ITEM 8. FINANCIAL STATEMENTS

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 accompanying consolidated balance sheets of lululemon athletica inc. and its subsidiaries (together, the Company) as of January 29, 2023 and January 30, 2022, and the related consolidated statements of operations and comprehensive income, of stockholders' equity and of cash flows for each of the 52-week years ended January 29, 2023, January 30, 2022, and January 31, 2021, including the related notes (collectively referred to as the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of January 29, 2023, 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 29, 2023 and January 30, 2022, and the results of its operations and its cash flows for each of the 52-week years ended January 29, 2023, January 30, 2022, and January 31, 2021 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 29, 2023, 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 2022 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 29, 2023, the Company's consolidated net inventories balance was $1,447.4 million inclusive of the inventory provision of $124.6 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 inventory provision.

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 inventory 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 – lululemon Studio (formerly known as MIRROR) Reporting Unit

As described in Notes 6 and 8 to the consolidated financial statements, the Company recorded a goodwill impairment in the amount of $362.5 million during the year ended January 29, 2023. 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. Management determined that there were indicators of impairment and therefore conducted an impairment test as of January 29, 2023. The fair value of the lululemon Studio reporting unit was estimated by management by using a discounted cash flow model, which resulted in the recognition of a goodwill impairment charge of $362.5 million. The key assumptions used in the discounted cash flow model were 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 lululemon Studio 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 goodwill impairment assessment, including controls over the fair value estimate of the lululemon Studio 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 model; and (iii) 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 28, 2023

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

lululemon athletica inc.

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except per share amounts)

	January 29, 2023	January 30, 2022
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,154,867	$ 1,259,871
Accounts receivable, net	132,906	77,001
Inventories	1,447,367	966,481
Prepaid and receivable income taxes	185,641	118,928
Prepaid expenses and other current assets	238,672	192,572
	3,159,453	2,614,853
Property and equipment, net	1,269,614	927,710
Right-of-use lease assets	969,419	803,543
Goodwill	24,144	386,880
Intangible assets, net	21,961	71,299
Deferred income tax assets	6,402	6,091
Other non-current assets	156,045	132,102
	$ 5,607,038	$ 4,942,478
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 172,732	$ 289,728
Accrued liabilities and other	399,223	330,800
Accrued compensation and related expenses	248,167	204,921
Current lease liabilities	207,972	188,996
Current income taxes payable	174,221	133,852
Unredeemed gift card liability	251,478	208,195
Other current liabilities	38,405	48,842
	1,492,198	1,405,334
Non-current lease liabilities	862,362	692,056
Non-current income taxes payable	28,555	38,074
Deferred income tax liabilities	55,084	53,352
Other non-current liabilities	20,040	13,616
	2,458,239	2,202,432
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; 5,116 and 5,203 issued and outstanding	—	—
Special voting stock, $0.000005 par value: 60,000 shares authorized; 5,116 and 5,203 issued and outstanding	—	—
Common stock, $0.005 par value: 400,000 shares authorized; 122,205 and 123,297 issued and outstanding	611	616
Additional paid-in capital	474,645	422,507
Retained earnings	2,926,127	2,512,840
Accumulated other comprehensive loss	(252,584)	(195,917)
	3,148,799	2,740,046
	$ 5,607,038	$ 4,942,478

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 29, 2023	January 30, 2022	January 31, 2021
Net revenue	$ 8,110,518	$ 6,256,617	$ 4,401,879
Cost of goods sold	3,618,178	2,648,052	1,937,888
Gross profit	4,492,340	3,608,565	2,463,991
Selling, general and administrative expenses	2,757,447	2,225,034	1,609,003
Amortization of intangible assets	8,752	8,782	5,160
Impairment of goodwill and other assets	407,913	—	—
Acquisition-related expenses	—	41,394	29,842
Gain on disposal of assets	(10,180)	—	—
Income from operations	1,328,408	1,333,355	819,986
Other income (expense), net	4,163	514	(636)
Income before income tax expense	1,332,571	1,333,869	819,350
Income tax expense	477,771	358,547	230,437
Net income	$ 854,800	$ 975,322	$ 588,913
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustment	$ (65,571)	$ (28,494)	$ 72,731
Net investment hedge gains (losses)	8,904	9,732	(25,305)
Other comprehensive income (loss), net of tax	(56,667)	(18,762)	47,426
Comprehensive income	$ 798,133	$ 956,560	$ 636,339
Basic earnings per share	$ 6.70	$ 7.52	$ 4.52
Diluted earnings per share	$ 6.68	$ 7.49	$ 4.50
Basic weighted-average number of shares outstanding	127,666	129,768	130,289
Diluted weighted-average number of shares outstanding	128,017	130,295	130,871

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 Stockholders' Equity
	Shares	Shares	Par Value	Shares	Par Value				
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
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

