

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended November 3, 2019.

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: 001-14077

WILLIAMS-SONOMA, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

94-2203880
(I.R.S. Employer
Identification No.)

3250 Van Ness Avenue, San Francisco, CA
(Address of principal executive offices)

94109
(Zip Code)

Registrant's telephone number, including area code: (415) 421-7900

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Trading Symbol(s):	Name of each exchange on which registered:
Common Stock, par value \$.01 per share	WSM	New York Stock Exchange, Inc.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of December 1, 2019, 77,467,381 shares of the registrant's Common Stock were outstanding.

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**WILLIAMS-SONOMA, INC.
REPORT ON FORM 10-Q
FOR THE QUARTER ENDED NOVEMBER 3, 2019**

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ITEM 1. FINANCIAL STATEMENTS

**WILLIAMS-SONOMA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)**

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	November 3, 2019	October 28, 2018	November 3, 2019	October 28, 2018
<i>In thousands, except per share amounts</i>				
Net revenues	\$ 1,442,472	\$ 1,356,983	\$ 4,054,418	\$ 3,835,157
Cost of goods sold	924,300	861,999	2,608,054	2,444,067
Gross profit	518,172	494,984	1,446,364	1,391,090
Selling, general and administrative expenses	416,281	400,600	1,184,176	1,155,990
Operating income	101,891	94,384	262,188	235,100
Interest (income) expense, net	2,564	2,288	7,486	5,073
Earnings before income taxes	99,327	92,096	254,702	230,027
Income taxes	24,614	10,631	64,685	51,681
Net earnings	\$ 74,713	\$ 81,465	\$ 190,017	\$ 178,346
Basic earnings per share	\$ 0.96	\$ 1.01	\$ 2.43	\$ 2.17
Diluted earnings per share	\$ 0.94	\$ 1.00	\$ 2.39	\$ 2.15
Shares used in calculation of earnings per share:				
Basic	77,897	80,475	78,356	82,070
Diluted	79,191	81,641	79,465	82,951

WILLIAMS-SONOMA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

<i>In thousands</i>	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	November 3, 2019	October 28, 2018	November 3, 2019	October 28, 2018
Net earnings	\$ 74,713	\$ 81,465	\$ 190,017	\$ 178,346
Other comprehensive income (loss):				
Foreign currency translation adjustments	1,783	(1,830)	(2,477)	(5,968)
Change in fair value of derivative financial instruments, net of tax (tax benefit) of \$97, \$(23), \$163 and \$378	5	(65)	77	1,064
Reclassification adjustment for realized (gain) loss on derivative financial instruments, net of tax of \$187, \$43, \$221 and \$19	(8)	(120)	(235)	(71)
Comprehensive income	\$ 76,493	\$ 79,450	\$ 187,382	\$ 173,371

See Notes to Condensed Consolidated Financial Statements.

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WILLIAMS-SONOMA, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

<i>In thousands, except per share amounts</i>	November 3, 2019	February 3, 2019	October 28, 2018
ASSETS			
Current assets			
Cash and cash equivalents	\$ 155,025	\$ 338,954	\$ 164,414
Accounts receivable, net	110,131	107,102	113,582
Merchandise inventories, net	1,258,541	1,124,992	1,197,554
Prepaid expenses	115,288	101,356	94,071
Other current assets	20,260	21,939	21,805
Total current assets	1,659,245	1,694,343	1,591,426
Property and equipment, net	915,740	929,635	931,361
Operating lease right-of-use assets	1,194,061	—	—
Deferred income taxes, net	41,763	44,055	45,999
Goodwill	85,355	85,382	85,649
Other long-term assets, net	67,660	59,429	64,324
Total assets	\$ 3,963,824	\$ 2,812,844	\$ 2,718,759
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable	\$ 444,279	\$ 526,702	\$ 487,733
Accrued expenses	140,789	163,559	132,398
Gift card and other deferred revenue	296,157	290,445	275,567
Borrowings under revolving line of credit	100,000	—	60,000
Income taxes payable	13,182	21,461	9,903
Operating lease liabilities	225,530	—	—
Other current liabilities	68,973	72,645	71,119
Total current liabilities	1,288,910	1,074,812	1,036,720
Deferred rent and lease incentives	29,388	201,374	205,143
Long-term debt	299,769	299,620	299,571
Long-term operating lease liabilities	1,127,403	—	—
Other long-term liabilities	86,461	81,324	85,388
Total liabilities	2,831,931	1,657,130	1,626,822
Commitments and contingencies – See Note F			
Stockholders' equity			
Preferred stock: \$.01 par value; 7,500 shares authorized; none issued	—	—	—
Common stock: \$.01 par value; 253,125 shares authorized; 77,612, 78,813 and 80,282 shares issued and outstanding at November 3, 2019, February 3, 2019 and October 28, 2018, respectively	777	789	803
Additional paid-in capital	594,991	581,900	570,924
Retained earnings	550,774	584,333	532,172

Accumulated other comprehensive loss	(13,708)	(11,073)	(11,757)
Treasury stock, at cost: 14, 2 and 2 shares as of November 3, 2019, February 3, 2019 and October 28, 2018, respectively	(941)	(235)	(205)
Total stockholders' equity	1,131,893	1,155,714	1,091,937
Total liabilities and stockholders' equity	\$ 3,963,824	\$ 2,812,844	\$ 2,718,759

See Notes to Condensed Consolidated Financial Statements.

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WILLIAMS-SONOMA, INC. CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)

<i>In thousands</i>	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
	Shares	Amount					
Balance at February 3, 2019	78,813	\$ 789	\$ 581,900	\$ 584,333	\$ (11,073)	\$ (235)	\$ 1,155,714
Net earnings	—	—	—	52,656	—	—	52,656
Foreign currency translation adjustments	—	—	—	—	(3,009)	—	(3,009)
Change in fair value of derivative financial instruments, net of tax	—	—	—	—	204	—	204
Reclassification adjustment for realized (gain) loss on derivative financial instruments, net of tax	—	—	—	—	(67)	—	(67)
Conversion/release of stock-based awards ¹	571	5	(25,298)	—	—	(113)	(25,406)
Repurchases of common stock	(576)	(6)	(2,874)	(30,010)	—	(958)	(33,848)
Reissuance of treasury stock under stock-based compensation plans ¹	—	—	(332)	—	—	332	—
Stock-based compensation expense	—	—	18,376	—	—	—	18,376
Dividends declared	—	—	—	(39,549)	—	—	(39,549)
Adoption of accounting pronouncements ²	—	—	—	(3,303)	—	—	(3,303)
Balance at May 5, 2019	78,808	\$ 788	\$ 571,772	\$ 564,127	\$ (13,945)	\$ (974)	\$ 1,121,768
Net earnings	—	—	—	62,648	—	—	62,648
Foreign currency translation adjustments	—	—	—	—	(1,251)	—	(1,251)
Change in fair value of derivative financial instruments, net of tax	—	—	—	—	(132)	—	(132)
Reclassification adjustment for realized (gain) loss on derivative financial instruments, net of tax	—	—	—	—	(160)	—	(160)
Conversion/release of stock-based awards ¹	31	1	(482)	—	—	—	(481)
Repurchases of common stock	(636)	(6)	(3,170)	(35,107)	—	—	(38,283)
Stock-based compensation expense	—	—	16,708	—	—	—	16,708
Dividends declared	—	—	—	(39,214)	—	—	(39,214)
Balance at August 4, 2019	78,203	\$ 783	\$ 584,828	\$ 552,454	\$ (15,488)	\$ (974)	\$ 1,121,603
Net earnings	—	—	—	74,713	—	—	74,713
Foreign currency translation adjustments	—	—	—	—	1,783	—	1,783
Change in fair value of derivative financial instruments, net of tax	—	—	—	—	5	—	5
Reclassification adjustment for realized (gain) loss on derivative financial instruments, net of tax	—	—	—	—	(8)	—	(8)
Conversion/release of stock-based awards ¹	19	—	(715)	—	—	(21)	(736)
Repurchases of common stock	(610)	(6)	(3,068)	(37,509)	—	—	(40,583)
Reissuance of treasury stock under stock-based compensation plans ¹	—	—	(54)	—	—	54	—
Stock-based compensation expense	—	—	14,000	—	—	—	14,000
Dividends declared	—	—	—	(38,884)	—	—	(38,884)
Balance at November 3, 2019	77,612	\$ 777	\$ 594,991	\$ 550,774	\$ (13,708)	\$ (941)	\$ 1,131,893

¹ Amounts are shown net of shares withheld for employee taxes.

² Relates to our adoption of ASU 2016-02, Leases, in fiscal 2019. See Note A.

See Notes to Condensed Consolidated Financial Statements.

WILLIAMS-SONOMA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock		Additional	Retained	Accumulated	Treasury	Total
<i>In thousands</i>	Shares	Amount	Paid-in Capital	Earnings	Other Comprehensive Income (Loss)	Stock	Stockholders' Equity
Balance at January 28, 2018	83,726	\$ 837	\$ 562,814	\$ 647,422	\$ (6,782)	\$ (725)	\$ 1,203,566
Net earnings	—	—	—	45,168	—	—	45,168
Foreign currency translation adjustments	—	—	—	—	(1,145)	—	(1,145)
Change in fair value of derivative financial instruments, net of tax	—	—	—	—	1,123	—	1,123
Reclassification adjustment for realized (gain) loss on derivative financial instruments, net of tax	—	—	—	—	49	—	49
Conversion/release of stock-based awards ¹	228	3	(7,213)	—	—	(226)	(7,436)
Repurchases of common stock	(732)	(7)	(3,437)	(34,269)	—	—	(37,713)
Reissuance of treasury stock under stock-based compensation plans ¹	—	—	(290)	(358)	—	648	—
Stock-based compensation expense	—	—	12,811	—	—	—	12,811
Dividends declared	—	—	—	(36,877)	—	—	(36,877)
Adoption of accounting pronouncements ²	—	—	—	17,688	—	—	17,688
Balance at April 29, 2018	83,222	\$ 833	\$ 564,685	\$ 638,774	\$ (6,755)	\$ (303)	\$ 1,197,234
Net earnings	—	—	—	51,713	—	—	51,713
Foreign currency translation adjustments	—	—	—	—	(2,993)	—	(2,993)
Change in fair value of derivative financial instruments, net of tax	—	—	—	—	6	—	6
Conversion/release of stock-based awards ¹	175	2	(4,869)	—	—	(32)	(4,899)
Repurchases of common stock	(2,409)	(25)	(11,431)	(125,649)	—	—	(137,105)
Reissuance of treasury stock under stock-based compensation plans ¹	—	—	(72)	(5)	—	77	—
Stock-based compensation expense	—	—	13,497	—	—	—	13,497
Dividends declared	—	—	—	(36,465)	—	—	(36,465)
Balance at July 29, 2018	80,988	\$ 810	\$ 561,810	\$ 528,368	\$ (9,742)	\$ (258)	\$ 1,080,988
Net earnings	—	—	—	81,465	—	—	81,465
Foreign currency translation adjustments	—	—	—	—	(1,830)	—	(1,830)
Change in fair value of derivative financial instruments, net of tax	—	—	—	—	(65)	—	(65)
Reclassification adjustment for realized (gain) loss on derivative financial instruments, net of tax	—	—	—	—	(120)	—	(120)
Conversion/release of stock-based awards ¹	37	—	(1,571)	—	—	—	(1,571)
Repurchases of common stock	(743)	(7)	(3,604)	(41,792)	—	—	(45,403)
Reissuance of treasury stock under stock-based compensation plans ¹	—	—	(53)	—	—	53	—
Stock-based compensation expense	—	—	14,342	—	—	—	14,342
Dividends declared	—	—	—	(35,869)	—	—	(35,869)
Balance at October 28, 2018	80,282	\$ 803	\$ 570,924	\$ 532,172	\$ (11,757)	\$ (205)	\$ 1,091,937

¹ Amounts are shown net of shares withheld for employee taxes.

