

ITEM 8. FINANCIAL STATEMENTS

lululemon athletica inc.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm (PCAOB ID 271)	2
Consolidated Balance Sheets	4
Consolidated Statements of Operations and Comprehensive Income	5
Consolidated Statements of Stockholders' Equity	6
Consolidated Statements of Cash Flows	8
Index for Notes to the Consolidated Financial Statements	9

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 28, 2024 and January 29, 2023, 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 28, 2024, January 29, 2023, and January 30, 2022, 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 28, 2024, 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 28, 2024 and January 29, 2023, and the results of its operations and its cash flows for each of the 52-week years ended January 28, 2024, January 29, 2023, and January 30, 2022 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 28, 2024, 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 2023 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 matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates 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 matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

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 28, 2024, the Company's consolidated net inventories balance was \$1,323.6 million inclusive of the inventory provision of \$141.5 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.

/s/ PricewaterhouseCoopers LLP
Chartered Professional Accountants
Vancouver, Canada
March 21, 2024

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

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

	January 28, 2024	January 29, 2023
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,243,971	\$ 1,154,867
Accounts receivable, net	124,769	132,906
Inventories	1,323,602	1,447,367
Prepaid and receivable income taxes	183,733	185,641
Prepaid expenses and other current assets	184,502	238,672
	4,060,577	3,159,453
Property and equipment, net	1,545,811	1,269,614
Right-of-use lease assets	1,265,610	969,419
Goodwill	24,083	24,144
Intangible assets, net	—	21,961
Deferred income tax assets	9,176	6,402
Other non-current assets	186,684	156,045
	\$ 7,091,941	\$ 5,607,038
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 348,441	\$ 172,732
Accrued liabilities and other	348,555	399,223
Accrued compensation and related expenses	326,110	248,167
Current lease liabilities	249,270	207,972
Current income taxes payable	12,098	174,221
Unredeemed gift card liability	306,479	251,478
Other current liabilities	40,308	38,405
	1,631,261	1,492,198
Non-current lease liabilities	1,154,012	862,362
Non-current income taxes payable	15,864	28,555
Deferred income tax liabilities	29,522	55,084
Other non-current liabilities	29,201	20,040
	2,859,860	2,458,239
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 5,116 issued and outstanding	—	—
Special voting stock, \$0.000005 par value: 60,000 shares authorized; 5,116 and 5,116 issued and outstanding	—	—
Common stock, \$0.005 par value: 400,000 shares authorized; 121,106 and 122,205 issued and outstanding	606	611
Additional paid-in capital	575,369	474,645
Retained earnings	3,920,362	2,926,127
Accumulated other comprehensive loss	(264,256)	(252,584)
	4,232,081	3,148,799
	\$ 7,091,941	\$ 5,607,038

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 28, 2024	January 29, 2023	January 30, 2022
Net revenue	\$ 9,619,278	\$ 8,110,518	\$ 6,256,617
Cost of goods sold	4,009,873	3,618,178	2,648,052
Gross profit	5,609,405	4,492,340	3,608,565
Selling, general and administrative expenses	3,397,218	2,757,447	2,225,034
Impairment of goodwill and other assets, restructuring costs	74,501	407,913	—
Amortization of intangible assets	5,010	8,752	8,782
Acquisition-related expenses	—	—	41,394
Gain on disposal of assets	—	(10,180)	—
Income from operations	2,132,676	1,328,408	1,333,355
Other income (expense), net	43,059	4,163	514
Income before income tax expense	2,175,735	1,332,571	1,333,869
Income tax expense	625,545	477,771	358,547
Net income	\$ 1,550,190	\$ 854,800	\$ 975,322
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustment	\$ (23,077)	\$ (65,571)	\$ (28,494)
Net investment hedge gains (losses)	11,405	8,904	9,732
Other comprehensive income (loss), net of tax	(11,672)	(56,667)	(18,762)
Comprehensive income	\$ 1,538,518	\$ 798,133	\$ 956,560
Basic earnings per share			
Basic earnings per share	\$ 12.23	\$ 6.70	\$ 7.52
Diluted earnings per share			
Diluted earnings per share	\$ 12.20	\$ 6.68	\$ 7.49
Basic weighted-average number of shares outstanding			
Basic weighted-average number of shares outstanding	126,726	127,666	129,768
Diluted weighted-average number of shares outstanding			
Diluted weighted-average number of shares outstanding	127,060	128,017	130,295

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 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
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

[Table of Contents](#)

	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							1,550,190		1,550,190
Other comprehensive income (loss), net of tax								(11,672)	(11,672)
Stock-based compensation expense						93,560			93,560
Common stock issued upon settlement of stock-based compensation				479	2	42,428			42,430
Shares withheld related to net share settlement of stock-based compensation				(96)	—	(32,574)			(32,574)
Repurchase of common stock, including excise tax				(1,482)	(7)	(2,690)	(555,955)		(558,652)
Balance as of January 28, 2024	5,116	5,116	\$ —	121,106	\$ 606	\$ 575,369	\$ 3,920,362	\$ (264,256)	\$ 4,232,081