	Exchangeable Stock	Special Voting Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Shares	Par Value	Shares	Par Value				
Net income							854,800		854,800
Other comprehensive income (loss), net of tax								(56,667)	(56,667)
Common stock issued upon exchange of exchangeable shares	(87)	(87)	—	87	—	—			—
Stock-based compensation expense						78,075			78,075
Common stock issued upon settlement of stock-based compensation				322	2	11,702			11,704
Shares withheld related to net share settlement of stock-based compensation				(105)	—	(35,158)			(35,158)
Repurchase of common stock, including excise tax				(1,396)	(7)	(2,481)	(441,513)		(444,001)
Balance as of January 29, 2023	5,116	5,116	$ —	122,205	$ 611	$ 474,645	$ 2,926,127	$ (252,584)	$ 3,148,799

See accompanying notes to the consolidated financial statements

lululemon athletica inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

	Fiscal Year Ended		
	January 29, 2023	January 30, 2022	January 31, 2021
Cash flows from operating activities			
Net income	$ 854,800	$ 975,322	$ 588,913
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	291,791	224,206	185,478
Impairment of goodwill and other assets	407,913	—	—
Gain on disposal of assets	(10,180)	—	—
Stock-based compensation expense	78,075	69,137	50,797
Derecognition of unredeemed gift card liability	(23,337)	(18,699)	(13,696)
Settlement of derivatives not designated in a hedging relationship	(38,649)	15,191	4,485
Deferred income taxes	3,042	(5,180)	34,908
Changes in operating assets and liabilities:			
Inventories	(510,510)	(323,609)	(96,548)
Prepaid and receivable income taxes	(66,714)	20,108	(53,966)
Prepaid expenses and other current assets	(113,820)	(82,404)	(70,999)
Other non-current assets	(36,518)	(17,556)	(49,056)
Accounts payable	(107,280)	117,655	82,663
Accrued liabilities and other	65,364	103,878	99,161
Accrued compensation and related expenses	47,254	75,273	(6,692)
Current and non-current income taxes payable	35,986	120,778	(24,125)
Unredeemed gift card liability	68,266	71,441	47,962
Right-of-use lease assets and current and non-current lease liabilities	23,905	13,494	13,267
Other current and non-current liabilities	(2,925)	30,073	10,784
Net cash provided by operating activities	966,463	1,389,108	803,336
Cash flows from investing activities			
Purchase of property and equipment	(638,657)	(394,502)	(229,226)
Settlement of net investment hedges	47,804	(23,389)	(14,607)
Acquisition, net of cash acquired	—	—	(452,581)
Other investing activities	20,916	(10,000)	882
Net cash used in investing activities	(569,937)	(427,891)	(695,532)
Cash flows from financing activities			
Proceeds from settlement of stock-based compensation	11,704	18,194	15,263
Shares withheld related to net share settlement of stock-based compensation	(35,158)	(49,809)	(32,388)
Repurchase of common stock	(444,001)	(812,602)	(63,663)
Other financing activities	(32)	(770)	—
Net cash used in financing activities	(467,487)	(844,987)	(80,788)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(34,043)	(6,876)	29,996
Increase (decrease) in cash and cash equivalents	(105,004)	109,354	57,012
Cash and cash equivalents, beginning of period	$ 1,259,871	$ 1,150,517	$ 1,093,505
Cash and cash equivalents, end of period	$ 1,154,867	$ 1,259,871	$ 1,150,517

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 technical athletic apparel, footwear, and accessories, which are sold through company-operated stores, direct to consumer through e-commerce, outlets, sales to wholesale accounts, license and supply arrangements, recommerce, and sales from temporary locations. Recommerce is the sale of repurchased product via the Company's "Like New" program. 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, Singapore, Japan, France, Ireland, Spain, Malaysia, Sweden, the Netherlands, Norway, and Switzerland. There were 655, 574, and 521 company-operated stores in operation as of January 29, 2023, January 30, 2022, and January 31, 2021, respectively. The Company also engages in the design and retail of in-home connected fitness equipment and associated content subscriptions through lululemon Studio, which was rebranded from the Company's former MIRROR brand during fiscal 2022.

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 half 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, including certain closures during 2022 in the PRC.

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. The Company utilized the grant accounting model and 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 2022 and fiscal 2021.

The COVID-19 pandemic 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.

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 2022, fiscal 2021, and fiscal 2020 were each 52-week years. Fiscal 2022, 2021, and 2020 ended on January 29, 2023, January 30, 2022, and January 31, 2021, respectively, and are referred to as "2022," "2021," and "2020," 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 29, 2023, January 30, 2022, and January 31, 2021, 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. Property and equipment carrying values are reviewed for impairment when events or circumstances indicate that the asset group to which the property and equipment belong might be impaired.