² Primarily relates to our adoption of ASU 2014-09, Revenue from Contracts with Customers, in fiscal 2018.

See Notes to Condensed Consolidated Financial Statements.

WILLIAMS-SONOMA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Thirty-nine Weeks Ended	
<i>In thousands</i>	November 3, 2019	October 28, 2018
Cash flows from operating activities:		
Net earnings	\$ 190,017	\$ 178,346
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		

Depreciation and amortization	140,495	141,167
Loss on disposal/impairment of assets	682	5,290
Amortization of deferred lease incentives	(5,985)	(19,728)
Non-cash lease expense	160,138	—
Deferred income taxes	(10,937)	12,170
Tax benefit related to stock-based awards	13,648	10,361
Stock-based compensation expense	49,516	40,953
Other	14	(389)
Changes in:		
Accounts receivable	(2,842)	(21,851)
Merchandise inventories	(133,637)	(143,723)
Prepaid expenses and other assets	(24,157)	(50,171)
Accounts payable	(92,101)	8,689
Accrued expenses and other liabilities	(24,148)	19,002
Gift card and other deferred revenue	5,848	24,048
Deferred rent and lease incentives	—	23,695
Operating lease liabilities	(168,308)	—
Income taxes payable	(8,293)	(48,358)
Net cash provided by operating activities	89,950	179,501
Cash flows from investing activities:		
Purchases of property and equipment	(121,154)	(128,326)
Other	470	1,804
Net cash used in investing activities	(120,684)	(126,522)
Cash flows from financing activities:		
Payment of dividends	(113,159)	(105,654)
Repurchases of common stock	(112,714)	(220,221)
Borrowings under revolving line of credit	100,000	60,000
Tax withholdings related to stock-based awards	(26,623)	(13,906)
Net cash used in financing activities	(152,496)	(279,781)
Effect of exchange rates on cash and cash equivalents	(699)	1,080
Net decrease in cash and cash equivalents	(183,929)	(225,722)
Cash and cash equivalents at beginning of period	338,954	390,136
Cash and cash equivalents at end of period	\$ 155,025	\$ 164,414

See Notes to Condensed Consolidated Financial Statements.

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WILLIAMS-SONOMA, INC. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE A. FINANCIAL STATEMENTS - BASIS OF PRESENTATION

These financial statements include Williams-Sonoma, Inc. and its wholly owned subsidiaries (“we,” “us” or “our”). The Condensed Consolidated Balance Sheets as of November 3, 2019 and October 28, 2018, the Condensed Consolidated Statements of Earnings, the Condensed Consolidated Statements of Comprehensive Income, and the Condensed Consolidated Statements of Stockholders’ Equity for the thirteen weeks and thirty-nine weeks then ended and the Condensed Consolidated Statements of Cash Flows for the thirty-nine weeks then ended, have been prepared by us, without audit. In our opinion, the financial statements include all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position at the balance sheet dates and the results of operations for the thirteen and thirty-nine weeks then ended. Intercompany transactions and accounts have been eliminated. The balance sheet as of February 3, 2019, presented herein, has been derived from our audited Consolidated Balance Sheet included in our Annual Report on Form 10-K for the fiscal year ended February 3, 2019.

The results of operations for the thirteen and thirty-nine weeks ended November 3, 2019 are not necessarily indicative of the operating results of the full year.

Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been omitted. These financial statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended February 3, 2019.

New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, *Leases*, which requires lessees to recognize a right-of-use asset and an operating lease liability for virtually all leases. This ASU, as amended, was effective for us beginning in the first quarter of fiscal 2019. The adoption of this ASU resulted in an increase in total long-term assets and total liabilities of approximately \$1.2 billion, which includes an increase in liabilities for lease obligations of approximately \$1.4 billion, a decrease in deferred rent and deferred lease incentives of approximately \$0.2 billion, and an increase in right-of-use assets of approximately \$1.2 billion on the first day of fiscal 2019. We also recorded an approximate \$3.3 million, net of tax, reduction to the opening balance of retained earnings resulting from the impairment of certain long-lived assets upon adoption of this ASU. We have elected to apply the provisions of this ASU at the adoption date, instead of to the earliest comparative period presented in

the financial statements. We have elected the package of practical expedients upon adoption, which permits us not to reassess whether existing contracts are or contain leases, the lease classification of existing leases, or initial direct costs for existing leases. We have also elected not to separate lease and non-lease components for all of our leases and not to recognize a right-of-use asset and a lease liability for short-term leases. The adoption of this ASU did not materially impact our Condensed Consolidated Statement of Earnings.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities (Topic 815)*, which expands and refines hedge accounting for both non-financial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The guidance also makes certain targeted improvements to simplify the application of hedge accounting guidance and ease the administrative burden of hedge documentation requirements and assessing hedge effectiveness. Entities should apply the guidance to existing cash flow and net investment hedge relationships using a modified retrospective approach with a cumulative effect adjustment recorded to opening retained earnings on the date of adoption. The guidance also provides transition relief to make it easier for entities to apply certain amendments to existing hedges where the hedge documentation needs to be modified. This ASU was effective for us in the first quarter of fiscal 2019. The adoption of this ASU did not have a material impact on our financial condition, results of operations or cash flows.

In August 2018, the FASB issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. Accordingly, the amendments require an entity in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. This ASU is effective for us in the first quarter of fiscal 2020. We do not expect the adoption of this ASU to have a material impact on our financial condition, results of operations or cash flows.

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NOTE B. BORROWING ARRANGEMENTS

Credit Facility

We have a credit facility, which provides for a \$500,000,000 unsecured revolving line of credit (the “revolver”) and a \$300,000,000 unsecured term loan facility (the “term loan”). The revolver may be used to borrow revolving loans or request the issuance of letters of credit. We may, upon notice to the administrative agent, request existing or new lenders to increase the revolver by up to \$250,000,000, at such lenders’ option, to provide for a total of \$750,000,000 of unsecured revolving credit. The revolver matures on January 8, 2023, at which time all outstanding borrowings must be repaid and all outstanding letters of credit must be cash collateralized. We may, prior to January 8, 2020, elect to extend the maturity date for an additional year, subject to lender approval.

During the third quarter of fiscal 2019, we had borrowings of \$40,000,000 under the revolver. For year-to-date fiscal 2019, we had borrowings of \$100,000,000 under the revolver (at a year-to-date weighted average interest rate of 3.12%), all of which was outstanding as of November 3, 2019. During the third quarter and for year-to-date fiscal 2018, we had borrowings of \$60,000,000 under the revolver (at a year-to-date weighted average interest rate of 3.28%). Additionally, as of November 3, 2019, \$12,402,000 in issued but undrawn standby letters of credit was outstanding under the credit facility. The standby letters of credit were issued to secure the liabilities associated with workers’ compensation and other insurance programs.

As of November 3, 2019, we had \$300,000,000 outstanding under our term loan (at a year-to-date weighted average interest rate of 3.47%). The term loan matures on January 8, 2021, at which time all outstanding principal and any accrued interest must be repaid.

The interest rates under the credit facility are variable, and may be elected by us as: (i) the London Interbank Offer Rate plus an applicable margin based on our leverage ratio ranging from 0.91% to 1.775% for a revolver borrowing, and 1.0% to 2.0% for the term loan; or (ii) a base rate as defined in the credit facility plus an applicable margin ranging from 0% to 0.775% for a revolver borrowing, and 0% to 1.0% for the term loan.

As of November 3, 2019, we were in compliance with our financial covenants under the credit facility and, based on current projections, we expect to remain in compliance throughout the next 12 months.

Letter of Credit Facilities

We have three unsecured letter of credit reimbursement facilities for a total of \$70,000,000, each of which matures on August 23, 2020. The letter of credit facilities contain covenants that are consistent with our credit facility. Interest on unreimbursed amounts under the letter of credit facilities accrues at a base rate as defined in the credit facility plus an applicable margin based on our leverage ratio. As of November 3, 2019, an aggregate of \$8,221,000 was outstanding under the letter of credit facilities, which represents only a future commitment to fund inventory purchases to which we have not taken legal title. The latest expiration possible for any future letters of credit issued under the facilities is January 20, 2021.

NOTE C. STOCK-BASED COMPENSATION

Equity Award Programs

Our Amended and Restated 2001 Long-Term Incentive Plan (the “Plan”) provides for grants of incentive stock options, nonqualified stock options, stock-settled stock appreciation rights (collectively, “option awards”), restricted stock awards, restricted stock units (including those that are performance-based), deferred stock awards (collectively, “stock awards”) and dividend equivalents up to an aggregate of 36,570,000 shares. As of November 3, 2019, there were approximately 5,367,000 shares available for future grant. Awards may be granted under the Plan to our officers, employees and non-employee members of the board of directors of the company (the “Board”) or any parent or subsidiary. Shares issued as a result of award exercises or releases are primarily funded with the issuance of new shares.

Option Awards

Annual grants of option awards are limited to 1,000,000 shares on a per person basis and have a maximum term of seven years. The exercise price of these option awards must not be less than 100% of the closing price of our stock on the trading day prior to the grant date. Option awards granted to employees generally vest evenly over a period of four years for service-based awards. Certain option awards contain vesting acceleration clauses, which are triggered upon certain events including, but not limited to, retirement, or a merger or similar corporate event.

Stock Awards

Annual grants of stock awards are limited to 1,000,000 shares on a per person basis. Stock awards granted to employees generally vest evenly over a period of four years for service-based awards. Certain performance-based awards, which have variable payout conditions based on predetermined financial targets, generally vest three years from the date of grant. Certain stock awards and other agreements contain vesting acceleration clauses which are triggered upon certain events including, but not limited to, retirement, or a merger or similar corporate event. Stock awards granted to non-employee Board members generally vest in one year. Non-employee Board members automatically receive stock awards on the date of their initial election to the Board and annually thereafter on the date of the annual meeting of stockholders (so long as they continue to serve as a non-employee Board member).

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Stock-Based Compensation Expense

During the thirteen and thirty-nine weeks ended November 3, 2019, we recognized total stock-based compensation expense, as a component of selling, general and administrative expenses, of \$14,115,000 and \$49,516,000, respectively. During the thirteen and thirty-nine weeks ended October 28, 2018, we recognized total stock-based compensation expense, as a component of selling, general and administrative expenses, of \$14,427,000 and \$40,953,000, respectively.

Restricted Stock Units

The following table summarizes our restricted stock unit activity during the thirty-nine weeks ended November 3, 2019:

	Shares
Balance at February 3, 2019	3,012,923
Granted	1,036,010
Granted, with vesting subject to performance conditions	238,786
Released ¹	(985,540)
Cancelled	(347,205)
Balance at November 3, 2019	2,954,974
Vested plus expected to vest at November 3, 2019	3,115,488

¹ Excludes 105,436 incremental shares released due to achievement of performance conditions above target.

NOTE D. EARNINGS PER SHARE

Basic earnings per share is computed as net earnings divided by the weighted average number of common shares outstanding for the period. Diluted earnings per share is computed as net earnings divided by the weighted average number of common shares outstanding and common stock equivalents outstanding for the period. Common stock equivalents consist of shares subject to stock-based awards with exercise prices less than or equal to the average market price of our common stock for the period, to the extent their inclusion would be dilutive.

