

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

lululemon athletica inc.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm	38
Consolidated Balance Sheets	41
Consolidated Statements of Operations and Comprehensive Income	42
Consolidated Statements of Stockholders' Equity	43
Consolidated Statements of Cash Flows	45
Index for Notes to the Consolidated Financial Statements	46

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the consolidated balance sheets of lululemon athletica inc. and its subsidiaries (together, the Company) as of January 31, 2021 and February 2, 2020, and the related consolidated statements of operations and comprehensive income, stockholders' equity and cash flows for the 52-week period ended January 31, 2021, the 52-week period ended February 2, 2020, and the 53-week period ended February 3, 2019, including the related notes, listed in the index appearing under item 15(a)(1) and the financial statement schedule listed in the index appearing under Item 15(a)(2) (collectively referred to as the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of January 31, 2021, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of January 31, 2021 and February 2, 2020, and the results of its operations and its cash flows for the 52-week period ended January 31, 2021, the 52-week period ended February 2, 2020, and the 53-week period ended February 3, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 31, 2021, based on criteria established in Internal Control – Integrated Framework (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for leases as of February 4, 2019.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, 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 Annual Report on Internal Control over Financial Reporting appearing under Item 9A of the Company's 2020 Annual Report on Form 10-K. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. 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.

Definition and Limitations of Internal Control over Financial Reporting

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.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Inventory provision

As described in Notes 2 and 3 to the consolidated financial statements, inventory is valued at the lower of cost and net realizable value, and management records a provision as necessary to appropriately value inventories that are obsolete, have quality issues, or are damaged. Provision expense is recorded in cost of goods sold. As of January 31, 2021, the Company's consolidated net inventories balance was \$647.2 million inclusive of the inventory provision of \$31.0 million. The amount of the inventory provision is equal to the difference between the cost of the inventory and its estimated net realizable value based on assumptions about product quality, damages, future demand, selling prices, and market conditions.

The principal considerations for our determination that performing procedures relating to the inventory provision is a critical audit matter are (i) management identified the matter as a critical accounting estimate; and (ii) significant judgment was required by management in determining the estimated net realizable value of inventories that are obsolete, have quality issues, or are damaged, which in turn led to significant audit effort and a high degree of subjectivity in evaluating audit evidence relating to the estimate.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the review of the provision including the assumptions used. These procedures also included, among others, (i) observing the physical condition of inventories during inventory counts; (ii) evaluating the appropriateness of management's process for developing the estimates of net realizable value; (iii) testing the reliability of reports used by management by agreeing to underlying records; (iv) testing the reasonableness of the assumptions about quality, damages, future demand, selling prices and market conditions by considering historical trends and consistency with evidence obtained in other areas of the audit; and corroborating the assumptions with individuals within the product team.

Acquisition of MIRROR – valuation of intangible assets

As described in Notes 1, 2 and 6 to the consolidated financial statements, the Company completed the acquisition of Curiouser Products Inc., dba MIRROR, ("MIRROR") for net consideration of \$452.6 million in 2020 which resulted in \$85.0 million of intangible assets being recorded. The fair values of intangible assets were based upon valuation techniques including discounted cash flows, relief from royalty, and replacement cost methods. Management applied judgment in estimating the fair values of intangible assets acquired, which involved the use of significant estimates and assumptions with respect to future revenue growth rates, royalty rates, and the discount rate.

The principal considerations for our determination that performing procedures relating to the valuation of intangible assets in the acquisition of MIRROR – is a critical audit matter are (i) the high degree of auditor judgment and subjectivity in applying procedures relating to the fair value measurements of intangible assets acquired due to the judgment by management when estimating the fair values of the intangible assets; (ii) significant audit effort in evaluating the significant assumptions relating to the intangible assets, such as the future revenue growth rates, royalty rates, and the discount rate; and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the valuation of intangible assets, including controls over management's development of the future revenue growth rates, royalty rates, and discount rate assumptions utilized in the valuation of the intangible assets. These procedures also included, among others, (i) reading the purchase agreement and (ii) testing management's process for estimating the fair values of intangible assets. Testing management's process included evaluating the appropriateness of the valuation methods, testing the completeness and accuracy of data provided by management, and evaluating the reasonableness of significant assumptions related to the future revenue growth rates, royalty rates and discount rate assumptions for the intangible assets. Evaluating the reasonableness of the future revenue growth rates involved considering the past performance of the acquired business, as well as economic and industry forecasts. Professionals with specialized skill and knowledge were used to assist in the evaluation of the royalty rates and discount rate assumptions.

/s/ PricewaterhouseCoopers LLP
Chartered Professional Accountants
Vancouver, Canada
March 30, 2021

We have served as the Company's auditor since 2006.

lululemon athletica inc.
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except per share amounts)

	January 31, 2021	February 2, 2020
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,150,517	\$ 1,093,505
Accounts receivable	62,399	40,219
Inventories	647,230	518,513
Prepaid and receivable income taxes	139,126	85,159
Prepaid expenses and other current assets	125,107	70,542
	2,124,379	1,807,938
Property and equipment, net	745,687	671,693
Right-of-use lease assets	734,835	689,664
Goodwill	386,877	24,182
Intangible assets, net	80,080	241
Deferred income tax assets	6,731	31,435
Other non-current assets	106,626	56,201
	\$ 4,185,215	\$ 3,281,354
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 172,246	\$ 79,997
Accrued inventory liabilities	14,956	6,344
Other accrued liabilities	211,911	112,641
Accrued compensation and related expenses	130,171	133,688
Current lease liabilities	166,091	128,497
Current income taxes payable	8,357	26,436
Unredeemed gift card liability	155,848	120,413
Other current liabilities	23,598	12,402
	883,178	620,418
Non-current lease liabilities	632,590	611,464
Non-current income taxes payable	43,150	48,226
Deferred income tax liabilities	58,755	43,432
Other non-current liabilities	8,976	5,596
	1,626,649	1,329,136
Commitments and contingencies		
Stockholders' equity		
Undesignated preferred stock, \$0.01 par value: 5,000 shares authorized; none issued and outstanding	—	—
Exchangeable stock, no par value: 60,000 shares authorized; 5,203 and 6,227 issued and outstanding	—	—
Special voting stock, \$0.000005 par value: 60,000 shares authorized; 5,203 and 6,227 issued and outstanding	—	—
Common stock, \$0.005 par value: 400,000 shares authorized; 125,150 and 124,122 issued and outstanding	626	621
Additional paid-in capital	388,667	355,541
Retained earnings	2,346,428	1,820,637
Accumulated other comprehensive loss	(177,155)	(224,581)
	2,558,566	1,952,218
	\$ 4,185,215	\$ 3,281,354

See accompanying notes to the consolidated financial statements

lululemon athletica inc.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Amounts in thousands, except per share amounts)

	Fiscal Year Ended		
	January 31, 2021	February 2, 2020	February 3, 2019
Net revenue	\$ 4,401,879	\$ 3,979,296	\$ 3,288,319
Cost of goods sold	1,937,888	1,755,910	1,472,032
Gross profit	2,463,991	2,223,386	1,816,287
Selling, general and administrative expenses	1,609,003	1,334,247	1,110,379
Amortization of intangible assets	5,160	29	72
Acquisition-related expenses	29,842	—	—
Income from operations	819,986	889,110	705,836
Other income (expense), net	(636)	8,283	9,414
Income before income tax expense	819,350	897,393	715,250
Income tax expense	230,437	251,797	231,449
Net income	\$ 588,913	\$ 645,596	\$ 483,801
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustment	47,426	(7,773)	(73,885)
Comprehensive income	\$ 636,339	\$ 637,823	\$ 409,916
Basic earnings per share			
Basic earnings per share	\$ 4.52	\$ 4.95	\$ 3.63
Diluted earnings per share			
Diluted earnings per share	\$ 4.50	\$ 4.93	\$ 3.61
Basic weighted-average number of shares outstanding			
Basic weighted-average number of shares outstanding	130,289	130,393	133,413
Diluted weighted-average number of shares outstanding			
Diluted weighted-average number of shares outstanding	130,871	130,955	133,971

See accompanying notes to the consolidated financial statements

lululemon athletica inc.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Amounts in thousands)

	Exchangeable Stock	Special Voting Stock	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total	
	Shares	Shares	Par Value	Shares					Par Value
Balance as of January 28, 2018	9,781	9,781	\$ —	125,650	\$ 628	\$ 284,253	\$ 1,455,002	\$ (142,923)	\$ 1,596,960
Net income						483,801			483,801
Foreign currency translation adjustment							(73,885)		(73,885)
Common stock issued upon exchange of exchangeable shares	(449)	(449)	—	449	2	(2)			—
Stock-based compensation expense						28,568			28,568
Common stock issued upon settlement of stock-based compensation				535	3	17,647			17,650
Shares withheld related to net share settlement of stock-based compensation				(94)	—	(8,779)			(8,779)
Repurchase of common stock				(4,940)	(25)	(6,402)	(591,913)		(598,340)
Balance as of February 3, 2019	9,332	9,332	\$ —	121,600	\$ 608	\$ 315,285	\$ 1,346,890	\$ (216,808)	\$ 1,445,975
Net income						645,596			645,596
Foreign currency translation adjustment							(7,773)		(7,773)
Common stock issued upon exchange of exchangeable shares	(3,105)	(3,105)	—	3,105	16	(16)			—
Stock-based compensation expense						45,593			45,593
Common stock issued upon settlement of stock-based compensation				603	3	18,167			18,170
Shares withheld related to net share settlement of stock-based compensation				(130)	(1)	(21,943)			(21,944)
Repurchase of common stock				(1,056)	(5)	(1,545)	(171,849)		(173,399)
Balance as of February 2, 2020	6,227	6,227	\$ —	124,122	\$ 621	\$ 355,541	\$ 1,820,637	\$ (224,581)	\$ 1,952,218

