

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 1, 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
(State or other jurisdiction of
incorporation or organization)

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

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

94109
(Zip Code)

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

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

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

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

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

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

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

Large accelerated filer ☒ Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

Emerging growth company ☐

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

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

As of November 29, 2020, 76,587,716 shares of the registrant's Common Stock were outstanding.

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**WILLIAMS-SONOMA, INC.
REPORT ON FORM 10-Q
FOR THE QUARTER ENDED NOVEMBER 1, 2020**

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ITEM 1. FINANCIAL STATEMENTS

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

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	November 1, 2020	November 3, 2019	November 1, 2020	November 3, 2019
<i>In thousands, except per share amounts</i>				
Net revenues	\$ 1,764,536	\$ 1,442,472	\$ 4,490,516	\$ 4,054,418
Cost of goods sold	1,058,953	924,300	2,819,471	2,608,054
Gross profit	705,583	518,172	1,671,045	1,446,364
Selling, general and administrative expenses	430,979	416,281	1,162,435	1,184,176
Operating income	274,604	101,891	508,610	262,188
Interest expense, net	5,344	2,564	13,967	7,486
Earnings before income taxes	269,260	99,327	494,643	254,702
Income taxes	67,488	24,614	122,884	64,685
Net earnings	\$ 201,772	\$ 74,713	\$ 371,759	\$ 190,017
Basic earnings per share	\$ 2.60	\$ 0.96	\$ 4.80	\$ 2.43
Diluted earnings per share	\$ 2.54	\$ 0.94	\$ 4.71	\$ 2.39
Shares used in calculation of earnings per share:				
Basic	77,487	77,897	77,511	78,356
Diluted	79,332	79,191	79,012	79,465

See Notes to Condensed Consolidated Financial Statements.

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

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	November 1, 2020	November 3, 2019	November 1, 2020	November 3, 2019
<i>In thousands</i>				
Net earnings	\$ 201,772	\$ 74,713	\$ 371,759	\$ 190,017
Other comprehensive income (loss):				
Foreign currency translation adjustments	(745)	1,783	716	(2,477)
Change in fair value of derivative financial instruments, net of tax (tax benefit) of \$21, \$97, \$146 and \$163	54	5	403	77
Reclassification adjustment for realized gain on derivative financial instruments, net of tax of \$85, \$187, \$136 and \$221	(231)	(8)	(375)	(235)
Comprehensive income	\$ 200,850	\$ 76,493	\$ 372,503	\$ 187,382

See Notes to Condensed Consolidated Financial Statements.

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

<i>In thousands, except per share amounts</i>	November 1, 2020	February 2, 2020	November 3, 2019
ASSETS			
Current assets			
Cash and cash equivalents	\$ 773,170	\$ 432,162	\$ 155,025
Accounts receivable, net	129,782	111,737	110,131
Merchandise inventories, net	1,125,475	1,100,544	1,258,541
Prepaid expenses	84,974	90,426	115,288
Other current assets	23,556	20,766	20,260
Total current assets	2,136,957	1,755,635	1,659,245
Property and equipment, net	869,092	929,038	915,740
Operating lease right-of-use assets	1,091,649	1,166,383	1,194,061
Deferred income taxes, net	42,185	47,977	41,763
Goodwill	85,402	85,343	85,355
Other long-term assets, net	85,394	69,666	67,660
Total assets	\$ 4,310,679	\$ 4,054,042	\$ 3,963,824
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable	\$ 562,294	\$ 521,235	\$ 444,279
Accrued expenses	194,985	175,003	140,789
Gift card and other deferred revenue	349,671	289,613	296,157
Income taxes payable	36,037	22,501	13,182
Current debt	—	299,818	—
Borrowings under revolving line of credit	—	—	100,000
Operating lease liabilities	217,448	227,923	225,530
Other current liabilities	99,691	73,462	68,973
Total current liabilities	1,460,126	1,609,555	1,288,910
Deferred rent and lease incentives	21,858	27,659	29,388
Long-term debt	299,173	—	299,769
Long-term operating lease liabilities	1,027,142	1,094,579	1,127,403
Other long-term liabilities	100,478	86,389	86,461
Total liabilities	2,908,777	2,818,182	2,831,931
Commitments and contingencies – See Note F			
Stockholders' equity			
Preferred stock: \$.01 par value; 7,500 shares authorized; none issued	—	—	—
Common stock: \$.01 par value; 253,125 shares authorized; 76,697, 77,137 and 77,612 shares issued and outstanding at November 1, 2020, February 2, 2020 and November 3, 2019, respectively	768	772	777
Additional paid-in capital	623,379	605,822	594,991
Retained earnings	792,196	644,794	550,774
Accumulated other comprehensive loss	(13,843)	(14,587)	(13,708)
Treasury stock, at cost: 8, 14 and 14 shares as of November 1, 2020, February 2, 2020 and November 3, 2019, respectively	(598)	(941)	(941)
Total stockholders' equity	1,401,902	1,235,860	1,131,893
Total liabilities and stockholders' equity	\$ 4,310,679	\$ 4,054,042	\$ 3,963,824

See Notes to Condensed Consolidated Financial Statements.

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

	Common Stock		Additional	Retained	Accumulated	Treasury	Total
<i>In thousands</i>	Shares	Amount	Paid-in Capital	Earnings	Other Comprehensive Income (Loss)	Stock	Stockholders' Equity
Balance at February 2, 2020	77,137	\$ 772	\$ 605,822	\$ 644,794	\$ (14,587)	\$ (941)	\$ 1,235,860
Net earnings	—	—	—	35,423	—	—	35,423
Foreign currency translation adjustments	—	—	—	—	(5,276)	—	(5,276)
Change in fair value of derivative financial instruments, net of tax	—	—	—	—	549	—	549
Reclassification adjustment for realized (gain) on derivative financial instruments, net of tax	—	—	—	—	(37)	—	(37)
Conversion/release of stock-based awards ¹	622	6	(28,747)	—	—	(171)	(28,912)
Reissuance of treasury stock under stock-based compensation plans ¹	—	—	(499)	(14)	—	513	—
Stock-based compensation expense	—	—	19,608	—	—	—	19,608
Dividends declared	—	—	—	(38,286)	—	—	(38,286)
Balance at May 3, 2020	77,759	\$ 778	\$ 596,184	\$ 641,917	\$ (19,351)	\$ (599)	\$ 1,218,929
Net earnings	—	—	—	134,564	—	—	134,564
Foreign currency translation adjustments	—	—	—	—	6,737	—	6,737
Change in fair value of derivative financial instruments, net of tax	—	—	—	—	(200)	—	(200)
Reclassification adjustment for realized (gain) on derivative financial instruments, net of tax	—	—	—	—	(107)	—	(107)
Conversion/release of stock-based awards ¹	37	—	(677)	—	—	—	(677)
Stock-based compensation expense	—	—	13,385	—	—	—	13,385
Dividends declared	—	—	—	(39,709)	—	—	(39,709)
Balance at August 2, 2020	77,796	\$ 778	\$ 608,892	\$ 736,772	\$ (12,921)	\$ (599)	\$ 1,332,922
Net earnings	—	—	—	201,772	—	—	201,772
Foreign currency translation adjustments	—	—	—	—	(745)	—	(745)
Change in fair value of derivative financial instruments, net of tax	—	—	—	—	54	—	54
Reclassification adjustment for realized (gain) on derivative financial instruments, net of tax	—	—	—	—	(231)	—	(231)
Conversion/release of stock-based awards ¹	20	1	(968)	—	—	1	(966)
Repurchases of common stock	(1,119)	(11)	(5,640)	(103,397)	—	—	(109,048)
Stock-based compensation expense	—	—	21,095	—	—	—	21,095
Dividends declared	—	—	—	(42,951)	—	—	(42,951)
Balance at November 1, 2020	76,697	\$ 768	\$ 623,379	\$ 792,196	\$ (13,843)	\$ (598)	\$ 1,401,902

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

See Notes to Condensed Consolidated Financial Statements.

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

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

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

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

See Notes to Condensed Consolidated Financial Statements.

