

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

lululemon athletica inc.

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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 30, 2022 and January 31, 2021, and the related consolidated statements of operations and comprehensive income, of stockholders' equity and of cash flows for the 52-week years ended January 30, 2022, January 31, 2021, and February 2, 2020, including the related notes, appearing under Item 8 and the financial statement schedule appearing under Item 15(a)(2) of the Company's 2021 Annual Report on Form 10-K (collectively referred to as the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of January 30, 2022, 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 30, 2022 and January 31, 2021, and the results of its operations and its cash flows for the 52-week years ended January 30, 2022, January 31, 2021 and February 2, 2020 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 30, 2022, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the COSO.

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 2021 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, inventories are 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 30, 2022, the Company's consolidated net inventories balance was \$966.5 million, inclusive of the inventory provision of \$38.0 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 the significant judgment 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 a high degree of auditor judgment, subjectivity, and effort in performing procedures and 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 (v) corroborating the assumptions with individuals within the product team.

Goodwill Impairment Assessment – MIRROR Reporting Unit

As described in Notes 2 and 7 to the consolidated financial statements, the Company's goodwill balance allocated to the MIRROR reporting unit was \$362.5 million as of January 30, 2022. Goodwill is tested annually for impairment on the first day of the fourth quarter, or more frequently when an event or circumstance indicates that goodwill might be impaired. Generally, management 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, management then estimates the fair value of the related reporting unit. As of November 1, 2021, management performed a quantitative impairment analysis of the MIRROR reporting unit and concluded that the fair value of the MIRROR reporting unit exceeded its carrying value, and no impairment was recognized. The fair value of the MIRROR reporting unit was estimated by management by using a discounted cash flow model. The key assumptions used in the discounted cash flow model are the revenue growth rates, operating profit margins, and the discount rate.

The principal considerations for our determination that performing procedures relating to the goodwill impairment assessment of the MIRROR reporting unit is a critical audit matter are (i) the significant judgment by management when developing the fair value of the reporting unit; (ii) the high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating management's discounted cash flow model including the key assumptions related to the revenue growth rates, operating profit margins, and the discount rate; and (iii) the audit effort which 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 management's annual goodwill impairment assessment, including controls over the fair value estimate of the MIRROR reporting unit. These procedures also included, among others: (i) testing management's process for developing the

fair value estimate; (ii) testing the completeness and accuracy of the underlying data used in the discounted cash flow model; (iii) and evaluating the reasonableness of the key assumptions used by management related to the revenue growth rates, operating profit margins, and the discount rate. Evaluating the reasonableness of the revenue growth rates and operating profit margins involved considering (i) the current and past performance of the reporting unit; (ii) the performance of peer companies; (iii) the consistency with economic and industry forecasts; and (iv) whether these assumptions were consistent with evidence obtained in other areas of the audit. Professionals with specialized skill and knowledge were used to assist in the evaluation of the appropriateness of the Company's discounted cash flow model and the reasonableness of the discount rate assumption.

/s/ PricewaterhouseCoopers LLP
Chartered Professional Accountants
Vancouver, Canada
March 29, 2022

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

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

	January 30, 2022	January 31, 2021
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,259,871	\$ 1,150,517
Accounts receivable	77,001	62,399
Inventories	966,481	647,230
Prepaid and receivable income taxes	118,928	139,126
Prepaid expenses and other current assets	192,572	125,107
	2,614,853	2,124,379
Property and equipment, net	927,710	745,687
Right-of-use lease assets	803,543	734,835
Goodwill	386,880	386,877
Intangible assets, net	71,299	80,080
Deferred income tax assets	6,091	6,731
Other non-current assets	132,102	106,626
	\$ 4,942,478	\$ 4,185,215
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 289,728	\$ 172,246
Accrued liabilities and other	330,800	226,867
Accrued compensation and related expenses	204,921	130,171
Current lease liabilities	188,996	166,091
Current income taxes payable	133,852	8,357
Unredeemed gift card liability	208,195	155,848
Other current liabilities	48,842	23,598
	1,405,334	883,178
Non-current lease liabilities	692,056	632,590
Non-current income taxes payable	38,074	43,150
Deferred income tax liabilities	53,352	58,755
Other non-current liabilities	13,616	8,976
	2,202,432	1,626,649
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 5,203 issued and outstanding	—	—
Special voting stock, \$0.000005 par value: 60,000 shares authorized; 5,203 and 5,203 issued and outstanding	—	—
Common stock, \$0.005 par value: 400,000 shares authorized; 123,297 and 125,150 issued and outstanding	616	626
Additional paid-in capital	422,507	388,667
Retained earnings	2,512,840	2,346,428
Accumulated other comprehensive loss	(195,917)	(177,155)
	2,740,046	2,558,566
	\$ 4,942,478	\$ 4,185,215

