



WILLIAMS-SONOMA, INC.

2018
ANNUAL
REPORT

ANNUAL MEETING OF STOCKHOLDERS

LETTER TO STOCKHOLDERS

2018 ANNUAL REPORT

WILLIAMS-SONOMA, INC.

POTTERY BARN POTTERY BARN KIDS PBTEEN WEST ELM WILLIAMS SONOMA WILLIAMS SONOMA HOME MARK AND GRAHAM REJUVENATION OUTWARD

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Dear Stockholders,

In 2018, within a rapidly changing retail landscape, we outperformed revenue and EPS expectations while investing in core capabilities such as technology, labor and the supply chain. This strong performance comes from a solid foundation of multi-brand and multi-channel business, and an unwavering focus on customers' needs, wants and values.

Growth in our e-commerce channel continues to lead, accelerating to 10.9% in 2018. With over 54% of our business now online, we are among the top 25 e-commerce retailers in North America. We also benefit from the incremental growth across multi-brand initiatives, like our loyalty program The Key, complimentary Design Crew services and The One Registry collective.

We are proud to be recognized once again by Barron's as the only business in our industry to make their list of the 100 Most Sustainable U.S. Companies. Increasingly, our customers expect transparent insight into how their products are made. Over time, we have built a vertically integrated supply chain that allows us to control not only costs, but also control and communicate the safety, sustainability and quality of our products. Our customers share these values, and it's a key reason why they choose us over our competitors.

We begin 2019 at an exciting moment. We have made important investments and now we have the foundation to drive long-term accelerated growth and margin stability. We are aggressively prioritizing substantial growth engines, including West Elm, our newly launched Business to Business offering and emerging brands — Williams Sonoma Home, Rejuvenation and Mark and Graham. We are also focused on sustained growth in Pottery Barn, our largest brand, and Williams Sonoma, our namesake. We continue to improve the customer experience through technological innovation and supply chain optimization. We believe superior customer service is oxygen for growth, and we're in a better position to reach people wherever they are, from their phones to their homes.

We thank our customers, and our talented and hardworking associates, for making 2018 the strong year that it was. Our goals are to maximize growth and maintain high profitability, but we're also focused on creating meaningful connections between brands, teams and the people we serve. We see each day as an opportunity to enhance the quality of our customers' lives at home, and we're grateful for associates who put people at the center of everything they do.

We also thank our Board of Directors for their valuable contributions. We are delighted to welcome two new directors. Anne Mulcahy and, more recently, Scott Dahnke both bring a wealth of experience in the retail and consumer industries, and their insights are invaluable assets. Sadly, Sir Anthony Greener will not stand for reelection when his current term expires. We thank him for his many years of support and service.

Finally, we thank you, our shareholders, for your ongoing support, your confidence and above all your trust. Our team is meeting our collective goals with purpose, we are motivated by passion, and we're excited about the future that lies ahead.

Adrian Bellamy
Chairman of the Board of Directors



Laura Alber
President, Chief Executive Officer and Director



This letter contains forward-looking statements. Please see the section titled "Forward-Looking Statements" on page 1 of our Annual Report on Form 10-K for the fiscal year ended February 3, 2019, which is part of this Annual Report to Stockholders, for important cautionary language regarding these statements.

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FORM 10-K

2018 ANNUAL REPORT

WILLIAMS-SONOMA, INC.

POTTERY BARN POTTERY BARN KIDS PBTEEN WEST ELM WILLIAMS SONOMA WILLIAMS SONOMA HOME MARK AND GRAHAM REJUVENATION OUTWARD

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

FORM 10-K

(Mark One):

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

For the fiscal year ended February 3, 2019.

OR

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

For the transition period from _____ to _____

Commission file number 001-14077

WILLIAMS-SONOMA, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

3250 Van Ness Avenue, San Francisco, CA

(Address of principal executive offices)

94-2203880

(I.R.S. Employer
Identification No.)

94109

(Zip Code)

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

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

Common Stock, \$.01 par value

(Title of class)

New York Stock Exchange, Inc.

(Name of each exchange on which registered)

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company Emerging growth company

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

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

As of July 29, 2018, the approximate aggregate market value of the registrant's common stock held by non-affiliates was \$4,678,185,000. It is assumed for purposes of this computation that an affiliate includes all persons as of July 29, 2018 listed as executive officers and directors with the Securities and Exchange Commission. This aggregate market value includes all shares held in the Williams-Sonoma, Inc. Stock Fund within the registrant's 401(k) Plan.

As of March 31, 2019, 78,563,968 shares of the registrant's common stock were outstanding.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of our definitive Proxy Statement for the 2019 Annual Meeting of Stockholders, also referred to in this Annual Report on Form 10-K as our Proxy Statement, which will be filed with the Securities and Exchange Commission, or SEC, have been incorporated in Part III hereof.

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K and the letter to stockholders contained in this Annual Report contain forward-looking statements within the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties, as well as assumptions that, if they do not fully materialize or prove incorrect, could cause our business and operating results to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements include, without limitation, statements related to: projections of earnings, revenues, growth and other financial items; the strength of our business and our brands; our ability to execute strategic priorities and growth initiatives regarding digital leadership, product and technology innovation, cross-brand initiatives, retail transformation and operational excellence; our beliefs about our competitive advantages and areas of potential future growth in the market; our ability to drive long-term sustainable returns; the plans, strategies, initiatives and objectives of management for future operations; our brands, products and related initiatives, including our ability to introduce new brands, brand extensions, products and product lines and bring in new customers; our belief that our e-commerce websites and direct-mail catalogs act as a cost-efficient means of testing market acceptance of new products and new brands; the complementary nature of our e-commerce and retail channels; our marketing efforts; our acquisition of Outward, Inc., including the valuation of intangible assets acquired; our global business and expansion efforts, including franchise, other third-party arrangements and company-owned operations; our ability to attract new customers; the seasonal variations in demand; our ability to recruit, retain and motivate skilled personnel; our belief in the reasonableness of the steps taken to protect the security and confidentiality of the information we collect; our belief in the adequacy of our facilities and the availability of suitable additional or substitute space; our belief in the ultimate resolution of current legal proceedings; the payment of dividends; our stock repurchase program; our capital allocation strategy in fiscal 2019; our planned use of cash in fiscal 2019; our compliance with financial covenants; our belief that our cash on hand and available credit facilities will provide adequate liquidity for our business operations over the next 12 months; the impact of the 2017 Tax Cuts and Jobs Act; the impact of tariffs on our business and our results of operations; our belief regarding the effects of potential losses under our indemnification obligations; the impact of inflation; the effects of changes in our inventory reserves; the impact of new accounting pronouncements; and statements of belief and statements of assumptions underlying any of the foregoing. You can identify these and other forward-looking statements by the use of words such as “will,” “may,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “intends,” “potential,” “continue,” or the negative of such terms, or other comparable terminology.

