activities — continuing operations	13,699	(2,649)	13,460
Net cash provided by financing activities — discontinued operations	—	—	—
	13,699	(2,649)	13,460
Effect of exchange rate changes on cash	5,858	3,772	(8,851)
Increase in cash and cash equivalents	156,713	102,776	4,252
Cash and cash equivalents from continuing operations, beginning of year	$ 159,573	$ 56,797	$ 52,545
Cash and cash equivalents from continuing operations, end of year	$ 316,286	$ 159,573	$ 56,797

See accompanying notes to the consolidated financial statements

lululemon athletica inc. and Subsidiaries

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

1 NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nature of operations

lululemon athletica inc., a Delaware corporation ("lululemon" 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 consumer through e-commerce, independent franchises and a network of wholesale accounts. The Company's primary markets are Canada, the United States and Australia, where 44, 78 and 11 corporate-owned stores, respectively, were in operation as at January 30, 2011. There were 133, 110, and 103 corporate-owned stores in operation as at January 30, 2011, January 31, 2010, and February 1, 2009, respectively.

Basis of presentation

The accompanying consolidated financial statements include the financial position, results of operations and cash flows of the Company and its subsidiary companies during the three-year period ended January 30, 2011. The consolidated financial statements have been prepared using the U.S. dollar and are presented in accordance with United States generally accepted accounting principles ("GAAP").

The Company has experienced, and expects to continue to experience, significant seasonal variations in net revenue and income from operations. Seasonal variations in revenue are primarily related to increased sales of products during the fourth fiscal quarter, reflecting historical strength in sales during the holiday season. Historically, seasonal variations in income from operations have been driven principally by increased net revenue in the fourth fiscal quarter.

The Company's fiscal year ends on the Sunday closest to January 31 of the following year, typically resulting in a 52 week year, but occasionally giving rise to an additional week, resulting in a 53 week year. Fiscal 2010, 2009 and 2008 ended on January 30, 2011, January 31, 2010, and February 1, 2009, respectively.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of lululemon athletica inc. and its wholly-owned subsidiaries. All inter-company balances and transactions have been eliminated. The results of operations of lululemon athletica australia Pty attributable to the non-controlling interest are presented within equity and net income, and are shown separately from the Company's equity and net income attributable to the Company. The results of operations of Lululemon Japan Inc. are presented as discontinued operations following the Company's wind-up of operations in Japan in fiscal 2008. In the opinion of management, all adjustments, consisting primarily of normal recurring accruals, considered necessary for a fair presentation of the Company's results of operations for the periods reported and of its financial condition as of the date of the balance sheet have been included.

Cash and cash equivalents

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

Accounts receivable

Accounts receivable primarily arise out of sales to wholesale accounts, sales of inventory to our franchisees, royalties on sales owed to the Company by its franchisees and landlord deferred lease inducements. The allowance for doubtful accounts represents management's best estimate of probable credit losses in accounts receivable and is reviewed monthly. Receivables are written off against the allowance when management believes that the amount receivable will not be recovered. As at January 30, 2011, January 31, 2010 and February 1, 2009 the Company recorded an insignificant allowance for doubtful accounts.

Inventories

Inventories, consisting of finished goods and raw materials, are stated at the lower of cost and market value. Cost is determined using weighted-average costs. For finished goods, market is defined as net realizable value, and for raw materials, market is defined as replacement cost. Cost of inventories includes acquisition costs and all costs incurred to deliver inventory to the Company's distribution centers including freight, non-refundable taxes, duty and other landing costs.

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

Property and equipment

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

Leasehold improvements are amortized on a straight-line basis over the lesser of the length of the lease, without consideration of option renewal periods, and the estimated useful life of the assets, to a maximum of five years. All other property and equipment are amortized using the declining balance method as follows. Amortization commences when an asset is ready for its intended use.

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

Goodwill and intangible assets

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

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

Impairment of long-lived assets

Long-lived assets, including intangible assets with finite lives, held for use are evaluated for impairment when the occurrence of events or a change in circumstances indicates that the carrying value of the assets may not be recoverable as measured by comparing their carrying value to the estimated undiscounted future cash flows generated by their use and eventual disposition. Impaired assets are recorded at fair value, determined principally by discounting the future cash flows expected from their use and eventual disposition. Reductions in asset values resulting from impairment valuations are recognized in income in the period that the impairment is determined. Long-lived assets, including intangible assets with finite lives, held for sale are reported at the lower of the carrying value of the asset and fair value less cost to sell. Any write-downs to reflect fair value less selling cost is recognized in income when the asset is classified as held for sale. Gains or losses on assets held for sale and asset dispositions are included in provision for impairment and lease exit costs.

Leased property and equipment

The Company leases corporate-owned stores, distribution centers and administrative offices. Minimum rental payments, including any fixed escalation of rental payments and rent premiums, are amortized on a straight-line basis over the life of the lease beginning on the possession date. Rental costs incurred during a construction period, prior to store opening, are recognized as rental expense. The difference between the recognized rental expense and the total rental payments paid is reflected on the consolidated balance sheet as a deferred lease liability or a prepaid lease asset.

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

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

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

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

Deferred revenue

Payments received from franchisees for goods not shipped as well as receipts from the sale of gift cards are treated as deferred revenue. Franchise inventory deposits are included in other current liabilities and recognized as sales when the goods are shipped. Amounts received in respect of gift cards are recorded as unredeemed gift card liability. When gift cards are redeemed for apparel, the Company recognizes the related revenue.

Revenue recognition

Net revenue includes sales of apparel to customers through corporate-owned and operated retail stores, direct to consumer through www.lululemon.com and phone sales, initial license and franchise fees, royalties from franchisees and sales of apparel to franchisees, sales through a network of wholesale accounts, and sales from company-operated showrooms.

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

Sales of apparel to customers through the Company's retail internet site are recognized when goods are shipped, net of an estimated allowance for sales returns.

Franchise royalties are calculated as a percentage of franchise sales and are recognized in the month that the franchisee makes the sale.

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

All revenues are reported net of sales taxes collected for various governmental agencies.

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 operations in "Net revenue." For the years ended January 30, 2011, January 31, 2010 and February 1, 2009, net revenue recognized on unredeemed gift card balances was $1,406, $2,183, and $nil, respectively.

Cost of goods sold

Cost of goods sold includes the cost of purchased merchandise, including in-bound freight, duty and nonrefundable taxes incurred in delivering the goods to the Company's distribution centers. It also includes all occupancy costs such as minimum rent, contingent rent where applicable, property taxes, utilities and depreciation expense for the Company's corporate-owned store locations and all costs incurred in operating the Company's distribution centers and production, design and merchandise departments, hemming and shrink and valuation reserves. Production, design, merchandise and distribution center costs include salaries and benefits as well as operating expenses, which include occupancy costs and depreciation expense for the Company's distribution centers.

Store pre-opening costs

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

Income taxes

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

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

The Company generally provides for taxes at the rate applicable for the appropriate tax jurisdiction. Because present intentions are to reinvest the unremitted earnings into foreign operations, the Company does not provide U.S. income taxes on unremitted earnings of foreign subsidiaries. Management periodically assesses the need to utilize these unremitted earnings to finance foreign operations. This assessment is based on cash flow projections that are the result of estimates of future production, fiscal requirements by tax jurisdiction of our operations and operational and fiscal objectives by tax jurisdiction for our operations. Such estimates are inherently imprecise since many assumptions utilized in the cash flow projections are subject to revision in the future.

The Company files income tax returns in the United States, Canada and various foreign and state jurisdictions. The Company is subject to income tax examination by tax authorities in all jurisdictions from our inception to date. Our policy is to recognize interest expense and penalties related to income tax matters as tax expense. At January 30, 2011, the Company does not have any significant accruals for interest related to unrecognized tax benefits or tax penalties. Intercompany transfer pricing policies will be subject to audits by various foreign tax jurisdictions. Although management believes that the Company's intercompany transfer pricing policies and tax positions are reasonable, the final determination of tax audits or potential tax disputes may be materially different from that which is reflected in the Company's income tax provisions and accruals.

Currency translation

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

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

Fair value of financial instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, trade accounts payable, accrued liabilities, and other liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. All foreign exchange gains or losses are recorded in the consolidated statements of operations under selling, general and administrative expenses. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

Foreign exchange risk

A significant portion of the Company's sales are denominated in Canadian dollars. The Company's exposure to foreign exchange risk is mainly related to fluctuations between the Canadian dollar and the U.S. dollar. This exposure is partly mitigated by a natural hedge in that a significant portion of the Company's operating costs are also denominated in Canadian dollars. The Company is also exposed to changes in interest rates. The Company does not hedge foreign currency and interest rate exposure in a manner that would entirely eliminate the effect of changes in foreign currency exchange rates, or interest rates on net income and cash flows.

The aggregate foreign exchange gains (losses) included in income amount to $477, $174, and $(110) for the years ended January 30, 2011, January 31, 2010, and February 1, 2009, respectively.

Concentration of credit risk

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

Stock-based compensation

The Company accounts for stock-based compensation using the fair value method. The fair value of awards granted is estimated at the date of grant and recognized as employee compensation expense on a straight-line basis over the requisite service period with the offsetting credit to additional paid-in capital. For awards with service performance conditions, the total amount of compensation expense to be recognized is based on the number of awards expected to vest and is adjusted to reflect those awards that do ultimately vest. For awards with performance conditions, the Company recognizes the compensation expense if and when the Company concludes that it is probable that the performance condition will be achieved. The Company reassesses the probability of achieving the performance condition at each reporting date. For awards with market conditions, all compensation expense is recognized irrespective of whether such conditions are met.

Certain employees are entitled to share-based awards from the principal stockholder of the Company. These awards are accounted for by the Company as employee compensation expense in accordance with the above-noted policies.

Earnings per share

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

Use of estimates

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

Recently issued accounting standards

In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2010-06, Fair Value Measurements and Disclosures Topic 820: Improving Disclosures about Fair Value Measurements ("ASU 2010-06"). ASU 2010-06 requires new disclosures regarding transfers in and out of the

Level 1 and 2 and activity within Level 3 fair value measurements and clarifies existing disclosures of inputs and valuation techniques for Level 2 and 3 fair value measurements. The new disclosures and clarifications of existing disclosures are effective for interim and Annual Reporting periods beginning after December 15, 2009, except for the disclosure of activity within Level 3 fair value measurements, which is effective for fiscal years beginning after December 15, 2010, and for interim reporting periods within those years. The company adopted the new disclosures effective January 31, 2010, except for the disclosure of activity within Level 3 fair value measurements. The Level 3 disclosures are effective for the company at the beginning of fiscal 2011. The adoption of ASU 2010-06 did not have a material impact, and is not expected to have a material impact, on the disclosures within the company's consolidated financial statements.

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

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

Reclassifications

Certain prior year amounts have been reclassified to conform to fiscal 2010 presentation.

3 INVENTORIES

	January 30, 2011	January 31, 2010
Finished goods	$ 59,138	$ 45,181
Raw materials	1,913	1,461
Provision for obsolescence and shrink	(3,582)	(2,572)
	$ 57,469	$ 44,070

4 PROPERTY AND EQUIPMENT

	January 30, 2011	January 31, 2010
Leasehold improvements	$ 84,773	$ 63,999
Furniture and fixtures	17,940	17,776
Computers and software	34,581	25,194
Equipment and vehicles	1,038	428
Accumulated amortization	(67,378)	(45,806)
	$ 70,954	$ 61,591

Included in the cost of property and equipment are capitalized software costs of $17,252 and $11,823 at January 30, 2011 and January 31, 2010, respectively, associated with internally developed software.

Depreciation expense related to property and equipment was $23,549, $19,758 and $14,819 for the years ended January 30, 2011, January 31, 2010, and February 1, 2009, respectively.

The Company recorded impairment of $700, $112, and $2,999 for the years ended January 30, 2011, January 31, 2010, and February 1, 2009, respectively, in property and equipment for stores that were relocated or closed. These assets were previously used in the corporate-owned stores segment.

5 GOODWILL AND INTANGIBLE ASSETS

	January 30, 2011	January 31, 2010
Goodwill	$ 18,437	$ 738
Changes in foreign currency exchange rates	1,837	161
	20,274	899
Intangibles Reacquired franchise rights	$ 10,709	$ 10,162
Non-competition agreements	694	694
Accumulated amortization	(6,355)	(4,868)
Changes in foreign currency exchange rates	1,790	1,163
	6,838	7,151
Total goodwill and intangibles	$ 27,112	$ 8,050

Amortization expense related to intangible assets was $1,065, $1,074, and $1,004 for the years ended January 30, 2011, January 31, 2010, and February 1, 2009, respectively. The estimated aggregate amortization expense is as follows:

Fiscal Year	
2011	$1,319
2012	1,319
2013	1,137
2014	1,006
2015	897
Thereafter	1,160
	$6,838

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

The acquired business contributed net revenues of $15,794 and income from operations of $1,490 to the Company from the date of acquisition to January 30, 2011. The following unaudited pro forma summary presents consolidated information of the Company as if the business combination had occurred on February 3, 2008:

	Fiscal Year Ended		
	January 30, 2011	January 31, 2010	February 1, 2009
Net revenue	$716,328	$463,506	$359,992
Income from operations	$180,832	$ 85,854	$ 54,929

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

In fiscal 2010, the Company incurred $181 of acquisition-related costs. These costs are included in general and administrative expenses in the Company's consolidated statements of operations for the year ended January 30, 2011.

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

Fair value of consideration transferred **:**

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

The following table summarizes the fair values of the net assets acquired at the date of acquisition:

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

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

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

In July 2010, the Company reacquired in an asset purchase transaction a franchised store in Saskatoon, Saskatchewan for total cash consideration of $6,610. Included in the Company's consolidated statements of operations for the year ended January 30, 2011 are the results of the reacquired Saskatoon franchised store from the date of acquisition to January 30, 2011.

lululemon athletica inc. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table summarizes the fair values of the net assets acquired at the date of acquisition:

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

On September 15, 2008, the Company reacquired in an asset purchase transaction two franchised stores in Victoria, British Columbia for total cash consideration of $1,181 less working capital adjustments of $4 from a related party. The fair values of the net assets acquired were measured as if the transaction occurred with a arm's length party. Included in the Company's consolidated statement of operations for the year ended February 1, 2009, are the results of the two reacquired Victoria franchised stores from the date of acquisition through to February 1, 2009.

The following table summarizes the fair values of the net assets acquired as of September 15, 2008:

Inventory	$ 306
Prepaid and other current assets	2
Property and equipment	261
Reacquired franchise rights	780
Total assets acquired	1,349
Unredeemed gift card liability	172
Total liabilities assumed	172
Net assets acquired	$1,177

On September 8, 2008, the Company reacquired in an asset purchase transaction a franchised store in Bellevue, Washington for total cash consideration of $2,067 plus working capital adjustments of $157. Included in the Company's consolidated statement of operations for the year ended February 1, 2009, are the results of the reacquired Bellevue franchised store from the date of acquisition through to February 1, 2009.

The following table summarizes the fair values of the net assets acquired as of September 8, 2008:

Inventory	$ 234
Prepaid and other current assets	38
Property and equipment	249
Reacquired franchise rights	1,755
Total assets acquired	2,276
Unredeemed gift card liability	52
Total liabilities assumed	52
Net assets acquired	$2,224

The acquisition of the franchised stores is part of management's vertical retail growth strategy. The reacquired franchise rights are amortized on a straight-line basis over their estimated useful lives. Goodwill is reviewed for impairment annually, or as events occur or circumstances arise which may reduce the fair value of goodwill below carrying value. The weighted-average remaining useful lives of the reacquired franchise rights was 5.24 as at January 30, 2011 and 6.28 years as at January 31, 2010.

6 OTHER NON-CURRENT ASSETS

	January 30, 2011	January 31, 2010
Security deposits	$ 2,762	$ 945
Deferred lease cost	1,301	1,487
Advances to and investments in franchise	—	3,673
	$ 4,063	$ 6,105

During fiscal 2008 the Company entered into a Credit Agreement (the “Agreement”) with its Australian franchise partner, under which advances were provided by the Company to the franchisee. The Agreement provides for a secured non-revolving credit facility of up to AUD$3,900 and funds are only advanced upon approval by the Company. The line of credit was converted to equity in May 2010 as part of the Company’s consideration transferred to increase its investment in its Australian franchise partner, as described in Note 5. As of January 31, 2010 a total of AUD$3,255 has been drawn on the line of credit. Prior to the conversion in 2010, the loan was designated as held to maturity and beared interest at 8% per annum which was accrued and capitalized to the loan principal.