The following is a reconciliation of net earnings and the number of shares used in the basic and diluted earnings per share computations:

<i>In thousands, except per share amounts</i>	Net Earnings	Weighted Average Shares	Earnings Per Share
Thirteen weeks ended November 3, 2019			
Basic	\$ 74,713	77,897	\$ 0.96
Effect of dilutive stock-based awards		1,294	
Diluted	\$ 74,713	79,191	\$ 0.94
Thirteen weeks ended October 28, 2018			
Basic	\$ 81,465	80,475	\$ 1.01
Effect of dilutive stock-based awards		1,166	
Diluted	\$ 81,465	81,641	\$ 1.00
Thirty-nine weeks ended November 3, 2019			
Basic	\$ 190,017	78,356	\$ 2.43
Effect of dilutive stock-based awards		1,109	
Diluted	\$ 190,017	79,465	\$ 2.39
Thirty-nine weeks ended October 28, 2018			
Basic	\$ 178,346	82,070	\$ 2.17
Effect of dilutive stock-based awards		881	
Diluted	\$ 178,346	82,951	\$ 2.15

Stock-based awards of 2,000 and 28,000 were excluded from the computation of diluted earnings per share for the thirteen and thirty-nine weeks ended November 3, 2019, respectively, as their inclusion would be anti-dilutive. Stock-based awards of 6,000 and 16,000 were excluded from the computation of diluted earnings per share for the thirteen and thirty-nine weeks ended October 28, 2018, respectively, as their inclusion would be anti-dilutive.

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NOTE E. SEGMENT REPORTING

We identify our operating segments according to how our business activities are managed and evaluated.

Prior to fiscal 2019, we managed e-commerce merchandise strategies, which included the results of Williams Sonoma, Pottery Barn, Pottery Barn Kids, West Elm, Pottery Barn Teen, Williams Sonoma Home, Rejuvenation and Mark and Graham, separately from our retail business. Because these merchandising strategies shared similar economic and other qualitative characteristics, they had been aggregated into the e-commerce reportable segment. Also, prior to fiscal 2019, we managed retail merchandise strategies, which included the results of our retail stores for Williams Sonoma, Pottery Barn, Pottery Barn Kids, West Elm and Rejuvenation, separately from our e-commerce business. Because these merchandising strategies shared similar economic and other qualitative characteristics, they had been aggregated into the retail reportable segment.

Beginning in fiscal 2019, due to the convergence of our e-commerce and retail businesses and to better align with how we manage our omni-channel business, we have combined the results of our e-commerce and retail merchandise strategies at the overall brand level. Each of our brands are operating segments. Because they share similar economic and other qualitative characteristics, we have aggregated our operating segments into a single reportable segment.

The following table summarizes our net revenues by brand for the thirteen and thirty-nine weeks ended November 3, 2019 and October 28, 2018. We have updated fiscal 2018 results to conform with the current year presentation.

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	November 3, 2019	October 28, 2018	November 3, 2019	October 28, 2018
<i>In thousands</i>				
Pottery Barn	\$ 556,985	\$ 533,469	\$ 1,573,958	\$ 1,530,300
West Elm	390,341	339,099	1,057,398	913,662
Williams Sonoma	205,493	203,936	591,761	600,092
Pottery Barn Kids and Teen	228,051	227,331	632,950	621,534
Other ¹	61,602	53,148	198,351	169,569
Total ²	\$ 1,442,472	\$ 1,356,983	\$ 4,054,418	\$ 3,835,157

¹ Primarily consists of net revenues from our international franchise operations, Rejuvenation and Mark and Graham.

² Includes net revenues related to our international operations (including our operations in Canada, Australia, the United Kingdom and our franchise businesses) of approximately \$86.2 million and \$79.0 million for the thirteen weeks ended November 3, 2019 and October 28, 2018, respectively, and approximately \$260.5 million and \$239.1 million for the thirty-nine weeks ended November 3, 2019 and October 28, 2018, respectively.

Long-lived assets by geographic location are as follows:

<i>In thousands</i>	November 3, 2019	October 28, 2018
U.S.	\$ 2,140,505	\$ 1,076,367
International	164,074	50,966
Total	\$ 2,304,579	\$ 1,127,333

NOTE F. COMMITMENTS AND CONTINGENCIES

We are involved in lawsuits, claims and proceedings incident to the ordinary course of our business. These disputes, which are not currently material, are increasing in number as our business expands and our company grows. We review the need for any loss contingency reserves and establish reserves when, in the opinion of management, it is probable that a matter would result in liability, and the amount of loss, if any, can be reasonably estimated. In view of the inherent difficulty of predicting the outcome of these matters, it may not be possible to determine whether any loss is probable or to reasonably estimate the amount of the loss until the case is close to resolution, in which case no reserve is established until that time. Any claims against us, whether meritorious or not, could result in costly litigation, require significant amounts of management time and result in the diversion of significant operational resources. The results of these lawsuits, claims and proceedings cannot be predicted with certainty. However, we believe that the ultimate resolution of these current matters will not have a material adverse effect on our Condensed Consolidated Financial Statements taken as a whole.

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NOTE G. STOCK REPURCHASE PROGRAM AND DIVIDENDS*Stock Repurchase Program*

During the thirteen weeks ended November 3, 2019, we repurchased 610,349 shares of our common stock at an average cost of \$66.49 per share for a total cost of approximately \$40,583,000. During the thirty-nine weeks ended November 3, 2019, we repurchased 1,838,971 shares of our common stock at an average cost of \$61.29 per share for a total cost of approximately \$112,714,000. As of November 3, 2019, there was \$611,101,000 remaining under our current stock repurchase program. As of November 3, 2019 and October 28, 2018, we held treasury stock of \$941,000 and \$205,000, respectively, that represents the cost of shares available for issuance that are intended to satisfy future stock-based award settlements in certain foreign jurisdictions.

During the thirteen weeks ended October 28, 2018, we repurchased 742,508 shares of our common stock at an average cost of \$61.15 per share for a total cost of approximately \$45,403,000. During the thirty-nine weeks ended October 28, 2018, we repurchased 3,883,875 shares of our common stock at an average cost of \$56.70 per share for a total cost of approximately \$220,221,000.

Stock repurchases under our program may be made through open market and privately negotiated transactions at times and in such amounts as management deems appropriate. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, capital availability and other market conditions.

Dividends

We declared cash dividends of \$0.48 and \$0.43 per common share during the thirteen weeks ended November 3, 2019 and October 28, 2018, respectively. We declared cash dividends of \$1.44 and \$1.29 per common share during the thirty-nine weeks ended November 3, 2019 and October 28, 2018, respectively. Our quarterly cash dividend may be limited or terminated at any time.

NOTE H. DERIVATIVE FINANCIAL INSTRUMENTS

We have businesses in Canada, Australia and the United Kingdom, and operations throughout Asia and Europe, which expose us to market risk associated with foreign currency exchange rate fluctuations. Substantially all of our purchases and sales are denominated in U.S. dollars, which limits our exposure to this risk. However, some of our foreign operations have a functional currency other than the U.S. dollar. To mitigate this risk, we hedge a portion of our foreign currency exposure with foreign currency forward contracts in accordance with our risk management policies. We do not enter into such contracts for speculative purposes. The assets or liabilities associated with these derivative financial instruments are measured at fair value and recorded in either other current or long-term assets or other current or long-term liabilities. As discussed below, the accounting for gains and losses resulting from changes in fair value depends on whether the derivative financial instrument is designated as a hedge and qualifies for hedge accounting in accordance with Accounting Standards Codification ("ASC") 815, *Derivatives and Hedging*.

Cash Flow Hedges

We enter into foreign currency forward contracts designated as cash flow hedges (to sell Canadian dollars and purchase U.S. dollars) for forecasted inventory purchases in U.S. dollars by our Canadian subsidiary. These hedges have terms of up to 18 months. All hedging relationships are formally documented, and the forward contracts are designed to mitigate foreign currency exchange risk on hedged transactions. We record the effective portion of changes in the fair value of our cash flow hedges in other comprehensive income ("OCI") until the earlier of when the hedged forecasted inventory purchase occurs or the respective contract reaches maturity. Subsequently, as the inventory is sold to the customer, we reclassify amounts previously recorded in OCI to cost of goods sold. Changes in the fair value of the forward contract related to interest charges (or forward points) are excluded from the assessment and measurement of hedge effectiveness and are recorded in cost of goods sold. Based on the rates in effect as of November 3, 2019, we expect to reclassify a net pre-tax gain of approximately \$37,000 from OCI to cost of goods sold over the next 12 months.

We also enter into non-designated foreign currency forward contracts (to sell Australian dollars and British pounds and purchase U.S. dollars) to reduce the exchange risk associated with our assets and liabilities denominated in a foreign currency. Any foreign exchange gains or losses related to these contracts are recognized in selling, general and administrative expenses.

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As of November 3, 2019 and October 28, 2018, we had foreign currency forward contracts outstanding (in U.S. dollars) with notional values as follows:

<i>In thousands</i>	November 3, 2019	October 28, 2018
Contracts designated as cash flow hedges	\$ 19,700	\$ 13,300
Contracts not designated as cash flow hedges	\$ —	\$ 5,200

Hedge effectiveness is evaluated prospectively at inception, on an ongoing basis, as well as retrospectively using regression analysis. Any measurable ineffectiveness of the hedge is recorded in selling, general and administrative expenses. No gain or loss was recognized for cash flow hedges due to hedge ineffectiveness and all hedges were deemed effective for assessment purposes for the thirteen and thirty-nine weeks ended November 3, 2019 and October 28, 2018.

The effect of derivative instruments in our Condensed Consolidated Financial Statements during the thirteen and thirty-nine weeks ended November 3, 2019 and October 28, 2018, pre-tax, was as follows:

	Thirteen Weeks Ended				Thirty-nine Weeks Ended			
	November 3, 2019		October 28, 2018		November 3, 2019		October 28, 2018	
	Cost of goods sold	Selling, general and administrative expenses	Cost of goods sold	Selling, general and administrative expenses	Cost of goods sold	Selling, general and administrative expenses	Cost of goods sold	Selling, general and administrative expenses
<i>In thousands</i>								
Line items presented in the Condensed Consolidated Statement of Earnings in which the effects of derivatives are recorded	\$ 924,300	\$ 416,281	\$ 861,999	\$ 400,600	\$ 2,608,054	\$ 1,184,176	\$ 2,444,067	\$ 1,155,990
Gain (loss) recognized in income								

Derivatives designated as cash flow hedges	\$	204	\$	—	\$	163	\$	16	\$	499	\$	—	\$	90	\$	49
Derivatives not designated as hedging instruments	\$	—	\$	6	\$	—	\$	105	\$	—	\$	24	\$	—	\$	4,048

The fair values of our derivative financial instruments are presented below according to their classification in our Condensed Consolidated Balance Sheets. All fair values were measured using Level 2 inputs as defined by the fair value hierarchy described in Note I.

<i>In thousands</i>	November 3, 2019		October 28, 2018	
Derivatives designated as cash flow hedges:				
Other current assets	\$	132	\$	504
Derivatives not designated as hedging instruments:				
Other current assets	\$	—	\$	118

We record all derivative assets and liabilities on a gross basis. They do not meet the balance sheet netting criteria as discussed in ASC 210, *Balance Sheet*, because we do not have master netting agreements established with our derivative counterparties that would allow for net settlement.

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NOTE I. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

We determine the fair value of financial and non-financial assets and liabilities using the fair value hierarchy established by ASC 820, *Fair Value Measurement*, which defines three levels of inputs that may be used to measure fair value, as follows:

- Level 1: inputs which include quoted prices in active markets for identical assets or liabilities;
- Level 2: inputs which include observable inputs other than Level 1 inputs, such as quoted prices in active markets for similar assets or liabilities; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability; and
- Level 3: inputs which include unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the underlying asset or liability.

The fair values of our cash and cash equivalents are based on Level 1 inputs, which include quoted prices in active markets for identical assets.