The risks, uncertainties and assumptions referred to above that could cause our results to differ materially from the results expressed or implied by such forward-looking statements include, but are not limited to, those discussed under the heading “Risk Factors” in Item 1A hereto and the risks, uncertainties and assumptions discussed from time to time in our other public filings and public announcements. All forward-looking statements included in this document are based on information available to us as of the date hereof, and we assume no obligation to update these forward-looking statements.

WILLIAMS-SONOMA, INC.
ANNUAL REPORT ON FORM 10-K
FISCAL YEAR ENDED FEBRUARY 3, 2019

TABLE OF CONTENTS

	<u>PAGE</u>
PART I	
Item 1. Business	3
Item 1A. Risk Factors	6
Item 1B. Unresolved Staff Comments	22
Item 2. Properties	22
Item 3. Legal Proceedings	23
Item 4. Mine Safety Disclosures	23
PART II	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	24
Item 6. Selected Financial Data	26
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	27
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	39
Item 8. Financial Statements and Supplementary Data	40
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	67
Item 9A. Controls and Procedures	67
Item 9B. Other Information	68
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	69
Item 11. Executive Compensation	69
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	69
Item 13. Certain Relationships and Related Transactions, and Director Independence	69
Item 14. Principal Accountant Fees and Services	69
PART IV	
Item 15. Exhibits and Financial Statement Schedules	70
Item 16. Form 10-K Summary	75

PART I

ITEM 1. BUSINESS

OVERVIEW

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

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

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

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

Williams Sonoma

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

Pottery Barn

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

Pottery Barn Kids

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

West Elm

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

PBteen

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

Rejuvenation

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

Mark and Graham

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

Outward

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

E-COMMERCE OPERATIONS

As of February 3, 2019, the e-commerce channel had the following merchandise strategies: Williams Sonoma, Pottery Barn, Pottery Barn Kids, West Elm, PBteen, Williams Sonoma Home, Rejuvenation and Mark and Graham, which sell our products through our e-commerce websites and direct-mail catalogs. We offer shipping from many of our brands to countries worldwide, while our catalogs reach customers throughout the U.S. The e-commerce channel complements the retail channel by building brand awareness and acting as an effective advertising vehicle. In addition, we believe that our e-commerce websites and our direct-mail catalogs act as a cost-efficient means of testing market acceptance of new products and new brands. Leveraging these insights and our multi-channel positioning, our marketing efforts, including digital advertising and the circulation of catalogs, are targeted toward driving sales to each of our channels. Consistent with our published privacy policies, we send our catalogs to addresses from our proprietary customer list, as well as to addresses from lists of other mail order direct marketers, magazines and companies with which we establish a business relationship. In accordance with prevailing industry practice and our privacy policies, we may also rent our list to select mailers. Our customer mailings are continually updated to include new prospects and to eliminate non-responders.

Detailed financial information about the e-commerce channel is found in Note K to our Consolidated Financial Statements.

RETAIL STORES

As of February 3, 2019, the retail channel had the following merchandise strategies: Williams Sonoma, Pottery Barn, Pottery Barn Kids, West Elm and Rejuvenation, which operate 625 stores, comprising 579 stores in 43 states, Washington, D.C. and Puerto Rico, 24 stores in Canada, 19 stores in Australia and 3 stores in the United Kingdom. We also have multi-year franchise agreements with third parties in the Middle East, the Philippines, Mexico and South Korea that currently operate 108 franchised stores as well as e-commerce websites in certain locations. The retail channel complements the e-commerce channel by building brand awareness and attracting new customers to our brands. Our retail stores serve as billboards for our brands, which we believe inspires our customers to also shop online and through our catalogs.

Detailed financial information about the retail channel is found in Note K to our Consolidated Financial Statements.

SUPPLIERS

We purchase most of our merchandise from numerous foreign and domestic manufacturers and importers, the largest of which accounted for approximately 2% of our purchases during fiscal 2018. Approximately 66% of our merchandise purchases in fiscal 2018 were sourced from foreign vendors, predominantly in Asia and Europe. Substantially all of these purchases were negotiated and paid for in U.S. dollars. In addition, we manufacture merchandise, primarily upholstered furniture and lighting, at our facilities located in North Carolina, California, Oregon and Mississippi.

COMPETITION AND SEASONALITY

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

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

EMPLOYEES

As of February 3, 2019, we had approximately 28,200 employees, of whom approximately 11,400 were full-time. In preparation for and during our fiscal 2018 holiday selling season, we hired approximately 8,300 temporary employees primarily in our retail stores, customer care centers and distribution facilities.

INTELLECTUAL PROPERTY

As of February 3, 2019, we own and/or have applied to register 146 separate trademarks and service marks. We own and/or have applied to register our key brand names as trademarks in the U.S. as well as 94 additional jurisdictions. Generally, exclusive rights to the trademarks and service marks are held by Williams-Sonoma, Inc. and are used by our subsidiaries and franchisees under a license. These marks include our core brand names as well as brand names for selected products and services. The core brand names in particular, including “Williams Sonoma,” “Pottery Barn,” “pottery barn kids,” “PBteen,” “west elm,” “Williams Sonoma Home,” “Rejuvenation” and “Mark and Graham” are of material importance to us. Trademarks are generally valid as long as they are in use and/or their registrations are properly maintained, and they have not been found to have become generic. Trademark registrations can generally be renewed indefinitely so long as the marks are in use. We also own numerous copyrights and trade dress rights for our products, product packaging, catalogs, books, house publications, website designs and store designs, among other things, which are used by our subsidiaries and franchisees under a license. We hold patents on certain product functions, product designs and proprietary technology. Patents are generally valid for 14 to 20 years as long as their registrations are properly maintained. In addition, we have registered and maintain numerous Internet domain names, including “williams-sonoma.com,” “potterybarn.com,” “potterybarnkids.com,”

“pbteen.com,” “westelm.com,” “wshome.com,” “williams-sonomainc.com,” “rejuvenation.com” and “markandgraham.com.” Collectively, the trademarks, patents, copyrights, trade dress rights and domain names that we hold are of material importance to us.

AVAILABLE INFORMATION

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

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

ITEM 1A. RISK FACTORS

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

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

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

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

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

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

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

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

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

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

A significant portion of our customer orders are placed through our e-commerce websites or through our customer care centers. In addition, a significant portion of sales made through our retail channel require the collection of certain customer data, such as credit card information. In order for our sales channels to function successfully, we, our banking and authorizations partners, and other parties involved in processing customer transactions must be able to transmit confidential information, including credit card information and other personal information of our customers, securely over public and private networks. Third parties may have or develop the technology or knowledge to breach, disable, disrupt or interfere with our systems or processes or those of our vendors. Although we take the security of our systems and the privacy of our customers' confidential information seriously, and we believe we take reasonable steps to protect the security and confidentiality of the information we collect, we cannot guarantee that our security measures will effectively prevent others from obtaining unauthorized access to our information and our customers' information. The techniques used to obtain unauthorized access to systems change frequently and are not often recognized until after they have been launched. Any person who circumvents our security measures could destroy or steal valuable information or disrupt our operations. Any security breach could cause consumers to lose confidence in the security of our information systems, including our e-commerce websites or stores, and choose not to purchase from us. Any

security breach could also expose us to risks of data loss, litigation, regulatory investigations and other significant liabilities. Such a breach could also seriously disrupt, slow or hinder our operations and harm our reputation and customer relationships, any of which could harm our business.