	Exchangeable Stock	Special Voting Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Shares	Par Value	Shares	Par Value				
Net income							588,913		588,913
Foreign currency translation adjustment								47,426	47,426
Common stock issued upon exchange of exchangeable shares	(1,024)	(1,024)	—	1,024	5	(5)			—
Stock-based compensation expense						50,797			50,797
Common stock issued upon settlement of stock-based compensation				532	3	15,260			15,263
Shares withheld related to net share settlement of stock-based compensation				(159)	(1)	(32,387)			(32,388)
Repurchase of common stock				(369)	(2)	(539)	(63,122)		(63,663)
Balance as of January 31, 2021	5,203	5,203	\$ —	125,150	\$ 626	\$ 388,667	\$ 2,346,428	\$ (177,155)	\$ 2,558,566

See accompanying notes to the consolidated financial statements

lululemon athletica inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

	Fiscal Year Ended		
	January 31, 2021	February 2, 2020	February 3, 2019
Cash flows from operating activities			
Net income	\$ 588,913	\$ 645,596	\$ 483,801
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	185,478	161,933	122,484
Stock-based compensation expense	50,797	45,593	28,568
Derecognition of unredeemed gift card liability	(13,696)	(11,939)	(6,859)
Settlement of derivatives not designated in a hedging relationship	4,485	(1,925)	(14,876)
Deferred income taxes	34,908	24,129	16,786
Changes in operating assets and liabilities:			
Inventories	(96,548)	(117,591)	(85,942)
Prepaid and receivable income taxes	(53,966)	(35,775)	(437)
Prepaid expenses and other current assets	(70,999)	(53,754)	(28,546)
Other non-current assets	(49,056)	(27,852)	(2,107)
Accounts payable	82,663	(14,810)	71,962
Accrued inventory liabilities	8,046	(9,598)	4,312
Other accrued liabilities	91,115	14,276	9,416
Accrued compensation and related expenses	(6,692)	25,326	41,600
Current and non-current income taxes payable	(24,125)	(34,137)	46,428
Unredeemed gift card liability	47,962	33,289	24,885
Right-of-use lease assets and current and non-current lease liabilities	13,267	17,422	—
Other current and non-current liabilities	10,784	9,133	31,304
Net cash provided by operating activities	803,336	669,316	742,779
Cash flows from investing activities			
Purchase of property and equipment	(229,226)	(283,048)	(225,807)
Settlement of net investment hedges	(14,607)	347	(16,216)
Acquisition, net of cash acquired	(452,581)	—	—
Other investing activities	882	4,293	(771)
Net cash used in investing activities	(695,532)	(278,408)	(242,794)
Cash flows from financing activities			
Proceeds from settlement of stock-based compensation	15,263	18,170	17,650
Taxes paid related to net share settlement of stock-based compensation	(32,388)	(21,944)	(8,779)
Repurchase of common stock	(63,663)	(173,399)	(598,340)
Other financing activities	—	—	(745)
Net cash used in financing activities	(80,788)	(177,173)	(590,214)
Effect of exchange rate changes on cash	29,996	(1,550)	(18,952)
Increase (decrease) in cash and cash equivalents	57,012	212,185	(109,181)
Cash and cash equivalents, beginning of period	\$ 1,093,505	\$ 881,320	\$ 990,501
Cash and cash equivalents, end of period	\$ 1,150,517	\$ 1,093,505	\$ 881,320

See accompanying notes to the consolidated financial statements

lululemon athletica inc.
INDEX FOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1	Nature of Operations and Basis of Presentation	47
Note 2	Summary of Significant Accounting Policies	48
Note 3	Inventories	55
Note 4	Prepaid Expenses and Other Current Assets	56
Note 5	Property and Equipment	55
Note 6	Acquisition	55
Note 7	Goodwill	57
Note 8	Intangible Assets	57
Note 9	Other Non-Current Assets	57
Note 10	Other Accrued Liabilities	57
Note 11	Revolving Credit Facilities	58
Note 12	Stockholders' Equity	59
Note 13	Stock-Based Compensation and Benefit Plans	60
Note 14	Fair Value Measurement	63
Note 15	Derivative Financial Instruments	63
Note 16	Leases	64
Note 17	Income Taxes	66
Note 18	Earnings Per Share	69
Note 19	Commitments and Contingencies	69
Note 20	Supplemental Cash Flow Information	70
Note 21	Segmented Information	71
Note 22	Net Revenue by Category and Geography	72

lululemon athletica inc.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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, distribution, and retail of healthy lifestyle inspired athletic apparel and accessories, which are sold through a chain of company-operated stores, direct to consumer through e-commerce, outlets, sales from temporary locations, sales to wholesale accounts, license and supply arrangements, and warehouse sales. The Company operates stores in the United States, Canada, the People's Republic of China ("PRC"), Australia, the United Kingdom, Germany, New Zealand, South Korea, Japan, Singapore, France, Malaysia, Sweden, Ireland, the Netherlands, Norway, and Switzerland. There were 521, 491, and 440 company-operated stores in operation as of January 31, 2021, February 2, 2020, and February 3, 2019, respectively.

On July 7, 2020, the Company acquired Curiouser Products Inc., dba MIRROR, ("MIRROR") which has been consolidated from the date of acquisition. MIRROR generates net revenue from the sale of in-home fitness equipment and associated content subscriptions. Please refer to Note 6. Acquisition for further information.

COVID-19 Pandemic

The outbreak of a novel strain of coronavirus ("COVID-19") was declared a global pandemic by the World Health Organization in March 2020 and it has caused governments and public health officials to impose restrictions and to recommend precautions to mitigate the spread of the virus.

In February 2020, the Company temporarily closed all of its retail locations in Mainland China, and in March 2020, the Company temporarily closed all of its retail locations in North America, Europe, and certain countries in Asia Pacific. The stores in Mainland China reopened during the first quarter of fiscal 2020, and stores in other markets began reopening in accordance with local government and public health authority guidelines during the second quarter of fiscal 2020. Almost all of the Company's retail locations were open during the third quarter of fiscal 2020, and while most retail locations have remained open, certain locations have temporarily closed based on government and health authority guidance in those markets.

The Company's distribution centers and most of its open retail locations are operating with restrictive and precautionary measures in place such as reduced operating hours, physical distancing, enhanced cleaning and sanitation, and limited occupancy levels.

In response to the COVID-19 pandemic, various government programs have been announced which provide financial relief for affected businesses. The most significant relief measures which the Company qualified for are the Employee Retention Credit under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") in the United States, and the Canada Emergency Wage Subsidy ("CEWS") under the COVID-19 Economic Response Plan in Canada. During fiscal 2020 the Company recognized payroll subsidies totaling \$37.1 million under these wage subsidy programs and similar plans in other jurisdictions. These subsidies were recorded as a reduction in the associated wage costs which the Company incurred, and were recognized in selling, general and administrative expenses.

The Financial Accounting Standards Board ("FASB") issued guidance in April 2020 in relation to accounting for lease concessions made in connection with the effects of COVID-19. In accordance with this guidance, the Company has elected to treat COVID-19-related lease concessions as variable lease payments. The Company is actively negotiating commercially reasonable lease concessions. Lease concessions of \$9.1 million were recognized during fiscal 2020.

Temporary closures as a result of COVID-19 and associated reduction in operating income during the first two quarters of fiscal 2020 were considered to be an indicator of impairment and the Company performed an assessment of recoverability for the long-lived assets and right-of-use assets associated with closed retail locations. In the first quarter of fiscal 2020, the Company recognized an insignificant impairment charge as a result of this analysis.

Revenue is presented net of an allowance for expected returns. The increase in the sales return allowance reflects the higher proportion of direct to consumer net revenue, and the longer period of time taken for returns to be made as a result of restricted capacity at retail locations.

The COVID-19 pandemic has materially impacted the Company's operations. The extent to which COVID-19 continues to impact the Company's operations, and in turn, its operating results and financial position will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of COVID-19 and the actions taken to contain it or treat its impact. Continued proliferation of the virus, or resurgence, may result in further or prolonged closures of the Company's retail locations and distribution centers, reduce operating hours, interrupt the Company's supply chain, cause changes in guest behavior, and reduce discretionary spending. Such factors could result in the impairment of long-lived assets and right-of-use assets and the need for an increased provision against the carrying value of the Company's inventories.

Basis of presentation

The consolidated financial statements have been presented in U.S. dollars and are prepared in accordance with United States generally accepted accounting principles ("GAAP").

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 2020 and fiscal 2019 were each 52-week years. Fiscal 2018 was a 53-week year. Fiscal 2020, 2019, and 2018 ended on January 31, 2021, February 2, 2020, and February 3, 2019, respectively, and are referred to as "2020," "2019," and "2018," respectively.

The Company's business is affected by the pattern of seasonality common to most retail apparel businesses. Historically, the Company has recognized a significant portion of its operating profit in the fourth fiscal quarter of each year as a result of increased net revenue during the holiday season.

NOTE 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 intercompany balances and transactions have been eliminated.

Cash and cash equivalents

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

Accounts receivable

Accounts receivable primarily arise out of duty receivables, sales to wholesale accounts, and license and supply arrangements. The allowance for doubtful accounts represents management's best estimate of probable credit losses in accounts receivable. Receivables are written off against the allowance when management believes that the amount receivable will not be recovered. As of January 31, 2021, February 2, 2020, and February 3, 2019, the Company recorded an insignificant allowance for doubtful accounts.

Inventories

Inventories, consisting of finished goods, inventories in transit, and raw materials, are stated at the lower of cost and net realizable value. Cost is determined using weighted-average costs, and includes 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 a provision as necessary to appropriately value goods that are obsolete, have quality issues, or are damaged. The amount of the provision is equal to the difference between the cost of the inventory and its net realizable value based upon assumptions about product quality, damages, future demand, selling prices, and market conditions. If changes in market conditions result in reductions in the estimated net realizable value of its inventory below its previous estimate, the Company would increase its reserve in the period in which it made such a determination.

In addition, the Company provides 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.

