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## Lululemon's commitment to the environment: A tangle of seaweed, suppliers, and social responsibility

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# Global Case Writing Competition 2010

## Corporate Sustainability Track

## 2<sup>nd</sup> Place

### **Lululemon's commitment to the environment: A tangle of seaweed, suppliers, and social responsibility**

### Free Online Copy

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This case is accompanied by a teaching note, available to faculty only. Please send your request to [freecase@oikosinternational.org](mailto:freecase@oikosinternational.org). The author is thankful for any feedback and suggestions to further develop this case. Please contact the author directly at [aebass@unomaha.edu](mailto:aebass@unomaha.edu).

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*It was the morning of Wednesday, November 14, 2007. The article on the front page of the New York Times Business Section read "Seaweed' Clothing Has None, Tests Show." The story asserted that one of Lululemon's product lines, VitaSea, which purported to contain a seaweed fiber designed to release marine amino acids, minerals and vitamins into the skin upon contact with moisture, contained no such ingredient. Both Chip Wilson, Chairman and Founder of athletic wear retailer Lululemon, and Robert Meers, Lululemon's CEO, were about to embark on their first damage-control mission since the company's Initial Public Offering in July. This was the most widespread negative press Lululemon had received since going public, and the aftermath of the article would question Lululemon's product integrity, marketing and strategy, suppliers, and ethics. Lululemon's next move would be crucial to both its survival and reputation.*

## INTRODUCTION OF LULULEMON

lululemon athletica Inc. (Lululemon), a yoga-inspired athletic apparel and accessories manufacturer and retailer, was founded in 1998 in Vancouver, Canada.<sup>1</sup> In 2007, the company owned or franchised 81 stores internationally.<sup>2</sup> See Appendix 1 for store locations. Lululemon's mission was "to create components for people to live longer, healthier, and more fun lives", based on core values of quality, product, integrity, balance, entrepreneurship, greatness, and fun.<sup>3</sup>

Lululemon produced high-quality, innovative products meant to inspire physical activity in yogis and athletes. The company created a manifesto to capture the essence of the Lululemon culture and inspire customers to consider changes to improve their own lifestyle. The manifesto can be found in Appendix 2. Ideas like "a daily hit of athletic-induced endorphins gives you the power to make better decisions, helps you be at peace with yourself, and offsets stress"; "that which matters the most should never give way to that which matters the least"; and "successful people replace the words "wish", "should" and "try" with "I will"" were part of the manifesto<sup>4</sup> and part of the Lululemon brand religion.<sup>5</sup> The company targeted "Super Girls"; the daughters of the 1980s "Power Women". These educated, hard-working women lived healthy lifestyles by working out, eating right and taking care of themselves.<sup>6</sup>

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<sup>1</sup> "Who is Lululemon Athletica?." *Lululemon Athletica*. Lululemon Athletica, Inc., Web. 4 Feb 2010. <<http://lululemon.com/about/>>.

<sup>2</sup> "Lululemon Athletica, Inc. - Annual Report." *www.shareholder.com*. 23 Feb 2008. Shareholder.com a Nasdaq OMX Company. 13 Mar 2009 <<http://investor.lululemon.com/secfiling.cfm?filingID=909567-08-415>>.

<sup>3</sup> "Lululemon Athletica Media Kit." *Lululemon Athletica Media Site*. Oct 2009. Lululemon Athletica, Web. 4 Feb 2010. <[http://lululemon.com/media/press\\_kit/lulu\\_media\\_kit.pdf](http://lululemon.com/media/press_kit/lulu_media_kit.pdf)>.

<sup>4</sup> "Lululemon Manifesto". Lululemon Athletica, Inc. June 22, 2008 <<http://www.lululemon.com/culture/manifesto/text>>.

<sup>5</sup> Suppa, Julia. "The Lululemon Love Affair". *Digital Journal*. June 16, 2008 <[http://www.digitaljournal.com/article/78230/The\\_Lululemon\\_Love\\_Affair](http://www.digitaljournal.com/article/78230/The_Lululemon_Love_Affair)>.

<sup>6</sup> Wilson, Chip. "Lululemon Blog." *How Lululemon Came Into Being*. 30 Mar 2009. Lululemon Athletica, Inc., Web. 4 Feb 2010. <<http://www.lululemon.com/community/blog/how-lululemon-came-into-being-a-gross-generalization/>>.

Lululemon opened lines of men's clothing and accessories, but still remained highly dedicated to its core market of "Super Girls". Lululemon's founder, Dennis "Chip" Wilson, graduated with a Bachelor of Arts in Economics from the University of Calgary in 1980. He founded the surf/skate/snowboard company "Westbeach Sports" in the early 1990s, and sold it in 1997. At the age of 41, Chip started taking yoga classes and a year later, in 1998, he opened Lululemon's first store in Vancouver's trendy, upscale neighborhood of Kitsilano Beach. Wilson described his leadership style as "run and let it be run", desiring a culture of autonomy and accountability among employees.<sup>7</sup> Robert "Bob" Meers joined Lululemon initially as a consultant in 2005 before accepting the role of CEO. The reorganization allowed Wilson to retain his positions as company Chairman and Chief Product Designer, while relinquishing his duties as CEO. Meers had a seasoned background in retail; serving as President of Reebok International<sup>8</sup> and President and CEO of home décor designer Syratech Corp.<sup>9</sup>

Lululemon designed and produced "technical athletic apparel for yoga, running, and dancing."<sup>1</sup> The company initially became popular for its well-fitting black workout pants. In addition to workout pants, the company sold workout bras and tanks, shorts, capri pants, t-shirts, sweatshirts, jackets and other pieces of apparel for men and women. The company also produced a line of accessories including water bottles, head gear, yoga mats and accessories, and yoga and gym bags.<sup>10</sup> Lululemon took pride in using innovative materials to manufacture its products. The company's most well-known and often-used fabric was Luon®, a moisture wicking fabric that was used for most of its pants, shorts, tanks, and bras. A more innovative fabric the company used was Silverescent®, a fabric made with silver yarn, designed to eliminate bacteria and remove odor from the fabric.<sup>11</sup> The average price for a pair of Lululemon pants was \$99USD, bra was \$48USD, tank was \$52USD, and jacket was \$98. Lululemon's line of accessories ranged from water bottles sold for \$25 to bags as expensive as \$88.<sup>10</sup>

Lululemon declared "Social Responsibility is our DNA" on its corporate website. The company felt responsible to all stakeholders: employees, customers, vendors, suppliers, stockholders, and the environment. Lululemon further supported its commitment to social responsibility on its website: "It is who we are and what we do and we will continue to further our mission of 'creating components for people to live longer, healthier and more fun lives'.... both for our guests, our employees, and our manufacturing partners."

2007 proved to be a financially stellar year for Lululemon. Total Assets had more than doubled, from \$48,492,745 in the beginning of 2007 to \$97,906,418 by the end of the 2007 fiscal year. Net Revenue had increased during the same time period by 45.8%, while Net Income posted a 75.1% increase. A Financial Analysis for the company can be viewed in Appendix 3. The company continued an aggressive expansion strategy, focused on

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<sup>7</sup> Stewart, Monte. "Lululemon boss rides creative wave." *Business Edge*. 16 May 2008. Lululemon Athletica, Inc., Web. 4 Feb 2010. <<http://www.businessedge.ca/article.cfm/newsID/17862.cfm>>.