In addition, states and the federal government are increasingly enacting laws and regulations to protect consumers against identity theft, and in the future we may be subject to state or federal data privacy laws, such as the California Consumer Privacy Act of 2018 (the “CCPA”) that will become effective in 2020. As our business expands globally, we are subject to data privacy and other similar laws in various foreign jurisdictions, such as the European Union. If we are the target of a cybersecurity attack resulting in unauthorized disclosure of our customer data, we may be required to undertake costly notification procedures. In addition, compliance with these laws will likely increase the costs of doing business, especially if we face differing regulatory requirements across multiple jurisdictions and/or a lack of adequate regulatory guidance. If we fail to implement appropriate safeguards, detect and provide prompt notice of unauthorized access as required by some of these laws, or otherwise comply with these laws, we could be subject to potential fines, claims for damages and other remedies, which could be significantly in excess of our insurance coverage and could harm our business.

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

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

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

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

Approximately 66% of our merchandise purchases in fiscal 2018 were sourced from foreign vendors predominantly in Asia and Europe. Our dependence on foreign vendors means that we may be affected by changes in the value of the U.S. dollar relative to other foreign currencies. For example, any upward valuation in the Chinese yuan, the euro, or any other foreign currency against the U.S. dollar may result in higher costs to us for those goods. Although substantially all of our foreign purchases of merchandise are negotiated and paid for in U.S. dollars, declines in foreign currencies and currency exchange rates might negatively affect the profitability and business prospects of one or more of our foreign vendors. This, in turn, might cause such foreign vendors to demand higher prices for merchandise in their effort to offset any lost profits associated with any currency devaluation, delay merchandise

shipments to us, or discontinue selling to us, any of which could ultimately reduce our sales or increase our costs. In addition, the rising cost of labor in the countries in which our foreign vendors operate has resulted in increases in our costs of doing business. Any further increases in the cost of living in such countries may result in additional increases in our costs or in our foreign vendors going out of business.

We, and our foreign vendors, are also subject to other risks and uncertainties associated with changing economic and political conditions within and outside of the U.S. These risks and uncertainties include import duties and quotas, compliance with anti-dumping regulations, work stoppages, economic uncertainties and adverse economic conditions (including inflation and recession), government regulations, employment and labor matters, wars and fears of war, political unrest, natural disasters, public health issues, regulations to address climate change and other trade restrictions. We cannot predict whether any of the countries from which our raw materials or products are sourced, or in which our products are currently manufactured or may be manufactured in the future, will be subject to trade restrictions imposed by the U.S. or foreign governments, such as the tariffs recently levied by the U.S. against China, or the likelihood, type or effect of any such restrictions. Any event causing a disruption or delay of imports from foreign vendors, including labor disputes resulting in work disruption (such as the disruptions at the U.S. West Coast ports in early 2015), the imposition of additional import restrictions, restrictions on the transfer of funds and/or increased tariffs or quotas, or both, could increase the cost, reduce the supply of merchandise available to us, or result in excess inventory if merchandise is received after the planned or appropriate selling season, all of which could adversely affect our business, financial condition and operating results. Furthermore, some or all of our foreign vendors' operations may be adversely affected by political and financial instability resulting in the disruption of trade from exporting countries, restrictions on the transfer of funds and/or other trade disruptions. In addition, an economic downturn, or failure of foreign markets, may result in financial instabilities for our foreign vendors, which may cause our foreign vendors to decrease production, discontinue selling to us, or cease operations altogether. Our global operations in Asia, Australia and Europe could also be affected by changing economic and political conditions in foreign countries, such as the decision by British voters to exit the European Union, which could have a negative effect on our business, financial condition and operating results.

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

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

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

Any inability to acquire suitable merchandise on acceptable terms or the loss of one or more of our foreign vendors or third-party agents could have a negative effect on our business and operating results because we would be missing products that we felt were important to our assortment, unless and until alternative supply arrangements are secured. We may not be able to develop relationships with new vendors or third-party agents, and products from alternative sources, if any, may be of a lesser quality and/or more expensive than those we currently purchase.

In addition, we are subject to certain risks that could limit our vendors' ability to provide us with quality merchandise on a timely basis and at prices that are commercially acceptable, including risks related to the availability of raw materials, labor disputes, work disruptions or stoppages, union organizing activities, vendor financial liquidity, inclement weather, natural disasters, public health issues, general economic and political conditions and regulations to address climate change.

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

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

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

We are currently growing our business and increasing our global presence by opening new stores outside of the U.S., expanding our franchise operations, and offering shipping globally through third-party vendors. In fiscal 2013, we opened our first company-owned retail stores and launched e-commerce websites outside of North America as part of our overall global expansion strategy. While our global expansion to date has been a small part of our business, we plan to continue to increase the number of stores we open both directly and through our franchise arrangements. We have limited experience with global sales, understanding consumer preferences and anticipating buying trends in different countries, and marketing to customers overseas. Moreover, global awareness of our brands and our products may not be high. Consequently, we may not be able to successfully compete with established brands in these markets and our global sales may not result in the revenues we anticipate. Also, our products may not be accepted, either due to foreign legal requirements or due to different consumer tastes and trends. If our global growth initiatives are not successful, or if we or any of our third-party vendors fail to comply with any applicable regulations or laws, we may be forced to close stores or cease operations in certain countries, which may result in significant financial harm, the value of our brands may be harmed and our future opportunities for global growth may be negatively affected. Further, the administration of our global expansion may divert management attention and require more resources than we expect. In addition, we are exposed to foreign currency exchange rate risk with respect to our operations denominated in currencies other than the U.S. dollar. Our retail stores in Canada, Australia and the United Kingdom, and our operations throughout Asia and Europe expose us to market risk associated with foreign currency exchange rate fluctuations. Although we use instruments to hedge certain foreign currency risks, such hedges may not succeed in offsetting all of the impact of foreign currency rate volatility and generally only delay such impact on our business and financial results. Further, because we do not hedge against all of our foreign currency exposure, our business will continue to be susceptible to foreign currency fluctuations. Our ultimate realized gain or loss with respect to currency fluctuations will generally depend on the size and type of the transactions that we enter into, the currency exchange rates associated with these exposures, changes in those rates and whether we have entered into foreign currency hedge contracts to offset these exposures. All of these factors could materially impact our results of operations, financial position and cash flows.