Business combinations

The purchase price of an acquisition is measured as the aggregate of the fair value of the consideration transferred including the acquisition-date fair value of the Company's previously held equity interests. The purchase price is allocated to the fair values of the tangible and intangible assets acquired and liabilities assumed, with any excess recorded as goodwill. These fair value determinations require judgment and may involve the use of significant estimates and assumptions. The purchase price allocation may be provisional during a measurement period of up to one year to provide reasonable time to obtain the information necessary to identify and measure the assets acquired and liabilities assumed. Any such measurement period adjustments are recognized in the period in which the adjustment amount is determined. Transaction costs associated with the acquisition are expensed as incurred.

Goodwill

Goodwill represents the excess of 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 over the net assets acquired and liabilities assumed. Goodwill is allocated to the reporting unit which is expected to receive the benefit from the synergies of the combination.

Goodwill is tested annually for impairment or more frequently when an event or circumstance indicates that goodwill might be impaired. Generally, the Company first performs a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If factors indicate that this is the case, the Company then estimates the fair value of the related reporting unit. If the fair value is less than the carrying value, the goodwill of the reporting unit is determined to be impaired and the Company will record an impairment equal to the excess of the carrying value over its fair value.

Intangible assets

Acquired finite-lived intangible assets are amortized on a straight-line basis over their estimated useful lives, and are reviewed for impairment when events or circumstances indicate that the asset group to which the intangible assets belong might be impaired. The Company revises the estimated remaining useful life of these assets when events or changes in circumstances warrant a revision. If the Company revises the useful life, the unamortized balance is amortized over the remaining useful life on a prospective basis.

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.

Depreciation commences when an asset is ready for its intended use. Buildings are depreciated on a straight-line basis over the expected useful life of the asset, which is individually assessed, and estimated to be up to 20 years. Leasehold improvements are depreciated on a straight-line basis over the lesser of the length of the lease and the estimated useful life of the improvement, to a maximum of 10 years for stores and 15 years for corporate offices and distribution centers. All other property and equipment are depreciated using the declining balance method as follows:

Furniture and fixtures	20%
Computer hardware and software	20% - 50%
Equipment and vehicles	30%

Cloud Computing Arrangements

Costs incurred to implement cloud computing service arrangements are initially deferred, and recognized as other non-current assets. Implementation costs are subsequently amortized over the expected term of the related cloud service. The carrying value of cloud computing implementation costs are tested for impairment when an event or circumstance indicates that the asset might be impaired. Changes in cloud computing arrangement implementation costs are classified within operating activities in the consolidated statements of cash flows.

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.

Leased property and equipment

At lease commencement, which is generally when the Company takes possession of the asset, the Company records a lease liability and corresponding right-of-use asset. Lease liabilities represent the present value of minimum lease payments over the expected lease term, which includes options to extend or terminate the lease when it is reasonably certain those options will be exercised. The present value of the lease liability is determined using the Company's incremental collateralized borrowing rate at the lease commencement.

Minimum lease payments include base rent, fixed escalation of rental payments, and rental payments that are adjusted periodically depending on a rate or index. In determining minimum lease payments, the Company does not separate non-lease components for real estate leases. Non-lease components are generally services that the lessor performs for the Company associated with the leased asset, such as common area maintenance.

Right-of-use assets represent the right to control the use of the leased asset during the lease and are initially recognized in an amount equal to the lease liability. In addition, prepaid rent, initial direct costs, and adjustments for lease incentives are components of the right-of-use asset. Over the lease term the lease expense is amortized on a straight-line basis beginning on the lease commencement date. Right-of-use assets are assessed for impairment as part of the impairment of long-lived assets, which is performed whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable.

Variable lease payments, including contingent rental payments based on sales volume, are recognized when the achievement of the specific target is probable. A right-of-use asset and lease liability are not recognized for leases with an initial term of 12 months or less, and the lease expense is recognized on a straight-line basis over the lease term.

The Company recognizes a liability for the fair value of asset retirement obligations ("AROs") when such obligations are 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 operations.

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 liability 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 the assumptions used in the initial estimate.

Revenue recognition

Net revenue is comprised of company-operated store net revenue, direct to consumer net revenue through websites and mobile apps, including mobile apps on in-store devices that allow demand to be fulfilled via the Company's distribution centers, and other net revenue, which includes revenue from MIRROR, outlets, temporary locations, sales to wholesale accounts, warehouse sales, and license and supply arrangement net revenue, which consists of royalties as well as sales of the Company's products to licensees. All revenue is reported net of markdowns, discounts, sales taxes collected from customers on behalf of taxing authorities, and returns.

MIRROR generates net revenue from the sale of in-home fitness equipment and associated content subscriptions. Certain in-home fitness contracts contain multiple performance obligations, including hardware and a subscription service commitment. For customer contracts that contain multiple performance obligations the Company accounts for individual performance obligations if they are distinct. The transaction price, net of discounts, is allocated to each performance obligation based on its standalone selling price.

Revenue is recognized when performance obligations are satisfied through the transfer of control of promised goods to the Company's customers. Control transfers once a customer has the ability to direct the use of, and obtain substantially all of the benefits from, the product. This includes the transfer of legal title, physical possession, the risks and rewards of ownership, and customer acceptance. Revenue from company-operated stores and other retail locations is recognized at the point of sale. Direct to consumer revenue, sales to wholesale accounts and in-home fitness hardware sales are recognized

upon receipt by the customer. In certain arrangements the Company receives payment before the customer receives the promised good. These payments are initially recorded as deferred revenue, and recognized as revenue in the period when control is transferred to the customer.

Revenue is presented net of an allowance for estimated returns. The Company's liability for sales return refunds is recognized within other current liabilities, and an asset for the value of inventory which is expected to be returned is recognized within other prepaid expenses and other current assets on the consolidated balance sheets.

Shipping fees billed to customers are recorded as revenue, and shipping costs are recognized within selling, general and administrative expenses in the same period the related revenue is recognized.

Proceeds from the sale of gift cards are initially deferred and recognized within unredeemed gift card liability on the consolidated balance sheets, and are recognized as revenue when tendered for payment. While the Company will continue to honor all gift cards presented for payment, to the extent management determines there is no requirement to remit unused card balances to government agencies under unclaimed property laws, the portion of card balances not expected to be redeemed are recognized in net revenue in proportion to the gift cards which have been redeemed, under the redemption recognition method. For 2020, 2019, and 2018, net revenue recognized on unredeemed gift card balances was \$13.7 million, \$11.9 million, and \$6.9 million, respectively.

Cost of goods sold

Cost of goods sold includes:

- the cost of purchased merchandise, which includes acquisition and production costs including raw material and labor, as applicable;
- the cost incurred to deliver inventory to the Company's distribution centers including freight, non-refundable taxes, duty, and other landing costs;
- the cost of the Company's distribution centers, such as labor, rent, utilities, and depreciation;
- the cost of the Company's production, design, research and development, distribution, and merchandising departments including salaries, stock-based compensation and benefits, and other expenses;
- occupancy costs such as minimum rent, contingent rent where applicable, property taxes, utilities, and depreciation expense for the Company's company-operated store locations;
- hemming costs;
- shrink and inventory provision expense; and
- the cost of digital content subscription services, including the costs of content creation, studio overhead, and related production departments.

Selling, general and administrative expenses

Selling, general and administrative expenses consist of all operating costs not otherwise included in cost of goods sold, intangible asset amortization, or acquisition-related expenses. The Company's selling, general and administrative expenses include the costs of corporate and retail employee wages and benefits, costs to transport the Company's products from the distribution facilities to the Company's retail locations and e-commerce guests, professional fees, marketing, information technology, human resources, accounting, legal, corporate facility and occupancy costs, and depreciation and amortization expense other than in cost of goods sold.

For 2020, 2019, and 2018, the Company incurred costs to transport its products from its distribution facilities to its retail locations and e-commerce guests of \$232.4 million, \$106.7 million, and \$79.5 million, respectively.

Store pre-opening costs

Operating costs incurred prior to the opening of new stores are expensed as incurred as selling, general and administrative expenses.

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 the temporary differences between the carrying amounts and the tax basis of assets and liabilities, and for tax losses, tax credit carryforwards, and other tax attributes. Deferred income tax assets and liabilities are

measured using enacted tax rates, for the appropriate tax jurisdiction, that are expected to be in effect when these differences are anticipated to reverse.

The Company has not recognized U.S. income taxes and foreign withholding taxes on undistributed earnings of foreign subsidiaries which the Company has determined to be indefinitely reinvested.

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 evaluation as to the likelihood of realizing the benefit of a deferred income tax asset is based on the timing of scheduled reversals of deferred tax liabilities, taxable income forecasts, and tax-planning strategies. The recognition of a deferred income tax asset is based upon several assumptions and forecasts, including current and anticipated taxable income, the utilization of previously unrealized non-operating loss carryforwards, and regulatory reviews of tax filings.

The Company evaluates its tax filing positions and recognizes the largest amount of tax benefit that is considered more likely than not to be sustained upon examination by the relevant taxing authorities based on the technical merits of the position. This determination requires the use of significant judgment. Income tax expense is adjusted in the period in which an uncertain tax position is effectively settled, the statute of limitations expires, facts or circumstances change, tax laws change, or new information becomes available. The Company's policy is to recognize interest expense and penalties related to income tax matters as part of other income (expense), net. Accrued interest and penalties are included within the related tax liability on the Company's consolidated balance sheets.

The U.S. Tax Cuts and Jobs Act ("U.S. tax reform") was enacted on December 22, 2017 and introduced significant changes to U.S. income tax law. The Company completed the accounting for the income tax effects of U.S. tax reform during 2018. U.S. tax reform changes and their impact to the Company are outlined in Note 17. Income Taxes. The Company treats the global intangible low-taxed income ("GILTI") tax as an in period tax.