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 30, 2022	January 31, 2021	February 2, 2020
Net revenue	\$ 6,256,617	\$ 4,401,879	\$ 3,979,296
Cost of goods sold	2,648,052	1,937,888	1,755,910
Gross profit	3,608,565	2,463,991	2,223,386
Selling, general and administrative expenses	2,225,034	1,609,003	1,334,247
Amortization of intangible assets	8,782	5,160	29
Acquisition-related expenses	41,394	29,842	—
Income from operations	1,333,355	819,986	889,110
Other income (expense), net	514	(636)	8,283
Income before income tax expense	1,333,869	819,350	897,393
Income tax expense	358,547	230,437	251,797
Net income	\$ 975,322	\$ 588,913	\$ 645,596
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustment	\$ (28,494)	\$ 72,731	\$ (9,995)
Net investment hedge gains (losses)	9,732	(25,305)	2,222
Other comprehensive income (loss), net of tax	(18,762)	47,426	(7,773)
Comprehensive income	\$ 956,560	\$ 636,339	\$ 637,823
Basic earnings per share	\$ 7.52	\$ 4.52	\$ 4.95
Diluted earnings per share	\$ 7.49	\$ 4.50	\$ 4.93
Basic weighted-average number of shares outstanding	129,768	130,289	130,393
Diluted weighted-average number of shares outstanding	130,295	130,871	130,955

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 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
Other comprehensive income (loss), net of tax								(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
Net income							588,913		588,913
Other comprehensive income (loss), net of tax								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

	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							975,322		975,322
Other comprehensive income (loss), net of tax								(18,762)	(18,762)
Stock-based compensation expense						69,137			69,137
Common stock issued upon settlement of stock-based compensation				502	2	18,192			18,194
Shares withheld related to net share settlement of stock-based compensation				(153)	(1)	(49,808)			(49,809)
Repurchase of common stock				(2,202)	(11)	(3,681)	(808,910)		(812,602)
Balance as of January 30, 2022	5,203	5,203	\$ —	123,297	\$ 616	\$ 422,507	\$ 2,512,840	\$ (195,917)	\$ 2,740,046

See accompanying notes to the consolidated financial statements

lululemon athletica inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

	Fiscal Year Ended		
	January 30, 2022	January 31, 2021	February 2, 2020
Cash flows from operating activities			
Net income	\$ 975,322	\$ 588,913	\$ 645,596
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	224,206	185,478	161,933
Stock-based compensation expense	69,137	50,797	45,593
Derecognition of unredeemed gift card liability	(18,699)	(13,696)	(11,939)
Settlement of derivatives not designated in a hedging relationship	15,191	4,485	(1,925)
Deferred income taxes	(5,180)	34,908	24,129
Changes in operating assets and liabilities:			
Inventories	(323,609)	(96,548)	(117,591)
Prepaid and receivable income taxes	20,108	(53,966)	(35,775)
Prepaid expenses and other current assets	(82,404)	(70,999)	(53,754)
Other non-current assets	(17,556)	(49,056)	(27,852)
Accounts payable	117,655	82,663	(14,810)
Accrued liabilities and other	103,878	99,161	4,678
Accrued compensation and related expenses	75,273	(6,692)	25,326
Current and non-current income taxes payable	120,778	(24,125)	(34,137)
Unredeemed gift card liability	71,441	47,962	33,289
Right-of-use lease assets and current and non-current lease liabilities	13,494	13,267	17,422
Other current and non-current liabilities	30,073	10,784	9,133
Net cash provided by operating activities	1,389,108	803,336	669,316
Cash flows from investing activities			
Purchase of property and equipment	(394,502)	(229,226)	(283,048)
Settlement of net investment hedges	(23,389)	(14,607)	347
Acquisition, net of cash acquired	—	(452,581)	—
Other investing activities	(10,000)	882	4,293
Net cash used in investing activities	(427,891)	(695,532)	(278,408)
Cash flows from financing activities			
Proceeds from settlement of stock-based compensation	18,194	15,263	18,170
Taxes paid related to net share settlement of stock-based compensation	(49,809)	(32,388)	(21,944)
Repurchase of common stock	(812,602)	(63,663)	(173,399)
Other financing activities	(770)	—	—
Net cash used in financing activities	(844,987)	(80,788)	(177,173)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(6,876)	29,996	(1,550)
Increase in cash and cash equivalents	109,354	57,012	212,185
Cash and cash equivalents, beginning of period	\$ 1,150,517	\$ 1,093,505	\$ 881,320
Cash and cash equivalents, end of period	\$ 1,259,871	\$ 1,150,517	\$ 1,093,505

See accompanying notes to the consolidated financial statements

lululemon athletica inc.
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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 pop up locations, sales to wholesale accounts, license and supply arrangements, and warehouse sales. The Company operates stores in the United States, the People's Republic of China ("PRC"), Canada, Australia, the United Kingdom, South Korea, Germany, New Zealand, Japan, Singapore, France, Ireland, Malaysia, Sweden, the Netherlands, Norway, and Switzerland. There were 574, 521, and 491 company-operated stores in operation as of January 30, 2022, January 31, 2021, and February 2, 2020, 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") caused governments and public health officials to impose restrictions and recommend precautions to mitigate the spread of the virus.