Long-term Debt

As of November 3, 2019, the fair value of our long-term debt approximates its carrying value and is based on observable Level 2 inputs, primarily market interest rates for instruments with similar maturities.

Foreign Currency Derivatives and Hedging Instruments

We use the income approach to value our derivatives using observable Level 2 market data at the measurement date and standard valuation techniques to convert future amounts to a single present value amount, assuming that participants are motivated but not compelled to transact. Level 2 inputs are limited to quoted prices that are observable for the assets and liabilities, which include interest rates and credit risk ratings. We use mid-market pricing as a practical expedient for fair value measurements. Key inputs for foreign currency derivatives are the spot rates, forward rates, interest rates and credit derivative market rates.

The counterparties associated with our foreign currency forward contracts are large credit-worthy financial institutions, and the derivatives transacted with these entities are relatively short in duration, therefore, we do not consider counterparty concentration and non-performance to be material risks at this time. Both we and our counterparties are expected to perform under the contractual terms of the instruments. None of the derivative contracts entered into are subject to credit risk-related contingent features or collateral requirements.

Long-lived Assets

We review the carrying value of all long-lived assets for impairment, primarily at an individual store level, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. We measure property and equipment at fair value on a nonrecurring basis using Level 3 inputs as defined in the fair value hierarchy. We measure right-of-use assets on a nonrecurring basis using Level 2 unobservable inputs that are corroborated by market data. Where Level 2 inputs are not readily available, we use Level 3 inputs. Fair value of these long-lived assets is based on the present value of estimated future cash flows using a discount rate commensurate with the risk.

There were no transfers between Level 1, 2 or 3 categories during the thirteen and thirty-nine weeks ended November 3, 2019 or October 28, 2018.

NOTE J. ACCUMULATED OTHER COMPREHENSIVE INCOME

Changes in accumulated other comprehensive income (loss) by component, net of tax, are as follows:

<i>In thousands</i>	Foreign Currency Translation	Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)
Balance at February 3, 2019	\$ (11,259)	\$ 186	\$ (11,073)
Foreign currency translation adjustments	(3,009)	—	(3,009)
Change in fair value of derivative financial instruments	—	204	204
Reclassification adjustment for realized (gain) loss on derivative financial instruments	—	(67)	(67)
Other comprehensive income (loss)	(3,009)	137	(2,872)
Balance at May 5, 2019	(14,268)	323	(13,945)
Foreign currency translation adjustments	(1,251)	—	(1,251)
Change in fair value of derivative financial instruments	—	(132)	(132)
Reclassification adjustment for realized (gain) loss on derivative financial instruments	—	(160)	(160)
Other comprehensive income (loss)	(1,251)	(292)	(1,543)
Balance at August 4, 2019	(15,519)	31	(15,488)
Foreign currency translation adjustments	1,783	—	1,783
Change in fair value of derivative financial instruments	—	5	5
Reclassification adjustment for realized (gain) loss on derivative financial instruments	—	(8)	(8)
Other comprehensive income (loss)	1,783	(3)	1,780
Balance at November 3, 2019	(13,736)	28	(13,708)
Balance at January 28, 2018	\$ (6,227)	\$ (555)	\$ (6,782)
Foreign currency translation adjustments	(1,145)	—	(1,145)
Change in fair value of derivative financial instruments	—	1,123	1,123
Reclassification adjustment for realized (gain) loss on derivative financial instruments	—	49	49
Other comprehensive income (loss)	(1,145)	1,172	27
Balance at April 29, 2018	(7,372)	617	(6,755)
Foreign currency translation adjustments	(2,993)	—	(2,993)
Change in fair value of derivative financial instruments	—	6	6
Other comprehensive income (loss)	(2,993)	6	(2,987)
Balance at July 29, 2018	(10,365)	623	(9,742)
Foreign currency translation adjustments	(1,830)	—	(1,830)
Change in fair value of derivative financial instruments	—	(65)	(65)
Reclassification adjustment for realized (gain) loss on derivative financial instruments	—	(120)	(120)
Other comprehensive income (loss)	(1,830)	(185)	(2,015)
Balance at October 28, 2018	\$ (12,195)	\$ 438	\$ (11,757)

NOTE K. ACQUISITION OF OUTWARD, INC.

On December 1, 2017, we acquired Outward, Inc., a 3-D imaging and augmented reality platform for the home furnishings and décor industry. Outward's technology enables applications in product visualization, digital room design and augmented and virtual reality. Of the \$112,000,000 contractual purchase price, approximately \$80,812,000 was deemed to be purchase consideration, \$26,690,000 is payable to former stockholders of Outward over a period of four years from the acquisition date, contingent upon their continued service during that time, and \$4,498,000 primarily represents settlement of pre-existing obligations of Outward with third parties on the acquisition date. Certain key employees of Outward may also collectively earn up to an additional \$20,000,000, contingent upon achievement of certain financial performance targets, and subject to their continued service over the performance period. Both of these contingent amounts will be recognized as post-combination compensation expense as they are earned.

The purchase consideration has been allocated based on estimates of the fair value of identifiable assets acquired and liabilities assumed, as set forth in the table below.

Working capital and other assets	\$ 718,000
Property and equipment, net	2,049,000
Intangible assets	18,300,000
Liabilities	(6,886,000)
Total identifiable net assets acquired	\$14,181,000
Goodwill	66,631,000
Total purchase consideration	\$80,812,000

Intangible assets acquired primarily represent 3-D imaging data and core intellectual property, which are being amortized over a useful life of four years. Goodwill is primarily attributable to expected synergies as a result of the acquisition, which include the leverage of acquired technology and talent to drive improved conversion, cost savings and operating efficiencies. None of the goodwill will be deductible for income tax purposes.

Outward, Inc. is a wholly-owned subsidiary of Williams-Sonoma, Inc. Results of operations for Outward have been included in our Condensed Consolidated Financial Statements from the acquisition date.

NOTE L. REVENUE

The majority of our revenues are generated from sales of merchandise to our customers through our e-commerce websites, our direct mail catalogs, or at our retail stores and include shipping fees received from customers for delivery of merchandise to their homes. The remainder of our revenues are primarily generated from sales to our franchisees and other wholesale transactions, breakage income related to stored-value cards, and incentives received from credit card issuers in connection with our private label and co-branded credit cards.

We recognize revenue as control of promised goods or services are transferred to our customers. We record a liability at each period end where we have an obligation to transfer goods or services for which we have received consideration or have a right to consideration. We exclude from revenue any taxes assessed by governmental authorities, including value-added and other sales-related taxes, that are imposed on and are concurrent with revenue-generating activities. Our payment terms are primarily at the point of sale for merchandise sales and for most services.

See Note E for a discussion of our net revenues by operating segment.

Merchandise Sales

Revenues from the sale of our merchandise through our e-commerce websites, at our retail stores, as well as to our franchisees and wholesale customers are, in each case, recognized at a point in time when control of merchandise is transferred to the customer. Merchandise can either be picked up in our stores or delivered to the customer. For merchandise picked up in the store, control is transferred at the time of the sale to the end customer. For merchandise delivered to the customer, control is transferred when either delivery has been completed, or we have a present right to payment which, for certain merchandise, occurs upon conveyance of the merchandise to the carrier for delivery. We have elected to account for shipping and handling as fulfillment activities, and not as a separate performance obligation.

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Revenue from the sale of merchandise is reported net of sales returns. We estimate future returns based on historical return trends together with current product sales performance. As of November 3, 2019 and October 28, 2018, we recorded a liability for expected sales returns of approximately \$23,447,000 and \$25,555,000 within other current liabilities and a corresponding asset for the expected net realizable value of the merchandise inventory to be returned of approximately \$9,221,000 and \$9,567,000 within other current assets in our Condensed Consolidated Balance Sheet.

Stored-value Cards

We issue stored-value cards that may be redeemed on future merchandise purchases. Our stored-value cards have no expiration dates. Revenue from stored-value cards is recognized at a point in time upon redemption of the card and as control of the merchandise is transferred to the customer. Revenue from estimated unredeemed stored-value cards ("breakage") is recognized in a manner consistent with our historical redemption patterns over the estimated period of redemption of our cards of approximately four years, the majority of which is recognized within one year of the card issuance. Breakage revenue is not material to our Condensed Consolidated Financial Statements.

Credit Card Incentives

We enter into agreements with credit card issuers in connection with our private label and co-branded credit cards whereby we receive cash incentives in exchange for promised services, such as licensing our brand names and marketing the credit card program to end customers. Services promised under these agreements are interrelated and are thus considered a single performance obligation. Revenue is recognized over time as we transfer promised services throughout the contract term.

Customer Loyalty Programs

We have customer loyalty programs which allow members to earn points for each qualifying purchase. Points earned enable members to receive certificates that may be redeemed on future merchandise purchases. This customer option is a material right and, accordingly, represents a separate performance obligation to the customer. The allocated consideration for the points earned by our loyalty program members is deferred based on the standalone selling price of the points and recorded within gift card and other deferred revenue within our Condensed Consolidated Balance Sheet. The measurement of standalone selling prices takes into consideration the discount the customer would receive in a separate transaction for the delivered item, as well as our estimate of certificates expected to be redeemed, based on historical redemption patterns. This measurement is applied to our portfolio of performance obligations for points earned, as all obligations have similar economic characteristics. We believe the impact to our Condensed Consolidated Financial Statements would not be materially different if this measurement was applied to each individual performance obligation. Revenue is recognized for these performance obligations at a point in time when certificates are redeemed by the customer. These obligations relate to contracts with terms of less than one year, as our certificates generally expire within 6 months from issuance.

Deferred Revenue

We defer revenue when cash payments are received in advance of satisfying performance obligations, primarily associated with our stored-value cards, merchandise sales, and incentives received from credit card issuers. As of November 3, 2019, we held approximately \$300,354,000 in gift card and other deferred revenue on our Condensed Consolidated Balance Sheet, substantially all of which will be recognized as revenue within the next 12 months.

NOTE M. LEASES

We lease store locations, distribution and manufacturing facilities, corporate facilities, customer care centers and certain equipment for our U.S. and foreign operations with initial terms generally ranging from 2 to 22 years. We determine whether an arrangement is or contains a lease at inception by evaluating whether an identified asset exists that we control over the term of the arrangement. Lease commencement is determined to be when the lessor provides us access to, and the right to control, the identified asset.

The rental payments for our store leases are typically structured as either: minimum rent; minimum rate with stated increases or increases based on a future index; rent based on a percentage of store sales; or rent based on a percentage of store sales if a specified store sales threshold or contractual obligation of the landlord has not been met. We consider lease payments that cannot be predicted with reasonable certainty upon lease commencement to be variable lease payments, which are recorded as incurred each period and are excluded from our calculation of lease liabilities. Our variable lease payments include: rent payments that are based on a percentage of sales; contingent payments until the resolution of the contingency is reasonably certain; and rent increases based on a future index.

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Upon lease commencement, we recognize the lease liability measured at the present value of the fixed future minimum lease payments. We have elected the practical expedient to not separate lease and non-lease components. Therefore, lease payments included in the measurement of the lease liability include all fixed payments in the lease arrangement. We record a right-of-use asset for an amount equal to the lease liability, increased for any prepaid lease costs and initial direct costs and reduced by any lease incentives. We remeasure the lease liability and right-of-use asset when a change to our future minimum lease payments occurs. Key assumptions and judgments included in the determination of the lease liability include the discount rate applied to determine the present value of the future lease payments, and whether we are reasonably certain to exercise lease renewal and termination options.

Many of our leases contain renewal options and early termination options. The option periods are generally not included in the lease term used to measure our lease liabilities and right-of-use assets upon commencement as exercise of the options is not reasonably certain. We remeasure the lease liability and right-of-use asset when we are reasonably certain to exercise a renewal or early termination option.