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 40 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	20% - 30%

Cloud Computing Arrangements

The Company incurs costs to implement cloud computing arrangements hosted by third party vendors. Costs incurred to implement cloud computing service arrangements are capitalized when incurred during the application development phase, 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 outlets, sales to wholesale accounts, license and supply arrangement net revenue, which consists of royalties as well as sales of the Company's products to licensees, recommerce revenue, revenue from temporary locations, and lululemon Studio revenue. All revenue is reported net of markdowns, discounts, sales taxes collected from customers on behalf of taxing authorities, and returns.

lululemon Studio 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 accrued liabilities and other, 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. As of January 29, 2023 and January 30, 2022, the sales return allowance was $55.5 million and $41.7 million, respectively.

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 2022, 2021, and 2020, net revenue recognized on unredeemed gift card balances was $23.3 million, $18.7 million, and $13.7 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 2022, 2021, and 2020, the Company incurred costs to transport its products from its distribution facilities to its retail locations and e-commerce guests of $353.7 million, $270.8 million, and $232.4 million, respectively.

Advertising and Marketing Costs

Advertising costs, including the costs to produce advertising, are expensed as incurred. Advertising expenses were $328.6 million, $297.5 million, and $216.0 million for 2022, 2021, and 2020, respectively, and are included within selling, general and administrative expenses.

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. state 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, and performs certain valuations on a non-recurring basis, which are outlined in Note 15. 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 15. Fair Value Measurement and Note 16. 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 investment grade 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 grant 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 grant 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 2022 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 Company adopted this update prospectively during the first quarter of 2022 and it did not have a material impact on the Company's consolidated financial statements.

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 September 2022, the FASB issued ASC 405-50, Liabilities - Supplier Finance Programs, to require annual and interim disclosures about the key terms of supplier finance programs used in connection with the purchase of goods and services along with information about the obligations under these programs, including the amount outstanding at the end of each reporting period and a rollforward of those obligations. The guidance is effective for fiscal years beginning after December 15, 2022, including interim periods in those fiscal years, with early adoption permitted. The Company is currently evaluating the impact that this new guidance may have on its consolidated financial statements.

Note 3. Inventories

	January 29, 2023	January 30, 2022
	(In thousands)	
Inventories, at cost	$ 1,571,981	$ 1,004,526
Provision to reduce inventories to net realizable value:		
Obsolescence provision	(84,231)	(11,325)
Damages provision	(38,996)	(24,404)
Shrink provision	(1,387)	(2,316)
	(124,614)	(38,045)
Inventories	$ 1,447,367	$ 966,481

The obsolescence provision as of January 29, 2023 included $62.9 million related to lululemon Studio hardware recognized during the fourth quarter of 2022. Please refer to Note 8. Impairment of Goodwill and Other Assets for further details.

Note 4. Prepaid Expenses and Other Current Assets

	January 29, 2023	January 30, 2022
	(In thousands)	
Prepaid inventories	$ 1,082	$ 42,691
Other prepaid expenses	140,921	98,254
Forward currency contract assets	16,707	19,077
Other current assets	79,962	32,550
Prepaid expenses and other current assets	$ 238,672	$ 192,572

Note 5. Property and Equipment

	January 29, 2023	January 30, 2022
	(In thousands)	
Land	$ 80,692	$ 74,297
Buildings	28,850	30,880
Leasehold improvements	818,071	676,762
Furniture and fixtures	144,572	125,213
Computer hardware	166,768	130,393
Computer software	742,295	532,819
Equipment and vehicles	30,766	23,060
Work in progress	244,898	163,420
Property and equipment, gross	2,256,912	1,756,844
Accumulated depreciation	(987,298)	(829,134)
Property and equipment, net	$ 1,269,614	$ 927,710

There were capitalized computer software costs of $67.9 million, $35.8 million, and $23.5 million in 2022, 2021, and 2020, respectively, associated with internally developed software.

Depreciation expense related to property and equipment was $282.7 million, $215.3 million, and $180.1 million for 2022, 2021, and 2020, respectively.

Gain on Disposal of Assets

During the second quarter of 2022, the Company completed the sale of an administrative office building, which resulted in a pre-tax gain of $10.2 million. The income tax effect of the gain on disposal of assets was an expense of $1.7 million.

Note 6. Goodwill

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

	Goodwill
	(In thousands)
Balance as of January 31, 2021	$ 386,877
Effect of foreign currency translation	3
Balance as of January 30, 2022	$ 386,880
Impairment of goodwill	(362,492)
Effect of foreign currency translation	(244)
Balance as of January 29, 2023	$ 24,144

The Company recognized an impairment of $362.5 million related to the lululemon Studio reporting unit as of January 29, 2023 on the goodwill that arose from the acquisition of MIRROR. lululemon Studio is included within Other in the Company's segment disclosures. Please refer to Note 8. Impairment of Goodwill and Other Assets for further information.

All of the Company's $24.1 million of goodwill as of January 29, 2023 relates to the company-operated stores segment.