The Company temporarily closed almost all of its retail locations for a significant portion of the first two quarters of fiscal 2020. While most of the Company's retail locations have been open since then, certain locations were temporarily closed based on government and health authority guidance.

In response to the COVID-19 pandemic, various government programs were 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. These subsidies partially offset the wages paid to employees while its retail locations were temporarily closed due to COVID-19. The Company did not recognize any payroll subsidies in fiscal 2021.

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. A resurgence of the pandemic 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 2021, fiscal 2020, and fiscal 2019 were each 52-week years. Fiscal 2021, 2020, and 2019 ended on January 30, 2022, January 31, 2021, and February 2, 2020, respectively, and are referred to as "2021," "2020," and "2019," 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 30, 2022, January 31, 2021, and February 2, 2020, 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 expected lease term 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 or services 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 2021, 2020, and 2019, net revenue recognized on unredeemed gift card balances was \$18.7 million, \$13.7 million, and \$11.9 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, technology, human resources, accounting, legal, corporate facility and occupancy costs, and depreciation and amortization expense other than in cost of goods sold.

For 2021, 2020, and 2019, the Company incurred costs to transport its products from its distribution facilities to its retail locations and e-commerce guests of \$270.8 million, \$232.4 million, and \$106.7 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 Company treats the global intangible low-taxed income ("GILTI") tax as a current period expense.

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 (loss), net of tax, 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 net investment hedge gains (losses) in other comprehensive income (loss), net of tax.

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. The forfeiture rate is based on management's best estimate of expected forfeitures, taking into consideration historical trends and expected future behavior. 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 2021 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 make simplifications in other areas of this topic by clarifying and amending existing guidance. The Company adopted this update during the first quarter of 2021 and it did not have a material impact on the Company's consolidated financial statements.

In February 2016, the 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 November 2021, the FASB issued ASC 832, Government Assistance to require annual disclosures about the nature of certain government assistance received, the accounting policy used to account for the transactions, the location in the financial statements where such transactions were recorded and significant terms and conditions associated with such transactions. The guidance is effective for annual periods beginning after December 15, 2021, with early adoption permitted. The Company does not expect the adoption to have a material impact to its consolidated financial statements.

NOTE 3. INVENTORIES

	January 30, 2022	January 31, 2021
	<i>(In thousands)</i>	
Inventories, at cost	\$ 1,004,526	\$ 678,200
Provision to reduce inventories to net realizable value	(38,045)	(30,970)
Inventories	\$ 966,481	\$ 647,230

The Company had write-offs of \$27.5 million, \$20.5 million, and \$28.6 million of inventory in 2021, 2020, and 2019, respectively for goods that were obsolete, had quality issues, or were damaged.

NOTE 4. PREPAID EXPENSES AND OTHER CURRENT ASSETS

	January 30, 2022	January 31, 2021
<i>(In thousands)</i>		
Prepaid inventories	\$ 42,691	\$ 3,759
Other prepaid expenses	98,254	78,405
Forward currency contract assets	19,077	17,364
Other current assets	32,550	25,579
Prepaid expenses and other current assets	\$ 192,572	\$ 125,107

NOTE 5. PROPERTY AND EQUIPMENT

	January 30, 2022	January 31, 2021
<i>(In thousands)</i>		
Land	\$ 74,297	\$ 74,261
Buildings	30,880	30,870
Leasehold improvements	676,762	583,305
Furniture and fixtures	125,213	117,334
Computer hardware	130,393	116,239
Computer software	532,819	427,313
Equipment and vehicles	23,060	17,105
Work in progress	163,420	69,847
Property and equipment, gross	1,756,844	1,436,274
Accumulated depreciation	(829,134)	(690,587)
Property and equipment, net	\$ 927,710	\$ 745,687

There were capitalized computer software costs of \$35.8 million, \$23.5 million, and \$20.7 million in 2021, 2020, and 2019, respectively, associated with internally developed software.