See accompanying notes to the consolidated financial statements

lululemon athletica inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

	Fiscal Year Ended		
	January 28, 2024	January 29, 2023	January 30, 2022
Cash flows from operating activities			
Net income	\$ 1,550,190	\$ 854,800	\$ 975,322
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	379,384	291,791	224,206
lululemon Studio obsolescence provision	23,709	62,928	—
Impairment of goodwill and other assets, restructuring costs	74,501	407,913	—
Gain on disposal of assets	—	(10,180)	—
Stock-based compensation expense	93,560	78,075	69,137
Derecognition of unredeemed gift card liability	(28,547)	(23,337)	(18,699)
Settlement of derivatives not designated in a hedging relationship	32,527	(38,649)	15,191
Deferred income taxes	(28,383)	3,042	(5,180)
Changes in operating assets and liabilities:			
Inventories	66,584	(573,438)	(323,609)
Prepaid and receivable income taxes	1,908	(66,714)	20,108
Prepaid expenses and other current assets	47,167	(113,820)	(82,404)
Other non-current assets	(53,280)	(36,518)	(17,556)
Accounts payable	177,367	(107,280)	117,655
Accrued liabilities and other	(71,734)	65,364	103,878
Accrued compensation and related expenses	70,327	47,254	75,273
Current and non-current income taxes payable	(173,196)	35,986	120,778
Unredeemed gift card liability	84,315	68,266	71,441
Right-of-use lease assets and current and non-current lease liabilities	37,535	23,905	13,494
Other current and non-current liabilities	12,230	(2,925)	30,073
Net cash provided by operating activities	2,296,164	966,463	1,389,108
Cash flows from investing activities			
Purchase of property and equipment	(651,865)	(638,657)	(394,502)
Settlement of net investment hedges	(1,609)	47,804	(23,389)
Other investing activities	(658)	20,916	(10,000)
Net cash used in investing activities	(654,132)	(569,937)	(427,891)
Cash flows from financing activities			
Proceeds from settlement of stock-based compensation	42,430	11,704	18,194
Shares withheld related to net share settlement of stock-based compensation	(32,574)	(35,158)	(49,809)
Repurchase of common stock	(558,652)	(444,001)	(812,602)
Other financing activities	(32)	(32)	(770)
Net cash used in financing activities	(548,828)	(467,487)	(844,987)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(4,100)	(34,043)	(6,876)
Increase (decrease) in cash and cash equivalents	1,089,104	(105,004)	109,354
Cash and cash equivalents, beginning of period	\$ 1,154,867	\$ 1,259,871	\$ 1,150,517
Cash and cash equivalents, end of period	\$ 2,243,971	\$ 1,154,867	\$ 1,259,871

See accompanying notes to the consolidated financial statements

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

Note 1	Nature of Operations and Basis of Presentation	10
Note 2	Summary of Significant Accounting Policies	10
Note 3	Inventories	17
Note 4	Prepaid Expenses and Other Current Assets	17
Note 5	Property and Equipment	18
Note 6	Goodwill	18
Note 7	Intangible Assets	19
Note 8	Impairment of Goodwill and Other Assets, Restructuring Costs	19
Note 9	Acquisition-Related Expenses	21
Note 10	Other Non-Current Assets	21
Note 11	Accrued Liabilities and Other	21
Note 12	Revolving Credit Facilities	21
Note 13	Supply Chain Financing Program	22
Note 14	Stockholders' Equity	23
Note 15	Stock-Based Compensation and Benefit Plans	23
Note 16	Fair Value Measurement	26
Note 17	Derivative Financial Instruments	26
Note 18	Leases	28
Note 19	Income Taxes	29
Note 20	Earnings Per Share	31
Note 21	Commitments and Contingencies	31
Note 22	Supplemental Cash Flow Information	32
Note 23	Segmented Information	33
Note 24	Disaggregated Net Revenue	34

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 performance apparel, footwear, and accessories. The Company organizes its operations into four regional markets: Americas, China Mainland, Asia Pacific ("APAC"), and Europe and the Middle East ("EMEA"). It conducts its business through a number of different channels in each market, including company-operated stores, e-commerce, temporary locations, wholesale, outlets, a re-commerce program, and license and supply arrangements. There were 711, 655, and 574 company-operated stores in operation as of January 28, 2024, January 29, 2023, and January 30, 2022, respectively.

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 2023, fiscal 2022, and fiscal 2021 were each 52-week years. Fiscal 2023, 2022, and 2021 ended on January 28, 2024, January 29, 2023, and January 30, 2022, respectively, and are referred to as "2023," "2022," and "2021," 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, money market funds, 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 third party gift card sales, sales to wholesale accounts, online marketplaces, duty receivables, 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 28, 2024 and January 29, 2023, the Company had 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 provision 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 provision 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, 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, e-commerce 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, re-commerce 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 gross revenue from digital content subscriptions.

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. E-commerce 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 28, 2024 and January 29, 2023, the sales return allowance was \$61.6 million and \$55.5 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 2023, 2022, and 2021, net revenue recognized on unredeemed gift card balances was \$28.5 million, \$23.3 million, and \$18.7 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

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 2023, 2022, and 2021, the Company incurred costs to transport its products from its distribution facilities to its retail locations and e-commerce guests of \$374.2 million, \$353.7 million, and \$270.8 million, respectively.

Advertising and Marketing Costs

Advertising costs, including the costs to produce advertising, are expensed as incurred. Advertising expenses were \$429.7 million, \$328.6 million, and \$297.5 million for 2023, 2022, and 2021, 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 income tax expense. 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.

