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

# FORM 10-K

(Mark One):

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

For the fiscal year ended February 2, 2020.

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**<br>(State or other jurisdiction of incorporation or organization) | **94-2203880**<br>(I.R.S. Employer Identification No.) |
| **3250 Van Ness Avenue, San Francisco, CA**<br>(Address of principal executive offices) | **94109**<br>(Zip Code) |

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

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.** |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 emerging growth company. See 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 Act). Yes ☐ No ☒

As of August 4, 2019, the approximate aggregate market value of the registrant's common stock held by non-affiliates was $4,956,461,000. It is assumed for purposes of this computation that an affiliate includes all persons as of August 4, 2019 listed as executive officers and directors with the Securities and Exchange Commission. This aggregate market value includes all shares held in the Williams-Sonoma, Inc. Stock Fund within the registrant's 401(k) Plan.

As of March 22, 2020, 77,197,681 shares of the registrant's common stock were outstanding.

## DOCUMENTS INCORPORATED BY REFERENCE

Portions of our definitive Proxy Statement for the 2020 Annual Meeting of Stockholders, also referred to in this Annual Report on Form 10-K as our Proxy Statement, which will be filed with the Securities and Exchange Commission, or SEC, have been incorporated in Part III hereof.

## FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K and the letter to stockholders contained in this Annual Report contain forward-looking statements within the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties, as well as assumptions that, if they do not fully materialize or prove incorrect, could cause our business and operating results to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements include, without limitation, statements related to: projections of earnings, revenues, growth and other financial items; the strength of our business and our brands; our ability to execute strategic priorities and growth initiatives regarding digital leadership, product and technology innovation, cross-brand initiatives, retail transformation and operational excellence; our beliefs about our competitive advantages and areas of potential future growth in the market; our ability to drive long-term sustainable returns; the plans, strategies, initiatives and objectives of management for future operations; our brands, products and related initiatives, including our ability to introduce new brands, brand extensions, products and product lines and bring in new customers; our belief that our e-commerce websites and direct-mail catalogs act as a cost-efficient means of testing market acceptance of new products and new brands; the complementary nature of our e-commerce and retail channels; our marketing efforts; our acquisition of Outward, Inc., including the valuation of intangible assets acquired; our global business and expansion efforts, including franchise, other third-party arrangements and company-owned operations; our ability to attract new customers; the seasonal variations in demand; our ability to recruit, retain and motivate skilled personnel; our belief in the reasonableness of the steps taken to protect the security and confidentiality of the information we collect; our belief in the adequacy of our facilities and the availability of suitable additional or substitute space; our belief in the ultimate resolution of current legal proceedings; the payment of dividends; our stock repurchase program; our capital allocation strategy in fiscal 2020; our planned use of cash in fiscal 2020; our compliance with financial covenants; our belief that our cash on hand and available credit facilities will provide adequate liquidity for our business operations over the next 12 months; the impact of the 2017 Tax Cuts and Jobs Act; the impact of tariffs on our business and our results of operations; our belief regarding the effects of potential losses under our indemnification obligations; the impact of inflation; the effects of changes in our inventory reserves; the impact of new accounting pronouncements; the impact of the coronavirus on our retail store operations, global supply chain and customer spending and demand; and 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 "will," "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 Item 1A hereto 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.

**WILLIAMS-SONOMA, INC.**
**ANNUAL REPORT ON FORM 10-K**
**FISCAL YEAR ENDED FEBRUARY 2, 2020**

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# PART I

## ITEM 1. BUSINESS

## OVERVIEW

Williams-Sonoma, Inc., incorporated in 1973, is a omni-channel specialty retailer of high quality products for the home.

In 1956, our founder, Chuck Williams, turned a passion for cooking and eating with friends into a small business with a big idea. He opened a store in Sonoma, California, to sell the French cookware that intrigued him while visiting Europe but that could not be found in America. Chuck's business, which set a standard for customer service, took off and helped fuel a revolution in American cooking and entertaining that continues today.

In the decades that followed, the quality of our products, our ability to identify new opportunities in the market and our people-first approach to business have facilitated our expansion beyond the kitchen into nearly every area of the home. Growth across the Williams-Sonoma, Inc. portfolio has been fueled by three areas of strategic investment: brand experimentation and innovation, for a best-in-class approach to omni-channel retail experiences; operational excellence across the enterprise, from quality product and sourcing, to efficient manufacturing and supply chain; and culture and corporate social responsibility, from commitments to foster women in leadership and embrace diversity, to a healthy impact on our community and environment.

Today, Williams-Sonoma, Inc. is one of the United States' largest e-commerce retailers with some of the best known and most beloved brands in home furnishings. We operate in the U.S., Puerto Rico, Canada, Australia and the United Kingdom and offer international shipping to customers worldwide. Our unaffiliated franchisees operate stores in the Middle East, the Philippines, Mexico and South Korea, as well as e-commerce websites in certain locations.

*Williams Sonoma*
From the beginning, our namesake brand, Williams Sonoma, has been bringing people together around food. A leading specialty retailer of high-quality products for the kitchen and home, the brand seeks to provide world-class service and an engaging customer experience. Williams Sonoma products include everything for cooking, dining and entertaining, including: cookware, tools, electrics, cutlery, tabletop and bar, outdoor, furniture and a vast library of cookbooks. The brand also includes Williams Sonoma Home, a premium concept that offers classic home furnishings and decorative accessories, extending the Williams Sonoma lifestyle beyond the kitchen into every room of the home.

*Pottery Barn*
Established in 1949 and acquired by Williams-Sonoma, Inc. in 1986, Pottery Barn is a premier omni-channel home furnishings retailer. The brand was founded on the idea that home furnishings should be exceptional in comfort, quality, style and value. Pottery Barn's stores, website, and catalogs are specially designed to make shopping an enjoyable experience, with inspirational lifestyle displays dedicated to every space in the home. Pottery Barn products include furniture, bedding, bathroom accessories, rugs, curtains, lighting, tabletop, outdoor and decorative accessories.

*Pottery Barn Kids*
Launched in 1999, Pottery Barn Kids serves as an inspirational destination for creating childhood memories by decorating nurseries, bedrooms and play spaces. Pottery Barn Kids offers exclusive, innovative and high-quality products designed specifically for creating magical spaces where children can play, laugh, learn and grow.

*West Elm*
Born in Brooklyn in 2002, West Elm is dedicated to transforming people's lives and spaces through creativity, style and purpose. West Elm creates unique, modern and affordable home decor and curate a global selection of local, ethically-sourced and Fair Trade Certified products, available online and in our stores worldwide.

*Pottery Barn Teen*
Launched in 2003, Pottery Barn Teen is the first home concept to focus exclusively on the teen market. The brand offers a complete line of furniture, bedding, lighting, decorative accents and more for teen bedrooms, dorm rooms, study spaces and lounges. Pottery Barn Teen's innovative products are specifically designed to help teens create a comfortable and stylish room that reflects their own individual aesthetic.

*Rejuvenation*
Rejuvenation, founded in 1977 with a passion for timeless design and quality craftsmanship, was acquired by Williams-Sonoma, Inc. in 2011. With design, manufacturing and distribution facilities in Portland, Oregon, Rejuvenation offers a wide assortment of made-to-order lighting, hardware, furniture and home décor inspired by history, designed for today and made to last for years to come.

*Mark and Graham*
Launched in 2012, Mark and Graham is designed to be a premier online destination for personalized gift buying. With over 100 monograms and font types to choose from, a Mark and Graham purchase is uniquely personal. The brand's product lines include women's and men's accessories, small leather goods, jewelry, key item apparel, paper, entertaining and bar, home décor and seasonal items.

*Outward*
In 2017, we acquired Outward, Inc., a 3-D imaging and augmented reality platform for the home furnishings and décor industry. Headquartered in San Jose, California, Outward's technology enables scalable applications in product visualization, digital room design and augmented and virtual reality.

**OPERATIONS**

As of February 2, 2020, we had the following merchandise strategies: Williams Sonoma, Pottery Barn, Pottery Barn Kids, West Elm, Pottery Barn Teen, Williams Sonoma Home, Rejuvenation and Mark and Graham, which sell our products through our e-commerce websites, direct-mail catalogs and retail stores. We offer shipping from many of our brands to countries worldwide, while our catalogs reach customers throughout the U.S. The e-commerce business complements the retail business by building brand awareness and acting as an effective advertising vehicle. We believe that our e-commerce websites and our direct-mail catalogs act as a cost-efficient means of testing market acceptance of new products and new brands. Leveraging these insights and our omni-channel positioning, our marketing efforts, including digital advertising and the circulation of catalogs, are targeted toward driving sales to each of our channels. Consistent with our published privacy policies, we send our catalogs to addresses from our proprietary customer list, as well as to addresses from lists of other mail order direct marketers, magazines and companies with which we establish a business relationship. In accordance with prevailing industry practice and our privacy policies, we may also rent our list to select mailers. Our customer mailings are continually updated to include new prospects and to eliminate non-responders. In addition, the retail business complements the e-commerce business by building brand awareness and attracting new customers to our brands. Our retail stores serve as billboards for our brands, which we believe inspires our customers to also shop online and through our catalogs. We operate 614 stores, which include 572 stores in 43 states, Washington, D.C. and Puerto Rico, 20 stores in Canada, 19 stores in Australia and 3 stores in the United Kingdom. We also have multi-year franchise agreements with third parties in the Middle East, the Philippines, Mexico and South Korea that currently operate 129 franchised stores as well as e-commerce websites in certain locations.

**SUPPLIERS**

We purchase most of our merchandise from numerous foreign and domestic manufacturers and importers, the largest of which accounted for approximately 2% of our purchases during fiscal 2019. Approximately 65% of our merchandise purchases in fiscal 2019 were sourced from foreign vendors, predominantly in Asia and Europe. Substantially all of these purchases were negotiated and paid for in U.S. dollars. In addition, we manufacture merchandise, primarily upholstered furniture and lighting, at our facilities located in North Carolina, California, Oregon and Mississippi.

**COMPETITION AND SEASONALITY**

The specialty e-commerce and retail businesses are highly competitive. Our e-commerce websites, direct-mail catalogs and retail stores compete with other retailers, including e-commerce retailers, large department stores, discount retailers, other specialty retailers offering home-centered assortments and other direct-mail catalogs. The substantial sales growth in the direct-to-customer industry within the last decade, particularly in e-commerce, has encouraged the entry of many new competitors, including discount retailers selling similar products at reduced prices, new business models and an increase in competition from established companies. We compete on the basis of our brand authority, the quality of our merchandise, service to our customers, our proprietary customer list, our e-commerce websites and our marketing capabilities, as well as the location and appearance of our stores. We believe that we compare favorably with many of our current competitors with respect to some or all of these factors.

Our business is subject to substantial seasonal variations in demand. Historically, a significant portion of our net 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.

**EMPLOYEES**

As of February 2, 2020, we had approximately 27,000 employees, of whom approximately 11,600 were full-time. In preparation for and during our fiscal 2019 holiday selling season, we hired approximately 8,500 temporary employees, primarily in our retail stores, customer care centers and distribution facilities.

**INTELLECTUAL PROPERTY**

As of February 2, 2020, we own and/or have applied to register 164 unique trademarks and service marks. We own and/or have applied to register our key brand names as trademarks in the U.S. as well as 121 additional jurisdictions. Generally, exclusive rights to the trademarks and service marks are held by Williams-Sonoma, Inc. and are used by our subsidiaries and franchisees under a license. These marks include our core brand names as well as brand names for selected products and services. The core brand names in particular, including “Williams Sonoma,” “Pottery Barn,” “pottery barn kids,” “Pottery Barn Teen,” “west elm,” “Williams Sonoma Home,” “Rejuvenation” and “Mark and Graham” are of material importance to us. Trademarks are generally valid as long as they are in use and/or their registrations are properly maintained, and they have not been found to have become generic. Trademark registrations can generally be renewed indefinitely so long as the marks are in use. We also own numerous copyrights and trade dress rights for our products, product packaging, catalogs, books, house publications, website designs and store designs, among other things, which are used by our subsidiaries and franchisees under a license. As of February 2, 2020, we own and/or have applied to register 277 patents in connection with certain product designs, inventions and proprietary technology. Patents are generally valid for 14 to 20 years as long as their registrations are properly maintained. In addition, we have registered and maintain numerous Internet domain names, including “williams-sonoma.com,” “potterybarn.com,” “potterybarnkids.com,” “potterybarnteen.com,” “westelm.com,” “wshome.com,” “williams-sonomainc.com,” “rejuvenation.com” and “markandgraham.com.” Collectively, the trademarks, patents, copyrights, trade dress rights and domain names that we hold are of material importance to us.

**AVAILABLE INFORMATION**

We file annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy and information statements and amendments to reports filed or furnished pursuant to Sections 13(a), 14 and 15(d) of the Securities Exchange Act of 1934, as amended. The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements and other information regarding Williams-Sonoma, Inc. and other companies that file materials electronically with the SEC. Our annual reports, Forms 10-K, Forms 10-Q, Forms 8-K and proxy and information statements are also available, free of charge, on our website at www.williams-sonomainc.com.

Investors and others should note that we announce material financial and operational information to our investors on our Investor Relations website (http://ir.williams-sonomainc.com), press releases, SEC filings and public conference calls and webcasts. Information on our website is not, and will not be deemed, a part of this report or incorporated into any other filings we make with the SEC.

## ITEM 1A. RISK FACTORS

A description of the risks and uncertainties associated with our business is set forth below. You should carefully consider such risks and uncertainties, together with the other information contained in this report and in our other public filings. If any of such risks and uncertainties actually occurs, our business, financial condition or operating results could differ materially from the plans, projections and other forward-looking statements included in the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this report and in our other public filings. In addition, if any of the following risks and uncertainties, or if any other risks and uncertainties, actually occurs, our business, financial condition or operating results could be harmed substantially, which could cause the market price of our stock to decline, perhaps significantly.

***The Coronavirus (or COVID-19) outbreak is expected to have a material impact on our results of operations, financial position and liquidity.***

The outbreak of COVID-19 continues to grow both in the U.S. and globally, and related government and private sector responsive actions are expected to adversely affect our business operations. It is currently impossible to predict the effect and ultimate impact of the COVID-19 pandemic as the situation is rapidly evolving. In March 2020, the President of the United States declared a national emergency as a result of the COVID-19 outbreak in the U.S. The pandemic has caused public health officials to recommend precautions to mitigate the spread of the virus, especially when congregating in heavily populated areas, such as malls and shopping centers. In recent days, there have been mandates from federal, state and local authorities requiring reduction of operating hours and forced temporary closures of non-essential retailers and other businesses, which have adversely affected our stores, further negatively impacting our business.

As a result of these developments, to protect our employees, customers and the communities in which we operate, on March 17, 2020, we announced we will be temporarily closing all of our U.S. and Canadian retail stores until at least April 2, 2020 depending upon how the COVID-19 outbreak evolves. This is expected to adversely affect our operations, cash flows and liquidity, as our retail store revenues comprise approximately 44% of our net revenues. Further, after containment of the virus or after some or all of our stores reopen, any significant reduction in consumer willingness to visit malls and shopping centers, levels of consumer spending at our stores, employee willingness to work in our stores, or the prolonged temporary closure of our retail stores or distribution centers, relating to the pandemic or its impact on the economy, consumer sentiment or health concerns, would result in a further loss of revenues, profits, cash flows, and other materially impactful effects on our business and operations.

In addition, we have implemented work-from-home policies for certain employees. The effects of shelter-in-place orders and our work-from-home policies may negatively impact productivity and disrupt our business, the magnitude of which will depend, in part, on the length and severity of the restrictions and other limitations on our ability to conduct our business in the ordinary course. Although we continue to sell products through our e-commerce sites and our distribution centers remain open and operational through the date of filing of this Annual Report, governmental mandates or illness or absence of a substantial number of distribution center employees could require that we temporarily close one or more of our distribution centers, or may prohibit or significantly limit us, or our third party logistics providers from delivering packages to our customers and our stores, which would complicate or prevent our fulfilling e-commerce orders and, once some or all of our stores reopen, would complicate or prevent our ability to supply merchandise to our stores.

Further, quarantines, shelter-in-place and similar government orders, like the statewide order issued in California, or the perception that such orders, shutdowns or other restrictions on the conduct of business operations could occur, related to COVID-19 or other infectious diseases, could also impact our vendors who manufacture or deliver our merchandise to us or our customers, which could adversely affect our ability to acquire and sell our merchandise, thus adversely affecting our results of operations, cash flows and liquidity.

While the extent of the economic impact of COVID-19 and the duration of that impact may be difficult to assess or predict, the widespread pandemic has resulted in significant disruption of global financial markets, which has significantly impacted the value of our common stock and which may reduce our ability to access further capital, which could in the future negatively affect our liquidity. In addition, a recession or long-term market correction, resulting from the spread of COVID-19 could in the future further materially impact the value of our common stock, impact our access to capital and affect our business in the near and long-term.

The global pandemic of COVID-19 continues to rapidly evolve. The ultimate impact of the COVID-19 pandemic or a similar health epidemic is highly uncertain and subject to change. The extent to which COVID-19 impacts our results, financial position and liquidity will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the pandemic and the actions to contain COVID-19 or treat its impact, among others. We are also uncertain the impact this pandemic will have on our overall liquidity levels or on future insurance costs, which may increase in the future in order to cover the costs insurance companies may incur related to this outbreak.

*Declines in general economic conditions, and the resulting impact on consumer confidence and consumer spending, could adversely impact our results of operations.*

Our financial performance is subject to declines in general economic conditions and the impact of such economic conditions on levels of consumer confidence and consumer spending. Consumer confidence and consumer spending may deteriorate significantly, and could remain depressed for an extended period of time. Consumer purchases of discretionary items, including our merchandise, generally decline during periods when disposable income is limited, unemployment rates increase or there is economic uncertainty. An uncertain economic environment could also cause our vendors to go out of business or our banks to discontinue lending to us or our vendors, or it could cause us to undergo restructurings, any of which would adversely impact our business and operating results.

*We are unable to control many of the factors affecting consumer spending, and declines in consumer spending on home furnishings and kitchen products in general could reduce demand for our products.*

Our business depends on consumer demand for our products and, consequently, is sensitive to a number of factors that influence consumer spending, including general economic conditions, consumer disposable income, fuel prices, recession and fears of recession, unemployment, war and fears of war, outbreaks of disease (such as the recent COVID-19 outbreak), adverse weather, availability of consumer credit, consumer debt levels, conditions in the housing market, interest rates, sales tax rates and rate increases, inflation, consumer confidence in future economic and political conditions, and consumer perceptions of personal well-being and security. In particular, past economic downturns have led to decreased discretionary spending, which adversely impacted our business. In addition, periods of decreased home purchases typically lead to decreased consumer spending on home products. These factors have affected, and may in the future affect, our various brands and channels differently. Adverse changes in factors affecting discretionary consumer spending have reduced and may in the future reduce consumer demand for our products, thus reducing our sales and harming our business and operating results.

*We may require funding from external sources, which may not be available at the levels we require, or may cost more than we expect, and, as a consequence, our expenses and operating results could be negatively affected.*

We regularly review and evaluate our liquidity and capital needs. While we have a growing balance of cash that is held offshore, we currently believe that our available cash, cash equivalents and cash flow from operations will be sufficient to finance our operations and expected capital requirements for at least the next 12 months unless our retail stores and distribution centers are closed for an extended period of time or we experience a material decline in revenue relating to the COVID-19 outbreak. However, we might experience periods during which we encounter additional cash needs, and we might need additional external funding to support our operations.

Although our credit facility provides for a $500,000,000 unsecured revolving line of credit and a $300,000,000 unsecured term loan facility, in the event we require additional liquidity from our lenders, such funds may not be available to us on acceptable terms, or at all. In addition, in the event we were to breach any of our financial covenants, including as a result of the impact from the COVID-19 outbreak, our banks would not be required to provide us with additional funding, or they may require us to renegotiate our existing credit facility on less favorable terms. In addition, we may not be able to renew our letters of credit that we use to help pay our suppliers, or our unsecured term loan facility, on terms that are acceptable to us, or at all, as the availability of credit facilities may become limited. Further, the providers of such credit may reallocate the available credit to other borrowers. To maximize our liquidity and increase our available cash on hand in the event of a protracted COVID-19 outbreak, on March 23, 2020 we drew down $488,000,000 on our revolving line of credit, for an outstanding balance of $500,000,000. If we are unable to access additional credit at the levels we require, or the cost of credit is greater than expected, it could adversely affect our operating results.

*If we are unable to identify and analyze factors affecting our business, anticipate changing consumer preferences and buying trends, and manage our inventory commensurate with customer demand, our sales levels and operating results may decline.*

Our success depends, in large part, upon our ability to identify and analyze factors affecting our business and to anticipate and respond in a timely manner to changing merchandise trends and customer demands in order to maintain and attract customers. For example, in the specialty home products business, style and color trends are constantly evolving. As a result, consumer preferences cannot be predicted with certainty and may change between selling seasons. We must be able to stay current with preferences and trends in our brands and address the customer tastes for each of our target customer demographics. Additionally, changes in customer preferences and buying trends may also affect our brands differently. We must also be able to identify and adjust the customer offerings in our brands to cater to customer demands. For example, a change in customer preferences for children's room furnishings may not correlate to a similar change in buying trends for other home furnishings. If we misjudge either the market for our merchandise or our customers' purchasing habits, our sales may decline significantly or may be delayed while we work to fill related backorders. Alternatively, we may be required to mark down certain products to sell any excess inventory or to sell such inventory through our outlet stores or other liquidation channels at prices which are significantly lower than our retail prices, any of which would negatively impact our business and operating results.

In addition, we must manage our inventory effectively and commensurate with customer demand. Much of our inventory is sourced from vendors located outside of the U.S. Thus, we usually must order merchandise, and enter into contracts for the purchase and manufacturing of such merchandise, up to twelve months and generally multiple seasons in advance of the applicable selling season and frequently before trends are known. The extended lead times for many of our purchases may make it difficult for us to respond rapidly to new or changing trends. Our vendors also may not have the capacity to handle our demands or may go out of business or have other delays in production in times of economic crisis. In addition, the seasonal nature of the specialty home products business requires us to carry a significant amount of inventory prior to peak selling season. As a result, we are vulnerable to demand and pricing shifts and to misjudgments in the selection and timing of merchandise purchases. If we do not accurately predict our customers' preferences and acceptance levels of our products, our inventory levels will not be appropriate, and our business and operating results may be negatively impacted.

There is also increased focus, including by governmental and non-governmental organizations, investors, customers, consumers and other stakeholders, on corporate social responsibility and sustainability matters. Our reputation could be damaged if we do not (or are perceived not to) act responsibly with respect to any social or sustainability matters, which could negatively impact our business and results of operations.

*We may be exposed to cybersecurity risks and costs associated with credit card fraud, identity theft and business interruption that could cause us to incur unexpected expenses and loss of revenue.*

A significant portion of our customer orders are placed through our e-commerce websites or through our customer care centers. In addition, a significant portion of sales made through our retail channel require the collection of certain customer data, such as credit card information. In order for our sales channels to function successfully, we, our banking and authorizations partners, and other parties involved in processing customer transactions must be able to transmit confidential information, including credit card information and other personal information of our customers, securely over public and private networks. Third parties may have or develop the technology or knowledge to breach, disable, disrupt or interfere with our systems or processes or those of our vendors. Although we take the security of our systems and the privacy of our customers' confidential information seriously, and we believe we take reasonable steps to protect the security and confidentiality of the information we collect, we cannot guarantee that our security measures will effectively prevent others from obtaining unauthorized access to our information and our customers' information. The techniques used to obtain unauthorized access to systems change frequently and are not often recognized until after they have been launched. Any person who circumvents our security measures could destroy or steal valuable information or disrupt our operations. Any security breach could cause consumers to lose confidence in the security of our information systems, including our e-commerce websites or stores, and choose not to purchase from us. Any security breach could also expose us to risks of data loss, litigation, regulatory investigations and other significant liabilities. Such a breach could also seriously disrupt, slow or hinder our operations and harm our reputation and customer relationships, any of which could harm our business. If we are the target of a cybersecurity attack resulting in unauthorized disclosure of our customer data, we may be required to undertake costly notification procedures. If we fail to implement appropriate safeguards, detect and provide prompt notice of unauthorized access as required by some data privacy laws, or otherwise comply with these laws, we could be subject to potential fines, claims for damages and other remedies, which could be significantly in excess of our insurance coverage and could harm our business.