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

	Thirty-nine Weeks Ended	
	November 1, 2020	November 3, 2019
<i>In thousands</i>		
Cash flows from operating activities:		
Net earnings	\$ 371,759	\$ 190,017
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	140,340	140,495
(Gain) loss on disposal/impairment of assets	26,220	682
Amortization of deferred lease incentives	(4,538)	(5,985)
Non-cash lease expense	162,767	160,138
Deferred income taxes	(6,969)	(10,937)
Tax benefit related to stock-based awards	13,143	13,648
Stock-based compensation expense	54,671	49,516
Other	(9)	14
Changes in:		
Accounts receivable	(18,017)	(2,842)
Merchandise inventories	(22,990)	(133,637)
Prepaid expenses and other assets	(4,807)	(24,157)
Accounts payable	54,279	(92,101)
Accrued expenses and other liabilities	58,539	(24,148)
Gift card and other deferred revenue	59,953	5,848
Operating lease liabilities	(171,245)	(168,308)
Income taxes payable	13,532	(8,293)
Net cash provided by operating activities	726,628	89,950
Cash flows from investing activities:		
Purchases of property and equipment	(124,885)	(121,154)
Other	506	470
Net cash used in investing activities	(124,379)	(120,684)
Cash flows from financing activities:		
Borrowings under revolving line of credit	487,823	100,000
Repayments under the revolving line of credit	(487,823)	—
Payment of dividends	(116,761)	(113,159)
Repurchases of common stock	(109,048)	(112,714)
Tax withholdings related to stock-based awards	(30,555)	(26,623)
Debt issuance costs	(3,645)	—
Net cash used in financing activities	(260,009)	(152,496)
Effect of exchange rates on cash and cash equivalents	(1,232)	(699)
Net increase (decrease) in cash and cash equivalents	341,008	(183,929)
Cash and cash equivalents at beginning of period	432,162	338,954
Cash and cash equivalents at end of period	\$ 773,170	\$ 155,025

See Notes to Condensed Consolidated Financial Statements.

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

NOTE A. FINANCIAL STATEMENTS - BASIS OF PRESENTATION

These financial statements include Williams-Sonoma, Inc. and its wholly owned subsidiaries (“we,” “us” or “our”). The Condensed Consolidated Balance Sheets as of November 1, 2020 and November 3, 2019, the Condensed Consolidated Statements of Earnings, the Condensed Consolidated Statements of Comprehensive Income, and the Condensed Consolidated Statements of Stockholders’ Equity for the thirteen and thirty-nine weeks then ended and the Condensed Consolidated Statements of Cash Flows for the thirty-nine weeks then ended, have been prepared by us, without audit. In our opinion, the financial statements include all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position at the balance sheet dates and the results of operations for the thirteen weeks and thirty-nine weeks then ended. Intercompany transactions and accounts have been eliminated. The balance sheet as of February 2, 2020, presented herein, has been derived from our audited Consolidated Balance Sheet included in our Annual Report on Form 10-K for the fiscal year ended February 2, 2020.

The results of operations for the thirteen and thirty-nine weeks ended November 1, 2020 are not necessarily indicative of the operating results of the full year.

Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been omitted. These financial statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended February 2, 2020.

COVID-19

On March 11, 2020, the World Health Organization declared a novel strain of the coronavirus (COVID-19) to be a global pandemic and recommended containment and mitigation measures worldwide. In March 2020, we announced the temporary closures of all of our retail store operations to protect our employees, customers and the communities in which we operate and to help contain the COVID-19 pandemic. The preventative or protective actions that governments and businesses around the world have taken to contain the spread of COVID-19 have resulted in a period of disruption that has materially reduced customer store traffic, and thus our retail store revenues, which comprised approximately 44% of our net revenues in fiscal 2019. As of November 1, 2020, all of our retail stores had reopened. However, subsequent to quarter-end, given the continued uncertainty around COVID-19 due to rising rates of infections in certain geographies, state and local officials have reinstated closures or restrictions on retail capacity, which will continue to negatively impact our store traffic and retail revenues, and may result in future store impairments. Throughout the fiscal year, we have continued to operate our e-commerce sites and distribution centers and have continued to deliver products to our customers. However, governmental mandates, illness or the absence of a substantial number of distribution center employees may require in the future 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 could complicate or prevent us from fulfilling e-commerce orders and could complicate or prevent our ability to supply merchandise to our stores. We also expect to incur incremental costs associated with keeping our people and customers safe during the pandemic, as well as additional supply chain employment costs and higher shipping costs due to the various surcharges that have been announced by third party shippers on retailers. These higher costs affected us in the third quarter of 2020 and will affect us more so in the fourth quarter as a result of peak surcharges during the holiday season and could continue to affect us thereafter. Further, COVID-19 related containment efforts and illnesses 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 and could negatively impact our revenues and results of operations.

As a result of the COVID-19 pandemic and the prolonged impact on our retail locations, we identified certain assets whose carrying value was deemed to have been impaired. Given the material reductions in our retail store revenues and operating income during fiscal 2020, we evaluated our estimates and assumptions related to our stores’ future sales and cash flows, and performed a comprehensive review of our stores’ long-lived assets for impairment, including both property and equipment and operating lease right-of-use assets, at an individual store level. Key assumptions used in estimating fair value of our store assets in connection with our impairment analyses are sales growth, gross margin, employment costs, lease escalations, market rental rates, changes in local real estate markets in which we operate, inflation, and the overall economics of the retail industry. Our assumptions account for the estimated impact on future cash flows from the recent temporary store closures and capacity restrictions, including reduced store traffic and longer recovery times in those stores we have re-opened, as well as the reinstatement of closures or restrictions on retail capacity in certain areas. We did not record any store asset impairment charges within selling, general and administrative expenses during the thirteen weeks ended November 1, 2020. During the thirty-nine weeks ended November 1, 2020, we recorded store asset impairment charges within selling, general and administrative expenses of approximately \$16,514,000 related to property and equipment and \$5,461,000 related to operating lease right-of-use assets.

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During the thirty-nine weeks ended November 1, 2020, we recorded charges of approximately \$11,378,000 related to write-offs for inventory with minor damage that we could not liquidate through our outlets due to store closures resulting from COVID-19. During the thirteen weeks ended November 1, 2020, we did not record any charges related to such inventory write-offs.

We test goodwill for impairment 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. As of November 1, 2020 and November 3, 2019, we had goodwill of \$85,402,000 and \$85,355,000, respectively, primarily related to our fiscal 2017 acquisition of Outward and our fiscal 2011 acquisition of Rejuvenation, Inc. As a result of the COVID-19 pandemic and the resulting closure of our retail locations, we evaluated the need to test goodwill for potential impairment. Our most recently completed qualitative goodwill impairment assessment indicated that the fair values of our reporting units significantly exceeded their carrying values. Further, we currently do not expect the impact of COVID-19 to significantly affect the long-term estimates or assumptions of revenue and operating income growth, nor the long-term strategies of our brands, considered in our most recently completed goodwill assessment. Therefore, we have not tested our goodwill for impairment between annual tests and, accordingly, have not recorded any goodwill impairment charges during the third quarter of fiscal 2020.

As of the end of the quarter, we had finalized rent concession negotiations with a portion of our store landlords and we expect the remaining outstanding lease concession negotiations to be finalized throughout the remainder of fiscal 2020.

In response to COVID-19, the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) was signed into law on March 27, 2020. The CARES Act provides tax provisions and other stimulus measures to affected companies. The impact of the CARES Act was not material to our result of operations for the third quarter of fiscal 2020.

These events and changes in circumstances, including a more prolonged and/or severe COVID-19 pandemic and the reinstatement of closures or restrictions on retail capacity, may lead to increased impairment risk in the future; therefore, we will continue to monitor events and changes in circumstances that may indicate the need to test our long-lived assets, including goodwill, for potential impairment.

New Accounting Pronouncements

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 ASU was effective for us in the first quarter of fiscal 2020. 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 was effective for us in the first quarter of fiscal 2020. The adoption of this ASU did not 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, 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.

NOTE B. 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.

In May 2020, we entered into an amendment to our credit facility (the “Credit Facility Amendment”), which, among other changes, extends the maturity date and amends the interest rate of the term loan, modifies covenants under the credit facility, and maintains the maturity date and interest rate of the revolver. The term loan now matures on January 8, 2022, at which time all outstanding principal and any accrued interest must be repaid. Under the Credit Facility Amendment, the interest rate applicable to the credit facility is variable, and may be elected by us as: (i) the LIBOR plus an applicable margin based on our leverage ratio ranging from 0.91% to 1.775% for a revolver borrowing, and 1.75% to 2.5% 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 0.75% to 1.5% for the term loan.

We had no borrowings during the third quarter of fiscal 2020, and for year-to-date fiscal 2020, we had borrowings of \$487,823,000 under the revolver (at a year-to-date weighted average interest rate of 2.47 %), all of which were repaid in the third quarter of fiscal 2020. Additionally, as of November 1, 2020, \$12,486,000 in issued but undrawn standby letters of credit were outstanding under the revolver. The standby letters of credit were primarily issued to secure the liabilities associated with workers’ compensation and other insurance programs. During the third quarter and for year-to-date fiscal 2019, we had borrowings of \$100,000,000 under the revolver (at a year-to-date weighted average interest rate of 3.12%). 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 elect to extend the maturity date for an additional year, subject to lender approval.