Note 7. Intangible Assets

A summary of the balances of the Company's intangible assets as of January 29, 2023, January 30, 2022, is presented below:

	January 29, 2023					January 30, 2022			
	Gross Carrying Amount	Accumulated Amortization	Impairment	Net Carrying Amount	Remaining Useful Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Remaining Useful Life (Years)
	(In thousands, except in years)								
MIRROR brand	$ 26,500	$ (3,423)	$ (20,077)	$ 3,000	3.0	$ 26,500	$ (2,098)	$ 24,402	18.4
Customer relationships	28,000	(7,492)	(20,508)	—	n/a	28,000	(4,592)	23,408	8.4
Technology	25,500	(8,956)	—	16,544	3.0	25,500	(5,489)	20,011	5.9
Content	5,000	(2,583)	—	2,417	2.4	5,000	(1,583)	3,417	3.4
Other	270	(270)	—	—	n/a	270	(209)	61	0.7
Intangible assets	$ 85,270	$ (22,724)	$ (40,585)	$ 21,961	2.9	$ 85,270	$ (13,971)	$ 71,299	10.9

Amortization of intangible assets was $8.8 million, $8.8 million, and $5.2 million in 2022, 2021, and 2020, respectively. As of January 29, 2023, the Company recorded an impairment charge of $40.6 million related to the intangible assets in the lululemon Studio reporting unit. Please refer to Note 8. Impairment of Goodwill and Other Assets for further information. There were no impairment charges in 2021 and 2020.

The following table presents the future expected amortization expense as of January 29, 2023:

	January 29, 2023
	(In thousands)
2023	$ 7,515
2024	7,515
2025	6,931
Total estimated future amortization expense	$ 21,961

Note 8. Impairment of Goodwill and Other Assets

Events as of January 29, 2023 indicated the Company should conduct an impairment test for the goodwill, intangible assets, and property and equipment related to lululemon Studio (formerly MIRROR). Sales of hardware units did not meet the

Company's fourth quarter expectations and the Company revised its short and long term forecasts for lululemon Studio, with an adverse impact on expected cash flows. As a result, the Company updated its strategy for the lululemon Studio reporting unit.

During the fourth quarter of 2022, the Company recorded impairment of goodwill and other assets related to the lululemon Studio business unit. The following table summarizes the amounts recognized:

	2022
	(In thousands)
Costs recorded in cost of goods sold:	
Obsolescence provision	$ 62,928
Costs recorded in operating expenses:	
Impairment of goodwill	$ 362,492
Impairment of intangible assets	40,585
Impairment of property and equipment	4,836
Impairment of goodwill and other assets	407,913
Total pre-tax charges	$ 470,841
Income tax effects of charges	$ (28,171)
Total after-tax charges	$ 442,670

Goodwill

To perform the goodwill impairment test on January 29, 2023, the Company used a discounted cash flow model to estimate the fair value of the lululemon Studio reporting unit based on the updated strategic plans, supplemented by market comparable analysis, which indicated the fair value of lululemon Studio was lower than its carrying value, and led to a recognition of an impairment of goodwill of $362.5 million. The key assumptions used to estimate the fair value of the lululemon Studio reporting unit were the revenue growth rates, operating profit margins, and the discount rate. The fair value of the lululemon Studio reporting unit is a Level 3 fair value measurement.

Intangible assets

Undiscounted cash flows of the lululemon Studio asset group to which the intangible assets belong were less than their carrying value, and therefore the Company calculated the fair value of the asset group, which was also less than its carrying value. This resulted in impairments of $40.6 million relating to the MIRROR brand, which is associated with in-home hardware, and to the customer relationship intangible assets that were recognized as part of the acquisition. The carrying value of individual long-lived assets was not reduced to lower than their fair value. The fair values of the brand and the customer relationships were based on a relief from royalty method and a discounted cash flow model respectively, and are Level 3 fair value measurements.

Inventories

The change in strategy related to lululemon Studio to focus on digital app-based services means the Company no longer expects to be able to sell all of the lululemon Studio hardware inventory above cost and it recognized an obsolescence provision of $62.9 million as of January 29, 2023. The net realizable value was determined based on hardware sales forecasts and assumptions regarding liquidation value. If the Company does not achieve its hardware sales forecasts, has to sell the hardware at prices lower than forecast, or is unable to liquidate excess inventory this could result in additional expense in the period in which such a determination is made.

Note 9. Acquisition-Related Expenses

In connection with the acquisition of MIRROR, the Company recognized certain expenses which were recognized within acquisition-related expenses in the consolidated statements of operations. These amounts included acquisition-related compensation, transaction and integration costs, and a gain on the Company's existing investment in MIRROR. The amounts recognized were $41.4 million and $29.8 million in 2021 and 2020, respectively. There were no acquisition-related expenses recognized in 2022.