*We receive, process, store, use and share data, some of which contains personal information, which subjects us to complex and evolving governmental regulation and other legal obligations related to data privacy, data protection and other matters, which may have differing interpretations or are subject to change.*

We receive, process, store, use and share data, some of which contains personal information. There are numerous federal, state, local and foreign laws and regulations regarding matters central to our business, data privacy and the collection, storing, sharing, use, processing, disclosure and protection of personal information and other data from customers, employees and business partners, the scope of which are regularly changing, subject to uncertain and differing interpretations and may be inconsistent among countries or conflict with other rules.

As our business expands globally, we are subject to data privacy and other similar laws in various foreign jurisdictions, such as GDPR in the European Union. In addition, on January 1, 2020, the California Consumer Privacy Act of 2018 (the "CCPA") became effective. The application and interpretation of these laws and regulations are often uncertain, and as the focus on data privacy and data protection increases globally and domestically, we are, and will continue to be, subject to varied and evolving data privacy and data protection laws. Additionally, the Federal Trade Commission and many state attorneys general are interpreting federal and state consumer protection laws to impose standards for the online collection, use, dissemination and security of data. The burdens imposed by these and other laws and regulations that may be enacted, or new interpretations of existing laws and regulations, may require us to modify our data processing practices and policies and to incur substantial costs in order to comply. These laws and regulations may also impact our ability to expand advertising on our platform internationally, as they may impede our ability to deliver targeted advertising and accurately measure our ad performance.

Any failure or perceived failure by us to comply with our privacy policies, data privacy-related obligations to customers or other third parties, or our data privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personally identifiable information or other user data, or other failure to comply with these laws and regulations, or regulatory scrutiny, may result in governmental enforcement actions or litigation that could expose our business to substantial financial penalties, or other monetary or non-monetary relief, negative publicity, loss of confidence in our brands, decline in customer growth or damage to our brands and reputation. The GDPR, CCPA and other such laws and regulations impose new and burdensome obligations, and include substantial uncertainty as to their interpretation, and we may face challenges in addressing their requirements, which could result in fines or penalties, lead us to change our data privacy policies and practices and limit our ability to deliver personalized advertising. Additionally, if third parties that we work with, such as advertisers, service providers or developers, violate applicable laws or our policies, these violations may also put customers' information at risk, which could, in turn, have an adverse effect on our business, revenue and financial results.

*If we are unable to effectively manage our e-commerce business and digital marketing efforts, our reputation and operating results may be harmed.*

Our e-commerce channel has been our fastest growing business over the last several years and represents more than half of our sales and profits. The success of our e-commerce business depends, in part, on third parties and factors over which we have limited control. We must continually respond to changing consumer preferences and buying trends relating to e-commerce usage, including an emphasis on mobile e-commerce. Our success in e-commerce has been strengthened in part by our ability to leverage the information we have on our customers to infer customer interests and affinities such that we can personalize the experience they have with us. We also utilize digital advertising to target internet and mobile users whose behavior indicates they might be interested in our products. Current or future legislation may reduce or restrict our ability to use these techniques, which could reduce the effectiveness of our marketing efforts.

We are also vulnerable to certain additional risks and uncertainties associated with our e-commerce and mobile websites and digital marketing efforts, including: changes in required technology interfaces; website downtime and other technical failures; internet connectivity issues; costs and technical issues as we upgrade our website software; computer viruses; vendor reliability; changes in applicable federal and state regulations, such as the CCPA, and related compliance costs; security breaches; and consumer privacy concerns. We must keep up to date with competitive technology trends and opportunities that are emerging throughout the retail environment, including the use of new or improved technology, evolving creative user interfaces, and other e-commerce marketing trends such as paid search, re-targeting, loyalty programs and the proliferation of mobile usage, among others. While we endeavor to predict and invest in technology that is most relevant and beneficial to our company, such as our acquisition of Outward, Inc. in 2017, our initiatives may not prove to be successful, may increase our costs, or may not succeed in driving sales or attracting customers. Our failure to successfully respond to these risks and uncertainties might adversely affect the sales or margin in our e-commerce business, require us to impair certain assets, and damage our reputation and brands.

*Our dependence on foreign vendors and our increased global operations subject us to a variety of risks and uncertainties that could impact our operations and financial results.*

Approximately 65% of our merchandise purchases in fiscal 2019 were sourced from foreign vendors predominantly in Asia and Europe. Our dependence on foreign vendors means that we may be affected by changes in the value of the U.S. dollar relative to other foreign currencies. For example, any upward valuation in the Chinese yuan, the euro, or any other foreign currency against the U.S. dollar may result in higher costs to us for those goods. Although substantially all of our foreign purchases of merchandise are negotiated and paid for in U.S. dollars, declines in foreign currencies and currency exchange rates might negatively affect the profitability and business prospects of one or more of our foreign vendors. This, in turn, might cause such foreign vendors to demand higher prices for merchandise in their effort to offset any lost profits associated with any currency devaluation, delay merchandise shipments to us, or discontinue selling to us, any of which could ultimately reduce our sales or increase our costs. In addition, the rising cost of labor in the countries in which our foreign vendors operate has resulted in increases in our costs of doing business. Any further increases in the cost of living in such countries may result in additional increases in our costs or in our foreign vendors going out of business.

We, and our foreign vendors, are also subject to other risks and uncertainties associated with changing economic, political, social, health and environmental conditions and regulations within and outside of the U.S. These risks and uncertainties include import duties and quotas, compliance with anti-dumping regulations, work stoppages, economic uncertainties and adverse economic conditions (including inflation and recession), government regulations, trade restrictions, regulations to address climate change, employment and labor matters, wars and fears of war, political unrest, acts of terrorism, natural disasters, adverse weather, climate change, outbreaks of disease (such as the recent COVID-19 outbreak), and other unexpected events. We cannot predict whether any of the countries from which our raw materials or products are sourced, or in which our products are currently manufactured or may be manufactured in the future, will be subject to trade restrictions imposed by the U.S. or foreign governments, such as the tariffs levied by the U.S. against China, or the likelihood, type or effect of any such restrictions. Any event causing a disruption or delay of imports from foreign vendors, including labor disputes resulting in work disruption, the imposition of additional import restrictions, restrictions on the transfer of funds and/or increased tariffs or quotas, war, political unrest, acts of terrorism, natural disasters, adverse weather, climate change, outbreaks of disease or other unexpected events, could increase the cost, reduce the supply of merchandise available to us, or result in excess inventory if merchandise is received after the planned or appropriate selling season, all of which could adversely affect our business, financial condition and operating results. Furthermore, some or all of our foreign vendors' operations may be adversely affected by political and financial instability resulting in the disruption of trade from exporting countries, restrictions on the transfer of funds and/or increased tariffs or quotas, war, political unrest, acts of terrorism, natural disasters, adverse weather, climate change, outbreaks of disease or other trade disruptions. For example, the recent COVID-19 outbreak has the potential to significantly impact our supply chain if the factories that manufacture our merchandise are temporarily closed or experience worker shortages or if international shipping is impacted. In addition, an economic downturn, or failure of foreign markets, may result in financial instabilities for our foreign vendors, which may cause our foreign vendors to decrease production, discontinue selling to us, or cease operations altogether. Our global operations in Asia, Australia and Europe could also be affected by changing economic and political conditions in foreign countries, such as Brexit, which could have a negative effect on our business, financial condition and operating results.

Although we continue to be focused on improving our global compliance program, there remains a risk that one or more of our foreign vendors will not adhere to our global compliance standards, such as fair labor standards and the prohibition of child labor. Non-governmental organizations might attempt to create an unfavorable impression of our sourcing practices or the practices of some of our foreign vendors that could harm our image. If either of these events occurs, we could lose customer goodwill and favorable brand recognition, which could negatively affect our business and operating results.

*We depend on foreign vendors and third-party agents for timely and effective sourcing of our merchandise, and we may not be able to acquire products in sufficient quantities and at acceptable prices to meet our needs, which would impact our operations and financial results.*

Our performance depends, in part, on our ability to purchase our merchandise in sufficient quantities at competitive prices. We purchase our merchandise from numerous foreign and domestic manufacturers and importers. We generally have no contractual assurances of continued supply, pricing or access to new products, and any vendor could change the terms upon which it sells to us, discontinue selling to us, or go out of business at any time. We may not be able to acquire desired merchandise in sufficient quantities on terms acceptable to us. Better than expected sales demand may also lead to customer backorders and lower in-stock positions of our merchandise, which could negatively affect our business and operating results. In addition, our vendors may have difficulty adjusting to our changing demands and growing business.

Any inability to acquire suitable merchandise on acceptable terms or the loss of one or more of our foreign vendors or third-party agents could have a negative effect on our business and operating results because we would be missing products that we felt were important to our assortment, unless and until alternative supply arrangements are secured. We may not be able to develop relationships with new vendors or third-party agents, and products from alternative sources, if any, may be of a lesser quality and/or more expensive than those we currently purchase. In addition, we are subject to certain risks that could limit our vendors' ability to provide us with quality merchandise on a timely basis and at prices that are commercially acceptable to us, including risks related to the availability of raw materials, labor disputes, work disruptions or stoppages, union organizing activities, vendor financial liquidity, adverse weather, natural disasters, political unrest, war, acts of terrorism, outbreaks of disease (such as the recent COVID-19 outbreak), general economic and political conditions and regulations to address climate change. For example, if our vendors suffer prolonged work disruptions or stoppages, or transportation or other restrictions, due to public health conditions such as the recent COVID-19 outbreak, or other unforeseen events, our ability to acquire merchandise could be adversely impacted, which would adversely affect our results of operations.

*If our vendors fail to adhere to our quality control standards and test protocols, we may delay a product launch or recall a product, which could damage our reputation and negatively affect our operations and financial results.*

Our vendors might not adhere to our quality control standards, and we might not identify the deficiency before merchandise ships to our stores or customers. Our vendors' failure to manufacture or import quality merchandise in a timely and effective manner could damage our reputation and brands, and could lead to an increase in customer complaints and litigation against us and an increase in our routine insurance and litigation costs. Further, any merchandise that we receive, even if it meets our quality standards, could become subject to a recall, which could damage our reputation and brands, and harm our business. Additionally, changes to the legislative or regulatory framework regarding product safety or quality may subject companies like ours to more product recalls and result in higher recall-related expenses. Any recalls or other safety issues could harm our brands' images and negatively affect our business and operating results.

*Our efforts to expand globally may not be successful and could negatively impact the value of our brands.*

We are currently growing our business and increasing our global presence by opening new stores outside of the U.S., expanding our franchise and shop-in-shop operations, and offering shipping globally through third-party vendors. Since 2013, as part of our overall global expansion strategy, we have operated company-owned retail stores and e-commerce websites outside of North America. While our global expansion to date has been a small part of our business, we plan to continue to increase the number of stores we open both directly and through our franchise and shop-in-shop arrangements. We have limited experience with global sales, understanding consumer preferences and anticipating buying trends in different countries, and marketing to customers overseas. Moreover, global awareness of our brands and our products may not be high. Consequently, we may not be able to successfully compete with established brands in these markets and our global sales may not result in the revenues we anticipate. Additionally, global economic or political instability, work disruptions or stoppages, or outbreaks of diseases, such as the recent COVID-19 outbreak, may delay or harm our efforts to expand globally. Also, our products may not be accepted, either due to foreign legal requirements or due to different consumer tastes and trends. If our global growth initiatives are not successful, or if we or any of our third-party vendors fail to comply with any applicable regulations or laws, we may be forced to close stores or cease operations in certain countries, which may result in significant financial harm, diminish the value of our brands and negatively affect our future opportunities for global growth. Further, the administration of our global expansion may divert management attention and require more resources than we expect.

In addition, we are exposed to foreign currency exchange rate risk with respect to our operations denominated in currencies other than the U.S. dollar. Our retail stores 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. Although we use instruments to hedge certain foreign currency risks, such hedges may not succeed in offsetting all of the impact of foreign currency rate volatility and generally only delay such impact on our business and financial results. Further, because we do not hedge against all of our foreign currency exposure, our business will continue to be susceptible to foreign currency fluctuations. Our ultimate realized gain or loss with respect to currency fluctuations will generally depend on the size and type of the transactions that we enter into, the currency exchange rates associated with these exposures, changes in those rates and whether we have entered into foreign currency hedge contracts to offset these exposures. All of these factors could materially impact our results of operations, financial position and cash flows.

We 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. Under these agreements, our franchisees operate stores and/or e-commerce websites that sell goods purchased from us under our brand names. We continue to expand our franchise operations with our existing franchisees as well as seek to identify new franchise partnerships for select countries. The effect of these franchise arrangements on our business and results of operations is uncertain and will depend upon various factors, including the demand for our products in new global markets. In addition, certain aspects of our franchise arrangements are not directly within our control, such as the ability of each franchisee to meet its projections regarding store openings and sales, and the impact of exchange rate fluctuations on their business. Moreover, while the agreements we have entered into may provide us with certain termination rights, to the extent that our franchisees do not operate their stores in a manner consistent with our requirements regarding our brand identities and customer experience standards, the reputation and value of our brands could be impaired. In addition, in connection with these franchise arrangements, we have and will continue to implement certain new processes that may subject us to additional regulations and laws, such as U.S. export regulations. Failure to comply with any applicable regulations or laws could have an adverse effect on our results of operations.

*We have limited experience operating on a global basis and our failure to effectively manage the risks and challenges inherent in a global business could adversely affect our business, operating results and financial condition and growth prospects.*

We operate several retail businesses, subsidiaries and branch offices throughout Asia, Australia and Europe, which includes managing overseas employees, and may expand these overseas operations in the future. We have limited experience operating overseas subsidiaries and managing non-U.S. employees and, as a result, may encounter cultural challenges with local practices and customs that may result in harm to our reputation and the value of our brands. Our global presence exposes us to the laws and regulations of these jurisdictions, including those related to marketing, privacy, data protection, employment and product safety and testing. We may be unable to keep current with government requirements as they change from time to time. Our failure to comply with such laws and regulations may harm our reputation, adversely affect our future opportunities for growth and expansion in these countries, and harm our business and operating results.

Moreover, our global operations subject us to a variety of risks and challenges, including:

- increased management, infrastructure and legal compliance costs, including the cost of real estate and labor in those markets;
- increased financial accounting and reporting requirements and complexities;
- increased operational and tax complexities, including managing our inventory globally;
- the diversion of management attention away from our core business;
- general economic conditions, changes in diplomatic and trade relationships, including the imposition of new or increased tariffs, political and social instability, war and acts of terrorism, outbreaks of diseases (such as the recent COVID-19 outbreak) and natural disasters in each country or region;
- economic uncertainty around the world;
- compliance with foreign laws and regulations and the risks and costs of non-compliance with such laws and regulations;
- compliance with U.S. laws and regulations for foreign operations;
- dependence on certain third parties, including vendors and other service providers, with whom we do not have extensive experience;
- fluctuations in foreign currency exchange rates and the related effect on our financial results, and the use of foreign exchange hedging programs to mitigate such risks;
- growing cash balances in foreign jurisdictions which may be subject to repatriation restrictions;
- reduced or varied protection for intellectual property rights in some countries and practical difficulties of enforcing such rights abroad; and
- compliance with the laws of foreign taxing jurisdictions and the overlapping of different tax regimes.

Any of these risks could adversely affect our global operations, reduce our revenues or increase our operating costs, which in turn could adversely affect our business, operating results, financial condition and growth prospects. Some of our vendors and our franchisees also have global operations and are subject to the risks described above. Even if we are able to successfully manage the risks of our global operations, our business may be adversely affected if our vendors and franchisees are not able to successfully manage these risks.

In addition, as we continue to expand our global operations, we are subject to certain U.S. laws, including the Foreign Corrupt Practices Act, in addition to the laws of the foreign countries in which we operate. We must ensure that our employees and third-party agents comply with these laws. If any of our overseas operations, or our employees or third-party agents, violates such laws, we could become subject to sanctions or other penalties that could negatively affect our reputation, business and operating results.

*A number of factors that affect our ability to successfully open new stores or close existing stores are beyond our control, and these factors may harm our ability to expand or contract our retail operations and harm our ability to increase our sales and profits.*

As noted above, approximately 44% of our net revenues are generated by our retail stores. Our ability to open additional stores or close existing stores successfully will depend upon a number of factors, including:

- general economic conditions;
- our identification of, and the availability of, suitable store locations;
- our success in negotiating new leases and amending, subleasing or terminating existing leases on acceptable terms;
- the success of other retail stores in and around our retail locations;
- our ability to secure required governmental permits and approvals;
- our hiring and training of skilled store operating personnel, especially management;
- the availability of financing on acceptable terms, if at all; and
- the financial stability of our landlords and potential landlords.

Many of these factors are beyond our control. For example, for the purpose of identifying suitable store locations, we rely, in part, on demographic surveys regarding the location of consumers in our target market segments. While we believe that the surveys and other relevant information are helpful indicators of suitable store locations, we recognize that these information sources cannot predict future consumer preferences and buying trends with complete accuracy. In addition, changes in demographics, in consumer shopping patterns, such as a reduction in mall traffic, in the types of merchandise that we sell and in the pricing of our products, may reduce the number of suitable store locations or cause formerly suitable locations to become less desirable. Further, time frames for lease negotiations and store development vary from location to location and can be subject to unforeseen delays or unexpected cancellations. We may not be able to open new stores or, if opened, operate those stores profitably. Construction and other delays in store openings could have a negative impact on our business and operating results. Additionally, we may not be able to renegotiate the terms of our current leases or close our underperforming stores on terms favorable to us, any of which could negatively impact our operating results.

*Our sales may be negatively impacted by increasing competition from companies with brands or products similar to ours.*

The specialty e-commerce and retail businesses are highly competitive. We compete with other retailers that market lines of merchandise similar to ours. We compete with national, regional and local businesses that utilize a similar retail store strategy, as well as traditional furniture stores, department stores, direct-to-consumer businesses and specialty stores. The substantial sales growth in the e-commerce industry within the last decade has encouraged the entry of many new competitors, including discount retailers selling similar products at reduced prices, new business models, and an increase in competition from established companies, many of whom are willing to spend significant funds and/or reduce pricing in order to gain market share.

The competitive challenges facing us include:

- anticipating and quickly responding to changing consumer demands or preferences better than our competitors;

- maintaining favorable brand recognition and achieving customer perception of value;
- effectively marketing and competitively pricing our products to consumers in several diverse market segments;
- effectively managing and controlling our costs;
- effectively managing increasingly competitive promotional activity;
- effectively attracting new customers;
- developing new innovative shopping experiences, like mobile and tablet applications that effectively engage today's digital customers;
- developing innovative, high-quality products in colors and styles that appeal to consumers of varying age groups, tastes and regions, and in ways that favorably distinguish us from our competitors; and
- effectively managing our supply chain and distribution strategies in order to provide our products to our consumers on a timely basis and minimize returns, replacements and damaged products.

In light of the many competitive challenges facing us, we may not be able to compete successfully. Increased competition could reduce our sales and harm our operating results and business.

*Our business and operating results may be harmed if we are unable to timely and effectively deliver merchandise to our stores and customers.*

If we are unable to effectively manage our inventory levels and responsiveness of our supply chain, including predicting the appropriate levels and type of inventory to stock within each of our distribution facilities, our business and operating results may be harmed. We continue to insource furniture delivery hubs in certain geographies and continue with the regionalization of our retail and e-commerce fulfillment capabilities. We are subject to risks that may disrupt our supply chain operations or regionalization efforts, such as increasing labor costs, union organizing activity and our ability to effectively locate real estate for our distribution facilities or other supply chain operations.

Further, we cannot control all of the various factors that might affect our e-commerce fulfillment rates and timely and effective merchandise delivery to our stores. We rely upon third-party carriers for our merchandise shipments and reliable data regarding the timing of those shipments, including shipments to our customers and to and from our stores. In addition, we are heavily dependent upon two carriers for the delivery of our merchandise to our customers. As a result of our dependence on all of these third-party providers, we are subject to risks, including labor disputes (such as the disruptions at the U.S. West Coast ports in early 2015), union organizing activity, adverse weather, natural disasters, climate change, the closure of such carriers' offices or a reduction in operational hours due to an economic slowdown or the inability to sufficiently ramp up operational hours during an economic recovery or upturn, availability of adequate trucking or railway providers, possible acts of terrorism, outbreaks of disease (such as the recent COVID-19 outbreak) or other factors affecting such carriers' ability to provide delivery services to meet our shipping needs, disruptions or increased fuel costs and costs associated with any regulations to address climate change. For example, if our third-party providers suffer prolonged transportation disruptions or restrictions due to public health conditions, such as the current COVID-19 outbreak, or other unforeseen events, our ability to timely deliver merchandise could be adversely impacted. Failure to deliver merchandise in a timely and effective manner could damage our reputation and brands. In addition, fuel costs have been volatile and airline and other transportation companies continue to struggle to operate profitably, which could lead to increased fulfillment expenses. Any rise in fulfillment expenses could negatively affect our business and operating results.

*Our failure to successfully manage our order-taking and fulfillment operations could have a negative impact on our business and operating results.*

Our e-commerce business depends, in part, on our ability to maintain efficient and uninterrupted order-taking and fulfillment operations in our distribution facilities, our customer care centers and on our e-commerce websites. Disruptions or slowdowns in these areas could result from disruptions in telephone or network services, power outages, inadequate system capacity, system hardware or software issues, computer viruses, security breaches, human error, changes in programming, union organizing activity, insufficient or inadequate labor to fulfill the orders, disruptions in our third-party labor contracts, inefficiencies due to inventory levels and limited distribution facility space, issues with third-party order fulfillment and drop shipping, natural disasters, adverse weather conditions outbreaks of disease (such as the recent COVID-19 outbreak) or acts of terrorism. Industries that are particularly seasonal, such as the home furnishings business, face a higher risk of harm from operational disruptions during peak sales seasons. These problems could result in a reduction in sales as well as increased expenses.

In addition, we face the risk that we cannot hire enough qualified employees to support our e-commerce operations, or that there will be a disruption in the workforce we hire from our third-party providers, especially during our peak season. The need to operate with fewer employees could negatively impact our customer service levels and our operations.

*Our facilities and systems, as well as those of our vendors, are vulnerable to natural disasters, adverse weather conditions, technology issues and other unexpected events, any of which could result in an interruption in our business and harm our operating results.*

Our retail stores, corporate offices, distribution and manufacturing facilities, infrastructure and e-commerce operations, as well as the operations of our vendors from which we receive goods and services, are vulnerable to damage from earthquakes, tornadoes, hurricanes, fires, floods or other volatile weather, power losses, telecommunications failures, hardware and software failures, computer viruses and similar events. If any of these events result in damage to our facilities or systems, or those of our vendors, we may experience interruptions in our business until the damage is repaired, resulting in the potential loss of customers and revenues. In addition, we may incur costs in repairing any damage beyond our applicable insurance coverage.

*Our failure to successfully manage the costs and performance of our catalog mailings might have a negative impact on our business.*

Catalog mailings are an important component of our business. Postal rate increases affect the cost of our catalog mailings. We rely on discounts from the basic postal rate structure, which could be changed or discontinued at any time. Further, the U.S. Postal Service may raise rates in the future, which could negatively impact our business. The cost of paper, printing and catalog distribution also impacts our catalog business. We have consolidated all of our catalog printing work with one printer. Our dependence on one vendor subjects us to various risks if the vendor fails to perform under our agreement. Paper costs have also fluctuated significantly in the past and may continue to fluctuate in the future. We have also recently consolidated all of our paper purchasing through a single broker. Consolidation within the paper industry has reduced the number of potential suppliers capable of meeting our paper requirements, leading to increased costs. Our dependence on a single broker and/or further consolidation in the paper industry could limit our ability in the future to obtain favorable terms including price, custom paper quality, paper quantity and service. Future increases in postal rates, paper costs or printing costs could have a negative impact on our operating results to the extent that we are unable to offset such increases by raising prices, implementing more efficient printing, mailing, delivery and order fulfillment systems, or through the use of alternative direct-mail formats. In addition, if the performance of our catalogs declines, if we misjudge the correlation between our catalog circulation and net sales, or if our catalog strategy overall does not continue to be successful, our results of operations could be negatively impacted.