As of November 1, 2020, we had \$300,000,000 outstanding under our term loan (at a year-to-date weighted average interest rate of 2.88%). 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 Condensed Consolidated Balance Sheet.

In addition to the Credit Facility Amendment, during the second quarter of fiscal 2020 we entered into a new agreement (the “364-Day Credit Agreement”) for an additional \$200,000,000 unsecured revolving line of credit. Under the 364-Day Credit Agreement, the interest rate is variable and may be elected by us as: (i) LIBOR plus an applicable margin based on our leverage ratio ranging from 1.75% to 2.5% or (ii) a base rate as defined in the agreement, plus an applicable margin ranging from 0.75% to 1.5%. The 364-Day Credit Agreement matures on May 10, 2021. During the third quarter and for year-to-date fiscal 2020, we had no borrowings under the 364-Day Credit Agreement.

The Credit Facility Amendment and the 364-Day Credit Agreement contain certain restrictive loan covenants, including, among others, a financial covenant requiring a maximum leverage ratio (funded debt adjusted for lease and rent expense to earnings before interest, income tax, depreciation, amortization and rent expense), and covenants limiting our ability to incur indebtedness, grant liens, make acquisitions, merge or consolidate, and dispose of assets. As of November 1, 2020, we were in compliance with our covenants under our credit facilities and based on current projections, we expect to remain in compliance throughout the next 12 months.

Letter of Credit Facilities

On August 23, 2020, we renewed all three of our letter of credit facilities and reduced the aggregate credit available under these facilities from \$70,000,000 to \$35,000,000 due to our lower level of usage, and extended each facility’s maturity date until August 22, 2021. The letter of credit facilities contain covenants that are consistent with our credit facility. Interest on unreimbursed amounts under the letter of credit facilities accrues at a base rate as defined in the credit facility, plus an applicable margin based on our leverage ratio. As of November 1, 2020, an aggregate of \$9,075,000 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 date possible for any future letters of credit issued under the facilities is January 19, 2022.

NOTE C. STOCK-BASED COMPENSATION

Equity Award Programs

Our Amended and Restated 2001 Long-Term Incentive Plan (the “Plan”) provides for grants of incentive stock options, nonqualified stock options, stock-settled stock appreciation rights (collectively, “option awards”), restricted stock awards, restricted stock units (including those that are performance-based), deferred stock awards (collectively, “stock awards”) and dividend equivalents up to an aggregate of 36,570,000 shares. As of November 1, 2020, there were approximately 2,465,000 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. 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 the thirteen and thirty-nine weeks ended November 1, 2020, we recognized total stock-based compensation expense, as a component of selling, general and administrative expenses, of \$21,276,000 and \$54,671,000, respectively. During the thirteen and thirty-nine weeks ended November 3, 2019, we recognized total stock-based compensation expense, as a component of selling, general and administrative expenses, of \$14,115,000 and \$49,516,000, respectively.

Restricted Stock Units

The following table summarizes our restricted stock unit activity during the thirty-nine weeks ended November 1, 2020:

	Shares
Balance at February 2, 2020	2,884,194
Granted	1,132,649
Granted, with vesting subject to performance conditions	267,000
Released ¹	(1,030,199)
Cancelled	(98,603)
Balance at November 1, 2020	3,155,041
Vested plus expected to vest at November 1, 2020	2,340,530

¹ Excludes 170,308 incremental shares released due to achievement of performance conditions above target.

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NOTE D. EARNINGS PER SHARE

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

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

<i>In thousands, except per share amounts</i>	Net Earnings	Weighted Average Shares	Earnings Per Share
Thirteen weeks ended November 1, 2020			
Basic	\$ 201,772	77,487	\$ 2.60
Effect of dilutive stock-based awards		1,845	
Diluted	\$ 201,772	79,332	\$ 2.54
Thirteen weeks ended November 3, 2019			
Basic	\$ 74,713	77,897	\$ 0.96
Effect of dilutive stock-based awards		1,294	
Diluted	\$ 74,713	79,191	\$ 0.94
Thirty-nine weeks ended November 1, 2020			
Basic	\$ 371,759	77,511	\$ 4.80
Effect of dilutive stock-based awards		1,501	
Diluted	\$ 371,759	79,012	\$ 4.71
Thirty-nine weeks ended November 3, 2019			
Basic	\$ 190,017	78,356	\$ 2.43
Effect of dilutive stock-based awards		1,109	
Diluted	\$ 190,017	79,465	\$ 2.39

Stock-based awards of 229 and 19,295 were excluded from the computation of diluted earnings per share for the thirteen and thirty-nine weeks ended November 1, 2020, respectively, as their inclusion would be anti-dilutive. Stock-based awards of 2,000 and 28,000 were excluded from the computation of diluted earnings per share for the thirteen and thirty-nine weeks ended November 3, 2019, respectively, as their inclusion would be anti-dilutive.

NOTE E. SEGMENT REPORTING

We identify our operating segments according to how our business activities are managed and evaluated. Each of our brands are operating segments. Because they share similar economic and other qualitative characteristics, we have aggregated our operating segments into a single reportable segment.

The following table summarizes our net revenues by brand for the thirteen and thirty-nine weeks ended November 1, 2020 and November 3, 2019.

<i>In thousands</i>	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	November 1, 2020	November 3, 2019	November 1, 2020	November 3, 2019
Pottery Barn	\$ 684,029	\$ 556,985	\$ 1,726,920	\$ 1,573,958
West Elm	474,959	390,341	1,170,941	1,057,398
Williams Sonoma	259,725	205,493	702,160	591,761
Pottery Barn Kids and Teen	277,598	228,051	702,137	632,950
Other ¹	68,225	61,602	188,358	198,351
Total ²	\$ 1,764,536	\$ 1,442,472	\$ 4,490,516	\$ 4,054,418

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 \$87.1 million and \$86.2 million for the thirteen weeks ended November 1, 2020 and November 3, 2019, respectively, and approximately \$219.8 million and \$260.5 million for the thirty-nine weeks ended November 1, 2020 and November 3, 2019, respectively.

Long-lived assets by geographic location are as follows:

<i>In thousands</i>	November 1, 2020	November 3, 2019
U.S.	\$ 2,025,140	\$ 2,140,505
International	148,582	164,074
Total	\$ 2,173,722	\$ 2,304,579

NOTE F. COMMITMENTS AND CONTINGENCIES

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

NOTE G. STOCK REPURCHASE PROGRAM AND DIVIDENDS

Stock Repurchase Program

During the thirteen and thirty-nine weeks ended November 1, 2020, we repurchased 1,119,335 shares of our common stock at an average cost of \$97.42 for a total cost of approximately \$109,048,000. As of November 1, 2020, there was \$465,934,000 remaining under our current stock repurchase program. As of November 1, 2020, we held treasury stock of \$598,000 that represents the cost of shares available for issuance that are intended to satisfy future stock-based award settlements in certain foreign jurisdictions.

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

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

Dividends

In October 2020, our Board of Directors authorized a \$ 0.05 , or 10.4 % , increase in our quarterly cash dividend, from \$ 0.48 to \$ 0.53 per common share. We declared cash dividends of \$0.53 and \$0.48 per common share during the thirteen weeks ended November 1, 2020 and November 3, 2019, respectively. We declared cash dividends of \$1.49 and \$1.44 per common share during the thirty-nine weeks ended November 1, 2020 and November 3, 2019, respectively . Our quarterly cash dividend may be limited or terminated at any time.

NOTE H. 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 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.

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Changes in the fair value of the forward contract related to interest charges (or forward points) are excluded from the assessment and measurement of hedge effectiveness and are recorded in cost of goods sold. Based on the rates in effect as of November 1, 2020, we expect to reclassify a net pre-tax gain of approximately \$46,000 from OCI to cost of goods sold over the next 12 months.

As of November 1, 2020 and November 3, 2019, we had foreign currency forward contracts outstanding (in U.S. dollars) with notional values as follows:

<i>In thousands</i>	November 1, 2020	November 3, 2019
Contracts designated as cash flow hedges	\$ 28,200	\$ 19,700

Hedge effectiveness is evaluated prospectively at inception, on an ongoing basis, as well as retrospectively using regression analysis. Any measurable ineffectiveness of the hedge is recorded in selling, general and administrative expenses. No gain or loss was recognized for cash flow hedges due to hedge ineffectiveness and all hedges were deemed effective for assessment purposes for the thirteen and thirty-nine weeks ended November 1, 2020 and November 3, 2019.