7 ACCRUED LIABILITIES

	January 30, 2011	January 31, 2010
Inventory purchases	$ 11,925	$ 7,664
Sales tax collected	4,505	2,758
Accrued rent	2,750	1,771
Lease exit costs	1,317	800
Other	4,769	4,590
	$ 25,266	$ 17,583

8 OTHER NON-CURRENT LIABILITIES

	January 30, 2011	January 31, 2010
Deferred lease liability	$ 13,129	$ 10,822
Tenant Inducements	6,516	4,650
	$ 19,645	$ 15,472

9 LONG-TERM DEBT AND CREDIT FACILITIES

In April 2007, the Company executed a new credit facility with a lending institution that provided for a CDN$20,000 uncommitted demand revolving credit facilities to fund the working capital requirements of the Company. Borrowings under the uncommitted credit facilities are made on a when-and-as-needed basis at the discretion of the Company.

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

At January 30, 2011, there were no borrowings outstanding under this credit facility. As well, at January 30, 2011, letters of credit totaling USD$nil and guarantees totaling USD$1,466 had been issued under the facility, which reduced the amount available by a corresponding amount.

10 STOCKHOLDERS' EQUITY

Authorized share capital

As part of the reorganization in connection with the Company's 2007 initial public offering ("the reorganization"), the Company's stockholders approved an amended and restated certificate of incorporation that provides for the issuance of up to 200,000 shares of common stock, 5,000 shares of undesignated preferred stock and 30,000 shares of special voting stock.

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

The holders of the exchangeable shares have dividend and liquidation rights equivalent to those of holders of the common shares of the Company. The exchangeable shares can be converted on a one for one basis by the holder at any time into common shares of the Company plus a cash payment for any accrued and unpaid dividends. Holders of exchangeable shares are entitled to the same or economically equivalent dividend as declared on the common stock of the Company. The exchangeable shares are non-voting. The Company has the right to convert the exchangeable shares into common shares of the Company at any time after the earlier of July 26, 2047, the date on which less than 2,094 exchangeable shares are outstanding or in the event of certain events such as a change in control.

11 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 the Company.

During the year ended January 31, 2006, LIPO and LIPO USA, entities controlled by a principal stockholder of the Company, created a stockholder sponsored stock-based compensation plans ("LIPO Plans") for certain eligible employees of the Company in order to provide incentive to increase stockholder value. Under the provisions of the LIPO plans, the eligible employees were granted options to acquire shares of LIPO and LIPO USA, respectively. LIPO and LIPO USA held shares in LACI and the Company, respectively. Shares of the Company that are or will be issued to holders of the options or restricted shares under the LIPO Plans are currently held by LIPO USA, an affiliate of a principal stockholder. The exercise, vesting or forfeiture of any of these awards will not have any impact on the outstanding common shares of the Company.

In July 2007, the Company's Board of Directors adopted, and the Company's stockholders approved the 2007 Equity Incentive Plan ("2007 Plan"). The 2007 Plan provides for the grants of stock options, stock appreciation rights, performance stock units, restricted stock or restricted stock units to employees (including officers and directors who are also employees) of the Company. The majority of stock options granted to date have a four-year vesting period and vest at a rate of 25% per each year on the anniversary date of the grant. Performance stock units issued under the 2007 Plan generally vest three years from the grant date and restricted stock issued under the 2007 Plan vest one year from the grant date. To date, 40 shares of restricted stock have been issued under the 2007 Plan to certain directors and consultants of the Company.

The Company's policy is to issue shares upon the exercise of Company options from treasury. Any shares issued to employees related to stockholder sponsored plans are provided by the principal stockholder and are not issued from treasury or repurchased by the Company.

Stock-based compensation expense charged to income for the plans was $7,273, $5,616 and $6,532 for the years ended January 30, 2011, January 31, 2010, and February 1, 2009, respectively.

Total unrecognized compensation cost for all stock option plans was $15,399 as at January 30, 2011, which is expected to be recognized over a weighted-average period of 2.7 years, and was $13,692 as at January 31, 2010 over a weighted-average period of 2.6 years.

Employee stock purchase plan

The Company's Board of Directors and stockholders approved the Company's Employee Share Purchase Plan ("ESPP") in September 2007. The ESPP allows for the purchase of common stock of the Company by all eligible employees at a 25% discount from fair market value subject to certain limits as defined in the ESPP. The maximum number of shares available under the ESPP is 3,000 shares. During the year ended January 30, 2011, 37 shares were purchased under the ESPP, which were funded by the Company through open market purchases.

Stockholder sponsored stock options

On December 1, 2005, LIPO and LIPO USA each granted 5,296 Class A options with an exercise price of CDN$0.00001 and an expiry date of December 31, 2009 and 11,062 Class B options with an expiry date of December 31, 2010, respectively, prior to the reorganization. The LIPO and LIPO USA Class B options originally had exercise prices of CDN$0.99 and $0.01, respectively. Each Class A option and each Class B option entitled the holder to acquire one share of common stock of LIPO and LIPO USA respectively.

While all of the Class A options of both companies vested on December 5, 2005 and were immediately exercised, 3,549 of the common shares of LIPO and LIPO USA issued were designated as forfeitable. These forfeitable shares were considered to be non-vested for accounting purposes and were considered not to be earned as of December 5, 2005. These non-vested shares became non-forfeitable over a four-year requisite service period to December 5, 2009. In addition, on December 5, 2005, 2,239 of the Series B options vested, with the remaining options vesting over a five-year period ending December 5, 2010.

In connection with the reorganization of the Company, modifications were made to the LIPO and LIPO USA plans. The 5,285 LIPO Class A awards and the 4,111 vested LIPO Class B awards were exchanged for a total of 1,960 exchangeable shares of the Company through a series of transactions. At the time of the reorganization, 1,418 of the new awards were considered to be vested and the remaining 541 new awards were considered to be unvested. The unvested exchangeable shares are held in trust by the principal stockholder and are subject to the same vesting schedule as the original LIPO award.

The following table summarizes the shares granted under the stockholder sponsored plan. Amounts are presented on a post reorganization basis.

	Number of Exchangeable Shares	Number of LIPO USA Shares
Unvested balance at February 3, 2008	265	58
Granted	—	—
Vested	170	37
Cancelled	57	13
Non-forfeitable balance at February 1, 2009	38	8
Granted	—	—
Vested	38	8
Cancelled	—	—
Non-forfeitable balance at January 31, 2010	—	—
Granted	—	—
Vested	—	—
Cancelled	—	—
Non-forfeitable balance at January 30, 2011	—	—

The total unrecognized compensation cost related to shares was $nil at January 30, 2011.

The following table summarizes the LIPO USA options granted under the stockholder sponsored plan. Amounts are presented on a post reorganization basis and are shown in lululemon share equivalents.

	Number of LIPO USA Options	Weighted-Average Exercise Price
Unvested balance at February 3, 2008	881	$ 0.01
Granted	—	—
Vested	337	$ 0.01
Cancelled	253	$ 0.01
Unvested balance at February 1, 2009	291	$ 0.01
Granted	—	—
Vested	184	$ 0.01
Cancelled	—	$ 0.01
Unvested balance at January 31, 2010	107	$ 0.01
Granted	—	—
Vested	107	$ 0.01
Cancelled	—	$ 0.01
Unvested balance at January 30, 2011	—	$ —

The total unrecognized compensation cost related to LIPO USA options was $nil at January 30, 2011.

The Company records compensation expense for shares issued under the stockholder sponsored awards, over the requisite service periods.

The vesting schedule of the stockholder sponsored awards in lululemon share equivalents is as follows:

	Exchangeable Shares	LIPO USA Shares	LIPO USA Options
December 5, 2005	788	87	105
December 5, 2006	631	60	96
December 5, 2007	276	60	393
December 5, 2008	199	43	384
December 5, 2009	66	14	315
December 5, 2010	—	—	182
Total	1,960	264	1,475

The fair value of the non-forfeitable and forfeitable shares issued under LIPO Class A was measured at the fair value of the underlying stock on the grant date. The fair value of the LIPO Class B options was determined using the Black-Scholes option pricing model with the following assumptions:

Dividend yield	0%
Expected volatility	45%
Risk-free interest rate	5%
Weighted-average expected life of option (years)	5.0 years

The expected volatility was based on available information on volatility from a peer group of publicly traded U.S. and Canadian retail apparel companies. The expected life of the options was determined by reviewing data about exercise patterns of employees in the retail industry as well as considering the probability of a liquidity event such as the sale of the Company or an IPO and the potential impact of such an event on the exercise pattern. The risk-free interest rate approximates the yield on benchmark Government of Canada bonds for terms similar to the contract life of the options.

The total fair value of awards under the stockholder sponsored plans that vested during the years ended January 30, 2011, January 31, 2010 and February 1, 2009 was $261, $464,and $1,137, respectively.

lululemon athletica inc. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Company stock options and performance stock units

A summary of the Company's stock options, performance share units and restricted shares activity as of January 30, 2011, January 31, 2010, and February 1, 2009, and changes during the years then ended is presented below:

	Number of Stock Options	Weighted-Average Exercise Price	Number of Performance Share Units	Weighted-Average Grant Fair Value	Number of Restricted Shares	Weighted-Average Grant Fair Value
Balance at February 3, 2008	4,798	$ 2.74	—	$ 19.43	10	$ 19.43
Granted	545	21.66	—	24.04	9	24.04
Exercised	2,310	0.62	—	19.43	10	19.43
Forfeited	1,128	2.49	—	—	—	—
Balance at February 1, 2009	1,905	$ 10.83	—	$ 24.04	9	$ 24.04
Granted	959	14.81	—	13.83	15	13.83
Exercised	557	2.23	—	24.04	9	24.04
Forfeited	113	23.57	—	—	—	—
Balance at January 31, 2010	2,194	$ 14.08	—	$ 13.83	15	$ 13.83
Granted	245	50.63	84	41.88	6	38.74
Exercised	684	8.75	—	—	15	15.33
Forfeited	125	17.44	4	41.22	2	13.83
Balance at January 30, 2011	1,630	$ 21.59	80	$ 41.92	4	$ 42.43

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

The following table summarizes information about stock options outstanding and exercisable at January 30, 2011:

	Outstanding			Exercisable		
Range of Exercise Prices	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)
$0.49 - $0.60	185	$ 0.58	5.9	185	$ 0.58	5.9
$6.98 - 18.00	529	9.99	5.6	69	14.01	6.5
$18.91 - $29.20	542	23.76	6.7	126	22.59	7.2
$32.31 - $50.46	270	36.25	6.6	107	33.79	6.9
$67.00 - $69.87	104	68.72	6.9	—	—	0.0
	1,630	$ 21.59	6.3	487	$ 15.47	6.5
Intrinsic Value	$ 76,692			$ 26,001		

As of January 30, 2011, the unrecognized compensation cost related to these options was $15,399, which is expected to be recognized over a weighted-average period of 2.7 years; and the total aggregate intrinsic value for stock options outstanding and exercisable was $26,001. The intrinsic value of stock options exercised during the years ended January 30, 2011, January 31, 2010, and February 1, 2009 was $28,463, $8,093, and $50,053. The weighted-average grant date fair value of options granted during the years ended January 31, 2011, January 31, 2010, and February 1, 2009 was $25.66, $8.07, and $10.20, respectively.

The fair value of options with service conditions was determined at the date of grant using the Black-Scholes model. Expected volatilities are based on a review of a peer group of publicly traded apparel retailers. The expected term of options with service conditions is the simple average of the term and the requisite service period as stated in the respective option contracts. The risk-free interest rate is the Federal Reserve federal funds rate. The following assumptions were used in calculating the fair value of stock options issued in fiscal 2010:

	lululemon athletica inc.
Dividend yield	0%
Expected volatility	66.3%
Risk-free interest rate	1.58%
Weighted-average life	3.76 years

12 EARNINGS PER SHARE

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

	Fiscal Year Ended		
	January 30, 2011	January 31, 2010	February 1, 2009
Net income from continuing operations	$ 122,197	$ 58,281	$ 40,501
Net income attributable to non-controlling interest	350	—	—
Net loss from discontinued operations	—	—	(1,138)
Net income attributable to lululemon athletica inc.	$ 121,847	$ 58,281	$ 39,363
Basic weighted-average number of shares outstanding	70,860	70,251	68,711
Effect of stock options assumed exercised	1,069	698	2,231
Diluted weighted-average number of shares outstanding	71,929	70,949	70,942
Basic earnings (loss) per share			
Continuing operations	$ 1.72	$ 0.83	$ 0.59
Discontinued operations	—	—	(0.02)
Net basic earnings per share	$ 1.72	$ 0.83	$ 0.57
Diluted earnings (loss) per share			
Continuing operations	$ 1.69	$ 0.82	$ 0.57
Discontinued operations	—	—	(0.02)
Net diluted earnings per share	$ 1.69	$ 0.82	$ 0.55

13 COMMITMENTS AND CONTINGENCIES

The Company has obligations under operating leases for its office, distribution centers and corporate-owned store premises in Canada, the United States, Australia and Hong Kong. As of January 30, 2011, the lease terms of various leases are from two to 10 years. A substantial number of the Company’s leases for corporate-owned store premises include renewal options and certain of the Company’s leases include rent escalation clauses, rent holidays and leasehold rental incentives. Certain of the Company’s leases for corporate-owned store premises also include contingent rental payments based on sales volume. The Company is required to make deposits for rental payments pursuant to certain lease agreements, which have been included in other non-current assets. Minimum annual basic rent payments excluding other executory operating costs, pursuant to lease agreements are approximately as laid out in the table below. These amounts include commitment in respect of corporate-owned stores that have not yet opened but for which lease agreements have been executed.

Fiscal Year	
2011	$36,958
2012	36,329
2013	35,693
2014	35,277
2015	32,277
Thereafter	72,465

Rent expense for the years ended January 30, 2011, January 31, 2010, and February 1, 2009 was $53,071, $41,639, and $32,701, respectively, under operating lease agreements, consisting of minimum rental expense of $36,754, $29,607, and $23,198, respectively, and contingent rental amounts of $16,317, $12,032, and $9,503, respectively.

The Company is, from time to time, involved in routine legal matters incidental to its business. Management believes that the ultimate resolution of any such current proceedings will not have a material adverse effect on the Company’s continued financial position, results of operations or cash flows except as follows:

On September 7, 2010, a former hourly employee filed a class action lawsuit in the United States District Court For the Northern District of Illinois, Eastern Division entitled Lydia Brown v. lululemon athletica inc. The lawsuit alleges that the Company requires employees to work “off the clock” without compensation. The plaintiff seeks on behalf of herself and other putative class members back wages, interest, attorney fees and costs, and equitable relief under the Fair Labor Standards Act and the Illinois Wage Payment and Collection Act. On February 24, 2011, the District Court granted the Company’s motion to dismiss the plaintiff’s claims in their entirety without prejudice. The plaintiff was granted leave to file an amended complaint on or before March 17, 2011. The Company continues to deny the allegations and intends to vigorously defend the matter.

14 RELATED PARTY BALANCES AND TRANSACTIONS

The Company entered into the following transactions with related parties:

	January 30, 2011	January 31, 2010	February 1, 2009
Purchase price paid to franchises controlled by related parties			
Reacquired franchise rights	$ —	$ —	$ 1,177
Payments from related parties			
Sold merchandise and received royalties	$ —	$ —	$ 2,524
Payments to related parties			
Occupancy costs for one corporate-owned store	$ 100	$ 63	$ 19

“Franchises controlled by related parties” referred to above relate to two franchise operations in which our principal stockholder previously owned a 50% interest. During the year ended January 31, 2007, the principal stockholder disposed of his interest in these franchises to a family member.

During the year ended January 30, 2011, our principal stockholder increased his interest from 50% to 100% in a company that leases retail space to one corporate-owned store.