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 16. 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 16. Fair Value Measurement and Note 17. Derivative Financial Instruments.

Concentration of credit risk

Accounts receivable primarily arise out of third party gift card sales, sales to wholesale accounts, online marketplaces, duty receivables, and 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 Americas 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. 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 were settled in cash or common stock at the election of the employee were remeasured to fair value at the end of each reporting period until settlement. This fair value was 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 economic equivalent of common shares in all material respects. All classes of stock have in effect the same economic 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 it, 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 2023 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 ASU 2022-04, Liabilities - Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations, 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 roll-forward of those obligations. The Company adopted this update during the first quarter of 2023 and the related disclosures are included in Note 13. Supply Chain Financing Program.

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 the Company's consolidated financial position or results of operations.

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures. Entities will be required to provide disclosures of significant segmented expenses and other categories used by the Chief Operating Decision Maker ("CODM") in order to enhance disclosure at the segment level. This amendment is effective for annual periods beginning after December 15, 2023, and interim periods beginning after December 15, 2024, and is applied retrospectively for periods presented in the financial statements. The Company is currently evaluating the impact that this new guidance may have on its financial statement disclosures.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures. This disclosure requires expanded disclosure within the rate reconciliation as well as disaggregation of annual taxes paid. This amendment is effective for annual periods beginning after December 15, 2023, and is applied prospectively. The Company is currently evaluating the impact that this new guidance may have on its financial statement disclosures.

Note 3. Inventories

	January 28, 2024	January 29, 2023
	<i>(In thousands)</i>	
Inventories, at cost	\$ 1,465,076	\$ 1,571,981
Provision to reduce inventories to net realizable value:		
lululemon Studio Mirror provision	(62,956)	(65,328)
Obsolescence provision	(42,903)	(18,903)
Damages provision	(33,836)	(38,996)
Shrink provision	(1,779)	(1,387)
	(141,474)	(124,614)
Inventories	\$ 1,323,602	\$ 1,447,367

Please refer to Note 8. Impairment of Goodwill and Other Assets, Restructuring Costs for further details on the lululemon Studio obsolescence provision.

Note 4. Prepaid Expenses and Other Current Assets

	January 28, 2024	January 29, 2023
	<i>(In thousands)</i>	
Prepaid expenses	137,203	142,003
Forward currency contract assets	647	16,707
Other current assets	46,652	79,962
Prepaid expenses and other current assets	\$ 184,502	\$ 238,672

Note 5. Property and Equipment

	January 28, 2024	January 29, 2023
	<i>(In thousands)</i>	
Land	\$ 79,498	\$ 80,692
Buildings	29,032	28,850
Leasehold improvements	1,006,926	818,071
Furniture and fixtures	156,656	144,572
Computer hardware	176,597	166,768
Computer software	1,032,567	742,295
Equipment and vehicles	34,017	30,766
Work in progress	247,943	244,898
Property and equipment, gross	2,763,236	2,256,912
Accumulated depreciation	(1,217,425)	(987,298)
Property and equipment, net	\$ 1,545,811	\$ 1,269,614

Depreciation expense related to property and equipment was \$374.0 million, \$282.7 million, and \$215.3 million for 2023, 2022, and 2021, 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
	<i>(In thousands)</i>
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
Effect of foreign currency translation	(61)
Balance as of January 28, 2024	\$ 24,083

The Company recognized an impairment charge 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. Please refer to Note 8. Impairment of Goodwill and Other Assets, Restructuring Costs for further information.

Note 7. Intangible Assets

A summary of the balances of the Company's intangible assets as of January 28, 2024, January 29, 2023, is presented below:

	January 28, 2024			
	Gross Carrying Amount	Accumulated Amortization	Accumulated Impairment	Net Carrying Amount
	<i>(In thousands)</i>			
MIRROR brand	\$ 26,500	\$ (4,089)	\$ (22,411)	\$ —
Customer relationships	28,000	(7,492)	(20,508)	—
Technology	25,500	(12,632)	(12,868)	—
Content	5,000	(3,250)	(1,750)	—
Other	270	(270)	—	—
Intangible assets	\$ 85,270	\$ (27,733)	\$ (57,537)	\$ —

	January 29, 2023				
	Gross Carrying Amount	Accumulated Amortization	Impairment	Net Carrying Amount	Remaining Useful Life (Years)
	<i>(In thousands, except in years)</i>				
MIRROR brand	\$ 26,500	\$ (3,423)	\$ (20,077)	\$ 3,000	3.0
Customer relationships	28,000	(7,492)	(20,508)	—	n/a
Technology	25,500	(8,956)	—	16,544	3.0
Content	5,000	(2,583)	—	2,417	2.4
Other	270	(270)	—	—	n/a
Intangible assets	\$ 85,270	\$ (22,724)	\$ (40,585)	\$ 21,961	2.9

Amortization of intangible assets was \$5.0 million, \$8.8 million, and \$8.8 million in 2023, 2022, and 2021, respectively.

During 2022 and 2023, the Company recognized intangible asset impairment charges of \$40.6 million and \$17.0 million, respectively. These impairment charges related to the intangible assets that were recognized on the acquisition of MIRROR. Please refer to Note 8. Impairment of Goodwill and Other Assets, Restructuring Costs for further information.