Note 10. Other Non-Current Assets

	January 29, 2023	January 30, 2022
	(In thousands)	
Cloud computing arrangement implementation costs	$ 114,700	$ 89,334
Security deposits	28,447	24,083
Other	12,898	18,685
Other non-current assets	$ 156,045	$ 132,102

As of January 29, 2023 and January 30, 2022, cloud computing arrangement implementation costs consisted of deferred costs of $212.4 million and $138.4 million, respectively, and associated accumulated amortization of $97.7 million and $49.0 million, respectively.

Note 11. Accrued Liabilities and Other

	January 29, 2023	January 30, 2022
	(In thousands)	
Accrued operating expenses	$ 169,429	$ 116,822
Accrued freight	57,692	71,390
Sales return allowances	55,528	41,690
Forward currency contract liabilities	25,625	18,985
Accrued duty	21,046	27,182
Sales tax collected	20,183	13,540
Accrued capital expenditures	19,365	9,616
Accrued rent	12,223	11,254
Accrued inventory liabilities	4,345	4,005
Other	13,787	16,316
Accrued liabilities and other	$ 399,223	$ 330,800

Note 12. 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 29, 2023, aside from letters of credit of $6.5 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 the Company's 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 29, 2023, the Company was in compliance with the covenants of the credit facility.

China Mainland revolving credit facility

In December 2019, the Company entered into an uncommitted and unsecured 130.0 million Chinese Yuan ($19.2 million) revolving credit facility with terms that are reviewed on an annual basis. The credit facility was increased to 230.0 million Chinese Yuan ($33.9 million) during 2020. It is comprised of a revolving loan of up to 200.0 million Chinese Yuan ($29.5 million) and a financial guarantee facility of up to 30.0 million Chinese Yuan ($4.4 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 29, 2023, the Company was in compliance with the covenants and, aside from letters of credit of 14.3 million Chinese Yuan ($2.1 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 13. 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 14. 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 $77.2 million, $66.4 million, and $56.6 million for 2022, 2021, and 2020, respectively.

Total unrecognized compensation cost for all stock-based compensation plans was $118.0 million as of January 29, 2023, which is expected to be recognized over a weighted-average period of 2.1 years, and was $96.7 million as of January 30, 2022 over a weighted-average period of 2.0 years.

A summary of the balances of the Company's stock-based compensation plans as of January 29, 2023, January 30, 2022, and January 31, 2021, 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
	(In thousands, except per share amounts)									
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	—	$ —
Granted	192	371.04	117	274.90	5	308.66	120	364.51	—	—
Exercised/vested	93	127.68	114	170.04	4	326.70	111	241.02	—	—
Forfeited/expired	22	286.56	4	307.76	—	—	26	334.39	—	—
Balance as of January 29, 2023	866	$ 230.78	166	$ 295.93	5	$ 308.66	221	$ 323.89	—	$ —

A total of 12.3 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 grant 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 grant 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 exercise 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 2022, 2021, and 2020:

	2022	2021	2020
Expected term	3.75 years	3.75 years	3.61 years
Expected volatility	40.00 %	39.32 %	40.01 %
Risk-free interest rate	2.51 %	0.50 %	0.32 %
Dividend yield	— %	— %	— %

The following table summarizes information about stock options outstanding and exercisable as of January 29, 2023:

	Outstanding			Exercisable		
Range of Exercise Prices	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)
	(In thousands, except per share amounts and years)					
$2.78-$155.97	173	$ 98.43	2.1	173	$ 98.43	2.1
$167.54-$174.52	170	167.78	3.2	111	167.76	3.2
$188.84-$296.36	161	189.55	4.2	69	189.61	4.2
$306.71-$326.39	179	307.53	5.3	38	307.48	5.1
$327.22-$426.44	183	375.52	6.1	4	362.50	5.3
	866	$ 230.78	4.2	395	$ 156.64	3.1
Intrinsic value	$ 81,280			$ 61,050		

As of January 29, 2023, the unrecognized compensation cost related to these options was $29.7 million, which is expected to be recognized over a weighted-average period of 2.6 years. The weighted-average grant date fair value of options granted during 2022, 2021, and 2020 was $124.17, $94.09, and $74.91, respectively.

The following table summarizes the intrinsic value of options exercised and awards that vested during 2022, 2021, and 2020:

	2022	2021	2020
		(In thousands)	
Stock options	$ 19,906	$ 46,761	$ 37,022
Performance-based restricted stock units	37,672	52,495	32,384
Restricted shares	1,152	1,364	2,115
Restricted stock units	37,275	47,042	37,791
Restricted stock units (liability accounting)	—	5,938	5,309
	$ 96,005	$ 153,600	$ 114,621

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 2022, 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 $14.0 million, $11.8 million, and $9.2 million during 2022, 2021, and 2020, respectively.