The effect of derivative instruments in our Condensed Consolidated Financial Statements during the thirteen and thirty-nine weeks ended November 1, 2020 and November 3, 2019, pre-tax, was as follows:

<i>In thousands</i>	Thirteen Weeks Ended				Thirty-nine Weeks Ended			
	November 1, 2020		November 3, 2019		November 1, 2020		November 3, 2019	
	Cost of goods sold	Selling, general and administrative expenses	Cost of goods sold	Selling, general and administrative expenses	Cost of goods sold	Selling, general and administrative expenses	Cost of goods sold	Selling, general and administrative expenses
Line items presented in the Condensed Consolidated Statement of Earnings in which the effects of derivatives are recorded	\$ 1,058,953	\$ 430,979	\$ 924,300	\$ 416,281	\$ 2,819,471	\$ 1,162,435	\$ 2,608,054	\$ 1,184,176
Gain (loss) recognized in income								
Derivatives designated as cash flow hedges	\$ 315	\$ —	\$ 204	\$ —	\$ 510	\$ —	\$ 499	\$ —
Derivatives not designated as hedging instruments	\$ —	\$ (22)	\$ —	\$ 6	\$ —	\$ (20)	\$ —	\$ 24

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

<i>In thousands</i>	November 1, 2020	November 3, 2019
Derivatives designated as cash flow hedges:		
Other current assets	\$ 181	\$ 132
Other current liabilities	\$ (7)	\$ —

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 I. FAIR VALUE MEASUREMENTS

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

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

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

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

Debt

As of November 1, 2020, the fair value of our debt, which consists of outstanding borrowings under our revolver and term loan, approximates its carrying value, as the instruments are relatively short-term in nature and the interest rate under the term loan is based on observable Level 2 inputs, which consist primarily of 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 we 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.

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The significant unobservable inputs used in the fair value measurement of our store assets are sales growth/decline, gross margin, employment costs, lease escalations, market rental rates, changes in local real estate markets in which we operate, inflation and the overall economics of the retail industry. Significant fluctuations in any of these inputs individually could significantly impact our measurement of fair value.

During the thirteen weeks ended November 1, 2020, no impairment charges were recognized. During the thirty-nine weeks ended November 1, 2020, we recognized impairment charges of \$16,514,000 related to the impairment of property and equipment and \$ 5,461,000 related to the impairment of operating lease right-of-use assets, due to lower projected revenues and fair market values resulting from the impact of COVID-19. During the thirteen and thirty-nine weeks ended November 3, 2019, no impairment charges were recognized.

There were no transfers in and out of Level 3 categories during the thirteen and thirty-nine weeks ended November 1, 2020 or November 3, 2019.

NOTE J. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

<i>In thousands</i>	Foreign Currency Translation	Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)
Balance at February 2, 2020	\$ (14,593)	\$ 6	\$ (14,587)
Foreign currency translation adjustments	(5,276)	—	(5,276)
Change in fair value of derivative financial instruments	—	549	549
Reclassification adjustment for realized (gain) loss on derivative financial instruments ¹	—	(37)	(37)
Other comprehensive income (loss)	(5,276)	512	(4,764)
Balance at May 3, 2020	(19,869)	518	(19,351)
Foreign currency translation adjustments	6,737	—	6,737
Change in fair value of derivative financial instruments	—	(200)	(200)
Reclassification adjustment for realized (gain) loss on derivative financial instruments ¹	—	(107)	(107)
Other comprehensive income (loss)	6,737	(307)	6,430
Balance at August 2, 2020	\$ (13,132)	\$ 211	\$ (12,921)
Foreign currency translation adjustments	(745)	—	(745)
Change in fair value of derivative financial instruments	—	54	54
Reclassification adjustment for realized (gain) loss on derivative financial instruments ¹	—	(231)	(231)
Other comprehensive income (loss)	(745)	(177)	(922)
Balance at November 1, 2020	\$ (13,877)	\$ 34	\$ (13,843)
Balance at February 3, 2019	\$ (11,259)	\$ 186	\$ (11,073)
Foreign currency translation adjustments	(3,009)	—	(3,009)
Change in fair value of derivative financial instruments	—	204	204
Reclassification adjustment for realized (gain) loss on derivative financial instruments ¹	—	(67)	(67)
Other comprehensive income (loss)	(3,009)	137	(2,872)
Balance at May 5, 2019	(14,268)	323	(13,945)
Foreign currency translation adjustments	(1,251)	—	(1,251)
Change in fair value of derivative financial instruments	—	(132)	(132)
Reclassification adjustment for realized (gain) loss on derivative financial instruments ¹	—	(160)	(160)
Other comprehensive income (loss)	(1,251)	(292)	(1,543)
Balance at August 4, 2019	\$ (15,519)	\$ 31	\$ (15,488)
Foreign currency translation adjustments	1,783	—	1,783
Change in fair value of derivative financial instruments	—	5	5
Reclassification adjustment for realized (gain) loss on derivative financial instruments ¹	—	(8)	(8)
Other comprehensive income (loss)	1,783	(3)	1,780
Balance at November 1, 2019	\$ (13,736)	\$ 28	\$ (13,708)

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

NOTE K. REVENUE

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

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

See Note E for the disclosure of our net revenues by operating segment.

Merchandise Sales

Revenues from the sale of our merchandise through our e-commerce websites, at our retail stores, as well as to our franchisees and wholesale customers are, in each case, recognized at a point in time when control of merchandise is transferred to the customer. Merchandise can either be picked up in our stores or delivered to the customer. For merchandise picked up in the store, control is transferred at that time. For merchandise delivered to the customer, control is transferred when either delivery has been completed or, for certain merchandise, 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. While the rate of estimated future returns has remained relatively flat, the increase in e-commerce sales has driven an increase in estimated sales returns. As of November 1, 2020 and November 3, 2019, we recorded a liability for expected sales returns of approximately \$37,678,000 and \$23,447,000, respectively, within other current liabilities and a corresponding asset for the expected net realizable value of the merchandise inventory to be returned of approximately \$12,347,000 and \$9,221,000, respectively, within other current assets in our Condensed Consolidated Balance Sheet.

Stored-value Cards

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

Credit Card Incentives

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

Customer Loyalty Programs

We have customer loyalty programs which allow members to earn points for each qualifying purchase. Points earned enable members to receive certificates that may be redeemed on future merchandise purchases. This customer option is a material right and, accordingly, represents a separate performance obligation to the customer. The allocated consideration for the points earned by our loyalty program members is deferred based on the standalone selling price of the points and recorded within gift card and other deferred revenue within our Condensed Consolidated Balance Sheet. The measurement of standalone selling prices takes into consideration the discount the customer would receive in a separate transaction for the delivered item, as well as our estimate of certificates expected to be redeemed, based on historical redemption patterns. This measurement is applied to our portfolio of

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performance obligations for points earned, as all obligations have similar economic characteristics. We believe the impact to our Condensed Consolidated Financial Statements would not be materially different if this measurement was applied to each individual performance obligation. Revenue is recognized for these performance obligations at a point in time when certificates are redeemed by the customer. These obligations relate to contracts with terms less than one year, as our certificates generally expire within 6 months from issuance.

Deferred Revenue

We defer revenue when cash payments are received in advance of satisfying performance obligations, primarily associated with our stored-value cards, merchandise sales, and incentives received from credit card issuers. As of November 1, 2020 and November 3, 2019, we held \$349,671,000 and \$300,354,000 in gift card and other deferred revenue on our Condensed Consolidated Balance Sheet, substantially all of which will be recognized into revenue within the next 12 months.

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

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they do not fully materialize or are proven incorrect, could cause our business and results of operations to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements include statements related to: the impact of the COVID-19 pandemic on our business, results of operations and financial condition; merchandise margins, occupancy leverage and expanded operating margin; our strategic initiatives; our beliefs regarding customer behavior and industry trends; our merchandise strategies; our growth strategies for our brands; our beliefs regarding the resolution of current lawsuits, claims and proceedings; our stock repurchase program; our expectations regarding our cash flow hedges and foreign currency risks; our planned use of cash, including our commitment to continue or increase quarterly dividend payments; our future compliance with the financial covenants contained in our credit facilities; our belief that our cash on-hand, in addition to our available credit facilities, will provide adequate liquidity for our business operations over the next 12 months; our beliefs regarding our exposure to foreign currency exchange rate fluctuations; and our beliefs regarding seasonal patterns associated with our business, as well as statements of belief and statements of assumptions underlying any of the foregoing. You can identify these and other forward-looking statements by the use of words such as “may,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “intends,” “potential,” “continue,” or the negative of such terms, or other comparable terminology. The risks, uncertainties and assumptions referred to above that could cause our results to differ materially from the results expressed or implied by such forward-looking statements include, but are not limited to, those discussed under the heading “Risk Factors” in this document and our Annual Report on Form 10-K for the year ended February 2, 2020, 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.