Fair value of financial instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are made using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value:

- Level 1 - defined as observable inputs such as quoted prices in active markets;
- Level 2 - defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and
- Level 3 - defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The fair value measurement is categorized in its entirety by reference to its lowest level of significant input.

The Company records cash, accounts receivable, accounts payable, and accrued liabilities at cost. The carrying values of these instruments approximate their fair value due to their short-term maturities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments.

The Company holds certain assets and liabilities that are required to be measured at fair value on a recurring basis, which are outlined in Note 14. Fair Value Measurement.

Foreign currency

The functional currency for each entity included in these consolidated financial statements that is domiciled outside of the United States is generally 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. Net revenue and expenses are translated at the average rate in effect during the period. Unrealized translation gains and losses are recorded as a foreign currency translation adjustment, which is included in other comprehensive income or loss, which is a component of accumulated other comprehensive income or loss 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 recognized in selling, general and administrative expenses, except for gains and losses arising on intercompany foreign currency transactions that are of a long-term investment nature, which are recorded as a foreign currency translation adjustment in other comprehensive income or loss.

Derivative financial instruments

The Company uses derivative financial instruments to manage its exposure to certain foreign currency exchange rate risks.

Net investment hedges. The Company enters into certain forward currency contracts that are designated as net investment hedges. The effective portions of the hedges are reported in accumulated other comprehensive income or loss, net of tax, and will subsequently be reclassified to net earnings in the period in which the hedged investment is either sold or substantially liquidated. Hedge effectiveness is measured using a method based on changes in forward exchange rates. The Company classifies the cash flows at settlement of its net investment hedges within investing activities in the consolidated statements of cash flows.

Derivatives not designated as hedging instruments. The Company also enters into certain forward currency contracts that are not designated as net investment hedges. They are designed to economically hedge the foreign exchange revaluation gains and losses of certain monetary assets and liabilities. The Company has not applied hedge accounting to these instruments and the change in fair value of these derivatives is recorded within selling, general and administrative expenses. The Company classifies the cash flows at settlement of its forward currency contracts which are not designated in hedging relationships within operating activities in the consolidated statements of cash flows.

The Company presents its derivative assets and derivative liabilities at their gross fair values within prepaid expenses and other current assets and other current liabilities on the consolidated balance sheets. However, the Company's Master International Swap Dealers Association, Inc., Agreements and other similar arrangements allow net settlements under certain conditions.

The Company does not enter into derivative contracts for speculative or trading purposes. Additional information on the Company's derivative financial instruments is included in Note 14. Fair Value Measurement and Note 15. Derivative Financial Instruments.

Concentration of credit risk

Accounts receivable are primarily from inventory duty receivables, wholesale accounts, and from license and supply arrangements. The Company generally does not require collateral to support the accounts receivable; however, in certain circumstances, the Company may require parties to provide payment for goods prior to delivery of the goods or to provide letters of credit. The accounts receivable are net of an allowance for doubtful accounts, which is established based on management's assessment of the credit risk of the underlying accounts.

Cash and cash equivalents are held with high quality financial institutions. The amount of cash and cash equivalents held with certain financial institutions exceeds government-insured limits. The Company is also exposed to credit-related losses in the event of nonperformance by the counterparties to the forward currency contracts. The credit risk amount is the Company's unrealized gains on its derivative instruments, based on foreign currency rates at the time of nonperformance. The Company has not experienced any losses related to these items, and it believes credit risk to be minimal. The Company seeks to minimize its credit risk by entering into transactions with credit worthy and reputable financial institutions and by monitoring the credit standing of the financial institutions with whom it transacts. It seeks to limit the amount of exposure with any one counterparty.

The Company's derivative contracts contain certain credit risk-related contingent features. Under certain circumstances, including an event of default, bankruptcy, termination, and cross default under the Company's North American revolving credit facility, the Company may be required to make immediate payment for outstanding liabilities under its derivative contracts.

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. Awards settled in cash or common stock at the election of the employee are remeasured to fair value at the end of each reporting period until settlement. The employee compensation expense is recognized on a straight-line basis over the requisite service period with the offsetting credit to additional paid-in capital for awards that are settled in common shares, and with the offsetting credit to accrued compensation and related expenses for awards that are settled in cash or common stock at the election of the employee.

For awards with service and/or performance conditions, the amount of compensation expense recognized is based on the number of awards expected to vest, reflecting estimated expected forfeitures, 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.

The grant date fair value of each stock option granted is estimated on the award date using the Black-Scholes model, and the grant date fair value of restricted shares, performance-based restricted stock units, and restricted stock units is based on the closing price of the Company's common stock on the award date. Restricted stock units that are settled in cash or common stock at the election of the employee are remeasured to fair value at the end of each reporting period until

settlement. This fair value is based on the closing price of the Company's common stock on the last business day before each period end.

Earnings per share

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

Contingencies

In the ordinary course of business, the Company is involved in legal proceedings regarding contractual and employment relationships and a variety of other matters. The Company records contingent liabilities resulting from claims against us, when a loss is assessed to be probable and the amount of the loss is reasonably estimable.

Use of estimates

The preparation of financial statements in conformity with GAAP 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 net revenue and expenses during the reporting period. Actual results could differ from those estimates.

Recently adopted accounting pronouncements

The Company considers the applicability and impact of all Accounting Standard Updates ("ASUs"). ASUs adopted during 2020 were assessed, and determined to be either not applicable or are expected to have minimal impact on its consolidated financial position or results of operations.

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASC 842, Leases ("ASC 842") to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the new guidance, lessees are required to recognize a lease liability, which represents the discounted obligation to make future minimum lease payments, and a corresponding right-of-use asset on the balance sheet. The Company adopted ASC 842 on February 4, 2019 using the modified retrospective approach with no restatement of comparative periods.

The Company has chosen to apply the transition package of three practical expedients which allow companies not to reassess whether agreements contain leases, the classification of leases, and the capitalization of initial direct costs. The Company did not elect the practical expedient to use hindsight when determining the lease term.

The primary financial statement impact upon adoption was the recognition, on a discounted basis, of the Company's minimum payments under noncancelable operating leases as right-of-use assets and obligations on the consolidated balance sheets. As of February 4, 2019, right-of-use assets and lease liabilities were \$619.6 million and \$651.1 million, respectively. Pre-existing lease balances of \$34.8 million from current assets, \$9.3 million from non-current assets, and \$75.5 million from non-current liabilities were reclassified to right-of-use assets and lease liabilities as part of the adoption of the new standard. There was no cumulative earnings effect adjustment on transition.

Recently issued accounting pronouncements

ASUs recently issued not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on its consolidated financial position or results of operations.

In December 2019, the FASB issued guidance on ASC 740, Income Taxes. The amendments in this update simplify the accounting for income taxes by removing certain exceptions to the general principles in ASC 740. The amendments also improve consistent application and simplify GAAP for other areas of this topic by clarifying and amending existing guidance. This Company is evaluating the impact of this update.

NOTE 3. INVENTORIES

	January 31, 2021	February 2, 2020
	<i>(In thousands)</i>	
Inventories, at cost	\$ 678,200	\$ 540,580
Provision to reduce inventories to net realizable value	(30,970)	(22,067)
Inventories	\$ 647,230	\$ 518,513

The Company had net write-offs of \$20.5 million, \$28.6 million, and \$25.3 million of inventory in 2020, 2019, and 2018, respectively for goods that were obsolete, had quality issues, or were damaged.

NOTE 4. PREPAID EXPENSES AND OTHER CURRENT ASSETS

	January 31, 2021	February 2, 2020
	<i>(In thousands)</i>	
Prepaid expenses	\$ 82,164	\$ 64,568
Forward currency contract assets	17,364	1,735
Government payroll subsidy receivables	13,309	—
Other current assets	12,270	4,239
Prepaid expenses and other current assets	\$ 125,107	\$ 70,542

NOTE 5. PROPERTY AND EQUIPMENT

	January 31, 2021	February 2, 2020
	<i>(In thousands)</i>	
Land	\$ 74,261	\$ 71,829
Buildings	30,870	30,187
Leasehold improvements	583,305	489,202
Furniture and fixtures	117,334	109,533
Computer hardware	116,239	95,399
Computer software	427,313	336,768
Equipment and vehicles	17,105	19,521
Work in progress	69,847	40,930
Property and equipment, gross	1,436,274	1,193,369
Accumulated depreciation	(690,587)	(521,676)
Property and equipment, net	\$ 745,687	\$ 671,693

Included in the cost of computer software are capitalized costs of \$23.5 million and \$20.7 million as of January 31, 2021 and February 2, 2020, respectively, associated with internally developed software.

Depreciation expense related to property and equipment was \$180.1 million, \$161.8 million, and \$122.4 million for 2020, 2019, and 2018, respectively.

NOTE 6. ACQUISITION

On July 7, 2020, the Company acquired all of the outstanding shares of MIRROR, an in-home fitness company with an interactive workout platform that features live and on-demand classes. The results of operations, financial position, and cash flows of MIRROR have been included in the Company's consolidated financial statements since the date of acquisition.

The following table summarizes the fair value of the consideration transferred at the date of acquisition, as well as the calculation of goodwill based on the excess of consideration over the provisional fair value of net assets acquired. As part of the transaction, the Company assumed \$30.1 million of MIRROR's outstanding debt. This included \$15.1 million of external debt that was settled as part of the transaction and \$15.0 million of debt previously owed by MIRROR to the Company, which

represents the effective settlement of a preexisting relationship. The debt was determined to be at market terms and was recognized as a component of the consideration transferred, and no gain or loss was recorded on settlement.

