

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

Table of Contents

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

Form 10-Q

(Mark One)

- ☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
For the quarterly period ended October 31, 2010
- 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
*(State or other jurisdiction of
incorporation or organization)*
**400-1818 Cornwall Avenue,
Vancouver, British Columbia**
(Address of principal executive offices)

20-3842867
*(I.R.S. Employer
Identification No.)*
V6J 1C7
(Zip Code)

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

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

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

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

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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 ☐ Smaller reporting company ☐
(Do not check if a smaller reporting company)

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

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

Exchangeable and Special Voting Shares:

At December 6, 2010, there were outstanding 18,160,042 exchangeable shares of Lulu Canadian Holding, Inc., a wholly-owned subsidiary of the registrant. Exchangeable shares are exchangeable for an equal number of shares of the registrant's common stock.

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

TABLE OF CONTENTS

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	
<u>FINANCIAL STATEMENTS:</u>	3
<u>CONSOLIDATED BALANCE SHEETS as of October 31, 2010 and January 31, 2010</u>	3
<u>CONSOLIDATED STATEMENTS OF OPERATIONS for the thirteen and thirty-nine weeks ended October 31, 2010 and November 1, 2009</u>	4
<u>CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY for the thirty-nine weeks ended October 31, 2010</u>	5
<u>CONSOLIDATED STATEMENTS OF CASH FLOWS for the thirty-nine weeks ended October 31, 2010 and November 1, 2009</u>	6
<u>NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS</u>	7
<u>Item 2.</u>	
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	15
<u>Item 3.</u>	
<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	28
<u>Item 4.</u>	
<u>CONTROLS AND PROCEDURES</u>	28
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1.</u>	
<u>LEGAL PROCEEDINGS</u>	29
<u>Item 1A.</u>	
<u>RISK FACTORS</u>	29
<u>Item 2.</u>	
<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	44
<u>Item 6.</u>	
<u>EXHIBITS</u>	44
<u>SIGNATURES</u>	45
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>	
<u>EX-101 LABELS LINKBASE DOCUMENT</u>	
<u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>	
<u>EX-101 DEFINITION LINKBASE DOCUMENT</u>	

Table of Contents

PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

lululemon athletica inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

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

Stockholders' equity

Undesignated preferred stock, \$0.01 par value, 5,000 shares authorized, none issued and outstanding

Exchangeable stock, no par value, 30,000 shares authorized, issued and outstanding 18,160 and 19,383 shares

Special voting stock, \$0.00001 par value, 30,000 shares authorized, issued and outstanding 18,160 and 19,383 shares

Common stock, \$0.01 par value, 200,000 shares authorized, issued and outstanding 52,840 and 51,126 shares

Additional paid-in capital

Retained earnings

Accumulated other comprehensive income

	528	511
	172,214	158,921
	134,890	67,809
	14,517	5,867
	322,149	233,108
Non-controlling interest	4,524	
	326,673	233,108
	\$ 418,972	\$ 307,258

See accompanying notes to the interim consolidated financial statements

Table of Contents

lululemon athletica inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS

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

See accompanying notes to the interim consolidated financial statements

Table of Contents

lululemon athletica inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Exchangeable Stock		Special Voting Stock		Common Stock		Additional	Retained	Other		Non-
	Shares	Par Value	Shares	Par Value	Shares	Par Value	Paid-in Capital (Unaudited)	Earnings	Comprehensive Income	Total	Controlling Interests
(Amounts in thousands)											
January 31,	19,383	\$	19,383	\$	51,126	\$ 511	\$ 158,921	\$ 67,809	\$ 5,867	\$ 233,108	\$
Income:								67,081		67,081	
Investment									8,650	8,650	
Income										75,731	
Compensation							5,365			5,365	
Profit from											
Compensation							3,958			3,958	
Issued upon											
Changeable	(1,223)		(1,223)		1,223	12	(12)				
Issuance					6						
Exercised					485	5	3,982			3,987	
Interest:											
Options from											4,374
Interests											
Attributable to											150
Interests											
December 31,	18,160	\$	18,160	\$	52,840	\$ 528	\$ 172,214	\$ 134,890	\$ 14,517	\$ 322,149	\$ 4,524

See accompanying notes to the interim consolidated financial statements

Table of Contents

lululemon athletica inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS

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

See accompanying notes to the interim consolidated financial statements

Table of Contents

lululemon athletica inc. and Subsidiaries

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

NOTE 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nature of operations

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

Basis of presentation

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

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Recent accounting pronouncements

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

Table of Contents**lululemon athletica inc. and Subsidiaries****NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

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

NOTE 3. STOCK-BASED COMPENSATION***Share option plans***

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

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

Company stock options and performance stock units

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

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

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

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

Table of Contents**lululemon athletica inc. and Subsidiaries****NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Stockholder-sponsored stock options***

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

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

Employee stock purchase plan

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

NOTE 4. REACQUISITION OF FRANCHISED STORES

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

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

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

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

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

Table of Contents**lululemon athletica inc. and Subsidiaries****NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

Fair value of consideration transferred:

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

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

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

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

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

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

Table of Contents**lululemon athletica inc. and Subsidiaries****NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

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

NOTE 5. LEGAL PROCEEDINGS

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

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

NOTE 6. EARNINGS PER SHARE

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

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

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

Table of Contents**lululemon athletica inc. and Subsidiaries****NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company's calculation of weighted-average shares includes the common stock of the Company as well as the exchangeable shares. Exchangeable shares are the equivalent of common shares in all material respects. All classes of stock have in effect the same rights and share equally in undistributed net income. For the thirty-nine weeks ended October 31, 2010 and November 1, 2009, 60 and 1,001 stock options, respectively, were anti-dilutive to earnings and therefore have been excluded from the computation of diluted earnings per share.

NOTE 7. SUPPLEMENTARY FINANCIAL INFORMATION

A summary of certain balance sheet accounts is as follows:

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

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

Table of Contents

lululemon athletica inc. and Subsidiaries

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	October 31, 2010	January 31, 2010
Accrued liabilities:		
Inventory purchases	\$ 15,374	\$ 7,664
Sales tax collected	4,641	2,758
Accrued rent	1,609	1,771
Lease exit costs	817	800