OVERVIEW

Williams-Sonoma, Inc. is a specialty retailer of high-quality products for the home. These products, representing distinct merchandise strategies – Williams Sonoma, Pottery Barn, Pottery Barn Kids, West Elm, Pottery Barn Teen, Williams Sonoma Home, Rejuvenation, and Mark and Graham – are marketed through e-commerce websites, direct-mail catalogs and 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.

The following discussion and analysis of financial condition, results of operations, and liquidity and capital resources for the thirteen weeks ended November 1, 2020 (“third quarter of fiscal 2020”), as compared to the thirteen weeks ended November 3, 2019 (“third quarter of fiscal 2019”) and the thirty-nine weeks ended November 1, 2020 (“year-to-date fiscal 2020”), as compared to the thirty-nine weeks ended November 3, 2019 (“year-to-date fiscal 2019”), should be read in conjunction with our Condensed Consolidated Financial Statements and the notes thereto. All explanations of changes in operational results are discussed in order of magnitude.

COVID-19

On March 11, 2020, the World Health Organization declared a novel strain of the coronavirus (COVID-19) to be a global pandemic and recommended containment and mitigation measures worldwide. In March 2020, we announced the temporary closures of all of our retail store operations to protect our employees, customers and the communities in which we operate and to help contain the

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COVID-19 pandemic. As of November 1, 2020, all of our retail stores had reopened. However, subsequent to quarter end, given the continued uncertainty around COVID-19 due to rising rates of infections in certain geographies, state and local officials have reinstated closures or restrictions on retail capacity, which will continue to impact our store traffic and retail revenues, and may result in future store impairments. Throughout fiscal 2020, we have continued to operate our e-commerce sites and distribution centers and continued to deliver products to our customers. However, governmental mandates, illness or the absence of a substantial number of distribution center employees may require in the future 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 could complicate or prevent us from fulfilling e-commerce orders and could complicate or prevent our ability to supply merchandise to our stores.

Third Quarter of Fiscal 2020 Financial Results

Net revenues in the third quarter of fiscal 2020 increased by \$322,064,000 or 22.3%, compared to the third quarter of fiscal 2019, with comparable brand revenue growth of 24.4% and double-digit comparable revenue growth across all our brands. This increase was primarily driven by an increase in e-commerce revenues, partially offset by a decrease in retail revenues driven by reduced customer store traffic and limited capacity in stores due to COVID-19.

For the third quarter of fiscal 2020, we delivered double-digit comparable brand revenue growth in all of our brands. The Williams Sonoma brand delivered 30.4% comparable brand revenue growth. Our initiatives in e-commerce and our real estate optimization strategies have been driving a shift to increased on-line sales, and we are encouraged with the performance of our stores in this brand. The Pottery Barn brand delivered 24.1% comparable brand revenue growth for the quarter, driven by double-digit growth in all divisions. Growth initiatives including PB Apartment and Marketplace continued to build in momentum. In West Elm, we continued to deliver strong comparable brand revenue growth of 21.8% during the quarter, driven by strong growth in all major categories, as well as the traditional retail-dominant categories of textiles and decorative accessories. In our Pottery Barn Kids and Teen business, we delivered a 23.8% comparable brand revenue growth, where we saw a longer tail to the Back to School business with our Gear and Study at Home solutions delivering a strong finish to the season.

As of November 1, 2020, we had approximately \$773,170,000 in cash and generated positive operating cash flow of \$726,628,000 year-to-date. Our liquidity position throughout fiscal 2020 allowed us to fund the operations of the business, to invest nearly \$125,000,000 in capital expenditures in support of our future growth, and to return nearly \$117,000,000 in the form of continued quarterly dividend payments to our shareholders. Additionally, as previously announced this quarter, we also repaid in full our short-term borrowings of \$487,823,000 under our \$500,000,000 revolver, reinstated our share repurchase program - repurchasing \$109,048,000 in the third quarter of fiscal 2020, and committed to a quarterly dividend increase of 10.4%, effective with our dividend payment in the fourth quarter of fiscal 2020.

For the third quarter of fiscal 2020, diluted earnings per share was \$2.54 (which included a \$0.02 impact related to acquisition-related compensation expense and amortization of acquired intangibles of Outward, Inc.), versus \$0.94 in the third quarter of fiscal 2019 (which included a \$0.07 impact from acquisition-related compensation expense, amortization of acquired intangibles, and the operations of Outward, Inc.).

Looking Ahead

Looking forward to the fourth quarter, we believe we are well positioned for the future. We believe we will continue to see robust e-commerce trends throughout the rest of the fiscal year, and we plan to expand into white space and support the growth of new business opportunities within our brands. We expect merchandise margins to continue to expand year-over-year and occupancy leverage to continue, driven by cost savings from the leases that we have already renegotiated as well as the closure of unprofitable stores and final rent abatement negotiations. Due to our strong performance to date and anticipated continuation of robust e-commerce trends through the balance of the fiscal year, we remain confident in our ability to drive significant operating margin expansion versus last year. However, operationally, we expect to continue to incur higher shipping costs in the fourth quarter, given the anticipated elevated levels of e-commerce sales and peak surcharges that will come into effect during the holiday peak season. In addition, we expect to incur incremental costs associated with keeping our people and customers safe during the pandemic, as well as additional supply chain employment costs. Further, given the continued uncertainty around COVID-19 and the reinstatement of closures or restrictions on retail capacity by state and local officials, we have experienced and may continue to experience reduced store traffic. In the longer term, we anticipate that the behavioral changes and industry shifts that have emerged from the pandemic will persist and continue to favor our business, and we remain confident in our ability to drive strong net revenue results while continuing to expand our operating margins. Although we are optimistic in our ability to drive strong net revenues and expand our operating margin versus last year, overall, the long-term impact of COVID-19 on our business, results of operations and financial condition still remains uncertain. A prolonged pandemic could further interrupt our operations, our vendors' operations, the economy and overall consumer spending.

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which could have a material impact on our revenues, results of operations, and cash flows. For more information on risks associated with COVID-19, please see “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended February 2, 2020, as well as Note A to our Condensed Consolidated Financial Statements and Part II, Item 1A of this Quarterly Report on Form 10-Q.

NET REVENUES

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

Net revenues in the third quarter of fiscal 2020 increased by \$322,064,000, or 22.3%, compared to the third quarter of fiscal 2019, with comparable brand revenue growth of 24.4% and double-digit comparable revenue growth across all our brands. This increase was primarily driven by an increase in e-commerce revenues, partially offset by a decrease in retail revenues driven by reduced customer store traffic and limited capacity in stores due to COVID-19.

Net revenues for year-to-date fiscal 2020 increased by \$436,098,000, or 10.8%, compared to year-to-date fiscal 2019, with comparable brand revenue growth of 13.1% and double-digit comparable revenue growth across all our brands. This growth was primarily driven by an increase in e-commerce revenues, partially offset by a decrease in retail revenues, including international revenues related to our company-owned and franchise operations, driven by temporary retail store closures and limited capacity in stores due to COVID-19.

Comparable Brand Revenue

Comparable brand revenue includes comparable store sales and e-commerce sales, including through our direct mail catalogs, as well as shipping fees, sales returns and other discounts associated with current period sales. Comparable stores are typically 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. Comparable stores that were temporarily closed during the year due to COVID-19 were not excluded from the comparable stores calculation. Outlet comparable store net revenues are included in their respective brands. Sales to our international franchisees are excluded from comparable brand revenue as their stores and e-commerce websites are not operated by us. Sales from certain operations are also excluded until such time that we believe those sales are meaningful to evaluating their performance. Additionally, comparable brand revenue growth for newer concepts is not separately disclosed until such time that we believe those sales are meaningful to evaluating the performance of the brand.