We have historically experienced fluctuations in our customers' response to our catalogs. Customer response to our catalogs is substantially dependent on merchandise assortment, merchandise availability and creative presentation, as well as the selection of customers to whom the catalogs are mailed, changes in mailing strategies, the size of our mailings, timing of delivery of our mailings, as well as the general retail sales environment and current domestic and global economic conditions. In addition, environmental organizations and other consumer advocacy groups may attempt to create an unfavorable impression of our paper use in catalogs and our distribution of catalogs generally, which may have a negative effect on our sales and our reputation. Further, we depend upon external vendors to print and mail our catalogs. The failure to effectively produce or distribute our catalogs could affect the timing of catalog delivery. The timing of catalog delivery has been and can be affected by postal service delays and may be impacted in the future by changes in the services provided by the post office. Any delays in the timing of catalog delivery could cause customers to forego or defer purchases, negatively impacting our business and operating results.

*Declines in our comparable brand revenues may harm our operating results and cause a decline in the market price of our common stock.*

Various factors affect comparable brand revenues, including the number, size and location of stores we open, close, remodel or expand in any period, the overall economic and general retail sales environment, consumer preferences and buying trends, changes in sales mix among distribution channels, our ability to efficiently source and distribute products, changes in our merchandise mix, competition (including competitive promotional activity and discount retailers), current local and global economic conditions, the timing of our releases of new merchandise and promotional events, the success of marketing programs, the cannibalization of existing store sales by our new stores, changes in catalog circulation and in our e-commerce business and fluctuations in foreign exchange rates. Among other things, weather conditions have affected, and may continue to affect, comparable brand revenues by limiting our ability to deliver our products to our stores, altering consumer behavior, or requiring us to close certain stores temporarily, thus reducing store traffic. Even if stores are not closed, many customers may decide to avoid going to stores in bad weather. These factors have caused, and may continue to cause, our comparable brand revenue results to differ materially from prior periods and from earnings guidance we have provided. For example, the overall economic and general retail sales environment, as well as local and global economic conditions, has caused a significant decline in our comparable brand revenue results in the past. In addition, public health conditions, such as the recent COVID-19 outbreak, or other unforeseen events, could affect our ability to deliver our products to our stores, alter consumer behavior, or require us to close certain stores temporarily, such as our recent announcement to temporarily close all of our U.S. and Canadian retail stores through April 2, 2020, thus reducing store traffic and materially impacting our comparable brand revenues.

Our comparable brand revenues have fluctuated significantly in the past on an annual, quarterly and monthly basis, and we expect that comparable brand revenues will continue to fluctuate in the future. In addition, past comparable brand revenues are not necessarily an indication of future results and comparable brand revenues may decrease in the future. Our ability to improve our comparable brand revenue results depends, in large part, on maintaining and improving our forecasting of customer demand and buying trends, selecting effective marketing techniques, effectively driving traffic to our stores, e-commerce websites and direct-mail catalogs through marketing and various promotional events, providing an appropriate mix of merchandise for our broad and diverse customer base and using effective pricing strategies. Any failure to meet the comparable brand revenue expectations of investors and securities analysts in one or more future periods could significantly reduce the market price of our common stock.

*Our failure to successfully anticipate merchandise returns might have a negative impact on our business.*

We record a reserve for merchandise returns based on historical return trends together with current product sales performance in each reporting period. If actual returns are greater than those projected and reserved for by management, additional sales returns might be recorded in the future. In addition, to the extent that returned merchandise is damaged, we often do not receive full retail value from the resale or liquidation of the merchandise. Further, the introduction of new merchandise, changes in merchandise mix, changes in consumer confidence, or other competitive and general economic conditions may cause actual returns to differ from merchandise return reserves. Any significant increase in merchandise returns that exceeds our reserves could harm our business and operating results.

*If we are unable to successfully manage the complexities associated with an omni-channel and multi-brand business, we may suffer declines in our existing business and our ability to attract new business.*

With the expansion of our e-commerce business, the development of new brands, acquired brands, and brand extensions, our overall business has become substantially more complex. The changes in our business have forced us to develop new expertise and face new challenges, risks and uncertainties. For example, we face the risk that our e-commerce business, including our catalog circulation, might cannibalize a significant portion of our retail sales or our newer brands, brand extensions and products may result in a decrease in sales of existing brands and products. While we recognize that our e-commerce sales and sales from new brands and products cannot be entirely incremental to sales through our retail channel or from existing brands and products, respectively, we seek to attract as many new customers as possible with the most relevant channels, brands and products to meet customer needs and grow our market share. We continually analyze the business results of our channels, brands and products in an effort to find opportunities to build incremental sales.

*If we are unable to introduce new brands and brand extensions successfully, or to reposition or close existing brands, our business and operating results may be negatively impacted.*

We have in the past and may in the future introduce new brands and brand extensions, reposition brands, close existing brands, or acquire new brands, especially as we continue to expand globally. Our newest brands and brand extensions — Williams Sonoma Home and Mark and Graham, and any other new brands, as well as our acquired brand, Rejuvenation, as well as our expansion into new lines of business, including Outward, our new business to business division, which targets commercial businesses across a number of verticals, including commercial furniture and hospitality, our planned subscription-based services, and new businesses within Pottery Barn (Marketplace and Pottery Barn Apartment) may not grow as expected. The work involved with integrating new brands or businesses into our existing systems and operations could be time consuming, require significant amounts of management time and result in the diversion of substantial operational resources. Further, if we devote time and resources to new brands, acquired brands, brand extensions, brand repositioning, or new lines of business and those businesses are not as successful as we planned, then we risk damaging our overall business results or incurring impairment charges to write off any existing goodwill or intangible assets associated with previously acquired brands. As a result, we may not be able to introduce new brands in a manner that improves our overall business and/or operating results and may therefore be forced to close the brands or new lines of business, which may damage our reputation and/or negatively impact our operating results.

*We must protect and maintain our brand image and reputation.*

Our brands have wide recognition, and our success has been due in large part to our ability to maintain, enhance and protect our brand image and reputation and our customers' connection to our brands. Our continued success depends in part on our ability to adapt to a rapidly changing media environment, including our increasing reliance on social media and online dissemination of advertising campaigns. Even if we react appropriately to negative posts or comments about us and/or our brands on social media and online, our customers' perception of our brand image and our reputation could be negatively impacted. In addition, customer sentiment could be shaped by our sustainability policies and related design, sourcing and operations decisions. Failure to maintain, enhance and protect our brand image could have a material adverse effect on our results of operations.

*Any significant changes in tax, trade or other policies in the U.S. or other countries, including policies that restrict imports or increase import tariffs, could have a material adverse effect on our results of operations.*

A significant portion of our products are manufactured outside of the U.S. While the U.S. Tax Cuts and Jobs Act (the "Tax Act"), enacted on December 22, 2017, has not had an adverse effect on our results of operations and is not expected to have an adverse effect on our results of operations going forward, significant changes in tax, trade or other polices either in the U.S. or other countries could materially increase our tax burden or costs of goods sold. These changes in policies may also require us to increase our prices, which could adversely affect our sales.

*Tariffs could result in increased prices and/or costs of goods or delays in product received from our vendors and could adversely affect our results of operations.*

The U.S. administration has enacted certain tariffs and proposed additional tariffs on many items sourced from China, including certain furniture, accessories, furniture parts, and raw materials for domestic furniture manufacturing products imported into the U.S. While we are 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, we may not be able to fully or substantially mitigate the impact of these tariffs, pass price increases on to our customers, or secure adequate alternative sources of products or materials. The tariffs, along with any additional tariffs or retaliatory trade restrictions implemented by other countries, could adversely affect customer sales, including potential delays in product received from our vendors, our cost of goods sold and results of operations.

*Fluctuations in our tax obligations and effective tax rate may result in volatility of our operating results.*

We are subject to income taxes in many U.S. and certain foreign jurisdictions. Our provision for income taxes is subject to volatility and could be adversely impacted by a number of factors that require significant judgment and estimation. Although we believe our estimates are reasonable, actual results may differ materially from our estimates and adversely affect our financial condition or operating results. We record income tax expense based on our estimates of future payments, which include reserves for our estimates of the additional income tax liability that is more likely than not to result from the ultimate resolution of foreign and domestic tax examinations. At any one time, many tax years are subject to examination by various taxing jurisdictions. The results of these audits and negotiations with taxing authorities may affect the ultimate settlement of these issues. As a result, we expect that throughout the year there could be ongoing variability in our quarterly and annual effective tax rates as taxable events occur and uncertain tax positions are either evaluated or resolved. In addition, our effective tax rate in a given financial statement period may be materially impacted by changes in the mix and level of earnings or losses in countries with differing statutory tax rates or by changes to existing laws or regulations. For example, the Tax Act has not had an adverse effect on our results of operations and is not expected to have an adverse effect on our results of operations going forward, but it has had a material impact our effective tax rate.

*Our inability to obtain commercial insurance at acceptable rates or our failure to adequately reserve for self-insured exposures might increase our expenses and have a negative impact on our business.*

We believe that commercial insurance coverage is prudent in certain areas of our business for risk management. Insurance costs may increase substantially in the future and may be affected by natural disasters, outbreaks of disease (such as the recent COVID-19 outbreak), climate change, fear of terrorism, financial irregularities, cybersecurity breaches and other fraud at publicly-traded companies, intervention by the government, an increase in the number of claims received by the carriers, and a decrease in the number of insurance carriers. In addition, the carriers with which we hold our policies may go out of business or be otherwise unable to fulfill their contractual obligations, or may disagree with our interpretation of the coverage or the amounts owed. In addition, for certain types or levels of risk, such as risks associated with certain natural disasters or terrorist attacks, we may determine that we cannot obtain commercial insurance at acceptable rates, if at all. Therefore, we may choose to forego or limit our purchase of relevant commercial insurance, choosing instead to self-insure one or more types or levels of risks. We are primarily self-insured for workers' compensation, employment practices liability, employee health benefits, product and other general liability claims, among others. If we suffer a substantial loss that is not covered by commercial insurance or our self-insurance reserves, the loss and related expenses could harm our business and operating results. In addition, exposures exist for which no insurance may be available and for which we have not reserved.

*Our inability or failure to protect our intellectual property would have a negative impact on our brands, reputation and operating results.*

We may not be able to effectively protect our intellectual property in the U.S. or in foreign jurisdictions, particularly as we continue to expand globally. Our trademarks, service marks, copyrights, trade dress rights, trade secrets, domain names, patents, designs, proprietary technology and other intellectual property are valuable assets that are critical to our success. The unauthorized reproduction, theft or other misappropriation of our intellectual property could diminish the value of our brands or reputation and cause a decline in our sales. Protection of our intellectual property and maintenance of distinct branding are particularly important as they distinguish our products and services from our competitors. In addition, the costs of protecting and policing our intellectual property assets may adversely affect our operating results.

*We may be subject to legal proceedings that could result in costly litigation, require significant amounts of management time and result in the diversion of significant operational resources.*

We are involved in lawsuits, claims and proceedings incident to the ordinary course of our business. Litigation is inherently unpredictable. 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. There has been a rise in the number of lawsuits against companies like us regarding consumer protection, false advertising, data breach, and e-commerce-related patent infringement. From time to time, we have been subject to these types of lawsuits and are currently the subject of some of these types of lawsuits. The cost of defending against these types of claims or the ultimate resolution of any such claims against us, whether by settlement or adverse court decision, may harm our business and operating results. In addition, the increasingly regulated business environment may result in a greater number of enforcement actions by government agencies and private litigation. This could subject us to increased exposure to stockholder lawsuits. Additionally, in recent years there has been an increase in the number of employment claims and, in particular, discrimination and harassment claims. Coupled with the expansion of social media platforms and similar devices that allow individuals access to a broad audience, these claims have had a significant negative impact on some businesses. Certain companies that have faced employment- or harassment-related lawsuits have had to terminate management or other key personnel, and have suffered reputational harm that has negatively impacted their business.

*Our operating results may be harmed by unsuccessful management of our employment, occupancy and other operating costs, and the operation and growth of our business may be harmed if we are unable to attract qualified personnel.*

To be successful, we need to manage our operating costs and continue to look for opportunities to reduce costs. We recognize that we may need to increase the number of our employees, especially during holiday selling seasons, and incur other expenses to support new brands and brand extensions and the growth of our existing brands, including the opening of new stores. In addition, the market for prime real estate is competitive, especially in San Francisco where our corporate offices are headquartered. If we are unable to make substantial adjustments to our cost structure during times of uncertainty, such as an economic downturn or during times of expansion, we may incur unnecessary expense or we may have inadequate resources to properly run our business, and our business and operating results may be negatively impacted. From time to time, we may also experience union organizing activity in currently non-union facilities, including in our stores and distribution facilities. Union organizing activity may result in work slowdowns or stoppages and higher labor costs. In addition, there appears to be a growing number of wage-and-hour lawsuits and other employment-related lawsuits against retail companies, especially in California. State, federal and global laws and regulations regarding employment change frequently and the ultimate cost of compliance cannot be precisely estimated. Further, there have been and may continue to be increases in minimum wage and health care requirements. Any changes in regulations, the imposition of additional regulations, or the enactment of any new or more stringent legislation that impacts employment and labor, trade, or health care, could have an adverse impact on our financial condition and results of operations.

We contract with various agencies to provide us with qualified personnel for our workforce. Any negative publicity regarding these agencies, such as in connection with immigration issues or employment practices, could damage our reputation, disrupt our ability to obtain needed labor or result in financial harm to our business, including the potential loss of business-related financial incentives in the jurisdictions where we operate. Although we strive to secure long-term contracts on favorable terms with our service providers and other vendors, we may not be able to avoid unexpected operating cost increases in the future, such as those associated with minimum wage increases, enhanced health care requirements and benefits, or increases in insurance premiums. Further, we incur substantial costs to warehouse and distribute our inventory. We continue to insource furniture delivery hubs in certain geographies and continue to regionalize our retail and e-commerce fulfillment capabilities. Significant increases in our inventory levels may result in increased warehousing and distribution costs, such as costs related to additional distribution facilities, which we may not be able to lease on acceptable terms, if at all. Such increases in inventory levels may also lead to increases in costs associated with inventory that is lost, damaged or aged. Higher than expected costs, particularly if coupled with lower than expected sales, would negatively impact our business and operating results. In addition, in times of economic uncertainty, these long-term contracts may make it difficult to quickly reduce our fixed operating costs, which could negatively impact our business and operating results.

*We are undertaking certain systems changes that might disrupt our business operations.*

Our success depends, in part, on our ability to source, sell and distribute merchandise efficiently through appropriate systems and procedures. We are in the process of substantially modifying our information technology systems, which involves updating or replacing legacy systems with successor systems over the course of several years. There are inherent risks associated with replacing our core systems, including supply chain and merchandising systems disruptions, that could affect our ability to get the correct products into the appropriate stores and delivered to customers. We may not successfully launch these new systems, or the launch of such systems may result in disruptions to our business operations. In addition, changes to any of our software implementation strategies could result in the impairment of software-related assets. We are also subject to the risks associated with the ability of our vendors to provide information technology solutions to meet our needs. Any disruptions could negatively impact our business and operating results.

In addition, we are in the process of replacing our core financial reporting and human capital management systems with new enterprise resource planning systems to standardize our processes worldwide and adopt best-in-class capabilities. During our implementations, and as we utilize the systems going forward, we may experience periodic or prolonged disruption of our core financial and human capital operations, including our ability to complete our financial close and provide accurate financial reporting on a timely basis, and maintain our internal control compliance efforts. We may also experience errors in data and security or technical reliability issues. In order to realize the benefits of our systems, we may be required to change certain business and financial processes, which involves the risk of disruption to our operations or data errors. In addition, we are heavily reliant on third-party vendors for access to our systems and the accuracy of the functionality within the systems. If we encounter implementation or usage problems with these new systems or other related systems and infrastructure, or if the systems do not operate as intended, do not give rise to anticipated benefits, or fail to integrate properly with our other systems or software platforms, then our business, results of operations, and internal controls over financial reporting may be adversely affected.

*We outsource certain aspects of our business to third-party vendors and are in the process of insourcing certain business functions from third-party vendors, both of which subject us to risks, including disruptions in our business and increased costs.*

We outsource certain aspects of our business to third-party vendors that subject us to risks of disruptions in our business as well as increased costs. For example, we utilize outside vendors for such things as payroll processing, email and other digital marketing and various distribution facilities and delivery services. In some cases, we rely on a single vendor for such services. Accordingly, we are subject to the risks associated with their ability to successfully provide the necessary services to meet our needs. If our vendors are unable to adequately protect our data and information is lost, our ability to deliver our services is interrupted, our vendors' fees are higher than expected, or our vendors make mistakes in the execution of operations support, then our business and operating results may be negatively impacted.

In addition, we are in the process of insourcing certain aspects of our business, including certain technology services and the management of certain furniture manufacturing and delivery, and have recently completed the insourcing of the management of our global vendors, each of which were previously outsourced to third-party providers. We may also need to continue to insource other aspects of our business in the future in order to control our costs and to stay competitive. This may cause disruptions in our business and result in increased cost to us. In addition, if we are unable to perform these functions better than, or at least as well as, our third-party providers, our business may be harmed.

*If our operating and financial performance in any given period does not meet the guidance that we have provided to the public or the expectations of our investors and analysts, our stock price may decline.*

We provide public guidance on our expected operating and financial results for future periods on an annual basis only, as we believe this approach is better aligned with the long-term view we take in managing our business and our focus on long-term stockholder value creation. Although we believe that this guidance provides investors and analysts with a better understanding of management's expectations for the future and is useful to our stockholders and potential stockholders, such guidance is comprised of forward-looking statements subject to the risks and uncertainties described in this report and in our other public filings and public statements. Our actual results may not always be in line with or exceed the guidance we have provided or the expectations of our investors and analysts, especially in times of economic uncertainty. Due to the uncertainty around the scope and the duration of the COVID-19 outbreak, we have delayed issuing guidance for fiscal 2020 until we have better visibility into the effect of the COVID-19 outbreak on our results. In the past, when we have reduced our previously provided guidance, the market price of our common stock has declined. If, in the future, our operating or financial results for a particular period do not meet our guidance or the expectations of our investors and analysts or if we reduce our guidance for future periods, the market price of our common stock may decline.

*A variety of factors, including seasonality and the economic environment, may cause our quarterly operating results to fluctuate, leading to volatility in our stock price.*

Our quarterly results have fluctuated in the past and may fluctuate in the future, depending upon a variety of factors, including changes in economic conditions, shifts in the timing of holiday selling seasons, including Valentine's Day, Easter, Halloween, Thanksgiving and Christmas, as well as timing shifts due to 53-week fiscal years, which occur approximately every five years. Historically, a significant portion of our net revenues and net earnings have typically been realized during the period from October through January each year, our peak selling season. In anticipation of increased holiday sales activity, we incur certain significant incremental expenses prior to and during peak selling seasons, including fixed catalog production and mailing costs and the costs associated with hiring a substantial number of temporary employees to supplement our existing workforce.

*Disruptions in the financial markets may adversely affect our liquidity and capital resources and our business.*

Global financial markets can experience extreme volatility, disruption and credit contraction, which adversely affect global economic conditions. Such turmoil in financial and credit markets, including as a result of the COVID-19 outbreak, or other changes in economic conditions could adversely affect sources of liquidity available to us or our costs of capital. For example, each financial institution in the syndicate for our credit facility is responsible for providing a portion of the loans to be made under the facility. If any lender, or group of lenders, with a significant portion of the commitments in our credit facility fails to satisfy its obligations to extend credit under the facility and we are unable to find a replacement for such lender or group of lenders on a timely basis, if at all, our liquidity and our business may be materially adversely affected. Should we need it, we also may not be able to obtain additional credit on terms which are acceptable to us, if at all.

*Changes in the method of determining the London Interbank Offered Rate, or LIBOR, or the replacement of LIBOR with an alternative reference rate, may adversely affect our financial condition and results of operations.*

Certain of our financial obligations and instruments, including our credit facility, are or may be made at variable interest rates that use LIBOR (or metrics derived from or related to LIBOR) as a benchmark for establishing the interest rate. On July 27, 2017, the United Kingdom's Financial Conduct Authority announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. These reforms may cause LIBOR to perform differently than in the past or to disappear entirely. These reforms may also result in new methods of calculating LIBOR to be established, or alternative reference rates to be established. For example, the Federal Reserve Bank of New York has begun publishing a Secured Overnight Funding Rate, or SOFR, which is intended to replace U.S. dollar LIBOR, and central banks in several other jurisdictions have also announced plans for alternative reference rates for other currencies. The potential consequences of these actions cannot be fully predicted and could have an adverse impact on the market value for or value of LIBOR-linked securities, loans, and other financial obligations or extensions of credit held by or due to us. Changes in market interest rates may influence our financing costs, returns on financial investments and the valuation of derivative contracts and could reduce our earnings and cash flows. In addition, any transition process may involve, among other things, increased volatility or illiquidity in markets for instruments that rely on LIBOR, reductions in the value of certain instruments or the effectiveness of related transactions such as hedges, increased borrowing costs, uncertainty under applicable documentation, or difficult and costly consent processes. This could materially and adversely affect our results of operations, cash flows, and liquidity.

*If we are unable to pay quarterly dividends or repurchase our stock at intended levels, our reputation and stock price may be harmed.*

We had approximately $574,982,000 remaining for future repurchases under our existing stock repurchase program as of February 2, 2020. The stock repurchase program and dividend may require the use of a significant portion of our cash earnings. As a result, we may not retain a sufficient amount of cash to fund our operations or finance future growth opportunities, new product development initiatives and unanticipated capital expenditures, which could adversely affect our financial performance. Further, our Board of Directors may, at its discretion, decrease or entirely discontinue the payment of dividends at any time. The stock repurchase program does not have an expiration date and may be limited or eliminated at any time. Our ability to pay dividends and repurchase stock will depend on our ability to generate sufficient cash flows from operations in the future. This ability may be subject to certain economic, financial, competitive and other factors, including the impact of the COVID-19 outbreak on our liquidity, that are beyond our control. Any failure to pay dividends or repurchase stock after we have announced our intention to do so may negatively impact our reputation and investor confidence in us, and may negatively impact our stock price.

*If we fail to maintain proper and effective internal controls, our ability to produce accurate and timely financial statements could be impaired and our investors' views of us could be harmed.*

We have evaluated and tested our internal controls in order to allow management to report on, and our registered independent public accounting firm to attest to, the effectiveness of our internal controls, as required by Section 404 of the Sarbanes-Oxley Act of 2002. If we are not able to continue to meet the requirements of Section 404 in a timely manner, or with adequate compliance, we may be required to disclose material weaknesses if they develop or are uncovered, and we may be subject to sanctions or investigation by regulatory authorities, such as the SEC or the New York Stock Exchange. In addition, our internal controls may not prevent or detect all errors and fraud on a timely basis, if at all. A control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable assurance that the objectives of the control system will be met. If any of the above were to occur, our business and the perception of us in the financial markets could be negatively impacted.

*Changes to accounting rules or regulations may adversely affect our operating results.*

Changes to existing accounting rules or regulations may impact our future operating results. A change in accounting rules or regulations may even affect our reporting of transactions completed before the change is effective. The introduction of new accounting rules or regulations and varying interpretations of existing accounting rules or regulations have occurred and may occur in the future, such as the new revenue recognition standard, effective for us in fiscal 2018, and the new lease accounting standard, effective for us in fiscal 2019. Future changes to accounting rules or regulations, or the questioning of current accounting practices, may adversely affect our operating results.

*In preparing our financial statements we make certain assumptions, judgments and estimates that affect the amounts reported, which, if not accurate, may impact our financial results.*

We make assumptions, judgments and estimates that impact amounts reported in our consolidated financial statements for a number of items, including merchandise inventories, property and equipment, goodwill, self-insured liabilities, and income taxes, among others. These assumptions, judgments and estimates are derived from historical experience and various other factors that we believe are reasonable under the circumstances as of the date our consolidated financial statements are prepared. Actual results could differ materially from our estimates, and such differences may impact our financial results.

*Changes to estimates related to our cash flow projections may cause us to incur impairment charges related to our long-lived assets for our retail stores locations and other property and equipment, including information technology systems, as well as goodwill.*

We make estimates and projections in connection with impairment analyses of our long-lived assets for our retail store locations and other property and equipment, including information technology systems, as well as goodwill. These analyses require us to make a number of estimates and projections of future results. If these estimates or projections change or prove incorrect, we may be, and have been, required to record impairment charges on certain store locations and other property and equipment, including information technology systems. These impairment charges have been significant in the past and may be significant in the future and, as a result of these charges, our operating results have been and may, in the future, be adversely affected.