We have unaffiliated franchisees that operate stores in the Middle East, the Philippines, Mexico and South Korea, as well as e-commerce websites in certain locations. Under these agreements, our franchisees operate stores and/or e-commerce websites that sell goods purchased from us under our brand names. We continue to expand our franchise operations with our existing franchisees as well as seek to identify new franchise partnerships for select countries. The effect of these franchise arrangements on our business and results of

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

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

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

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

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

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

In addition, as we continue to expand our global operations, we are subject to certain U.S. laws, including the Foreign Corrupt Practices Act, in addition to the laws of the foreign countries in which we operate. We must

ensure that our employees and third-party agents comply with these laws. If any of our overseas operations, or our employees or third-party agents, violates such laws, we could become subject to sanctions or other penalties that could negatively affect our reputation, business and operating results.

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

Approximately 45.7% of our net revenues are generated by our retail stores. Our ability to open additional stores or close existing stores successfully will depend upon a number of factors, including:

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

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

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

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

The competitive challenges facing us include:

- anticipating and quickly responding to changing consumer demands or preferences better than our competitors;
- maintaining favorable brand recognition and achieving customer perception of value;
- effectively marketing and competitively pricing our products to consumers in several diverse market segments;
- effectively managing and controlling our costs;
- effectively managing increasingly competitive promotional activity;
- effectively attracting new customers;

- developing new innovative shopping experiences, like mobile and tablet applications that effectively engage today's digital customers;
- developing innovative, high-quality products in colors and styles that appeal to consumers of varying age groups, tastes and regions, and in ways that favorably distinguish us from our competitors; and
- effectively managing our supply chain and distribution strategies in order to provide our products to our consumers on a timely basis and minimize returns, replacements and damaged products.

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

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

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

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

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

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

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

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

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

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

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

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

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

Various factors affect comparable brand revenues, including the number, size and location of stores we open, close, remodel or expand in any period, the overall economic and general retail sales environment, consumer preferences and buying trends, changes in sales mix among distribution channels, our ability to efficiently source and distribute products, changes in our merchandise mix, competition (including competitive promotional activity and discount retailers), current local and global economic conditions, the timing of our releases of new merchandise and promotional events, the success of marketing programs, the cannibalization of existing store sales by our new stores, changes in catalog circulation and in our e-commerce business and fluctuations in

foreign exchange rates. Among other things, weather conditions have affected, and may continue to affect, comparable brand revenues by limiting our ability to deliver our products to our stores, altering consumer behavior, or requiring us to close certain stores temporarily, thus reducing store traffic. Even if stores are not closed, many customers may decide to avoid going to stores in bad weather. These factors have caused, and may continue to cause, our comparable brand revenue results to differ materially from prior periods and from earnings guidance we have provided. For example, the overall economic and general retail sales environment, as well as local and global economic conditions, has caused a significant decline in our comparable brand revenue results in the past.

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

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

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

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

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

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

We have in the past and may in the future introduce new brands and brand extensions, reposition brands, close existing brands, or acquire new brands, especially as we continue to expand globally. Our newest brands and brand extensions — Williams Sonoma Home and Mark and Graham, and any other new brands, as well as our acquired brand, Rejuvenation, as well as our expansion into new lines of business, including our recently acquired business, Outward, our new business to business division, which targets commercial businesses across a number of verticals, including commercial furniture and hospitality, and our planned subscription-based services,

may not grow as expected. The work involved with integrating new brands or businesses into our existing systems and operations could be time consuming, require significant amounts of management time and result in the diversion of substantial operational resources. Further, if we devote time and resources to new brands, acquired brands, brand extensions, brand repositioning, or new lines of business and those businesses are not as successful as we planned, then we risk damaging our overall business results or incurring impairment charges to write off any existing goodwill or intangible assets associated with previously acquired brands. As a result, we may not be able to introduce new brands in a manner that improves our overall business and/or operating results and may therefore be forced to close the brands or new lines of business, which may damage our reputation and/or negatively impact our operating results.

We must protect and maintain our brand image and reputation.

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

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

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

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

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

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

We are subject to income taxes in many U.S. and certain foreign jurisdictions. Our provision for income taxes is subject to volatility and could be adversely impacted by a number of factors that require significant judgment and estimation. Although we believe our estimates are reasonable, actual results may differ materially from our estimates and adversely affect our financial condition or operating results. We record income tax expense based on our estimates of future payments, which include reserves for our estimates of the additional income tax liability that is more likely than not to result from the ultimate resolution of foreign and domestic tax examinations. At any one time, many tax years are subject to examination by various taxing jurisdictions. The results of these audits and negotiations with taxing authorities may affect the ultimate settlement of these issues. As a result, we expect that throughout the year there could be ongoing variability in our quarterly and annual effective tax rates as taxable events occur and uncertain tax positions are either evaluated or resolved.

In addition, our effective tax rate in a given financial statement period may be materially impacted by changes in the mix and level of earnings or losses in countries with differing statutory tax rates or by changes to existing laws or regulations. For example, the Tax Act has not had an adverse effect on our results of operations and is not expected to have an adverse effect on our results of operations going forward, but it will materially impact our effective tax rate.

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

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

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

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

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

We are involved in lawsuits, claims and proceedings incident to the ordinary course of our business. Litigation is inherently unpredictable. Any claims against us, whether meritorious or not, could result in costly litigation, require significant amounts of management time and result in the diversion of significant operational resources. There has been a rise in the number of lawsuits against companies like us that gather information in order to market to consumers online or through the mail and, along with other retailers, we have been named in lawsuits for gathering zip code information from our customers. We believe that we have meritorious defenses against these actions, and we will continue to vigorously defend against them. There have also been a growing number of consumer protection, data breach, and e-commerce-related patent infringement in recent years. From time to time, we have been subject to these types of lawsuits. The cost of defending against these types of claims against us or the ultimate resolution of any such claims, whether by settlement or adverse court decision, may harm our business and operating results. In addition, the increasingly regulated business environment may result in a greater number of enforcement actions and private litigation. This could subject us to increased exposure to stockholder lawsuits. Additionally, in recent years there has been an increase in the number of employment claims and, in particular, discrimination and harassment claims. Coupled with the expansion of social media

platforms and similar devices that allow individuals access to a broad audience, these claims have had a significant negative impact on some businesses. Certain companies that have faced employment- or harassment-related lawsuits have had to terminate management or other key personnel, and have suffered reputational harm that has negatively impacted their business.

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

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

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

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

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

implementation strategies could result in the impairment of software-related assets. We are also subject to the risks associated with the ability of our vendors to provide information technology solutions to meet our needs. Any disruptions could negatively impact our business and operating results.