Depreciation expense related to property and equipment was \$215.3 million, \$180.1 million, and \$161.8 million for 2021, 2020, and 2019, 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 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 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 (Years)
<i>(In thousands)</i>		
Intangible assets:		
Brand	\$ 26,500	20.0
Customer relationships	28,000	10.0
Technology	25,500	7.5
Content	5,000	5.0
	\$ 85,000	12.1

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:

- acquisition-related compensation, including the partial acceleration of vesting of certain stock options, and amounts due to selling shareholders and MIRROR employees that are contingent upon continuing employment;
- transaction and integration costs, including fees for advisory and professional services incurred as part of the acquisition and integration costs subsequent to the acquisition; 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 2021 and 2020:

	2021	2020
	<i>(in thousands)</i>	
Acquisition-related expenses:		
Transaction and integration costs	\$ 2,989	\$ 10,548
Gain on existing investment	—	(782)
Acquisition-related compensation	38,405	20,076
	\$ 41,394	\$ 29,842
Income tax effects of acquisition-related expenses	\$ (1,417)	\$ (3,133)

In connection with the acquisition, \$2.9 million was recognized on the acquisition date for the partial acceleration of vesting of certain stock options held by MIRROR employees, and \$57.1 million of consideration was deferred up to three years from the acquisition date, subject to the continued employment of the recipients through various vesting dates. The acquisition-related compensation was expensed over the vesting periods as service was provided, and consisted 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.

In September 2021, MIRROR's Chief Executive Officer transitioned into an advisory role with the Company. The remaining deferred consideration payable to this individual will be paid in July 2022. Due to the reduction in this individual's responsibilities, the compensation expense was accelerated and recognized in full during the third quarter of 2021.

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
Effect of foreign currency translation	3
Balance as of January 30, 2022	\$ 386,880

Of the Company's goodwill as of January 30, 2022, \$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.

The Company performed its annual goodwill impairment analysis for the MIRROR and company-operated stores reporting units, using an income approach to estimate fair value, and determined there was no impairment loss for the year as of January 30, 2022.

NOTE 8. INTANGIBLE ASSETS

A summary of the balances of the Company's intangible assets as of January 30, 2022, January 31, 2021, is presented below:

	January 30, 2022				January 31, 2021			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Remaining Useful Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Remaining Useful Life (Years)
	<i>(In thousands, except in years)</i>							
Intangible assets:								
Brand	\$ 26,500	\$ (2,098)	\$ 24,402	18.4	\$ 26,500	\$ (773)	\$ 25,727	19.4
Customer relationships	28,000	(4,592)	23,408	8.4	28,000	(1,692)	26,308	9.4
Technology	25,500	(5,489)	20,011	5.9	25,500	(2,022)	23,478	6.9
Content	5,000	(1,583)	3,417	3.4	5,000	(583)	4,417	4.4
Other	270	(209)	61	0.7	270	(120)	150	1.7
	\$ 85,270	\$ (13,971)	\$ 71,299	10.9	\$ 85,270	\$ (5,190)	\$ 80,080	11.6

Amortization of intangible assets was \$8.8 million, \$5.2 million, and \$29.0 thousand in 2021, 2020, and 2019, respectively. There were no impairment charges in 2021, 2020, and 2019. The following table presents the future expected amortization expense as of January 30, 2022:

	January 30, 2022
	<i>(In thousands)</i>
2022	\$ 8,752
2023	8,692
2024	8,692
2025	8,108
2026	7,692
Thereafter	29,363
Total estimated future amortization expense	\$ 71,299

NOTE 9. OTHER NON-CURRENT ASSETS

	January 30, 2022	January 31, 2021
	<i>(In thousands)</i>	
Cloud computing arrangement implementation costs	\$ 89,334	\$ 74,631
Security deposits	24,083	23,154
Other	18,685	8,841
Other non-current assets	\$ 132,102	\$ 106,626

As of January 30, 2022 and January 31, 2021, cloud computing arrangement implementation costs consisted of deferred costs of \$138.4 million and \$92.1 million, respectively, and associated accumulated amortization of \$49.0 million and \$17.5 million, respectively.

NOTE 10. ACCRUED LIABILITIES AND OTHER

	January 30, 2022	January 31, 2021
	<i>(In thousands)</i>	
Accrued operating expenses	\$ 116,822	\$ 71,648
Accrued freight	71,390	25,687
Sales return allowances	41,690	32,560
Accrued duty	27,182	17,404
Forward currency contract liabilities	18,985	18,766
Sales tax collected	13,540	15,246
Accrued rent	11,254	8,559
Accrued capital expenditures	9,616	8,653
Accrued inventory liabilities	4,005	14,956
Other	16,316	13,388
Accrued liabilities and other	\$ 330,800	\$ 226,867

NOTE 11. REVOLVING CREDIT FACILITIES

North America revolving credit facility

On December 14, 2021, the Company entered into an amended and restated credit agreement extending its existing credit facility, which provides for \$400.0 million in commitments under an unsecured five-year revolving credit facility. The credit facility has a maturity date of December 14, 2026, subject to extension under certain circumstances. Borrowings under the credit facility may be prepaid and commitments may be reduced or terminated without premium or penalty (other than customary breakage costs).