<sup>8</sup> "How One Startup Snared a Big Fish for its Board ." *Business Week*. 14 May 1999. Business Week, Web. 4 Feb 2010. <<http://www.businessweek.com/smallbiz/news/date/9905/f990514.htm>>.

<sup>9</sup> "Syratech Names Robert Meers as President and CEO." *Giftware Business*. 11 Mar 2002. Giftware Business, Web. 4 Feb 2010. <<http://www.allbusiness.com/retail-trade/4293501-1.html>>.

<sup>10</sup> "Shop.Lululemon.Com." *Lululemon Athletica*. Lululemon Athletica, Inc., n.d. Web. 6 Apr 2010. <<http://shop.lululemon.com/store/productslist.aspx?categoryid=500&pagesize=15>>.

<sup>11</sup> "Lululemon fabrics." *Lululemon Athletica*. Lululemon Athletica, Inc., n.d. Web. 6 Apr 2010. <<http://www.lululemon.com/education/info/care>>.

development of the Canadian and US markets.<sup>12</sup> Lululemon went public on the Toronto Stock Exchange on July 26, 2007 and was first listed on the NASDAQ on September 4, 2007 at \$36.87 USD per share.<sup>13</sup> Stock information can be viewed in Appendix 4.

## LULULEMON'S PLAN FOR SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY

From its inception, Lululemon had extensive plans for incorporating sustainability into the overall strategy of the organization. Corporate Social Responsibility was at the heart of Lululemon. The company named its Corporate Social Responsibility strategy "Community Legacy", and Lululemon's business processes were centered on the five elements described in the Community Legacy initiative: community, people, sourcing and manufacturing, efficiency and waste reduction, and green building and spaces.<sup>14</sup> Lululemon specifically focused on three elements of the Community Legacy initiative as it related to sustainability: sourcing and manufacturing, efficiency and waste reduction, and green building and spaces.

**Sourcing and Manufacturing** was developed around a three year strategy aimed at working with suppliers that not only shared Lululemon's vision and values, but that complied with Lululemon's *Workplace Code of Conduct*,<sup>15</sup> developed internally by Lululemon executives. Lululemon was committed to only work with suppliers that were as concerned about the environment and human health as Lululemon. The company set a high level of expectations; therefore, suppliers that wanted to work with Lululemon had to meet specific requirements, and were continuously audited by Lululemon to identify areas of weakness and opportunity. Lululemon created a Social Responsibility Compliance ranking to assess suppliers and manufacturing partners, and evaluated each partner out of a possible score of 100. The scorecard was broken down into four sections: labor practices, environmental responsibility, and health and safety.<sup>14</sup>

**Efficiency and Waste Reduction** was also at the core of Lululemon's Community Legacy initiative and overall strategy. The five year vision for this plan included a high level of product and process innovation to reduce environmental pollutants in garment manufacturing and retailing. The company worked on implementing an internal environmental guide and clause in the *Workplace Code of Conduct*<sup>15</sup> for compliance by both Lululemon and its suppliers. In addition to constant innovation of design, packaging and shipping processes were constantly scrutinized in order to find the best possible way to decrease the company's environmental impact. Lululemon also implemented measurement tactics and benchmarks as indicators of the company's environmental footprint, and to identify areas where improvements could be made. Finally, Lululemon set up networks between itself and environmental experts and NGOs to facilitate idea sharing about process

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<sup>12</sup> Lululemon Athletica Inc. "Lululemon Athletica Inc. Form 10-k." Edgar Online. 3 Feb. 2008. Edgar. 12 Oct. 2008 <<http://www.sec.gov/edgar.shtml>>.

<sup>13</sup> "Yahoo! Finance - LULU Lululemon Athletica, Inc." Yahoo! Finance. 13 Mar 2009. NASDAQ. 14 Mar 2009 <<http://finance.yahoo.com/q/in?s=LULU>>.

<sup>14</sup> "About Us > Community Legacies." *Lululemon*. 15 Nov 2007. Internet Archive - WayBack Machine. 21 Aug 2009 <<http://web.archive.org/web/20070522081153/www.lululemon.com/about/legacies/community>>.

<sup>15</sup> "Workplace Code of Conduct." *Lululemon Athletica, Inc.*. 08 Sep 2006. Lululemon Athletica, Inc., Web. 4 Feb 2010.

<[http://web.archive.org/web/20070106094933/www.lululemon.com/about/lululemon\\_code\\_of\\_conduct.pdf](http://web.archive.org/web/20070106094933/www.lululemon.com/about/lululemon_code_of_conduct.pdf)>.

and product improvements, and to foster ongoing conversations about corporate social responsibility and environmental impact.<sup>14</sup>

**Green Buildings and Spaces** was the final component of Lululemon's Community Legacy initiative. The company had a five year vision for LEED (Leadership in Energy and Environmental Design) designed buildings and spaces for new construction, and motivated existing departments and retail locations to aim for zero waste and emissions through the implementation of an internal building guide and the *Building Code of Conduct*; which encouraged paperless communication along with recycling and paper reduction programs, natural building and maintenance materials sourcing, and existing facility retrofitting for improved energy efficiency. Lululemon set a corporate goal of 95% zero waste efficiency in operations by 2010.<sup>14</sup>

## INDUSTRY ANALYSIS

The main industry in which Lululemon competed was NAICS 315999 - Other Apparel Accessories and Other Apparel Manufacturing. The industry elasticity, an indication of price sensitivity within the industry, for 2007 was 3.8%, a 0.4% decrease from 2002, whereas Lululemon's own price elasticity in 2007 was 18.2%.<sup>16</sup> This observation proved that consumers of these apparel products had become more sensitive to price adjustments, but buyers of Lululemon products were not sensitive to price adjustments at all. Although the industry was extremely competitive, the demand for the Lululemon products was less sensitive to price increases than the rest of the industry. Perhaps the largest barrier to entry in this industry was the existence of dominant brand names such as Nike and Under Armour; however, Lululemon continued to increase its market share, seemingly quarter by quarter. Lululemon experienced higher gross margin at 51.7%; as compared to the industry's 37.7%; quarterly revenue growth at 34.1% versus the industry's 7.3%; and a price/earnings ratio of 10.3 as compared to the industry's 8.1,<sup>13</sup> indicating that Lululemon was valued higher than the industry in which it competed. These numbers excited investors and analysts alike, and as a result, Lululemon became one of NASDAQ's star performers in 2007.

## SMARTFIBER AG, SEACELL®, AND VITASEA

Smartfiber AG was a small, privately held German company based in Rudolstadt, Germany with fewer than 30 employees. In July 2007, Smartfiber AG took over SeaCell®, a competitor, to expand its research, production, and marketing potential. Smartfiber AG developed, produced and distributed the SeaCell® Lyocell fabric used in Lululemon's VitaSea products.