		July 7, 2020
		<i>(in thousands)</i>
Fair value of consideration transferred:		
Cash paid to shareholders	\$	428,261
Employee options attributed to pre-combination vesting		4,569
Acquired debt settled on acquisition		30,122
Fair value of existing lululemon investment		1,782
	\$	464,734
Less cash and cash equivalents acquired		(12,153)
Fair value of consideration transferred, net of cash and cash equivalents acquired	\$	452,581
Less net assets acquired:		
Assets acquired:		
Inventories	\$	16,734
Prepaid expenses and other current assets		3,492
Intangible assets		85,000
Other non-current assets		5,648
	\$	110,874
Liabilities assumed:		
Current liabilities	\$	(13,465)
Current and non-current lease liabilities		(3,246)
Net deferred income tax liability		(4,074)
	\$	(20,785)
Net assets acquired	\$	90,089
Goodwill	\$	362,492

Goodwill relates to benefits expected as a result of the acquisition to MIRROR's business and has been allocated to the MIRROR reporting unit which is included within Other in the Company's segment disclosures. None of the goodwill is expected to be deductible for income tax purposes.

The Company assigned a fair value to and estimated useful lives for the intangible assets acquired as part of the MIRROR business combination. The fair value of the separately identifiable intangible assets, and their estimated useful lives as of the acquisition date were as follows:

	Estimated Fair Value	Estimated Useful Life
<i>(In thousands)</i>		
Intangible assets:		
Brand	\$ 26,500	20.0 years
Customer relationships	28,000	10.0 years
Technology	25,500	7.5 years
Content	5,000	5.0 years
	\$ 85,000	

Accounting for business combinations requires estimates and assumptions to derive the fair value of acquired assets and liabilities, and in the case of MIRROR, this is with specific reference to acquired intangible assets. The fair value of intangible assets was based upon widely-accepted valuation techniques, including discounted cash flows and relief from royalty and replacement cost methods, depending on the nature of the assets acquired or liabilities assumed. Inherent in each valuation technique are critical assumptions, including future revenue growth rates, royalty rates, and the discount rate. The recognition of deferred tax assets in relation to the historic net operating losses of MIRROR relied on assumptions and estimates of the future profitability of the Company's U.S. operations.

The Company has not disclosed pro forma information of the combined business as the transaction is not material to revenue or net earnings.

Acquisition-related expenses

In connection with the acquisition, the Company recognized certain acquisition-related expenses which are expensed as incurred. These expenses are recognized within acquisition-related expenses in the consolidated statements of operations include the following amounts:

- transaction and integration costs, including fees for advisory and professional services incurred as part of the acquisition and integration costs subsequent to the acquisition;
- acquisition-related compensation, including the partial acceleration of vesting of certain stock options, and amounts due to selling shareholders that are contingent upon continuing employment; and
- gain recognized on the Company's existing investment in the acquiree as of the acquisition date.

The following table summarizes the acquisition-related expenses recognized during 2020:

	2020
	<i>(in thousands)</i>
Acquisition-related expenses:	
Transaction and integration costs	\$ 10,548
Gain on existing investment	(782)
Acquisition-related compensation	20,076
	\$ 29,842
Income tax effects of acquisition-related expenses	\$ (3,133)

In 2020, the Company recognized \$17.2 million related to deferred consideration, and recognized an expense of \$2.9 million for the partial acceleration of vesting of certain stock options held by MIRROR employees.

The Company will recognize a total expense of \$57.1 million for deferred consideration which is due to certain continuing MIRROR employees, subject to the continued employment of those individuals through various vesting dates up to three years from the acquisition date. This acquisition-related compensation is expensed over the vesting periods as service is provided, and consists of cash payments, which are included within accrued compensation and related expenses until payments are made, and stock-based compensation awards that have been granted under the Company's 2014 Equity Incentive Plan to replace certain unvested options as of the acquisition date.

NOTE 7. GOODWILL

The changes in the carrying amounts of goodwill were as follows:

	Goodwill
	<i>(in thousands)</i>
Balance as of February 2, 2020	\$ 24,182
MIRROR acquisition	362,492
Effect of foreign currency translation	203
Balance as of January 31, 2021	\$ 386,877

Of the Company's goodwill, \$362.5 million relates to the MIRROR reporting unit that is included within Other in the Company's segment disclosures. The remaining \$24.4 million relates to the company-operated stores segment.

NOTE 8. INTANGIBLE ASSETS

The carrying value of intangible assets, and their estimated remaining useful lives as of January 31, 2021 were as follows:

	January 31, 2021	February 02, 2020	Remaining Useful Life
<i>(In thousands)</i>			
Intangible assets, net:			
Brand	\$ 25,727	\$ —	19.4 years
Customer relationships	26,308	—	9.4 years
Technology	23,478	—	6.9 years
Content	4,417	—	4.4 years
Other	150	241	1.7 years
	\$ 80,080	\$ 241	

NOTE 9. OTHER NON-CURRENT ASSETS

	January 31, 2021	February 02, 2020
<i>(In thousands)</i>		
Cloud computing arrangement implementation costs	\$ 74,631	\$ 24,648
Security deposits	23,154	19,901
Other	8,841	11,652
Other non-current assets	\$ 106,626	\$ 56,201

NOTE 10. OTHER ACCRUED LIABILITIES

	January 31, 2021	February 02, 2020
<i>(In thousands)</i>		
Accrued freight and other operating expenses	\$ 97,335	\$ 43,225
Accrued duty	17,404	16,178
Sales tax collected	15,246	17,370
Sales return allowances	32,560	12,897
Accrued rent	8,559	8,356
Accrued capital expenditures	8,653	5,457
Forward currency contract liabilities	18,766	1,920
Other	13,388	7,238
Other accrued liabilities	\$ 211,911	\$ 112,641

NOTE 11. REVOLVING CREDIT FACILITIES

North America revolving credit facility

During 2016, the Company obtained a \$150.0 million committed and unsecured five-year revolving credit facility with major financial institutions. During 2018, the Company amended the credit agreement to provide for:

- i. an increase in the aggregate commitments under the revolving credit facility to \$400.0 million, with an increase of the sub-limits for the issuance of letters of credit and extensions of swing line loans to \$50.0 million for each;
- ii. an increase in the option, subject to certain conditions, to request increases in commitments from \$400.0 million to \$600.0 million; and

- iii. an extension in the maturity of the facility from December 15, 2021 to June 6, 2023. Borrowings under the facility may be made in U.S. Dollars, Euros, Canadian Dollars, and in other currencies, subject to the lenders' approval.

As of January 31, 2021, aside from letters of credit of \$2.4 million, there were no other borrowings outstanding under this facility.

Borrowings under the facility bear interest at a rate equal to, at the Company's option, either (a) based on the rates applicable for deposits on the interbank market for U.S. Dollars or the applicable currency in which the borrowings are made ("LIBOR") or (b) an alternate base rate, plus, an applicable margin determined by reference to a pricing grid, based on the ratio of indebtedness to earnings before interest, tax, depreciation, amortization, and rent ("EBITDAR") and ranges between 1.00%-1.50% for LIBOR loans and 0.00%-0.50% for alternate base rate loans. Additionally, a commitment fee of between 0.10%-0.20% is payable on the average unused amounts under the revolving credit facility, and fees of 1.00%-1.50% are payable on unused letters of credit.

The credit agreement contains negative covenants that, among other things and subject to certain exceptions, limit the ability of the Company's subsidiaries to incur indebtedness, incur liens, undergo fundamental changes, make dispositions of all or substantially all of their assets, alter their businesses and enter into agreements limiting subsidiary dividends and distributions.

The Company is also required to maintain a consolidated rent-adjusted leverage ratio of not greater than 3.5:1 and to maintain the ratio of consolidated EBITDAR to consolidated interest charges (plus rent) below 2:1. The credit agreement also contains certain customary representations, warranties, affirmative covenants, and events of default (including, among others, an event of default upon the occurrence of a change of control). As of January 31, 2021, the Company was in compliance with the covenants of the credit facility.

Mainland China revolving credit facility

In December 2019, the Company entered into an uncommitted and unsecured 130.0 million Chinese Yuan revolving credit facility with terms that are reviewed on an annual basis. The credit facility was increased to 230.0 million Chinese Yuan during 2020. It comprises of a revolving loan of up to 200.0 million Chinese Yuan and a financial guarantee facility of up to 30.0 million Chinese Yuan, or its equivalent in another currency. Loans are available for a period not to exceed 12 months, at an interest rate equal to the loan prime rate plus a spread of 0.5175%. The Company is required to follow certain covenants. As of January 31, 2021, the Company was in compliance with the covenant and there were no borrowings or guarantees outstanding under this credit facility.

364-Day revolving credit facility

In June 2020, the Company obtained a 364-day \$300.0 million committed and unsecured revolving credit facility. In December 2020, the Company elected to terminate this credit facility.

NOTE 12. STOCKHOLDERS' EQUITY

Special voting stock and exchangeable shares

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 earliest of July 26, 2047, the date on which fewer than 4.2 million exchangeable shares are outstanding, or in the event of certain events such as a change in control.

NOTE 13. STOCK-BASED COMPENSATION AND BENEFIT PLANS

Stock-based compensation plans

The Company's eligible employees participate in various stock-based compensation plans, provided directly by the Company.

In June 2014, the Company's stockholders approved the adoption of the lululemon athletica inc. 2014 Equity Incentive Plan ("2014 Plan"). The 2014 Plan provides for awards in the form of stock options, stock appreciation rights, restricted stock purchase rights, restricted share bonuses, restricted stock units, performance shares, performance-based restricted stock units, cash-based awards, other stock-based awards, and deferred compensation awards to employees (including officers and directors who are also employees), consultants, and directors of the Company.

The awards granted under the 2007 Equity Incentive Plan ("2007 Plan") remain outstanding and continue to vest under their original conditions. No further awards will be granted under the 2007 Plan.

The Company has granted stock options, performance-based restricted stock units, restricted stock units, and restricted shares. Stock options granted to date generally have a four-year vesting period and vest at a rate of 25% each year on the anniversary date of the grant. Stock options generally expire on the earlier of seven years from the date of grant, or a specified period of time following termination. Performance-based restricted stock units issued generally vest three years from the grant date and restricted shares generally vest one year from the grant date. Restricted stock units granted generally have a three-year vesting period and vest at a certain percentage each year on the anniversary date of the grant.