Note 15. Fair Value Measurement

Assets and liabilities measured at fair value on a recurring basis

As of January 29, 2023 and January 30, 2022, the Company held certain assets and liabilities that are required to be measured at fair value on a recurring basis:

	January 29, 2023	Level 1	Level 2	Level 3	Balance Sheet Classification
			(In thousands)		
Money market funds	$ 568,000	$ 568,000	$ —	$ —	Cash and cash equivalents
Term deposits	8	—	8	—	Cash and cash equivalents
Forward currency contract assets	16,707	—	16,707	—	Prepaid expenses and other current assets
Forward currency contract liabilities	25,625	—	25,625	—	Other current liabilities

	January 30, 2022	Level 1	Level 2	Level 3	Balance Sheet Classification
			(In thousands)		
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

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.

As of January 29, 2023, the Company recorded impairment charges for goodwill, intangible assets, and property and equipment, as disclosed in Note 8. Impairment of Goodwill and Other Assets. That note includes details on the discounted cash flow model used to estimate fair value, which is a Level 3 valuation technique.

Note 16. 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 2022.

Derivatives not designated as hedging instruments

During 2022, 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 29, 2023			January 30, 2022		
	Gross Notional	Assets	Liabilities	Gross Notional	Assets	Liabilities
	(In thousands)					
Derivatives designated as net investment hedges:						
Forward currency contracts	$ 1,070,000	$ —	$ 17,211	$ 1,502,000	$ 18,468	$ —
Derivatives not designated in a hedging relationship:						
Forward currency contracts	1,605,284	16,707	8,414	1,597,878	609	18,985
Net derivatives recognized on consolidated balance sheets:						
Forward currency contracts		$ 16,707	$ 25,625		$ 19,077	$ 18,985

As of January 29, 2023, there were derivative assets of $16.7 million and derivative liabilities of $25.6 million subject to enforceable netting arrangements.

The forward currency contracts designated as net investment hedges outstanding as of January 29, 2023 mature on different dates between February 2023 and August 2023.

The forward currency contracts not designated in a hedging relationship outstanding as of January 29, 2023 mature on different dates between February 2023 and August 2023.

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

	2022	2021	2020
		(In thousands)	
Gains (losses) recognized in net investment hedge gains (losses):			
Derivatives designated as net investment hedges	$ 12,125	$ 13,177	$ (34,289)

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:

	2022	2021	2020
		(In thousands)	
Gains (losses) recognized in selling, general and administrative expenses:			
Foreign exchange gains (losses)	$ 4,410	$ 11,511	$ (26,053)
Derivatives not designated in a hedging relationship	(11,945)	(19,874)	22,949
Net foreign exchange and derivative losses	$ (7,535)	$ (8,363)	$ (3,104)

Note 17. Leases

The Company has obligations under operating leases for its store and other retail locations, distribution centers, offices, and equipment. As of January 29, 2023, the initial lease terms of the various leases generally range from two to 15 years. The majority of the Company's leases include renewal options at the sole discretion of the Company. The lease term includes options to extend or terminate the lease when it is reasonably certain those options will be exercised.

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.

	2022	2021	2020
		(In thousands)	
Net lease expense:			
Operating lease expense	$ 245,767	$ 215,549	$ 193,498
Short-term lease expense	16,790	12,366	11,721
Variable lease expense	114,441	90,852	60,991
	$ 376,998	$ 318,767	$ 266,210

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

	January 29, 2023
	(In thousands)
2023	$ 238,343
2024	265,787
2025	197,934
2026	143,603
2027	117,639
Thereafter	210,718
Future minimum lease payments	$ 1,174,024
Impact of discounting	(103,690)
Present value of lease liabilities	$ 1,070,334
Balance sheet classification:	
Current lease liabilities	$ 207,972
Non-current lease liabilities	862,362
	$ 1,070,334

As of January 29, 2023, the Company's minimum lease commitment for distribution center operating leases which have been committed to, but not yet commenced, was $632.0 million, which is not reflected in the table above.

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

	January 29, 2023
Weighted-average remaining lease term	5.64 years
Weighted-average discount rate	3.1 %

Note 18. 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:

	2022	2021	2020
		(In thousands)	
Income (loss) before income tax expense			
Domestic	$ (98,764)	$ 204,350	$ 122,573
Foreign	1,431,335	1,129,519	696,777
	$ 1,332,571	$ 1,333,869	$ 819,350
Current income tax expense			
Federal	$ 34,752	$ 25,701	$ 70
State	33,369	17,608	10,439
Foreign	400,250	322,105	185,803
	$ 468,371	$ 365,414	$ 196,312
Deferred income tax expense (recovery)			
Federal	$ 8,932	$ 5,858	$ 19,754
State	2,363	1,045	5,923
Foreign	(1,895)	(13,770)	8,448
	$ 9,400	$ (6,867)	$ 34,125
Income tax expense	$ 477,771	$ 358,547	$ 230,437

The Company's income tax expense for 2022, 2021, and 2020 include certain discrete tax amounts, as follows:

	2022	2021	2020
		(In thousands)	
Impairment of goodwill and other assets	$ (28,171)	$ —	$ —
Gain on disposal of assets	1,661	—	—
Acquisition-related expenses	—	(1,417)	(3,133)
Total tax adjustments	$ (26,510)	$ (1,417)	$ (3,133)

Please refer to Note 5. Property and Equipment, Note 8. Impairment of Goodwill and Other Assets, and Note 9. Acquisition-Related Expenses for further information.