Discount Rate

Our leases do not provide information about the rate implicit in the lease. Therefore, we utilized an incremental borrowing rate to calculate the present value of our future lease obligations. The incremental borrowing rate represents the rate of interest we would have to pay on a collateralized borrowing, for an amount equal to the lease payments, over a similar term and in a similar economic environment.

The components of lease costs for the thirteen and thirty-nine weeks ended November 3, 2019 are as follows:

<i>In thousands</i>	Thirteen weeks ended November 3, 2019	Thirty-nine weeks ended November 3, 2019
Operating lease costs	\$ 68,909	\$ 200,020
Variable lease costs	5,816	15,579
Total lease costs	\$ 74,725	\$ 215,599

Sublease income and short-term lease costs were not material to us for the thirteen and thirty-nine weeks ended November 3, 2019.

Supplemental cash flow information related to our leases for the thirteen and thirty-nine weeks ended November 3, 2019 is as follows:

<i>In thousands</i>	Thirteen weeks ended November 3, 2019	Thirty-nine weeks ended November 3, 2019
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 71,136	\$ 212,530
Net additions to right-of-use assets	38,311	120,704

As of November 3, 2019, additional information related to our leases is as follows:

Weighted average remaining lease term (years)	7.43
Weighted average incremental borrowing rate	3.72%

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As of November 3, 2019, the future minimum lease payments under our operating lease liabilities are as follows:

<i>In thousands</i>	
Remaining fiscal 2019	\$ 66,826

Fiscal 2020	273,977
Fiscal 2021	240,772
Fiscal 2022	207,974
Fiscal 2023	174,827
Fiscal 2024	151,029
Fiscal 2025 and thereafter	453,319
Total lease payments	1,568,724
Less interest	(215,791)
Total operating lease liabilities	1,352,933
Less current operating lease liabilities	(225,530)
Total non-current operating lease liabilities	\$1,127,403

As previously disclosed in our 2018 Annual Report on Form 10-K and under the previous lease accounting standard, future minimum lease payments under non-cancellable operating leases as of February 3, 2019 were as follows:

In thousands

Fiscal 2019	\$ 292,387
Fiscal 2020	262,429
Fiscal 2021	225,755
Fiscal 2022	190,263
Fiscal 2023	160,308
Thereafter	559,802
Total	\$1,690,944

Memphis-Based Distribution Facility

In fiscal 2015, we entered into an agreement with a partnership comprised of the estate of W. Howard Lester, our former Chairman of the Board and Chief Executive Officer, and the estate of James A. McMahan, a former Director Emeritus and significant stockholder and two unrelated parties to lease a distribution facility in Memphis, Tennessee through July 2017. In fiscal 2017, we amended the lease to further extend the term through July 2020. The amended lease provides for two additional one-year renewal options. Rental payments under this agreement including applicable taxes, insurance and maintenance expenses were not material to us for the thirteen or thirty-nine weeks ended November 3, 2019 or October 28, 2018.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they do not fully materialize or are proven incorrect, could cause our business and results of operations to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements include statements related to: our strategic initiatives; our merchandise strategies; our growth strategies for our brands; our beliefs regarding the resolution of current lawsuits, claims and proceedings; our stock repurchase program; our expectations regarding our cash flow hedges and foreign currency risks; our planned use of cash; our future compliance with the financial covenants contained in our credit facilities; our belief that our cash on-hand, in addition to our available credit facilities, will provide adequate liquidity for our business operations over the next 12 months; our beliefs regarding our exposure to foreign currency exchange rate fluctuations and tariffs and related mitigation efforts; and our beliefs regarding seasonal patterns associated with our business, as well as statements of belief and statements of assumptions underlying any of the foregoing. You can identify these and other forward-looking statements by the use of words such as “may,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “intends,” “potential,” “continue,” or the negative of such terms, or other comparable terminology. The risks, uncertainties and assumptions referred to above that could cause our results to differ materially from the results expressed or implied by such forward-looking statements include, but are not limited to, those discussed under the heading “Risk Factors” in this document and our Annual Report on Form 10-K for the year ended February 3, 2019, and the risks, uncertainties and assumptions discussed from time to time in our other public filings and public announcements. All forward-looking statements included in this document are based on information available to us as of the date hereof, and we assume no obligation to update these forward-looking statements.

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OVERVIEW

Williams-Sonoma, Inc. is a specialty retailer of high-quality products for the home. These products, representing distinct merchandise strategies – Williams Sonoma, Pottery Barn, Pottery Barn Kids, West Elm, Pottery Barn Teen, Williams Sonoma Home, Rejuvenation, and Mark and Graham – are marketed through e-commerce websites, direct-mail catalogs and 626 stores. These brands are also part of The Key Rewards, our free-to-join loyalty program that offers members exclusive benefits across the Williams-Sonoma family of brands. We operate in the U.S., Puerto Rico, Canada, Australia and the United Kingdom, offer international shipping to customers worldwide, and have unaffiliated franchisees that operate stores in the Middle East, the Philippines, Mexico and South Korea, as well as e-commerce websites in certain locations. In December 2017, we acquired Outward, Inc., a 3-D imaging and augmented reality platform for the home furnishings and décor industry.

The following discussion and analysis of financial condition, results of operations, and liquidity and capital resources for the thirteen weeks ended November 3, 2019 (“third quarter of fiscal 2019”), as compared to the thirteen weeks ended October 28, 2018 (“third quarter of fiscal 2018”) and the thirty-

nine weeks ended November 3, 2019 (“year-to-date fiscal 2019”), as compared to the thirty-nine weeks ended October 28, 2018 (“year-to-date fiscal 2018”), should be read in conjunction with our Condensed Consolidated Financial Statements and the notes thereto. All explanations of changes in operational results are discussed in order of magnitude.

Third Quarter of Fiscal 2019 Financial Results

Net revenues in the third quarter of fiscal 2019 increased by \$85,489,000, or 6.3%, compared to the third quarter of fiscal 2018, with comparable brand revenue growth of 5.5%. This growth was primarily driven by West Elm and Pottery Barn. Net revenue growth included a 9.2% increase in international revenue across both our company-owned and franchise operations.

West Elm’s results this quarter were driven by strong growth strategies and effective execution. Comparable revenue growth accelerated to 14.1% this quarter with strength across all product categories and channels. The Pottery Barn brands also maintained their strong momentum from last quarter. In Pottery Barn, comparable revenue growth was 3.4% driven by our initiatives, including our curated Pottery Barn Marketplace assortment and our Apartment assortment of smaller space solutions. Their performance was also driven by strong digital growth including double-digit increases in traffic and product engagement. In Pottery Barn Kids and Teen, comparable revenue growth was 4.0%. We continue to see strong growth in both our baby business and our high quality dorm room bedding, furniture and no-nails decoration solutions. In the Williams Sonoma brand, the 2.1% comparable revenue decline was primarily driven by sales shortfalls in electrics, bakeware, housewares and our Halloween assortments. Despite this, we were encouraged that execution against our transformation plan has shown improved profitability, and our Williams Sonoma branded products continued to gain momentum. Our emerging brands, Rejuvenation and Mark & Graham, drove another quarter of strong, profitable growth as they continue to scale and attract new customers.

Gross profit in the third quarter of fiscal 2019 decreased to 35.9% of revenues versus 36.5% in the third quarter of fiscal 2018, primarily driven by the incremental impact from the China tariffs, as well as increased shipping costs due to a higher mix of furniture sales. Despite the tariff impact almost doubling from the second quarter of fiscal 2019, our margins sequentially improved because of the continued success we are seeing from all of our mitigation efforts.

We have been executing against an aggressive tariff mitigation plan which includes cost reductions from vendors, moving production out of China to South East Asia and to the United States, cost savings in other areas of the business, as well as select price increases. These efforts combined with our higher product margins, on-going occupancy leverage, overall selling, general and administrative leverage from higher sales and the continued benefits of our cost savings initiatives across the business, offset the financial impact from these increased costs.

In the third quarter of fiscal 2019, diluted earnings per share was \$0.94 (which included a \$0.07 impact from acquisition-related compensation expense, amortization of intangible assets, and the operations of Outward, Inc.) versus \$1.00 in the third quarter of fiscal 2018 (which included a \$0.06 impact related to Outward, Inc., a \$0.02 impact from employment-related expenses, a \$0.01 impact related to impairment and early lease termination charges, and a \$0.13 net tax benefit from the Tax Cuts and Jobs Act). We also returned \$78,289,000 to our stockholders through dividends and stock repurchases.

Operationally during the third quarter of fiscal 2019, we also made progress across our strategic initiatives of driving growth through cross-brand initiatives and improving the customer experience through technology innovation and operational improvements.

A key driver of our growth this quarter was the focus on our portfolio of brands. The Key Rewards continues to be an impactful driver of revenues and customer acquisition as total membership continued to grow during the quarter. Our cross-brand Business-to-Business division also delivered another strong quarter of revenue growth and marked the successful relaunch of our business-to-business membership program.

Also, during the quarter, we made substantial progress on our ongoing efforts to improve the customer experience. In technology innovation, we have improved our product information page, site speed, enhanced the search experience, and added new capabilities to display lifestyle room imagery and product information, as well as add-to-cart functionality in our shoppable rooms. In our supply

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chain this quarter, technology is facilitating faster and more streamlined order processing through a number of enhancements and, to further improve order visibility, we are continually building on our framework to provide more accurate, data-driven delivery estimates to customers. Further, within our in-home furniture delivery network, we’ve expanded the rollout of a same day delivery order tracking program. Additionally, our West Elm West Coast distribution center in Fontana, California is now fully operational, facilitating growth for our West Elm brand on the West Coast.

We believe that our continued focus on evolution and innovation is reflected in our business results. Our value proposition of high quality, design-led, sustainable products combined with our multi-brand, digital-first operating model is a strong combination.

NET REVENUES

Net revenues primarily consist of sales of merchandise to our customers through our e-commerce websites, direct mail catalogs, and at our retail stores and include shipping fees received from customers for delivery of merchandise to their homes. Our revenues also include sales to our franchisees and wholesale customers, breakage income related to our stored-value cards, and incentives received from credit card issuers in connection with our private label and co-branded credit cards.

Net revenues in the third quarter of fiscal 2019 increased by \$85,489,000, or 6.3%, compared to the third quarter of fiscal 2018, with comparable brand revenue growth of 5.5%. This growth was primarily driven by West Elm and Pottery Barn. Net revenue growth included a 9.2% increase in international revenue across both our company-owned and franchise operations.

Net revenues for year-to-date fiscal 2019 increased by \$219,261,000, or 5.7%, compared to year-to-date fiscal 2018, with comparable brand revenue growth

of 5.2%. This growth was primarily driven by West Elm and Pottery Barn. Net revenue growth included a 8.9% increase in international revenue across both our company-owned and franchise operations.

Comparable Brand Revenue

Comparable brand revenue includes comparable store sales and e-commerce sales, including through our direct mail catalogs, as well as shipping fees, sales returns and other discounts associated with current period sales. Comparable stores are defined as permanent stores where gross square footage did not change by more than 20% in the previous 12 months and which have been open for at least 12 consecutive months without closure for seven or more consecutive days. Outlet comparable store net revenues are included in their respective brands. Sales to our international franchisees are excluded from comparable brand revenue as their stores and e-commerce websites are not operated by us. Sales from certain operations are also excluded until such time that we believe those sales are meaningful to evaluating their performance. Additionally, comparable brand revenue growth for newer concepts is not separately disclosed until such time that we believe those sales are meaningful to evaluating the performance of the brand.