Based on the Lyocell system of combining SeaCell® with cellulose material, SeaCell® contained a skin protective and anti-inflammatory seaweed additive. The Lyocell process can be viewed in Appendix 5. Lyocell was the seaweed fiber that was part of the SeaCell® fabric. Smartfiber AG claimed that SeaCell® caused an active exchange between the seaweed fiber

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<sup>16</sup> "2002 Economic Census Manufacturing Industry Series." Other Apparel Accessories and Other Apparel Manufacturing: 2002. Dec 2004. US Census Bureau. 14 Mar 2009  
<<http://www.census.gov/prod/ec02/ec0231i315999.pdf>>.



and the skin, which activated wellbeing in those exposed to the fiber.<sup>17</sup> The partnership between Lululemon and Smartfiber AG commenced in 2006 and the VitaSea product line was born; made with 23% SeaCell®Pure, Smartfiber AG's purest form of the product.<sup>18</sup> Smartfiber AG complied with Lululemon's *Workplace Code of Conduct* and had potential to offer a new, exiting relationship between the two companies: one built on environmental awareness, innovation, and trust.

Smartfiber AG provided Lululemon with every piece of information it needed about the SeaCell® fabric. The German company gave Lululemon information on the composition of SeaCell® and the benefits of producing the VitaSea product line with the SeaCell® fabric. The clothing line, mainly shirts and some undergarments, was sold with a product claim created by Lululemon and Smartfiber AG certifying that VitaSea products "release amino acids, minerals and vitamins directly into the skin".<sup>19</sup> Lululemon further marketed the product, with knowledge relayed by Smartfiber AG, indicating that the vitamins and minerals released from VitaSea products' contact with skin would:

- keep skin firm and smooth
- prevent the skin from drying out
- enhance blood supply to skin
- activate cell metabolism
- promote skin cell regeneration
- contain anti-viral or anti-bacterial properties
- sooth skin rashes
- reduce stress
- detoxify the skin<sup>20</sup>

Lululemon employed its grassroots marketing efforts to communicate the benefits of VitaSea products to customers. Through company spokespersons, titled "Lululemon Ambassadors", store employees titled "Educators", and corporate marketing efforts, VitaSea's product benefits were made known to all Lululemon customers. VitaSea products were priced at a premium compared to other Lululemon products. VitaSea t-shirts were sold at an average \$58USD, whereas other Lululemon t-shirts were priced at an average of \$48USD per shirt.<sup>10</sup>

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<sup>17</sup> "SeaCell See and Feel." *Topkapi Iplik*. Topkapi Iplik. 21 Aug 2009 <<http://www.topkapi-iplik.com.tr/EN/scell.html>>.

<sup>18</sup> "lululemon athletica inc. Confirms VitaSea Fabric Contents and Testing Process." *AllBusiness*. 16 Nov 2007. Business Wire , Web. 16 Feb 2010. <<http://www.allbusiness.com/company-activities-management/operations-quality-control/5313547-1.html>>.

<sup>19</sup> Story, Louise. "'Seaweed' Clothing Has None, Tests Show." *The New York Times*. 14 Nov 2007. The New York Times. 21 Aug 2009 <[http://www.nytimes.com/2007/11/14/business/14seaweed.html?\\_r=2&hp&oref=slogin](http://www.nytimes.com/2007/11/14/business/14seaweed.html?_r=2&hp&oref=slogin)>.

<sup>20</sup> "Competition Bureau Takes Action to Ensure Unsubstantiated Claims Removed from Lululemon Clothing." *Competition Bureau - Lululemon VitaSea Clothing*. 16 Nov 2007. Competition Bureau of Canada. 21 Aug 2009 <<http://www.cb-bc.gc.ca/eic/site/cb-bc.nsf/eng/02517.html>>.

VitaSea products represented 3% of Lululemon's total product line,<sup>21</sup> and accounted for approximately 1% of sales.<sup>22</sup>

## THE INVESTOR'S TIP

In late 2007, the *New York Times*, one of the largest newspapers in the world, received a tip about one of the NASDAQ's star performers: Lululemon. An anonymous investor, poised to short-sell the stock, tipped the newspaper of Lululemon's false VitaSea product claims, and even had verification of the company's dishonesty through independent product testing. The investor explained that Chemir, an analytical lab specializing in investigational analytical chemistry, tested the product and found no trace of seaweed in the product's composition.<sup>23</sup> Louise Story, a hedge-fund manager assigned to business and finance articles for the *New York Times*<sup>24</sup> was appointed to get to the bottom of both the investor's and Lululemon's product claims.

## NEW YORK TIMES TESTING

Story researched Lululemon, Chemir, and VitaSea. Her conversation with Carolyn J. Otten, director for specialized services at Chemir Analytical Services, solidified the need to investigate the trendy, yoga-wear retailer. "Seaweeds have known vitamins and minerals, and we searched specifically for those vitamins, and we didn't see them," stated Otten.<sup>19</sup> With Chemir's findings in its back corner, the *New York Times* ordered an independent test of Lululemon's VitaSea fabric by the McCrone Group, a premier microscopy resource base in Westmont, IL. The newspaper arranged a lab test of a blue Lululemon VitaSea racer-back tank top composed of 70% cotton, 6% spandex, and 24% seaweed fiber to be tested alongside a gray J. Crew t-shirt. The McCrone Group's findings were less decisive than those of Chemir; the laboratory could not rule out seaweed as part of the composition of the tank top, but also could not substantiate Lululemon's claims that seaweed was in fact part of the tank top's composition.<sup>19</sup>

## NEW YORK TIMES PUBLICATION

The *New York Times* published the article, "Seaweed's Clothing Has None, Tests Show", on the front page of the newspaper's business section on Wednesday, November 14, 2007. The full article can be viewed in Appendix 6. Story's article saw immediate attention from investors, analysts, fashion enthusiasts, and businesses alike. Prior to this date, Lululemon had been the poster-child for social responsibility, community involvement, and hip, trendy clothing. The article's publishing caused speculation around Lululemon's integrity and

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<sup>21</sup> "Lululemon Brand, Cult At Risk Following Seaweed Report ." *Seeking Alpha*. Seeking Alpha, 15 Nov 2007. Web. 6 Apr 2010. <<http://seekingalpha.com/article/54383-lululemon-brand-cult-at-risk-following-seaweed-report>>.

<sup>22</sup> Blyth, Alex , and Anna Snider. "Lululemon Brand, Cult At Risk Following Seaweed Report ." *Cross Border*. Cross Border Ltd., Jan 2008. Web. 6 Apr 2010.

<[http://www.thecrossbordergroup.com/ir\\_archive/pages/1671/January+2008.stm?article\\_id=12284](http://www.thecrossbordergroup.com/ir_archive/pages/1671/January+2008.stm?article_id=12284)>.

<sup>23</sup> "Does Lululemon's VitaSea line contain seaweed or not?." *The Yogini from Manila*. 25 Nov 2007. Web. 16 Feb 2010. <<http://yoginimla.wordpress.com/2007/11/25/does-lululemons-vitasea-line-contain-seaweed-or-not/>>.