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	November 1, 2020	November 3, 2019	November 1, 2020	November 3, 2019
<i>Comparable brand revenue growth (decline)</i>				
Pottery Barn	24.1%	3.4%	10.9%	3.1%
West Elm	21.8%	14.1%	11.4%	14.5%
Williams Sonoma	30.4%	(2.1%)	21.9%	(1.6%)
Pottery Barn Kids and Teen	23.8%	4.0%	12.7%	3.1%
Total ¹	24.4%	5.5%	13.1%	5.2%

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

STORE DATA

	Store Count					Average Leased Square Footage Per Store	
	August 2, 2020 ¹	Openings ²	Closings ²	November 1, 2020	November 3, 2019	November 1, 2020	November 3, 2019
Williams Sonoma	210	1	(1)	210	218	6,800	6,900
Pottery Barn	201	1	(1)	201	205	14,400	14,400
West Elm	121	2	(1)	122	114	13,100	13,100
Pottery Barn Kids	72	—	(1)	71	79	7,800	7,500
Rejuvenation	10	—	—	10	10	8,500	8,500
Total	614	4	(4)	614	626	10,700	10,600
Store selling square footage at period-end						4,143,000	4,154,000
Store leased square footage at period-end						6,569,000	6,622,000

¹ Store counts as of August 2, 2020 includes stores temporarily closed due to COVID-19.

² Store count data excludes temporary closures and re-openings of our stores due to COVID-19.

COST OF GOODS SOLD

	Thirteen Weeks Ended				Thirty-nine Weeks Ended			
	November 1, 2020	% Net Revenues	November 3, 2019	% Net Revenues	November 1, 2020	% Net Revenues	November 3, 2019	% Net Revenues
<i>In thousands</i>								
Cost of goods sold ¹	\$ 1,058,953	60.0%	\$ 924,300	64.1%	\$ 2,819,471	62.8%	\$ 2,608,054	64.3%

¹ Includes total occupancy expenses of \$174,189,000 and \$179,237,000 for the third quarter of fiscal 2020 and the third quarter of fiscal 2019, respectively, and \$515,284,000 and \$529,905,000 for year-to-date fiscal 2020 and year-to-date fiscal 2019, respectively.

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

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

Third Quarter of Fiscal 2020 vs. Third Quarter of Fiscal 2019

Cost of goods sold increased by \$134,653,000, or 14.6%, in the third quarter of fiscal 2020 compared to the third quarter of fiscal 2019. Cost of goods sold as a percentage of net revenues decreased to 60.0% in the third quarter of fiscal 2020 from 64.1% in the third quarter of fiscal 2019. This decrease was primarily driven by higher merchandise margins from reduced promotional activity during the third quarter of fiscal 2020, and the leverage of occupancy costs, primarily due to higher sales and a reduction in occupancy costs, which includes the impact of reduced rent and operating costs from fewer stores year-over-year. This decrease was partially offset by higher shipping costs due to a significantly greater portion of our total revenues being generated from e-commerce and surcharges from our third-party shippers.

Year-to-date Fiscal 2020 vs. Year-to-date Fiscal 2019

Cost of goods sold increased by \$211,417,000, or 8.1%, for year-to-date fiscal 2020, compared to year-to-date fiscal 2019. Cost of goods sold as a percentage of net revenues decreased to 62.8% for year-to-date fiscal 2020 from 64.3% for year-to-date fiscal 2019. This decrease was primarily driven by higher merchandise margins from reduced promotional activity for year-to-date fiscal 2020, and the leverage of occupancy expenses primarily due to higher sales and a reduction in occupancy costs, which includes the impact of reduced rent and operating costs from fewer stores year-over-year, as well as reduction from COVID-19-related rent abatements. This decrease was partially offset by higher shipping costs due to a significantly greater portion of our total revenues being generated from e-commerce and surcharges from our third-party shippers, as well as inventory write-offs of approximately \$11,378,000 due to the closure of our outlet stores in the first quarter of fiscal 2020.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

<i>In thousands</i>	Thirteen Weeks Ended				Thirty-nine Weeks Ended			
	November 1, 2020	% Net Revenues	November 3, 2019	% Net Revenues	November 1, 2020	% Net Revenues	November 3, 2019	% Net Revenues
Selling, general and administrative expenses	\$ 430,979	24.4%	\$ 416,281	28.9%	\$ 1,162,435	25.9%	\$ 1,184,176	29.2%

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

Third Quarter of Fiscal 2020 vs. Third Quarter of Fiscal 2019

Selling, general and administrative expenses increased by \$14,698,000, or 3.5%, in the third quarter of fiscal 2020, compared to the third quarter of fiscal 2019. Selling, general and administrative expenses as a percentage of net revenues decreased to 24.4% in the third quarter of fiscal 2020 from 28.9% in the third quarter of fiscal 2019. This decrease was primarily driven by significant advertising leverage as we further optimized our digital spend on those initiatives that drove higher returns in traffic and conversion, and the leverage of employment costs and other general expenses from higher sales performance, lower variable store payroll, and on-going strong financial discipline.

Year-to-date Fiscal 2020 vs. Year-to-date Fiscal 2019

Selling, general and administrative expenses decreased by \$21,741,000, or 1.8%, for year-to-date fiscal 2020, compared to year-to-date fiscal 2019. Selling, general and administrative expenses as a percentage of net revenues decreased to 25.9% for year-to-date fiscal 2020 from 29.2% for year-to-date fiscal 2019. This decrease was primarily driven by lower advertising costs as we further optimized our digital spend on those initiatives that drove higher returns in traffic and conversion, and the leverage of employment costs from higher topline performance and lower variable store payroll. This decrease was partially offset by store asset impairment charges of approximately \$21,975,000 for year-to-date fiscal 2020 due in part to the impact of COVID-19 on our retail stores.

INCOME TAXES

The effective tax rate was 24.8% for the year-to-date fiscal 2020, and 25.4% for year-to-date fiscal 2019. The decrease in the tax rate is primarily due to an excess tax benefit from stock-based compensation in fiscal 2020 compared to the deficiency of the tax benefit in fiscal 2019, partially offset by the tax effect of an earnings mix change between the two fiscal years.

LIQUIDITY AND CAPITAL RESOURCES

As of November 1, 2020, we held \$773,170,000 in cash and cash equivalents, the majority of which was held in interest-bearing demand deposit accounts and money market funds, and of which \$120,714,000 was held by our international subsidiaries. As is consistent within our industry, our cash balances are seasonal in nature, with the fourth quarter historically representing a significantly higher level of cash than other periods.

For the remainder of fiscal 2020, we plan to use our cash resources to fund our inventory and inventory-related purchases, employment-related costs, advertising and marketing initiatives, property and equipment purchases, dividend payments and share repurchases. 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 the first quarter of fiscal 2020, we drew down \$487,823,000 on our revolving line of credit, all of which was repaid as of November 1, 2020. No additional borrowings were made under the revolver during the second or third quarters of fiscal 2020. For year-to-date fiscal 2019, we had borrowings of \$100,000,000 under the revolver. Additionally, as of November 1, 2020, a total of \$12,486,000 in issued but undrawn standby letters of credit was outstanding under the credit facility. The standby letters of credit were primarily issued to secure the liabilities associated with workers’ compensation and other insurance programs.

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In order to further strengthen our liquidity position, maximize our balance sheet and maintain financial flexibility, in May 2020, we entered into an amendment to our credit facility, which, among other changes, extends the maturity date and amends the interest rate of the term loan, modifies covenants under the credit facility, and maintains the maturity date and interest rate of the revolver. Under the credit facility amendment, the term loan now matures on January 8, 2022, at which time all outstanding principal and any accrued interest must be repaid. Additionally, in May 2020, we entered into a new agreement for an additional \$200,000,000 unsecured 364-day revolving line of credit.

On August 23, 2020, we renewed all three of our letter of credit facilities and reduced the aggregate credit available under these facilities from \$70,000,000 to \$35,000,000 due to our lower level of usage, and extended each facility's maturity date until August 22, 2021. As of November 1, 2020, an aggregate of \$9,075,000 was outstanding under these three letter of credit facilities. These letter of credit facilities represent only a future commitment to fund inventory purchases to which we have not taken legal title.

The Credit Facility Amendment and the 364-Day Credit Agreement contain certain restrictive loan covenants, including, among others, a financial covenant requiring a maximum leverage ratio (funded debt adjusted for lease and rent expense to earnings before interest, income tax, depreciation, amortization and rent expense), and covenants limiting our ability to incur indebtedness, grant liens, make acquisitions, merge or consolidate, and dispose of assets. As of November 1, 2020, we were in compliance with our financial covenants under our credit facilities and, based on our current projections, we expect to remain in compliance throughout the next 12 months. We believe our cash on hand, in addition to our available credit facilities, will provide adequate liquidity for our business operations over the next 12 months.

Cash Flows from Operating Activities

For year-to-date fiscal 2020, net cash provided by operating activities was \$726,628,000 compared to \$89,950,000 for year-to-date fiscal 2019. For year-to-date fiscal 2020, net cash provided by operating activities was primarily attributable to net earnings adjusted for non-cash items, as well as increases in gift card and other deferred revenue, accrued expenses and other liabilities and accounts payable. Net cash provided by operating activities for year-to-date fiscal 2020 compared to net cash provided by operating activities for year-to-date fiscal 2019 was primarily due to an increase in net earnings, a year-over-year reduction in merchandise inventories, and increases in accounts payable, accrued expenses and other liabilities and gift card and other deferred revenue.