The Company issues previously unissued shares upon the exercise of Company options, vesting of performance-based restricted stock units or restricted stock units that are settled in common stock, and granting of restricted shares.

Stock-based compensation expense charged to income for the plans was \$56.6 million, \$46.1 million, and \$29.6 million for 2020, 2019, and 2018, respectively.

Total unrecognized compensation cost for all stock-based compensation plans was \$75.7 million as of January 31, 2021, which is expected to be recognized over a weighted-average period of 1.9 years, and was \$63.4 million as of February 2, 2020 over a weighted-average period of 2.0 years.

A summary of the balances of the Company's stock-based compensation plans as of January 31, 2021, February 2, 2020, and February 3, 2019, and changes during the fiscal years then ended is presented below:

	Stock Options		Performance-Based Restricted Stock Units		Restricted Shares		Restricted Stock Units		Restricted Stock Units (Liability Accounting)	
	Number	Weighted -Average Exercise Price	Number	Weighted -Average Grant Date Fair Value	Number	Weighted -Average Grant Date Fair Value	Number	Weighted -Average Grant Date Fair Value	Number	Weighted -Average Fair Value
<i>(In thousands, except per share amounts)</i>										
Balance as of January 28, 2018	1,117	\$ 56.44	329	\$ 60.42	21	\$ 52.45	427	\$ 57.54	—	\$ —
Granted	388	96.96	123	102.49	6	124.19	257	88.75	44	136.67
Exercised/vested	316	56.29	39	63.04	21	52.45	174	58.94	—	—
Forfeited/expired	319	59.76	133	61.71	—	—	70	66.90	—	—
Balance as of February 3, 2019	870	\$ 73.34	280	\$ 78.01	6	\$ 124.19	440	\$ 73.73	44	\$ 146.12
Granted	325	168.14	93	142.33	7	175.82	124	170.15	—	—
Exercised/vested	299	60.75	97	72.04	6	124.19	186	70.69	15	179.67
Forfeited/expired	120	102.37	38	91.03	—	—	45	95.46	—	—
Balance as of February 2, 2020	776	\$ 113.41	238	\$ 103.52	7	\$ 175.82	333	\$ 108.44	29	\$ 239.39
Granted	241	182.78	140	122.21	4	299.09	130	208.35	—	—
Exercised/vested	182	83.89	171	63.03	7	175.82	175	87.31	14	366.42
Forfeited/expired	31	155.33	8	155.08	—	—	13	162.60	—	—
Balance as of January 31, 2021	804	\$ 139.27	199	\$ 149.20	4	\$ 299.09	275	\$ 166.50	15	\$ 328.68

A total of 12.9 million shares of the Company's common stock have been authorized for future issuance under the Company's 2014 Equity Incentive Plan.

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

The grant date fair value of the restricted shares and restricted stock units is based on the closing price of the Company's common stock on the award date. Restricted stock units that are settled in cash or common stock at the election of the employee are remeasured to fair value at the end of each reporting period until settlement. This fair value is based on the closing price of the Company's common stock on the last business day before each period end.

The grant date fair value of each stock option granted is estimated on the date of grant using the Black-Scholes model. The assumptions used to calculate the fair value of the options granted are evaluated and revised, as necessary, to reflect market conditions and the Company's historical experience. The expected term of the options is based upon the historical experience of similar awards, giving consideration to expectations of future employee behavior. Expected volatility is based upon the historical volatility of the Company's common stock for the period corresponding with the expected term of the options. The risk-free interest rate is based on the U.S. Treasury yield curve for the period corresponding with the expected term of the options. The following are weighted averages of the assumptions that were used in calculating the fair value of stock options granted in 2020, 2019, and 2018:

	2020	2019	2018
Expected term	3.61 years	3.75 years	3.75 years
Expected volatility	40.01 %	38.43 %	36.87 %
Risk-free interest rate	0.32 %	2.19 %	2.46 %
Dividend yield	— %	— %	— %

The following table summarizes information about stock options outstanding and exercisable as of January 31, 2021:

Range of Exercise Prices	Outstanding			Exercisable		
	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)
<i>(In thousands, except per share amounts and years)</i>						
\$2.78-\$81.22	147	\$ 57.03	3.6	61	\$ 62.04	3.0
\$85.96-\$124.19	129	88.16	4.2	26	89.77	4.2
\$136.67-\$155.97	73	137.22	4.6	36	137.09	4.6
\$167.54-\$167.54	230	167.54	5.2	40	167.54	5.2
\$174.52-\$356.93	226	194.03	6.1	2	182.81	5.4
	804	\$ 139.27	4.9	165	\$ 109.79	4.1
Intrinsic value	\$ 152,342			\$ 36,081		

As of January 31, 2021, the unrecognized compensation cost related to these options was \$23.1 million, which is expected to be recognized over a weighted-average period of 2.4 years. The weighted-average grant date fair value of options granted during 2020, 2019, and 2018 was \$74.91, \$54.09, and \$30.30, respectively.

The following table summarizes the intrinsic value of options exercised and awards that vested during 2020, 2019, and 2018:

	2020	2019	2018
<i>(In thousands)</i>			
Stock options	\$ 37,022	\$ 36,188	\$ 17,268
Performance-based restricted stock units	32,384	16,003	3,413
Restricted shares	2,115	1,048	2,600
Restricted stock units	37,791	31,300	17,142
Restricted stock units (liability accounting)	5,309	2,603	—
	\$ 114,621	\$ 87,142	\$ 40,423

Employee share purchase plan

The Company's board of directors and stockholders approved the Company's Employee Share Purchase Plan ("ESPP") in September 2007. Contributions are made by eligible employees, subject to certain limits defined in the ESPP, and the Company matches one-third of the contribution. The maximum number of shares authorized to be purchased under the ESPP is 6.0 million shares. All shares purchased under the ESPP are purchased in the open market. During 2020, there were 0.1 million shares purchased.

Defined contribution pension plans

The Company offers defined contribution pension plans to its eligible employees. Participating employees may elect to defer and contribute a portion of their eligible compensation to a plan up to limits stated in the plan documents, not to exceed the dollar amounts set by applicable laws. The Company matches 50% to 75% of the contribution depending on the participant's length of service, and the contribution is subject to a two year vesting period. The Company's net expense for the defined contribution plans was \$9.2 million, \$8.5 million, and \$6.4 million during 2020, 2019, and 2018, respectively.

NOTE 14. FAIR VALUE MEASUREMENT

Assets and liabilities measured at fair value on a recurring basis

As of January 31, 2021 and February 2, 2020, the Company held certain assets and liabilities that are required to be measured at fair value on a recurring basis:

	January 31, 2021	Level 1	Level 2	Level 3	Balance Sheet Classification
<i>(In thousands)</i>					
Money market funds	\$ 671,817	\$ 671,817	\$ —	\$ —	Cash and cash equivalents
Term deposits	183,015	—	183,015	—	Cash and cash equivalents
Forward currency contract assets	17,364	—	17,364	—	Prepaid expenses and other current assets
Forward currency contract liabilities	18,767	—	18,767	—	Other current liabilities

	February 2, 2020	Level 1	Level 2	Level 3	Balance Sheet Classification
<i>(In thousands)</i>					
Money market funds	\$ 610,800	\$ 610,800	\$ —	\$ —	Cash and cash equivalents
Term deposits	203,360	—	203,360	—	Cash and cash equivalents
Forward currency contract assets	1,735	—	1,735	—	Prepaid expenses and other current assets
Forward currency contract liabilities	1,920	—	1,920	—	Other current liabilities

The Company has short-term, highly liquid investments classified as cash equivalents, which are invested in money market funds, Treasury bills, and term deposits. The Company records cash equivalents at their original purchase prices plus interest that has accrued at the stated rate.

The fair values of the forward currency contract assets and liabilities are determined using observable Level 2 inputs, including foreign currency spot exchange rates, forward pricing curves, and interest rates. The fair values consider the credit risk of the Company and its counterparties. The Company's Master International Swap Dealers Association, Inc., Agreements and other similar arrangements allow net settlements under certain conditions. However, the Company records all derivatives on its consolidated balance sheets at fair value and does not offset derivative assets and liabilities.

Assets and liabilities measured at fair value on a non-recurring basis

The Company has also recorded lease termination liabilities at fair value on a non-recurring basis, determined using Level 3 inputs based on remaining lease rentals and reduced by estimated sublease income.

NOTE 15. DERIVATIVE FINANCIAL INSTRUMENTS

The Company currently hedges against changes in the Canadian dollar to U.S. dollar exchange rate and changes in the Chinese Yuan to U.S. dollar exchange rate using forward currency contracts.

Net investment hedges

The Company is exposed to foreign exchange gains and losses which arise on translation of its foreign subsidiaries' balance sheets into U.S. dollars. These gains and losses are recorded as a foreign currency translation adjustment in accumulated other comprehensive income or loss within stockholders' equity.

The Company holds a significant portion of its assets in Canada and during 2020, it entered into forward currency contracts designed to hedge a portion of the foreign currency exposure that arises on translation of a Canadian subsidiary into U.S. dollars. These forward currency contracts are designated as net investment hedges. The Company assesses hedge effectiveness based on changes in forward rates. The Company recorded no ineffectiveness from net investment hedges during 2020.

Derivatives not designated as hedging instruments

During 2020, the Company entered into certain forward currency contracts designed to economically hedge the foreign exchange revaluation gains and losses that are recognized by its Canadian and Chinese subsidiaries on U.S. dollar denominated monetary assets and liabilities.

Quantitative disclosures about derivative financial instruments

The notional amounts and fair values of forward currency contracts were as follows:

	January 31, 2021			February 2, 2020		
	Gross Notional	Assets	Liabilities	Gross Notional	Assets	Liabilities
<i>(In thousands)</i>						
Derivatives designated as net investment hedges:						
Forward currency contracts	\$ 985,000	\$ —	\$ 18,099	\$ 417,000	\$ 1,583	\$ —
Derivatives not designated in a hedging relationship:						
Forward currency contracts	1,055,000	17,364	668	460,000	152	1,920
Net derivatives recognized on consolidated balance sheets:						
Forward currency contracts		\$ 17,364	\$ 18,767		\$ 1,735	\$ 1,920

As of January 31, 2021, there were derivative assets of \$17.4 million and derivative liabilities of \$18.8 million subject to enforceable netting arrangements.