*If we fail to attract and retain key personnel, our business and operating results may be harmed.*

Our future success depends to a significant degree on the skills, experience and efforts of key personnel in our senior management, whose vision for our company, knowledge of our business and expertise would be difficult to replace. If any one of our key employees leaves, is seriously injured or unable to work, or fails to perform and we are unable to find a qualified replacement, we may be unable to execute our business strategy. In addition, our main offices are located in the San Francisco Bay Area, where competition for personnel with retail and technology skills can be intense. In addition, several of our strategic initiatives, including our technology and supply chain initiatives, require that we hire and/or develop employees with appropriate experience. We may not be successful in recruiting, retaining and motivating skilled personnel domestically or globally who have the requisite experience to achieve our global business goals, and failure to do so may harm our business. Further, in the event we need to hire additional personnel, we may experience difficulties in attracting and successfully hiring such individuals due to competition for highly skilled personnel, as well as the significantly higher cost of living expenses in our markets.

**ITEM1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

We lease store locations, distribution and manufacturing facilities, corporate facilities and customer care centers for our U.S. and foreign operations for original terms generally ranging from 5 to 22 years. Certain leases contain renewal options for periods of up to 20 years.

For our store locations, our gross leased store space as of February 2, 2020 totaled approximately 6,558,000 square feet for 614 stores compared to approximately 6,557,000 square feet for 625 stores as of February 3, 2019.

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*Leased Properties*

The following table summarizes the location and size of our leased facilities occupied by us as of February 2, 2020:

| Location | Occupied Square Footage (Approximate) |
|---|---|
| *Distribution and Manufacturing Facilities* | |
| Mississippi | 2,165,000 |
| New Jersey | 2,103,000 |
| California | 2,030,000 |
| Georgia | 1,075,000 |
| Texas | 1,064,000 |
| Tennessee | 603,000 |
| North Carolina | 442,000 |
| Ohio | 265,000 |
| Massachusetts | 140,000 |
| Florida | 135,000 |
| Oregon | 91,000 |
| Colorado | 80,000 |
| *Corporate Facilities* | |
| California | 269,000 |
| New York | 238,000 |
| Oregon | 49,000 |
| *Customer Care Centers* | |
| Nevada | 36,000 |
| Other | 32,000 |

In addition to the above leased properties, we enter into agreements for other offsite storage needs for our distribution facilities and our retail store locations, as necessary. As of February 2, 2020, the total leased space related to these properties was not material to us and is not included in the occupied square footage reported above.

*Owned Properties*

As of February 2, 2020, we owned 471,000 square feet of space, primarily in California, for our corporate headquarters and certain data center operations.

We believe that all of our facilities are adequate for our current needs and that suitable additional or substitute space will be available in the future to replace our existing facilities, or to accommodate the expansion of our operations, if necessary.

## ITEM 3. LEGAL PROCEEDINGS

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 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 consolidated financial statements taken as a whole.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

**MARKET INFORMATION**

Our common stock is traded on the New York Stock Exchange, or the NYSE, under the symbol WSM. The closing price of our common stock on the NYSE on March 22, 2020 was $36.37.

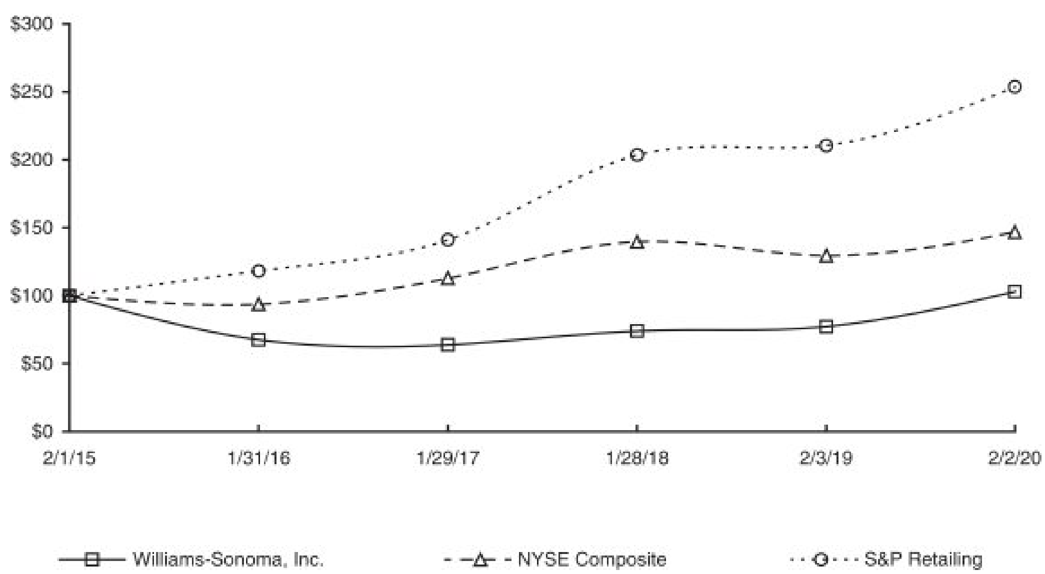
**STOCKHOLDERS**

The number of stockholders of record of our common stock as of March 22, 2020 was 305. This number excludes stockholders whose stock is held in nominee or street name by brokers.

**PERFORMANCE GRAPH**

This graph compares the cumulative total stockholder return for our common stock with those of the NYSE Composite Index and S&P Retailing, our peer group index. The cumulative total return listed below assumed an initial investment of $100 and reinvestment of dividends. The graph shows historical stock price performance, including reinvestment of dividends, and is not necessarily indicative of future performance.

**COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN***
**Among Williams-Sonoma, Inc., the NYSE Composite Index,**
**and S&P Retailing**




* $100 invested on 2/1/15 in stock or index, including reinvestment of dividends. Fiscal year ending February 2, 2020.

| | 2/1/15 | 1/31/16 | 1/29/17 | 1/28/18 | 2/3/19 | 2/2/20 |
|---|---|---|---|---|---|---|
| Williams-Sonoma, Inc. | 100.00 | 67.37 | 63.72 | 73.87 | 77.06 | 102.95 |
| NYSE Composite Index | 100.00 | 93.70 | 112.69 | 139.56 | 129.47 | 146.66 |
| S&P Retailing | 100.00 | 118.07 | 140.98 | 203.43 | 210.40 | 253.71 |

*** Notes:**

A. The lines represent monthly index levels derived from compounded daily returns that include all dividends.
B. The indices are re-weighted daily, using the market capitalization on the previous trading day.
C. If the monthly interval, based on the fiscal year-end, is not a trading day, the preceding trading day is used.

**STOCK REPURCHASE PROGRAMS**

During fiscal 2019, we repurchased 2,341,931 shares of our common stock, of which 16,368 shares were designated as treasury stock, at an average cost of $63.55 per share and a total cost of $148,834,000. During fiscal 2018, we repurchased 5,373,047 shares of our common stock at an average cost of $54.96 per share and a total cost of $295,304,000. During fiscal 2017, we repurchased 4,050,697 shares of our common stock at an average cost of $48.43 per share and a total cost of $196,179,000.

The following table summarizes our repurchases of shares of our common stock during the fourth quarter of fiscal 2019 under our stock repurchase program:

| 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 |
|---|---|---|---|---|---|---|
| November 4, 2019 | – | December 1, 2019 | 160,918 | $ 69.90 | 160,918 | $ 599,853,000 |
| December 2, 2019 | – | December 29, 2019 | 158,780 | $ 70.85 | 158,780 | $ 588,604,000 |
| December 30, 2019 | – | February 2, 2020 | 183,262 | $ 74.33 | 183,262 | $ 574,982,000 |
| Total | | | 502,960 | $ 71.81 | 502,960 | $ 574,982,000 |

[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.

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### ITEM 6. SELECTED FINANCIAL DATA

***Five-Year Selected Financial Data***

| *In thousands, except percentages, per share amounts and retail stores data* | *Fiscal 2019* (52 Weeks) | *Fiscal 2018* [1] (53 Weeks) | Fiscal 2017 (52 Weeks) | Fiscal 2016 (52 Weeks) | Fiscal 2015 (52 Weeks) |
|---|---|---|---|---|---|
| Results of Operations | | | | | |
| Net revenues | $ 5,898,008 | $ 5,671,593 | $ 5,292,359 | $ 5,083,812 | $ 4,976,090 |
| Net revenue growth | 4.0% | 7.2% | 4.1% | 2.2% | 5.9% |
| Comparable brand revenue growth [2] | 6.0% | 3.7% | 3.2% | 0.7% | 3.7% |
| Gross profit | $ 2,139,092 | $ 2,101,013 | $ 1,931,711 | $ 1,883,310 | $ 1,844,214 |
| Gross margin | 36.3% | 37.0% | 36.5% | 37.0% | 37.1% |
| Operating income | $ 465,874 | $ 435,953 | $ 453,811 | $ 472,599 | $ 488,634 |
| Operating margin [3] | 7.9% | 7.7% | 8.6% | 9.3% | 9.8% |
| Net earnings | $ 356,062 | $ 333,684 | $ 259,545 | $ 305,387 | $ 310,068 |
| Basic earnings per share | $ 4.56 | $ 4.10 | $ 3.03 | $ 3.45 | $ 3.42 |
| Diluted earnings per share | $ 4.49 | $ 4.05 | $ 3.02 | $ 3.41 | $ 3.37 |
| Shares used in calculation of earnings per share: | | | | | |
| Basic | 78,108 | 81,420 | 85,592 | 88,594 | 90,787 |
| Diluted | 79,225 | 82,340 | 86,080 | 89,462 | 92,102 |
| Financial Position | | | | | |
| Working capital [4] | $ 146,080 | $ 619,531 | $ 628,622 | $ 405,924 | $ 339,673 |
| Total assets [4] | $ 4,054,042 | $ 2,812,844 | $ 2,785,749 | $ 2,476,879 | $ 2,417,427 |
| Return on assets [4] | 10.4% | 11.9% | 9.9% | 12.5% | 13.1% |
| Net cash provided by operating activities | $ 607,294 | $ 585,986 | $ 499,704 | $ 524,709 | $ 544,026 |
| Capital expenditures | $ 186,276 | $ 190,102 | $ 189,712 | $ 197,414 | $ 202,935 |
| Long-term debt and other long-term liabilities [4] | $ 1,180,968 | $ 380,944 | $ 372,226 | $ 71,215 | $ 49,713 |
| Stockholders' equity | $ 1,235,860 | $ 1,155,714 | $ 1,203,566 | $ 1,248,220 | $ 1,198,226 |
| Stockholders' equity per share (book value) | $ 16.02 | $ 14.66 | $ 14.37 | $ 14.29 | $ 13.38 |
| Return on equity | 29.8% | 28.3% | 21.2% | 25.0% | 25.6% |
| Annual dividends declared per share | $ 1.92 | $ 1.72 | $ 1.56 | $ 1.48 | $ 1.40 |
| Number of stores at year-end | 614 | 625 | 631 | 629 | 618 |
| Store selling square footage at year-end | 4,129,000 | 4,105,000 | 4,019,000 | 3,951,000 | 3,827,000 |
| Store leased square footage at year-end | 6,558,000 | 6,557,000 | 6,451,000 | 6,359,000 | 6,163,000 |

[1] *In fiscal 2018, we adopted ASU 2014-09, Revenue from Contracts with Customers, using the modified retrospective method. Amounts reported for fiscal 2017 and prior years have not been adjusted, and continue to be reported in accordance with previous revenue recognition guidance. See Note A to the Consolidated Financial Statements.*

[2] *Comparable brand revenue is calculated on a 52-week to 52-week basis, with the exception of fiscal 2018 which is calculated on a 53-week to 53-week basis. See definition of comparable brand revenue within "Management's Discussion and Analysis of Financial Condition and Results of Operations."*

[3] *Operating margin is defined as operating income as a percent of net revenues.*

[4] *In fiscal 2019, we adopted Accounting Standards Update ("ASU") 2016-02, Leases, as of the adoption date. Amounts reported for fiscal 2018 and prior years have not been adjusted, and continue to be reported in accordance with previous lease accounting guidance. See Note A to the Consolidated Financial Statements.*

The information set forth above is not necessarily indicative of future operations and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and notes thereto in this Annual Report on Form 10-K.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition, results of operations, and liquidity and capital resources for the 52 weeks ended February 2, 2020 ("fiscal 2019"), and the 53 weeks ended February 3, 2019 ("fiscal 2018") should be read in conjunction with our Consolidated Financial Statements and notes thereto. Fiscal 2018 was a 53-week year and includes approximately $85,000,000 of net revenues and $0.10 of diluted earnings per share associated with the additional week. All explanations of changes in operational results are discussed in order of magnitude.

A discussion and analysis of our financial condition, results of operations, and liquidity and capital resources for the 53-weeks ended February 3, 2019 ("fiscal 2018"), compared to the 52-weeks ended January 28, 2018 ("fiscal 2017"), can be found under Item 7 in our Annual Report on Form 10-K for fiscal 2018, filed with the SEC on April 4, 2019, which is available on the SEC's website at www.sec.gov and under the Financial Reports section of our Investor Relations website.

## OVERVIEW

Williams-Sonoma, Inc. is a specialty retailer of high-quality sustainable 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 614 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.

*Fiscal 2019 Financial Results*

Net revenues in fiscal 2019 increased by $226,415,000 or 4.0%, with comparable brand revenue growth of 6.0%. This increase in net revenues was primarily driven by West Elm and Pottery Barn, partially offset by the loss of the additional week of net revenues in fiscal 2018, a fifty-three week year. Total fiscal 2019 net revenue growth included a 5.4% increase in international revenues primarily related to our franchise operations and strength in our Canadian e-commerce business and company-owned United Kingdom operations.

All brands delivered positive comparable brand revenue growth in fiscal 2019. Growth in Pottery Barn accelerated from last year, driven by strength in e-commerce and growth in new businesses: Marketplace and Pottery Barn Apartment, as well as our digital transformation and brand revitalization strategies. The Pottery Barn Kids and Teen business delivered combined comparable brand revenue growth of 4.5% — its strongest performance in recent years. Our expansion across life stages and aesthetics continued to be key drivers of growth and customer acquisition. West Elm had another year of double-digit net revenue growth and comparable brand revenue growth of 14.4%, on top of 9.5% in fiscal 2018, led by furniture, with strength in dining and bedroom categories, as well as new product introductions. The Williams Sonoma brand delivered comparable brand revenue growth of 0.4%. And, our emerging brands, Rejuvenation and Mark and Graham, combined delivered another year of double-digit revenue growth as they continue to scale and attract new customers.

Gross profit in fiscal 2019 decreased to 36.3% of revenues versus 37.0% in fiscal 2018, primarily driven by lower year-over-year occupancy leverage resulting from one less week of sales in fiscal 2019, increased shipping costs due to a larger mix of furniture and drop-ship sales that are more expensive to ship, as well as the incremental impact from the China tariffs. 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. Our approach towards mitigating the financial impact of these tariffs all year enabled us to deliver operating income growth, operating margin expansion, and diluted earnings per share growth.

In fiscal 2019, diluted earnings per share was $4.49 (which included a $0.30 impact related to operations and acquisition-related expenses of Outward, Inc., $0.11 related to certain employment-related expenses, and an $0.08 benefit related to a deferred tax liability adjustment) versus $4.05 in fiscal 2018 (which included a $0.25 impact related to Outward, Inc., a $0.12 impact related to impairment and early lease termination charges, a $0.07 impact from employment-related expenses, a $0.05 net tax benefit from the Tax Cuts and Jobs Act and a $0.01 impact of equity accounting rules).

During fiscal 2019, our cross-brand programs also continued to scale. Our cross-brand loyalty program, The Key, continues to be an impactful driver of revenues and customer acquisition as total membership continued to grow during the year, while our complimentary design service, Design Crew, continued to be a significant revenue driver of sales in store. Fiscal 2019 was also a strong start for our new cross-brand Business to Business (B2B) division as we delivered several key wins, which establish an important foundation for our future growth and demonstrate the appeal of our differentiated value proposition to B2B clients.

Critical to the success of our growth initiatives in fiscal 2019 has been our continued focus on improving the customer experience. We enhanced our digital experience with new functionalities and content that enable us to deliver a faster and more personalized experience for our customers. During the year, we launched a machine-learning search engine that allows us to provide more relevant and personalized search results. We added more storytelling and selling content on our product information pages and further optimized our site navigation. We also improved our mobile site speed within search and product information pages through enhancements to our Progressive Web App platform. In addition, we implemented more functional improvements to our Outward-powered Design Crew room planner. In our supply chain, we continued to drive operational improvements which contributed to another year of strong growth and better customer service. Within our in-home furniture delivery network in fiscal 2019, we migrated our order management and fulfillment capabilities to a new platform, which allows us to enhance our furniture delivery scheduling capabilities. We also made important strides in increasing customer visibility with the installation of an order tracking program, which provides real-time updates on the day of delivery. 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, and finally, our in-house manufacturing operation continues to be a strategic advantage, attracting demand for our made-to-order upholstered furniture across all our brands, and enabling more domestic production, which helps to mitigate the impact of the China tariffs.

Sustainability continues to be a cornerstone of our business and a key differentiator for our brands. During fiscal 2019, we expanded on our commitment to responsibly sourced cotton and wood across our brands and made further progress in our social impact supply chain programs, including Fair Trade, HERproject and VisionSpring. We also transitioned a reporting framework that incorporates environmental, social and governance (ESG) goals to provide greater transparency into our purpose and progress. Furthermore, we were recognized for the third consecutive year as one of Barron’s 100 Most Sustainable Companies.

In summary, in fiscal 2019, our strong topline performance, along with the operational efficiencies we drove across the business all year, enabled us to generate operating margin expansion to 7.9% from 7.7% last year. We also delivered another year of robust operating cash flow, which allowed us to return approximately $299,474,000 to our stockholders through dividends and share repurchases.

*Looking Ahead to 2020*

Despite our strong start to fiscal 2020, we have been making changes to our operations as we navigate the challenges in the wake of the coronavirus outbreak. We have been preparing all aspects of our business to continue to support our associates and customers during this time. We believe we have adequate liquidity and strong financial discipline to address the near-term challenges. However, the extent of the recent COVID-19 outbreak and its impact on our operations, including our recently announced temporary closure of our U.S. and Canadian retail stores, and the markets served by us is uncertain. A prolonged outbreak could further interrupt our operations, our vendors’ operations, and impact consumer spending, which would have a material impact on our revenues, results of operations, cash flows and liquidity position. For more information on risks associated with the COVID-19 outbreak, please see “Risk Factors” in Item 1A.

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***Results of Operations***

**NET REVENUES**

Net revenues 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 store-value cards, and incentives received from credit card issuers in connection with our private label and co-branded credit cards.

Net revenues in fiscal 2019 increased by $226,415,000 or 4.0%, with comparable brand revenue growth of 6.0%. This increase in net revenues was primarily driven by West Elm and Pottery Barn, partially offset by the loss of the additional week of net revenues in fiscal 2018, a fifty-three week year. Total fiscal 2019 net revenue growth included a 5.4% increase in international revenues, primarily related to our franchise operations, and strength in our Canadian e-commerce business and company-owned United Kingdom operations.

The following table summarizes our net revenues by brand for fiscal 2019 and fiscal 2018:

| *In thousands* | Fiscal 2019 (52 Weeks) | Fiscal 2018 (53 Weeks) |
|---|---|---|
| Pottery Barn | $ 2,214,397 | $ 2,177,344 |
| West Elm | 1,466,537 | 1,292,928 |
| Williams Sonoma | 1,032,368 | 1,056,125 |
| Pottery Barn Kids and Teen | 908,561 | 895,762 |
| Other [1] | 276,145 | 249,434 |
| Total | $ 5,898,008 | $ 5,671,593 |

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

*Comparable Brand Revenue*

Comparable brand revenue includes comparable store sales and e-commerce sales, including through our direct-mail catalog, 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.

| *Comparable brand revenue growth* [1] | Fiscal 2019 (52 Weeks) | Fiscal 2018 (53 Weeks) |
|---|---|---|
| Pottery Barn | 4.1% | 1.2% |
| West Elm | 14.4% | 9.5% |
| Williams Sonoma | 0.4% | 1.7% |
| Pottery Barn Kids and Teen | 4.5% | 2.8% |
| Total [2] | 6.0% | 3.7% |

[1] *Comparable brand revenue is calculated on a 52-week to 52-week basis for fiscal 2019 and on a 53-week to 53-week basis for fiscal 2018 .*
[2] *Total comparable brand revenue growth includes the results of Rejuvenation and Mark and Graham.*

**RETAIL STORE DATA**

| *In thousands* | Fiscal 2019 (52 Weeks) | Fiscal 2018 (53 Weeks) |
|---|---|---|
| Store count – beginning of year | 625 | 631 |
| Store openings | 14 | 23 |
| Store closings | (25) | (29) |
| Store count – end of year | 614 | 625 |
| Store selling square footage at year-end | 4,129,000 | 4,105,000 |
| Store leased square footage (“LSF”) at year-end | 6,558,000 | 6,557,000 |

| | Fiscal 2019 | | Fiscal 2018 | |
|---|---|---|---|---|
| | Store Count | Avg. LSF Per Store | Store Count | Avg. LSF Per Store |
| Williams Sonoma | 211 | 6,900 | 220 | 6,900 |
| Pottery Barn | 201 | 14,400 | 205 | 14,200 |
| West Elm | 118 | 13,100 | 112 | 13,100 |
| Pottery Barn Kids | 74 | 7,700 | 78 | 7,500 |
| Rejuvenation | 10 | 8,500 | 10 | 8,500 |
| Total | 614 | 10,700 | 625 | 10,500 |

**COST OF GOODS SOLD**

| *In thousands* | Fiscal 2019 (52 Weeks) | % Net Revenues | Fiscal 2018 (53 Weeks) | % Net Revenues |
|---|---|---|---|---|
| Cost of goods sold [1] | $ 3,758,916 | 63.7% | $ 3,570,580 | 63.0% |

[1] *Includes occupancy expenses of $710,523 and $702,537 in fiscal 2019 and 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.

*Fiscal 2019 vs. Fiscal 2018*

Cost of goods sold increased by $188,336,000, or 5.3%, in fiscal 2019 compared to fiscal 2018. Cost of goods sold as a percentage of net revenues increased to 63.7% in fiscal 2019 from 63.0% in fiscal 2018. This increase was primarily driven by lower year-over-year occupancy leverage resulting from one less week of sales in fiscal 2019, increased shipping costs due to a larger mix of furniture and drop-ship sales that are more expensive to ship, as well as the incremental impact from the China tariffs.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

| *In thousands* | Fiscal 2019 (52 weeks) | % Net Revenues | Fiscal 2018 (53 weeks) | % Net Revenues |
|---|---|---|---|---|
| Selling, general and administrative expenses | $ 1,673,218 | 28.4% | $ 1,665,060 | 29.4% |

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.

*Fiscal 2019 vs. Fiscal 2018*

Selling, general and administrative expenses increased by $8,158,000, or 0.5%, in fiscal 2019 compared to fiscal 2018. Selling, general and administrative expenses as a percentage of net revenues decreased to 28.4% in fiscal 2019 from 29.4% in 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 cost savings initiatives across the business, as well as our overall expense discipline.

**INCOME TAXES**

The effective income tax rate was 22.1% for fiscal 2019 and 22.3% for fiscal 2018.

**LIQUIDITY AND CAPITAL RESOURCES**

As of February 2, 2020, we held $432,162,000 in cash and cash equivalents, the majority of which was held in interest-bearing demand deposit accounts and money market funds, and of which $201,909,000 was held by our foreign 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.

Throughout the fiscal year, we utilize our cash balances to build our inventory levels in preparation for our fourth quarter holiday sales. In fiscal 2020, we plan to use our cash resources to fund our inventory and inventory-related purchases, advertising and marketing initiatives, stock repurchases and dividend payments, and property and equipment purchases. In addition to our cash balances on hand, we have a credit facility, which provides for a $500,000,000 unsecured revolving line of credit (“revolver”), and a $300,000,000 unsecured term loan facility (“term loan”). The revolver may be used to borrow revolving loans or to 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. During fiscal 2019, we had borrowings under the revolver of $100,000,000, all of which were repaid in the fourth quarter of fiscal 2019. During fiscal 2018, we had borrowings under the revolver of $60,000,000, all of which were repaid in the fourth quarter of fiscal 2018. As of February 2, 2020, 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. Prior to maturity in fiscal 2020, we intend to renew and extend our $300,000,000 term loan. See Note P: Subsequent Events to our Consolidated Financial Statements. Additionally, as of February 2, 2020, a total of $12,187,000 in issued but undrawn standby letters of credit were outstanding under the credit facility. The standby letters of credit were issued to secure the liabilities associated with workers’ compensation and other insurance programs.