15 SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items:

	January 30, 2011	January 31, 2010	February 1, 2009
(Increase) in accounts receivable	$ (587)	$ (3,796)	$ (1,173)
(Increase) decrease in deferred lease inducements receivable	46	(178)	886
Increase in deferred lease inducements received	1,934	675	851
(Increase) in prepaid expenses	(2,902)	(225)	(1,858)
(Increase) decrease in inventories	(7,954)	11,296	(19,782)
(Increase) decrease in other non-current assets	162	—	(839)
Increase (decrease) in trade accounts payable	(5,167)	6,025	832
Increase (decrease) in accrued liabilities	7,400	(3,780)	14,174
Increase in other current liabilities	16,105	14,887	5,981
Increase (decrease) in income taxes payable	14,929	5,886	(2,435)
	$ 23,966	$ 30,790	$ (3,363)
Cash paid for income taxes	$ 30,968	$ 27,719	$ 19,461
Interest paid	$ 424	$ 157	$ 46

16 INCOME TAXES

We file income tax returns in the U.S., Canada and various foreign and state jurisdictions. We are subject to income tax examination by tax authorities in all jurisdictions from our inception to date. Our policy is to recognize interest expense and penalties related to income tax matters as tax expense. At January 30, 2011, we do not have any significant accruals for interest related to unrecognized tax benefits or tax penalties.

Our intercompany transfer pricing policies will be subject to audits by the various foreign tax jurisdictions. Although we believe that our intercompany transfer pricing policies and tax positions are fully supportable, the final determination of tax audits or potential tax disputes may be different from that which is reflected in our income tax provisions and accruals.

The provision for income taxes consists of the following:

	January 30, 2011	January 31, 2010	February 1, 2009
Federal income tax at statutory rate (35%, 35%, 35%)	35.0%	35.0%	35.0%
Non-deductible compensation expense	0.8	1.5	2.7
Deemed dividend	0.0	0.0	6.0
Foreign tax credit	0.0	0.0	(8.8)
U.S. state taxes	1.7	0.3	0.0
Change in valuation allowance	0.0	0.0	(3.0)
Foreign tax rate differential	(4.0)	(3.8)	(3.9)
Permanent and other	(0.2)	(0.2)	1.4
Provision for income taxes	33.3%	32.8%	29.4%

lululemon athletica inc. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at January 30, 2011 and January 31, 2010 are presented below:

	January 30, 2011	January 31, 2010
Deferred tax assets		
Net operating loss carryforward	$ 472	$ —
Foreign tax credits	672	7,582
Property and equipment	(734)	(476)
Deferred lease liability	4,896	4,256
Lease exit costs	92	908
Stock-based compensation	1,567	1,245
Other	1,027	1,687
Valuation allowance	(98)	(100)
	$ 7,894	$ 15,102

We have recorded deferred tax assets in respect of foreign tax credits and other deductible temporary differences of $7,894.

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

	January 30, 2011	January 31, 2010	February 1, 2009
Current taxes			
Federal	$ 9,476	$ 3,621	$ —
State	2,435	243	5
Foreign	37,935	25,965	23,727
Total current	49,846	29,829	23,732
Deferred taxes			
Federal	$ 11,182	$ (2,030)	$ (5,143)
State	635	—	(984)
Foreign	(583)	630	(721)
Total deferred	11,234	(1,400)	(6,848)
Provision for income taxes	$ 61,080	$ 28,429	$ 16,884

United States income taxes and foreign withholding taxes are not provided on undistributed earnings of foreign subsidiaries which are considered to be indefinitely reinvesting in the operations of such subsidiaries. The amount of these earnings was approximately $196,763 at January 30, 2011 and $113,466 at January 31, 2010. Where excess cash from unremitted earnings has accumulated in our foreign operations and it is advantageous for tax reasons, these earnings may be remitted.

17 SEGMENTED FINANCIAL INFORMATION

The Company applies ASC Topic 280, *Segment Reporting* ("ASC 280"), in determining reportable segments for financial statement disclosure. Based on financial information provided to the chief operating decision maker of the Company and the manner in which the Company operates its outlets and other operations, the Company determined that each store, showroom and warehouse sales or outlet is an operating segment. The Company's operating segments also include, direct to consumer through www.lululemon.com , phone sales, Canadian franchise activities, U.S. franchise activities and wholesale sales to the Company's U.S. stores and to third parties. Previously, the Company reported its franchise channel as an operating segment, however it has accounted for less than 10% of net revenue from operations in each of fiscal 2009 and fiscal 2008. Opening new franchise stores is not a significant part of the Company's near-term growth strategy and the Company does not expect that the revenue derived from franchises to be greater than 10% of net revenue in future years. Therefore, the Company has re-evaluated segment reporting in the first quarter of fiscal 2010. The Company's reportable segments are comprised of corporate-owned stores, direct to consumer and other. Direct to consumer includes sales from the Company's e-commerce website and phone sales. Franchise sales, wholesale, showrooms sales and outlet sales have been combined into other. Information for these segments is detailed in the table below:

	Fiscal Year Ended		
	January 30, 2011	January 31, 2010	February 1, 2009
Net revenue			
Corporate-owned stores	$ 591,031	$ 393,451	$ 315,548
Direct to Consumer	57,348	18,257	1,629
Other	63,325	41,190	36,311
	$ 711,704	$ 452,898	$ 353,488
Income from operations before general corporate expense			
Corporate-owned stores	$ 215,154	$ 121,614	$ 94,867
Direct to Consumer	16,364	6,288	663
Other	18,004	10,845	11,549
	$ 249,522	$ 138,747	$ 107,079
General corporate expense	69,131	52,201	50,515
Net operating income	180,391	86,546	56,564
Other income (expense), net	2,886	164	821
Income before income taxes	$ 183,277	$ 86,710	$ 57,385
Capital expenditures			
Corporate-owned stores	$ 14,536	$ 10,172	$ 29,588
Direct to consumer	4,626	—	—
Corporate	11,195	5,325	10,942
	$ 30,357	$ 15,497	$ 40,530
Depreciation and amortization			
Corporate-owned stores	$ 16,335	$ 13,721	$ 10,557
Corporate	8,279	7,111	5,266
	$ 24,614	$ 20,832	$ 15,823

The intercompany wholesale sales of $10,188, $5,504, and $5,746 for the years ended January 30, 2011, January 31, 2010, and February 1, 2009 respectively, have been excluded from the net revenue in the Other reportable segment. In addition, the income from operations reported included in the segment results for Other does not reflect the intercompany profit on these sales, which amounted to $931, $30, and $158 for the years ended January 30, 2011, January 31, 2010, and February 1, 2009, respectively.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company operates in four geographic areas — Canada, the United States, Asia and Australia. Revenues from these regions for the years ended January 30, 2011, January 31, 2010, and February 1, 2009 were as follows:

	January 30, 2011	January 31, 2010	February 1, 2009
Canada	$ 371,604	$ 271,169	$ 243,525
United States	323,477	181,144	109,844
Australia and Hong Kong	16,623	585	119
	$ 711,704	$ 452,898	$ 353,488

Long-lived assets by geographic area for the years ended January 30, 2011, January 31, 2010, and February 1, 2009 were as follows:

	January 31, 2010	January 31, 2010	February 1, 2009
Canada	$ 33,616	$ 28,507	$ 25,582
United States	33,513	32,997	35,980
Australia and Hong Kong	3,825	87	100
	$ 70,954	$ 61,591	$ 61,662

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

The Company has entered into franchise agreements under which franchisees are permitted to sell lululemon apparel and are required to purchase lululemon apparel from the Company and to pay the Company a royalty based on a percentage of the franchisee's gross sales. The Company also received royalty fees of $2,222 for the year ended January 30, 2011, $2,980 for the year ended January 31, 2010, and $4,145 for the year ended February 1, 2009. Sales and cost of sales of apparel sold to franchisees amounted to $7,927 and $5,309 for the year ended January 30, 2011, $11,441 and $9,081 for the year ended January 31, 2010, and $12,055 and $8,668 for the year ended February 1, 2009, respectively. The number of franchised stores repurchased during the years ended January 30, 2011, January 31, 2010, and February 1, 2009 was 10, nil, and three, respectively.

18 PROVISION FOR IMPAIRMENT AND LEASE EXIT COSTS

In accordance with ASC topic 360, *Property, Plant and Equipment* ("ASC 360"), 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. ASC 360 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 two of its corporate-owned stores in the fourth quarter of fiscal 2010. The Company recorded a $366 charge related to these closures during fiscal 2010, which included $194 provision for asset impairment and $172 accrual for lease exit costs. In the first quarter of fiscal 2009, the Company closed one of its corporate-owned stores. The expense associated with this closure was recorded in fiscal 2008. The Company recorded a $562 charge during fiscal 2008, which included $258 provision for asset impairment and $304 accrual for lease exit costs. The fair market values were estimated using an expected present value technique.

During fiscal 2010, the Company recorded a charge of $1,772 in provision for impairment and lease exit costs related to certain locations.

A reconciliation of the associated accrued liability is as follows:

	Lease Exit and Other Related Costs	Asset Impairment	Total
Accrued liability at January 31, 2010	$ 800	$ —	$ 800
Costs incurred	1,072	700	1,772
Cash payments	(570)	(700)	(1,270)
Changes in foreign currency exchange rates	15	—	15
Accrued liability at January 30, 2011	$ 1,317	$ —	$ 1,317

19 SUBSEQUENT EVENTS

The Company evaluates events or transactions that occur after the balance sheet date through to the date which the financial statements are issued, for potential recognition or disclosure in its audited consolidated financial statements in accordance with ASC Topic 855, *Subsequent Events* (“ASC 855”).

In March 2011, the Company purchased the land and building that currently houses its principle executive and administrative offices for $65.1 million plus acquisition-related costs. The Company will recognize and measure the assets pursuant to ASC 360 and as necessary with reference to ASC 820.

lululemon athletica inc. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

20 QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following tables present our unaudited quarterly results of operations for each of the eight fiscal quarters in the period ended January 30, 2011. You should read the following tables in conjunction with our audited consolidated financial statements and related notes appearing elsewhere in this Form 10-K. We have prepared the information below on a basis consistent with our audited consolidated financial statements and have included all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary to fairly present our operating results for the quarters presented. Our historical unaudited quarterly results of operations are not necessarily indicative of results for any future quarter or for a full year.

	Fiscal 2010				Fiscal 2009			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(In thousands) (unaudited)							
Consolidated statements of income:								
Net revenue	$245,399	$175,800	$152,208	$138,297	$160,606	$112,891	$97,721	$81,680
Cost of goods sold	101,939	78,968	71,910	63,940	74,046	56,553	52,557	46,656
Gross profit	143,460	96,832	80,298	74,357	86,560	56,338	45,164	35,024
Operating expenses:								
Selling, general and administrative expenses	71,483	53,869	45,549	41,883	44,929	35,412	30,649	25,171
Provision for impairment and lease exit costs	679	587	506	—	196	—	183	—
Income from operations	71,298	42,376	34,243	32,474	41,435	20,926	14,332	9,853
Other income (expense), net	542	91	2,092	161	66	(3)	23	78
Income before provision for income taxes	71,840	42,467	36,335	32,635	41,501	20,923	14,355	9,931
Provision for income taxes	16,873	16,532	14,628	13,047	13,050	6,855	5,111	3,413
Net income	54,967	25,935	21,707	19,588	28,451	14,068	9,244	6,518
Net income attributable to non-controlling interest	201	234	(85)	—	—	—	—	—
Net income attributable to lululemon athletica inc.	$ 54,766	$ 25,701	$ 21,792	$ 19,588	$ 28,451	$ 14,068	$ 9,244	$ 6,518
Net basic earnings per share	$ 0.77	$ 0.36	$ 0.31	$ 0.28	$ 0.40	$ 0.20	$ 0.13	$ 0.09
Net diluted earnings per share	$ 0.76	$ 0.36	$ 0.30	$ 0.27	$ 0.40	$ 0.20	$ 0.13	$ 0.09

Our quarterly results of operations have varied in the past and are likely to do so again in the future. As such, we believe that comparisons of our quarterly results of operations should not be relied upon as an indication of our future performance.

ITEM 9A. *CONTROLS AND PROCEDURES*

Evaluation of Disclosure Controls and Procedures

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

Inherent Limitations Over Internal Controls

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

Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria set forth in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. Based on this evaluation, management concluded that we maintained effective internal control over financial reporting as of January 30, 2011. The effectiveness of our internal control over financial reporting as of January 30, 2011 has been audited by PricewaterhouseCoopers LLP our independent auditors, who have expressed an opinion in their report on page 51 of this Form 10-K.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the fourth quarter of the fiscal year ended January 31, 2010, which were identified in connection with management's evaluation required by Rules 13a-15(d) and 15d-15(d) under the Securities Exchange Act of 1934, as amended, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART III

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

The information required by this item concerning our directors, director nominees and Section 16 beneficial ownership reporting compliance is incorporated by reference to our definitive Proxy Statement for our 2011 Annual Meeting of Stockholders under the captions "Election of Directors," "Section 16(a) Beneficial Ownership Reporting Compliance," "Executive Officers" and "Corporate Governance."

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

ITEM 11. *EXECUTIVE COMPENSATION*

The information required by this item is incorporated by reference to our 2011 Proxy Statement under the captions "Executive Compensation" and "Other Forms of Compensation."

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

The information required by this item is incorporated by reference to our 2011 Proxy Statement under the caption "Security Ownership of Certain Beneficial Owners and Directors and Officers."

Equity Compensation Plan Information (as of January 30, 2011)

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted-Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans(1)
Equity compensation plans approved by stockholders	1,630,271	$21.59	7,562,105
Equity compensation plans not approved by stockholder	—	—	—
Total	1,630,271	$21.59	7,562,105

(1) This amount represents 4,725,680 shares of our common stock available for future issuance pursuant to stock options available for grant under our 2007 Equity Incentive Plan and 2,836,425 shares of our common stock available for future issuance pursuant to our Employee Share Purchase Plan.

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

The information required by this item is incorporated by reference to our 2011 Proxy Statement under the captions "Certain Relationships and Related Transactions" and "Corporate Governance."

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

The information required by this item is incorporated by reference to our 2011 Proxy Statement under the caption "Principal Accounting Fees and Services."

PART IV

ITEM 15. ***EXHIBITS AND FINANCIAL STATEMENT SCHEDULES***

(a) Documents filed as part of this report:

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

2. *Financial Statement Schedules.*

Schedule II

Valuation and Qualifying Accounts

Description	Balance at Beginning of Year	Charged to Costs and Expenses	Write-offs Net of Recoveries	Balance at End of Year
Shrink Provision on Finished Goods				
For the year ended February 1, 2009	$ (194,895)	(1,518,130)	952,894	(760,131)
For the year ended January 31, 2010	(760,131)	(2,604,725)	2,051,806	(1,313,050)
For the year ended January 30, 2011	(1,313,050)	(2,881,244)	2,751,026	(1,443,268)
Slow Moving and Obsolescence Provision on Finished Goods and Raw Materials				
For the year ended February 1, 2009	$ (300,485)	(433,055)	158,928	(574,612)
For the year ended January 31, 2010	(574,612)	(627,591)	241,035	(961,168)
For the year ended January 30, 2011	(961,168)	(283,678)	107,154	(1,137,692)
Damage Provision on Finished Goods				
For the year ended February 1, 2009	$ —	—	—	—
For the year ended January 31, 2010	—	(835,248)	536,952	(298,296)
For the year ended January 30, 2011	(298,296)	(1,610,285)	907,472	(1,001,109)
Sales Allowances				
For the year ended February 1, 2009	$ 527,890	(246,653)	—	281,237
For the year ended January 31, 2010	281,237	25,500	—	306,738
For the year ended January 30, 2011	306,738	214,940	—	521,677
Valuation Allowance on Deferred Income Taxes				
For the year ended February 1, 2009	$(2,401,942)	1,845,688	—	(556,254)
For the year ended January 31, 2010	(556,254)	455,887	—	(100,367)
For the year ended January 30, 2011	(100,367)	1,914	—	(98,453)

