



Were Lululemon's Shareholders Duped?

Description

"While all this makes for interesting reading, it does not constitute securities fraud." No one will argue with the first part of the statement above, which was part of a Tuesday night filing by **Lululemon Athletica Inc** (TSX:LLL)([Nasdaq:LULU](#)). The Vancouver-based retailer is hoping to get a shareholder lawsuit thrown out, one that claims that Lululemon misled and defrauded its shareholders.

Everyone, including the company, can also agree that the company has made plenty of mistakes. Chief among them was a product defect in some of its black yoga pants, leading to a massive recall. Last November, founder Chip Wilson compounded the company's problems by suggesting that some women's body shapes "just actually don't work". The lawsuit also accuses the company of using steeply discounted pricing in an effort to boost market share.

The news has not gotten any better recently. The company lowered its fourth quarter guidance in mid-January while admitting that "since the beginning of January, we have seen our traffic and sales trends decelerate meaningfully." Lululemon also acknowledged that the negative trends could persist throughout the year. The stock sunk by more than 15% in reaction to the news.

Shareholders certainly have a lot to be upset about. From September 7, 2012 to January 14 of this year – the time period for which the company is accused of its misdeeds – shares of Lululemon sunk from above \$75 to below \$45. During this time period, Mr. Wilson sold \$184 million worth of stock, although he claims that the sales were made as part of a prearranged trading plan.

Foolish bottom line

It can be very risky to invest in a hot brand, especially when it comes to apparel. Yesterday's high-flyer could be out of fashion tomorrow, and larger competitors such as **Under Armour** ([NYSE:UA](#)) and **Nike** ([NYSE:NKE](#)) have a lot of incentive to compete fiercely, considering the great margins that Lululemon is able to make on its sales.

Lululemon's own actions have of course compounded the problems, but unfortunately it is still too early to speculate on what the court's decision will (or should) be. For now, those who bought the shares a year and a half ago must acknowledge that they made a mistake as well.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:LULU (Lululemon Athletica Inc.)

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