Note 8. Impairment of Goodwill and Other Assets, Restructuring Costs

During 2022, the Company decided to shift its lululemon Studio strategy to focus on providing digital app-based services. The Company continued to sell the lululemon Studio Mirror hardware in 2023, and reached the decision to cease selling it during the third quarter of 2023. It also contracted with Peloton Interactive, Inc. to be the exclusive digital fitness content provider to existing lululemon Studio subscribers, and stopped producing its own digital fitness content. The Company ceased selling the lululemon Studio Mirror and new digital content subscriptions in December 2023.

These strategy shifts resulted in impairment testing and the recognition of goodwill impairment, inventory provisions, asset impairments, and restructuring costs related to the lululemon Studio reporting unit. The following table summarizes the amounts recognized:

	2023	2022
	<i>(In thousands)</i>	
Costs recorded in cost of goods sold:		
lululemon Studio obsolescence provision	\$ 23,709	\$ 62,928
Costs recorded in operating expenses:		
Impairment of assets:		
Impairment of goodwill	\$ —	\$ 362,492
Impairment of intangible assets	16,951	40,585
Impairment of cloud computing arrangement implementation costs	16,074	—
Impairment of property and equipment	11,161	4,836
	\$ 44,186	\$ 407,913
Restructuring costs	30,315	—
Impairment of goodwill and other assets, restructuring costs	\$ 74,501	\$ 407,913
Total pre-tax charges	\$ 98,210	\$ 470,841
Income tax effects of charges	\$ (26,085)	\$ (28,171)
Total after-tax charges	\$ 72,125	\$ 442,670

lululemon Studio obsolescence provision

During 2022, the change in strategy related to lululemon Studio to focus on digital app-based services meant the Company no longer expected to be able to sell all of the lululemon Studio hardware inventory above cost and it recognized an obsolescence provision of \$62.9 million. The net realizable value was determined based on hardware sales forecasts and assumptions regarding liquidation value.

As a result of the decision to cease selling the lululemon Studio Mirror in the third quarter of 2023, the Company recognized a further inventory obsolescence provision of \$23.7 million during 2023. The net realizable value of the lululemon Studio inventory was based on assumptions regarding liquidation value.

Impairment of goodwill and other assets

As a result of the strategy shift during 2022, it was concluded that the Company should conduct an impairment test for the goodwill, intangible assets, and property and equipment related to lululemon Studio as of 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 was a Level 3 fair value measurement.

As of January 29, 2023, the undiscounted cash flows of the lululemon Studio asset group to which the intangible assets belonged 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 impairment of intangible assets of \$40.6 million relating to the MIRROR brand, which was associated with in-home hardware, and to the customer relationship intangible assets that were recognized as part of the acquisition.

During 2023, as a result of the Company's decision to no longer produce digital fitness content and to cease the sale of the lululemon Studio Mirror, the Company performed impairment testing for the lululemon Studio asset group as of October 29, 2023. The undiscounted cash flows of the lululemon Studio asset group 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.

As a result of the impairment test, the Company recognized asset impairments totaling \$44.2 million during 2023. The fair value of long-lived assets was based on a discounted cash flow model, and is a Level 3 non-recurring fair value measurement. The key assumptions used to estimate the fair value were subscriber churn rates and operating costs.

Restructuring costs

During 2023, the Company recognized restructuring costs of \$30.3 million for lululemon Studio primarily related to contract termination costs, employee severance costs, and professional fees.

Note 9. Acquisition-Related Expenses

In connection with the acquisition of MIRROR in fiscal 2020, the Company recognized certain expenses which were included 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. During 2021, \$41.4 million was recognized. There were no acquisition-related expenses recognized in 2023 or 2022.

Note 10. Other Non-Current Assets

	January 28, 2024	January 29, 2023
	<i>(In thousands)</i>	
Cloud computing arrangement implementation costs	\$ 133,597	\$ 114,700
Security deposits	31,825	28,447
Other	21,262	12,898
Other non-current assets	\$ 186,684	\$ 156,045

As of January 28, 2024 and January 29, 2023, cloud computing arrangement implementation costs consisted of deferred costs of \$289.3 million and \$212.4 million, respectively, and associated accumulated amortization of \$155.7 million and \$97.7 million, respectively.

Note 11. Accrued Liabilities and Other

	January 28, 2024	January 29, 2023
	<i>(In thousands)</i>	
Accrued operating expenses	\$ 147,215	\$ 169,429
Sales return allowances	61,634	55,528
Accrued freight	41,241	57,692
Accrued capital expenditures	31,936	19,365
Accrued duty	25,817	21,046
Accrued rent	12,522	12,223
Accrued inventory liabilities	4,783	4,345
Sales tax collected	3,088	20,183
Forward currency contract liabilities	2,872	25,625
Other	17,447	13,787
Accrued liabilities and other	\$ 348,555	\$ 399,223

Note 12. Revolving Credit Facilities

Americas 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 28, 2024, aside from letters of credit of \$6.3 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 28, 2024, 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 (\$18.1 million) revolving credit facility with terms that are reviewed on an annual basis. The credit facility was increased to 230.0 million Chinese Yuan (\$32.0 million) during 2020 and increased to 240.0 million Chinese Yuan (\$33.4 million) during 2023. It is comprised of a revolving loan of up to 200.0 million Chinese Yuan (\$27.9 million) and a financial guarantee facility of up to 40.0 million Chinese Yuan (\$5.6 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 28, 2024, the Company was in compliance with the covenants and, aside from letters of credit of 32.5 million Chinese Yuan (\$4.5 million), there were no other borrowings or guarantees outstanding under this credit facility.