<sup>24</sup> "Times Topics - Louise Story." *The New York Times*. The New York Times, Web. 16 Feb 2010. <[http://topics.nytimes.com/top/reference/timestopics/people/s/louise\\_story/index.html](http://topics.nytimes.com/top/reference/timestopics/people/s/louise_story/index.html)>.



reputation. Some critics felt that the *New York Times* acted unethically,<sup>25</sup> publishing the article even though the tip came from an investor planning on shorting Lululemon's stock. Others questioned Lululemon's ethics and product quality.<sup>26</sup>

## NASDAQ: LULU, TSX: LLL

The *New York Times* article sent shockwaves through investor circles. Since Lululemon's initial public offering (IPO) on the NASDAQ, the stock had seemed unstoppable. The stock climbed from \$36.87 to \$58.00 in just seven weeks. Lululemon had also experienced similar increases in stock price on the Toronto Stock Exchange. The release of the *New York Times* article had a negative effect on Lululemon's stock. The stock price decreased 8% on November 14, 2007, and continued to decline for the next several weeks.<sup>27</sup>

## LULULEMON'S REBUTTAL

Before the article was published, Story spoke to Lululemon's founder, Chip Wilson, about the VitaSea fabric. "If you actually put it on and wear it, it is different from cotton," Wilson stated. "That's my only test of it."<sup>19</sup> Wilson was confident in the VitaSea fabric, the supplier SmartFiber, and Lululemon's brand name. Wilson's and Lululemon's strategy was to ignore the *New York Times* article; however, a few short hours after publication, Lululemon executives and investors watched the stock tumble, an unseen occurrence since Lululemon's initial public offering a few months earlier. Shortly after, Wilson and Meers quickly arranged for Lululemon to conduct an impromptu VitaSea product test of their own.

## LULULEMON'S TESTS

Lululemon contacted its partner, SGS Group (SGS), an independent, Switzerland-based inspection, verification, testing, and certification company to conduct a special test on its VitaSea products. An SGS lab in Hong Kong conducted the test on the night of November 14, 2007, and came to the same result this time as it had when the previous VitaSea product testing was conducted in June 2007: the product contained Lyocell fibers consistent with Lululemon's product labels, based on special tests required to confirm the fiber's existence.<sup>28</sup> Smartfiber AG also provided Lululemon with a statement supporting Lululemon's product labels and the contents of the VitaSea fabric: "SeaCell® is permanently incorporated in the spun fiber we provide to Lululemon and is of the highest quality. In addition, we conduct our own quality assurance procedures, including regular visits to production facilities, to ensure

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<sup>25</sup> Alter, Lloyd. "NYTimes on Lululemon's 'Seaweed' Clothing: Lousy Chemistry, Lousy Journalism." *Business & Politics*. 15 Nov 2007. Treehugger. 21 Aug 2009

<[http://www.treehugger.com/files/2007/11/new\\_york\\_times\\_15.php](http://www.treehugger.com/files/2007/11/new_york_times_15.php)>.

<sup>26</sup> "Shirt Sham: Lululemon's VitaSea is Seaweed-less." *Fitsugar*. 16 Nov 2007. Fitsugar. 21 Aug 2009

<<http://www.fitsugar.com/810560>>.

<sup>27</sup> "Yahoo! Finance - LULU Lululemon Athletica, Inc." *Yahoo! Finance*. 13 Mar 2009. NASDAQ. 14 Mar 2009

<<http://finance.yahoo.com/q/in?s=LULU>>.

<sup>28</sup> "Lululemon says tests confirm seaweed content claim." *Financial Post*. 16 Nov 2007. National Post Inc., Web. 16 Feb 2010. <<http://www.financialpost.com/story.html?id=aa8e9490-debc-4319-93d4-c9d30b261a5f>>.

the manufacturer is producing products in strict compliance with our specifications as well as Lululemon's,"<sup>29</sup> declared Gerhard Neudorfer, Sales and Marketing Director SeaCell® Fibers.

Lululemon announced on Thursday, November 15, 2007 at 9:00 pm ET via a press release that the content of the VitaSea product line was consistent with independent laboratory tests. The press release outlined the results of SGS' tests on VitaSea conducted in December 2006, June 2007, and November 2007, and included statements from Lululemon supporting its VitaSea clothing line and product claims. Meers further defended Lululemon's findings and brand: "Product quality and authenticity are of the utmost importance to Lululemon. Integrity goes to the core of everything we do and is at the heart of our relationship with our guests. For this reason, we test our products for content using a leading testing facility. We absolutely stand behind our products, our processes and refute any claims in recent press reports to the contrary. Innovation and integrity are at the heart of Lululemon. We pride ourselves on innovative and technical design. We are committed to continually bringing new and cutting edge products to the marketplace."<sup>29</sup> The full press release is included in Appendix 7.

Lululemon's public relations tactic was received with mixed reviews. The press release earned the company headlines such as "*Lululemon says tests verify fabric's properties*" and "*Lululemon CEO says new seaweed clothing tests should clear company's name*",<sup>30</sup> but others were not as confident in Lululemon's claims. Investors, media, and industry critics concluded that Lululemon played with semantics in its press release, arguing that Lululemon, while contending that the clothing did contain a fiber derived from seaweed, remained mum about the truth regarding the VitaSea product claim: that the clothing "releases amino acids, minerals and vitamins directly into the skin."<sup>19</sup>

Some Lululemon customers stood behind the brand's products. Toronto shopper Irene Nava stated "I personally do not care -- I just love the pants. I wear them all the time. I have ones for running, ones for yoga, ones for outside."<sup>31</sup> David Wilkinson echoed Nava's comments, "I couldn't care less, because it is so comfortable."<sup>19</sup> Others felt that Lululemon had gone too far. Student Kristie Furlong, said "I would probably still buy the regular [products], but [the VitaSea] ones are more expensive, and I don't know that I would pay more anyway just for seaweed."**Error! Bookmark not defined.**

The Lululemon brand name and reputation was now in question. A company that had been known for its sustainability practices, respect for the environment, and innovative processes, was now the center of an international controversy. Critics argued that the company should have just told the truth as it knew it, admitted that it made a mistake, and notified the public of corrective action, rather than creating a press release to defend its product.

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<sup>29</sup> "lululemon athletica inc. Confirms VitaSea Fabric Contents and Testing Process." *Lululemon Athletica*. 15 Nov 2007. Business Wire, Web. 16 Feb 2010. <<http://investor.lululemon.com/releasedetail.cfm?ReleaseID=276139>>.

<sup>30</sup> "Lululemon takes the PR low road." *IR Web Report*. 16 Nov 2007. IR Web Reporting International Inc., Web. 16 Feb 2010. <<http://www.irwebreport.com/daily/2007/11/16/lululemon-takes-the-pr-low-road/>>.

<sup>31</sup> "Lululemon removes claims from Vitasea products." *Canada.com*. Canwest Publishing, Inc., 16 Nov 2007. Web. 6 Apr 2010. <<http://www.canada.com/nationalpost/financialpost/story.html?id=f8a5fa39-bccb-4b13-80c1-fa073d703e6d&k=74967>>.