Additionally, we have three unsecured letter of credit reimbursement facilities, which were amended during the year, for a total of $70,000,000, of which an aggregate of $6,462,000 was outstanding as of February 2, 2020. These letter of credit facilities represent only a future commitment to fund inventory purchases to which we had not taken legal title.

We are currently in compliance with all of our financial covenants under the credit facility. 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. see “Risk Factors” in Item 1A and Note P: Subsequent Events to our Consolidated Financial Statements.

*Cash Flows from Operating Activities*

For fiscal 2019, net cash provided by operating activities was $607,294,000 compared to $585,986,000 in fiscal 2018. For fiscal 2019, net cash provided by operating activities was primarily attributable to net earnings adjusted for non-cash items, a decrease in merchandise inventories, and an increase in accrued expenses and other liabilities, partially offset by a decrease in accounts payable. This represents an increase in net cash provided by operating activities compared to fiscal 2018 primarily due to a decrease in merchandise inventories and a decrease in prepaid expenses, partially offset by an increase in payments for accounts payable and accrued expenses, and a decrease in gift card and other deferred revenue.

*Cash Flows from Investing Activities*

For fiscal 2019, net cash used in investing activities was $185,548,000 compared to $187,899,000 in fiscal 2018, and was primarily attributable to purchases of property and equipment.

*Cash Flows from Financing Activities*

For fiscal 2019, net cash used in financing activities was $327,226,000 compared to $450,066,000 in fiscal 2018. For fiscal 2019, net cash used in financing activities was primarily attributable to the payment of dividends and repurchases of common stock. Net cash used in financing activities compared to fiscal 2018 decreased primarily due to a decrease in repurchases of common stock.

***Dividends***

In fiscal 2019 and fiscal 2018, total cash dividends declared were approximately $156,103,000, or $1.92 per common share, and $144,609,000, or $1.72 per common share, respectively. Our quarterly cash dividend may be limited or terminated at any time.

***Stock Repurchase Programs***

See section titled “Stock Repurchase Programs” within Part II, Item 5 of this Annual Report on Form 10-K for further information.

***Contractual Obligations***

The following table provides summary information concerning our future contractual obligations as of February 2, 2020:

| | Payments Due by Period [1] | | | | |
|---|---|---|---|---|---|
| *In thousands* | Fiscal 2020 | Fiscal 2021 to Fiscal 2023 | Fiscal 2024 to Fiscal 2025 | Thereafter | Total |
| Current debt [2] | $ 300,000 | $ — | $ — | $ — | $ 300,000 |
| Interest | 9,634 | — | — | — | 9,634 |
| Operating leases [3] | 281,995 | 637,867 | 284,461 | 333,413 | 1,537,736 |
| Purchase obligations [4] | 857,106 | 28,420 | 83 | — | 885,609 |
| Total | $ 1,448,735 | $ 666,287 | $ 284,544 | $ 333,413 | $ 2,732,979 |

[1] *This table excludes $43.9 million of liabilities for unrecognized tax benefits associated with uncertain tax positions as we are not able to reasonably estimate when and if cash payments for these liabilities will occur. This amount, however, has been recorded as a liability in our accompanying Consolidated Balance Sheet as of February 2, 2020.*

[2] *Current debt consists of term loan borrowings under our credit facility. See Note C to our Consolidated Financial Statements for discussion of our borrowing arrangements.*

[3] *Projected undiscounted payments include only those amounts that are fixed and determinable as of the reporting date. See Note E to our Consolidated Financial Statements for discussion of our operating leases.*

[4] *Represents estimated commitments at year-end to purchase inventory and other goods and services in the normal course of business to meet operational requirements.*

*Other Contractual Obligations*

We have other liabilities reflected in our Consolidated Balance Sheet. The payment obligations associated with these liabilities are not reflected in the table above due to the absence of scheduled maturities. The timing of these payments cannot be determined, except for amounts estimated to be payable in fiscal 2020, which are included in our current liabilities as of February 2, 2020.

In connection with our acquisition of Outward Inc., we have agreed to pay certain additional amounts to former stockholders of Outward, contingent upon their continued service or the achievement of certain financial performance targets. These contingent obligations are not reflected in the table above. See Note O to Our Consolidated Financial Statements.

We are party to a variety of contractual agreements under which we may be obligated to indemnify the other party for certain matters. These contracts primarily relate to commercial matters, operating leases, trademarks, intellectual property and financial matters. Under these contracts, we may provide certain routine indemnification relating to representations and warranties or personal injury matters. The terms of these indemnifications range in duration and may not be explicitly defined. Historically, we have not made significant payments for these indemnifications. We believe that if we were to incur a loss in any of these matters, the loss would not have a material effect on our financial condition or results of operations.

***Commercial Commitments***

The following table provides summary information concerning our outstanding commercial commitments as of February 2, 2020:

| | Amount of Outstanding Commitment Expiration by Period [1] | | | | |
|---|---|---|---|---|---|
| *In thousands* | Fiscal 2020 | Fiscal 2021 to Fiscal 2023 | Fiscal 2024 to Fiscal 2025 | Thereafter | Total |
| Standby letters of credit | $ 12,187 | $ — | $ — | $ — | $ 12,187 |
| Letter of credit facilities | 6,462 | — | — | — | 6,462 |
| Total | $ 18,649 | $ — | $ — | $ — | $ 18,649 |

[1] *See Note C to our Consolidated Financial Statements for discussion of our borrowing arrangements.*

**IMPACT OF INFLATION**

The impact of inflation (or deflation) on our results of operations for the past three fiscal years has not been significant. However, we cannot be certain of the effect inflation (or deflation) may have on our results of operations in the future.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Management’s Discussion and Analysis of Financial Condition and Results of Operations is based on our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these 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 from these estimates.

We believe the following critical accounting policies used in the preparation of our Consolidated Financial Statements include the significant estimates and assumptions that we consider to be the most critical to an understanding of our financial statements because they involve significant judgments and uncertainties. See Note A to our Consolidated Financial Statements for further discussion of each policy.

*Merchandise Inventories*

Merchandise inventories, net of an allowance for shrinkage and obsolescence, are stated at the lower of cost (weighted average method) or market. To determine if the value of our inventory should be reduced below cost, we consider current and anticipated demand, customer preferences and age of the merchandise. The significant estimates used in inventory valuation are obsolescence (including excess and slow-moving inventory and lower of cost or market reserves) and estimates of inventory shrinkage. We reserve for obsolescence based on historical trends of inventory sold below cost and specific identification.

Reserves for shrinkage are estimated and recorded throughout the year as a percentage of net sales based on historical shrinkage results, cycle count results within our distribution centers, expectations of future shrinkage and current inventory levels. Actual shrinkage is recorded at year-end based on the results of our cycle counts and year end physical inventory counts, and can vary from our estimates due to such factors as changes in operations, the mix of our inventory (which ranges from large furniture to small tabletop items) and execution against loss prevention initiatives in our stores, distribution facilities and off-site storage locations, and with our third-party warehouse and transportation providers. Accordingly, there is no shrinkage reserve at year-end, with the exception of a cycle count reserve based on the historical cycle count results in our distribution centers. This reserve was not material to our Consolidated Financial Statements as of February 2, 2020. Historically, actual shrinkage has not differed materially from our estimates.

Our obsolescence and shrinkage reserve calculations contain estimates that require management to make assumptions and to apply judgment regarding a number of factors, including market conditions, the selling environment, historical results and current inventory trends. If actual obsolescence or shrinkage estimates change from our original estimate, we will adjust our reserves accordingly throughout the year. We have made no material changes to our assumptions included in the calculations of the obsolescence and shrinkage reserves throughout the year. In addition, we do not believe a 10% change in our inventory reserves would have a material effect on our net earnings. As of February 2, 2020 and February 3, 2019, our inventory obsolescence reserves were $13,424,000 and $13,580,000, respectively.

*Long-lived Assets*

Property and equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the 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 or asset group may not be recoverable. Our impairment analyses determine whether projected cash flows from operations are sufficient to recover the carrying value of these assets. The asset group is comprised of both property and equipment and operating lease right-of-use assets. Impairment may result when the carrying value of the asset or asset group exceeds the estimated undiscounted future cash flows over its remaining useful life. For store asset impairment, our estimate of undiscounted future cash flows over the store lease term is based upon our experience, the historical operations of the stores and estimates of future store profitability and economic conditions. The estimates of future store profitability and economic conditions require estimating such factors as sales growth, gross margin, employment costs, lease escalations, inflation and the overall economics of the retail industry, and are therefore subject to variability and difficult to predict. For right-of-use assets, we determine the fair value of the assets by using estimated market rental rates. These estimates can be affected by factors such as future store results, real estate demand, store closure plans, and economic conditions that can be difficult to predict. Actual future results may differ from those estimates. If a long-lived asset is found to be impaired, the amount recognized for impairment is equal to the excess of the asset or asset group’s net carrying value over its estimated fair value. We measure property and equipment at fair value on a nonrecurring basis using Level 3 inputs as defined in the fair value hierarchy (see Note M to our Consolidated Financial Statements). We measure right-of-use assets at fair value on a nonrecurring basis using Level 2 inputs, primarily market rental rates, 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.

During fiscal 2019, we recorded an approximate $3,303,000, reduction, net of tax to the opening balance of retained earnings resulting from the impairment of certain long-lived assets upon adoption of ASU 2016-02, *Leases* (see Note A to our Consolidated Financial Statements). During fiscal 2018, we recorded asset impairment charges of approximately $9,639,000, related to property and equipment for our retail stores, which is recorded within selling, general and administrative expenses.

*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 potential lease agreements, including service and operating agreements, to determine 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.

Upon lease commencement, we recognize a right-of-use asset and a corresponding lease liability measured at the present value of the fixed future minimum lease payments. 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 remeasurement event occurs. Many of our leases contain renewal 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 we do not believe the exercise of these options to be reasonably certain. We remeasure the lease liability and right-of-use asset when we are reasonably certain to exercise a renewal or an early termination option.

Our leases generally 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. We use judgment in determining our incremental borrowing rate, which is applied to each lease based on the lease term. An increase or decrease in the incremental borrowing rate applied would impact the value of our right-of-use assets and lease liabilities.

We use judgment in determining lease classification, including our determination of the economic life and the fair market value of the identified asset. The fair market value of the identified asset is generally estimated based on comparable market data provided by third-party sources. All of our leases are currently classified as operating leases.

*Business Combinations*

We account for acquired businesses when we obtain control of the business using the acquisition method of accounting. Assets acquired and liabilities assumed are recorded based upon the estimated fair value as of the acquisition date. Estimated fair values represent the estimated price that would be paid by a third-party market participant based upon the highest and best use of the assets acquired or liabilities assumed. The determination of the fair value of assets acquired and liabilities assumed requires significant judgment and estimates. In making such judgments and estimates, we utilize inputs from independent third-party valuation specialists and other internal sources. Any excess of the purchase price over the estimated fair value of the identifiable net assets acquired is recorded as goodwill. Acquisition-related expenses are expensed as incurred. During fiscal 2017, we acquired Outward (see Note O to our Consolidated Financial Statements). During the second quarter of fiscal 2018, we finalized the valuation of intangible assets acquired, which primarily represent 3-D imaging data and core intellectual property, which are being amortized over a useful life of four years.

*Goodwill*

Goodwill is initially recorded as of the acquisition date, and is measured as any excess of the purchase price over the estimated fair value of the identifiable net assets acquired. Goodwill is not amortized, but rather is subject to impairment testing annually (on the first day of the fourth quarter), or between annual tests whenever events or changes in circumstances indicate that the fair value of a reporting unit may be below its carrying amount. We first perform a qualitative assessment to evaluate goodwill for potential impairment. If based on that assessment, it is more likely than not that the fair value of the reporting unit is below its carrying value, a quantitative impairment test is necessary. The quantitative impairment test requires determining the fair value of the reporting unit. We use the income approach, whereby we calculate the fair value based on the present value of estimated future cash flows using a discount rate that approximates our weighted average cost of capital. The process of evaluating the potential impairment of goodwill is subjective and requires significant estimates and assumptions about the future, such as sales growth, gross margins, employment costs, capital expenditures, inflation and future economic and market conditions. Actual future results may differ from those estimates. If the carrying value of the reporting unit's assets and liabilities, including goodwill, exceeds its fair value, impairment is recorded for the excess, not to exceed the total amount of goodwill allocated to the reporting unit.

As of February 2, 2020 and February 3, 2019, we had goodwill of $85,343,000 and $85,382,000, respectively, primarily related to our fiscal 2017 acquisition of Outward and our fiscal 2011 acquisition of Rejuvenation, Inc. In fiscal 2019, fiscal 2018, and fiscal 2017, we performed a qualitative assessment of potential goodwill impairment and determined it was more likely than not that the fair value of each of our reporting units exceeded its carrying value. Accordingly, no further impairment testing of goodwill was performed. We did not recognize any goodwill impairment in fiscal 2019, fiscal 2018, or fiscal 2017.

*Self-Insured Liabilities*

We are primarily self-insured for workers' compensation, employee health benefits, product and other general liability claims. We record self-insurance liability reserves based on claims filed, including the development of those claims, and an estimate of claims incurred but not yet reported, based on an actuarial analysis of historical claims data. Factors affecting these estimates include future inflation rates, changes in severity, benefit level changes, medical costs and claim settlement patterns. Should a different number of claims occur compared to what was estimated, or costs of the claims increase or decrease beyond what was anticipated, reserves may need to be adjusted accordingly. Self-insurance reserves for workers' compensation, employee health benefits, product and other general liability claims were $27,000,000 and $28,542,000 as of February 2, 2020 and February 3, 2019, respectively.

*Income Taxes*

Income taxes are accounted for using the asset and liability method. Under this method, deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in our Consolidated Financial Statements. We record reserves for our estimates of the additional income tax liability that is more likely than not to result from the ultimate resolution of foreign and domestic tax examinations. At any one time, many tax years are subject to examination by various taxing jurisdictions. The results of these audits and negotiations with taxing authorities may affect the ultimate settlement of these issues. We review and update the estimates used in the accrual for uncertain tax positions as more definitive information becomes available from taxing authorities, upon completion of tax examination, upon expiration of statutes of limitation, or upon occurrence of other events.

In order to compute income tax on an interim basis, we estimate what our effective tax rate will be for the full fiscal year and adjust these estimates throughout the year as necessary. Adjustments to our income tax provision due to changes in our estimated effective tax rate are recorded in the interim period in which the change occurs. The tax expense (or benefit) related to items other than ordinary income is individually computed and recognized when the items occur. Our effective tax rate in a given financial statement period may be materially impacted by changes in the mix and level of our earnings in various taxing jurisdictions or changes in tax law.

## ITEM 7A. 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. As of February 2, 2020, we had $300,000,000 outstanding under the term loan, and during fiscal 2019 we had borrowings of $100,000,000 under the revolver, all of which were repaid in the fourth quarter of fiscal 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. See Note P: Subsequent Events to our Consolidated Financial Statements.

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 February 2, 2020, 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 and, as such, any foreign currency impact related to these international purchase transactions was not significant to us during fiscal 2019 or 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 would subject us to 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 retail and e-commerce 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 fiscal 2019, 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 L to our Consolidated Financial Statements).

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

***Williams-Sonoma, Inc.***
***Consolidated Statements of Earnings***

| *In thousands, except per share amounts* | Fiscal 2019 (52 weeks) | Fiscal 2018 (53 weeks) | Fiscal 2017 (52 weeks) |
|---|---|---|---|
| Net revenues | $ 5,898,008 | $ 5,671,593 | $ 5,292,359 |
| Cost of goods sold | 3,758,916 | 3,570,580 | 3,360,648 |
| Gross profit | 2,139,092 | 2,101,013 | 1,931,711 |
| Selling, general and administrative expenses | 1,673,218 | 1,665,060 | 1,477,900 |
| Operating income | 465,874 | 435,953 | 453,811 |
| Interest (income) expense, net | 8,853 | 6,706 | 1,372 |
| Earnings before income taxes | 457,021 | 429,247 | 452,439 |
| Income taxes | 100,959 | 95,563 | 192,894 |
| Net earnings | $ 356,062 | $ 333,684 | $ 259,545 |
| Basic earnings per share | $ 4.56 | $ 4.10 | $ 3.03 |
| Diluted earnings per share | $ 4.49 | $ 4.05 | $ 3.02 |
| Shares used in calculation of earnings per share: | | | |
| Basic | 78,108 | 81,420 | 85,592 |
| Diluted | 79,225 | 82,340 | 86,080 |

*See Notes to Consolidated Financial Statements.*

***Williams-Sonoma, Inc.***
***Consolidated Statements of Comprehensive Income***

| *In thousands* | Fiscal 2019 (52 weeks) | Fiscal 2018 (53 weeks) | Fiscal 2017 (52 weeks) |
|---|---|---|---|
| Net earnings | $ 356,062 | $ 333,684 | $ 259,545 |
| Other comprehensive income (loss): | | | |
| Foreign currency translation adjustments | (3,334) | (5,032) | 3,730 |
| Change in fair value of derivative financial instruments, net of tax (tax benefit) of $195, $390 and $(259) | 163 | 1,098 | (715) |
| Reclassification adjustment for realized (gain) loss on derivative financial instruments, net of tax (tax benefit) of $261, $122 and $(38) | (343) | (357) | 106 |
| Comprehensive income | $ 352,548 | $ 329,393 | $ 262,666 |

*See Notes to Consolidated Financial Statements.*

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***Williams-Sonoma, Inc.***
***Consolidated Balance Sheets***

| *In thousands, except per share amounts* | Feb. 2, 2020 | Feb. 3, 2019 |
|---|---|---|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | $ 432,162 | $ 338,954 |
| Accounts receivable, net | 111,737 | 107,102 |
| Merchandise inventories, net | 1,100,544 | 1,124,992 |
| Prepaid expenses | 90,426 | 101,356 |
| Other current assets | 20,766 | 21,939 |
| Total current assets | 1,755,635 | 1,694,343 |
| Property and equipment, net | 929,038 | 929,635 |
| Operating lease right-of-use assets | 1,166,383 | — |
| Deferred income taxes, net | 47,977 | 44,055 |
| Goodwill | 85,343 | 85,382 |
| Other long-term assets, net | 69,666 | 59,429 |
| Total assets | $ 4,054,042 | $ 2,812,844 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable | $ 521,235 | $ 526,702 |
| Accrued expenses | 175,003 | 163,559 |
| Gift card and other deferred revenue | 289,613 | 290,445 |
| Income taxes payable | 22,501 | 21,461 |
| Current debt | 299,818 | — |
| Operating lease liabilities | 227,923 | — |
| Other current liabilities | 73,462 | 72,645 |
| Total current liabilities | 1,609,555 | 1,074,812 |
| Deferred rent and lease incentives | 27,659 | 201,374 |
| Long-term debt | — | 299,620 |
| Long-term operating lease liabilities | 1,094,579 | — |
| Other long-term liabilities | 86,389 | 81,324 |
| Total liabilities | 2,818,182 | 1,657,130 |
| Commitments and contingencies – See Note I | | |
| Stockholders' equity | | |
| Preferred stock: $.01 par value; 7,500 shares authorized; none issued | — | — |
| Common stock: $.01 par value; 253,125 shares authorized; 77,137 and 78,813 shares issued and outstanding at February 2, 2020 and February 3, 2019, respectively | 772 | 789 |
| Additional paid-in capital | 605,822 | 581,900 |
| Retained earnings | 644,794 | 584,333 |
| Accumulated other comprehensive loss | (14,587) | (11,073) |
| Treasury stock – at cost: 14 and 2 shares as of February 2, 2020 and February 3, 2019, respectively | (941) | (235) |
| Total stockholders' equity | 1,235,860 | 1,155,714 |
| Total liabilities and stockholders' equity | $ 4,054,042 | $ 2,812,844 |

*See Notes to Consolidated Financial Statements.*

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***Williams-Sonoma, Inc.***
***Consolidated Statements of Stockholders' Equity***

| *In thousands* | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|
| Balance at January 29, 2017 | 87,325 | $ 873 | $556,928 | $ 701,702 | $ (9,903) | $(1,380) | $ 1,248,220 |
| Net earnings | — | — | — | 259,545 | — | — | 259,545 |
| Foreign currency translation adjustments | — | — | — | — | 3,730 | — | 3,730 |
| Change in fair value of derivative financial instruments, net of tax | — | — | — | — | (715) | — | (715) |
| Reclassification adjustment for realized (gain) loss on derivative financial instruments, net of tax | — | — | — | — | 106 | — | 106 |
| Conversion/release of stock-based awards [1] | 452 | 5 | (17,810) | — | — | (325) | (18,130) |
| Repurchases of common stock | (4,051) | (41) | (18,518) | (177,620) | — | — | (196,179) |
| Reissuance of treasury stock under stock-based compensation plans [1] | — | — | (554) | (426) | — | 980 | — |
| Stock-based compensation expense | — | — | 42,768 | — | — | — | 42,768 |
| Dividends declared | — | — | — | (135,779) | — | — | (135,779) |
| Balance at January 28, 2018 | 83,726 | 837 | 562,814 | 647,422 | (6,782) | (725) | 1,203,566 |
| Net earnings | — | — | — | 333,684 | — | — | 333,684 |
| Foreign currency translation adjustments | — | — | — | — | (5,032) | — | (5,032) |
| Change in fair value of derivative financial instruments, net of tax | — | — | — | — | 1,098 | — | 1,098 |
| Reclassification adjustment for realized (gain) loss on derivative financial instruments, net of tax | — | — | — | — | (357) | — | (357) |
| Conversion/release of stock-based awards [1] | 460 | 5 | (14,149) | — | — | (291) | (14,435) |
| Repurchases of common stock | (5,373) | (53) | (25,775) | (269,476) | — | — | (295,304) |
| Reissuance of treasury stock under stock-based compensation plans [1] | — | — | (418) | (363) | — | 781 | — |
| Stock-based compensation expense | — | — | 59,428 | — | — | — | 59,428 |
| Dividends declared | — | — | — | (144,609) | — | — | (144,609) |
| Adoption of accounting pronouncements [2] | — | — | — | 17,675 | — | — | 17,675 |
| Balance at February 3, 2019 | 78,813 | 789 | 581,900 | 584,333 | (11,073) | (235) | 1,155,714 |
| Net earnings | — | — | — | 356,062 | — | — | 356,062 |
| Foreign currency translation adjustments | — | — | — | — | (3,334) | — | (3,334) |
| Change in fair value of derivative financial instruments, net of tax | — | — | — | — | 163 | — | 163 |
| Reclassification adjustment for realized (gain) loss on derivative financial instruments, net of tax | — | — | — | — | (343) | — | (343) |
| Conversion/release of stock-based awards [1] | 649 | 6 | (27,624) | — | — | (134) | (27,752) |
| Repurchases of common stock | (2,325) | (23) | (11,658) | (136,195) | — | (958) | (148,834) |
| Reissuance of treasury stock under stock-based compensation plans [1] | — | — | (386) | — | — | 386 | — |
| Stock-based compensation expense | — | — | 63,590 | — | — | — | 63,590 |
| Dividends declared | — | — | — | (156,103) | — | — | (156,103) |
| Adoption of accounting pronouncements [3] | — | — | — | (3,303) | — | — | (3,303) |
| Balance at February 2, 2020 | 77,137 | $ 772 | $605,822 | $ 644,794 | $ (14,587) | $ (941) | $ 1,235,860 |

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 Note A.*

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

*See Notes to Consolidated Financial Statements.*

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***Williams-Sonoma, Inc.***
***Consolidated Statements of Cash Flows***

| *In thousands* | Fiscal 2019 (52 Weeks) | Fiscal 2018 (53 Weeks) | Fiscal 2017 (52 Weeks) |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net earnings | $ 356,062 | $ 333,684 | $ 259,545 |
| Adjustments to reconcile net earnings to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 187,759 | 188,808 | 183,077 |
| Loss on disposal/impairment of assets | 1,755 | 10,209 | 1,889 |
| Amortization of deferred lease incentives | (7,714) | (26,199) | (25,372) |
| Non-cash lease expense | 215,810 | — | — |
| Deferred income taxes | (2,557) | 23,639 | 63,381 |
| Stock-based compensation expense | 64,163 | 59,802 | 42,988 |
| Other | (26) | (579) | (135) |
| Changes in: | | | |
| Accounts receivable | (5,034) | (15,329) | 149 |
| Merchandise inventories | 24,219 | (70,331) | (80,235) |
| Prepaid catalog expenses | — | — | (1,019) |
| Prepaid expenses and other assets | (3,189) | (54,691) | (15,475) |
| Accounts payable | (11,051) | 62,377 | 2,549 |
| Accrued expenses and other liabilities | 13,259 | 45,976 | 9,597 |
| Gift card and other deferred revenue | (640) | 38,899 | (3,002) |
| Deferred rent and lease incentives | — | 24,929 | 28,226 |
| Operating lease liabilities | (226,257) | — | — |
| Income taxes payable | 735 | (35,208) | 33,541 |
| Net cash provided by operating activities | 607,294 | 585,986 | 499,704 |
| Cash flows from investing activities: | | | |
| Purchases of property and equipment | (186,276) | (190,102) | (189,712) |
| Acquisition of Outward, Inc., net of cash received | — | — | (80,528) |
| Other | 728 | 2,203 | 480 |
| Net cash used in investing activities | (185,548) | (187,899) | (269,760) |
| Cash flows from financing activities: | | | |
| Payment of dividends | (150,640) | (140,325) | (135,010) |
| Repurchases of common stock | (148,834) | (295,304) | (196,179) |
| Borrowings under revolving line of credit | 100,000 | 60,000 | 170,000 |
| Repayments of borrowings under revolving line of credit | (100,000) | (60,000) | (170,000) |
| Tax withholdings related to stock-based awards | (27,752) | (14,437) | (18,130) |
| Proceeds from issuance of long-term debt | — | — | 300,000 |
| Debt issuance costs | — | — | (1,191) |
| Other | — | — | (1,197) |
| Net cash used in financing activities | (327,226) | (450,066) | (51,707) |
| Effect of exchange rates on cash and cash equivalents | (1,312) | 797 | (1,814) |
| Net increase (decrease) in cash and cash equivalents | 93,208 | (51,182) | 176,423 |
| Cash and cash equivalents at beginning of year | 338,954 | 390,136 | 213,713 |
| Cash and cash equivalents at end of year | $ 432,162 | $ 338,954 | $ 390,136 |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid during the year for interest | $ 12,682 | $ 11,424 | $ 2,915 |
| Cash paid during the year for income taxes, net of refunds | $ 113,344 | $ 107,951 | $ 99,062 |
| Non-cash investing activities: | | | |
| Purchases of property and equipment not yet paid for at end of year | $ 2,386 | $ 2,773 | $ 1,257 |

*See Notes to Consolidated Financial Statements.*

***Williams-Sonoma, Inc.***
***Notes to Consolidated Financial Statements***

**Note A: Summary of Significant Accounting Policies**

We are 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 614 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 2017, we acquired Outward, Inc., a 3-D imaging and augmented reality platform for the home furnishings and décor industry.