Cash Flows from Investing Activities

For year-to-date fiscal 2020, net cash used in investing activities was \$124,379,000 compared to \$120,684,000 for year-to-date fiscal 2019, and was primarily attributable to purchases of property and equipment.

Cash Flows from Financing Activities

For year-to-date fiscal 2020, net cash used in financing activities was \$260,009,000 compared to net cash used in financing activities of \$152,496,000 for year-to-date fiscal 2019. For year-to-date fiscal 2020, net cash used in financing activities was primarily attributable to the payment of dividends and repurchases of our common stock. The increase in net cash used in financing activities for year-to-date fiscal 2020 compared to net cash used in financing activities for year-to-date fiscal 2019 was primarily attributable to the repayment of all outstanding borrowings under our revolving line of credit in the third quarter of fiscal 2020.

Stock Repurchase Program and Dividends

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

Critical Accounting Policies

Management's Discussion and Analysis of Financial Condition and Results of Operations is based on our Condensed Consolidated Financial Statements, which have been prepared in accordance with U.S. GAAP. The preparation of these Condensed Consolidated Financial Statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. These estimates and assumptions are evaluated on an ongoing basis and are based on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ significantly from these estimates. During the third quarter of fiscal 2020, there were no significant changes to the critical accounting policies discussed in our Annual Report on Form 10-K for the year ended February 2, 2020.

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Seasonality

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

Contractual Obligations, Commitments, Contingencies and Off-balance Sheet Arrangements

Except as described in Note B of Part I, Item 1, there were no material changes during the quarter to the Company's contractual obligations, commitments, contingencies and off-balance sheet arrangements that are described in Part II, Item 7 of the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2020, which is incorporated herein by reference.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

Our revolver and our term loan each have a variable interest rate which, when drawn upon, subjects us to risks associated with changes in that interest rate. During the third quarter of fiscal 2020, we had outstanding borrowings of \$487,823,000 under the revolver, all of which were repaid in the third quarter of fiscal 2020. Additionally, we have \$300,000,000 outstanding under our term loan and a \$200,000,000 unsecured revolving line of credit that has not been drawn upon. A hypothetical increase or decrease of one percentage point on our existing variable rate debt instruments would not materially affect our results of operations or cash flows.

In addition, we have fixed and variable income investments consisting of short-term investments classified as cash and cash equivalents, which are also affected by changes in market interest rates. As of November 1, 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 the majority of our 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 our international purchase transactions was not significant to us during the third quarter of fiscal 2020 or the third quarter of fiscal 2019. 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 businesses in Canada, Australia and the United Kingdom, and our operations throughout Asia and Europe, expose us to market risk associated with foreign currency exchange rate fluctuations. Substantially all of our purchases and sales are denominated in U.S. dollars, which limits our exposure to this risk. However, some of our foreign operations have a functional currency other than the U.S. dollar. While the impact of foreign currency exchange rate fluctuations was not material to us in the third quarter of fiscal 2020 or the third quarter of 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 H to our Condensed Consolidated Financial Statements).

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of November 1, 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 Securities and Exchange Commission.

Changes in Internal Control Over Financial Reporting

We substantially completed the implementation of our new Enterprise Resource Planning (“ERP”) system during the third quarter of fiscal 2020. The implementation of that ERP system is expected to, among other things, improve user access security and automate a number of accounting and reporting processes and activities, thereby decreasing the amount of manual processes previously required. Except for the implementation of the new ERP system, there were no significant changes in our internal control over financial reporting that occurred during the third quarter of fiscal 2020, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

See Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended February 2, 2020 for a description of the risks and uncertainties associated with our business. We are providing the following information regarding changes that have occurred to the previously disclosed risk factors in our Form 10-K. Except for such additional information, we believe there have been no material changes from the risk factors previously disclosed in our Form 10-K.

Our business has been and may continue to be materially impacted by the COVID-19 pandemic, and the duration and extent to which this will impact our future results of operations and overall financial performance remains uncertain.

Our business has been and may continue to be materially impacted by the COVID-19 pandemic, which has negatively affected the U.S. and global economies, disrupted businesses and financial markets, and led to significant travel and transportation restrictions, mandatory closures of non-essential retailers and other businesses, and orders to “shelter-in-place”.

On March 11, 2020, the World Health Organization declared a novel strain of the coronavirus (COVID-19) to be a global pandemic and recommended containment and mitigation measures worldwide. In March 2020, we announced the temporary closures of all of our retail store operations to protect our employees, customers and the communities in which we operate and to help contain the COVID-19 pandemic. The preventative or protective actions that governments and businesses around the world have taken to contain the spread of COVID-19 have resulted in a period of disruption that has and may continue to negatively impact our retail store revenues which comprised approximately 44% of our net revenues in fiscal 2019. As of November 1, 2020, all of our retail stores had reopened. However, subsequent to quarter end, given the continued uncertainty around COVID-19 due to rising rates of infections in certain geographies, state and local officials have reinstated closures or restrictions on retail capacity, which will continue to negatively impact our store traffic and retail revenues. Additionally, federal, state and local governments may impose new restrictions on retail operations, which will affect our ability to operate our retail stores until such restrictions are lifted. Such reduced traffic and store closures have and may continue to result in material reductions in our retail store revenues and operating income as well as store asset impairment charges and write-offs, which have and may continue to negatively affect our operating results. Further, while we have implemented strict safety protocols based on Center for Disease Control and Prevention and government recommendations in stores that we have re-opened, there is no guarantee that such protocols will be effective, and any virus-related illnesses linked or alleged to be linked to our stores, whether accurate or not, may negatively affect our reputation, operating results and/or financial condition.

Although to date, the impact of our store closures on our retail store revenues has been more than offset by growth in our e-commerce business, there is no guarantee that such growth will continue if the current recession continues over a prolonged period of time or worsens due to the COVID-19 pandemic, and results in decreased consumer spending in the markets in which we operate.

We have also implemented work-from-home policies for certain employees, which continue to be in effect. While such policies have not significantly impacted productivity or disrupted our business to date, over a prolonged period of time, such policies could adversely impact our ability to conduct our business in the ordinary course.

Governmental mandates, illness or the absence of a substantial number of distribution center employees may require in the future 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 could complicate or prevent us from fulfilling e-commerce orders and could complicate or prevent our ability to supply merchandise to our stores. As of the date of this report, all our distribution centers remain open and operational, and we are not experiencing material disruptions in the delivery of our products.

We also have incurred and expect to continue to incur higher shipping costs due to the various surcharges that have been announced by third party shippers on retailers, which are related to the increased shipping demand resulting from the COVID-19 pandemic. These higher costs affected us in the third quarter of 2020 and will affect us more so in the fourth quarter as a result of peak surcharges during the holiday season and could continue to affect us thereafter.

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Further, COVID-19 related containment efforts and illnesses 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 adversely impacted the value of our common stock in the first quarter. In addition, a prolonged recession or long-term market correction, could in the future adversely impact the value of our common stock over the long-term, impact our access to capital and affect our business in the near and long-term.

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 we experience a material decline in revenue relating to the COVID-19 pandemic. However, we might experience periods during which we encounter additional cash needs, and we might need additional external funding to support our operations. 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. Further, additional borrowings on our revolving line of credit has resulted or will result in us incurring additional interest expense, which would negatively affect our earnings.

The COVID-19 pandemic continues to rapidly evolve. The ultimate impact of the COVID-19 pandemic on our results, financial position and liquidity will depend on future developments, which are highly uncertain and cannot be predicted, such as the transmission rate of the disease, the extent and effectiveness of containment actions, particularly as areas are reopened, and the impact of these and other factors on our stores, offices, employees, distributors, vendors and customers. If we are not able to respond to and manage the impact of such events effectively, our business, operating results, financial condition and cash flows could be adversely affected.

Please see Note A to our Condensed Consolidated Financial Statements and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for more information about the potential impact of the COVID-19 pandemic on our business, and the actual operational and financial impacts that we have experienced to date.

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

The following table provides information as of November 1, 2020 with respect to shares of common stock we repurchased during the third quarter of fiscal 2020 under our stock repurchase program. For additional information, please see Note G to our Condensed Consolidated Financial Statements within Part I of this Form 10-Q.