## CANADA'S GOVERNMENT INTERVENES

After the article was published, from the Competition Bureau of Canada, an independent Canadian law enforcement agency that investigated complaints and monitored businesses for fair practices, contacted Lululemon's corporate offices in Vancouver. On Friday, November 16, 2007, the Competition Bureau of Canada released a statement that Lululemon had agreed to remove all therapeutic claims from its VitaSea clothing line sold in all Canadian Lululemon stores. The full statement is available in Appendix 8. "The Bureau acted quickly to resolve this issue of significant consumer and marketplace interest," said Andrea Rosen, Deputy Commissioner of Competition. "Canadians are entitled to receive accurate information from businesses in order to make informed purchasing choices."<sup>31</sup>

The Bureau outlined that Lululemon had to eliminate the following product attribute claims from its VitaSea clothing line:

- remove all tags and/or representations on tags that contain unsubstantiated therapeutic and/or performance claims of the VitaSea technology from all stores across Canada;
- remove all references to the VitaSea technology from its Web site and any in-store advertising;
- immediately inform all store managers and employees that they should not provide information on therapeutic benefits and performance claims of the VitaSea technology to customers; and
- undertake a review of all promotional and marketing materials to ensure they comply with relevant legal requirements.<sup>31</sup>

## LULULEMON'S REMOVAL OF THE VITASEA LABEL

With pressure from the Competition Bureau of Canada, falling stock prices, and potential backlash from customers, Lululemon removed the label store-wide. This included not only the Canadian stores over which the Competition Bureau of Canada had jurisdiction, but Lululemon stores in the US, Japan, and Australia. The statement made by Lululemon on Friday, November 16, 2007, regarding this decision is located in Appendix 9. The company was forced to remove all of the current VitaSea merchandise, re-educate the store employees and ambassadors about the change in the VitaSea product claims, redesign a new label, and manufacture all new VitaSea products with the new "claimless" label.

*How would those few days in November 2007 affect Lululemon's strategy going forward? For a company like Lululemon, fostered in creating a positive change in those that wear its clothing, the VitaSea debacle was a huge setback. Did the New York Times act unethically by publishing the VitaSea article?*

*Did Lululemon perform due diligence in testing SmartFiber AG's claims? With the myriad of suppliers Lululemon currently employed – how many of them were also providing the company with false information that had not been checked? Would Lululemon have to implement a random testing process to ensure the truth of its claims? Should Lululemon continue to carry the VitaSea line?*

*Lululemon had a huge mess to clean up: many stakeholders wanted explanations about both Lululemon's inadequate testing and Chip Wilson's original comments to Louise Story of the New York Times. The holiday sales season was right around the corner – how would Lululemon repair its tarnished image? Lululemon's grassroots marketing strategy focused on conveying a message of health, happiness, and environmental awareness through its clothing to customers needed to be re-vamped – but how? It was a Friday afternoon during the busiest shopping season of the year, and Lululemon executives had a lot of work to do.*

## Appendix 1: Lululemon Stores and Locations<sup>2</sup>

### LULULEMON ATHLETICA INC.

#### LULULEMON STORES AND LOCATIONS

Form Type: 10-K

Period End: Feb 03, 2008

Date Filed: Apr 08, 2008

	Corporate-Owned Stores	Franchise Stores	Total Stores
Canada	37	3	40
United States	30	4	34
Total International	4	3	7
Overall total, as of January 31, 2007	41	10	51
Overall total, as of February 3, 2008	71	10	81

## Appendix 2: Lululemon Manifesto

**DRINK FRESH WATER AND AS MUCH WATER AS YOU CAN. WATER FLUSHES UNWANTED TOXINS FROM YOUR BODY AND KEEPS YOUR BRAIN SHARP.**

A daily hit of athletic-induced endorphins gives you the power to make better decisions, helps you be at peace with yourself, and offset stress.

**The pursuit of happiness is the source of all unhappiness.**

**Do one thing a day that scares you.**

**LIFE IS FULL OF SETBACKS.**  
Success is determined by how you handle setbacks.

**YOUR OUTLOOK ON LIFE IS A DIRECT REFLECTION OF HOW MUCH YOU LIKE YOURSELF.**

**WHAT WE DO TO THE EARTH WE DO TO OURSELVES.**  
The world is changing at such a rapid rate that waiting to implement changes will leave you 2 steps behind.  
**DO IT NOW, DO IT NOW, DO IT NOW!**

**Friends are more important than money.**

**BREATHE DEEPLY**  
and appreciate the moment. Living in the moment could be the meaning of life.

**Stress is related to 99% of all illness.**

**JEALOUSY WORKS THE OPPOSITE WAY YOU WANT IT TO.**  
Observe a plant before and after watering and relate these benefits to your body and brain. Practice yoga so you can remain active in physical sports as you age.

**Successful people**  
replace the words 'wish', 'should' and 'try' with **'I WILL'.**

**Children are the orgasm of life.**  
Just like you did not know what an orgasm was before you had one, nature does not let you know how great children are until you actually have them.

**lululemon athletica creates components for people to live longer, healthier and more fun lives. If we can produce products to keep people active and stress-free, we believe the world will become a much better place.**

**Do not use cleaning chemicals on your kitchen counters or floors. Someone will inevitably make a sandwich on your counter.**

**SWEAT ONCE A DAY TO REGENERATE YOUR SOUL.**

**DANCE, SING, FLOSS AND TRAVEL.**

The conscious brain can only hold one thought at a time. Choose a positive thought.

Live near the ocean and inhale the pure salt air that flows over the water. Vancouver will do nicely.

COMMUNICATION IS COMPLICATED. WE ARE ALL BASED IN A DIFFERENT TIME ZONE. ASKED DIFFERENT QUESTIONS. WE SPEAK DIFFERENT LANGUAGES. WE HAVE DIFFERENT BELIEFS. WE ARE ALL HERE FOR A LIMITED TIME. LET'S MAKE THE MOST OF IT.



## Appendix 3: Financial Analysis, Lululemon Athletica, Inc.<sup>2</sup>

	2/3/2008	1/31/2007	Variance		COMMON SIZE	1/31/2007	1/31/2006	Variance		COMMON SIZE
	USD	USD	USD	%		USD	USD	USD	%	
<b>INCOME STATEMENT</b>										
Revenues	274,713,328	148,884,834	125,828,494	84.5%	100.0%	148,884,834	84,129,093	64,755,741	77.0%	100.0%
Cost of goods sold	128,411,175	72,903,112	55,508,063	76.1%	46.7%	72,903,112	41,176,981	31,726,131	77.0%	49.0%
Gross Profit	146,302,153	75,981,722	70,320,431	92.5%	53.3%	75,981,722	42,952,112	33,029,610	76.9%	51.0%
Selling, general & administrative expenses	96,177,348	52,539,998	43,637,350	83.1%	35.0%	52,539,998	26,416,262	26,123,736	98.9%	35.3%
Income (loss) from operations	50,124,805	16,213,414	33,911,391	209.2%	18.2%	16,213,414	3,726,708	12,486,706	335.1%	10.9%
Net income (loss)	30,842,439	7,666,331	23,176,108	302.3%	11.2%	7,666,331	1,394,104	6,272,227	449.9%	5.1%
	2/3/2008	1/31/2007	Variance		COMMON SIZE	1/31/2007	1/31/2006	Variance		COMMON SIZE
	USD	USD	USD	%		USD	USD	USD	%	
<b>BALANCE SHEET</b>										
Cash & Equivalents	53,339,326	16,028,534	37,310,792	232.8%	34.4%	16,028,534	-	-	-	22.2%
Receivables (ST)	4,431,556	2,290,665	2,140,891	93.5%	2.9%	2,290,665	-	-	-	3.2%
Inventories	39,092,208	26,628,113	12,464,095	46.8%	25.2%	26,628,113	-	-	-	36.8%
Current Assets	97,906,418	48,492,743	49,413,675	101.9%	63.1%	48,492,743	-	-	-	67.1%
Net Property Plant & Equip	44,038,565	18,175,944	25,862,621	142.3%	28.4%	18,175,944	-	-	-	25.1%
Total Assets	155,092,142	72,293,109	82,799,033	114.5%	100.0%	72,293,109	-	-	-	100.0%
Accounts Payable	5,199,604	4,935,037	264,567	5.4%	12.2%	4,935,037	-	-	-	14.4%
Current Liabilities	35,821,551	31,938,590	3,882,961	12.2%	83.8%	31,938,590	-	-	-	93.0%
Total Liabilities	42,739,309	34,346,612	8,392,697	24.4%	100.0%	34,346,612	-	-	-	100.0%
Common stock	466,847	442,908	23,939	5.4%	0.4%	442,908	-	-	-	1.2%
Total Equity	112,034,009	37,378,798	74,655,211	199.7%	100.0%	37,378,798	-	-	-	100.0%
<b>RATIO ANALYSIS</b>										
Profitability Ratios	2/3/2008	1/31/2007	Variance	%		1/31/2007	1/31/2006	Variance	%	