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	November 3, 2019	October 28, 2018	November 3, 2019	October 28, 2018
<i>Comparable brand revenue growth (decline)</i>				
Pottery Barn	3.4%	1.4%	3.1%	2.0%
West Elm	14.1%	8.3%	14.5%	8.9%
Williams Sonoma	(2.1%)	2.1%	(1.6%)	3.1%
Pottery Barn Kids and Teen	4.0%	0.0%	3.1%	3.4%
Total ¹	5.5%	3.1%	5.2%	4.4%

¹ Total comparable brand revenue growth includes the results of Rejuvenation and Mark and Graham.

STORE DATA

	Store Count					Average Leased Square Footage Per Store	
	August 4, 2019	Openings	Closings	November 3, 2019	October 28, 2018	November 3, 2019	October 28, 2018
Williams Sonoma	218	—	—	218	226	6,900	6,800
Pottery Barn	205	—	—	205	205	14,400	13,900
West Elm	112	2	—	114	112	13,100	13,200
Pottery Barn Kids	78	1	—	79	82	7,500	7,500
Rejuvenation	10	—	—	10	8	8,500	8,800
Total	623	3	—	626	633	10,600	10,300
Store selling square footage at period-end						4,154,000	4,084,000
Store leased square footage at period-end						6,622,000	6,551,000

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COST OF GOODS SOLD

	Thirteen Weeks Ended				Thirty-nine Weeks Ended			
	November 3, 2019	% Net Revenues	October 28, 2018	% Net Revenues	November 3, 2019	% Net Revenues	October 28, 2018	% Net Revenues
<i>In thousands</i>								
Cost of goods sold ¹	\$ 924,300	64.1%	\$ 861,999	63.5%	\$ 2,608,054	64.3%	\$ 2,444,067	63.7%

¹ Includes total occupancy expenses of \$179,237,000 and \$177,261,000 for the third quarter of fiscal 2019 and the third quarter of fiscal 2018, respectively, and \$529,905,000 and \$521,544,000 for year-to-date fiscal 2019 and year-to-date fiscal 2018, respectively.

Cost of goods sold includes cost of goods, occupancy expenses and shipping costs. Cost of goods consists of cost of merchandise, inbound freight expenses, freight-to-store expenses and other inventory related costs such as shrinkage, damages and replacements. Occupancy expenses consist of rent, depreciation and other occupancy costs, including common area maintenance, property taxes and utilities. Shipping costs consist of third-party delivery services and shipping materials.

Our classification of expenses in cost of goods sold may not be comparable to other public companies, as we do not include non-occupancy related costs associated with our distribution network in cost of goods sold. These costs, which include distribution network employment, third-party warehouse management and other distribution related administrative expenses, are recorded in selling, general and administrative expenses.

Third Quarter of Fiscal 2019 vs. Third Quarter of Fiscal 2018

Cost of goods sold increased by \$62,301,000, or 7.2%, in the third quarter of fiscal 2019 compared to the third quarter of fiscal 2018. Cost of goods sold as a percentage of net revenues increased to 64.1% in the third quarter of fiscal 2019 from 63.5% in the third quarter of fiscal 2018. This increase was primarily driven by the incremental impact from the China tariffs, as well as increased shipping costs due to a higher mix of furniture sales, partially offset by the leverage of occupancy costs.

Year-to-Date Fiscal 2019 vs. Year-to-Date Fiscal 2018

Cost of goods sold increased by \$163,987,000, or 6.7%, for year-to-date fiscal 2019 compared to year-to-date fiscal 2018. Cost of goods sold as a

percentage of net revenues increased to 64.3% for year-to-date fiscal 2019 from 63.7% for year-to-date fiscal 2018. This increase was primarily driven by the incremental impact from the China tariffs as well as increased shipping costs due to a larger mix of furniture sales, partially offset by the leverage of occupancy costs.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Thirteen Weeks Ended				Thirty-nine Weeks Ended			
	November 3, 2019	% Net Revenues	October 28, 2018	% Net Revenues	November 3, 2019	% Net Revenues	October 28, 2018	% Net Revenues
<i>In thousands</i>								
Selling, general and administrative expenses	\$ 416,281	28.9%	\$ 400,600	29.5%	\$ 1,184,176	29.2%	\$ 1,155,990	30.1%

Selling, general and administrative expenses consist of non-occupancy related costs associated with our retail stores, distribution and manufacturing facilities, customer care centers, supply chain operations (buying, receiving and inspection) and corporate administrative functions. These costs include employment, advertising, third party credit card processing and other general expenses.

Third Quarter of Fiscal 2019 vs. Third Quarter of Fiscal 2018

Selling, general and administrative expenses increased by \$15,681,000, or 3.9%, in the third quarter of fiscal 2019 compared to the third quarter of fiscal 2018. Selling, general and administrative expenses as a percentage of net revenues decreased to 28.9% in the third quarter of fiscal 2019 from 29.5% in the third quarter of fiscal 2018. This decrease as a percentage of net revenues was driven by the leverage of employment and advertising costs from higher sales and the continued benefits of our cost savings initiatives across the business, as well as our overall expense discipline.

Year-to-Date Fiscal 2019 vs. Year-to-Date Fiscal 2018

Selling, general and administrative expenses increased by \$28,186,000, or 2.4%, for year-to-date fiscal 2019 compared to year-to-date fiscal 2018. Selling, general and administrative expenses as a percentage of net revenues decreased to 29.2% for year-to-date fiscal 2019 from 30.1% for year-to-date fiscal 2018. This decrease as a percentage of net revenues was driven by the leverage of employment and advertising costs from higher sales and the continued benefits of our cost savings initiatives across the business, as well as our overall expense discipline.

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INCOME TAXES

The effective tax rate was 25.4% for year-to-date fiscal 2019, and 22.5% for year-to-date fiscal 2018. Staff Accounting Bulletin No. 118 (“SAB 118”) issued by the Securities and Exchange Commission in December 2017 provided us with up to one year to finalize our measurement of the income tax effects of the 2017 Tax Cuts and Jobs Act on our fiscal year ended January 28, 2018. The lower effective tax rate in fiscal 2018 was primarily due to SAB 118 adjustments from the re-measurement of our deferred tax assets recorded in the third quarter of 2018.

LIQUIDITY AND CAPITAL RESOURCES

As of November 3, 2019, we held \$155,025,000 in cash and cash equivalents, the majority of which was held in interest bearing demand deposit accounts and money market funds, and of which \$130,194,000 was held by our international subsidiaries. As is consistent within our industry, our cash balances are seasonal in nature, with the fourth quarter historically representing a significantly higher level of cash than other periods.

In fiscal 2019, we plan to use our cash resources to fund our inventory and inventory related purchases, advertising and marketing initiatives, property and equipment purchases, stock repurchases and dividend payments. In addition to our cash balances on hand, we have a \$500,000,000 unsecured revolving line of credit (“the revolver”) and a \$300,000,000 unsecured term loan facility (“the term loan”). The revolver may be used to borrow revolving loans or request the issuance of letters of credit. We may, upon notice to the administrative agent, request existing or new lenders to increase the revolver by up to \$250,000,000, at such lenders’ option, to provide for a total of \$750,000,000 of unsecured revolving credit. For year-to-date fiscal 2019, we had borrowings of \$100,000,000 under the revolver, all of which was outstanding as of November 3, 2019. For year-to-date fiscal 2018, we had borrowings of \$60,000,000 under the revolver, all of which was outstanding as of October 28, 2018. As of November 3, 2019, we had \$300,000,000 outstanding under our term loan. The term loan matures on January 8, 2021, at which point all outstanding principal and any accrued interest must be repaid. Additionally, as of November 3, 2019, a total of \$12,402,000 in issued but undrawn standby letters of credit was outstanding under the credit facility. The standby letters of credit were issued to secure the liabilities associated with workers’ compensation and other insurance programs.

As of November 3, 2019, we had three unsecured letter of credit reimbursement facilities for a total of \$70,000,000, of which \$8,221,000 was outstanding. These letter of credit facilities represent only a future commitment to fund inventory purchases to which we have not taken legal title.

We are currently in compliance with all of our financial covenants under the credit facility and, based on our current projections, we expect to remain in compliance throughout the next 12 months. We believe our cash on hand, in addition to our available credit facilities, will provide adequate liquidity for our business operations over the next 12 months.

Cash Flows from Operating Activities

For year-to-date fiscal 2019, net cash provided by operating activities was \$89,950,000 compared to \$179,501,000 for year-to-date fiscal 2018. For year-to-date fiscal 2019, net cash provided by operating activities was primarily attributable to net earnings adjusted for non-cash items, partially offset by an increase in merchandise inventories and a decrease in accounts payable. The decrease in net cash provided by operating activities for year-to-date fiscal 2019 compared to year-to-date fiscal 2018 was primarily due to a year-over-year reduction in accounts payable due to the timing of payments.

Cash Flows from Investing Activities

For year-to-date fiscal 2019, net cash used in investing activities was \$120,684,000 compared to \$126,522,000 for year-to-date fiscal 2018, and was primarily attributable to purchases of property and equipment.

Cash Flows from Financing Activities

For year-to-date fiscal 2019, net cash used in financing activities was \$152,496,000 compared to \$279,781,000 for year-to-date fiscal 2018. For year-to-date fiscal 2019, net cash used in financing activities was attributable to the payment of dividends, repurchases of common stock and tax withholdings related to stock-based awards, partially offset by borrowings under our revolver. The decrease in cash used in financing activities for year-to-date fiscal 2019 compared to year-to-date fiscal 2018 was primarily attributable to a decrease in repurchases of common stock, as well as an increase in borrowings under our revolver.

Stock Repurchase Program and Dividends

See Note G to our Condensed Consolidated Financial Statements, *Stock Repurchase Program and Dividends*, within Item 1 of this Quarterly Report on Form 10-Q for further information.

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Critical Accounting Policies

Management's Discussion and Analysis of Financial Condition and Results of Operations is based on our Condensed Consolidated Financial Statements, which have been prepared in accordance with U.S. GAAP. The preparation of these Condensed Consolidated Financial Statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. These estimates and assumptions are evaluated on an ongoing basis and are based on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ significantly from these estimates. During the third quarter of fiscal 2019, other than those discussed in Notes H, I and M to our Condensed Consolidated Financial Statements, there have been no significant changes to the critical accounting policies discussed in our Annual Report on Form 10-K for the year ended February 3, 2019.

Seasonality

Our business is subject to substantial seasonal variations in demand. Historically, a significant portion of our revenues and net earnings have been realized during the period from October through January, and levels of net revenues and net earnings have typically been lower during the period from February through September. We believe this is the general pattern associated with the retail industry. In preparation for and during our holiday selling season, we hire a substantial number of additional temporary employees, primarily in our retail stores, customer care centers and distribution facilities, and incur significant fixed catalog production and mailing costs.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks, which include significant deterioration of the U.S. and foreign markets, changes in U.S. interest rates, foreign currency exchange rate fluctuations, and the effects of economic uncertainty which may affect the prices we pay our vendors in the foreign countries in which we do business. We do not engage in financial transactions for trading or speculative purposes.

Interest Rate Risk

Our revolver and our term loan each have a variable interest rate which, when drawn upon, subjects us to risks associated with changes in that interest rate. During year-to-date fiscal 2019, we had borrowings of \$100,000,000 under the revolver, all of which was outstanding as of November 3, 2019. A hypothetical increase or decrease of one percentage point on our existing variable rate debt instruments would not materially affect our results of operations or cash flows.

In addition, we have fixed and variable income investments consisting of short-term investments classified as cash and cash equivalents, which are also affected by changes in market interest rates. As of November 3, 2019, our investments, made primarily in interest bearing demand deposit accounts and money market funds, are stated at cost and approximate their fair values.