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

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

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

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

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

We provide public guidance on our expected operating and financial results for future periods. Beginning in fiscal 2019, we have discontinued providing quarterly guidance and instead we will provide guidance on an annual basis only. We believe this approach is better aligned with the long-term view we take in managing our business and our focus on long-term stockholder value creation. Although we believe that this guidance provides investors and analysts with a better understanding of management's expectations for the future and is useful to our stockholders and potential stockholders, such guidance is comprised of forward-looking statements subject to the risks and uncertainties described in this report and in our other public filings and public statements. Our actual results may not always be in line with or exceed the guidance we have provided or the expectations of our investors and analysts, especially in times of economic uncertainty. In the past, when we have reduced our previously provided guidance, the market price of our common stock has declined. If, in the future, our operating or financial results for a particular period do not meet our guidance or the expectations of our investors and analysts or if we reduce our guidance for future periods, the market price of our common stock may decline.

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

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

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

We regularly review and evaluate our liquidity and capital needs. While we have a growing balance of cash that is held offshore, we currently believe that our available cash, cash equivalents and cash flow from operations will be sufficient to finance our operations and expected capital requirements for at least the next 12 months. However, we might experience periods during which we encounter additional cash needs and we might need additional external funding to support our operations. Although we were able to amend and increase our credit facility during fiscal 2017 on acceptable terms to provide for a \$500,000,000 unsecured revolving line of credit and a \$300,000,000 unsecured term loan facility, in the event we require additional liquidity from our lenders, such funds may not be available to us on acceptable terms, or at all. For example, in the event we were to breach any of our financial covenants, our banks would not be required to provide us with additional funding, or they may require us to renegotiate our existing credit facility on less favorable terms. In addition, we may not be able to renew our letters of credit that we use to help pay our suppliers on terms that are acceptable to us, or at all, as the availability of letter of credit facilities may become limited. Further, the providers of such credit may reallocate the available credit to other borrowers. If we are unable to access credit at the levels we require, or the cost of credit is greater than expected, it could adversely affect our operating results.

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

Global financial markets can experience extreme volatility, disruption and credit contraction, which adversely affect global economic conditions. Such turmoil in financial and credit markets or other changes in economic conditions could adversely affect sources of liquidity available to us or our costs of capital. For example, each financial institution in the syndicate for our credit facility is responsible for providing a portion of the loans to be made under the facility. If any lender, or group of lenders, with a significant portion of the commitments in our credit facility fails to satisfy its obligations to extend credit under the facility and we are unable to find a replacement for such lender or group of lenders on a timely basis, if at all, our liquidity and our business may be materially adversely affected.

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

We had \$224,000,000 remaining for future repurchases under our existing stock repurchase program as of February 3, 2019. In March 2019, our Board of Directors authorized an increase in our stock repurchase program by an additional \$500,000,000, as well as an increase in our quarterly cash dividend from \$0.43 to \$0.48 per common share for an annual cash dividend of \$1.92 per share. The stock repurchase program and dividend may require the use of a significant portion of our cash earnings. As a result, we may not retain a sufficient amount of cash to fund our operations or finance future growth opportunities, new product development initiatives and unanticipated capital expenditures, which could adversely affect our financial performance. Further, our Board of Directors may, at its discretion, decrease or entirely discontinue the payment of dividends at any time. The stock repurchase program does not have an expiration date and may be limited or eliminated at any time. Our ability to pay dividends and repurchase stock will depend on our ability to generate sufficient cash flows from operations

in the future. This ability may be subject to certain economic, financial, competitive and other factors that are beyond our control. Any failure to pay dividends or repurchase stock after we have announced our intention to do so may negatively impact our reputation and investor confidence in us, and may negatively impact our stock price.

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

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

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

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

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

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

Changes to estimates related to our cash flow projections may cause us to incur impairment charges related to our retail store locations and other property and equipment, including information technology systems, as well as goodwill.

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

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

Our future success depends to a significant degree on the skills, experience and efforts of key personnel in our senior management, whose vision for our company, knowledge of our business and expertise would be difficult

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

For our store locations, our gross leased store space as of February 3, 2019 totaled approximately 6,557,000 square feet for 625 stores compared to approximately 6,451,000 square feet for 631 stores as of January 28, 2018.

Leased Properties

The following table summarizes the location and size of our leased facilities occupied by us as of February 3, 2019:

<u>Location</u>	<u>Occupied Square Footage (Approximate)</u>
<i>Distribution and Manufacturing Facilities</i>	
Mississippi	2,165,000
New Jersey	2,103,000
California	1,432,000
Georgia	1,075,000
Texas	822,000
Tennessee	603,000
North Carolina	412,000
Ohio	265,000
Massachusetts	140,000
Florida	135,000
Oregon	91,000
Colorado	80,000
<i>Corporate Facilities</i>	
California	266,000
New York	238,000
Oregon	49,000
<i>Customer Care Centers</i>	
Nevada	36,000
Other	32,000

In addition to the above leased properties, we enter into other agreements for offsite storage needs for our distribution facilities and our retail store locations, as necessary. As of February 3, 2019, the total leased space

relating to these properties was not material to us and is not included in the occupied square footage reported above.

Owned Properties

As of February 3, 2019, we owned 471,000 square feet of space, primarily in California, for our corporate headquarters and certain data center operations.

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

MARKET INFORMATION

Our common stock is traded on the New York Stock Exchange, or the NYSE, under the symbol WSM. The closing price of our common stock on the NYSE on March 31, 2019 was \$56.27.

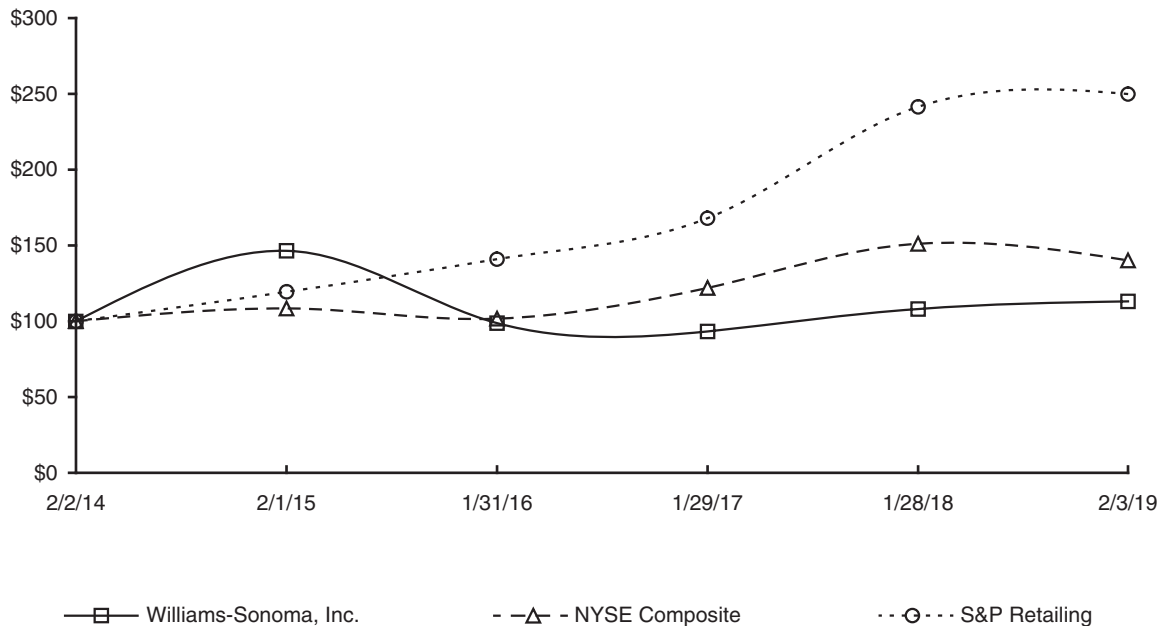
STOCKHOLDERS

The number of stockholders of record of our common stock as of March 31, 2019 was 320. This number excludes stockholders whose stock is held in nominee or street name by brokers.