As of January 30, 2022, aside from letters of credit of \$3.0 million, the Company had no other borrowings outstanding under this credit facility.

Borrowings made under the credit facility bear interest at a rate per annum equal to, at the Company's option, either (a) a rate based on the Secured Overnight Financing Rate as administered by the Federal Reserve Bank of New York ("SOFR"), or (b) an alternate base rate, plus, in each case, an applicable margin. The applicable margin is 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 1.000%-1.375% for SOFR loans and 0.000%-0.375% for alternate base rate or Canadian prime rate loans. Additionally, a commitment fee of between 0.100%-0.200%, also determined by reference to the pricing grid, is payable on the average daily unused amounts under the credit facility.

The applicable interest rates and commitment fees are subject to adjustment based on certain sustainability key performance indicators ("KPIs"). The two KPIs are based on greenhouse gas emissions intensity reduction and gender pay equity, and its performance against certain targets measured on an annual basis could result in positive or negative

sustainability rate adjustments of 2.50 basis points to its drawn pricing and positive or negative sustainability fee adjustments of 0.50 basis points to its undrawn pricing.

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's financial covenants include maintaining an operating lease adjusted leverage ratio of not greater than 3.25:1.00 and the ratio of consolidated EBITDAR to consolidated interest charges (plus rent) of not less than 2.00:1.00. 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). If an event of default occurs, the credit agreement may be terminated, and the maturity of any outstanding amounts may be accelerated. As of January 30, 2022, 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 (\$20.4 million) revolving credit facility with terms that are reviewed on an annual basis. The credit facility was increased to 230.0 million Chinese Yuan (\$36.2 million) during 2020. It comprises a revolving loan of up to 200.0 million Chinese Yuan (\$31.4 million) and a financial guarantee facility of up to 30.0 million Chinese Yuan (\$4.7 million), 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 30, 2022, the Company was in compliance with the covenant and, aside from letters of credit of 6.1 million Chinese Yuan (\$1.0 million), there were no other 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 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 \$66.4 million, \$56.6 million, and \$46.1 million for 2021, 2020, and 2019, respectively.

Total unrecognized compensation cost for all stock-based compensation plans was \$96.7 million as of January 30, 2022, which is expected to be recognized over a weighted-average period of 2.0 years, and was \$75.7 million as of January 31, 2021 over a weighted-average period of 1.9 years.

A summary of the balances of the Company's stock-based compensation plans as of January 30, 2022, January 31, 2021, and February 2, 2020, 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 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
Granted	194	310.29	139	185.37	4	326.70	129	331.42	—	—
Exercised/vested	174	104.85	165	100.89	4	299.09	144	139.33	15	397.83
Forfeited/expired	35	199.76	6	216.62	—	—	22	235.23	—	—
Balance as of January 30, 2022	789	\$ 186.10	167	\$ 225.27	4	\$ 326.70	238	\$ 265.90	—	\$ —

A total of 12.6 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 grant 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 closing price of the Company's common stock on the award date is used in the 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 2021, 2020, and 2019:

	2021	2020	2019
Expected term	3.75 years	3.61 years	3.75 years
Expected volatility	39.32 %	40.01 %	38.43 %
Risk-free interest rate	0.50 %	0.32 %	2.19 %
Dividend yield	— %	— %	— %

The following table summarizes information about stock options outstanding and exercisable as of January 30, 2022:

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-\$85.96	157	\$ 73.75	2.9	103	\$ 70.83	2.6
\$113.87-\$155.97	69	135.59	3.6	48	135.78	3.6
\$167.54-\$167.54	184	167.54	4.2	67	167.54	4.2
\$174.52-\$296.36	188	189.00	5.1	37	188.87	5.1
\$306.71-\$426.44	191	311.23	6.2	2	332.01	5.7
	789	\$ 186.10	4.6	257	\$ 127.06	3.6
Intrinsic value	\$ 103,119			\$ 48,530		

As of January 30, 2022, the unrecognized compensation cost related to these options was \$24.0 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 2021, 2020, and 2019 was \$94.09, \$74.91, and \$54.09, respectively.

The following table summarizes the intrinsic value of options exercised and awards that vested during 2021, 2020, and 2019:

	2021	2020	2019
<i>(In thousands)</i>			
Stock options	\$ 46,761	\$ 37,022	\$ 36,188
Performance-based restricted stock units	52,495	32,384	16,003
Restricted shares	1,364	2,115	1,048
Restricted stock units	47,042	37,791	31,300
Restricted stock units (liability accounting)	5,938	5,309	2,603
	\$ 153,600	\$ 114,621	\$ 87,142

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 2021, 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 \$11.8 million, \$9.2 million, and \$8.5 million during 2021, 2020, and 2019, respectively.