Foreign Currency Risks

We purchase a significant amount of inventory from vendors outside of the U.S. in transactions that are denominated in U.S. dollars. Approximately 1% of our international purchase transactions are in currencies other than the U.S. dollar, primarily the euro. Any foreign currency impact related to these international purchase transactions was not significant to us during the third quarter of fiscal 2019 or the third quarter of fiscal 2018. Since we pay for the majority of our international purchases in U.S. dollars, however, a decline in the U.S. dollar relative to other foreign currencies could subject us to the risks associated with increased purchasing costs from our vendors in their effort to offset any lost profits associated with any currency devaluation. We cannot predict with certainty the effect these increased costs may have on our financial statements or results of operations.

In addition, our businesses in Canada, Australia and the United Kingdom, and our operations throughout Asia and Europe, expose us to market risk associated with foreign currency exchange rate fluctuations. Substantially all of our purchases and sales are denominated in U.S. dollars, which limits our exposure to this risk. However, some of our foreign operations have a functional currency other than the U.S. dollar. While the impact of foreign currency exchange rate fluctuations was not material to us in the third quarter or year-to-date fiscal 2019 or the third quarter or year-to-date fiscal 2018, we have continued to see volatility in the exchange rates in the countries in which we do business. As we continue to expand globally, the foreign currency exchange risk related to our foreign operations may increase. To mitigate this risk, we hedge a portion of our foreign currency exposure with foreign currency forward

contracts in accordance with our risk management policies (see Note H to our Condensed Consolidated Financial Statements).

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of November 3, 2019, an evaluation was performed by management, with the participation of our Chief Executive Officer (“CEO”) and our Chief Financial Officer (“CFO”), of the effectiveness of our disclosure controls and procedures. Based on that evaluation, our management, including our CEO and CFO, concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and

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communicated to our management, including our CEO and CFO, as appropriate, to allow for timely discussions regarding required disclosures, and that such information is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information required by this Item is contained in Note F to our Condensed Consolidated Financial Statements within Part I of this Form 10-Q.

ITEM 1A. RISK FACTORS

See Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended February 3, 2019 for a description of the risks and uncertainties associated with our business. There were no material changes to such risk factors in the current quarterly reporting period.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides information as of November 3, 2019 with respect to shares of common stock we repurchased during the third quarter of fiscal 2019 under our stock repurchase program. For additional information, please see Note G to our Condensed Consolidated Financial Statements within Part I of this Form 10-Q.

Fiscal period	Total Number of Shares Purchased ¹	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program ¹	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Program
August 5, 2019 – September 1, 2019	193,942	\$ 65.14	193,942	\$ 639,050,000
September 2, 2019 – September 29, 2019	186,285	\$ 66.37	186,285	\$ 626,687,000
September 30, 2019 – November 3, 2019	230,122	\$ 67.73	230,122	\$ 611,101,000
Total	610,349	\$ 66.49	610,349	\$ 611,101,000

¹ Excludes shares withheld for employee taxes upon vesting of stock-based awards.

Stock repurchases under our program may be made through open market and privately negotiated transactions at times and in such amounts as management deems appropriate. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, capital availability and other market conditions. The stock repurchase program does not have an expiration date and may be limited or terminated at any time without prior notice.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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(a) Exhibits

Exhibit Number	Exhibit Description
10.1*	Sixth Amendment to Reimbursement Agreement between Williams-Sonoma, Inc., Williams-Sonoma Singapore Pte. Ltd., and Bank of America, N.A., dated as of August 23, 2019
10.2*	Sixth Amendment to Reimbursement Agreement between Williams-Sonoma, Inc., Williams-Sonoma Singapore Pte. Ltd., and Wells Fargo Bank, N.A., dated as of August 23, 2019
10.3*	Sixth Amendment to Reimbursement Agreement between Williams-Sonoma, Inc., Williams-Sonoma Singapore Pte. Ltd., and U.S. Bank National Association, dated as of August 23, 2019
31.1*	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
31.2*	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
32.1*	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101*	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended November 3, 2019, formatted in Inline XBRL: (i) Condensed Consolidated Statements of Earnings, (ii) Condensed Consolidated Statements of Comprehensive Income, (iii) Condensed Consolidated Balance Sheets, (iv) Condensed Consolidated Statements of Stockholders' Equity, (v) Condensed Consolidated Statements of Cash Flows and (vi) Notes to Condensed Consolidated Financial Statements, tagged as blocks of text and including detailed tags
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in the Interactive Data Files submitted under Exhibit 101).
*	Filed herewith.

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Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WILLIAMS-SONOMA, INC.

By: /s/ Julie Whalen

Julie Whalen

Duly Authorized Officer and Chief Financial Officer

Date: December 12, 2019

SIXTH AMENDMENT TO REIMBURSEMENT AGREEMENT

THIS SIXTH AMENDMENT TO REIMBURSEMENT AGREEMENT, dated as of August 23, 2019 (this “Amendment”), is entered into among WILLIAMS-SONOMA, INC., a corporation duly organized and validly existing under the laws of the State of Delaware (the “Parent”), Williams-Sonoma Singapore Pte. Ltd., a corporation duly organized and validly existing under the laws of Singapore (“Williams-Sonoma Singapore” and collectively with the Parent, the “Borrowers”) and BANK OF AMERICA, N.A., a national banking association (the “Bank”). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed thereto in the Reimbursement Agreement (as defined below).

RECITALS

WHEREAS, the Borrowers and the Bank are parties to that certain Reimbursement Agreement, dated as of August 30, 2013 (as amended or modified from time to time, the “Reimbursement Agreement”); and

WHEREAS, the parties hereto have agreed to amend the Reimbursement Agreement as provided herein.

NOW, THEREFORE, in consideration of the agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

AGREEMENT

1. Amendments. The definition of “Maturity Date” in Section 1.1 of the Reimbursement Agreement is hereby amended to read as follows:

“Maturity Date” means August 23, 2020.

2. Effectiveness; Conditions Precedent. This Amendment shall become effective upon satisfaction of the following conditions precedent:

(a) Execution of Counterparts of Amendment. The Bank shall have received counterparts of this Amendment, which collectively shall have been duly executed on behalf of each Borrower, each of the Guarantors and the Bank.

(b) Resolutions, Etc. The Bank shall have received, in form and substance satisfactory to the Bank, (i) for each of the Borrowers and the Guarantors, resolutions of its board of directors (or similar governing body) certified by its Secretary or an Assistant Secretary which authorize its execution, delivery and performance of this Amendment and (ii) such other documents as the Bank may reasonably request.

3. Expenses. The Parent agrees to reimburse the Bank for all reasonable out-of-pocket costs and expenses of the Bank in connection with the preparation, execution and delivery of this Amendment, including without limitation the reasonable fees and expenses of Moore & Van Allen PLLC.

4. Ratification of Reimbursement Agreement. Each Borrower and each Guarantor acknowledges and consents to the terms set forth herein and agrees that this Amendment does not impair, reduce or limit any of its obligations under the Transaction Documents, as amended hereby. This Amendment is a Transaction Document.

5. Authority/Enforceability. Each Borrower and each Guarantor represents and warrants as follows:

(a) It has taken all necessary action to authorize the execution, delivery and performance of this Amendment.

(b) This Amendment has been duly executed and delivered by such Borrower and Guarantor and constitutes its legal, valid and binding obligations, enforceable in accordance with its terms, except as limited by bankruptcy, insolvency or other laws of general application relating to the enforcement of creditors' rights and general principles of equity.

(c) No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority or any other Person is necessary or required in connection with the execution, delivery or performance by such Person of this Amendment.

(d) The execution and delivery of this Amendment does not (i) contravene the terms of its articles of incorporation, bylaws or other organizational documents (as applicable) or (ii) violate any applicable law, rule or regulation.

6. Representations and Warranties of the Borrowers. Each Borrower represents and warrants to the Bank that after giving effect to this Amendment (a) the representations and warranties set forth in Article 6 of the Reimbursement Agreement are true and correct in all material respects as of the date hereof, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct in all material respects as of such earlier date, and (b) no event has occurred and is continuing which constitutes a Default.

7. Counterparts/Telecopy. This Amendment may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but all of which shall constitute one and the same instrument. Delivery of executed counterparts of this Amendment by telecopy or other secure electronic format (.pdf) shall be effective as an original.

8. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF CALIFORNIA APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED ENTIRELY WITHIN SUCH STATE; PROVIDED THAT THE BANK SHALL RETAIN ALL RIGHTS ARISING UNDER FEDERAL LAW.

9. Successors and Assigns. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

10. Headings. The headings of the sections hereof are provided for convenience only and shall not in any way affect the meaning or construction of any provision of this Amendment.

11. Severability. If any provision of this Amendment is held to be illegal, invalid or unenforceable, (a) the legality, validity and enforceability of the remaining provisions of this Amendment shall not be affected or impaired thereby and (b) the parties shall endeavor in good faith negotiations to replace the illegal, invalid or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the illegal, invalid or unenforceable provisions. The invalidity of a provision in a particular jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

[remainder of page intentionally left blank]

Each of the parties hereto has caused a counterpart of this Amendment to be duly executed and delivered as of the date first above written.

BORROWERS:

WILLIAMS-SONOMA, INC.,
a Delaware corporation

By: /s/ Julie Whalen
Name: Julie Whalen
Title: Chief Financial Officer

WILLIAMS-SONOMA SINGAPORE PTE. LTD.

By: /s/ Beth Thompson
Name: Beth Thompson
Title: Director

ACKNOWLEDGED AND AGREED:

GUARANTORS:

WILLIAMS-SONOMA, INC.
REJUVENATION INC.
SUTTER STREET MANUFACTURING, INC.
WILLIAMS-SONOMA ADVERTISING, INC.
WILLIAMS-SONOMA DIRECT, INC.
WILLIAMS-SONOMA DTC, INC.
WILLIAMS-SONOMA DTC TEXAS, INC.
WILLIAMS-SONOMA GIFT MANAGEMENT, INC.
WILLIAMS-SONOMA RETAIL SERVICES, INC.
WILLIAMS-SONOMA STORES, INC.

By: /s/ Julie Whalen
Name: Julie Whalen
Title: Chief Financial Officer

WILLIAMS-SONOMA, INC.
SIXTH AMENDMENT TO REIMBURSEMENT AGREEMENT

BANK:

BANK OF AMERICA, N.A.

By: /s/ Anthony Hoyer
Name: Anthony Hoyer
Title: Director

WILLIAMS-SONOMA, INC.
SIXTH AMENDMENT TO REIMBURSEMENT AGREEMENT

SIXTH AMENDMENT TO REIMBURSEMENT AGREEMENT

THIS SIXTH AMENDMENT TO REIMBURSEMENT AGREEMENT, dated as of August 23, 2019 (this “Amendment”), is entered into among WILLIAMS-SONOMA, INC., a corporation duly organized and validly existing under the laws of the State of Delaware (the “Parent”), Williams-Sonoma Singapore Pte. Ltd., a corporation duly organized and validly existing under the laws of Singapore (“Williams-Sonoma Singapore” and collectively with the Parent, the “Borrowers”) and WELLS FARGO BANK, NATIONAL ASSOCIATION, a national banking association (the “Bank”). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed thereto in the Reimbursement Agreement (as defined below).

RECITALS

WHEREAS, the Borrowers and the Bank are parties to that certain Reimbursement Agreement, dated as of August 30, 2013 (as amended or modified from time to time, the “Reimbursement Agreement”); and

WHEREAS, the parties hereto have agreed to amend the Reimbursement Agreement as provided herein.