Note 13. Supply Chain Financing Program

The Company facilitates a voluntary supply chain financing ("SCF") program that allows its suppliers to elect to sell the receivables owed to them by the Company to a third party financial institution. Participating suppliers negotiate arrangements directly with the financial institution. If a supplier chooses to participate in the SCF program it may request an invoice be paid earlier than it would by the Company, and the financial institution at its sole and absolute discretion, may elect to make an early payment to the supplier at a discount. The Company's obligations to its suppliers, including amounts due and scheduled payment terms, are not impacted by a supplier's participation in the arrangement and the Company provides no guarantees to any third parties under the SCF program.

A roll-forward of the amounts outstanding under the SCF program, which are presented within accounts payable, is presented below:

	2023
	<i>(In thousands)</i>
Supply chain financing program balance, beginning of year	\$ 17,578
Amounts added during the year	\$ 533,640
Amounts settled during the year	\$ (509,079)
Supply chain financing program balance, end of year	\$ 42,139

Note 14. 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 15. 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 2023, the Company's stockholders approved the adoption of the lululemon athletica inc. 2023 Equity Incentive Plan. The 2023 Equity Incentive Plan provides for awards in the form of stock options, stock appreciation rights, restricted stock purchase rights, restricted stock bonuses, restricted stock units, performance shares, performance-based restricted stock units, cash-based awards, other stock-based awards, and deferred compensation awards to employees (including officers and directors who are also employees), consultants, and directors of the Company.

The awards granted under the 2014 Equity Incentive Plan remain outstanding and continue to vest under their original conditions. No further awards will be granted under the 2014 Equity Incentive Plan.

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

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

Stock-based compensation expense charged to income for the plans was \$92.7 million, \$77.2 million, and \$66.4 million for 2023, 2022, and 2021, respectively.

Total unrecognized compensation cost for all stock-based compensation plans was \$135.9 million as of January 28, 2024, which is expected to be recognized over a weighted-average period of 2.0 years, and was \$118.0 million as of January 29, 2023 over a weighted-average period of 2.1 years.

A summary of the balances of the Company's stock-based compensation plans as of January 28, 2024, January 29, 2023, and January 30, 2022, and changes during the fiscal years then ended is presented below:

	Stock Options		Performance-Based Restricted Stock Units		Restricted Shares		Restricted Stock Units		Restricted Stock Units (Liability Accounting)	
	Number	Weighted -Average Exercise Price	Number	Weighted -Average Grant Date Fair Value	Number	Weighted -Average Grant Date Fair Value	Number	Weighted -Average Grant Date Fair Value	Number	Weighted -Average Fair Value
<i>(In thousands, except per share amounts)</i>										
Balance as of January 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	—	\$ —
Granted	213	360.00	121	296.27	4	370.59	132	364.63	—	—
Exercised/vested	264	160.45	104	201.56	5	308.66	106	294.65	—	—
Forfeited/expired	32	332.26	8	351.14	—	368.36	24	350.38	—	—
Balance as of January 28, 2024	783	\$ 285.69	175	\$ 349.84	4	\$ 370.85	223	\$ 359.12	—	\$ —

A total of 4.0 million shares of the Company's common stock have been authorized for future issuance under the Company's 2023 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 were settled in cash or common stock at the election of the employee were remeasured to fair value at the end of each reporting period until settlement. This fair value was 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 2023, 2022, and 2021:

	2023	2022	2021
Expected term	3.75 years	3.75 years	3.75 years
Expected volatility	42.35 %	40.00 %	39.32 %
Risk-free interest rate	3.49 %	2.51 %	0.50 %
Dividend yield	— %	— %	— %

The following table summarizes information about stock options outstanding and exercisable as of January 28, 2024:

Range of Exercise Prices	Outstanding			Exercisable		
	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)
<i>(In thousands, except per share amounts and years)</i>						
\$2.78-\$174.52	151	\$ 146.29	1.8	151	\$ 146.29	1.8
\$188.84-\$296.36	121	189.43	3.1	79	189.43	3.1
\$306.71-\$356.93	157	309.16	4.3	63	309.07	4.2
\$358.09-\$358.09	192	358.09	6.1	1	358.09	6.2
\$368.36-\$502.74	162	378.96	5.2	33	378.71	5.0
	783	\$ 285.69	4.3	327	\$ 212.01	2.9
Intrinsic value	\$ 150,645			\$ 86,874		

As of January 28, 2024, the unrecognized compensation cost related to these options was \$35.8 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 2023, 2022, and 2021 was \$130.75, \$124.17, and \$94.09, respectively.

The following table summarizes the intrinsic value of options exercised and awards that vested during 2023, 2022, and 2021:

	2023	2022	2021
<i>(In thousands)</i>			
Stock options	\$ 69,316	\$ 19,906	\$ 46,761
Performance-based restricted stock units	33,198	37,672	52,495
Restricted shares	1,661	1,152	1,364
Restricted stock units	38,016	37,275	47,042
Restricted stock units (liability accounting)	—	—	5,938
	\$ 142,191	\$ 96,005	\$ 153,600

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 each of 2023, 2022, and 2021, there were 0.1 million shares purchased. As of January 28, 2024, 4.4 million shares remain authorized to be purchased under the ESPP.