NOTE 14. FAIR VALUE MEASUREMENT

Assets and liabilities measured at fair value on a recurring basis

As of January 30, 2022 and January 31, 2021, the Company held certain assets and liabilities that are required to be measured at fair value on a recurring basis:

	January 30, 2022	Level 1	Level 2	Level 3	Balance Sheet Classification
<i>(In thousands)</i>					
Money market funds	\$ 38,475	\$ 38,475	\$ —	\$ —	Cash and cash equivalents
Term deposits	318,698	—	318,698	—	Cash and cash equivalents
Forward currency contract assets	19,077	—	19,077	—	Prepaid expenses and other current assets
Forward currency contract liabilities	18,985	—	18,985	—	Other current liabilities

	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

The Company has short-term, highly liquid investments classified as cash equivalents, which are invested in money market funds 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 and Chinese Yuan to the U.S. dollar exchange rate and changes in the Euro and Australian dollar to the Canadian dollar exchange rate using forward currency contracts.

Net investment hedges

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

The Company holds a significant portion of its assets in Canada and enters 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 2021.

Derivatives not designated as hedging instruments

During 2021, the Company entered into certain forward currency contracts designed to economically hedge the foreign currency exchange revaluation gains and losses that are recognized by its Canadian and Chinese subsidiaries on specific monetary assets and liabilities denominated in currencies other than the functional currency of the entity. 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.

Quantitative disclosures about derivative financial instruments

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

	January 30, 2022			January 31, 2021		
	Gross Notional	Assets	Liabilities	Gross Notional	Assets	Liabilities
<i>(In thousands)</i>						
Derivatives designated as net investment hedges:						
Forward currency contracts	\$ 1,502,000	\$ 18,468	\$ —	\$ 985,000	\$ —	\$ 18,099
Derivatives not designated in a hedging relationship:						
Forward currency contracts	1,597,878	609	18,985	1,055,000	17,364	668
Net derivatives recognized on consolidated balance sheets:						
Forward currency contracts		\$ 19,077	\$ 18,985		\$ 17,364	\$ 18,767

As of January 30, 2022, there were derivative assets of \$19.1 million and derivative liabilities of \$19.0 million subject to enforceable netting arrangements.

The forward currency contracts designated as net investment hedges outstanding as of January 30, 2022 mature on different dates between February 2022 and August 2022.

The forward currency contracts not designated in a hedging relationship outstanding as of January 30, 2022 mature on different dates between February 2022 and July 2022.

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

	2021	2020	2019
<i>(In thousands)</i>			
Gains (losses) recognized in net investment hedge gains (losses):			
Derivatives designated as net investment hedges	\$ 13,177	\$ (34,289)	\$ 2,972

No gains or losses have been reclassified from accumulated other comprehensive income or loss 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 currency exchange and derivative gains and losses recorded in the consolidated statement of operations were as follows:

	2021	2020	2019
	<i>(In thousands)</i>		
Gains (losses) recognized in selling, general and administrative expenses:			
Foreign exchange gains (losses)	\$ 11,511	\$ (26,053)	\$ 2,701
Derivatives not designated in a hedging relationship	(19,874)	22,949	(4,209)
Net foreign exchange and derivative losses	\$ (8,363)	\$ (3,104)	\$ (1,508)

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 30, 2022, 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.

	2021	2020	2019
	<i>(In thousands)</i>		
Net lease expense:			
Operating lease expense	\$ 215,549	\$ 193,498	\$ 176,367
Short-term lease expense	12,366	11,721	9,358
Variable lease expense	90,852	60,991	70,957
	\$ 318,767	\$ 266,210	\$ 256,682

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

	January 30, 2022
	<i>(In thousands)</i>
2022	\$ 210,956
2023	199,274
2024	177,606
2025	117,844
2026	72,586
Thereafter	166,543
Future minimum lease payments	\$ 944,809
Impact of discounting	(63,757)
Present value of lease liabilities	\$ 881,052
Balance sheet classification:	
Current lease liabilities	\$ 188,996
Non-current lease liabilities	692,056
	\$ 881,052

As of January 30, 2022, the Company's minimum lease commitment for distribution center operating leases signed but not yet commenced was \$379.7 million, which is not reflected in the table above.

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

	January 30, 2022
Weighted-average remaining lease term	5.43 years
Weighted-average discount rate	2.8 %

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:

	2021	2020	2019
	<i>(In thousands)</i>		
Income before income tax expense			
Domestic	\$ 204,350	\$ 122,573	\$ 180,043
Foreign	1,129,519	696,777	717,350
	\$ 1,333,869	\$ 819,350	\$ 897,393
Current income tax expense			
Federal	\$ 25,701	\$ 70	\$ 45,765
State	17,608	10,439	11,480
Foreign	322,105	185,803	170,158
	\$ 365,414	\$ 196,312	\$ 227,403
Deferred income tax expense (recovery)			
Federal	\$ 5,858	\$ 19,754	\$ (5,683)
State	1,045	5,923	(150)
Foreign	(13,770)	8,448	30,227
	\$ (6,867)	\$ 34,125	\$ 24,394
Income tax expense	\$ 358,547	\$ 230,437	\$ 251,797