NOW, THEREFORE, in consideration of the agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

AGREEMENT

1. Amendments. The definition of “Maturity Date” in Section 1.1 of the Reimbursement Agreement is hereby amended to read as follows:

“Maturity Date” means August 23, 2020.

2. Effectiveness; Conditions Precedent. This Amendment shall become effective upon satisfaction of the following conditions precedent:

(a) Execution of Counterparts of Amendment. The Bank shall have received counterparts of this Amendment, which collectively shall have been duly executed on behalf of each Borrower, each of the Guarantors and the Bank.

(b) Resolutions, Etc. The Bank shall have received, in form and substance satisfactory to the Bank, (i) for each of the Borrowers and the Guarantors, resolutions of its board of directors (or similar governing body) certified by its Secretary or an Assistant Secretary which authorize its execution, delivery and performance of this Amendment and (ii) such other documents as the Bank may reasonably request.

3. Expenses. The Parent agrees to reimburse the Bank for all reasonable out-of-pocket costs and expenses of the Bank in connection with the preparation, execution and delivery of this Amendment, including without limitation the reasonable fees and expenses of Moore & Van Allen PLLC.

4. Ratification of Reimbursement Agreement. Each Borrower and each Guarantor acknowledges and consents to the terms set forth herein and agrees that this Amendment does not impair, reduce or limit any of its obligations under the Transaction Documents, as amended hereby. This Amendment is a Transaction Document.

5. Authority/Enforceability. Each Borrower and each Guarantor represents and warrants as follows:

(a) It has taken all necessary action to authorize the execution, delivery and performance of this Amendment.

(b) This Amendment has been duly executed and delivered by such Borrower and Guarantor and constitutes its legal, valid and binding obligations, enforceable in accordance with its terms, except as limited by bankruptcy, insolvency or other laws of general application relating to the enforcement of creditors' rights and general principles of equity.

(c) No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority or any other Person is necessary or required in connection with the execution, delivery or performance by such Person of this Amendment.

(d) The execution and delivery of this Amendment does not (i) contravene the terms of its articles of incorporation, bylaws or other organizational documents (as applicable) or (ii) violate any applicable law, rule or regulation.

6. Representations and Warranties of the Borrowers. Each Borrower represents and warrants to the Bank that after giving effect to this Amendment

(a) the representations and warranties set forth in Article 6 of the Reimbursement Agreement are true and correct in all material respects as of the date hereof, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct in all material respects as of such earlier date, and (b) no event has occurred and is continuing which constitutes a Default.

7. Counterparts/Telecopy. This Amendment may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but all of which shall constitute one and the same instrument. Delivery of executed counterparts of this Amendment by telecopy or other secure electronic format (.pdf) shall be effective as an original.

8. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF CALIFORNIA APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED ENTIRELY WITHIN SUCH STATE; PROVIDED THAT THE BANK SHALL RETAIN ALL RIGHTS ARISING UNDER FEDERAL LAW.

9. Successors and Assigns. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

10. Headings. The headings of the sections hereof are provided for convenience only and shall not in any way affect the meaning or construction of any provision of this Amendment.

11. Severability. If any provision of this Amendment is held to be illegal, invalid or unenforceable, (a) the legality, validity and enforceability of the remaining provisions of this Amendment shall not be affected or impaired thereby and (b) the parties shall endeavor in good faith negotiations to replace the illegal, invalid or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the illegal, invalid or unenforceable provisions. The invalidity of a provision in a particular jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

[remainder of page intentionally left blank]

Each of the parties hereto has caused a counterpart of this Amendment to be duly executed and delivered as of the date first above written.

BORROWERS:

WILLIAMS-SONOMA, INC.,
a Delaware corporation

By: /s/ Julie Whalen
Name: Julie Whalen
Title: Chief Financial Officer

WILLIAMS-SONOMA SINGAPORE PTE. LTD.

By: /s/ Beth Thompson
Name: Beth Thompson
Title: Director

ACKNOWLEDGED AND AGREED:

GUARANTORS:

WILLIAMS-SONOMA, INC.
REJUVENATION INC.
SUTTER STREET MANUFACTURING, INC.
WILLIAMS-SONOMA ADVERTISING, INC.
WILLIAMS-SONOMA DIRECT, INC.
WILLIAMS-SONOMA DTC, INC.
WILLIAMS-SONOMA DTC TEXAS, INC.
WILLIAMS-SONOMA GIFT MANAGEMENT, INC.
WILLIAMS-SONOMA RETAIL SERVICES, INC.
WILLIAMS-SONOMA STORES, INC.

By: /s/ Julie Whalen
Name: Julie Whalen
Title: Chief Financial Officer

WILLIAMS-SONOMA, INC.
SIXTH AMENDMENT TO REIMBURSEMENT AGREEMENT

BANK: WELLS FARGO BANK, NATIONAL ASSOCIATION

By: /s/ Maribelle Villaseñor _____

Name: Maribelle Villaseñor

Title: Director

WILLIAMS-SONOMA, INC.

SIXTH AMENDMENT TO REIMBURSEMENT AGREEMENT

SIXTH AMENDMENT TO REIMBURSEMENT AGREEMENT

THIS SIXTH AMENDMENT TO REIMBURSEMENT AGREEMENT, dated as of August 23, 2019 (this “Amendment”), is entered into among WILLIAMS-SONOMA, INC., a corporation duly organized and validly existing under the laws of the State of Delaware (the “Parent”), Williams-Sonoma Singapore Pte. Ltd., a corporation duly organized and validly existing under the laws of Singapore (“Williams-Sonoma Singapore”) and collectively with the Parent, the “Borrowers”) and U.S. BANK NATIONAL ASSOCIATION, a national banking association (the “Bank”). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed thereto in the Reimbursement Agreement (as defined below).

RECITALS

WHEREAS, the Borrowers and the Bank are parties to that certain Reimbursement Agreement, dated as of August 30, 2013 (as amended or modified from time to time, the “Reimbursement Agreement”); and

WHEREAS, the parties hereto have agreed to amend the Reimbursement Agreement as provided herein.

NOW, THEREFORE, in consideration of the agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

AGREEMENT

1. Amendments. The definition of “Maturity Date” in Section 1.1 of the Reimbursement Agreement is hereby amended to read as follows:

“Maturity Date” means August 23, 2020.

2. Effectiveness; Conditions Precedent. This Amendment shall become effective upon satisfaction of the following conditions precedent:

(a) Execution of Counterparts of Amendment. The Bank shall have received counterparts of this Amendment, which collectively shall have been duly executed on behalf of each Borrower, each of the Guarantors and the Bank.

(b) Resolutions, Etc. The Bank shall have received, in form and substance satisfactory to the Bank, (i) for each of the Borrowers and the Guarantors, resolutions of its board of directors (or similar governing body) certified by its Secretary or an Assistant Secretary which authorize its execution, delivery and performance of this Amendment and (ii) such other documents as the Bank may reasonably request.

3. Expenses. The Parent agrees to reimburse the Bank for all reasonable out-of-pocket costs and expenses of the Bank in connection with the preparation, execution and delivery of this Amendment, including without limitation the reasonable fees and expenses of Moore & Van Allen PLLC.

4. Ratification of Reimbursement Agreement. Each Borrower and each Guarantor acknowledges and consents to the terms set forth herein and agrees that this Amendment does not impair, reduce or limit any of its obligations under the Transaction Documents, as amended hereby. This Amendment is a Transaction Document.

5. Authority/Enforceability. Each Borrower and each Guarantor represents and warrants as follows:

(a) It has taken all necessary action to authorize the execution, delivery and performance of this Amendment.

(b) This Amendment has been duly executed and delivered by such Borrower and Guarantor and constitutes its legal, valid and binding obligations, enforceable in accordance with its terms, except as limited by bankruptcy, insolvency or other laws of general application relating to the enforcement of creditors' rights and general principles of equity.

(c) No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority or any other Person is necessary or required in connection with the execution, delivery or performance by such Person of this Amendment.

(d) The execution and delivery of this Amendment does not (i) contravene the terms of its articles of incorporation, bylaws or other organizational documents (as applicable) or (ii) violate any applicable law, rule or regulation.

6. Representations and Warranties of the Borrowers. Each Borrower represents and warrants to the Bank that after giving effect to this Amendment

(a) the representations and warranties set forth in Article 6 of the Reimbursement Agreement are true and correct in all material respects as of the date hereof, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct in all material respects as of such earlier date, and (b) no event has occurred and is continuing which constitutes a Default.

7. Counterparts/Telecopy. This Amendment may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but all of which shall constitute one and the same instrument. Delivery of executed counterparts of this Amendment by telecopy or other secure electronic format (.pdf) shall be effective as an original.

8. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF CALIFORNIA APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED ENTIRELY WITHIN SUCH STATE; PROVIDED THAT THE BANK SHALL RETAIN ALL RIGHTS ARISING UNDER FEDERAL LAW.

9. Successors and Assigns. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

10. Headings. The headings of the sections hereof are provided for convenience only and shall not in any way affect the meaning or construction of any provision of this Amendment.

11. Severability. If any provision of this Amendment is held to be illegal, invalid or unenforceable, (a) the legality, validity and enforceability of the remaining provisions of this Amendment shall not be affected or impaired thereby and (b) the parties shall endeavor in good faith negotiations to replace the illegal, invalid or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the illegal, invalid or unenforceable provisions. The invalidity of a provision in a particular jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

[remainder of page intentionally left blank]

Each of the parties hereto has caused a counterpart of this Amendment to be duly executed and delivered as of the date first above written.

BORROWERS:

WILLIAMS-SONOMA, INC.,
a Delaware corporation

By: /s/ Julie Whalen
Name: Julie Whalen
Title: Chief Financial Officer

WILLIAMS-SONOMA SINGAPORE PTE. LTD.

By: /s/ Beth Thompson
Name: Beth Thompson
Title: Director

ACKNOWLEDGED AND AGREED:

GUARANTORS:

WILLIAMS-SONOMA, INC.
REJUVENATION INC.
SUTTER STREET MANUFACTURING, INC.
WILLIAMS-SONOMA ADVERTISING, INC.
WILLIAMS-SONOMA DIRECT, INC.
WILLIAMS-SONOMA DTC, INC.
WILLIAMS-SONOMA DTC TEXAS, INC.
WILLIAMS-SONOMA GIFT MANAGEMENT, INC.
WILLIAMS-SONOMA RETAIL SERVICES, INC.
WILLIAMS-SONOMA STORES, INC.

By: /s/ Julie Whalen
Name: Julie Whalen
Title: Chief Financial Officer

WILLIAMS-SONOMA, INC.
SIXTH AMENDMENT TO REIMBURSEMENT AGREEMENT

BANK: U.S. BANK NATIONAL ASSOCIATION

By: /s/ Joyce P. Dorsett
Name: Joyce P. Dorsett
Title: Senior Vice President

WILLIAMS-SONOMA, INC.
SIXTH AMENDMENT TO REIMBURSEMENT AGREEMENT

CERTIFICATION

I, Laura Alber, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Williams-Sonoma, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 12, 2019

By: /s/ Laura Alber

Laura Alber
Chief Executive Officer

CERTIFICATION

I, Julie Whalen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Williams-Sonoma, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 12, 2019

By: /s/ Julie Whalen

Julie Whalen
Chief Financial Officer

**CERTIFICATION BY CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the period ended November 3, 2019 of Williams-Sonoma, Inc. (the “Company”) as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Laura Alber, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods presented in the Report.

By: /s/ Laura Alber
Laura Alber
Chief Executive Officer

Date: December 12, 2019

**CERTIFICATION BY CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the period ended November 3, 2019 of Williams-Sonoma, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Julie Whalen, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods presented in the Report.

By: /s/ Julie Whalen

Julie Whalen
Chief Financial Officer

Date: December 12, 2019