PERFORMANCE GRAPH

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

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



* \$100 invested on 2/2/14 in stock or index, including reinvestment of dividends. Fiscal year ending February 3.

	2/2/14	2/1/15	1/31/16	1/29/17	1/28/18	2/03/19
Williams-Sonoma, Inc.	100.00	146.32	98.58	93.24	108.08	112.76
NYSE Composite Index	100.00	108.27	101.44	122.00	151.10	140.18
S&P Retailing	100.00	119.10	140.73	167.81	241.26	249.58

*** Notes:**

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

STOCK REPURCHASE PROGRAMS

During fiscal 2018, we repurchased 5,373,047 shares of our common stock at an average cost of \$54.96 per share and a total cost of \$295,304,000. In March 2019, our Board of Directors authorized an increase in the amount available for repurchase under our existing stock repurchase plan by an additional \$500,000,000. During fiscal 2017, we repurchased 4,050,697 shares of our common stock at an average cost of \$48.43 per share and a total cost of \$196,179,000. During fiscal 2016, we repurchased 2,871,480 shares of our common stock at an average cost of \$52.68 per share and a total cost of \$151,272,000.

The following table summarizes our repurchases of shares of our common stock during the fourth quarter of fiscal 2018 under our stock repurchase program:

Fiscal period	Total Number of Shares Purchased ¹	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program ¹	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Program
October 29, 2018 – November 25, 2018	141,671	\$ 59.12	141,671	\$ 290,522,000
November 26, 2018 – December 30, 2018	1,074,046	\$ 48.96	1,074,046	\$ 237,934,000
December 31, 2018 – February 3, 2019	273,455	\$ 51.63	273,455	\$ 223,815,000
Total	1,489,172	\$ 50.42	1,489,172	\$ 223,815,000

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 6. SELECTED FINANCIAL DATA

Five-Year Selected Financial Data

<i>In thousands, except percentages, per share amounts and retail stores data</i>	<i>Fiscal 2018¹ (53 Weeks)</i>	<i>Fiscal 2017 (52 Weeks)</i>	<i>Fiscal 2016 (52 Weeks)</i>	<i>Fiscal 2015 (52 Weeks)</i>	<i>Fiscal 2014 (52 Weeks)</i>
Results of Operations					
Net revenues	\$5,671,593	\$5,292,359	\$5,083,812	\$4,976,090	\$4,698,719
Net revenue growth	7.2%	4.1%	2.2%	5.9%	7.1%
Comparable brand revenue growth ²	3.7%	3.2%	0.7%	3.7%	7.1%
Gross profit	\$2,101,013	\$1,931,711	\$1,883,310	\$1,844,214	\$1,800,504
Gross margin	37.0%	36.5%	37.0%	37.1%	38.3%
Operating income	\$ 435,953	\$ 453,811	\$ 472,599	\$ 488,634	\$ 502,265
Operating margin ³	7.7%	8.6%	9.3%	9.8%	10.7%
Net earnings	\$ 333,684	\$ 259,545	\$ 305,387	\$ 310,068	\$ 308,854
Basic earnings per share	\$ 4.10	\$ 3.03	\$ 3.45	\$ 3.42	\$ 3.30
Diluted earnings per share	\$ 4.05	\$ 3.02	\$ 3.41	\$ 3.37	\$ 3.24
Shares used in calculation of earnings per share:					
Basic	81,420	85,592	88,594	90,787	93,634
Diluted	82,340	86,080	89,462	92,102	95,200
Financial Position					
Working capital ⁴	\$ 619,531	\$ 628,622	\$ 405,924	\$ 339,673	\$ 515,975
Total assets	\$2,812,844	\$2,785,749	\$2,476,879	\$2,417,427	\$2,330,277
Return on assets	11.9%	9.9%	12.5%	13.1%	13.2%
Net cash provided by operating activities	\$ 585,986	\$ 499,704	\$ 524,709	\$ 544,026	\$ 461,697
Capital expenditures	\$ 190,102	\$ 189,712	\$ 197,414	\$ 202,935	\$ 204,800
Long-term debt and other long-term liabilities	\$ 380,944	\$ 372,226	\$ 71,215	\$ 49,713	\$ 62,698
Stockholders' equity	\$1,155,714	\$1,203,566	\$1,248,220	\$1,198,226	\$1,224,706
Stockholders' equity per share (book value)	\$ 14.66	\$ 14.37	\$ 14.29	\$ 13.38	\$ 13.33
Return on equity	28.3%	21.2%	25.0%	25.6%	24.9%
Annual dividends declared per share	\$ 1.72	\$ 1.56	\$ 1.48	\$ 1.40	\$ 1.32
E-commerce Net Revenues					
E-commerce net revenue growth	10.9%	5.5%	4.4%	6.4%	12.1%
E-commerce net revenues as a percent of net revenues	54.3%	52.5%	51.8%	50.7%	50.5%
Retail Net Revenues					
Retail net revenue growth (decline)	3.0%	2.6%	(0.1%)	5.4%	2.4%
Retail net revenues as a percent of net revenues	45.7%	47.5%	48.2%	49.3%	49.5%
Number of stores at year-end	625	631	629	618	601
Store selling square footage at year-end	4,105,000	4,019,000	3,951,000	3,827,000	3,684,000
Store leased square footage at year-end	6,557,000	6,451,000	6,359,000	6,163,000	5,965,000

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

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

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

⁴ In fiscal 2015, we prospectively adopted Accounting Standards Update 2015-17, Balance Sheet Classification of Deferred Taxes, and now present both deferred tax assets and deferred tax liabilities as noncurrent in our Consolidated Balance Sheets. Prior balance sheets were not retrospectively adjusted and, as a result, working capital for fiscal 2014 may not be comparable to other years.