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 \$19.8 million, \$14.0 million, and \$11.8 million during 2023, 2022, and 2021, respectively.

Note 16. Fair Value Measurement

Assets and liabilities measured at fair value on a recurring basis

As of January 28, 2024 and January 29, 2023, the Company held certain assets and liabilities that are required to be measured at fair value on a recurring basis:

	January 28, 2024	Level 1	Level 2	Level 3	Balance Sheet Classification
<i>(In thousands)</i>					
Money market funds	\$ 1,102,119	\$ 1,102,119	\$ —	\$ —	Cash and cash equivalents
Term deposits	8	—	8	—	Cash and cash equivalents
Forward currency contract assets	647	—	647	—	Prepaid expenses and other current assets
Forward currency contract liabilities	2,872	—	2,872	—	Other current liabilities

	January 29, 2023	Level 1	Level 2	Level 3	Balance Sheet Classification
<i>(In thousands)</i>					
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

The Company has short-term, highly liquid investments classified as cash equivalents, which are invested in money market funds and short-term deposits with original maturities of three months or less. 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.

During 2023 and 2022, the Company recorded impairment charges for goodwill, intangible assets, cloud computing arrangement implementation costs, and property and equipment, as disclosed in Note 8. Impairment of Goodwill and Other Assets, Restructuring Costs. That note includes details on the discounted cash flow model used to estimate fair value, which is a Level 3 valuation technique.

Note 17. 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 2023.

Derivatives not designated as hedging instruments

During 2023, 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 28, 2024			January 29, 2023		
	Gross Notional	Assets	Liabilities	Gross Notional	Assets	Liabilities
<i>(In thousands)</i>						
Derivatives designated as net investment hedges:						
Forward currency contracts	\$ 1,242,000	\$ —	\$ 258	\$ 1,070,000	\$ —	\$ 17,211
Derivatives not designated in a hedging relationship:						
Forward currency contracts	1,543,351	647	2,614	1,605,284	16,707	8,414
Net derivatives recognized on consolidated balance sheets:						
Forward currency contracts		\$ 647	\$ 2,872		\$ 16,707	\$ 25,625

As of January 28, 2024, there were derivative assets of \$0.6 million and derivative liabilities of \$2.9 million subject to enforceable netting arrangements.

The forward currency contracts designated as net investment hedges outstanding as of January 28, 2024 mature on different dates between February 2024 and September 2024.

The forward currency contracts not designated in a hedging relationship outstanding as of January 28, 2024 mature on different dates between February 2024 and October 2024.

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

	2023	2022	2021
<i>(In thousands)</i>			
Gains (losses) recognized in net investment hedge gains (losses):			
Derivatives designated as net investment hedges	\$ 15,344	\$ 12,125	\$ 13,177

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:

	2023	2022	2021
<i>(In thousands)</i>			
Gains (losses) recognized in selling, general and administrative expenses:			
Foreign exchange gains (losses)	\$ (23,232)	\$ 4,410	\$ 11,511
Derivatives not designated in a hedging relationship	22,765	(11,945)	(19,874)
Net foreign exchange and derivative losses	\$ (467)	\$ (7,535)	\$ (8,363)

Note 18. Leases

The Company has obligations under operating leases for its store and other retail locations, distribution centers, offices, and equipment. As of January 28, 2024, 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.

	2023	2022	2021
	<i>(In thousands)</i>		
Net lease expense:			
Operating lease expense	\$ 282,888	\$ 245,767	\$ 215,549
Short-term lease expense	15,289	16,790	12,366
Variable lease expense	152,791	114,441	90,852
	\$ 450,968	\$ 376,998	\$ 318,767

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

	January 28, 2024
	<i>(In thousands)</i>
2024	\$ 300,379
2025	287,224
2026	232,510
2027	214,519
2028	158,252
Thereafter	452,434
Future minimum lease payments	\$ 1,645,318
Impact of discounting	(242,036)
Present value of lease liabilities	\$ 1,403,282
Balance sheet classification:	
Current lease liabilities	\$ 249,270
Non-current lease liabilities	1,154,012
	\$ 1,403,282

As of January 28, 2024, the Company's minimum lease commitment for distribution center operating leases which have been committed to, but not yet commenced, was \$299.6 million, which is not reflected in the table above.

The weighted-average remaining lease terms and weighted-average discount rates were as follows:

	January 28, 2024	January 29, 2023
Weighted-average remaining lease term	6.95 years	5.64 years
Weighted-average discount rate	4.0 %	3.1 %

Note 19. 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:

	2023	2022	2021
	<i>(In thousands)</i>		
Income (loss) before income tax expense			
Domestic	\$ 458,041	\$ (98,764)	\$ 204,350
Foreign	1,717,694	1,431,335	1,129,519
	\$ 2,175,735	\$ 1,332,571	\$ 1,333,869
Current income tax expense			
Federal	\$ 140,726	\$ 34,752	\$ 25,701
State	42,476	33,369	17,608
Foreign	469,090	400,250	322,105
	\$ 652,292	\$ 468,371	\$ 365,414
Deferred income tax expense (recovery)			
Federal	\$ (14,741)	\$ 8,932	\$ 5,858
State	(3,097)	2,363	1,045
Foreign	(8,909)	(1,895)	(13,770)
	\$ (26,747)	\$ 9,400	\$ (6,867)
Income tax expense	\$ 625,545	\$ 477,771	\$ 358,547