*Consolidation*
The Consolidated Financial Statements include the accounts of Williams-Sonoma, Inc. and its subsidiaries. All intercompany transactions and balances have been eliminated.

*Fiscal Year*
Our fiscal year ends on the Sunday closest to January 31, based on a 52 or 53-week year. Fiscal 2019, a 52-week year, ended on February 2, 2020; Fiscal 2018, a 53-week year, ended on February 3, 2019; and Fiscal 2017, a 52-week year, ended on January 28, 2018.

*Use of Estimates*
The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America 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 from these estimates.

*Cash Equivalents*
Cash equivalents include highly liquid investments with an original maturity of three months or less. As of February 2, 2020, we were invested primarily in interest-bearing demand deposit accounts and money market funds. Book cash overdrafts issued, but not yet presented to the bank for payment, are reclassified to accounts payable.

*Accounts Receivable and Allowance for Doubtful Accounts*
Accounts receivable are stated at their carrying values, net of an allowance for doubtful accounts. Accounts receivable consist primarily of credit card, franchisee and landlord receivables for which collectability is reasonably assured. Receivables are evaluated for collectability on a regular basis and an allowance for doubtful accounts is recorded, if necessary. Our allowance for doubtful accounts was not material to our financial statements as of February 2, 2020 and February 3, 2019.

*Merchandise Inventories*
Merchandise inventories, net of an allowance for shrinkage and obsolescence, are stated at the lower of cost (weighted average method) or market. To determine if the value of our inventory should be reduced below cost, we consider current and anticipated demand, customer preferences and age of the merchandise. The significant estimates used in inventory valuation are obsolescence (including excess and slow-moving inventory and lower of cost or market reserves) and estimates of inventory shrinkage. We reserve for obsolescence based on historical trends of inventory sold below cost and specific identification.

Reserves for shrinkage are estimated and recorded throughout the year as a percentage of net sales based on historical shrinkage results, cycle count results within our distribution centers, expectations of future shrinkage and current inventory levels. Actual shrinkage is recorded at year-end based on the results of our cycle counts and physical inventory counts and can vary from our estimates due to such factors as changes in operations, the mix of our inventory (which ranges from large furniture to small tabletop items) and execution against loss prevention initiatives in our stores, distribution facilities, off-site storage locations, and with our third-party warehouse and transportation providers. Accordingly, there is no shrinkage reserve at year-end, with the exception of a cycle count reserve based on the historical cycle count results in our distribution centers. This reserve was not material to our Consolidated Financial Statements as of February 2, 2020. Historically, actual shrinkage has not differed materially from our estimates.

Our obsolescence and shrinkage reserve calculations contain estimates that require management to make assumptions and to apply judgment regarding a number of factors, including market conditions, the selling environment, historical results and current inventory trends. If actual obsolescence or shrinkage estimates change from our original estimate, we will adjust our reserves accordingly throughout the year. We made no material changes to our assumptions included in the calculations of the obsolescence and shrinkage reserves throughout the year. As of February 2, 2020, and February 3, 2019, our inventory obsolescence reserves were $13,424,000 and $13,580,000, respectively.

*Long-lived Assets*
Property and equipment is stated at cost. Depreciation is computed using the straight-line method over the following estimated useful lives of the assets:

| | |
|---|---|
| Leasehold improvements | Shorter of estimated useful life or lease term (generally 5 – 22 years) |
| Fixtures and equipment | 2 – 20 years |
| Buildings and building improvements | 10 – 40 years |
| Capitalized software | 2 – 10 years |

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 or asset group may not be recoverable. Our impairment analyses determine whether projected cash flows from operations are sufficient to recover the carrying value of these assets. The asset group is comprised of both property and equipment and operating lease right-of-use assets. Impairment may result when the carrying value of the asset or asset group exceeds the estimated undiscounted future cash flows over its remaining useful life. For store asset impairment, our estimate of undiscounted future cash flows over the store lease term is based upon our experience, the historical operations of the stores and estimates of future store profitability and economic conditions. The estimates of future store profitability and economic conditions require estimating such factors as sales growth, gross margin, employment costs, lease escalations, inflation and the overall economics of the retail industry, and are therefore subject to variability and difficult to predict. For right-of-use assets, we determine the fair value of the assets by using estimated market rental rates. These estimates can be affected by factors such as future store results, real estate demand, store closure plans, and economic conditions that can be difficult to predict. Actual future results may differ from those estimates. If a long-lived asset is found to be impaired, the amount recognized for impairment is equal to the excess of the asset or asset group’s net carrying value over its estimated fair value. We measure property and equipment at fair value on a nonrecurring basis using Level 3 inputs as defined in the fair value hierarchy (see Note M to our Consolidated Financial Statements). We measure right-of-use assets at fair value on a nonrecurring basis using Level 2 inputs, primarily market rental rates, 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.

During fiscal 2019, we recorded an approximate $ 3,303,000 , net of tax, reduction to the opening balance of retained earnings resulting from the impairment of certain long-lived assets upon adoption of Accounting

Standards Update ("ASU") 2016-02, *Leases* . During fiscal 2018, we recorded asset impairment charges of approximately $ 9,639,000 , related to our retail stores, which is recorded within selling, general and administrative expenses. During fiscal 2017, we did not record any asset impairment charges.

*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 potential lease agreements including services and operating agreements to determine 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 leases are typically structured as either fixed or variable payments. Our fixed rent payments include: stated minimum rent and stated minimum rent with stated increases. 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 rent payments include: rent increases based on a future index; rent based on a percentage of store sales; payments made for pass-through costs for property taxes, insurance, utilities and common area maintenance; and rent based on a percentage of store sales if a specified store sales threshold or contractual obligation of the landlord has not been met.

Upon lease commencement, we recognize a right-of use asset and a corresponding 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 remeasurement event occurs. Many of our leases contain renewal 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 we do not believe the exercise of these options to be reasonably certain. We remeasure the lease liability and right-of-use asset once we are reasonably certain to exercise a renewal or an early termination option.

Our leases generally 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. We use judgment in determining our incremental borrowing rate, which is applied to each lease based on the lease term. An increase or decrease in the incremental borrowing rate applied would impact the value of our right-of-use assets and lease liabilities.

We use judgment in determining lease classification, including our determination of the economic life and the fair market value of the identified asset. The fair market value of the identified asset is generally estimated based on comparable market data provided by third-party sources. All of our leases are currently classified as operating leases.

*Goodwill*

Goodwill is initially recorded as of the acquisition date, and is measured as any excess of the purchase price over the estimated fair value of the identifiable net assets acquired. Goodwill is not amortized, but rather is subject to impairment testing annually (on the first day of the fourth quarter), or between annual tests whenever events or changes in circumstances indicate that the fair value of a reporting unit may be below its carrying amount. We first perform a qualitative assessment to evaluate goodwill for potential impairment. If based on that assessment it is more likely than not that the fair value of the reporting unit is below its carrying value, a quantitative impairment test is necessary. The quantitative impairment test requires determining the fair value of the reporting unit. We use the income approach, whereby we calculate the fair value based on the present value of estimated future cash flows, using a discount rate that approximates our weighted average cost of capital. The process of evaluating the potential impairment of goodwill is subjective and requires significant estimates and assumptions about the future such as sales growth, gross margins, employment costs, capital expenditures, inflation and future economic and market conditions. Actual future results may differ from those estimates. If the carrying value of the reporting unit's assets and liabilities, including goodwill, exceeds its fair value, impairment is recorded for the excess, not to exceed the total amount of goodwill allocated to the reporting unit .

As of February 2, 2020 and February 3, 2019, we had goodwill of $85,343,000 and $85,382,000, respectively, primarily related to our fiscal 2017 acquisition of Outward (see Note O) and to our fiscal 2011 acquisition of Rejuvenation, Inc. In fiscal 2019, fiscal 2018 and fiscal 2017, we performed a qualitative assessment of potential goodwill impairment and determined it was more likely than not that the fair value of each of our reporting units exceeded its carrying value. Accordingly, no further impairment testing of goodwill was performed. We did not recognize any goodwill impairment in fiscal 2019, fiscal 2018 or fiscal 2017.

*Self-Insured Liabilities*

We are primarily self-insured for workers' compensation, employee health benefits, product and other general liability claims. We record self-insurance liability reserves based on claims filed, including the development of those claims, and an estimate of claims incurred but not yet reported, based on an actuarial analysis of historical claims data. Factors affecting these estimates include future inflation rates, changes in severity, benefit level changes, medical costs and claim settlement patterns. Should a different number of claims occur compared to what was estimated, or costs of the claims increase or decrease beyond what was anticipated, reserves may need to be adjusted accordingly. Self-insurance reserves for workers' compensation, employee health benefits, product and other general liability claims were $27,000,000 and $28,542,000 as of February 2, 2020 and February 3, 2019, respectively.

*Fair Value of Financial Instruments*

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and debt approximate their estimated fair values. We use derivative financial instruments to hedge against foreign currency exchange rate fluctuations. The assets or liabilities associated with our derivative financial instruments are recorded at fair value in either other current or long-term assets or other current or long-term liabilities. The fair value of our foreign currency derivative instruments is measured using the income approach , whereby we use observable market data at the measurement date and standard valuation techniques to convert future amounts to a single present value amount. These observable inputs include spot rates, forward rates, interest rates and credit derivative market rates (see Notes L and M for additional information).

*Revenue from Merchandise Sales*

Revenues from the sale of our merchandise through our e-commerce channel, 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 customer. For merchandise delivered to the customer, control is transferred either when delivery has been completed, or when we have a present right to payment which, for certain merchandise, occurs upon conveyance of the merchandise to the carrier for delivery. 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. We have elected to account for shipping and handling as fulfillment activities, and not as a separate performance obligation.

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 February 2, 2020 and February 3, 2019, we recorded a liability for expected sales returns of approximately $ 25,456,000 and $26,276,000 within other current liabilities and a corresponding asset for the expected net realizable value of the merchandise inventory to be returned of approximately $ 9,941,000 and $ 10,030,000 within other current assets in our Consolidated Balance Sheet.

*Gift Card and Other 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, customer loyalty programs, and incentives received from credit card issuers.

We issue stored-value cards that may be redeemed on future merchandise purchases at our stores or through our e-commerce channel. 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 s issuance. Breakage revenue is not material to our Consolidated Financial Statements.

For merchandise sales, we record a liability at each period end where we have not fulfilled our obligation to transfer goods or services to the customer, but for which we have already received consideration or have a right to consideration.

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 at our stores or through our e-commerce channel. 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 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 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 less than one year, as our certificates generally expire within 6 months from issuance. 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 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.

As of February 2, 2020 and February 3, 2019 , we had recorded $292,550,000 and $298,435,000 for gift card and other deferred revenue in our Consolidated Balance Sheet, substantially all of which is typically recognized into revenue within the next 12 months.

*Vendor Allowances*
We receive allowances or credits from certain vendors for volume rebates. We treat such volume rebates as an offset to the cost of the product or services provided at the time the expense is recorded. These allowances and credits received are recorded in both cost of goods sold and in selling, general and administrative expenses.

*Cost of Goods Sold*
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.

*Selling, General and Administrative Expenses*
Selling, general and administrative expenses consist of non-occupancy-related costs associated with our retail stores, distribution 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.

*Stock-Based Compensation*

We account for stock-based compensation arrangements by measuring and recognizing compensation expense for all stock-based awards using a fair value based method. Restricted stock units are valued using the closing price of our stock on the date prior to the date of grant. The fair value of each stock-based award is amortized over the requisite service period.

*Advertising Expenses*

Advertising expenses consist of media and production costs related to digital advertising, catalog mailings and other direct marketing activities. All advertising costs are expensed as incurred, or upon the release of the initial advertisement. Prior to the adoption of ASU 2014-09 in fiscal 2018, prepaid advertising costs were capitalized and amortized over their expected period of future benefit of approximately three months.

Total advertising expenses (including digital advertising, catalog advertising and other advertising costs) were approximately $388,194,000, $390,115,000 and $382,206,000 in fiscal 2019, fiscal 2018 and fiscal 2017, respectively.

*Foreign Currency Translation*

Some of our foreign operations have a functional currency other than the U.S. dollar. A s sets and liabilities are translated into U.S. dollars using the current exchange rates in effect at the balance sheet date, while revenues and expenses are translated at the average exchange rates during the period. The resulting translation adjustments are recorded as other comprehensive income within stockholders' equity. Foreign currency exchange gains and losses are recorded in selling, general and administrative expenses, except for those discussed in Note L.

*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 plus common stock equivalents 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.

*Income Taxes*

Income taxes are accounted for using the asset and liability method. Under this method, deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in our Consolidated Financial Statements. We record reserves for our estimates of the additional income tax liability that is more likely than not to result from the ultimate resolution of foreign and domestic tax examinations. At any one time, many tax years are subject to examination by various taxing jurisdictions. The results of these audits and negotiations with taxing authorities may affect the ultimate settlement of these issues. We review and update the estimates used in the accrual for uncertain tax positions as more definitive information becomes available from taxing authorities, upon completion of tax examination, upon expiration of statutes of limitation, or upon occurrence of other events.

In order to compute income tax on an interim basis, we estimate what our effective tax rate will be for the full fiscal year and adjust these estimates throughout the year as necessary. Adjustments to our income tax provision due to changes in our estimated effective tax rate are recorded in the interim period in which the change occurs. The tax expense (or benefit) related to items other than ordinary income is individually computed and recognized when the items occur. Our effective tax rate in a given financial statement period may be materially impacted by changes in the mix and level of our earnings in various taxing jurisdictions or changes in tax law.

*New Accounting Pronouncements*

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02, *Leases* , which requires lessees to recognize a right-of-use asset and an operating lease liability for virtually all leases.

We adopted the ASU, as amended, as of February 4, 2019, the first day of fiscal year 2019. 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 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 all short-term leases.

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 $3,300,000 reduction , net of tax, to the opening balance of retained earnings resulting from the impairment of certain long-lived assets upon adoption of this ASU. The adoption of this ASU did not materially impact our 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.

In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes* (Topic 740). This standard simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in Accounting Standards Codification ("ASC") 740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The standard also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The standard is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021, and early adoption is permitted. We do not expect the adoption of this ASU to have a material impact on our financial condition, results of operations or cash flow.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This standard is intended to introduce a revised approach to the recognition and measurement of credit losses, emphasizing an updated model based on expected losses rather than incurred losses. This standard is effective for annual reporting periods, and interim reporting periods contained therein, beginning after December 15, 2019. 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: Property and Equipment**

Property and equipment consists of the following:

| *In thousands* | Feb. 2, 2020 | Feb. 3, 2019 |
|---|---|---|
| Leasehold improvements | $ 946,880 | $ 950,259 |
| Fixtures and equipment | 830,650 | 836,400 |
| Capitalized software | 788,635 | 733,941 |
| Land and buildings | 177,088 | 175,181 |
| Corporate systems projects in progress | 62,059 | 39,416 |
| Construction in progress [1] | 7,076 | 7,205 |
| Total | 2,812,388 | 2,742,402 |
| Accumulated depreciation | (1,883,350) | (1,812,767) |
| Property and equipment, net | $ 929,038 | $ 929,635 |

[1] *Construction in progress primarily consists of leasehold improvements and furniture and fixtures related to new, expanded or remodeled retail stores where construction had not been completed as of year-end.*

**Note C: Borrowing Arrangements**

*Credit Facility*

We have a credit facility which provides for a $500,000,000 unsecured revolving line of credit ("revolver") and a $300,000,000 unsecured term loan facility ("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 , at such lenders' option, to increase the revolver by up to $250,000,000 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 the first and second anniversaries of the closing date of the amendment of the credit facility, elect to extend the maturity date for an additional year, subject to lender approval . See Note P .

During fiscal 2019 , we had borrowings of $ 100,000 , 000 under the revolver (at a weighte d average interest rate of 3.04 %), all of which were repaid in the fourth quarter of fiscal 2019 , and no amounts were outstanding as of February 2 , 2020 . During fiscal 2018 , we had borrowings of $ 60,000 , 000 under the revolver (at a weighted average interest rate of 3.20 %), all of which were repaid in the fourth quarter of fiscal 2018 , and no amounts were outstanding as of February 3 , 2019 . Additionally, as of February 2 , 2020 , $ 12,187,000 in issued but undrawn standby letters of credit were outstanding under the revolver. The standby letters of credit were issued to secure the liabilities associated with workers' compensation and other insurance programs.

As of February 2, 2020, we had $300,000,000 outstanding under our term loan (at a weighted average interest rate of 3.32%). The term loan matures on January 8, 2021, at which time all outstanding principal and any accrued interest must be repaid. Costs incurred in connection with the issuance of the term loan are presented as a reduction to the carrying value of the debt in our Consolidated Balance Sheet. Prior to maturity in fiscal 2020, we intend to renew and extend our $300,000,000 term loan.

The interest rate under the credit facility is variable, and may be elected by us as: (i) the London Interbank Offer Rate ("LIBOR") 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. See Risk Factors in Item 1A.

As of February 2, 2020, we were in compliance with our covenants under the credit facility . See "Risk Factors" in Item 1A and Note P: Subsequent Events .

*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 February 2, 2020, an aggregate of $6,462,000 was outstanding under the letter of credit facilities, which represents only a future commitment to fund inventory purchases to which we had not taken legal title. The latest expiration possible for any future letters of credit issued under the facilities is January 21, 2021.

**Note D: Income Taxes**

The components of earnings before income taxes, by tax jurisdiction, are as follows:

| *Dollars in thousands* | Fiscal 2019 | Fiscal 2018 | Fiscal 2017 |
|---|---|---|---|
| United States | $ 353,215 | $ 333,594 | $ 379,000 |
| Foreign | 103,806 | 95,653 | 73,439 |
| Total | $ 457,021 | $ 429,247 | $ 452,439 |

The provision for income taxes consists of the following:

| *Dollars in thousands* | Fiscal 2019 | Fiscal 2018 | Fiscal 2017 |
|---|---|---|---|
| Current | | | |
| Federal | $ 76,873 | $ 43,745 | $ 97,202 |
| State | 14,205 | 15,357 | 19,552 |
| Foreign | 12,438 | 12,822 | 12,759 |
| Total Current | $ 103,516 | $ 71,924 | $ 129,513 |
| Deferred | | | |
| Federal | $ (606) | $ 23,507 | $ 62,893 |
| State | (870) | 1,562 | 460 |
| Foreign | (1,081) | (1,430) | 28 |
| Total Deferred | $ (2,557) | $ 23,639 | $ 63,381 |
| Total provision | $ 100,959 | $ 95,563 | $ 192,894 |

We have historically elected not to provide for U.S. income taxes with respect to the undistributed earnings of our foreign subsidiaries as we intended to utilize those earnings in our foreign operations for an indefinite period of time. Under Internal Revenue Code section 965 of U.S. Tax Reform, we are deemed to have distributed all the post-1986 accumulated earnings of our foreign subsidiaries to the U.S. as of December 31, 2017. In light of the U.S. Tax Cuts and Jobs Act, the Company re-evaluated its permanent reinvestment assertion with respect to unremitted foreign earnings. As a result, we are now permanently reinvested with respect to our foreign earnings in Canada beginning in fiscal 2018.

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A reconciliation of income taxes at the federal statutory corporate rate to the effective rate is as follows:

| | Fiscal 2019 | Fiscal 2018 | Fiscal 2017 |
|---|---|---|---|
| Federal income taxes at the statutory rate | 21.0% | 21.0% | 33.9% |
| Re-measurement of deferred tax assets and liabilities | — | (2.2%) | 6.7% |
| Transition tax | — | (0.6%) | 2.9% |
| State income tax rate | 2.9% | 3.8% | 2.5% |
| Officer's compensation under Sec.162(m) | 1.0% | — | — |
| Deferred true up | (1.3%) | — | — |
| Change in uncertain tax positions | 0.5% | 4.1% | (1.6%) |
| Rate differential | (1.8%) | (2.3%) | (2.9%) |
| Research and development credits | (0.7%) | (2.1%) | — |
| Other | 0.5% | 0.6% | 1.1% |
| Total | 22.1% | 22.3% | 42.6% |

Significant components of our deferred income tax accounts are as follows:

| *Deferred tax asset (liabilities), Dollars in thousands* | Fiscal 2019 | Fiscal 2018 |
|---|---|---|
| Operating lease liabilities | $ 347,693 | $ — |
| Merchandise inventories | 22,311 | 18,703 |
| Customer deposits | 19,520 | 14,345 |
| Compensation | 14,350 | 11,251 |
| Stock-based compensation | 9,860 | 14,281 |
| Accrued liabilities | 8,440 | 13,470 |
| State taxes | 7,546 | 7,435 |
| Executive deferred compensation | 7,543 | 5,739 |
| Federal and state net operating loss | 3,443 | 4,223 |
| Deferred rent | — | 18,942 |
| Operating lease right-of-use assets | (309,801) | — |
| Deferred lease incentives | (46,701) | (26,032) |
| Property and equipment | (37,309) | (31,557) |
| Prepaid catalog expenses | (394) | (936) |
| Other | 2,369 | (4,797) |
| Valuation allowance | (3,648) | (3,542) |
| Total deferred tax assets, net | $ 45,222 | $ 41,525 |

As a result of the acquisition of Outward, Inc., we had net state operating loss carry-forwards as of February 2, 2020. A valuation allowance has been provided against certain state net operating carry-forwards, as we do not expect to fully utilize the losses in future years.