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.

On August 16, 2022, President Biden signed the Inflation Reduction Act of 2022 (“IRA”) into law. The IRA contains a number of revisions to the Internal Revenue Code, including a 15% corporate minimum income tax for tax years beginning after December 31, 2022. It also assesses a 1% excise tax on repurchases of corporate stock. While this is not expected to have a material adverse effect on the Company's results of operations going forward, the Company will continue to evaluate its impact as further information becomes available.

As of January 29, 2023, the Company's net investment in its Canadian subsidiaries was $2.4 billion, of which $1.3 billion was determined to be indefinitely reinvested. A deferred income tax liability of $20.2 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 Canadian withholding taxes and 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 $72.2 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 29, 2023 were $323.0 million.

As of January 29, 2023, the Company had cash and cash equivalents of $470.6 million outside of the United States.

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

	2022	2021	2020
		(Percentages)	
Federal income tax at statutory rate	21.0 %	21.0 %	21.0 %
Foreign tax rate differentials	6.8	5.0	4.6
U.S. state taxes	(0.4)	0.8	0.8
Non-deductible compensation expense	0.7	0.7	2.1
Excess tax benefits from stock-based compensation	(0.5)	(0.9)	(0.8)
Impairment of goodwill and other assets and gain on disposal of assets	7.8	—	—
Permanent and other	0.5	0.3	0.4
Effective tax rate	35.9 %	26.9 %	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 29, 2023 and January 30, 2022 are presented below:

	January 29, 2023	January 30, 2022
	(In thousands)	
Deferred income tax assets:		
Net operating loss carryforwards	$ 2,312	$ 6,686
Inventories	43,471	16,326
Intangible assets, net	778	873
Non-current lease liabilities	216,495	173,700
Stock-based compensation	16,093	10,739
Accrued bonuses	13,647	7,830
Unredeemed gift card liability	12,877	9,804
Foreign tax credits	1,909	2,003
Other	6,958	10,116
Deferred income tax assets	$ 314,540	238,077
Valuation allowance	(743)	(2,804)
Deferred income tax assets, net of valuation allowance	$ 313,797	$ 235,273
Deferred income tax liabilities:		
Property and equipment, net	$ (142,516)	$ (104,498)
Intangible assets, net	(5,224)	(17,669)
Right-of-use lease assets	(192,221)	(154,634)
Other	(22,518)	(5,733)
Deferred income tax liabilities	(362,479)	(282,534)
Net deferred income tax liabilities	$ (48,682)	$ (47,261)
Balance sheet classification:		
Deferred income tax assets	$ 6,402	$ 6,091
Deferred income tax liabilities	(55,084)	(53,352)
Net deferred income tax liabilities	$ (48,682)	$ (47,261)

As of January 29, 2023, the Company had net operating loss carryforwards of $8.2 million. The majority of the net operating loss carryforwards expire, if unused, between fiscal 2030 and fiscal 2040.

There was a $2.1 million net decrease in the valuation allowance in 2022, compared to a $3.7 million net decrease in 2021, and a $0.8 million net increase in 2020.

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 2016 to 2021 tax years remain subject to examination by Canadian tax authorities. The 2016 to 2021 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 19. Earnings Per Share

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

	2022	2021	2020
	(In thousands, except per share amounts)		
Net income	$ 854,800	$ 975,322	$ 588,913
Basic weighted-average number of shares outstanding	127,666	129,768	130,289
Assumed conversion of dilutive stock options and awards	351	527	582
Diluted weighted-average number of shares outstanding	128,017	130,295	130,871
Basic earnings per share	$ 6.70	$ 7.52	$ 4.52
Diluted earnings per share	$ 6.68	$ 7.49	$ 4.50

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 2022, 2021, and 2020, 43.5 thousand, 36.0 thousand, and 30.8 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 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 December 1, 2020, it approved an increase in the remaining authorization 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. During the first quarter of 2022, the Company completed the remaining stock repurchases under this program.

On March 23, 2022, the Company's board of directors approved a stock repurchase program for up to $1.0 billion of the Company's common shares on the open market or in privately negotiated transactions. 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. The authorized value of shares available to be repurchased under this program excludes the cost of commissions and excise taxes and as of January 29, 2023, the remaining authorized value was $743.8 million.