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

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

The following discussion and analysis of our financial condition, results of operations, and liquidity and capital resources for the 53 weeks ended February 3, 2019 ("fiscal 2018"), the 52 weeks ended January 28, 2018 ("fiscal 2017"), and the 52 weeks ended January 29, 2017 ("fiscal 2016") should be read in conjunction with our Consolidated Financial Statements and notes thereto. As fiscal 2018 is a 53-week year as compared to a 52-week year in fiscal 2017, our discussion of fiscal 2018 results below includes approximately \$85,000,000 of net revenues and \$0.10 of diluted earnings per share associated with the additional week. All explanations of changes in operational results are discussed in order of magnitude.

OVERVIEW

Net revenues in fiscal 2018, including the impact of the additional week, increased by \$379,234,000, or 7.2%, compared to fiscal 2017, with comparable brand revenue growth of 3.7%. This increase in net revenues was driven by a 10.9% increase in e-commerce net revenues and a 3.0% increase in retail net revenues, with particular strength in furniture. Total fiscal 2018 net revenue growth was partially attributable to a 1.6% increase in store leased square footage and a 5.7% increase in international revenues, primarily related to our company-owned international operations, as well as the favorable impact of the adoption of ASU 2014-09 primarily associated with the reclassification of other income from selling, general and administrative expenses into net revenues (see Note A to our Consolidated Financial Statements). Revenue growth was also supported by our double digit new customer growth, which reflects the success of our strategies to increase customer acquisition and drive our future growth.

All brands delivered positive comparable brand revenue growth in fiscal 2018. Growth in Pottery Barn accelerated from last year, driven by strength in e-commerce and growth in new businesses: Marketplace and Pottery Barn Apartment, as well as strong upholstery growth. The Pottery Barn Kids and Teen business improved from last year, delivering combined comparable brand revenue growth of 2.8%. Our Baby business continued to gain momentum attracting new customers as the entry point to our brand and through registry creations. West Elm had another year of double digit net revenue growth driven by strong e-commerce performance and continued strength in the core furniture business. The Williams Sonoma brand delivered comparable brand revenue growth of 1.7%. And, our emerging brands, Rejuvenation and Mark and Graham, continued to scale with double digit net revenue growth and increased profitability.

Across the business, fiscal 2018 was a year of delivering more compelling experiences for our customers. As part of our strategic priority of digital leadership, we enhanced the e-commerce experience through two differentiators: content and convenience. In fiscal 2018, we updated our shop path with more accurate and engaging content that is inspirational and drives conversion. We also enhanced our product information pages with a focus on product quality and reasons to buy. To provide our customers with omni-channel convenience, we launched Buy Online Pickup In Store in our brands and are in the process of scaling other fulfillment capabilities such as Buy Online Ship To Store and Buy Online Ship From Store. As a result, our e-commerce revenue growth almost doubled in fiscal 2018. With over 54% of our business conducted online, we are among the top 25 e-commerce retailers in North America.

We are using cross-brand initiatives to strengthen our position as the resource for all home furnishing, cooking and entertaining needs. In fiscal 2018, we continued to scale our loyalty program, The Key, where we have seen strong membership growth over the past year, as well as our complimentary design service, Design Crew. We also launched two new initiatives during the year: Design Crew Room Planner and The One Registry collective, both of which are enabling a more personalized and convenient shopping experience for our customers.

In our supply chain, we continued to drive operational improvements in fiscal 2018. In our non-furniture business, our order consolidation efforts and continued improvement in distribution center productivity enabled us to lower our cartons-per-order and order-to-delivery time so that our customers received their orders faster this holiday season and with less waste. Additionally, we were proud to be recognized once again by Barron's for all of our sustainability efforts across the business. At a ranking of number 24, we were the only company in our industry to be among the financial publication's annual list of 100 Most Sustainable U.S. companies.

In summary, 2018 was another year of solid financial and operational accomplishments resulting in earnings and cash flow generation that allowed us to return approximately \$435,629,000 to our stockholders through stock repurchases and dividends.

Over the next few years, we plan target whitespace in the market; we plan to drive cross-brand initiatives that leverage our platform; and we plan to bring technology innovation and continued improvement in customer experience. We have a strong foundation to support the execution of our initiatives in fiscal 2019 and beyond, as well as to deliver long-term shareholder value.

Results of Operations

NET REVENUES

Net revenues consist of e-commerce net revenues and retail net revenues. E-commerce net revenues include sales of merchandise to customers through our e-commerce websites and our catalogs, as well as shipping fees. Retail net revenues include sales of merchandise to customers at our retail stores and to our franchisees, as well as shipping fees on any products shipped to our customers' homes. Shipping fees consist of revenue received from customers for delivery of merchandise to their homes. Revenues are presented net of sales returns and other discounts. Due to the adoption of ASU 2014-09 in fiscal 2018, certain incentives received from credit card issuers as well as breakage income related to our unredeemed stored-value cards are now presented within net revenues (see Note A to our Consolidated Financial Statements).

<i>In thousands</i>	Fiscal 2018		Fiscal 2017		Fiscal 2016	
	(53 Weeks)	% Total	(52 Weeks)	% Total	(52 Weeks)	% Total
E-commerce net revenues	\$3,082,064	54.3%	\$2,778,457	52.5%	\$2,633,602	51.8%
Retail net revenues	2,589,529	45.7%	2,513,902	47.5%	2,450,210	48.2%
Net revenues	\$5,671,593	100.0%	\$5,292,359	100.0%	\$5,083,812	100.0%

Net revenues in fiscal 2018, including the impact of the additional week of net revenues, increased by \$379,234,000 or 7.2%, compared to fiscal 2017, with comparable brand revenue growth of 3.7%. This increase in net revenues was driven by a 10.9% increase in e-commerce net revenues (primarily driven by West Elm, Pottery Barn and Pottery Barn Kids and Teen) and a 3.0% increase in retail net revenues (primarily driven by West Elm and Pottery Barn), with particular strength in furniture. Total fiscal 2018 net revenue growth was partially attributable to a 1.6% increase in store leased square footage and a 5.7% increase in international revenues primarily related to our company-owned international operations, as well as the favorable impact of the adoption of ASU 2014-09 primarily associated with the reclassification of other income from selling, general and administrative expenses into net revenues (see Note A to our Consolidated Financial Statements).

Net revenues in fiscal 2017 increased by \$208,547,000 or 4.1%, compared to fiscal 2016, with comparable brand revenue growth of 3.2%. This increase in net revenues was driven by a 5.5% increase in e-commerce net revenues (primarily driven by West Elm, Williams Sonoma and Rejuvenation) and a 2.6% increase in retail net revenues (primarily driven by Pottery Barn and West Elm), with particular strength in furniture. Total fiscal 2017 net revenue growth was partially attributable to a 1.4% increase in store leased square footage primarily due to 2 net new stores, and a 2.2% increase in international revenues primarily related to our company-owned international operations.