The following table summarizes the activity related to our gross unrecognized tax benefits:

| *Dollars in thousands* | Fiscal 2019 | Fiscal 2018 | Fiscal 2017 |
|---|---|---|---|
| Beginning Balance | $ 35,209 | $ 18,051 | $ 25,864 |
| Increases related to current year tax positions | 3,438 | 4,694 | 3,345 |
| Increases for tax positions for prior years | 1,405 | 14,905 | 808 |
| Decrease for tax positions for prior years | (308) | (1,279) | (10,610) |
| Settlements | — | (376) | — |
| Lapse in statute of limitations | (3,106) | (786) | (1,356) |
| Ending Balance | $ 36,638 | $ 35,209 | $ 18,051 |

As of February 2, 2020, we had $36,638,000 of gross unrecognized tax benefits, of which $32,421,000 would, if recognized, affect the effective tax rate.

We accrue interest and penalties related to unrecognized tax benefits in the provision for income taxes. As of February 2, 2020 and February 3, 2019, our accruals for the payment of interest and penalties totaled $7,251,000 and $5,437,000 respectively.

Due to the potential resolution of tax issues, it is reasonably possible that the balance of our gross unrecognized tax benefits could decrease within the next twelve months by a range of $0 to $11,757,000.

We file income tax returns in the U.S. and foreign jurisdictions. We are subject to examination by the tax authorities in these jurisdictions. Our U.S. federal taxable years for which the statute of limitations has not expired are fiscal years 2016 to 2019. Substantially all material states, local and foreign jurisdictions' statutes of limitations are closed for taxable years prior to 2016.

**Note E : Leases**

The components of our lease costs are as follows:

| *I n thousands* | Fiscal 2019 (52 Weeks) |
|---|---|
| Operating lease costs | $ 267,883 |
| Variable lease costs | 129,018 |
| Total lease costs | $ 396,901 |

Sublease income and short-term lease costs were not material to us for fiscal 2019.

Supplemental cash flow information related to our leases are as follows:

| *In thousands* | Fiscal 2019 (52 Weeks) |
|---|---|
| Cash paid for amounts included in the measurement of operating lease liabilities | $ 285,678 |
| Net additions to right-of-use assets | $ 150,401 |

As of February 2, 2020, additional information related to our leases is as follows:

| | |
|---|---|
| Weighted average remaining lease term (years) | 7.3 |
| Weighted average incremental borrowing rate | 3.8% |

As of February 2, 2020, the future minimum lease payments under our operating lease liabilities are as follows:

| *In thousands* | |
|---|---|
| Fiscal 2020 | $ 281,995 |
| Fiscal 2021 | 246,588 |
| Fiscal 2022 | 212,629 |
| Fiscal 2023 | 178,650 |
| Fiscal 2024 | 154,594 |
| Fiscal 2025 and thereafter | 463,280 |
| Total lease payments | 1,537,736 |
| Less interest | (215,234) |
| Total operating lease liabilities | 1,322,502 |
| Less current operating lease liabilities | (227,923) |
| Total non-current operating lease liabilities | $ 1,094,579 |

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. We made annual rental payments of approximately $1,765,000, $1,689,000, and $1,629,000 plus applicable taxes, insurance and maintenance expenses in fiscal 2019, fiscal 2018 and fiscal 2017, respectively.

**Note F: 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:

| *In thousands, except per share amounts* | Net Earnings | Weighted Average Shares | Earnings Per Share |
|---|---|---|---|
| Fiscal 2019 (52 Weeks) | | | |
| Basic | $ 356,062 | 78,108 | $ 4.56 |
| Effect of dilutive stock-based awards | | 1,117 | |
| Diluted | $ 356,062 | 79,225 | $ 4.49 |
| Fiscal 2018 (53 Weeks) | | | |
| Basic | $ 333,684 | 81,420 | $ 4.10 |
| Effect of dilutive stock-based awards | | 920 | |
| Diluted | $ 333,684 | 82,340 | $ 4.05 |
| Fiscal 2017 (52 Weeks) | | | |
| Basic | $ 259,545 | 85,592 | $ 3.03 |
| Effect of dilutive stock-based awards | | 488 | |
| Diluted | $ 259,545 | 86,080 | $ 3.02 |

Stock-based awards of 46,000, 31,000, and 577,000 were excluded from the computation of diluted earnings per share in fiscal 2019, fiscal 2018 and fiscal 2017, respectively, as their inclusion would be anti-dilutive.

**Note G: 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 approximately 36,570,000 shares. As of February 2, 2020, there were approximately 5,430,000 shares available for future grant. Awards may be granted under the Plan to 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 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 resulting from events including, but not limited to, retirement, merger or a similar corporate event.

*Stock Awards*

Annual grants of stock awards are limited to 1,000,000 shares on a per person basis and have a maximum term of seven years. 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 resulting from events including, but not limited to, retirement, disability, death, merger or a 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).

*Stock-Based Compensation Expense*

During fiscal 2019, fiscal 2018 and fiscal 2017, we recognized total stock-based compensation expense, as a component of selling, general and administrative expenses, of $64,163,000, $59,802,000 and $42,988,000, respectively. As of February 2, 2020, there was $83,444,000 of unrecognized stock-based compensation expense (net of estimated forfeitures), which we expect to recognize on a straight-line basis over a weighted average remaining service period of approximately two years. At each reporting period, all compensation expense attributable to vested awards has been fully recognized.

*Restricted Stock Units*

The following table summarizes our restricted stock unit activity during fiscal 2019:

| | Shares | Weighted Average Grant Date Fair Value | Weighted Average Contractual Term Remaining (Years) | Intrinsic Value [1] |
|---|---|---|---|---|
| Balance at February 3, 2019 | 3,012,923 | $ 52.88 | | |
| Granted | 1,066,337 | 58.27 | | |
| Granted, with vesting subject to performance conditions | 240,515 | 57.77 | | |
| Released [2] | (1,029,288) | 55.94 | | |
| Cancelled | (406,293) | 53.89 | | |
| Balance at February 2, 2020 | 2,884,194 | $ 54.09 | 3.00 | $202,124,000 |
| Vested plus expected to vest at February 2, 2020 | 2,335,826 | $ 54.04 | 3.16 | $163,695,000 |

[1] *Intrinsic value for outstanding and unvested restricted stock units is based on the market value of our common stock on the last business day of the fiscal year (or $70.08).*
[2] *Excludes 105,436 incremental shares released due to achievement of performance conditions above target.*

The following table summarizes additional information about restricted stock units:

| | Fiscal 2019 (52 weeks) | Fiscal 2018 (53 weeks) | Fiscal 2017 (52 weeks) |
|---|---|---|---|
| Weighted average grant date fair value per share of awards granted | $ 58.18 | $ 49.57 | $ 52.76 |
| Intrinsic value of awards released [1] | $ 65,403,000 | $ 34,213,000 | $ 35,508,000 |

[1] *Intrinsic value for releases is based on the market value on the date of release.*

*Tax Benefit*

We record excess tax benefits and deficiencies resulting from the settlement of stock-based awards as a benefit or expense within income taxes in the period in which they occur. During fiscal 2019, fiscal 2018, and fiscal 2017, the current tax benefit related to stock-based awards totaled $13,793,000, $9,927,000, and $16,066,000, respectively.

**Note H: Williams-Sonoma, Inc. 401(k) Plan and Other Employee Benefits**

We have a defined contribution retirement plan, the Williams-Sonoma, Inc. 401(k) Plan (the "401(k) Plan"), which is intended to be qualified under Internal Revenue Code sections 401(a), 401(k), 401(m) and 4975(e)(7). The 401(k) Plan permits eligible employees to make salary deferral contributions up to 75% of their eligible compensation each pay period (7% for highly-compensated employees prior to February 3, 2020). Employees designate the funds in which their contributions are invested. Each participant may choose to have his or her salary deferral contributions and earnings thereon invested in one or more investment funds, including our company stock fund.

Our matching contribution is equal to 50% of each participant's salary deferral contribution, taking into account only those contributions that do not exceed 6% of the participant's eligible pay for the pay period. Each participant's matching contribution is earned on a semi-annual basis with respect to eligible salary deferrals for those participants that are employed with the company on June 30th or December 31st of the year in which the deferrals are made. Each associate must complete one year of service prior to receiving company matching contributions. For the first five years of the participant's employment, all matching contributions vest at the rate of 20% per year of service, measuring service from the participant's hire date. Thereafter, all matching contributions vest immediately. Our contributions to the plan were $9,544,000, $9,036,000 and $8,224,000 in fiscal 2019, fiscal 2018 and fiscal 2017, respectively.

The 401(k) Plan consists of two parts: a profit sharing plan portion and a stock bonus plan/employee stock ownership plan (the "ESOP"). The ESOP portion is the portion that is invested in the Williams-Sonoma, Inc. Stock Fund. The profit sharing and ESOP components of the 401(k) Plan are considered a single plan under Internal Revenue Code section 414(l).

We also have a nonqualified executive deferred compensation plan that provides supplemental retirement income benefits for a select group of management. This plan permits eligible employees to make salary and bonus deferrals that are 100% vested. We have an unsecured obligation to pay in the future the value of the deferred compensation adjusted to reflect the performance, whether positive or negative, of selected investment measurement options chosen by each participant during the deferral period. As of February 2, 2020 and February 3, 2019, $30,534,000 and $23,319,000, respectively, is included in other long-term liabilities related to these deferred compensation obligations. Additionally, we have purchased life insurance policies on certain participants to potentially offset these unsecured obligations. The cash surrender value of these policies was $31,886,000 and $25,390,000 as of February 2, 2020 and February 3, 2019, respectively, and is included in other long-term assets, net.

**Note I: 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 Consolidated Financial Statements taken as a whole.

**Note J: Stock Repurchase Program and Dividends**

During fiscal 2019, we repurchased 2,341,931 shares of our common stock , of which 16,368 shares were designated as treasury stock, at an average cost of $63.55 per share and a total cost of approximately $148,834,000 under our stock repurchase program. As of February 2, 2020, there was approximately $574,982,000 remaining under our current stock repurchase program. As of February 2, 2020, we held treasury stock of $941,000 that represents the cost of shares available for issuance intended to satisfy future stock-based award settlements in certain foreign jurisdictions.

During fiscal 2018, we repurchased 5,373,047 shares of our common stock at an average cost of $ 54.96 per share and a total cost of approximately $ 295,304 ,000. During fiscal 2017, we repurchased 4,050,697 shares of our common stock at an average cost of $ 48.43 per share and a total cost of approximately $ 196,179 ,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.

Total cash dividends declared in fiscal 2019, fiscal 2018 and fiscal 2017, were approximately $ 156,103 ,000, or $ 1.92 per common share, $ 144,609 ,000, or $ 1.72 per common share and $ 135,779 ,000, or $ 1.56 per common share, respectively.

**Note K: 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 fiscal 2019 , fiscal 2018 and fiscal 2017. We have updated fiscal 2018 and fiscal 2017 results to conform with the current year presentation.

| *In thousands* | Fiscal 2019 (52 weeks) | Fiscal 2018 (53 weeks) | Fiscal 2017 (52 weeks) |
|---|---|---|---|
| Pottery Barn | $ 2,214,397 | $ 2,177,344 | $ 2,066,302 |
| West Elm | 1,466,537 | 1,292,928 | 1,114,339 |
| Williams Sonoma | 1,032,368 | 1,056,125 | 1,022,434 |
| Pottery Barn Kids and Teen | 908,561 | 895,762 | 860,468 |
| Other [1] | 276,145 | 249,434 | 228,816 |
| Total [2] | $ 5,898,008 | $ 5,671,593 | $ 5,292,359 |

[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 $365.6 million , $346.8 million and $328.2 million for fiscal 2019, fiscal 2018 and fiscal 2017, respectively .

Long-lived assets by geographic location are as follows:

| *In thousands* | Feb. 2, 2020 [1] | Feb. 3, 2019 [1] |
|---|---|---|
| U.S. | $ 2,132,635 | $ 1,068,196 |
| International | 165,772 | 50,305 |
| Total | $ 2,298,407 | $ 1,118,501 |

*[1] In fiscal 2019, we adopted Accounting Standards Update ("ASU") 2016-02, Leases, as of the adoption date. Amounts reported for fiscal 2018 and prior years have not been adjusted, and continue to be reported in accordance with previous lease accounting guidance. See Note A to the Consolidated Financial Statements.*

**Note L: Derivative Financial Instruments**

We have retail and e-commerce 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 the 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 the 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 February 2, 2020, we expect to reclassify a net pre-tax gain of approximately $ 7,000 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.

As of February 2, 2020, and February 3, 2019, we had foreign currency forward contracts outstanding (in U.S. dollars) with notional values as follows:

| *In thousands* | Feb. 2, 2020 | Feb. 3, 2019 |
|---|---|---|
| Contracts designated as cash flow hedges | $ 17,200 | $ 16,600 |
| Contracts not designated as cash flow hedges | $ — | $ 5,300 |

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 fiscal 2019, fiscal 2018 and fiscal 2017.

The effect of derivative instruments in our Consolidated Financial Statements, pre-tax, was as follows:

| | **Fiscal 2019** | | **Fiscal 2018** | | **Fiscal 2017** | |
|---|---|---|---|---|---|---|
| *In thousands* | 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 |
| Line items presented in the Condensed Consolidated Statement of Earnings in which the effects of derivatives are recorded | $ 3,758,916 | $ 1,673,218 | $ 3,570,580 | $ 1,665,060 | $ 3,360,648 | $ 1,477,900 |
| Gain (loss) recognized in income | | | | | | |
| Derivatives designated as cash flow hedges | $ 604 | $ — | $ 478 | $ 57 | $ (144) | $ 88 |
| Derivatives not designated as hedging instruments | $ — | $ 28 | $ — | $ 3,967 | $ — | $ (3,286) |

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

| *In thousands* | Fiscal 2019 | Fiscal 2018 |
|---|---|---|
| Derivatives designated as cash flow hedges: | | |
| Other current assets | $ 138 | $ 358 |
| Derivatives not designated as hedging instruments: | | |
| Other current assets | $ — | $ 4 |

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.

**Note M: 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.

*Current debt*
As of February 2, 2020, the fair value of our current debt, which consists of outstanding borrowings under our term loan, approximates its carrying value, as the instrument is relatively short-term in nature and the interest rate under the term loan is based on observable Level 2 inputs, primarily quoted 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 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 fiscal 2019 or fiscal 2018.

**Note N: Accumulated Other Comprehensive Income ( L oss)**

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

| *In thousands* | Foreign Currency Translation | Cash Flow Hedges | Accumulated Other Comprehensive Income (Loss) |
|---|---|---|---|
| Balance at January 29, 2017 | $ (9,957) | $ 54 | $ (9,903) |
| Foreign currency translation adjustments | 3,730 | — | 3,730 |
| Change in fair value of derivative financial instruments | — | (715) | (715) |
| Reclassification adjustment for realized (gain) loss on derivative financial instruments [1] | — | 106 | 106 |
| Other comprehensive income (loss) | 3,730 | (609) | 3,121 |
| Balance at January 28, 2018 | (6,227) | (555) | (6,782) |
| Foreign currency translation adjustments | (5,032) | — | (5,032) |
| Change in fair value of derivative financial instruments | — | 1,098 | 1,098 |
| Reclassification adjustment for realized (gain) loss on derivative financial instruments [1] | — | (357) | (357) |
| Other comprehensive income (loss) | (5,032) | 741 | (4,291) |
| Balance at February 3, 2019 | (11,259) | 186 | (11,073) |
| Foreign currency translation adjustments | (3,334) | — | (3,334) |
| Change in fair value of derivative financial instruments | — | 163 | 163 |
| Reclassification adjustment for realized (gain) loss on derivative financial instruments [1] | — | (343) | (343) |
| Other comprehensive income (loss) | (3,334) | (180) | (3,514) |
| Balance at February 2, 2020 | $ (14,593) | $ 6 | $ (14,587) |

1 Refer to Note L for additional disclosures about reclassifications out of accumulated other comprehensive income and their corresponding effects on the respective line items in the Consolidated Statements of Earnings.

**Note O: 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.

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

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 P: Subsequent Events**

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. On March 17, 2020, we announced the temporary closures of our retail store operations in the United States and Canada to protect our employees, customers and the communities in which we operate and to help contain the COVID-19 coronavirus outbreak. Our retail stores are expected to remain closed until at least April 2, 2020 depending upon how the COVID-19 outbreak evolves. Our retail store revenue comprises approximately 44% of our net revenues. At this time, we continue to operate our e-commerce sites and distribution centers and continue to deliver products to our customers. As of the date of this filing, we cannot reasonably estimate the impact on our business from this pandemic, but we currently anticipate a material impact on our consolidated statements of earnings, consolidated balance sheet, consolidated cash flows and liquidity in fiscal 2020.

On March 23, 2020, as a precautionary measure to maximize our liquidity and to increase our available cash on hand in the event of a protracted COVID-19 outbreak, we drew down $488,000,000 on our revolving line of credit, for an outstanding balance on our revolver of $500,000,000.

## *REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM*

To the shareholders and the Board of Directors of Williams-Sonoma, Inc.:

**Opinions on the Financial Statements and Internal Control over Financial Reporting**

We have audited the accompanying consolidated balance sheets of Williams-Sonoma, Inc. and subsidiaries (the "Company") as of February 2, 2020 and February 3, 2019, the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended February 2, 2020, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of February 2, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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

**Change in Accounting Principle**

As discussed in Note A to the financial statements, effective February 4, 2019, the Company adopted FASB Accounting Standards Update 2016-02, *Leases,* ("ASC 842"), using the modified retrospective approach. This change in accounting principle is also communicated as a critical audit matter below.

**Basis for Opinions**

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control Over Financial Reporting". Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

**Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

**Critical Audit Matters**

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

***Property and Equipment — Refer to Note A and M to the financial statements .***

*Critical Audit Matter Description*
The Company performs an analysis of the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the long-lived assets may not be recoverable. Events that result in an impairment review may include a significant decrease in the operating performance of the long-lived asset, or the decision to close a store, corporate facility, or distribution center. The majority of the Company's evaluation of long-lived asset is at the individual store level and involves the comparison of a store's estimated future undiscounted cash flows over its remaining useful life to its carrying value. As of February 2, 2020, the Company had $830.6 million in fixtures and equipment, $946.9 million in leasehold improvements, and $1.2 billion in lease right-of-use assets, the majority of which relates to the Company's stores. Impairment may result when the carrying value of a store's assets exceeds the store's estimated undiscounted future cash flows.

We identified this as a critical audit matter because the Company's estimate of future store cash flows involves significant estimates and assumptions related to revenue growth rates and gross margin. Additionally, the measurement of any impairment loss also includes estimation of the fair value of the Company's lease right-of-use asset included within the asset group, which includes estimates of market rental rates. Changes in these assumptions could have a significant impact on management's conclusion on whether a store could be impaired and the impairment loss that is recorded.

Performing audit procedures to evaluate the appropriateness of the Company's judgments used in these significant assumptions therefore involved a high degree of subjectivity and complexity.

*How the Critical Audit Matter Was Addressed in the Audit*
Our audit procedures related to management's judgments regarding the forecasts of revenue growth and gross margin, as well as the fair value of the lease right-of-use asset, included the following, among others:

- We tested the operating effectiveness of controls over management's forecasts of future revenue growth, gross margin, and market rental rates.
- We evaluated management's ability to accurately forecast future sales and gross margin growth by comparing actual results to management's historical forecasts.
- We evaluated the reasonableness of management's revenue and operating forecast by comparing the forecasts to (1) historical revenues and gross margins, (2) internal communications to management and the Board of Directors, (3) external communications made by management to analysts and investors, and (4) trends in the industry and geographical region.
- Evaluated the methods and inputs used by management to determine the fair value of the lease right-of-use asset, including assessing comparable market rents and broker quotes.

***Leases — Refer to Notes A and E to the financial statements (also see ASC 842 adoption explanatory paragraph above)***

*Critical Audit Matter Description*
The Company adopted ASU 2016-02, *Leases* , which requires lessees to recognize a right-of-use asset and lease liability for virtually all leases. The adoption of this new accounting standard resulted in an increase in total long-term assets and total liabilities of approximately $1.2 billion, which included 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.

In order to determine the fair value of the lease liability at lease commencement, an incremental borrowing rate (IBR) was used to discount and determine the fair value of its lease payments. The determination of an IBR requires management to use significant estimates and assumptions as to its credit ratings, credit spreads, lease tenors, and adjustments for the effects of collateral.

Given the significant estimates management makes to determine the IBR to apply to each lease, as well as the large population of leases that were discounted during the initial adoption of ASU 2016-02, performing audit procedures to evaluate the reasonableness of management's estimates and assumptions related to the IBR requires a high degree of auditor judgment and necessitates the involvement of a fair value specialist.

*How the Critical Audit Matter Was Addressed in the Audit*
Our audit procedures related to the determination of the rate included the following, among others:

- We tested the operating effectiveness of management's controls over the determination and appropriateness of the IBR
- With the assistance of our fair value specialists, we:
    - Evaluated that the methodology used by management was reasonable to approximate the Company's incremental borrowing rate
    - Assessed the reasonableness of the credit rating, base rate, spreads and adjustments for the effects of collateral applied in determining the IBR by comparing to Company specific benchmarks, comparable companies, and other market information.
    - Evaluated the accuracy of the models and calculations used to estimate the IBR, including validating the inputs used.

*/s/ Deloitte & Touche LLP*

San Francisco, California
March 27, 2020
We have served as the Company's auditor since 1980.

***Quarterly Financial Information***
***(Unaudited)***

*In thousands, except per share amounts*

| Fiscal 2019 (52 Weeks) | First Quarter | Second Quarter | Third Quarter | Fourth Quarter [1] | Full Year |
|---|---|---|---|---|---|
| Net revenues | $1,241,132 | $1,370,814 | $1,442,472 | $1,843,590 | $5,898,008 |
| Gross profit | 444,331 | 483,861 | 518,172 | 692,728 | 2,139,092 |
| Operating income ,[2,3] | 74,132 | 86,165 | 101,891 | 203,686 | 465,874 |
| Net earnings [6] | 52,656 | 62,648 | 74,713 | 166,045 | 356,062 |
| Basic earnings per share [7] | $ 0.67 | $ 0.80 | $ 0.96 | $ 2.15 | $ 4.56 |
| Diluted earnings per share [7] | $ 0.66 | $ 0.79 | $ 0.94 | $ 2.10 | $ 4.49 |

| Fiscal 2018 (53 Weeks) | First Quarter | Second Quarter | Third Quarter | Fourth Quarter [1] | Full Year |
|---|---|---|---|---|---|
| Net revenues | $1,203,000 | $1,275,174 | $1,356,983 | $1,836,436 | $5,671,593 |
| Gross profit | 432,164 | 463,942 | 494,984 | 709,923 | 2,101,013 |
| Operating income ,[2,3,4] | 66,550 | 74,166 | 94,384 | 200,853 | 435,953 |
| Net earnings [5,6] | 45,168 | 51,713 | 81,465 | 155,338 | 333,684 |
| Basic earnings per share [7] | $ 0.54 | $ 0.63 | $ 1.01 | $ 1.95 | $ 4.10 |
| Diluted earnings per share [7] | $ 0.54 | $ 0.62 | $ 1.00 | $ 1.93 | $ 4.05 |

1 *Our fourth quarter of fiscal 2018 included 14 weeks as compared to 13 weeks in fiscal 2019 .*
2 *Fiscal 2019 includes approximately $6.4 million in the first quarter, $7.2 million in the second quarter, $7.4 million in the third quarter and $9.1 million in the fourth quarter of expenses related to the acquisition of Outward and its ongoing operations. Fiscal 2018 includes approximately $6.9 million in the first quarter, $5.0 million in the second quarter, $6.0 million in the third quarter and $7.2 million in the fourth quarter of expenses related to the acquisition of Outward and its ongoing operations.*
3 *Fiscal 2019 includes approximately $6.5 million in the first quarter for employment-related expenses. Fiscal 2018 includes approximately $1.7 million in the first quarter, $1.9 million in the second quarter, $1.9 million in the third quarter and $2.5 million in the fourth quarter for employment-related expenses.*
4 *Includes $5.3 million in the second quarter, $1.1 million in the third quarter and $6.8 million in the fourth quarter of fiscal 2018 associated with impairment and early lease termination charges.*
5 *Includes tax expense of approximately $1.1 million in the first quarter of fiscal 2018 associated with the adoption of new accounting rules related to stock-based compensation.*
6 *Fiscal 2019 includes a tax e xpense of $0.1 million in the third quarter resulting from t ax legislation changes, and a t ax benefit of $ 6.0 million in the fourth quarter resulting from a deferred tax liability adjustment . Fiscal 2018 includes tax expense of $3.3 million in the first quarter, tax expense of $2.9 million in the second quarter, a tax benefit of $10.6 million in the third quarter and tax expense of $0.3 million in the fourth quarter, resulting from the enactment of the Tax Cuts and Jobs Act.*
7 *Due to differences between quarterly and full year weighted average share count calculations, and the effect of quarterly rounding to the nearest cent per share, full year earnings per share may not equal the sum of the quarters.*

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## ITEM 9A. CONTROLS AND PROCEDURES

***Evaluation of Disclosure Controls and Procedures***

As of February 2, 2020, 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 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 SEC.