3. *Exhibits*

Exhibit No	Exhibit Title	Filed Herewith	Incorporated by Reference			
			Form	Exhibit No.	File No.	Filing Date
3.1	Third Amended and Restated Certificate of Incorporation of lululemon athletica inc.		8-K	3.1	001-33608	3/31/2009
3.2	Amended and Restated Bylaws of lululemon athletica inc.		10-Q	3.2	001-33608	9/10/2007
4.1	Form of Specimen Stock Certificate of lululemon athletica inc.		S-1/A	4.1	001-33608	7/9/2007
10.1*	lululemon athletica inc. 2007 Equity Incentive Plan		S-8	4.1	001-33608	8/15/2007
10.2*	Form of Non-Qualified Stock Option Award Agreement under 2007 Equity Incentive Plan		S-1/A	10.2	001-33608	7/9/2007
10.3*	Amended and Restated LIPO Investments (USA), Inc. Option Plan and form of Award Agreement		S-1	10.3	333-142477	5/1/2007
10.4*	Employment and Restrictive Covenant Agreement with Dennis Wilson dated as of December 5, 2005		S-1	10.5	333-142477	5/1/2007
10.5	Amended and Restated Registration Rights Agreement dated July 26, 2007 between lululemon athletica inc. and the parties named therein		10-Q	10.4	001-33608	9/10/2007
10.6	Exchange Trust Agreement dated July 26, 2007 between lululemon athletica inc., Lulu Canadian Holding, Inc. and Computershare Trust Company of Canada		10-Q	10.5	001-33608	9/10/2007
10.7	Exchangeable Share Support Agreement dated July 26, 2007 between lululemon athletica inc., Lululemon Callco ULC and Lulu Canadian Holding, Inc.		10-Q	10.6	001-33608	9/10/2007
10.8	Amended and Restated Declaration of Trust for Forfeitable Exchangeable Shares dated July 26, 2007, by and among the parties named therein		10-Q	10.7	001-33608	9/10/2007
10.9	Amended and Restated Arrangement Agreement dated as of June 18, 2007, by and among the parties named therein (including Plan of Arrangement and Exchangeable Share Provisions)		S-1/A	10.14	333-142477	7/9/2007
10.10	Credit Facility between lululemon canada inc. and Royal Bank of Canada dated as of April 11, 2007		S-1	10.15	333-142477	5/1/2007
10.11	Form of Indemnification Agreement between lululemon athletica inc. and its directors and certain officers		S-1/A	10.16	333-142477	7/9/2007
10.12	Purchase and Sale Agreement between 2725312 Canada Inc and lululemon athletica inc., dated December 22, 2010	X				
10.13*	Outside Director Compensation Plan		10-Q	10.4	001-33608	11/29/2007

Exhibit No	Exhibit Title	Filed Herewith	Incorporated by Reference			
			Form	Exhibit No.	File No.	Filing Date
10.14	Agreement dated February 3, 2008 by and among David Andrew Lawn, lululemon canada inc. and Lululemon Athletica (Australia) PTY. Ltd. (including certain amendments to the franchise agreement)		S-1/A	10.31	333-142477	6/11/2007
10.15	Contribution Agreement dated July 26, 2007 by and among lululemon athletica inc., Slinky Financial ULC and each of the other parties named therein		10-Q	10.9	001-33608	9/10/2007
10.16*	lululemon athletica inc. Employee Share Purchase Plan		10-Q	10.3	001-33608	11/29/2007
10.17*	Executive Employment Agreement with Christine M. Day, dated effective as of August 1, 2008		8-K	10.1	001-33608	7/30/2008
10.18*	2010 Executive Bonus Plan of lululemon athletica inc.		10-Q	10.1	001-33608	6/10/2010
10.19*	Executive Employment Agreement, effective as of March 24, 2010 between lululemon athletica canada inc. and John E. Currie		10-K	10.22	001-33608	3/25/2010
10.20*	Executive Employment Agreement, effective as of March 24, 2010 between lululemon athletica canada inc. and Delaney Schweitzer		10-K	10.23	001-33608	3/25/2010
10.21*	Executive Employment Agreement, effective as of March 24, 2010 between lululemon athletica canada inc. and Sheree Waterson		10-K	10.24	001-33608	3/25/2010
10.22*	Form of Performance Share Agreement under 2007 Equity Incentive Plan		10-K	10.25	001-33608	3/25/2010
21.1	Subsidiaries of lululemon athletica inc.	X				
23.1	Consent of PricewaterhouseCoopers LLP	X				
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X				

* Denotes a compensatory plan, contract or arrangement, in which the Registrant's directors or executive officers may participate.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LULULEMON ATHLETICA INC.

By: /s/ CHRISTINE M. DAY

Christine M. Day
Chief Executive Officer (Principal Executive Officer)

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Christine M. Day and John E. Currie and each of them, with full power of substitution and resubstitution and full power to act without the other, as his or her true and lawful attorney-in-fact and agent to act in his or her name, place and stead and to execute in the name and on behalf of each person, individually and in each capacity stated below, and to file, any and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing, ratifying and confirming all that said attorneys-in-fact and agents or any of them or their and his or her substitute or substitutes, may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ CHRISTINE M. DAY Christine M. Day	Director and Chief Executive Officer (Principal Executive Officer)	March 16, 2011
/s/ JOHN E. CURRIE John E. Currie	Chief Financial Officer (Principal Financial and Accounting Officer)	March 16, 2011
/s/ DENNIS J. WILSON Dennis J. Wilson	Chairman of the Board	March 16, 2011
/s/ MICHAEL CASEY Michael Casey	Director	March 16, 2011
/s/ ROANN COSTIN RoAnn Costin	Director	March 16, 2011
/s/ R. BRAD MARTIN R. Brad Martin	Director	March 16, 2011
/s/ MARTHA A.M. MORFITT Martha A.M. Morfitt	Director	March 16, 2011

Signature	Title	Date
/s/ RHODA M. PITCHER Rhoda M. Pitcher	Director	March 16, 2011
/s/ THOMAS G. STEMBERG Thomas G. Stemberg	Director	March 16, 2011

Exhibit Index

Exhibit No	Exhibit Title	Filed Herewith	Incorporated by Reference			
			Form	Exhibit No.	File No.	Filing Date
3.1	Third Amended and Restated Certificate of Incorporation of lululemon athletica inc.		8-K	3.1	001-33608	3/31/2009
3.2	Amended and Restated Bylaws of lululemon athletica inc.		10-Q	3.2	001-33608	9/10/2007
4.1	Form of Specimen Stock Certificate of lululemon athletica inc.		S-1/A	4.1	001-33608	7/9/2007
10.1 *	lululemon athletica inc. 2007 Equity Incentive Plan		S-8	4.1	001-33608	8/15/2007
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* Denotes a compensatory plan, contract or arrangement, in which the Registrant's directors or executive officers may participate.

Exhibit 10.12

KVAERNER CHEMETICS BUILDING
1818 CORNWALL STREET
VANCOUVER, BRITISH COLUMBIA

PURCHASE AND SALE AGREEMENT

BETWEEN

2725312 CANADA INC.

AND

LULULEMON ATHLETICA CANADA INC.

DECEMBER 22, 2010

TABLE OF CONTENTS

PURCHASE AND SALE AGREEMENT

THIS AGREEMENT dated for reference December 22, 2010

BETWEEN :

2725312 CANADA INC.
Suite 1800 – 1055 Dunsmuir Street
Vancouver, British Columbia
V7X 1B1

(the " **Vendor** ")

AND :

LULULEMON ATHLETICA CANADA INC.
1818 Cornwall Avenue
Vancouver, British Columbia
V6J 1C7

(the " **Purchaser** ")

WITNESSES THAT WHEREAS :

A. The Vendor is the legal and beneficial owner of the Lands (hereinafter defined); and

B. The Vendor has agreed to sell and the Purchaser has agreed to purchase the Purchased Property (hereinafter defined) on the terms and conditions set forth in this Agreement.

NOW THEREFORE, in consideration of the mutual covenants and agreements herein set forth in this Agreement and other good and valuable consideration (the receipt and sufficiency of which is hereby acknowledged), the Vendor and the Purchaser covenant and agree as follows:

ARTICLE 1
INTERPRETATION

1.1 DEFINITIONS.

The following terms have the following meanings unless the subject matter or context otherwise requires:

(a) " **Architect** " means an independent professional architect engaged by the Vendor from time to time in connection with this Agreement;

(b) " **Business Day** " means a day which is not a Saturday, Sunday or statutory holiday (as defined in the *Employment Standards Act* (British Columbia)) in British Columbia;

(c) " **City** " means the City of Vancouver;

(d) " **Completion Date** " means that day which is 30 days after the satisfaction or waiver of the Purchaser's Conditions;

(e) " **Conditions Removal Date** " means 5:00 p.m. (Vancouver time) on February 18, 2011;

(f) " **Confidential Information** " means the confidential information set forth in section 9.14;

(g) “ **Delivery Materials** ” means all information and material delivered to or otherwise made available to the Purchaser pursuant to subsections 4.1(b) and (c);

(h) “ **Deposit** ” means, collectively, the amounts paid by the Purchaser pursuant to subsections 2.3(a) and (b);

(i) “ **Effective Date** ” means December 22, 2010;

(j) “ **Environment** ” means humans, animals, plants and other living organisms and all components of the earth, including air, land, soil, water (including surface and underground water) and all other external conditions or influences under which humans, animals, plants and other living organisms, live or are developed, and the interacting natural systems that include any of the components referred to in this definition;

(k) “ **Environmental Laws** ” means all applicable common laws, statutes, regulations, rules, standards, codes, protocols, policies, guidelines and bylaws of, or issued by or under the direction or authority of, any Governmental Authority relating to or in respect of the protection of the Environment or in respect of Hazardous Substances including the *Fisheries Act* (Canada), the *Canadian Environmental Protection Act* (Canada), the *Transportation of Dangerous Goods Act* (Canada) and the *Environmental Management Act* (British Columbia);

(l) “ **Equipment** ” means all the chattels, personal property, goods, equipment, inventory and supplies used by the Vendor or anyone on the Vendor’s behalf in connection with the operation, use, enjoyment, maintenance or management of the Lands, provided however that the Equipment must be owned by the Vendor or otherwise be subject to a conditional sale agreement in favour of the Vendor as of the Effective Date;

(m) “ **Estoppel Certificates** ” means a certificate substantially in the form set out in Schedule B addressed to the Purchaser and such other Persons as the Purchaser requires or in any other form or forms which may be required or specified under the terms of any of the Leases;

(n) “ **Governmental Authority** ” means any federal, provincial, regional, municipal or local government, government authority, office or official having jurisdiction or other political subdivision of any of them, or any entity, authority, agency or court or person exercising executive, legislative, judicial, regulatory or administrative functions on behalf of any such government, government authority, office or official having jurisdiction or other political subdivision thereof;

(o) “ **Hazardous Substance** ” means any substance, material or thing or combination of substances, materials or things which could cause an adverse effect on, or which is dangerous or detrimental or potentially dangerous or detrimental to, any part of the Environment, including a substance, material or thing included in or containing components included in the definition or meaning of “biomedical waste”, “contaminant”, “dangerous good”, “deleterious substance”, “hazardous product”, “nutrient”, “pollutant”, “reportable substance”, “Special Waste” or “toxic substance” or any variation of any such term, in any Environmental Law or which is prohibited, controlled or regulated under any Environmental Law and, in respect of the foregoing, is found in a material or relevant concentration for the purpose of any Environmental Laws;

(p) “ **HST** ” has the meaning set forth in section 9.5;

(q) “ **HST Certificate** ” has the meaning set forth in section 9.5;

(r) “ **Lands** ” means that real property legally described in Schedule A, together with all buildings, improvements (including parking structures) and fixtures thereon and all rights and benefits appurtenant thereto (for greater certainty, such appurtenant rights and benefits include the Leases);

(s) “ **Leases** ” means every written agreement, pursuant to which any person has any interest in the Lands in the nature of a tenancy or a right to occupy premises, including any modification or extension thereof, and “ **Lease** ” means any of such Leases;

(t) “ **LTO** ” means the Lower Mainland Land Title Office;

(u) “ **Lululemon Lease** ” means the lease dated May 21, 2010, as amended from time to time, between the Vendor, as landlord, and the Purchaser, as tenant, in respect of the Lands;

(v) “ **Order** ” means any written directive, decision, order, notice including a notice of litigation or proceeding, letter or other written communication, that requires the taking of any measures or actions or refraining from taking any measures or actions, issued or made by any Governmental Authority under any Environmental Law;

(w) “ **Other Leases** ” means the Leases, excluding the Lululemon Lease;

(x) “ **Other Tenants** ” means the Tenants, excluding the Purchaser, as tenant under the Lululemon Lease;

(y) “ **Parties** ” means, collectively, the Vendor and the Purchaser and “ **Party** ” means either of the Vendor or the Purchaser;

(z) “ **Permitted Encumbrances** ” means the Leases and the legal notations, charges, liens and interests listed in Schedule A attached hereto (except for any Leases listed in Schedule A that pertain to premises that are no longer occupied by the applicable Tenant), including any agreements entered into by the Vendor in accordance with sections 4.5 and 4.6 and any other tenancy agreements, agreements, charges, liens, or encumbrances expressly permitted in writing by the Purchaser prior to the Completion Date;

(aa) “ **Person** ” includes a firm, corporation or other entity;

(bb) “ **Purchase Price** ” means the amount set out in section 2.2;

(cc) “ **Purchased Property** ” means the Lands, the Leases, the Equipment, those of the Service Contracts which are assigned to the Purchaser with effect on the Completion Date pursuant to this Agreement, and all other rights and benefits to be granted or transferred to the Purchaser under this Agreement;

(dd) “ **Purchaser** ” means lululemon athletica canada inc.;

(ee) " **Purchaser’s Conditions** ” means the conditions precedent set forth in subsections 6.1(a) and 6.1(b);

(ff) “ **Purchaser’s Solicitors** ” means the Vancouver office of McCarthy Tétrault LLP;

(gg) “ **Quantity Surveyor** ” means an independent quantity surveyor approved by the Purchaser, acting reasonably, and retained by the Vendor for the purposes of section 3.4;

(hh) “ **Release** ” includes releasing, spilling, leaking, pumping, pouring, flowing, depositing, emitting, emptying, discharging, escaping, leaching, disposing and dumping and includes all matters included in the words “introduce waste into the environment” in the *Environmental Management Act* (British Columbia), the word “deposit” in the *Fisheries Act* (Canada) or the word “release” in the *Canadian Environmental Protection Act* (Canada), in each case as in force on the date of this Agreement;

(ii) “ **Replacement Estoppel Certificates** ” has the meaning set forth in section 4.5;

(jj) " **RJC Report** ” has the meaning set forth in section 4.1(b)(iv);

(kk) “ **Service Contracts** ” means all written agreements entered into by or on behalf of the Vendor with respect to the furnishing of supplies or services to the Lands or with respect to the management or operation of the Lands (including agreements with parking facility operators, janitors, building managers and other management or maintenance personnel);

(ll) “ **Statement of Adjustments** ” has the meaning set forth in subsection 3.3(c);

(mm) “ **Tenants** ” means all persons holding an interest in the Lands pursuant to the Leases and “ **Tenant** ” means any of such Tenants;

(nn) “ **Tenant Receivables** ” has the meaning set forth in subsection 3.3(f);

(oo) “ **Transfer** ” means the Freehold Transfer delivered to the Purchaser’s Solicitors pursuant to subsection 7.1(a);

(pp) “ **Vendor** ” means 2725312 Canada Inc.; and

(qq) “ **Vendor’s Solicitors** ” means the Vancouver office of Stikeman Elliott LLP.

1.2 GENERAL PRINCIPLES.

For the purposes of this Agreement:

(a) “this Agreement” means this Agreement, including the Schedules hereto, as the same may be supplemented or amended and in effect from time to time;

(b) any reference in this Agreement to a section, subsection, paragraph, subparagraph or Schedule is a reference to the appropriate section, subsection, paragraph, subparagraph or Schedule in or to this Agreement;

(c) if any provision of this Agreement or any part hereof is found or determined to be invalid it will be severable and severed from this Agreement and the remainder of this Agreement will be construed as if such invalid provision or part had been deleted from this Agreement;

(d) this Agreement and all matters arising hereunder will be governed by and construed in accordance with the laws of British Columbia, which will be deemed to be the proper law hereof, and the courts of British Columbia will have the non-exclusive jurisdiction to entertain and determine all claims and disputes arising out of or in any way connected with this Agreement and the validity, existence and enforceability hereof;

(e) the headings used in and the organization of this Agreement are solely for convenience of reference and will not in any way affect, limit, amplify or modify the terms hereof and will not be construed in any way to be part of this Agreement in the interpretation hereof;

(f) the words "herein", "hereof" and "hereunder" and words of similar import refer to this Agreement as a whole and not to any particular Article, section, subsection, paragraph, subparagraph or other subdivision or Schedule hereof;

(g) the word "including", when following any general statement, term or matter, will not be construed to limit such general statement, term or matter to the specific items or matters set forth immediately following such word or to similar items or matters, but will be construed to refer to all other items or matters that could reasonably fall within the scope of such general statement, term or matter, whether or not non-limiting language (such as "without limitation", "but not limited to" or words of similar import) is used with reference thereto;

(h) in the computation of periods of time from a specified date to a later specified date, unless otherwise expressly stated, the word "from" means "from and including" and the word "to" and "until" each mean "to but excluding";

(i) words importing the masculine gender include the feminine or neuter gender and words in the singular include the plural, and vice versa;

(j) any reference to a statute includes and is a reference to such statute and to the regulations made pursuant thereto, with all amendments made thereto and in force from time to time, and to any statutes or any regulations that may be passed which have the effect of supplementing or superseding such statutes or regulations;

(k) all references to monetary amounts in this Agreement are references to Canadian dollars; and

(l) any reference herein to "the knowledge of the Vendor", "the awareness of the Vendor" or "aware" (with reference to the Vendor) will mean the actual knowledge of Chrystal Burns, Director, Investment Management and John Purcell, Senior Vice President & Portfolio Manager, both of Bentall Kennedy (Canada) LP. For greater certainty, and in furtherance of the "as is-where is" basis of this transaction, neither the Vendor, Ms. Burns nor Mr. Purcell will be required to conduct or initiate any investigations or inquiries of any kind whatsoever or to commission any independent or internal studies, investigations or reports in connection with the Purchased Property or any matters contemplated by or otherwise dealt with in this Agreement, except that each of Ms. Burns and Mr. Purcell will consult with such asset managers, portfolio managers and leasing managers within Bentall Kennedy (Canada) LP as may be reasonably necessary to ensure that they are fully informed regarding the matter that is qualified by the "awareness" or "knowledge" of the Vendor.