The forward currency contracts designated as net investment hedges mature on different dates between February 2021 and September 2021.

The forward currency contracts not designated in a hedging relationship mature on different dates between February 2021 and September 2021.

The pre-tax gains and losses on foreign exchange forward contracts recorded in accumulated other comprehensive income are as follows:

	2020	2019	2018
<i>(In thousands)</i>			
Gains (losses) recognized in foreign currency translation adjustment:			
Derivatives designated as net investment hedges	\$ (34,289)	\$ 2,972	\$ 23,946

No gains or losses have been reclassified from accumulated other comprehensive income into net income for derivative financial instruments in a net investment hedging relationship, as the Company has not sold or liquidated (or substantially liquidated) its hedged subsidiary.

The pre-tax net foreign exchange and derivative gains and losses recorded in the consolidated statement of operations are as follows:

	2020	2019	2018
<i>(In thousands)</i>			
Gains (losses) recognized in selling, general and administrative expenses:			
Foreign exchange gains (losses)	\$ (26,053)	\$ 2,701	\$ 23,642
Derivatives not designated in a hedging relationship	22,949	(4,209)	(22,249)
Net foreign exchange and derivative gains (losses)	\$ (3,104)	\$ (1,508)	\$ 1,393

NOTE 16. LEASES

The Company has obligations under operating leases for its store and other retail locations, distribution centers, offices, and equipment. As of January 31, 2021, the lease terms of the various leases range from two to fifteen years. The majority of the Company's leases include renewal options at the sole discretion of the Company. In general, it is not reasonably certain

that lease renewals will be exercised at lease commencement and therefore lease renewals are not included in the lease term.

The following table details the Company's net lease expense. Certain of the Company's leases include rent escalation clauses, rent holidays, and leasehold rental incentives. The majority of the Company's leases for store premises also include contingent rental payments based on sales volume. The variable lease expenses disclosed below include contingent rent payments and other non-fixed lease related costs, including common area maintenance, property taxes, and landlord's insurance.

	2020	2019
	<i>(In thousands)</i>	
Net lease expense:		
Operating lease expense	\$ 193,498	\$ 176,367
Short-term lease expense	11,721	9,358
Variable lease expense	60,991	70,957
	\$ 266,210	\$ 256,682

The following table presents future minimum lease payments and the impact of discounting.

	January 31, 2021
	<i>(In thousands)</i>
2021	\$ 189,907
2022	177,819
2023	151,668
2024	127,834
2025	71,670
After 2026	155,619
Future minimum lease payments	\$ 874,517
Impact of discounting	(75,836)
Present value of lease liabilities	\$ 798,681
Balance sheet classification:	
Current lease liabilities	\$ 166,091
Non-current lease liabilities	632,590
	\$ 798,681

The weighted-average remaining lease term and weighted-average discount rate were as follows:

	January 31, 2021
Weighted-average remaining lease term	5.59 years
Weighted-average discount rate	3.42 %

Disclosures related to periods prior to adoption of ASC 842

The following table details the Company's total rent expense prior to the adoption of ASC 842 as well as the property taxes for leased locations.

	2018
	<i>(in thousands)</i>
Total rent expense:	
Minimum rent expense	\$ 161,847
Common area expenses	23,269
Rent contingent on sales	12,846
	\$ 197,962
Property taxes for leased locations	\$ 17,826

NOTE 17. INCOME TAXES

The Company's domestic and foreign income before income tax expense and current and deferred income taxes from federal, state, and foreign sources are as follows:

	2020	2019	2018
	<i>(In thousands)</i>		
Income before income tax expense			
Domestic	\$ 122,573	\$ 180,043	\$ 132,563
Foreign	696,777	717,350	582,687
	\$ 819,350	\$ 897,393	\$ 715,250
Current income tax expense			
Federal	\$ 70	\$ 45,765	\$ 73,213
State	10,439	11,480	16,153
Foreign	185,803	170,158	123,129
	\$ 196,312	\$ 227,403	\$ 212,495
Deferred income tax expense (recovery)			
Federal	\$ 19,754	\$ (5,683)	\$ (13,068)
State	5,923	(150)	(8,566)
Foreign	8,448	30,227	40,588
	\$ 34,125	\$ 24,394	\$ 18,954
Income tax expense	\$ 230,437	\$ 251,797	\$ 231,449

The Company's income tax expense for 2018 included certain discrete tax amounts, as follows:

	2018
	<i>(In thousands)</i>
U.S. tax reform:	
One-time transition tax	\$ 7,464
Tax on repatriation from foreign subsidiaries	23,714
Total discrete amounts	\$ 31,178

U.S. tax reform

The U.S. tax reforms enacted in December 2017 introduced significant changes to the U.S. income tax laws, including reduction in the U.S. federal income tax rate from 35% to 21%, a shift to a territorial tax system which changed how foreign earnings are subject to U.S. tax, and the imposition of a mandatory one-time transition tax on the accumulated undistributed earnings of foreign subsidiaries.

One-time transition tax. U.S. tax reform required the Company to pay U.S. income taxes on accumulated foreign subsidiary earnings not previously subject to U.S. income tax at a rate of 15.5% on cash and cash equivalents and 8% on the remaining earnings, net of foreign tax credits. The one-time transition tax is payable over eight years.

As a result of completing its fiscal 2017 U.S. tax returns and incorporating newly issued guidance into its calculations the Company recognized an additional current tax expense of \$7.5 million during 2018 for the mandatory one-time transition tax.

The Company completed the accounting for the income tax effects of U.S. tax reform in 2018.

Tax on repatriation from foreign subsidiaries

U.S. tax reform and the shift to a territorial tax system in fiscal 2017 eliminated U.S. federal income taxes upon the repatriation of foreign earnings. However, U.S. tax reform did not eliminate foreign withholding taxes, or certain state income taxes.

During 2018, the Company completed its evaluation of the impact that U.S. tax reform has upon repatriation taxes, its reinvestment plans, and the most efficient means of deploying its capital resources. As a result of these evaluations, the Company repatriated \$778.9 million from a Canadian subsidiary to the U.S. parent entity in 2018. A net current tax expense of \$23.7 million was recognized in 2018 on this distribution.

As of January 31, 2021, the Company's net investment in its Canadian subsidiaries was \$1.8 billion, of which \$0.8 billion was determined to be indefinitely reinvested. A deferred income tax liability of \$3.0 million has been recognized in relation to the portion of the Company's net investment in its Canadian subsidiaries that is not indefinitely reinvested, principally representing the U.S. state income taxes which would be due upon repatriation. This deferred tax liability has been recorded on the basis that the Company would choose to make the repatriation transactions in the most tax efficient manner. Specifically, to the extent that the Canadian subsidiaries have sufficient paid-up-capital, any such distributions would be characterized as a return of capital for Canadian tax purposes, and therefore not subject to Canadian withholding tax. The unrecognized deferred tax liability on the indefinitely reinvested amount is approximately \$2.4 million.

No deferred income tax liabilities have been recognized on any of the undistributed earnings of the Company's other foreign subsidiaries as these earnings are permanently reinvested outside of the United States. Excluding its Canadian subsidiaries, cumulative undistributed earnings of the Company's foreign subsidiaries as of January 31, 2021 were \$89.7 million.

As of January 31, 2021, the Company had cash and cash equivalents of \$508.7 million outside of the United States.

A summary reconciliation of the effective tax rate is as follows:

	2020	2019	2018
	<i>(Percentages)</i>		
Federal income tax at statutory rate	21.0 %	21.0 %	21.0 %
Foreign tax rate differentials	4.6	4.6	4.7
U.S. state taxes	0.8	1.0	0.9
Non-deductible compensation expense	1.3	0.6	0.8
Permanent and other	0.4	0.9	0.6
U.S. tax reform	—	—	1.1
Tax on repatriation from foreign subsidiaries	—	—	3.3
Effective tax rate	28.1 %	28.1 %	32.4 %

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities as of January 31, 2021 and February 2, 2020 are presented below:

	January 31, 2021	February 2, 2020
<i>(In thousands)</i>		
Deferred income tax assets:		
Net operating loss carryforwards	\$ 14,149	\$ 2,354
Inventories	14,093	8,763
Property and equipment, net	2,715	5,444
Intangible assets, net	937	975
Non-current lease liabilities	160,015	144,412
Stock-based compensation	7,266	4,961
Accrued bonuses	1,948	3,509
Unredeemed gift card liability	6,629	6,815
Foreign tax credits	4,829	4,827
Other	8,640	1,784
Deferred income tax assets	221,221	183,844
Valuation allowance	(6,464)	(5,655)
Deferred income tax assets, net of valuation allowance	\$ 214,757	\$ 178,189
Deferred income tax liabilities:		
Property and equipment, net	\$ (97,717)	\$ (57,280)
Intangible assets, net	(21,556)	(611)
Right-of-use lease assets	(134,245)	(132,059)
Other	(13,263)	(236)
Deferred income tax liabilities	(266,781)	(190,186)
Net deferred income tax (liabilities) assets	\$ (52,024)	\$ (11,997)
Balance sheet classification:		
Deferred income tax assets	\$ 6,731	\$ 31,435
Deferred income tax liabilities	(58,755)	(43,432)
Net deferred income tax (liabilities) assets	\$ (52,024)	\$ (11,997)

As of January 31, 2021, the Company had net operating loss carryforwards of \$59.1 million. The majority of the net operating loss carryforwards expire, if unused, between fiscal 2026 and fiscal 2039.