### *Management's Report on Internal Control Over Financial Reporting*

Our management is responsible for establishing and maintaining adequate internal control over the company's financial reporting. These internal controls are designed to provide reasonable assurance that the reported information is fairly presented, that disclosures are adequate and that the judgments inherent in the preparation of financial statements are reasonable. There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Further, because of changes in conditions, the effectiveness of any internal control may vary over time.

Our management assessed the effectiveness of the company's internal control over financial reporting as of February 2, 2020. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework (2013)*. Based on our assessment using those criteria, our management concluded that, as of February 2, 2020, our internal control over financial reporting is effective.

Our independent registered public accounting firm audited the Consolidated Financial Statements included in this Annual Report on Form 10-K and the company's internal control over financial reporting. Their audit report appears on pages 65 through 68 of this Annual Report on Form 10-K.

### *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.

## ITEM 9B. OTHER INFORMATION

None.

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# PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by this Item is incorporated by reference herein to information under the headings “Election of Directors,” “Information Concerning Executive Officers,” “Audit and Finance Committee Report,” “Corporate Governance — Corporate Governance Guidelines and Code of Business Conduct and Ethics,” and “Corporate Governance — Audit and Finance Committee” in our Proxy Statement for the 2020 Annual Meeting of Stockholders (the “Proxy Statement”). With regard to the information required by this item regarding compliance with Section 16(a) of the Exchange Act, we will provide disclosure of delinquent Section 16(a) reports, if any, in our Proxy Statement, and such disclosure, if any, is incorporated herein by reference.

## ITEM 11. EXECUTIVE COMPENSATION

Information required by this Item is incorporated by reference herein to information under the headings “Corporate Governance — Compensation Committee,” “Corporate Governance — Director Compensation,” and “Executive Compensation” in our Proxy Statement.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by this Item is incorporated by reference herein to information under the heading “Security Ownership of Principal Stockholders and Management” in our Proxy Statement.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required by this Item is incorporated by reference herein to information under the heading “Certain Relationships and Related Transactions” in our Proxy Statement.

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this Item is incorporated by reference herein to information under the headings “Audit and Finance Committee Report” and “Proposal 3 — Ratification of Selection of Independent Registered Public Accounting Firm — Deloitte Fees and Services” in our Proxy Statement.

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## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements:

The following Consolidated Financial Statements of Williams-Sonoma, Inc. and subsidiaries and the related notes are filed as part of this report pursuant to Item 8:



(a)(2) Financial Statement Schedules: Schedules have been omitted because they are not required, are not applicable, or because the required information, where material, is included in the financial statements, notes, or supplementary financial information.

(a)(3) Exhibits: The exhibits listed in the below Exhibit Index are filed or incorporated by reference as part of this Form 10-K

(b) Exhibits: The exhibits listed in the below Exhibit Index are filed or incorporated by reference as part of this Form 10-K

(c) Financial Statement Schedules: Schedules have been omitted because they are not required or are not applicable.

## Exhibit Index

| | |
|---|---|
| **CERTIFICATE OF INCORPORATION AND BYLAWS** | |
| 3.1 | Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K as filed with the Commission on May 25, 2011, File No. 001-14077) |
| 3.2 | Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K as filed with the Commission on June 2, 2017, File No. 001-14077) |
| **INSTRUMENTS DEFINING THE RIGHTS OF SECURITY HOLDERS, INCLUDING INDENTURES** | |
| 4.1 | Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Company’s Current Report on Form 8-K as filed with the Commission on May 25, 2011, File No. 001-14077) |
| 4.2* | Description of the Registrant’s Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934 |

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| **FINANCING AGREEMENTS** | |
| 10.1 | Seventh Amended and Restated Credit Agreement, dated January 8, 2018, between the Company and Bank of America, N.A., as administrative agent, letter of credit issuer and swingline lender, Wells Fargo Bank, National Association, as syndication agent and the lenders party thereto (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2018 as filed with the Commission on March 29, 2018, File No. 001-14077) |
| 10.2 | Reimbursement Agreement between the Company, Williams-Sonoma Singapore Pte. Ltd. and Bank of America, N.A., dated as of August 30, 2013 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended November 3, 2013 as filed with the Commission on December 12, 2013, File No. 001-14077) |
| 10.3 | First Amendment to Reimbursement Agreement between the Company, Williams-Sonoma Singapore Pte. Ltd., and Bank of America, N.A., dated as of August 29, 2014 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended November 2, 2014 as filed with the Commission on December 5, 2014, File No. 001-14077) |
| 10.4 | Second Amendment to Reimbursement Agreement between the Company, Williams-Sonoma Singapore Pte. Ltd., and Bank of America, N.A., dated as of August 28, 2015 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended November 1, 2015 as filed with the Commission on December 11, 2015, File No. 001-14077) |
| 10.5 | Third Amendment to Reimbursement Agreement between the Company, Williams-Sonoma Singapore Pte. Ltd., and Bank of America, N.A., dated as of August 26, 2016 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended October 30, 2016 as filed with the Commission on December 7, 2016, File No. 001-14077) |
| 10.6 | Fourth Amendment to Reimbursement Agreement between the Company, Williams-Sonoma Singapore Pte. Ltd., and Bank of America, N.A., dated as of August 25, 2017 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended October 29, 2017 as filed with the Commission on December 6, 2017, File No. 001-14077) |
| 10.7 | Fifth Amendment to Reimbursement Agreement between the Company, Williams-Sonoma Singapore Pte. Ltd., and Bank of America, N.A., dated as of August 24, 2018 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended October 28, 2018 as filed with the Commission on December 7, 2018, File No. 001-12077) |
| 10.8 | Sixth Amendment to Reimbursement Agreement between the Company, Williams-Sonoma Singapore Pte. Ltd., and Bank of America, N.A., dated as of August 23, 2019 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended November 3, 2019 as filed with the Commission on December 12, 2019, File No. 001-14077) |
| 10.9 | Reimbursement Agreement between the Company, Williams-Sonoma Singapore Pte. Ltd., and Wells Fargo Bank, N.A., dated as of August 30, 2013 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended November 3, 2013 as filed with the Commission on December 12, 2013, File No. 001-14077) |
| 10.10 | First Amendment to Reimbursement Agreement between the Company, Williams-Sonoma Singapore Pte. Ltd., and Wells Fargo Bank, N.A., dated as of August 29, 2014 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended November 2, 2014 as filed with the Commission on December 5, 2014, File No. 001-14077) |
| 10.11 | Second Amendment to Reimbursement Agreement between the Company, Williams-Sonoma Singapore Pte. Ltd., and Wells Fargo Bank, N.A., dated as of August 28, 2015 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended November 1, 2015 as filed with the Commission on December 11, 2015, File No. 001-14077) |

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| 10.12 | Third Amendment to Reimbursement Agreement between the Company, Williams-Sonoma Singapore Pte. Ltd., and Wells Fargo Bank, N.A., dated as of August 26, 2016 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended October 30, 2016 as filed with the Commission on December 7, 2016, File No. 001-14077) |
| 10.13 | Fourth Amendment to Reimbursement Agreement between the Company, Williams-Sonoma Singapore Pte. Ltd., and Wells Fargo Bank, N.A., dated as of August 25, 2017 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended October 29, 2017 as filed with the Commission on December 6, 2017, File No. 001-14077) |
| 10.14 | Fifth Amendment to Reimbursement Agreement between the Company, Williams-Sonoma Singapore Pte. Ltd., and Wells Fargo Bank, N.A., dated as of August 24, 2018 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended October 28, 2018 as filed with the Commission on December 7, 2018, File No.001-14077) |
| 10.15 | Sixth Amendment to Reimbursement Agreement between the Company, Williams-Sonoma Singapore Pte. Ltd., and Wells Fargo Bank, N.A., dated as of August 23, 2019 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended November 3, 2019 as filed with the Commission on December 12, 2019, File No. 001-14077) |
| 10.16 | Reimbursement Agreement between the Company, Williams-Sonoma Singapore Pte. Ltd., and U.S. Bank National Association, dated as of August 30, 2013 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 3, 2013 as filed with the Commission on December 12, 2013, File No. 001-14077) |
| 10.17 | First Amendment to Reimbursement Agreement between the Company, Williams-Sonoma Singapore Pte. Ltd., and U.S. Bank National Association, dated as of August 29, 2014 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 2, 2014 as filed with the Commission on December 5, 2014, File No. 001-14077) |
| 10.18 | Second Amendment to Reimbursement Agreement between the Company, Williams-Sonoma Singapore Pte. Ltd., and U.S. Bank National Association, dated as of August 28, 2015 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the period ended November 1, 2015 as filed with the Commission on December 11, 2015, File No. 001-14077) |
| 10.19 | Third Amendment to Reimbursement Agreement between the Company, Williams-Sonoma Singapore Pte. Ltd., and U.S. Bank National Association, dated as of August 26, 2016 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the period ended October 30, 2016 as filed with the Commission on December 7, 2016, File No. 001-14077) |
| 10.20 | Fourth Amendment to Reimbursement Agreement between the Company, Williams-Sonoma Singapore Pte. Ltd., and U.S. Bank National Association, dated as of August 25, 2017 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the period ended October 29, 2017 as filed with the Commission on December 6, 2017, File No. 001-14077) |
| 10.21 | Fifth Amendment to Reimbursement Agreement between the Company, Williams-Sonoma Singapore Pte. Ltd., and U.S. Bank National Association, dated as of August 24, 2018 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on the Form 10-Q for the period ended October 28, 2018 as filed with the Commission on December 7, 2018, File No. 001-14077) |
| 10.22 | Sixth Amendment to Reimbursement Agreement between the Company, Williams-Sonoma Singapore Pte. Ltd., and U.S. Bank National Association, dated as of August 23, 2019 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the period ended November 3, 2019 as filed with the Commission on December 12, 2019, File No. 001-14077) |

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|---|---|
| **STOCK PLANS** | |
| 10.23+ | Williams-Sonoma, Inc. 2001 Long-Term Incentive Plan, as amended (incorporated by reference to Exhibit A to the Company’s definitive proxy statement as filed on April 13, 2018, File No. 001-14077) |
| 10.24+ | Form of Williams-Sonoma, Inc. 2001 Long-Term Incentive Plan Restricted Stock Unit Award Agreement for Grants to Non-Employee Directors (incorporated by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q for the period ended May 5, 2019 as filed with the Commission on June 14, 2019, File No. 001-14077) |
| 10.25+ | Form of Williams-Sonoma, Inc. 2001 Long-Term Incentive Plan Restricted Stock Unit Award Agreement for Grants to Employees (incorporated by reference to Exhibit 10.2 to the Company’s Quarterly Report on Form 10-Q for the period ended August 4, 2019 as filed with the Commission on September 12, 2019, File No. 001-14077) |
| 10.26+ | Form of Williams-Sonoma, Inc. 2001 Long-Term Incentive Plan Performance Stock Unit Award Agreement for Grants to Employees (incorporated by reference to Exhibit 10.15 to the Company’s Annual Report on Form 10-K for the fiscal year ended February 2, 2014 as filed with the Commission on April 3, 2014, File No. 001-14077) |
| 10.27+ | Form of Williams-Sonoma, Inc. 2001 Long-Term Incentive Plan Retention Restricted Stock Unit Award Agreement for Grants to Employees (incorporated by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q for the period ended July 30, 2017 as filed with the Commission on September 8, 2017, File No. 001-14077) |
| **OTHER INCENTIVE PLANS** | |
| 10.28+ | Williams-Sonoma, Inc. 2001 Incentive Bonus Plan, as amended (incorporated by reference to Exhibit A to the Company’s Definitive Proxy Statement on Schedule 14A as filed with the Commission on April 15, 2016, File No. 001-14077) |
| 10.29+ | Williams-Sonoma, Inc. Pre-2005 Executive Deferral Plan (incorporated by reference to Exhibit 10.40 to the Company’s Annual Report on Form 10-K for the fiscal year ended February 1, 2009 as filed with the Commission on April 2, 2009, File No. 001-14077) |
| 10.30+ | Williams-Sonoma, Inc. Amended and Restated Executive Deferred Compensation Plan (incorporated by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q for the period ended April 29, 2018 as filed with the Commission on June 8, 2018, File No. 001-14077) |
| **PROPERTIES** | |
| 10.31 | Memorandum of Understanding between the Company and the State of Mississippi, Mississippi Business Finance Corporation, Desoto County, Mississippi, the City of Olive Branch, Mississippi and Hewson Properties, Inc., dated August 24, 1998 (incorporated by reference to Exhibit 10.6 to the Company’s Quarterly Report on Form 10-Q for the period ended August 2, 1998 as filed with the Commission on September 14, 1998, File No. 001-14077) |
| 10.32 | Olive Branch Distribution Facility Lease, dated December 1, 1998, between the Company as lessee and WSDC, LLC (the successor-in-interest to Hewson/Desoto Phase I, L.L.C.) as lessor (incorporated by reference to Exhibit 10.3D to the Company’s Annual Report on Form 10-K for the fiscal year ended January 31, 1999 as filed with the Commission on April 30, 1999, File No. 001-14077) |
| 10.33 | First Amendment, dated September 1, 1999, to the Olive Branch Distribution Facility Lease between the Company as lessee and WSDC, LLC (the successor-in-interest to Hewson/Desoto Phase I, L.L.C.) as lessor, dated December 1, 1998 (incorporated by reference to Exhibit 10.3B to the Company’s Annual Report on Form 10-K for the fiscal year ended January 30, 2000 as filed with the Commission on May 1, 2000, File No. 001-14077) |

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| 10.34 | Second Amendment, dated March 1, 2018, to the Olive Branch Distribution Facility Lease between the Company as lessee and WSDC, LLC (the successor-in-interest to Hewson/Desoto Phase I, L.L.C.) as lessor, dated December 1, 1998 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended April 29, 2018 as filed with the Commission on June 8, 2018, File No. 001-14077) |
| 10.35 | Lease for an additional Company distribution facility located in Olive Branch, Mississippi between Williams-Sonoma Retail Services, Inc. as lessee and SPI WS II, LLC (the successor-in-interest to Hewson/Desoto Partners, L.L.C.) as lessor, dated November 15, 1999 (incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2000 as filed with the Commission on May 1, 2000, File No. 001-14077) |
| **EMPLOYMENT AGREEMENTS** | |
| 10.36+ | Amended and Restated Employment Agreement with Laura Alber, dated September 6, 2012 (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the period ended October 28, 2012 as filed with the Commission December 7, 2012, File No. 001-14077) |
| 10.37+ | Amended and Restated Management Retention Agreement with Laura Alber, dated September 6, 2012 (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the period ended October 28, 2012 as filed with the Commission December 7, 2012, File No. 001-14077) |
| 10.38+ | Amended and Restated 2012 EVP Level Management Retention Plan (incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2019 as filed with the Commission on April 4, 2019, File No. 001-14077) |
| **OTHER AGREEMENTS** | |
| 10.39+ | Form of Williams-Sonoma, Inc. Indemnification Agreement (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 31, 2011 as filed with the Commission on September 9, 2011, File No. 001-14077) |
| **OTHER EXHIBITS** | |
| 21.1* | Subsidiaries |
| 23.1* | Consent of Independent Registered Public Accounting Firm |
| **CERTIFICATIONS** | |
| 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 |

| XBRL | |
|---|---|
| 101* | The following financial statements from the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2020, formatted in Inline XBRL: (i) Consolidated Statements of Earnings, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Stockholders' Equity, (v) Consolidated Statements of Cash Flows and (vi) Notes to 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.

\+ Indicates a management contract or compensatory plan or arrangement.

**ITEM 16. FORM 10-K SUMMARY**

None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: March 27, 2020

By /s/ LAURA ALBER
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| | |
|---|---|
| Date: March 27, 2020 | /s/ ADRIAN BELLAMY<br>Adrian Bellamy<br>Chairman of the Board of Directors |
| Date: March 27, 2020 | /s/ LAURA ALBER<br>Laura Alber<br>Chief Executive Officer and Director<br>(principal executive officer) |
| Date: March 27, 2020 | /s/ JULIE WHALEN<br>Julie Whalen<br>Chief Financial Officer<br>(principal financial officer and principal accounting officer) |
| Date: March 27, 2020 | /s/ SCOTT DAHNKE<br>Scott Dahnke<br>Director |
| Date: March 27, 2020 | /s/ ANNE MULCAHY<br>Anne Mulcahy<br>Director |
| Date: March 27, 2020 | /s/ GRACE PUMA<br>Grace Puma<br>Director |
| Date: March 27, 2020 | /s/ WILLIAM READY<br>William Ready<br>Director |
| Date: March 27, 2020 | /s/ SABRINA SIMMONS<br>Sabrina Simmons<br>Director |
| Date: March 27, 2020 | /s/ FRITS VAN PAASSCHEN<br>Frits van Paasschen<br>Director |

## DESCRIPTION OF THE REGISTRANT'S SECURITIES REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

*Williams-Sonoma, Inc. ("we," "our," "us," or the "Company") has one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended: our Common Stock. The following summary of the terms of our Common Stock is based upon our Amended and Restated Certificate of Incorporation and our Amended and Restated Bylaws. This summary does not purport to be complete and is subject to, and is qualified in its entirety by express reference to, the applicable provisions of our Amended and Restated Certificate of Incorporation and our Amended and Restated Bylaws, which are filed as exhibits to our Annual Report on Form 10-K and are incorporated by reference herein. We encourage you to read our Amended and Restated Certificate of Incorporation, our Amended and Restated Bylaws and the applicable provisions of the Delaware General Corporation Law (the "DGCL") for more information.*

## DESCRIPTION OF COMMON STOCK

### General

The Company's authorized capital stock consists of 253,125,000 shares of Common Stock and 7,500,000 shares of Preferred Stock, $0.01 par value per share.

### Common Stock

Holders of our Common Stock are entitled to one vote for each share held on each matter submitted to a vote of stockholders. In the election of directors, each holder is entitled to one vote for each share of our Common Stock held and may not cumulate votes for the election of directors. Subject to contractual restrictions on dividends and preferences, which may be granted to holders of Preferred Stock, each holder of our Common Stock is entitled to share ratably in distributions to stockholders and receive ratably such dividends as may be declared by the Board of Directors out of funds legally available therefor. In the event of a liquidation, dissolution or winding up of the Company, each holder of our Common Stock is entitled to share ratably in all assets remaining after payments of liabilities and the liquidation preference of outstanding Preferred Stock, if any. Holders of our Common Stock have no conversion, preemptive rights or other rights to subscribe for additional shares of Common Stock. Our Common Stock is not subject to further calls or assessments by the Company, and there are no redemption or sinking fund provisions applicable to our Common Stock. All outstanding shares of our Common Stock are fully paid and non-assessable.

### Anti-Takeover Effects of Certain Provisions of the Company's Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws

Certain provisions of the Company's Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws, which are summarized in the following paragraphs, may have an anti-takeover effect and may delay, defer or prevent a tender offer or takeover attempt that a stockholder might consider in its best interest, including those attempts that might result in a premium over the market price for the shares held by stockholders.

*Blank Check Preferred*. The Board of Directors is authorized to create and issue from time to time, without stockholder approval, up to an aggregate of 7,500,000 shares of Preferred Stock in one or more series and to establish the number of shares of any series of Preferred Stock and to fix the designations, powers, preferences and rights of the shares of each series and any qualifications, limitations or restrictions of the shares of each series.

The authority to designate Preferred Stock may be used to issue series of Preferred Stock, or rights to acquire Preferred Stock, that could dilute the interest of, or impair the voting power of, holders of our Common Stock or could also be used as a method of determining, delaying or preventing a change of control.

*Super-Majority Vote*. The Company's Amended and Restated Certificate of Incorporation requires that any merger, consolidation, dissolution or sale of all or substantially all the assets of the Company must be approved by the affirmative vote of two-thirds of the outstanding shares of capital stock entitled to vote thereon. The requirement of a super-majority vote to approve certain corporate transactions could enable a minority of the Company's stockholders to exercise veto powers over such transactions.

*Advance Notice Bylaws*. The Amended and Restated Bylaws contain an advance notice procedure for stockholder proposals to be brought before an annual meeting of stockholders, including proposed nominations of persons for election to the Board of Directors. Stockholders at an annual meeting will only be able to consider proposals or nominations specified in the notice of meeting or brought before the meeting by or at the direction of the Board of Directors or by a stockholder who was a stockholder of record on the record date for the meeting, who is entitled to vote at the meeting and who has given the Company's corporate secretary timely written notice, in proper form, of the stockholder's intention to bring that business before the annual meeting. Although the Amended and Restated Bylaws do not give the Board of Directors the power to approve or disapprove stockholder nominations of candidates or proposals regarding other business to be conducted at a special or annual meeting, the Amended and Restated Bylaws may have the effect of precluding the conduct of certain business at a meeting if the proper procedures are not followed or may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect its own slate of directors or otherwise attempting to obtain control of the Company.

*Exclusive Forum Selection*. Our Amended and Restated Certificate of Incorporation provide that, unless we consent in writing to the selection of an alternative forum, the sole and exclusive forum for certain actions or proceedings involving us shall be the Court of Chancery of the State of Delaware. These certain actions or proceedings include derivative actions, actions claiming breach of fiduciary duty, actions involving the DGCL or our organizational documents, actions asserting a claim as to which the DGCL confers jurisdiction upon the Court of Chancery, and actions involving the internal affairs legal doctrine.

**Transfer Agent and Registrar**

Our Common Stock is listed on the New York Stock Exchange under the symbol "WSM." The transfer agent and registrar for our Common Stock is EQ Shareowner Services. Its address is P.O. Box 64854, St. Paul, Minnesota, 55164, and its telephone number is (800) 468-9716.

**Exhibit 21.1**

## SUBSIDIARIES

The following is a list of subsidiaries of Williams-Sonoma, Inc., omitting subsidiaries which, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary as of February 2, 2020:

| **Subsidiary Name** | Jurisdiction/Date of Incorporation |
| --- | --- |
| Williams-Sonoma Stores, Inc. | California, October 11, 1984 |
| Williams-Sonoma Direct, Inc. | California, August 9, 1999 |
| Williams-Sonoma DTC, Inc. | California, October 26, 2000 |
| Williams-Sonoma Singapore Pte. Ltd. | Singapore, April 11, 2008 |

**Exhibit 23.1**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement No. 333-39811, No. 333-58026, No. 333-134897, No. 333-105726, No. 333-118351, No. 333-169318, No. 333-176410, No. 333-207362, and No. 333-227240 each on Form S-8 of our report dated March 27, 2020, relating to the consolidated financial statements of Williams-Sonoma, Inc. and its subsidiaries, and the effectiveness of Williams-Sonoma, Inc.'s internal control over financial reporting, appearing in this Annual Report on Form 10-K of Williams-Sonoma, Inc. for the fiscal year ended February 2, 2020.

/s/ *DELOITTE & TOUCHE LLP*
San Francisco, California
March 27, 2020

**Exhibit 31.1**

## CERTIFICATION

I, Laura Alber, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: March 27, 2020

By: /s/ LAURA ALBER

Laura Alber
Chief Executive Officer

**Exhibit 31.2**

**CERTIFICATION**

I, Julie Whalen, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: March 27, 2020

By: /s/ JULIE WHALEN

Julie Whalen
Chief Financial Officer

**Exhibit 32.1**

**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 Annual Report on Form 10-K for the period ended February 2, 2020 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.

Date: March 27, 2020

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

**Exhibit 32.2**

**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 Annual Report on Form 10-K for the period ended February 2, 2020 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.

Date: March 27, 2020

By: /s/ JULIE WHALEN
Julie Whalen
Chief Financial Officer