1.3 SCHEDULES.

The following are the Schedules to this Agreement, each of which is an integral part hereof:

Schedule A	Lands and Permitted Encumbrances
Schedule B	Estoppel Certificate

ARTICLE 2
PURCHASE AND SALE

2.1 AGREEMENT OF PURCHASE AND SALE.

Subject to the terms and conditions of this Agreement and based on the warranties and representations herein contained, the Vendor agrees to sell and the Purchaser agrees to purchase the Purchased Property on the Closing Date for the Purchase Price, all on an "as is-where is" basis.

2.2 PURCHASE PRICE.

The Purchase Price for the Purchased Property will be $65,000,000, exclusive of HST. The Parties will use reasonable efforts to agree prior to the Completion Date on an allocation of the Purchase Price among the Purchased Property. However, the Parties acknowledge and agree that failure to agree on such an allocation prior to the Completion Date will neither confer on any Party the right to terminate this Agreement nor result in the termination of this Agreement.

2.3 PAYMENT OF PURCHASE PRICE.

The Purchase Price for the Purchased Property will be paid as follows:

(a) as to $1,000,000, by payment of such amount by the Purchaser to the Purchaser's Solicitors, in trust, and as a stakeholder under the *Real Estate Services Act* , within two (2) Business Days after the Effective Date;

(b) as to $14,000,000, by payment of such amount by the Purchaser to the Purchaser's Solicitors, in trust, and as a stakeholder under the *Real Estate Services Act* , within two (2) Business Days after the satisfaction or waiver of the Purchaser's Conditions; and

(c) as to the balance of the Purchase Price (subject to the adjustments made pursuant to section 3.3), by payment of such amount by the Purchaser to the Vendor pursuant to Article 8.

2.4 INVESTMENT OF DEPOSIT.

The Deposit will be invested by the Purchaser's Solicitors in an interest-bearing trust account or certificate of deposit as approved by the Purchaser, with interest for the account of the Purchaser unless the Deposit and interest is paid to the Vendor pursuant to paragraph 2.5(a)(ii).

2.5 APPLICATION OF DEPOSIT.

The amount paid at any time on account of the Deposit will be:

(a) paid to the Vendor:

(i) on the Completion Date on account of the Purchase Price, if the Vendor and the Purchaser complete the sale and purchase of the Purchased Property on the Completion Date; or

(ii) together with interest earned thereon, upon the default of the Purchaser in completing the purchase of the Purchased Property on the Completion Date (after the Purchaser's Conditions have been satisfied or waived), unless such default is expressly waived in writing by the Vendor, or otherwise upon the Purchaser repudiating this Agreement, whereupon such amount so paid to the Vendor will be absolutely forfeited to the Vendor as liquidated damages as the Vendor's sole and exclusive remedy and this Agreement will terminate forthwith upon such payment being made. For greater certainty, the Purchaser hereby acknowledges and agrees that such forfeiture of the Deposit and accrued interest will not constitute a penalty and the Purchaser will neither allege nor assert that such forfeiture is harsh, unconscionable or a penalty; or

(b) paid to the Purchaser (less the $10.00 paid by the Purchaser to the Vendor pursuant to section 6.1):

(i) if the Purchaser does not notify the Vendor of the satisfaction or waiver of all of the Purchaser's Conditions in the manner and within the time provided therein; or

(ii) upon the default of the Vendor, without prejudice to any other right or remedy of the Purchaser, if the Vendor is in default of its obligation to complete the sale of the Purchased Property hereunder, unless such default is expressly waived in writing by the Purchaser, or otherwise upon the Vendor repudiating this Agreement and without prejudice to any other right or remedy of the Purchaser, or the Purchaser has elected to complete the purchase of the Purchased Property without prejudice to any other right or remedy of the Purchaser; or

(iii) if this Agreement is terminated pursuant to subsection 3.4(b) or if the Purchaser elects not to complete the purchase of the Purchased Property pursuant to section 8.7.

ARTICLE 3
COMPLETION, POSSESSION AND ADJUSTMENTS

3.1 COMPLETION.

The completion of the purchase and sale of the Purchased Property contemplated by this Agreement will occur on the Completion Date, or such other date as may be agreed in writing by the Parties, and the place of closing will be the Vancouver offices of the Purchaser's Solicitors at 1300 – 777 Dunsmuir Street, Vancouver, British Columbia.

3.2 POSSESSION.

The Vendor will deliver to the Purchaser possession of the Purchased Property free from all liens, claims, charges, encumbrances and legal notations other than the Permitted Encumbrances immediately upon completion of the sale and purchase of the Purchased Property.

3.3 ADJUSTMENTS.

(a) Adjustment Date . Adjustments for the Purchased Property will be made as of the Completion Date and the payment due pursuant to subsection 2.3(c) will be adjusted accordingly. Except as otherwise provided in this Agreement, the Vendor will be responsible for all expenses and will be entitled to all revenues accrued with respect to the Purchased Property for the period ending on the day before the Completion Date and, for the period from and including the Completion Date, the Purchaser will be responsible for all expenses and will be entitled to all revenues accruing with respect to the Purchased Property.

(b) Adjustment Items . The adjustments with respect to the Leases will include all current rents (including current basic rent, current additional rent and other current charges), prepaid rents and other prepaid charges, security deposits and all other items normally adjusted between a vendor and purchaser in respect of the sale of property similar to the Lands. For greater certainty:

(i) pursuant to the Lululemon Lease, the Purchaser has prepaid the basic rent payable for the first three years of the term thereof, and the Purchaser will receive a credit on the Statement of Adjustments for the portion of such basic rent that is attributable to the period from and after the Completion Date; and

(ii) pursuant to the Lululemon Lease, the Vendor is obligated to undertake certain future work in respect of the proposed lease expansion scheduled to occur in 2011, and such obligations on the part of the Vendor will be assumed by the Purchaser on the Completion Date.

(c) Statement of Adjustments . A statement of adjustments (the " **Statement of Adjustments** ") will be delivered to the Purchaser by the Vendor at least five (5) Business Days prior to the Completion Date and will have annexed thereto details of the calculations used to arrive at all debits and credits on the Statement of Adjustments. The Vendor will give the Purchaser and its representatives reasonable access to all working papers and back-up materials in order to verify the accuracy of the Statement of Adjustments.

(d) Readjustment . If the final cost or amount of an item which is to be adjusted has not been determined as of the Completion Date, then an initial calculation or adjustment for such item will be made as of the Completion Date and reflected on the Statement of Adjustments. The amount of such item will be estimated by the Vendor and agreed to by the Purchaser, each acting reasonably, as of the Completion Date on the basis of the best evidence available at the Completion Date as to what the final cost or amount of such item will be. In each case, when such cost or amount is determined (such determination to be made as soon as possible and in any event prior to that day which is one year after the Completion Date), the Purchaser will, within 30 days of determination, provide a complete statement thereof to the Vendor and, within 30 days thereafter, the Vendor and the Purchaser will make a final adjustment as of the Completion Date for the item in question. In the absence of agreement by the Parties, the final cost or amount of an item will be determined by independent auditors, acceptable to the Vendor and the Purchaser, each acting reasonably, with the cost of such auditors' determination being shared equally between the Vendor and the Purchaser. On the Completion Date, the Parties will execute an undertaking to further adjust between themselves to confirm the agreement set out in this section 3.3.

(e) Commissions, Tenant Inducements and Landlord's Work. With respect to:

(i) any Lease entered into by the Vendor prior to the Effective Date, and subject only to the exception set forth in paragraph 3.3(b)(ii), the Vendor will be responsible for the payment of all third party leasing commissions, whether payable or accrued before or after the Completion Date, of all tenant inducements and allowances, including lease take-over obligations and free rent, payable or accrued with respect to such Lease, and of all costs and expenses of any landlord's work or improvements pursuant to such Lease. To the extent that any such leasing commissions, tenant inducements and allowances and costs of landlord's work or improvements for which the Vendor is responsible have not been paid by the Vendor as of the Completion Date, the Purchaser will be credited with respect thereto on the Statement of Adjustments; and

(ii) any Lease modified by the Vendor after the Effective Date or any new lease entered into by the Vendor after the Effective Date, in each case modified or entered into with the prior written approval of the Purchaser, the Purchaser will be responsible for the payment of all third party leasing commissions, whether payable or accrued before or after the Completion Date, of all tenant inducements and allowances, including lease take-over obligations and free rent, payable or accrued with respect to such Lease, and of all costs and expenses of any landlord's work or improvements pursuant to such modification of Lease or new Lease and, for greater certainty, if the Purchaser does not approve of any such modification, the Vendor will be responsible for payment of all such amounts and the Purchaser will be credited with respect thereto on the Statement of Adjustments.

(f) Tenant Receivables. Any rental arrears and accounts receivable and any other claims against a Tenant payable or accrued prior to the Completion Date and unpaid on the Completion Date (the "**Tenant Receivables**") will remain the property of the Vendor and there will be no adjustment in favour of the Vendor on the Statement of Adjustments for such amounts save and except for arrears under the Lululemon Lease, which arrears will be adjusted on the Completion Date. Any amount of rent received or collected by the Purchaser after the Completion Date from a Tenant that owes Tenant Receivables to the Vendor will be credited, first, to current month's rent, second, to any arrears of rent owing and accruing from and after the Completion Date, and third, to any Tenant Receivables owed to the Vendor. Any amount of rent received or collected by the Vendor after the Completion Date from a Tenant that owes Tenant Receivables to the Vendor will be credited, first, to such Tenant Receivables, and any surplus rent, if any, received or collected by the Vendor will be promptly paid to the Purchaser.

3.4 RISK.

The Lands and Equipment will be at the Vendor's risk until the completion of the transaction contemplated herein and thereafter at the risk of the Purchaser. If there is material loss or damage to the Lands and Equipment before the completion of the sale and the purchase of the Purchased Property, the following provisions will apply:

(a) if in the written opinion of the Quantity Surveyor the estimated cost to repair such damage is less than $750,000, then the Vendor must elect, within ten (10) Business Days of receipt of the Quantity Surveyor's opinion, to either (A) repair the damage with due dispatch following the delivery of such opinion and receipt of applicable insurance proceeds or (B) assign to the Purchaser all insurance policies and proceeds derived therefrom relevant to the damage to the Lands and the Equipment, and to pay to the Purchaser on closing an amount equal to the deductible under such insurance policies and to complete the sale and purchase of the Purchased Property;

(b) if in the written opinion of the Quantity Surveyor the estimated cost to repair such damage is greater than $750,000, then the Purchaser will be entitled to elect, within ten (10) Business Days of receipt of the Quantity Surveyor's opinion, to either (A) terminate this Agreement, in which event the Deposit and all interest earned thereon will be returned to the Purchaser, and thereafter neither party will have any further or continuing obligation to the other under this Agreement (except as otherwise specifically provided for in this Agreement) or (B) require the Vendor to assign to the Purchaser all insurance policies and proceeds derived therefrom relevant to the damage to the Lands and the Equipment, and to pay to the Purchaser on closing an amount equal to the deductible under such insurance policies and to complete the sale and purchase of the Purchased Property;

(c) if necessary, the Completion Date will be extended until that day which is ten (10) Business Days after the delivery of the Quantity Surveyor's written opinion to the Vendor and the Purchaser, subject to further extension of the Completion Date pursuant to paragraph (d) below; and

(d) if the Vendor elects to repair pursuant to paragraph (a) above, the completion of the purchase and sale of the Purchased Property following the occurrence of any such damage will be the later of:

(i) the Completion Date as defined in this Agreement; and

(ii) the tenth (10^{th}) Business Day after the date the Purchaser receives from the Vendor a certificate of the Architect that the damage to the Lands and the Equipment has been substantially repaired.

ARTICLE 4
VENDOR'S COVENANTS, REPRESENTATIONS AND WARRANTIES

4.1 BASIC COVENANTS.

The Vendor covenants and agrees with the Purchaser that the Vendor will:

(a) subject to the rights of the Other Tenants, permit the Purchaser and the Purchaser's employees, engineers, agents and advisors to enter onto the Lands and carry out such inspections, tests, studies, surveys and investigations of the Lands and Equipment as the Purchaser may reasonably require on twenty-four (24) hours' written notice, provided that the Purchaser's access to the Lands for such purposes will be at reasonable times scheduled by the Vendor at the Purchaser's request and in accordance with the terms of the Other Leases and, at the option of the Vendor, subject to the Vendor's supervision, will cause no material disruption to any of the Other Tenants or other occupants of the Lands, will be at the Purchaser's sole risk and expense and will be subject to the Purchaser, at its cost, repairing any and all damage caused in connection therewith and indemnifying the Vendor in accordance with section 5.5;

(b) permit the Purchaser to have access during normal business hours to the Vendor's correspondence files with respect to the Other Tenants, (and will permit the Purchaser to make such copies thereof, at the Purchaser's cost, as the Purchaser may reasonably require), and deliver to the Purchaser at its address herein on or before the date which is three (3) Business Days after the Effective Date:

(i) original or true and complete copies of the Other Leases and of any current drafts of any anticipated offers to lease any part of the Lands;

(ii) a true and complete "rent roll" in respect of the Leases, consisting of a list of the Tenants, the monthly rental payable by each, the date the tenancy commenced, particulars of any arrears of rent owing by or outstanding dispute with any Other Tenant, particulars of any default under the Other Leases (including material non-financial defaults), particulars of any modification of any Other Leases, particulars of any prepayments or abatements of rent, particulars of any security or damage deposits held by or on behalf of the Vendor;

(iii) to the extent they are in the Vendor's possession or control, true and complete copies of all plans, drawings and specifications of the Lands (including floor plans, elevation drawings, building cross-sections and site plans), "as built" or other mechanical, electrical and plumbing drawings, building inspection certificates, licences and permits issued in connection with or pertaining to the Lands;

(iv) to the extent they are in the Vendor's possession or control, true and complete copies of all third party reports (including engineering, geotechnical and environmental reports), surveys, plans, specifications, drawings and permits concerning the Lands and the Equipment, and with respect to the physical condition (excluding the environmental condition) of the Equipment and the improvements located on the Lands, the Vendor will deliver only the report prepared and issued by RJC Consultants in February 2008 (the " **RJC Report** "), which the Vendor represents and warrants is the most recent third party report examining the physical condition of the Equipment and the improvements located on the Lands that is in the Vendor's possession and control. For greater certainty, the Vendor will not be required to deliver to the Purchaser any appraisals of the Lands or other like documents that purport to establish the value (whether actual or based on assumptions) of any component of the Purchased Property, or any third party reports or internal reports examining the physical condition (excluding the environmental condition) of the Equipment and/or the improvements located on the Lands other than the RJC Report, but will be required to deliver all other third party reports (including engineering, geotechnical and environmental reports) which do not pertain to the physical condition (excluding the environmental condition) of the Equipment and the improvements on the Lands, as contemplated above;

(v) to the extent they are in the Vendor's possession or control, true and complete copies of any documents indicating whether:

A. the building on the Lands encroaches onto adjacent land or any buildings on adjacent land encroach onto the Lands;

B. the Lands provide adequate support for adjacent land, receive adequate support from adjacent land, or are unstable; and