The Company's income tax expense for 2023, 2022, and 2021 include certain discrete tax amounts, as follows:

	2023	2022	2021
	<i>(In thousands)</i>		
Impairment of goodwill and other assets, restructuring costs	\$ (26,085)	\$ (28,171)	\$ —
Gain on disposal of assets	—	1,661	—
Acquisition-related expenses	—	—	(1,417)
Total discrete income tax expense (recovery)	\$ (26,085)	\$ (26,510)	\$ (1,417)

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

As of January 28, 2024, the Company's net investment in its Canadian subsidiaries was \$2.5 billion, of which \$1.6 billion was determined to be indefinitely reinvested. A deferred income tax liability of \$41.2 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 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 \$89.7 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 28, 2024 were \$466.5 million.

As of January 28, 2024, the Company had cash and cash equivalents of \$822.5 million outside of the United States.

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

	2023	2022	2021
	<i>(Percentage)</i>		
Federal income tax at statutory rate	21.0 %	21.0 %	21.0 %
Foreign tax rate differentials	4.1	6.8	5.0
U.S. state taxes	1.0	(0.4)	0.8
Non-deductible compensation expense	0.6	0.7	0.7
Excess tax benefits from stock-based compensation	(0.4)	(0.5)	(0.9)
Tax on unremitted foreign earnings	2.6	1.4	—
Impairment of goodwill and other assets, gain on disposal of assets	—	7.8	—
Permanent and other	(0.1)	(0.9)	0.3
Effective tax rate	28.8 %	35.9 %	26.9 %

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 28, 2024 and January 29, 2023 are presented below:

	January 28, 2024	January 29, 2023
	<i>(In thousands)</i>	
Deferred income tax assets:		
Net operating loss carryforwards	\$ 2,385	\$ 2,312
Inventories	43,157	43,471
Accrued bonuses	19,075	13,647
Unredeemed gift card liability	15,580	12,877
Non-current lease liabilities	286,528	216,495
Research and experimental expenditures	48,922	—
Stock-based compensation	20,057	16,093
Other	16,802	9,645
Deferred income tax assets	452,506	314,540
Valuation allowance	(2,334)	(743)
Deferred income tax assets, net of valuation allowance	\$ 450,172	\$ 313,797
Deferred income tax liabilities:		
Property and equipment, net	\$ (162,312)	\$ (142,516)
Intangible assets, net	—	(5,224)
Right-of-use lease assets	(265,157)	(192,221)
Other	(43,049)	(22,518)
Deferred income tax liabilities	(470,518)	(362,479)
Net deferred income tax liabilities	\$ (20,346)	\$ (48,682)
Balance sheet classification:		
Deferred income tax assets	\$ 9,176	\$ 6,402
Deferred income tax liabilities	(29,522)	(55,084)
Net deferred income tax liabilities	\$ (20,346)	\$ (48,682)

As of January 28, 2024, the Company had net operating loss carryforwards of \$20.0 million. The majority of the net operating loss carryforwards expire, if unused, between fiscal 2030 and fiscal 2040.

There was a \$1.6 million net increase in the valuation allowance in 2023, compared to a \$2.1 million net decrease in 2022, and a \$3.7 million net decrease in 2021.

The Company files income tax returns in the U.S., Canada, and various foreign and state jurisdictions. The 2017 to 2022 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 2017 to 2022 tax years remain subject to examination by Canadian tax authorities. The 2016 to 2022

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 20. Earnings Per Share

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

	2023	2022	2021
	<i>(In thousands, except per share amounts)</i>		
Net income	\$ 1,550,190	\$ 854,800	\$ 975,322
Basic weighted-average number of shares outstanding	126,726	127,666	129,768
Assumed conversion of dilutive stock options and awards	334	351	527
Diluted weighted-average number of shares outstanding	127,060	128,017	130,295
Basic earnings per share	\$ 12.23	\$ 6.70	\$ 7.52
Diluted earnings per share	\$ 12.20	\$ 6.68	\$ 7.49

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 economic equivalent of common shares in all material respects. All classes of stock have in effect the same economic rights and share equally in undistributed net income. For 2023, 2022, and 2021, 62.7 thousand, 43.5 thousand, and 36.0 thousand stock options and awards, respectively, were anti-dilutive to earnings per share and therefore have been excluded from the computation of diluted earnings per share.

On 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 and November 29, 2023, the Company's board of directors approved stock repurchase programs, each for up to \$1.0 billion of the Company's common shares on the open market or in privately negotiated transactions. The repurchase plans have no time limit and do 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 these programs excludes the cost of commissions and excise taxes and as of January 28, 2024, the remaining authorized value was \$1.2 billion.

During 2023, 2022, and 2021, 1.5 million, 1.4 million, and 2.2 million shares, respectively, were repurchased under the programs at a total cost including commissions and excise taxes of \$558.7 million, \$444.0 million, and \$812.6 million, respectively.

Subsequent to January 28, 2024, and up to March 15, 2024, 0.2 million shares were repurchased at a total cost including commissions and excise taxes of \$99.2 million.