ROA % (Net)	26.91	-	-	-	-	-	-	-
ROE % (Net)	40.95	41.02	-0.07	-0.2%	41.02	-	-	-
ROI % (Operating)	66.55	-	-	-	-	-	-	-
EBITDA Margin %	21.28	13.99	7.29	52.1%	13.99	7.36	6.63	90.1%
Calculated Tax Rate %	40.16	53.68	-13.52	-25.2%	53.68	62.63	-8.95	-14.3%
Revenue per Employee	101,556	-	-	-	-	-	-	-
<b>Liquidity Indicators</b>	<b>2/3/2008</b>	<b>1/31/2007</b>	<b>Variance</b>	<b>%</b>	<b>1/31/2007</b>	<b>1/31/2006</b>	<b>Variance</b>	<b>%</b>
Quick Ratio	1.61	0.57	1.04	182.5%	0.57	-	-	-
Current Ratio	2.73	1.52	1.21	79.6%	1.52	-	-	-
Net Current Assets % TA	40.03	22.9	17.13	74.8%	22.9	-	-	-
<b>Asset Management</b>	<b>2/3/2008</b>	<b>1/31/2007</b>	<b>Variance</b>	<b>%</b>	<b>1/31/2007</b>	<b>1/31/2006</b>	<b>Variance</b>	<b>%</b>
Total Asset Turnover	2.4	-	-	-	-	-	-	-
Receivables Turnover	81.07	-	-	-	-	-	-	-
Inventory Turnover	8.29	-	-	-	-	-	-	-
Accounts Payable Turnover	53.77	-	-	-	-	-	-	-
Accrued Expenses Turnover	18.19	-	-	-	-	-	-	-
Property Plant & Equip Turnover	8.76	-	-	-	-	-	-	-
Cash & Equivalents Turnover	7.86	-	-	-	-	-	-	-
<b>Per Share</b>	<b>2/3/2008</b>	<b>1/31/2007</b>	<b>Variance</b>	<b>%</b>	<b>1/31/2007</b>	<b>1/31/2006</b>	<b>Variance</b>	<b>%</b>
Cash Flow per Share	0.57	0.39	0.18	46.2%	0.39	-	-	-
Book Value per Share	1.66	0.57	1.09	191.2%	0.57	-	-	-

□

## Appendix 4: Market Information and Dividends<sup>2</sup>

LULULEMON ATHLETICA INC.

### MARKET INFORMATION AND DIVIDENDS

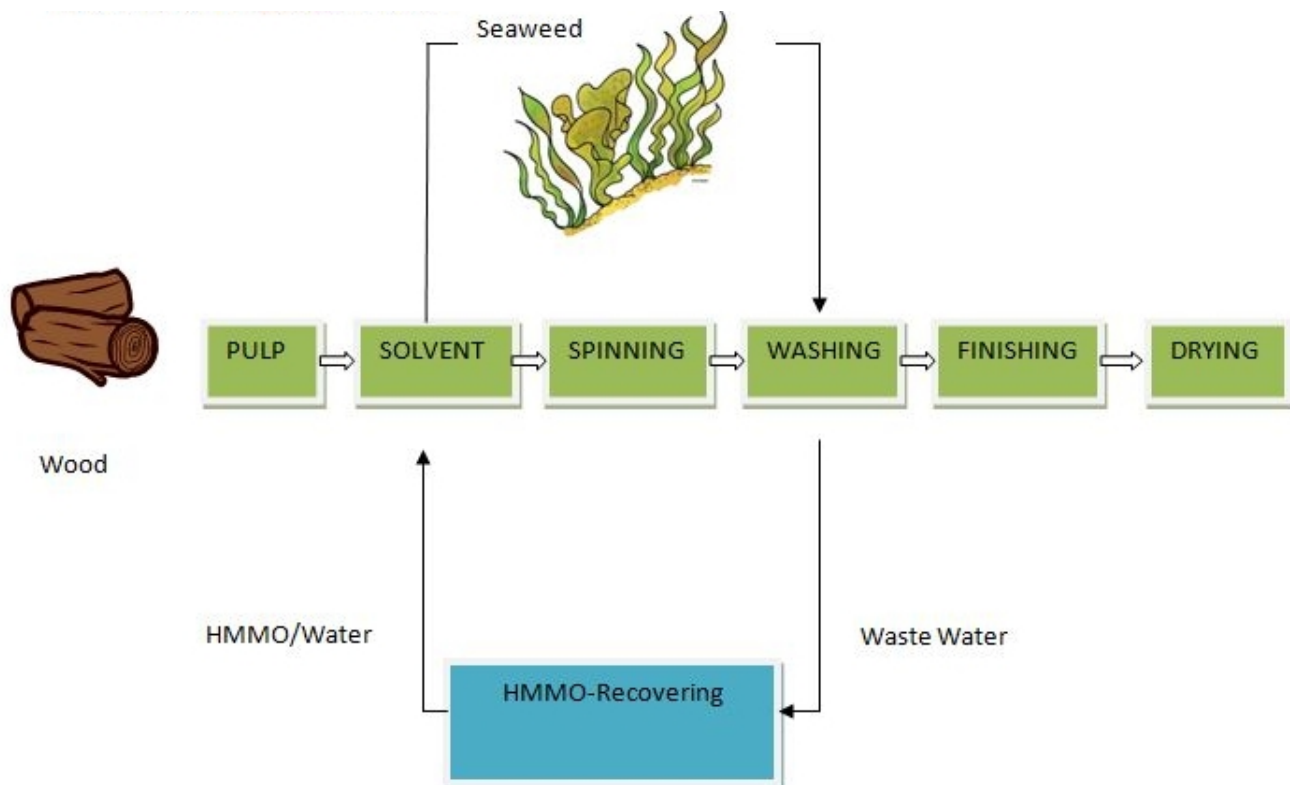
Period End: Feb 03, 2008

#### 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". Prior to July 27, 2007, there was no public market for our common stock. The following tables sets forth, for the periods indicated, the high and low sales prices of our common stock reported by the Nasdaq Global Select Market.