The Company files income tax returns in the U.S., Canada, and various foreign, state, and provincial jurisdictions. The 2017 to 2019 tax years remain subject to examination by the U.S. federal and state tax authorities. The 2013 tax year is still open for certain state tax authorities. The 2013 to 2019 tax years remain subject to examination by Canadian tax authorities. The 2013 to 2019 tax years remain subject to examination by tax authorities in certain foreign jurisdictions. The Company does not have any significant unrecognized tax benefits arising from uncertain tax positions taken, or expected to be taken, in the Company's tax returns.

NOTE 18. EARNINGS PER SHARE

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

	2020	2019	2018
	<i>(In thousands, except per share amounts)</i>		
Net income	\$ 588,913	\$ 645,596	\$ 483,801
Basic weighted-average number of shares outstanding	130,289	130,393	133,413
Assumed conversion of dilutive stock options and awards	582	562	558
Diluted weighted-average number of shares outstanding	130,871	130,955	133,971
Basic earnings per share	\$ 4.52	\$ 4.95	\$ 3.63
Diluted earnings per share	\$ 4.50	\$ 4.93	\$ 3.61

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 2020, 2019, and 2018, 30.8 thousand, 48.0 thousand, and 32.2 thousand stock options and awards, respectively, were anti-dilutive to earnings per share and therefore have been excluded from the computation of diluted earnings per share.

On November 29, 2017, the Company's board of directors approved a stock repurchase program for up to \$200.0 million and on June 6, 2018, the board of directors approved an increase to this stock repurchase program, authorizing the repurchase of up to a total of \$600.0 million of the Company's common shares. These programs were completed during the first quarter of 2019.

On January 31, 2019, the Company's board of directors approved a stock repurchase program for up to \$500.0 million of the Company's common shares on the open market or in privately negotiated transactions. On December 1, 2020, the Company's board of directors approved an increase in the remaining authorization of the existing stock repurchase program from \$263.6 million to \$500.0 million. The repurchase plan has no time limit and does not require the repurchase of any minimum number of shares. Common shares repurchased on the open market are at prevailing market prices, including under plans complying with the provisions of Rule 10b5-1 and Rule 10b-18 of the Securities Exchange Act of 1934. The timing and actual number of common shares to be repurchased will depend upon market conditions, eligibility to trade, and other factors, in accordance with Securities and Exchange Commission requirements. As of January 31, 2021, the remaining value of shares available to be repurchased under this program was \$500.0 million.

During 2020, 2019, and 2018, 0.4 million, 1.1 million, and 4.9 million shares, respectively, were repurchased under the programs at a total cost of \$63.7 million, \$173.4 million, and \$598.3 million, respectively.

Subsequent to January 31, 2021, and up to March 24, 2021, no shares were repurchased.

NOTE 19. COMMITMENTS AND CONTINGENCIES

Commitments

Leases. The Company has obligations under operating leases for its store and other retail locations, distribution centers, offices, and equipment. Please refer to Note 16. Leases for further details regarding lease commitments and the timing of future minimum lease payments.

License and supply arrangements. The Company has entered into license and supply arrangements with partners in the Middle East and Mexico which grant them the right to operate lululemon branded retail locations in the United Arab Emirates, Kuwait, Qatar, Oman, Bahrain, and Mexico. The Company retains the rights to sell lululemon products through its e-commerce websites in these countries. Under these arrangements, the Company supplies the partners with lululemon products, training, and other support. An extension to the initial term of the agreement for the Middle East was signed in 2020 and it extends the arrangement to December 2024. The initial term of the agreement for Mexico expires in November 2026. As of January 31, 2021, there were four licensed retail locations in Mexico, three in the United Arab Emirates, and one in Qatar.

The following table summarizes the Company's contractual arrangements as of January 31, 2021, and the timing and effect that such commitments are expected to have on its liquidity and cash flows in future periods:

	Payments Due by Fiscal Year						
	Total	2021	2022	2023	2024	2025	Thereafter
<i>(In thousands)</i>							
Deferred consideration	\$ 49,544	\$ 25,194	\$ 24,341	\$ 9	\$ —	\$ —	\$ —
One-time transition tax payable	\$ 48,226	\$ 5,076	\$ 5,076	\$ 9,518	\$ 12,691	\$ 15,865	\$ —

Deferred consideration. The amounts listed for deferred consideration in the table above represent expected future cash payments for certain continuing MIRROR employees, subject to the continued employment of those individuals up to three years from the acquisition date as outlined in Note 6. Acquisition.

One-time transition tax. As outlined in Note 17. Income Taxes, U.S. tax reform imposed a mandatory transition tax on accumulated foreign subsidiary earnings which have not previously been subject to U.S. income tax. The one-time transition tax is payable over eight years beginning in 2018. The one-time transition tax payable is net of foreign tax credits, and the table above outlines the expected payments due by fiscal year.

Contingencies

Legal proceedings. In addition to the legal proceedings described below, the Company is, from time to time, involved in routine legal matters, and audits and inspections by governmental agencies and other third parties which are incidental to the conduct of its business. This includes legal matters such as initiation and defense of proceedings to protect intellectual property rights, personal injury claims, product liability claims, employment claims, and similar matters. The Company believes the ultimate resolution of any such legal proceedings, audits, and inspections will not have a material adverse effect on its consolidated balance sheets, results of operations or cash flows. The Company has recognized immaterial provisions related to the expected outcome of legal proceedings.

In March 2020, a former retail employee filed a representative action in the Los Angeles Superior Court alleging violation of the Private Attorney General Act ("PAGA") based on purported California labor code violations including failure to pay wages, failure to pay overtime, failure to provide accurate itemized statements, and failure to provide meal and rest periods. The plaintiff is seeking to recover civil penalties under PAGA. The Company intends to vigorously defend this matter.

In April 2020, Aliign Activation Wear, LLC filed a lawsuit in the United States District Court for the Central District of California alleging federal trademark infringement, false designation of origin and unfair competition. The plaintiff is seeking injunctive relief, monetary damages and declaratory relief. The Company intends to vigorously defend this matter.

NOTE 20. SUPPLEMENTAL CASH FLOW INFORMATION

	2020	2019	2018
<i>(In thousands)</i>			
Cash paid for income taxes	\$ 260,886	\$ 305,493	\$ 177,040
Cash paid for amounts included in the measurement of lease liabilities	180,536	177,144	—
Leased assets obtained in exchange for new operating lease liabilities	178,504	222,448	—
Interest paid	110	325	1,394

NOTE 21. SEGMENTED INFORMATION

The Company's segments are based on the financial information it uses in managing its business and comprise two reportable segments: (i) company-operated stores and (ii) direct to consumer. The remainder of its operations which includes outlets, temporary locations, sales to wholesale accounts, license and supply arrangements, and MIRROR are included within Other.

During the first quarter of 2020, the Company reviewed its segment and general corporate expenses and determined certain costs that are more appropriately classified in different categories. Accordingly, comparative figures have been reclassified to conform to the financial presentation adopted for the current year.

	2020	2019	2018
	<i>(In thousands)</i>		
Net revenue:			
Company-operated stores	\$ 1,658,807	\$ 2,501,067	\$ 2,126,363
Direct to consumer	2,284,068	1,137,822	858,856
Other	459,004	340,407	303,100
	\$ 4,401,879	\$ 3,979,296	\$ 3,288,319
Segmented income from operations:			
Company-operated stores	\$ 212,592	\$ 689,339	\$ 575,523
Direct to consumer	1,029,102	484,146	357,489
Other	10,502	72,013	62,336
	1,252,196	1,245,498	995,348
General corporate expenses	397,208	356,359	289,440
Amortization of intangible assets	5,160	29	72
Acquisition-related expenses	29,842	—	—
Income from operations	819,986	889,110	705,836
Other income (expense), net	(636)	8,283	9,414
Income before income tax expense	\$ 819,350	\$ 897,393	\$ 715,250
Capital expenditures:			
Company-operated stores	\$ 134,203	\$ 171,496	\$ 129,155
Direct to consumer	37,245	15,813	6,420
Corporate and other	57,778	95,739	90,232
	\$ 229,226	\$ 283,048	\$ 225,807
Depreciation and amortization:			
Company-operated stores	\$ 100,776	\$ 97,896	\$ 76,303
Direct to consumer	14,847	12,469	10,018
Corporate and other	69,855	51,568	36,163
	\$ 185,478	\$ 161,933	\$ 122,484

Intercompany amounts are excluded from the above table as they are not included in the materials reviewed by the chief operating decision maker. The amortization of intangible assets for 2020 in the above table includes \$5.1 million related to MIRROR. MIRROR is included within Other in the Company's segment disclosures.

Property and equipment, net by geographic area as of January 31, 2021 and February 2, 2020 were as follows:

	January 31, 2021	February 2, 2020
<i>(In thousands)</i>		
United States	\$ 267,328	\$ 259,485
Canada	394,861	346,305
Outside of North America	83,498	65,903
	\$ 745,687	\$ 671,693

NOTE 22. NET REVENUE BY CATEGORY AND GEOGRAPHY

The following table disaggregates the Company's net revenue by geographic area.

	2020	2019	2018
<i>(In thousands)</i>			
United States	\$ 3,105,133	\$ 2,854,364	\$ 2,363,374
Canada	672,607	649,114	565,105
Outside of North America	624,139	475,818	359,840
	\$ 4,401,879	\$ 3,979,296	\$ 3,288,319

The following table disaggregates the Company's net revenue by category. During the fourth quarter of 2020, the Company determined that a portion of certain sales returns which had been recorded within Other categories were more appropriately classified within Women's product and Men's product. Accordingly, comparative figures have been reclassified to conform to the presentation adopted for the current year.

	2020	2019	2018
<i>(In thousands)</i>			
Women's product	\$ 3,049,906	\$ 2,767,826	\$ 2,334,582
Men's product	953,183	927,240	690,530
Other categories	398,790	284,230	263,207
	\$ 4,401,879	\$ 3,979,296	\$ 3,288,319