Note 21. 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 18. 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 and sell lululemon products on websites in specific countries. Under these arrangements, the Company supplies the partners with lululemon products, training, and other support. As of January 28, 2024, there were 39 licensed locations, including 15 in Mexico, eight in the United Arab Emirates, six in Saudi Arabia, three in Qatar, three in Kuwait, three in Israel, and one in Bahrain.

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 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 beginning in fiscal 2018. The table below outlines the remaining expected payments due by fiscal year.

	Payments Due by Fiscal Year						
	Total	2024	2025	2026	2027	2028	Thereafter
	<i>(In thousands)</i>						
One-time transition tax payable	\$ 28,555	\$ 12,691	\$ 15,864	\$ —	\$ —	\$ —	\$ —

Contingencies

Legal proceedings. 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, employment claims, product liability claims, personal injury 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.

Note 22. Supplemental Cash Flow Information

	2023	2022	2021
	<i>(In thousands)</i>		
Cash paid for income taxes	\$ 824,213	\$ 502,136	\$ 245,213
Cash paid for amounts included in the measurement of lease liabilities	288,934	242,758	215,157
Leased assets obtained in exchange for new operating lease liabilities	586,926	450,787	287,008
Interest paid	234	116	12

Note 23. Segmented Information

The Company's segments are based on the financial information the CODM, who is the Chief Executive Officer, uses to evaluate performance and allocate resources.

During the fourth quarter of 2023, the financial information the CODM regularly uses to evaluate performance and allocate resources was revised. As the Company has further executed on its omni-channel retail strategy, and with the continued expansion of its international operations, the CODM has shifted resource allocation decisions to be focused by regional market, rather than by selling channel. This resulted in a change in the Company's operating segments.

As of January 28, 2024, the Company reports three segments, Americas, China Mainland, and Rest of World, which is APAC and EMEA on a combined basis. The Company does not report capital expenditures and assets by segment as that information is not reviewed by the CODM.

Previously, the Company's segments were comprised of company-operated stores, direct to consumer (or "e-commerce"), and other. The Company has restated the prior period information to reflect its new segments.

	2023	2022	2021
	<i>(In thousands)</i>		
Net revenue:			
Americas	\$ 7,631,647	\$ 6,817,454	\$ 5,299,906
China Mainland	963,760	576,503	434,261
Rest of World	1,023,871	716,561	522,450
	\$ 9,619,278	\$ 8,110,518	\$ 6,256,617
Segmented income from operations:			
Americas	\$ 2,937,184	\$ 2,503,740	\$ 1,867,016
China Mainland	337,316	196,865	167,318
Rest of World	201,832	103,204	67,674
	3,476,332	2,803,809	2,102,008
General corporate expenses	1,240,436	1,005,988	718,477
lululemon Studio obsolescence provision	23,709	62,928	—
Impairment of goodwill and other assets, restructuring costs	74,501	407,913	—
Amortization of intangible assets	5,010	8,752	8,782
Acquisition-related expenses	—	—	41,394
Gain on disposal of assets	—	(10,180)	—
Income from operations	2,132,676	1,328,408	1,333,355
Other income (expense), net	43,059	4,163	514
Income before income tax expense	\$ 2,175,735	\$ 1,332,571	\$ 1,333,869
Depreciation and amortization:			
Americas	\$ 170,417	\$ 137,260	\$ 121,278
China Mainland	25,746	17,842	12,208
Rest of World	23,644	19,346	16,829
Corporate	159,577	117,343	73,891
	\$ 379,384	\$ 291,791	\$ 224,206

Long-lived assets, including property and equipment, net and right-of-use lease assets, by geographic area as of January 28, 2024 and January 29, 2023 were as follows:

	January 28, 2024	January 29, 2023
	<i>(In thousands)</i>	
United States	\$ 1,597,318	\$ 1,175,317
Canada	671,622	601,756
People's Republic of China	284,575	233,590
Other geographic areas	257,906	228,370
	\$ 2,811,421	\$ 2,239,033

Note 24. Disaggregated Net Revenue

In addition to the disaggregation of net revenue by reportable segment in Note 23. Segmented Information, the following table disaggregates the Company's net revenue by geographic area.

	2023	2022	2021
	<i>(In thousands)</i>		
United States	\$ 6,346,392	\$ 5,654,343	\$ 4,345,687
Canada	1,285,255	1,163,111	954,219
China Mainland	963,760	576,503	434,261
Hong Kong SAR, Taiwan, and Macau SAR	170,533	105,130	86,111
People's Republic of China	1,134,293	681,633	520,372
Other geographic areas	853,338	611,431	436,339
	\$ 9,619,278	\$ 8,110,518	\$ 6,256,617

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

	2023	2022	2021
	<i>(In thousands)</i>		
Women's product	\$ 6,147,372	\$ 5,259,803	\$ 4,171,762
Men's product	2,252,753	1,956,602	1,535,850
Other categories	1,219,153	894,113	549,005
	\$ 9,619,278	\$ 8,110,518	\$ 6,256,617

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

	2023	2022	2021
	<i>(In thousands)</i>		
Company-operated stores	\$ 4,410,956	\$ 3,648,127	\$ 2,821,497
E-commerce	4,311,110	3,699,791	2,777,944
Other channels	897,212	762,600	657,176
	\$ 9,619,278	\$ 8,110,518	\$ 6,256,617