The U.S. tax reforms enacted in December 2017 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 of January 30, 2022, the Company's net investment in its Canadian subsidiaries was \$2.5 billion, of which \$1.1 billion was determined to be indefinitely reinvested. A deferred income tax liability of \$3.8 million has been recognized in relation to the portion of the Company's net investment in its Canadian subsidiaries that is not indefinitely reinvested, 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 structured as a return of capital, and therefore not subject to Canadian withholding tax. The unrecognized deferred tax liability on the indefinitely reinvested amount is approximately \$3.2 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 30, 2022 were \$168.8 million.

As of January 30, 2022, the Company had cash and cash equivalents of \$1.1 billion outside of the United States.

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

	2021	2020	2019
	<i>(Percentages)</i>		
Federal income tax at statutory rate	21.0 %	21.0 %	21.0 %
Foreign tax rate differentials	5.0	4.6	4.6
U.S. state taxes	0.8	0.8	1.0
Non-deductible compensation expense	0.7	2.1	0.6
Excess tax benefits from stock-based compensation	(0.9)	(0.8)	(0.4)
Permanent and other	0.3	0.4	1.3
Effective tax rate	26.9 %	28.1 %	28.1 %

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 30, 2022 and January 31, 2021 are presented below:

	January 30, 2022	January 31, 2021
	<i>(In thousands)</i>	
Deferred income tax assets:		
Net operating loss carryforwards	\$ 6,686	\$ 14,149
Inventories	16,326	14,093
Property and equipment, net	—	2,715
Intangible assets, net	873	937
Non-current lease liabilities	173,700	160,015
Stock-based compensation	10,739	7,266
Accrued bonuses	7,830	1,948
Unredeemed gift card liability	9,804	6,629
Foreign tax credits	2,003	4,829
Other	10,116	8,640
Deferred income tax assets	238,077	221,221
Valuation allowance	(2,804)	(6,464)
Deferred income tax assets, net of valuation allowance	\$ 235,273	\$ 214,757
Deferred income tax liabilities:		
Property and equipment, net	\$ (104,498)	\$ (97,717)
Intangible assets, net	(17,669)	(21,556)
Right-of-use lease assets	(154,634)	(134,245)
Other	(5,733)	(13,263)
Deferred income tax liabilities	(282,534)	(266,781)
Net deferred income tax liabilities	\$ (47,261)	\$ (52,024)
Balance sheet classification:		
Deferred income tax assets	\$ 6,091	\$ 6,731
Deferred income tax liabilities	(53,352)	(58,755)
Net deferred income tax liabilities	\$ (47,261)	\$ (52,024)

As of January 30, 2022, the Company had net operating loss carryforwards of \$31.5 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 2020 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 2015 to 2020 tax years remain subject to examination by Canadian tax authorities. The 2015 to 2020 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:

	2021	2020	2019
	<i>(In thousands, except per share amounts)</i>		
Net income	\$ 975,322	\$ 588,913	\$ 645,596
Basic weighted-average number of shares outstanding	129,768	130,289	130,393
Assumed conversion of dilutive stock options and awards	527	582	562
Diluted weighted-average number of shares outstanding	130,295	130,871	130,955
Basic earnings per share	\$ 7.52	\$ 4.52	\$ 4.95
Diluted earnings per share	\$ 7.49	\$ 4.50	\$ 4.93

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 2021, 2020, and 2019, 36.0 thousand, 30.8 thousand, and 48.0 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, and on October 1, 2021, it approved an increase in the remaining authorization from \$141.2 million to \$641.2 million. The repurchase plan has no time limit and does not require the repurchase of a 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 30, 2022, the remaining authorized value of shares available to be repurchased under this program was \$187.4 million.

During 2021, 2020, and 2019, 2.2 million, 0.4 million, and 1.1 million shares, respectively, were repurchased under the programs at a total cost of \$812.6 million, \$63.7 million, and \$173.4 million, respectively.

Subsequent to January 30, 2022, and up to March 23, 2022, 0.6 million shares were repurchased at a total cost of \$187.5 million, completing the existing stock repurchase program.

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 30, 2022, there were 14 licensed locations, including six in Mexico, six in the United Arab Emirates, one in Kuwait, and one in Qatar.