Fiscal period	Total Number of Shares Purchased ¹	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program ¹	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Program
August 3, 2020 – August 30, 2020	—	—	—	\$ 574,982,000
August 31, 2020 – September 27, 2020	—	—	—	\$ 574,982,000
September 28, 2020 – November 1, 2020	1,119,335	\$ 97.42	1,119,335	\$ 465,934,000
Total	1,119,335	\$ 97.42	1,119,335	\$ 465,934,000

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

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

(a) Exhibits

Exhibit Number	Exhibit Description
10.1*	Seventh Amendment to Reimbursement Agreement between Williams-Sonoma, Inc., Williams-Sonoma Singapore Pte. Ltd., and Bank of America, N.A., dated as of August 23, 2020
10.2*	Seventh Amendment to Reimbursement Agreement between Williams-Sonoma, Inc., Williams-Sonoma Singapore Pte. Ltd., and Wells Fargo Bank, N.A., dated as of August 23, 2020
10.3*	Seventh Amendment to Reimbursement Agreement between Williams-Sonoma, Inc., Williams-Sonoma Singapore Pte. Ltd., and U.S. Bank National Association, dated as of August 23, 2020
31.1*	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
31.2*	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
32.1*	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101*	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended November 1, 2020, formatted in Inline XBRL: (i) Condensed Consolidated Statements of Earnings, (ii) Condensed Consolidated Statements of Comprehensive Income, (iii) Condensed Consolidated Balance Sheets, (iv) Condensed Consolidated Statements of Stockholders' Equity, (v) Condensed Consolidated Statements of Cash Flows and (vi) Notes to Condensed Consolidated Financial Statements, tagged as blocks of text and including detailed tags
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in the Interactive Data Files submitted under Exhibit 101).

* Filed herewith.

SIGNATURE

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

WILLIAMS-SONOMA, INC.

By: /s/ Julie Whalen
Julie Whalen
Duly Authorized Officer and Chief Financial Officer

Date: December 4, 2020

SEVENTH AMENDMENT TO REIMBURSEMENT AGREEMENT

THIS SEVENTH AMENDMENT TO REIMBURSEMENT AGREEMENT, dated as of August 23, 2020 (this “Amendment”), is entered into among WILLIAMS-SONOMA, INC., a corporation duly organized and validly existing under the laws of the State of Delaware (the “Parent”), Williams-Sonoma Singapore Pte. Ltd., a corporation duly organized and validly existing under the laws of Singapore (“Williams-Sonoma Singapore” and collectively with the Parent, the “Borrowers”) and BANK OF AMERICA, N.A., a national banking association (the “Bank”). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed thereto in the Reimbursement Agreement (as defined below).

RECITALS

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

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

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

AGREEMENT

1. Amendments.

(a) The definition of “Maturity Date” in Section 1.1 of the Reimbursement Agreement is hereby amended to read as follows:

“Maturity Date” means August 22, 2021.

(b) The reference to “\$30,000,000” in Section 2.1 of the Reimbursement Agreement is hereby replaced with “\$15,000,000”.

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

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

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

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

4. Ratification of Reimbursement Agreement and Prior Resolutions. Each Borrower and each Guarantor (a) acknowledges and consents to the terms set forth herein and agrees that this Amendment does not impair, reduce or limit any of its obligations under the Transaction Documents, as amended hereby and (b) certifies that each of the resolutions adopted by the board of directors (or similar governing body) of the Parent and each Guarantor and delivered to the Bank on August 23, 2019 have not been amended, annulled, rescinded or revoked and remain in full force and effect as of the date hereof. This Amendment is a Transaction Document.

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

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

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

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

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

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

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

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

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

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

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

[remainder of page intentionally left blank]

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

BORROWERS:

WILLIAMS-SONOMA, INC.,
a Delaware corporation

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

WILLIAMS-SONOMA SINGAPORE PTE. LTD.

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

ACKNOWLEDGED AND AGREED:

GUARANTORS:

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

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

WILLIAMS-SONOMA, INC.
SEVENTH AMENDMENT TO REIMBURSEMENT AGREEMENT

BANK:

BANK OF AMERICA, N.A

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

WILLIAMS-SONOMA, INC.
SEVENTH AMENDMENT TO REIMBURSEMENT AGREEMENT

SEVENTH AMENDMENT TO REIMBURSEMENT AGREEMENT

THIS SEVENTH AMENDMENT TO REIMBURSEMENT AGREEMENT, dated as of August 23, 2020 (this “Amendment”), is entered into among WILLIAMS-SONOMA, INC., a corporation duly organized and validly existing under the laws of the State of Delaware (the “Parent”), Williams-Sonoma Singapore Pte. Ltd., a corporation duly organized and validly existing under the laws of Singapore (“Williams-Sonoma Singapore” and collectively with the Parent, the “Borrowers”) and WELLS FARGO BANK, NATIONAL ASSOCIATION, a national banking association (the “Bank”). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed thereto in the Reimbursement Agreement (as defined below).

RECITALS

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

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

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

AGREEMENT

1. Amendments.

(a) The definition of “Maturity Date” in Section 1.1 of the Reimbursement Agreement is hereby amended to read as follows:

“Maturity Date” means August 22, 2021.

(b) The reference to “\$25,000,000” in Section 2.1 of the Reimbursement Agreement is hereby replaced with “\$5,000,000”.

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

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

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

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

4. Ratification of Reimbursement Agreement and Prior Resolutions. Each Borrower and each Guarantor (a) acknowledges and consents to the terms set forth herein and agrees that this Amendment does not impair, reduce or limit any of its obligations under the Transaction Documents, as amended hereby and (b) certifies that each of the resolutions adopted by the board of directors (or similar governing body) of the Parent and each Guarantor and delivered to the Bank on August 23, 2019 have not been amended, annulled, rescinded or revoked and remain in full force and effect as of the date hereof. This Amendment is a Transaction Document.

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

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

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

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

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

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

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

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

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

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

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

[remainder of page intentionally left blank]

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

BORROWERS:

WILLIAMS-SONOMA, INC.,
a Delaware corporation

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

WILLIAMS-SONOMA SINGAPORE PTE. LTD.

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

ACKNOWLEDGED AND AGREED:

GUARANTORS:

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

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

WILLIAMS-SONOMA, INC.
SEVENTH AMENDMENT TO REIMBURSEMENT AGREEMENT

BANK:

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: /s/ Carl Hinrichs
Name: Carl Hinrichs
Title: Director

WILLIAMS-SONOMA, INC.
SEVENTH AMENDMENT TO REIMBURSEMENT AGREEMENT

SEVENTH AMENDMENT TO REIMBURSEMENT AGREEMENT

THIS SEVENTH AMENDMENT TO REIMBURSEMENT AGREEMENT, dated as of August 23, 2020 (this "Amendment"), is entered into among WILLIAMS-SONOMA, INC., a corporation duly organized and validly existing under the laws of the State of Delaware (the "Parent"), Williams-Sonoma Singapore Pte. Ltd., a corporation duly organized and validly existing under the laws of Singapore ("Williams-Sonoma Singapore") and collectively with the Parent, the "Borrowers") and U.S. BANK NATIONAL ASSOCIATION, a national banking association (the "Bank"). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed thereto in the Reimbursement Agreement (as defined below).

RECITALS

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

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

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

AGREEMENT

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

"Maturity Date" means August 22, 2021.

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

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

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

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

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

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

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

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

(c) No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority or any other Person is necessary or required in connection with the execution, delivery or performance by such Person of this Amendment. (d) The execution and delivery of this Amendment does not (i) contravene the terms of its articles of incorporation, bylaws or other organizational documents (as applicable) or (ii) violate any applicable law, rule or regulation.

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

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

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

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

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

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

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

[remainder of page intentionally left blank]

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

BORROWERS:

WILLIAMS-SONOMA, INC.,
a Delaware corporation

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

WILLIAMS-SONOMA SINGAPORE PTE. LTD.

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

ACKNOWLEDGED AND AGREED:

GUARANTORS:

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

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

WILLIAMS-SONOMA, INC.
SEVENTH AMENDMENT TO REIMBURSEMENT AGREEMENT

BANK:

U.S. BANK NATIONAL ASSOCIATION

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

WILLIAMS-SONOMA, INC.
SEVENTH AMENDMENT TO REIMBURSEMENT AGREEMENT

CERTIFICATION

I, Laura Alber, certify that:

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

Date: December 4, 2020

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

CERTIFICATION

I, Julie Whalen, certify that:

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

Date: December 4, 2020

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

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

In connection with the Quarterly Report on Form 10-Q for the period ended November 1, 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.

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

Date: December 4, 2020

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

In connection with the Quarterly Report on Form 10-Q for the period ended November 1, 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.

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

Date: December 4, 2020