	Common Stock Price ( <u>Nasdaq</u> Global Select Market)	
	High	Low
Fiscal Year Ending February 3, 2008		
Second Quarter (from July 27, 2007)	\$34.17	\$24.92
Third Quarter	\$60.70	\$28.70
Fourth Quarter	\$51.94	\$25.00

## Appendix 5: The Lyocell Process<sup>25</sup>



## Appendix 6: New York Times Article<sup>19</sup>

### *The New York Times*

November 14, 2007

#### **‘Seaweed’ Clothing Has None, Tests Show**

By LOUISE STORY

Lululemon Athletica has been a standout performer on Wall Street since it went public in July, thanks to the popularity of its costly yoga and other workout clothes, which are made with unusual materials, including bamboo, silver, charcoal, coconut and soybeans.

One of its lines is called VitaSea, and the company says it is made with seaweed. The fabric, according to product tags, “releases marine amino acids, minerals and vitamins into the skin upon contact with moisture.”

Lululemon, which has received positive media coverage for its fabrics, also says the VitaSea clothing, made from seaweed fiber supplied by a company called SeaCell, reduces stress and provides anti-inflammatory, antibacterial, hydrating and detoxifying benefits.

There is one problem with its VitaSea claims, however. Some of them may not be true.

The New York Times commissioned a laboratory test of a Lululemon shirt made of VitaSea, and reviewed a similar test performed at another lab, and both came to the same conclusion: there was no significant difference in mineral levels between the VitaSea fabric and cotton T-shirts.

In other words, the labs found no evidence of seaweed in the Lululemon clothing.

“Seaweeds have known vitamins and minerals, and we searched specifically for those vitamins, and we didn’t see them,” said Carolyn J. Otten, director for specialized services at Chemir Analytical Services, a lab in Maryland Heights, Mo. that tested a sample of VitaSea.

When told about the findings, Lululemon’s founder said he could not dispute them.

“If you actually put it on and wear it, it is different from cotton,” said Dennis Wilson, Lululemon’s founder, chief product designer and board chairman. “That’s my only test of it,” said Mr. Wilson, known as Chip.

The shirt tested by The Times was labeled as being made of 70 percent cotton, 6 percent spandex and 24 percent of the seaweed fiber.

The Times commissioned its test after an investor who is shorting Lululemon’s stock — betting that its price will fall — provided Chemir’s test results to The Times.

The Times used a second lab, the McCrone Group, to test a blue racer-back tank top made with Lululemon’s VitaSea against a gray J. Crew T-shirt. McCrone, which is based in Westmont, Ill., likewise could not detect any seaweed-specific components. Though the labs could not absolutely rule out a trace of seaweed, they could not, using sensitive testing methods, substantiate Lululemon’s claims.

The tests raise obvious questions about Lululemon's marketing. Consumers generally pay more for high-tech sportswear, and companies like Lululemon are trying to capitalize on interest in organic materials.

"Consumers expect and trust companies to be honest with them," said Sally Greenberg, executive director of the National Consumers League, a nonprofit organization and advocate for consumers.

Lululemon executives said that they had not independently tested the VitaSea material to see whether it lived up to the claims on Lululemon's tags. Instead, it trusted the claims of its suppliers, executives said.

Mr. Wilson added that the company probably did not have enough money to test the material back when it started using it 18 months ago. When asked about Lululemon's product tags and the claims about vitamins and minerals, he said, "That's coming from the manufacturer. If you feel the fabric, it feels a lot different."

Analysts said it is the responsibility of the companies to test all of their products.

"It's frankly up to the companies to do sporadic product quality tests to make sure everything is being manufactured to the parameters they set," said Sharon Zackfia, an analyst who covers Lululemon at William Blair & Co., an investment firm based in Chicago. "At the end of the day, it's Lululemon's name on the line."

Ms. Zackfia spoke in general terms about Lululemon's responsibility to check products, and was not told about the two lab tests of VitaSea.

She rates Lululemon shares as outperforming the market and said she expects the number of stores in the United States to climb to 100 by the end of 2009.

Lululemon went public in July, and by October the stock climbed to \$60 from \$25. Since then, the stock has fallen to \$42.

Analysts said the company seems to have found a lucrative niche selling athletic clothes wrapped in feel-good messages about friendship, love and life. The company generated \$148.9 million in sales last year.

Lululemon, based in Vancouver, British Columbia, has more than 40 stores and showrooms in the United States. The company calls its store clerks "educators," its customers "guests," and prints the company's "manifesto" on its red shopping bags.

The manifesto includes messages like, "Stress is related to 99% of all illness," "Friends are more important than money," and "Coke, Pepsi and all other pops will be known as the cigarettes of the future. Colas are not a substitute for water. They are just another cheap drug made to look great by advertising."

Lululemon has done little advertising of its own and, instead, its products have become popular by word of mouth and recommendations from local yoga instructors who serve as the company's "ambassadors" in new locations.

Customers have been asking about VitaSea fabric, said Deanne Schweitzer, Lululemon's director for products and design. She said the company would test the fabric in the future.

“We will be diving in deeper, so that our educators on the floor can answer those tough questions,” Ms. Schweitzer said. “Right now, we are relying on the mill and SeaCell’s information.”

SeaCell is owned by a German company called Smartfiber. Smartfiber provides scientific documents on its Web site about the effects of the SeaCell fibers, but it also says on its site that SeaCell assumes no liability for that information’s accuracy.

SeaCell uses seaweed from the coast of Ireland to create its fibers, said Gerhard Neudorfer, sales and marketing director for SeaCell. He said the company stands behind its scientific studies. A spokeswoman for Lululemon would not name the companies that it has hired to use SeaCell in making its VitaSea fabric.

Sports apparel sales are growing more quickly than the overall apparel category, totaling nearly \$15.3 billion in the year that ended in September, according to the NPD Group. More sports companies are innovating with fabrics, said Mark Sullivan, the group editor for the trade publication Textile Intelligence.

“As a buzz starts to develop around this stuff, you’re going to have companies throwing around buzz words here,” Mr. Sullivan said.

One customer outside a Lululemon store in Chicago said he would not stop buying VitaSea clothing, even if tests disproved Lululemon’s claims.

“I couldn’t care less, because it is so comfortable,” said David Wilkinson, 49.



## ***Appendix 7: Statement from Lululemon18***



### **lululemon athletica inc. Confirms VitaSea Fabric Contents and Testing Process**

VANCOUVER, Nov 15, 2007 (BUSINESS WIRE) — lululemon athletica inc. (NASDAQ: LULU; TSX: LLL) today announced that independent tests have confirmed the content of the VitaSea product line to be consistent with the garment care and content labels.

Robert Meers, CEO of lululemon, stated: "Product quality and authenticity are of the utmost importance to lululemon. Integrity goes to the core of everything we do and is at the heart of our relationship with our guests. For this reason, we test our products for content using a leading testing facility. We absolutely stand behind our products, our processes and refute any claims in recent press reports to the contrary."

lululemon has a comprehensive product testing process and partners with SGS Group, a leading independent inspection, verification, testing and certification company. The Switzerland-based firm conducts a battery of tests before each season on all of lululemon's fabrics across all product lines, testing for a variety of attributes including content, pilling, shrinkage, and colorfastness.