C. the Lands suffer from or cause drainage, erosion or flooding problems;

(vi) to the extent they are in the Vendor's possession or control, the originals or true and complete copies of all agreements and correspondence with the City regarding development levies, if any, or local improvement charges, if any, payable after the Completion Date, servicing agreements, zoning, building restrictions, development permits and building permits related to the development of the Lands;

(vii) a reasonably detailed inventory of the Equipment;

(viii) original or true and complete copies of the Service Contracts and a summary of the state of accounts with respect to the Service Contracts as at the Effective Date;

(ix) a list of all warranties in favour of the Vendor currently in effect with respect to the Lands and the Equipment;

(x) property level operating statements with respect to the Lands for 2008, 2009 and 2010 to date and a written statement of all budgeted expenses for 2011;

(xi) current property tax statements for the Lands and particulars of any current property tax appeals;

(xii) to the extent they are in the Vendor's possession or control, any other document or information which is within the scope of disclosure described in paragraphs 4.1(b)(i) to (xi) and is requested in writing from time to time by the Purchaser, acting reasonably, and which is relevant or material to the operation and ownership of the Purchased Property; and

(xiii) all material information in the possession or control of the Vendor with respect to any and all First Nation or aboriginal claims or issues associated with the Lands;

(c) deliver to the Purchaser the original or a true and complete copy of any other document of the type described above in subsection 4.1(b) which, after the Effective Date, comes within the possession of the Vendor, such delivery to be made within three (3) Business Days following such date of possession;

(d) subject to the overriding provisions of section 9.14 and subsection 5.3(b), permit the Purchaser and its agents, representatives and consultants to make such copies of the material referred to in subsections 4.1(b) and 4.1(c), at the Purchaser's cost, as the Purchaser may reasonably require in connection with its due diligence review of the Purchased Property;

(e) from the Effective Date until the Completion Date, use its reasonable commercial efforts to maintain the Lands and Equipment in the same general state of repair and condition as exists as of the Effective Date, subject to reasonable wear and tear;

(f) from the Effective Date until the Completion Date:

(i) enforce the terms of all Leases (however, in no event will the Vendor be entitled to terminate any of the Leases except as permitted under section 4.6 without the prior written consent of the Purchaser);

(ii) not modify existing Leases and not enter into any new Lease except as permitted under section 4.6; and

(iii) not modify existing Service Contracts and not enter into any new Service Contract except as permitted under section 4.7;

(g) maintain in force current insurance in respect of the Lands and the Equipment;

(h) cancel and terminate all existing property management agreements with respect to the Lands, effective as of the Completion Date;

(i) cancel and terminate all other contracts which relate to the operation of the Lands and the Equipment, including any Service Contracts which the Purchaser does not advise the Vendor that the Purchaser wishes to assume in accordance with section 5.4, effective as of the Completion Date;

(j) pay all amounts due, owing or payable pursuant to the Service Contracts to and including the Completion Date;

(k) execute, or cause to be executed, and return to the Purchaser or the Purchaser's Solicitors as soon as is reasonably possible all consents or letters of authority which it may be necessary for the Vendor or any director, officer or shareholder thereof, to execute in order for the Purchaser to conduct such due diligence searches with respect to the purchase of the Purchased Property as it determines to be necessary; and

(l) forward to the Purchaser within two (2) Business Days of the Vendor's receipt, any search results from government offices which are directed to the Vendor in response to any due diligence inquiries made by or at the request of the Purchaser.

4.2 VENDOR'S REPRESENTATIONS AND WARRANTIES.

The Vendor hereby represents and warrants as representations and warranties that are true as of the Effective Date and will be true at the Completion Date as follows:

(a) the Vendor has now, and will have good and marketable legal and beneficial title to the Purchased Property on the Completion Date, free and clear of all liens, claims, charges, encumbrances and legal notations save and except for the Permitted Encumbrances;

(b) the Vendor is a body corporate duly incorporated and validly existing under the laws of Canada and is duly qualified to own and sell the Purchased Property and has full power, authority and capacity to enter into this Agreement and to carry out the transactions contemplated herein;

(c) the Vendor has never been struck from the register of companies maintained by its jurisdiction of incorporation;

(d) all necessary corporate action on the part of the directors and shareholders of the Vendor has been taken to authorize and approve the execution and delivery of this Agreement, the completion of the transactions contemplated herein and the performance and observance of the Vendor's obligations hereunder;

(e) there is no action or proceeding pending or, to the knowledge of the Vendor, threatened against the Vendor before any court, arbiter, arbitration panel or administrative tribunal or governmental agency which, if decided adversely to the Vendor, might materially affect the Vendor's ability to perform the Vendor's obligations hereunder;

(f) no consent or approval of, or registration, declaration or filing with any governmental commission, board or other regulatory body is required for the execution or delivery of this Agreement by the Vendor, the validity or enforceability of this Agreement against the Vendor, or the performance by the Vendor or any of the Vendor's obligations hereunder;

(g) neither the Vendor entering into this Agreement nor the performance by the Vendor of the terms hereof will result in the breach of or constitute a default under any term or provision of any instrument, document, agreement, statute, bylaw, regulation, or encumbrance to which the Vendor or the Purchased Property are bound or subject or which would result in the creation of any lien, encumbrance or other charge on the Purchased Property;

(h) the Vendor is not a "non-resident" of Canada within the meaning of the *Income Tax Act* (Canada);

(i) the Vendor has no present or future obligation to construct or provide, or to pay any amount to any person in connection with, off-site services, utilities or similar services in connection with the Lands;

(j) there is no action, suit, claim or litigation pending or, to the knowledge of the Vendor, threatened with respect to the Lands or the existing use or occupancy thereof and, to the knowledge of the Vendor, no state of facts exists which could constitute the basis of any such action, suit, claim or litigation;

(k) except as may otherwise be disclosed in the Delivery Materials, the Vendor has not received and the Vendor is not aware of any notice, request, directive or order from any Governmental Authority or official, requesting, requiring or ordering the performance of any work or alteration in respect of the Lands. For the purposes of this subsection, reference to any notice, request, directive or order means any written notice, request, directive or order;

(l) the Vendor has received no written notice of and the Vendor is not aware of any proposed expropriation of the Lands or any part thereof;

(m) all local improvement, municipal, real property, school and other taxes and assessments of any kind whatsoever levied by any Governmental Authority having jurisdiction which are due or payable, are paid in full to the due date for payment thereof except for current charges for utilities consumed in the Lands and, except as disclosed to the Purchaser in writing, on the Completion Date will be paid in full to the Completion Date;

(n) the Equipment will, on the Completion Date:

(i) be free and clear of all claims, liens, charges and encumbrances; and

(ii) be assignable by the Vendor to the Purchaser,

except as disclosed by the Vendor to the Purchaser pursuant to subsection 4.1(b);

(o) there are no Other Leases, except those delivered to the Purchaser as part of the Delivery Materials, and in respect of each of the Other Leases:

(i) each is a valid and subsisting lease and no default exists thereunder, except as disclosed by the Vendor to the Purchaser pursuant to subsection 4.1(b);

(ii) the rents and other payments reserved by each Other Lease have not been demanded, collected, accepted or paid in advance of the time for payment thereof, except as disclosed by the Vendor to the Purchaser pursuant to subsection 4.1(b);

(iii) the Vendor is the absolute owner thereof and has not assigned, mortgaged, pledged, hypothecated or otherwise dealt with such Other Lease or rents payable thereunder and there is no existing right of defence, set off or counterclaim against the Vendor on the part of the tenant therein or any guarantor, indemnitor or covenantor in respect thereof;

(iv) all covenants on the part of the landlord in each of the Other Leases has been observed and performed, except as disclosed by the Vendor to the Purchaser pursuant to subsection 4.1(b); and

(v) there are no deposits held or prepayments of any rents, common expenses or other payments in connection with any of the Other Leases, except as disclosed by the Vendor to the Purchaser pursuant to subsection 4.1(b);

(p) each of the Service Contracts is in good standing and assignable to the Purchaser or can be terminated by the Vendor on not more than 30 days’ notice, except as disclosed by the Vendor to the Purchaser pursuant to subsection 4.1(b), and there is no material default thereunder by the Vendor or the other contracting parties thereto and contains the entire agreement between the parties identified therein. There are no oral or partially oral and partially written Service Contracts;

(q) to the Vendor’s knowledge, all of the documents and other materials provided pursuant to subsections 4.1(b) and 4.1(c) are true and complete copies;

(r) the Vendor is not now and has not been a party to any collective agreement or subject to any collective bargaining obligation relating to the Purchased Property or any business conducted thereon with any labour union or other association of employees;

(s) the Vendor has no employees in respect of the Vendor’s operation of the Lands for whom the Purchaser will be responsible following the completion of the sale and purchase of the Purchased Property;

(t) there are no rights of first refusal to purchase, options to purchase, rights of first refusal to lease, options to lease or similar agreements which have been granted by the Vendor in respect of any part of the Purchased Property other than any such agreements which may be contained in the copies of the Leases delivered by the Vendor to the Purchaser and except as disclosed by the Vendor to the Purchaser pursuant to subsection 4.1(b); and

(u) the Vendor is not in default under any provision of any of the Permitted Encumbrances or any agreement in any way related to the Lands and the Equipment, and has performed all of its obligations with respect to all such encumbrances, charges and agreements, except as disclosed by the Vendor to the Purchaser pursuant to subsection 4.1(b).

The Vendor acknowledges and agrees that the Purchaser has entered into this Agreement in reliance on the foregoing representations and warranties and the representation and warranty in paragraph 4.1(b)(iv) with respect to the RJC Report.

4.3 SURVIVAL OF REPRESENTATIONS.

The representations and warranties by the Vendor expressed in section 4.2, or otherwise expressed by the Vendor in this Agreement, will not merge on the Completion Date but will survive the Completion Date for a period of two (2) years. The Purchaser will give written notice of each breach of a representation or warranty to the Vendor, together with details thereof, promptly after becoming aware of such breach and, in any event, no later than two (2) years after the Completion Date. After the expiration of such two (2) years period, the Vendor will be absolutely and unconditionally released from all obligations and liabilities in respect of the representations and warranties expressed in section 4.2, or otherwise expressed by the Vendor in this Agreement or in any document or certificate given to the Purchaser in order to complete this transaction, save and except with respect to any claims made by the Purchaser in writing prior to the expiration of such two (2) year period.

4.4 INDEMNITY.

The Vendor will indemnify the Purchaser against, and save the Purchaser harmless from, any loss, cost or damage of any nature whatsoever sustained by the Purchaser directly or indirectly by reason of a breach by the Vendor of any of its obligations under section 4.1 or any other provision of this Agreement or a breach of, or inaccuracy in, any of the warranties or representations set forth in section 4.2 or any other provision of this Agreement.

4.5 ESTOPPEL CERTIFICATES.

Except as hereinafter provided, the Vendor will obtain and deliver to the Purchaser, prior to the completion of the purchase and sale of the Purchased Property, Estoppel Certificates from the Other Tenants. To the extent that the Vendor is unable to obtain and deliver to the Purchaser prior to the Completion Date, Estoppel Certificates from all of the Other Tenants despite using all reasonable commercial efforts to obtain the same, the Vendor will execute and deliver to the Purchaser on the Completion Date certificates of the Vendor for such Other Tenants certifying the information that would have been in the applicable Estoppel Certificates (the " **Replacement Estoppel Certificates** "). The Replacement Estoppel Certificates will be deemed for all purposes to be a representation and warranty hereunder by the Vendor of the truth and accuracy of the matters set forth in the Replacement Estoppel Certificates. The Purchaser will, for a period of sixty (60) days after the Completion Date, return to the Vendor any Replacement Estoppel Certificate (which will be deemed null and void except in the case of a material conflict of information contained in the Estoppel Certificate and the Replacement Estoppel Certificate) for which the Vendor delivers to the Purchaser an Estoppel Certificate in accordance with this section 4.5 for the same Other Lease. For greater certainty, the Vendor will not be required to obtain an Estoppel Certificate from the Purchaser in respect of the Lululemon Lease or to provide a Replacement Estoppel Certificate in respect thereof.

The Vendor will deliver to the Purchaser for its information, at least 72 hours prior to the Vendor forwarding them to the Other Tenants, drafts of all the Estoppel Certificates which the Vendor proposes to deliver to the Other Tenants for execution.

4.6 LEASE CHANGES.

Until the Purchaser's Conditions have been satisfied or waived, the Parties acknowledge and confirm that any modification of an existing Lease and all new proposed Leases will be forwarded to the Purchaser for its review. From and after the Effective Date, and prior to the satisfaction or waiver of all the Purchaser's Conditions, all such modifications and all such new proposed Leases will be subject to the prior written approval of the Purchaser, which approval will not be unreasonably withheld. From and after the satisfaction or waiver of all the Purchaser's Conditions, approval may be given or withheld in the Purchaser's sole and unfettered discretion. The Purchaser agrees that it will respond to any request for approval within three (3) Business Days after such request is made in writing to it and if the Purchaser fails to respond within such time the Purchaser will be deemed to have approved such modification or new proposed Lease. Notwithstanding the foregoing, the Purchaser will not unreasonably withhold or delay its approval in connection with any requests made by the Other Tenants for consents to assignments or sublets in connection with Other Leases.

4.7 SERVICE CONTRACT CHANGES.

Until the Purchaser's Conditions have been satisfied or waived, the Parties acknowledge and confirm that any modification of an existing Service Contract and all new proposed Service Contracts will be forwarded to the Purchaser for its review. From and after the Effective Date, and prior to the satisfaction or waiver of the Purchaser's Conditions all such modifications and all such new proposed Service Contracts will be subject to the prior written approval of the Purchaser, which approval will not be unreasonably withheld. From and after the satisfaction or waiver of the Purchaser's Conditions, approval may be given or withheld in the Purchaser's sole and unfettered discretion. The Purchaser agrees that it will respond to any request for approval within three (3) Business Days after such request is made in writing to it and if it fails to respond within such time the Purchaser will be deemed to have approved such modification or new proposed Service Contract. Notwithstanding the foregoing, the Vendor may enter into any modification of an existing Service Contract or any new Service Contract without requiring the Purchaser's approval, if the term of same expires prior to the Completion Date or if the relevant Service Contract is terminable by the Vendor prior to the Completion Date.

ARTICLE 5
PURCHASER'S REPRESENTATIONS, WARRANTIES AND COVENANTS

5.1 PURCHASER'S REPRESENTATIONS AND WARRANTIES.

The Purchaser hereby represents and warrants as representations and warranties that are true as of the Effective Date and will be true as of the Completion Date as follows:

(a) the Purchaser validly exists and is duly qualified to purchase and own the Purchased Property and has full power, authority and capacity to enter into this Agreement and carry out the transaction contemplated herein;

(b) there is no action or proceeding pending or to the Purchaser's knowledge, threatened against the Purchaser before any court, arbiter, arbitration panel, administrative tribunal or agency which, if decided adversely to the Purchaser, might materially affect the Purchaser's ability to perform the Purchaser's obligations hereunder; and

(c) neither the Purchaser's entering into this Agreement nor the performance of its terms will result in the breach of or constitute a default under any term or provision of any indenture, mortgage, deed of trust or other agreement to which the Purchaser is bound or subject.

5.2 AS IS – WHERE IS.

The Purchaser agrees and acknowledges that:

(a) the Purchaser is acquiring the Purchased Property from the Vendor on an "as is-where is" basis and the Purchaser will satisfy itself with respect to all matters related to the Purchased Property that pertain, in any way, to:

(i) the suitability or fitness of the Lands and the Equipment for the Purchaser's purposes;

(ii) the physical and environmental condition of the Lands and the Equipment;

(iii) the area or dimensions of the Lands, including the existence of any encroachments;

(iv) the rights to develop, build on, subdivide or otherwise extract value from the Lands;

(v) the existing or potential costs or obligations which might be imposed on the Purchaser by any governmental authority (including the City) including, and by way of example only, resulting from a determination that the Lands:

(A) do not provide adequate support for adjacent land, do not receive adequate support from adjacent land, or are unstable;

(B) suffers from or causes drainage, erosion or flooding problems; or

(C) the legal terms and conditions of, and the existing and potential rights and obligations which arise from or may arise from the Permitted Encumbrances;

(b) the Purchaser has entered into this Agreement relying solely and entirely upon its own inspections and the limited representations and warranties of the Vendor specifically set out herein. The Purchaser acknowledges that there are no representations, warranties, guarantees, agreements or conditions, whether direct or collateral, or express or implied, which induced the Purchaser to enter into this Agreement or on which reliance is placed by the Purchaser, or which affects this Agreement or the Purchased Property, other than as specifically set out in sections 4.2 and 4.3. The Vendor is not giving to the Purchaser, and the Purchaser is not requiring from the Vendor, any express or implied warranties and representations regarding the Lands including that, before or after the Effective Date or the Completion Date:

(i) the Lands and the surrounding Environment comply or do not comply with Environmental Laws;

(ii) the Lands and the surrounding Environment are or are not free from Special Waste or other Hazardous Substances;

(iii) any Hazardous Substances have or have not been released, spilled, leaked, pumped, poured, emitted, emptied, discharged, dumped or disposed of, or have or have not escaped, leached, or migrated, from the Lands and the surrounding Environment to, on, or under adjacent lands or their surrounding Environment; or

(iv) the Lands will or will not be environmentally or otherwise suitable for any purpose including occupancy, development, or derivation of revenue.