The following table summarizes the Company's contractual arrangements as of January 30, 2022, 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	2022	2023	2024	2025	2026	Thereafter
	<i>(In thousands)</i>						
Deferred consideration	\$ 24,306	\$ 24,298	\$ 8	\$ —	\$ —	\$ —	\$ —
One-time transition tax payable	\$ 43,150	\$ 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 payable. The U.S. tax reforms enacted in December 2017 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 fiscal 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 April 2020, Align 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 obtained summary judgment that the Company did not infringe upon any of the plaintiff's rights and the district court entered judgment in the Company's favor on all claims. The plaintiff has filed a Notice of Appeal with the United States Court of Appeals for the Ninth Circuit. The Company intends to defend its win at the appellate level.

In April 2021, DISH Technologies L.L.C., and Sling TV L.L.C. (DISH) filed a complaint in the United States District Court for the District of Delaware and, along with DISH DBS Corporation, also with the United States International Trade Commission (ITC) under Section 337 of the Tariff Act of 1930 against the Company and its Curiouser Products subsidiary (MIRROR), along with ICON Health & Fitness, Inc., FreeMotion Fitness, Inc., NordicTrack, Inc., and Peloton Interactive, Inc., alleging infringement of various patents related to fitness devices containing internet-streaming enabled video displays. In the ITC complaint, DISH seeks an exclusion order barring the importation of MIRROR fitness devices, streaming components and systems containing components that infringe one or more of the asserted patents as well as a cease and desist order preventing the Company from carrying out commercial activities within the United States related to those products. In the District of Delaware complaint, DISH is seeking an order permanently enjoining the Company from infringing the asserted patents, an award of damages for the infringement of the asserted patents, and an award of damages for lost sales. The ITC investigation is ongoing and the Delaware litigation remains stayed pending resolution to the ITC investigation. The Company intends to vigorously defend this matter.

NOTE 20. SUPPLEMENTAL CASH FLOW INFORMATION

	2021	2020	2019
	<i>(In thousands)</i>		
Cash paid for income taxes	\$ 245,213	\$ 260,886	\$ 305,493
Cash paid for amounts included in the measurement of lease liabilities	215,157	180,536	177,144
Leased assets obtained in exchange for new operating lease liabilities	287,008	178,504	222,448
Interest paid	12	110	325

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, MIRROR, sales to wholesale accounts, and license and supply arrangements 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 prior year.

	2021	2020	2019
	<i>(In thousands)</i>		
Net revenue:			
Company-operated stores	\$ 2,821,497	\$ 1,658,807	\$ 2,501,067
Direct to consumer	2,777,944	2,284,068	1,137,822
Other	657,176	459,004	340,407
	\$ 6,256,617	\$ 4,401,879	\$ 3,979,296
Segmented income from operations:			
Company-operated stores	\$ 727,735	\$ 212,592	\$ 689,339
Direct to consumer	1,216,496	1,029,102	484,146
Other	77,283	10,502	72,013
	2,021,514	1,252,196	1,245,498
General corporate expenses	637,983	397,208	356,359
Amortization of intangible assets	8,782	5,160	29
Acquisition-related expenses	41,394	29,842	—
Income from operations	1,333,355	819,986	889,110
Other income (expense), net	514	(636)	8,283
Income before income tax expense	\$ 1,333,869	\$ 819,350	\$ 897,393
Capital expenditures:			
Company-operated stores	\$ 189,629	\$ 134,203	\$ 171,496
Direct to consumer	81,679	37,245	15,813
Corporate and other	123,194	57,778	95,739
	\$ 394,502	\$ 229,226	\$ 283,048
Depreciation and amortization:			
Company-operated stores	\$ 116,107	\$ 100,776	\$ 97,896
Direct to consumer	29,877	14,847	12,469
Corporate and other	78,222	69,855	51,568
	\$ 224,206	\$ 185,478	\$ 161,933

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 in the above table includes \$8.7 million and \$5.1 million related to MIRROR for 2021 and 2020, respectively. MIRROR is included within Other in the Company's segment disclosures.

Property and equipment, net by geographic area as of January 30, 2022 and January 31, 2021 were as follows:

	January 30, 2022	January 31, 2021
	<i>(In thousands)</i>	
United States	\$ 418,317	\$ 267,328
Canada	392,192	394,861
Outside of North America	117,201	83,498
	\$ 927,710	\$ 745,687

NOTE 22. NET REVENUE BY CATEGORY AND GEOGRAPHY

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

	2021	2020	2019
	<i>(In thousands)</i>		
United States	\$ 4,345,687	\$ 3,105,133	\$ 2,854,364
Canada	954,219	672,607	649,114
Outside of North America	956,711	624,139	475,818
	\$ 6,256,617	\$ 4,401,879	\$ 3,979,296

In addition to the disaggregation of net revenue by reportable segment, 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 current presentation.

	2021	2020	2019
	<i>(In thousands)</i>		
Women's product	\$ 4,171,762	\$ 3,049,906	\$ 2,767,826
Men's product	1,535,850	953,183	927,240
Other categories	549,005	398,790	284,230
	\$ 6,256,617	\$ 4,401,879	\$ 3,979,296