In December 2006, Smartfiber AG, the developer and innovator of SeaCell(R) Pure used in lululemon's VitaSea products, conducted independent tests that confirmed the presence of vitamins, minerals, and amino acids in the fabric that was provided to lululemon's manufacturers. To create the fiber, SeaCell(R), a seaweed derivative, is combined with a cellulose material, and spun into lyocell special SeaCell(R) fiber. Specialized testing is required to measure SeaCell(R) on the lyocell fiber.

Recent tests on the VitaSea fabrics were performed in June 2007 in the SGS Laboratory in Hong Kong as well as confirmatory retesting conducted last night in the SGS Hong Kong lab. Findings from SGS confirmed that the fabric contains the lyocell fibers consistent with the care and content labels on the product. Smartfiber AG further confirmed these findings to contain lyocell special SeaCell(R) fiber.

Gerhard Neudorfer, Sales and Marketing Director SeaCell(R) Fibers, said, "We pride ourselves on our quality control and oversight in all of our manufacturing processes. SeaCell(R) is permanently incorporated in the spun fiber we provide to lululemon and is of the highest quality. In addition, we conduct our own quality assurance procedures, including regular visits to production facilities, to ensure the manufacturer is producing products in strict compliance with our specifications as well as lululemon's."

Mr. Meers concluded: "Innovation and integrity are at the heart of lululemon. We pride ourselves on innovative and technical design. We are committed to continually bringing new and cutting edge products to the marketplace."



## Appendix 8: Statement from Competition Bureau of Canada

Lululemon VitaSea Clothing

### Competition Bureau Takes Action to Ensure Unsubstantiated Claims Removed from Lululemon Clothing

**Ottawa, November 16, 2007** - The Competition Bureau announced today that Vancouver-based Lululemon Athletica Inc. has agreed to remove, effective today, all claims alleging therapeutic benefits from its VitaSea line of clothing products, which had been marketed throughout its 40 retail store national network.

"The Bureau acted quickly to resolve this issue of significant consumer and marketplace interest," said Andrea Rosen, Acting Deputy Commissioner of Competition. "We are pleased that Lululemon chose to rectify the situation in a timely manner. Canadians are entitled to receive accurate information from businesses in order to make informed purchasing choices."

Lululemon has agreed to:

- remove all tags and/or representations on tags that contain unsubstantiated therapeutic and/or performance claims of the VitaSea technology from all stores across Canada;
- remove all references to the VitaSea technology from its Web site and any in-store advertising;
- immediately inform all store managers and employees that they should not provide information on therapeutic benefits and performance claims of the VitaSea technology to customers; and
- undertake a review of all promotional and marketing materials to ensure they comply with relevant legal requirements

The unsubstantiated claims that led to the Bureau's action include:

Upon contact with moisture, the fabric would release minerals and vitamins into the skin which would, among other questionable performance claims represented:

- keep skin firm and smooth;
- prevent the skin from drying out;
- enhance blood supply to skin;
- activate cell metabolism;
- promote skin cell regeneration;
- contain anti-viral or anti-bacterial properties;
- sooth skin rashes;
- reduce stress;
- detoxify the skin.

The Bureau is watchful of increasing trends in the marketplace making claims about the use of sustainable fibres (e.g. bamboo, soybeans) and any related environmental, health, and therapeutic claims about their benefits and reminds industry participants that they must ensure that proper fibre content is being disclosed. Scientific testing of the fibres or fabrics is necessary to substantiate the claims.

Unsubstantiated performance claims on textiles are enforceable by the Commissioner of Competition pursuant to the ***Textile Labelling Act and the Competition Act***.

The Competition Bureau is an independent law enforcement agency that contributes to the prosperity of Canadians by protecting and promoting competitive markets and enabling informed consumer choice.

## Appendix 9: Statement from Lululemon



### Statement from Bob Meers, Chief Executive Officer, lululemon athletica inc.

VANCOUVER, Canada, Nov 16, 2007 (BUSINESS WIRE) – lululemon athletica inc.'s (NASDAQ: LULU; TSX: LLL) Chief Executive Officer Bob Meers, today issued the following statement:

"We are altering the labels on our VitaSea products in our Canadian stores, in cooperation with The Competition Bureau of Canada, to remove references to the therapeutic and performance attributes of the VitaSea technology. It is important to note that the Bureau takes no issue with the material content as described on our care and content labels. Independent testing has confirmed the presence of vitamins, minerals, and amino acids in the VitaSea fabric. Separately, in order to ensure complete transparency and accuracy, we are voluntarily altering the references to the therapeutic and performance attributes on VitaSea hang tags in all markets globally. In order to ensure the integrity of our product labelling, we are conducting a review of the therapeutic attributes described on all product hang tags. We take pride in our quality, technical apparel and will continue to deliver innovative fabrics and garments to our guests."

About lululemon athletica inc.

lululemon athletica (NASDAQ:LULU; TSX:LLL) is a yoga-inspired athletic apparel company that creates components for people to live longer, healthier and more fun lives. By producing products that keep people active and stress free, lululemon believes that the world will be a better place. Setting the bar in technical fabrics and functional designs, lululemon works with yogis and athletes in local communities for continuous research and product feedback. For more information, visit [www.lululemon.com](http://www.lululemon.com).

#### Forward-Looking Statements:

This press release contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 that involve risks, uncertainties and assumptions, such as statements regarding our future financial condition or results of operations, our prospects and strategies for future growth, the development and introduction of new products, and the implementation of our marketing and branding strategies. In many cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "intends," "estimates," "predicts," "potential" or the negative of these terms or other comparable terminology. These forward-looking statements are based on management's current expectations but they involve a number of risks and uncertainties. Actual results and the timing of events could differ materially from those anticipated in the forward-looking statements as a result of risks and uncertainties, which include, without limitation: the possibility that we may not be able to manage operations at our current size or manage growth effectively; the possibility that we may not be able to locate suitable locations to open new stores or attract customers to our stores; the possibility that we may not be able to successfully expand in the United States and other new markets; the possibility that we may not be able to finance our growth and maintain sufficient levels of cash flow; increased competition causing us to reduce the prices of our products or to increase significantly our marketing efforts in order to avoid losing market share; the possibility that we may not be able to effectively market and maintain a positive brand image; the possibility that we may not be able to maintain recent levels of comparable store sales or average sales per square foot; the possibility that we may not be able to continually innovate and provide our consumers with improved products; and the possibility that our suppliers or manufacturers may not produce or deliver our products in a timely or cost-effective manner; and other risk factors detailed in our filings with the Securities and Exchange Commission ("the SEC"), including Risk Factors contained in our final prospectus relating to our initial public offering filed included in our Registration Statement on Form S-1 (file no. 333-142477) filed with the Securities and Exchange Commission and available at [www.sec.gov](http://www.sec.gov). You are urged to consider these factors carefully in evaluating the forward-looking statements herein and are cautioned not to place undue reliance on such forward-looking statements, which are qualified in their entirety by this cautionary statement. The forward-looking statements made herein speak only as of the date of this press release and the company undertakes no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

SOURCE: lululemon athletica inc.

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