(c) it is the obligation of the Purchaser to satisfy itself that there is no Special Waste or other Hazardous Substances on, in or about the Lands, and the Purchaser understands and agrees that the Vendor has no obligation to make any investigations, tests or studies with respect to the existence of any Special Waste or other Hazardous Substances on, in or about the Lands;

(d) the Purchaser is relying on its own due diligence in reviewing the Delivery Materials and the Delivery Materials are not intended to constitute a representation or warranty as to any of the contents thereof on the part of the Vendor or as to the accuracy and sufficiency thereof, other than as expressly represented and warranted by the Vendor herein; and

(e) the Purchaser hereby waives, to the extent permitted by Laws, any requirement for or obligations of the Vendor to obtain or provide to the Purchaser a “site profile” or any other environmental report for the Lands as may be required under any applicable Environmental Laws.

5.3 PURCHASER’S COVENANTS.

The Purchaser covenants and agrees with the Vendor that the Purchaser will:

(a) keep the Delivery Materials in confidence pursuant to section 9.14; and

(b) return all copies of the Delivery Materials to the Vendor, including copies made by or on behalf of the Purchaser pursuant to subsections 4.1(b) and 4.1(d), in the event that the transactions contemplated herein are not completed for any reason other than the default of the Vendor.

5.4 SERVICE CONTRACTS.

Except for those of the Service Contracts which the Purchaser advises the Vendor, on or before the date that the Purchaser's Conditions are satisfied or waived in writing by the Purchaser, that the Purchaser wishes to assume, the Vendor will cause the Service Contracts to be terminated effective on or before the Completion Date.

5.5 INDEMNITY.

The Purchaser hereby covenants and agrees with the Vendor that the Purchaser will indemnify the Vendor and save the Vendor harmless from and against any and all damages, losses, liabilities, costs and expenses (including legal fees on a solicitor and own client basis) at any time suffered or incurred by the Vendor as a result of any damage or injury to the Lands or the Equipment or other property of the Vendor or of any occupant of the Lands resulting from the exercise by the Purchaser of its rights under subsection 4.1 (a) or any breach by the Purchaser of any of its obligations under any provision of this Agreement or a breach of, or inaccuracy in, any of the warranties or representations set forth in section 5.1 or any other provision of this Agreement.

5.6 ENVIRONMENTAL AND PHYSICAL CONDITION — RELEASE.

Save and except for any and all liabilities, suits, actions, obligations, statutory or other proceedings, judgments, investigations, demands, claims, losses, damages, consequential damages, remediation cost recovery claims, remediation costs, fines, penalties, expenses, and legal costs on a solicitor-client basis (collectively, the " **Claims** ") arising out of section 4.2 and 4.3,

(a) each Party, from and after the Completion Date, hereby releases the other Party from all Claims which a Party may assert against the other Party at law or in equity, arising out of or in connection with the application of Environmental Laws to the Lands, including:

(i) the non-compliance of the Lands or the surrounding Environment with any Environmental Laws;

(ii) any investigation or claim of such non-compliance by any Person;

(iii) the presence within the Lands or the surrounding Environment of "Special Waste" or other Hazardous Substances; or

(iv) the leaching, escaping; or migrating of "Special Waste" or other Hazardous Substances from the Lands or the surrounding Environment to other lands or their surrounding Environment, whether or not any such event, happening, or condition arose or arises before or after the Effective Date or the Completion Date, and whether or not caused in whole or in part or directly or indirectly by the Vendor; and

(b) from and after the Completion Date, the Purchaser hereby releases the Vendor from all Claims which the Purchaser may assert against the Vendor at law or in equity, arising out of or in connection with the physical condition and state of repair of the Lands and the buildings, improvements, structures and fixtures thereon.

5.7 SURVIVAL OF REPRESENTATIONS.

The representations and warranties by the Purchaser expressed in section 5.1 will not merge on the Completion Date but will survive the Completion Date for a period of two (2) years. The Vendor will give written notice of each breach of a representation or warranty to the Purchaser, together with details thereof, promptly after becoming aware of such breach and, in any event, no later than two (2) years after the Completion Date. After the expiration of such two (2) year period, the Purchaser will be absolutely and unconditionally released from all obligations and liabilities in respect of the representations and warranties expressed in section 5.1, or otherwise expressed by the Purchaser in this Agreement or in any document or certificate given to the Vendor in order to complete this transaction, save and except with respect to any claims made by the Vendor in writing prior to the expiration of such two (2) year period.

ARTICLE 6
CONDITIONS PRECEDENT

6.1 PURCHASER'S CONDITIONS.

The obligation of the Purchaser to complete the purchase of the Purchased Property on the Completion Date is subject to each of the following Purchaser's Conditions having been waived by the Purchaser in writing or satisfied by the Purchaser, on or before the Conditions Removal Date:

(a) the Purchaser will have conducted all of its due diligence searches with respect to the Purchased Property and will have completed its review of the Delivery Materials and, without limiting any of its rights or remedies under this Agreement, have satisfied itself, in its sole discretion, as to all matters related to the Purchased Property and the transactions contemplated hereby, including all matters related to projected revenues and expenses, the Other Leases, the Service Contracts and other relevant contracts, the geotechnical, engineering and environmental condition of the Lands, the title to the Lands and the physical condition of the Lands and fitness for use of the Purchased Property by the Purchaser; and

(b) the Purchaser will have obtained the approval of its Board of Directors to the completion of the purchase of the Purchased Property pursuant to the terms of this Agreement.

In consideration of the non-refundable sum of $10.00 paid by the Purchaser to the Vendor and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the Vendor, the Vendor acknowledges and agrees that, although the Purchaser's obligation to complete the sale and purchase contemplated by this Agreement is subject to satisfaction or waiver of the Purchaser's Conditions, this Agreement is not void, voidable, revocable or, otherwise capable of being terminated by the Vendor until the time limited for the satisfaction or waiver of the Purchaser's Conditions has expired.

For greater certainty, the Purchaser acknowledges and agrees that the $10.00 paid to the Vendor pursuant to this paragraph is the absolute property of the Vendor and in no event will the $10.00 be returnable to or paid to the Purchaser.

6.2 WAIVER AND SATISFACTION.

The Purchaser's Conditions are for the Purchaser's sole benefit and each may be waived unilaterally by the Purchaser, at the Purchaser's election. None of the Purchaser's Conditions will be considered satisfied unless the Purchaser confirms to the Vendor in writing that such condition has been satisfied. If the Purchaser does not give the Vendor notice of the satisfaction or waiver of each of the Purchaser's Conditions by the Conditions Removal Date then the Purchaser's obligation to purchase, and the Vendor's obligation to sell, the Purchased Property pursuant to this Agreement will be at an end and the Deposit and all interest accrued on it will be returned immediately to the Purchaser.

ARTICLE 7
PREPARATION OF CLOSING DOCUMENTS

7.1 DELIVERY OF CLOSING DOCUMENTS BY THE VENDOR.

On or before the Completion Date, the Vendor will cause the Vendor's Solicitors to deliver to the Purchaser's Solicitors the following items, duly executed by the Vendor and all other persons (other than the Purchaser) as appropriate and in registrable form wherever appropriate, to be dealt with pursuant to Article 8:

Documents Transferring Lands:

(a) a Freehold Transfer (*Land Title Act* — Form A) conveying the Lands to the Purchaser (or as otherwise directed by the Purchaser);

(b) an agreement pursuant to which the Vendor assigns to the Purchaser and the Purchaser assumes the Leases and all deposits, guarantees, indemnities, covenants and other security in respect of any of them;

(c) directions to the Other Tenants directing the Other Tenants to pay future rentals to or as directed by the Purchaser;

(d) the Estoppel Certificates required pursuant to section 4.5 (and, if required, the Replacement Estoppel Certificates);

(e) an agreement pursuant to which the Vendor assigns to the Purchaser and the Purchaser assumes those of the Service Contracts (if any) in which the Purchaser has elected pursuant to section 5.4 to assume;

(f) an agreement pursuant to which the Vendor assigns to the Purchaser and the Purchaser assumes the Vendor's right, title and interest and benefit in and to all current warranties which are assignable and which pertain to the Lands and the Equipment and in and to all Delivery Materials and all trade marks, trade names and other intellectual property used exclusively in connection with the Lands;

(g) a discharge of Notice of Interest BM33815;

Documents Transferring Equipment:

(h) a bill of sale conveying and assuring to the Purchaser good and marketable title in and to the Equipment, free and clear from any lien, claim, charge or encumbrance of any kind or nature whatsoever;

Other Documents:

(i) a Statement of Adjustments prepared in accordance with section 3.3;

(j) a certificate of the Vendor, dated the Completion Date, that certifies that the Vendor has complied with all of its obligations under this Agreement in all material respects and that each of the warranties and representations of the Vendor set out herein is true and accurate on the Completion Date in all material respects;

(k) a mutual undertaking to make final adjustments in accordance with section 3.3; and

(l) such further documentation relating to the completion of the transaction contemplated herein as the Purchaser or the Vendor may reasonably require.

7.2 DELIVERY OF CLOSING DOCUMENTS BY PURCHASER.

On or before the Completion Date, the Purchaser will cause the Purchaser's Solicitors to deliver to the Vendor's Solicitors the following documents to be dealt with pursuant to Article 8:

(a) any documents contemplated by section 7.1 which require execution or delivery by the Purchaser, executed by the Purchaser;

(b) the HST Certificate, executed by the Purchaser; and

(c) such further documentation relating to the completion of the transactions contemplated herein as the Vendor may reasonably require.

7.3 PREPARATION OF CLOSING DOCUMENTS.

Except for the Statement of Adjustments, which will be prepared by the Vendor pursuant to section 3.3, the closing documents contemplated in sections 7.1 and 7.2 will be prepared by the Purchaser's Solicitors, for approval by the Vendor's Solicitors, acting reasonably, and delivered to the Vendor's Solicitors by the Purchaser's Solicitors at least two (2) Business Days prior to the Completion Date. All documents referred to in sections 7.1 and 7.2 will be in form and substance reasonably satisfactory to the solicitors for the party entitled to delivery thereof.

ARTICLE 8
CLOSING PROCEDURE

8.1 PAYMENT IN TRUST.

On or before the Completion Date, the Purchaser will pay to the Purchaser's Solicitors in trust the amount due to the Vendor pursuant to subsection 2.3(c), as adjusted pursuant to section 3.3, less the amount to be advanced to the Purchaser on the Completion Date under any mortgage financing arranged by the Purchaser.

8.2 REGISTRATION.

Forthwith following the payment in section 8.1 and after receipt by the Purchaser's Solicitors of the documents referred to in section 7.1 and after receipt by the Vendor's Solicitors of the documents referred to in section 7.2, the Purchaser will cause the Purchaser's Solicitors to file in the LTO on the Completion Date the Transfer, the discharge of Notice of Interest BM33815 and any security documents applicable to any mortgage financing arranged by the Purchaser in connection with the purchase of the Purchased Property.

8.3 CLOSING.

Forthwith following the filings referred to in section 8.2 and upon the Purchaser's Solicitors being satisfied as to the title to the Lands after conducting a post filing for registration check of the property index for the Lands disclosing only the following:

(a) the existing title number to the Lands;

(b) Permitted Encumbrances;

(c) pending numbers assigned to the instruments referred to in section 8.2; and

(d) any other charges granted by the Purchaser against the Lands,

the Purchaser will cause the Purchaser's Solicitors, forthwith upon receipt by them of the proceeds of any mortgage financing arranged by the Purchaser, to initiate a wire transfer, in accordance with wire transfer instructions to be provided by the Vendor's Solicitors on the Completion Date for the aggregate of the Deposit and the amount due to the Vendor pursuant to subsection 2.3(c), as adjusted pursuant to section 3.3, and concurrently therewith the Purchaser's Solicitors will be entitled to release the documents referred to in section 7.1 to the Purchaser, the Vendor's Solicitors will be entitled to release the documents referred to in section 7.2 to the Vendor and the Purchaser's Solicitors will be entitled to (and will be directed by the parties to) release to the Purchaser all interest earned on the Deposit (unless such interest has been adjusted for on the Vendor's Statement of Adjustments, in which event the interest will be paid to the Vendor).

8.4 CONCURRENT REQUIREMENTS.

It is a condition of this Agreement that all requirements of sections 8.1 to 8.3 are concurrent requirements and it is specifically agreed that nothing will be completed on the Completion Date until everything required to be paid, executed and delivered on the Completion Date has been so paid, executed and delivered and until the Purchaser's Solicitors have satisfied themselves as to title pursuant to section 8.3.

8.5 DISCHARGE OF ENCUMBRANCES BY VENDOR.

If on the Completion Date there are any judgments, liens, claims of lien or any other financial charges against title to the Lands which are not Permitted Encumbrances, the Vendor will not be required to clear the title to the Lands prior to the receipt of the net sales proceeds of the Purchased Property, but will be obligated to do so forthwith following receipt of such net sales proceeds and, in that event, the Purchaser's Solicitors will pay the net sales proceeds to the Vendor's Solicitors on the condition that the Vendor's Solicitors undertake to hold such amount of the net sales proceeds in trust as is sufficient to secure the discharge of any such non-Permitted

Encumbrances, and not to release such amount to the Vendor until such charges have been so released.

8.6 CLOSING DELIVERIES.

To the extent that the Vendor has not already delivered such items to the Purchaser and such items are within the possession or control of the Vendor, the Vendor will deliver to the Purchaser, within three (3) Business Days after the Completion Date, the items listed below:

(a) originally executed copies of the Leases and all guarantees, indemnities and covenants in respect thereof;

(b) originally executed copies of the written Service Contracts assigned to the Purchaser;

(c) all keys and like devices for the Lands and the Equipment which are in the possession or control of the Vendor;

(d) all files, manuals, plans and other relevant documents in the possession or control of the Vendor pertaining to the Lands and reasonably required by the Purchaser for the future continuous operation of the Lands;

(e) all instructions, manuals, plans and other documents associated with any of the Equipment or any of the improvements on the Lands which are in the possession or control of the Vendor; and

(f) to the extent they are in the Vendor's possession or control, duplicates of the documents referred to in subsections 4.1(b) and (c).

8.7 ELECTION.

If on the Completion Date any of the representations or warranties made by the Vendor is untrue in any material respect or the Vendor is in default in a material way under any of the covenants and agreements to be observed or performed by the Vendor under this Agreement, the Purchaser may elect not to complete the purchase of the Purchased Property hereunder or to complete the purchase of the Purchased Property hereunder, in either case without prejudice to any rights or remedies the Purchaser may have in respect of the Vendor's breach or default.

ARTICLE 9
MISCELLANEOUS

9.1 TIME.

Time will be of the essence of this Agreement and will remain of the essence notwithstanding the extension of any of the dates hereunder.

9.2 NO WAIVER.

No failure or delay on the part of either party in exercising any right, power or privilege under this Agreement will operate as a waiver thereof, nor will any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof or the exercise of any other right, power or privilege. Except as may be limited herein, either party may, in its sole discretion, exercise any and all rights, powers, remedies and recourses available to it under this

Agreement or any other remedy available to it and such rights, powers, remedies and recourses may be exercised concurrently or individually without the necessity of making any election.

9.3 TENDER.

It is agreed that any tender of documents or money may be made upon the respective solicitors for the parties and that it will be sufficient to tender a solicitor's certified trust cheque rather than cash.