During 2022, 2021, and 2020, 1.4 million, 2.2 million, and 0.4 million shares, respectively, were repurchased under the programs at a total cost including commissions and excise taxes of $444.0 million, $812.6 million, and $63.7 million, respectively.

Subsequent to January 29, 2023, and up to March 22, 2023, 0.2 million shares were repurchased at a total cost including commissions and excise taxes of $49.6 million.

Note 20. 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 17. 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, Saudi Arabia, and Mexico. 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 29, 2023, there were 26 licensed locations, including 12 in Mexico, seven in the United Arab Emirates, three in Qatar, three in Saudi Arabia, and one in Kuwait. There was also an e-commerce website operated through the license and supply arrangements.

The following table summarizes the Company's contractual arrangements as of January 29, 2023, 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	2023	2024	2025	2026	2027	Thereafter
	(In thousands)						
One-time transition tax payable	$ 38,073	$ 9,518	$ 12,691	$ 15,864	$ —	$ —	$ —

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 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. In the ITC investigation, an Administrative Law Judge issued an Initial Determination recommending an Exclusion Order and Cease and Desist Order be entered against the Company. In February 2023, the parties finalized the details of a settlement agreement resolving all litigation between DISH and the Company for an immaterial amount.

Note 21. Supplemental Cash Flow Information

	2022	2021	2020
		(In thousands)	
Cash paid for income taxes	$ 502,136	$ 245,213	$ 260,886
Cash paid for amounts included in the measurement of lease liabilities	242,758	215,157	180,536
Leased assets obtained in exchange for new operating lease liabilities	450,787	287,008	178,504
Interest paid	116	12	110

Note 22. 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, sales to wholesale accounts, license and supply arrangements, recommerce, temporary locations, and lululemon Studio, are included within Other.

	2022	2021	2020
		(In thousands)	
Net revenue:			
Company-operated stores	$ 3,648,127	$ 2,821,497	$ 1,658,807
Direct to consumer	3,699,791	2,777,944	2,284,068
Other	762,600	657,176	459,004
	$ 8,110,518	$ 6,256,617	$ 4,401,879
Segmented income from operations:			
Company-operated stores	$ 991,067	$ 727,735	$ 212,592
Direct to consumer	1,562,538	1,216,496	1,029,102
Other	107,083	77,283	10,502
	2,660,688	2,021,514	1,252,196
General corporate expenses	862,867	637,983	397,208
lululemon Studio obsolescence provision	62,928	—	—
Amortization of intangible assets	8,752	8,782	5,160
Impairment of goodwill and other assets	407,913	—	—
Acquisition-related expenses	—	41,394	29,842
Gain on disposal of assets	(10,180)	—	—
Income from operations	1,328,408	1,333,355	819,986
Other income (expense), net	4,163	514	(636)
Income before income tax expense	$ 1,332,571	$ 1,333,869	$ 819,350
Capital expenditures:			
Company-operated stores	$ 303,697	$ 189,629	$ 134,203
Direct to consumer	57,086	81,679	37,245
Corporate and other	277,874	123,194	57,778
	$ 638,657	$ 394,502	$ 229,226
Depreciation and amortization:			
Company-operated stores	$ 132,715	$ 116,107	$ 100,776
Direct to consumer	36,128	29,877	14,847
Corporate and other	122,948	78,222	69,855
	$ 291,791	$ 224,206	$ 185,478

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, $8.7 million, and $5.2 million related to lululemon Studio for 2022, 2021, and 2020, respectively. lululemon Studio is included within Other in the Company's segment disclosures.

Property and equipment, net by geographic area as of January 29, 2023 and January 30, 2022 were as follows:

	January 29, 2023	January 30, 2022
	(In thousands)	
United States	$ 671,212	$ 418,317
Canada	431,349	392,192
Outside of North America	167,053	117,201
	$ 1,269,614	$ 927,710

Note 23. Net Revenue by Category and Geography

In addition to the disaggregation of net revenue by reportable segment in Note 22. Segmented Information, the following table disaggregates the Company's net revenue by geographic area.

	2022	2021	2020
		(In thousands)	
United States	$ 5,654,343	$ 4,345,687	$ 3,105,133
Canada	1,163,111	954,219	672,607
People's Republic of China	681,633	520,372	297,690
Rest of world	611,431	436,339	326,449
	$ 8,110,518	$ 6,256,617	$ 4,401,879

The following table disaggregates the Company's net revenue by category. Other categories is primarily composed of accessories, lululemon Studio, and footwear.

	2022	2021	2020
		(In thousands)	
Women's product	$ 5,259,803	$ 4,171,762	$ 3,049,906
Men's product	1,956,602	1,535,850	953,183
Other categories	894,113	549,005	398,790
	$ 8,110,518	$ 6,256,617	$ 4,401,879