Notwithstanding the foregoing or any other provision of this Agreement, the parties agree that, if the Purchaser is required by applicable legislation to cause the adjusted Purchase Price to be paid by electronic transfer, then the Purchaser will make all commercially reasonable efforts to ensure that such an amount will be transferred to and received by the Vendor's Solicitors on or before 3:00 p.m. (Vancouver time) on the Completion Date. If for any reason out of the control of the Purchaser (which, for greater certainty, will not include any event which is a default by the Purchaser under this Agreement), the Purchaser cannot ensure that such an amount will be received by the Vendor's Solicitors on or before the time and date set out above, then the Purchaser will be entitled to pay such amount on or before 3:00 p.m. (Vancouver time) on the next Business Day following the Completion Date so long as, in addition to such amount, the Purchaser also pays to the Vendor at the same time interest on such amount, at a rate equal to the Prime Rate plus one percent (1%) per annum, for each day from and including the Completion Date to but not including the day such payment is made. " **Prime Rate** ", as used herein, means that variable annual rate of interest quoted by the main branch of Royal Bank of Canada, Vancouver, British Columbia, from time to time as the rate of interest used by it as a reference rate for setting rates of interest on Canadian dollar loans in Canada repayable on demand and commonly referred to by such Bank as its "prime rate".

9.4 FEES AND EXPENSES.

Each party will pay its own legal fees. The Purchaser will be responsible for all registration fees and transfer taxes payable in connection with the registration of the Transfer and any mortgage security arranged by it and for any HST payable in connection with the Purchaser's acquisition of the Purchased Property.

9.5 HARMONIZED SALES TAX.

On or before the Completion Date, the Purchaser will provide the Vendor with a certificate (the " **HST Certificate** ") stating that the Purchaser is registered with Canada Revenue Agency or any successor thereto for the purposes of the federal/provincial harmonized sales tax (" **HST** ") and setting out its HST registration number, failing which the Purchaser will pay to the Vendor the HST applicable to the purchase and sale of the Purchased Property on the Completion Date.

9.6 COMMISSION.

Any commission or brokerage fees payable to CBRE, to a maximum of $975,000, plus applicable HST, will be paid by the Vendor upon the due completion of the transactions contemplated herein. Any commissions or brokerage fees payable to CBRE in excess of $975,000, plus applicable HST, and any commission or brokerage fees payable to any other third party in any amount will be the sole responsibility of the Purchaser. The Vendor confirms that it has not engaged any third party broker in connection with the purchase and sale of the Purchased Property.

9.7 ENTIRE AGREEMENT.

This Agreement and the agreements, instruments and other documents entered into pursuant to this Agreement set forth the entire agreement and understanding of the parties with respect to the subject matter hereof and supersede all prior agreements and understandings among the parties with respect to the matters herein and there are no oral or written agreements, promises, warranties, terms, conditions, representations or collateral agreements whatsoever, express or implied, other than those contained in this Agreement.

9.8 AMENDMENT.

This Agreement may be altered or amended only by an agreement in writing signed by the parties hereto.

9.9 FURTHER ASSURANCES.

Each of the parties hereto will at all times and from time to time and upon reasonable request do, execute and deliver all further assurances, acts and documents for the purpose of evidencing and giving full force and effect to the covenants, agreements and provisions in this Agreement.

9.10 NO MERGER.

Except where specifically set out in this Agreement, none of the provisions of this Agreement will merge in the transfer of the Purchased Property or any other document delivered on the Completion Date, and the provisions of this Agreement will survive the Completion Date.

9.11 NOTICES.

Any demand or notice which may be given pursuant to this Agreement will be in writing and delivered, transmitted by facsimile or electronic mail or sent by postage prepaid mail and addressed to the parties as follows:

TO THE PURCHASER:

lululemon athletica canada inc.
1818 Cornwall Avenue
Vancouver, British Columbia
V6J 1C7

Attention: Wynn Spencer

Fax No.: (604) 874-6124
Email: wspencer@lululemon.com

with a copy to:

McCarthy Tétrault LLP
Barristers and Solicitors
1300 – 777 Dunsmuir Street
Vancouver, British Columbia
V7Y 1K2

Attention: Scott Smythe

Fax No.: (604) 622-5752
Email: ssmythe@mccarthy.ca

TO THE VENDOR:

2725312 Canada Inc.
c/o Bentall Kennedy (Canada) LP
Suite 1800, Four Bentall Centre
1055 Dunsmuir Street
P.O. Box 49001
Vancouver, British Columbia
V7X 1B1

Attention: Chrystal Burns

Fax No.: (604) 646-2805
Email: cburns@bentallkennedy.com

with a copy to:

Stikeman Elliott LLP
Barristers and Solicitors
1700 – 666 Burrard Street
Vancouver, British Columbia
V6C 2X8

Attention: Ross MacDonald

Fax No.: (604) 631-1367
Email: rmacdonald@stikeman.com

or at such other address, fax number or electronic mail address as either party may specify in writing to the other. The time of giving and receiving any such notice will be deemed to be on the day of delivery or transmittal if delivered or sent by facsimile or electronic mail (so long as such delivery or transmittal was carried out prior to 5:00 p.m. on a Business Day, failing which such notice will be deemed to have been given and received on the next succeeding Business Day), or on the third Business Day after the day of mailing thereof if sent by mail. In the event of any disruption of mail services, all notices will be delivered or sent by facsimile or electronic mail rather than mailed.

9.12 ASSIGNMENT.

The Purchaser may assign its legal and beneficial interests in this Agreement to any other person (including, but not limited to, a corporation or partnership formed for such purpose), provided that any such legal or beneficial assignment by the Purchaser will not release the Purchaser from any of its obligations under this Agreement. For greater certainty, the Purchaser will also be entitled to direct the Vendor to transfer legal and registered title to the Lands to a corporation acting as nominee and bare trustee on behalf of the Purchaser.

9.13 NO PARTNERSHIP.

Nothing in this Agreement will be construed to create a partnership or joint venture between the parties with respect to the Purchased Property or the transactions contemplated hereunder.

9.14 CONFIDENTIALITY.

Unless the sale and purchase of the Purchased Property contemplated by this Agreement is completed, the parties will not disclose to any third party the existence, contents or effect of this Agreement or any documents, materials or information (including the results of any due diligence tests, assessments or searches) provided pursuant to or obtained in relation to this Agreement, (collectively, " **Confidential Information** ") without the prior written consent of the other party, except that each party may disclose the same to its employees, inspectors, lenders, agents, advisors, consultants, potential investors and such other persons as may reasonably be required and except that Confidential Information will not include:

(f) information which is required by law, or any regulatory disclosure requirements to be disclosed in connection with the proposed sale and purchase of the Purchased Property;

(g) information which is known to the recipient or is in the recipient's possession prior to its receipt thereof from the other party hereto;

(h) information which is obtained by a recipient from a person or entity which is not, to the knowledge of the recipient, prohibited from disclosing such information to the recipient by any contractual, legal, or fiduciary obligation to the other party hereto;

(i) information which is or becomes publicly available through no fault of the recipient.

Until such time as the transaction contemplated by this Agreement is completed, the Vendor and the Purchaser also agree that neither of them will issue any press or other publicity release or communication to the general public concerning the proposed purchase and sale of the Purchased Property without the prior written approval of the other party, unless any such disclosure is otherwise required by law.

9.15 COUNTERPARTS.

This Agreement may be executed in any number of original counterparts, with the same effect as if all the parties had signed the same document, and will become effective when one or more counterparts have been signed by all of the parties and delivered to each of the other parties. All counterparts will be construed together and evidence only one agreement, which will be deemed to be dated the reference date set out above.

9.16 BINDING EFFECT.

This Agreement will enure to the benefit of and be binding upon the successors and assigns of the parties, as applicable.

9.17 EXECUTION BY ELECTRONIC MEANS.

This Agreement may be executed by the parties and transmitted by facsimile or other electronic means and if so executed and transmitted this Agreement will be for all purposes as effective as if the parties had delivered an executed original Agreement.

IN WITNESS WHEREOF the Parties have executed this Agreement on the 22nd day of December, 2010.

LULULEMON ATHLETICA CANADA INC.

By: /s/ John Currie
Authorized Signatory

2725312 CANADA INC.

By: /s/ Chrystal Burns
Authorized Signatory

By: /s/ John Purcell
Authorized Signatory

SCHEDULE A

LANDS AND PERMITTED ENCUMBRANCES

Lands

Parcel Identifier 007-095-333
Lot A
Block 197
District Lot 526
Plan 18728

Permitted Encumbrances

The Lands are subject to the following Permitted Encumbrances:

Legal Notations

None.

Charges, Liens and Interests

(a) Indemnity Agreement 20400M;

(b) Easement and Indemnity Agreement H43448;

(c) Easement and Indemnity Agreement J50476;

(d) Easement and Indemnity Agreement J67896;

(e) Easement and Indemnity Agreement K44250;

(f) Lease BF251950;

(g) Lease BF263707;

(h) Lease BM231324;

(i) Lease BT176245; and

(j) Lease BV389720.

SCHEDULE B

ESTOPPEL CERTIFICATE

TO: •

AND TO: •

AND TO: •

RE: The lease between __________________________ (the " **Landlord** ") and the undersigned, as tenant dated _____________________ (the " **Lease** ") of certain premises (the " **Premises** ") described in the Lease which Premises are located in the Kvaerner Chemetics Building, Vancouver, British Columbia (the " **Property** ")

We understand that • will be purchasing the Property and that • has requested certain information concerning the Lease. In connection with this request and knowing that you and your respective successors and assigns intend to rely on this Certificate, we certify to you and to any other person referred to above that:

1. The Lease has been validly executed and delivered by the undersigned, the undersigned has unconditionally accepted the possession of the Premises except as set out in item 4 of the Notes herein and the undersigned is in possession of the Premises.

2. The Lease contains the entire and only agreement between the undersigned and the Landlord pertaining to the undersigned's occupation of the Premises. The Lease has not been altered, amended or assigned by the undersigned nor has all or any part of the Premises been sublet by the undersigned except as set out in item 1 of the Notes herein.

3. The rent payable pursuant to the Lease has been paid through the period ending _________________________, 201__. No rent is prepaid to the Landlord except for the current month's rent nor has the undersigned deposited any security with the Landlord except as set out in item 2 of the Notes herein.

4. The undersigned is not claiming any deduction, abatement or set-off against the Landlord with respect to the undersigned's obligations to pay rent and additional rent pursuant to the Lease except as set out in item 4 of the Notes herein.

5. The term of the Lease will end on ______________________. There is no right to renew or extend the term except as set out in item 3 of the Notes herein. The monthly minimum rental is ___________. The monthly additional rent (being charged for operating costs and realty taxes), exclusive of harmonized sales tax, is presently ________________. The monthly minimum rental and the monthly additional rent are calculated on the basis that the leasable area of the Premises has been accepted as being _______________ square feet.

6. The Premises conform to the Landlord's obligations under the Lease.

7. There is no existing default under the Lease on the part of the undersigned or, so far as the undersigned is aware, on the part of the Landlord.

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8. The undersigned does not have any right of first refusal or option either to purchase the Property or lease any space in the Property except as set out in item 5 of the Notes herein.

9. The undersigned has no claims against the Landlord, financial or otherwise, except as set out in item 4 of the Notes herein.

NOTES:

10. Sublet:

11. Security Deposit:

12. Renewals:

13. Claims:

14. Other Matters:

DATED the ______ day of ________________________, 201__.

(Tenant)

By: ____
Authorized Signing Officer

AMENDMENT TO PURCHASE AND SALE AGREEMENT

THIS AGREEMENT is dated for reference February 11, 2011.

BETWEEN :

2725312 CANADA INC.

(the " **Vendor** ")

AND :

LULULEMON ATHLETICA CANADA INC.

(the " **Purchaser** ")

WHEREAS :

A. By a purchase and sale agreement dated for reference December 22, 2010 between the Vendor and the Purchaser (the " **Purchase Agreement** "), the Vendor agreed to sell and the Purchaser agreed to purchase, among other things, the lands and premises located at 1818 Cornwall Avenue, Vancouver, British Columbia and legally described as Parcel Identifier: 007-095-333, Lot A, Block 197, District Lot 526, Plan 18728, on the terms and conditions set out in the Purchase Agreement; and

B. The parties have agreed to amend the Purchase Agreement in accordance with the terms of this Agreement.

THEREFORE in consideration of $1.00 now paid by each party to the other and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by each of the parties, the parties agree as follows:

1. **Amendments** . The Vendor and the Purchaser agree that, effective as of the date of this Agreement, the Purchase Agreement is amended as follows:

   (a) by deleting subsection 1.1(d) and replacing it with the following:

   "(d) " **Completion Date** " means March 1, 2011;"; and

   (b) by deleting subsection 3.3(a) and replacing it with the following:

   "(a) <u>Adjustment Date</u> . Adjustments for the Purchased Property will be made as of the Completion Date and the payment due pursuant to subsection 2.3(c) will be adjusted accordingly. Except as otherwise provided in this Agreement, the Vendor will be responsible for all expenses and will be entitled to all revenues accrued with respect to the Purchased Property for the period ending at 11:59:59 p.m. on the day before the Completion Date and, for the period from and after 12:00:01 a.m. on the Completion Date, the Purchaser will be responsible for all expenses and will be entitled to all revenues accrued with respect to the Purchased Property.".

2. **Construction** . The parties agree that this Agreement will, from the date hereof, be read and construed together with the Purchase Agreement and be treated as part thereof, and the Purchase Agreement, as amended by this Agreement, will continue in full force and effect in accordance with the terms thereof and hereof.

3. **Conflict** . In case of any conflict between the terms and conditions of the Purchase Agreement and the terms or conditions of this Agreement, the terms and conditions of this Agreement will prevail.

4. **Further Assurances** . Each of the parties hereto will at all times and from time to time and upon reasonable request do, execute and deliver all further assurances, acts and documents for the purpose of evidencing and giving full force and effect to all the provisions in this Agreement.

5. **Counterparts** . This Agreement may be executed in any number of original counterparts, with the same effect as if all the parties had signed the same document, and will become effective when one or more counterparts have been signed by all the parties and delivered to each of the other parties. All counterparts will be construed together and evidence only one agreement which, notwithstanding the dates of execution of any counterparts, will be deemed to be dated the date first above written.

6. **Execution by Electronic Means** . This Agreement may be executed by the parties and delivered by fax or other electronic means and if so executed and delivered this Agreement will be for all purposes as effective as if the parties had executed and delivered an executed original of this Agreement.

IN WITNESS WHEREOF the parties hereto have executed this Agreement as of the date first above written.

2725312 CANADA INC.

By: /s/ Chrystal Burns
Authorized Signatory

By: /s/ John Purcell
Authorized Signatory

LULULEMON ATHLETICA CANADA INC.

By: /s/ David Negus
Authorized Signatory

By: /s/ John Currie
Authorized Signatory

Exhibit 21.1

lululemon athletica inc.

SUBSIDIARIES OF THE REGISTRANT

Listed below are the subsidiaries of lululemon athletica inc. as of January 30, 2011. The list indicates the respective jurisdiction of incorporation or organization of each entity.

NEVADA
lululemon usa inc.
Lululemon FC USA, Inc.

ALBERTA
Lululemon Callco ULC

BRITISH COLUMBIA
Lulu Canadian Holding Inc.
lululemon athletica canada inc.
0902600 B.C. Ltd.

VICTORIA
lululemon athletica australia holdings Pty Ltd.
lululemon australia Pty Ltd.

NEW ZEALAND
lululemon athletica new zealand limited

HONG KONG
Lululemon Hong Kong Limited

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-146378 and No. 333-145453), Form S-3ASR (No. 333-152701 as subsequently amended by a post-effective amendment on Form S-3 filed on March 30, 2009) and Form S-3ASR (No. 333-167985) of lululemon athletica inc. of our report relating to the consolidated financial statements and on the effectiveness of internal control over financial reporting dated March 16, 2011, which appears in the Form 10-K.

/s/ PricewaterhouseCoopers LLP
Vancouver, British Columbia

March 16, 2011

Exhibit 31.1

I, Christine M. Day, certify that:

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

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

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

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

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

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

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

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

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

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

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

By: /s/ CHRISTINE M. DAY
Christine M. Day
Chief Executive Officer and Director
(Principal Executive Officer)

Date: March 16, 2011

Exhibit 31.2

I, John E. Currie, certify that:

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

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

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

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

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

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

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

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

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

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

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

By: /s/ JOHN E. CURRIE

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

Date: March 16, 2011

Exhibit 32.1

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

In connection with the Annual Report of lululemon athletica inc. (the “Company”) on Form 10-K for the fiscal year ended January 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to such officer’s knowledge:

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

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

/s/ CHRISTINE M. DAY

Christine M. Day
Chief Executive Officer and Director
(Principal Executive Officer)

Dated: March 16, 2011

/s/ JOHN E. CURRIE

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

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