The following table summarizes our net revenues by brand for fiscal 2018, fiscal 2017 and fiscal 2016:

<i>In thousands</i>	Fiscal 2018 (53 Weeks)	Fiscal 2017 (52 Weeks)	Fiscal 2016 (52 Weeks)
Pottery Barn	\$2,177,344	\$2,066,302	\$2,024,218
West Elm	1,292,928	1,114,339	971,568
Williams Sonoma	1,056,125	1,022,434	1,002,194
Pottery Barn Kids and Teen ¹	895,762	860,468	873,199
Other ²	249,434	228,816	212,633
Total	\$5,671,593	\$5,292,359	\$5,083,812

¹ Net revenues of the Pottery Barn Kids and PBteen brands are being reported on a combined basis as Pottery Barn Kids and Teen.

² Primarily consists of net revenues from our international franchise operations, Rejuvenation and Mark and Graham.

Comparable Brand Revenue

Comparable brand revenue includes retail comparable store sales and e-commerce sales, as well as shipping fees, sales returns and other discounts associated with current period sales. Comparable stores are defined as

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

<i>Comparable brand revenue growth (decline)¹</i>	Fiscal 2018 (53 Weeks)	Fiscal 2017 (52 Weeks)	Fiscal 2016 (52 Weeks)
Pottery Barn	1.2%	1.0%	(3.5%)
West Elm	9.5%	10.2%	12.8%
Williams Sonoma	1.7%	3.2%	1.3%
Pottery Barn Kids and Teen	2.8%	(1.7%)	(2.8%)
Total ²	3.7%	3.2%	0.7%

¹ Comparable brand revenue is calculated on a 53-week to 53-week basis for fiscal 2018 and on a 52-week to 52-week basis for fiscal 2017 and fiscal 2016.

² Total comparable brand revenue growth includes the results of Rejuvenation and Mark and Graham.

RETAIL STORE DATA

<i>In thousands</i>	Fiscal 2018 (53 Weeks)	Fiscal 2017 (52 Weeks)	Fiscal 2016 (52 Weeks)
Retail net revenues	\$2,589,529	\$2,513,902	\$2,450,210
Retail net revenue growth (decline)	3.0%	2.6%	(0.1%)
Store count – beginning of year	631	629	618
Store openings ¹	23	28	29
Store closings ¹	(29)	(26)	(18)
Store count – end of year	625	631	629
Store selling square footage at year-end	4,105,000	4,019,000	3,951,000
Store leased square footage (“LSF”) at year-end	6,557,000	6,451,000	6,359,000

¹ Store openings and closings in fiscal 2017 include two Williams Sonoma, two Pottery Barn and one West Elm temporary closures in Puerto Rico and Florida due to hurricanes in these areas. These stores reopened during the fourth quarter of fiscal 2017.

	Fiscal 2018		Fiscal 2017		Fiscal 2016	
	Store Count	Avg. LSF Per Store	Store Count	Avg. LSF Per Store	Store Count	Avg. LSF Per Store
Williams Sonoma	220	6,900	228	6,700	234	6,600
Pottery Barn	205	14,200	203	13,900	201	13,900
West Elm	112	13,100	106	13,100	98	13,300
Pottery Barn Kids	78	7,500	86	7,400	89	7,400
Rejuvenation	10	8,500	8	8,800	7	9,100
Total	625	10,500	631	10,200	629	10,100

COST OF GOODS SOLD

<i>In thousands</i>	Fiscal 2018 (53 Weeks)	% Net Revenues	Fiscal 2017 (52 Weeks)	% Net Revenues	Fiscal 2016 (52 Weeks)	% Net Revenues
Cost of goods sold ¹	\$3,570,580	63.0%	\$3,360,648	63.5%	\$3,200,502	63.0%

¹ Includes occupancy expenses of \$702,537, \$683,958 and \$664,177 in fiscal 2018, fiscal 2017 and fiscal 2016, 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.

Within our reportable segments, the e-commerce channel does not incur freight-to-store or store occupancy expenses, and typically operates with lower markdowns and inventory shrinkage than the retail channel. However, the e-commerce channel incurs higher customer shipping, damage and replacement costs than the retail channel.

Fiscal 2018 vs. Fiscal 2017

Cost of goods sold increased by \$209,932,000, or 6.2%, in fiscal 2018 compared to fiscal 2017. Cost of goods sold as a percentage of net revenues decreased to 63.0% in fiscal 2018 from 63.5% in fiscal 2017. This decrease was primarily driven by the leverage of occupancy costs and includes the favorable impact from the adoption of ASU 2014-09, primarily associated with the reclassification of other income from selling, general and administrative expenses into net revenues.

In the e-commerce channel, cost of goods sold as a percentage of net revenues decreased in fiscal 2018 compared to fiscal 2017, primarily driven by higher selling margins.

In the retail channel, cost of goods sold as a percentage of net revenues increased in fiscal 2018 compared to fiscal 2017, primarily driven by lower selling margins, partially offset by the leverage of occupancy costs.

Fiscal 2017 vs. Fiscal 2016

Cost of goods sold increased by \$160,146,000, or 5.0%, in fiscal 2017 compared to fiscal 2016. Cost of goods sold as a percentage of net revenues increased to 63.5% in fiscal 2017 from 63.0% in fiscal 2016. This increase was driven by lower merchandise margins, higher shipping costs and reduced shipping income, partially offset by reduced fulfillment-related costs in our supply chain and the leverage of occupancy costs.

In the e-commerce channel, cost of goods sold as a percentage of net revenues increased in fiscal 2017 compared to fiscal 2016 primarily driven by lower merchandise margins, reduced shipping income and higher shipping costs, partially offset by reduced fulfillment-related costs in our supply chain and a reduction in occupancy costs.

In the retail channel, cost of goods sold as a percentage of net revenues increased in fiscal 2017 compared to fiscal 2016 primarily driven by lower selling margins, as well as higher occupancy costs to support our growth initiatives.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

<i>In thousands</i>	Fiscal 2018 (53 weeks) ¹	% Net Revenues ¹	Fiscal 2017 (52 weeks)	% Net Revenues	Fiscal 2016 (52 weeks)	% Net Revenues
Selling, general and administrative expenses	\$1,665,060	29.4%	\$1,477,900	27.9%	\$1,410,711	27.7%

¹ Includes the impact of the adoption of ASU 2014-09 primarily from the reclassification of other income from selling, general and administrative expenses into net revenues.

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.

We experience differing employment and advertising costs as a percentage of net revenues within the retail and e-commerce channels due to their distinct distribution and marketing strategies. Employment costs represent a greater percentage of net revenues within the retail channel as compared to the e-commerce channel. However, advertising expenses are higher within the e-commerce channel than in the retail channel.

Fiscal 2018 vs. Fiscal 2017

Selling, general and administrative expenses increased by \$187,160,000, or 12.7%, in fiscal 2018 compared to fiscal 2017. Selling, general and administrative expenses as a percentage of net revenues increased to 29.4% in fiscal 2018 from 27.9% in fiscal 2017. This increase as a percentage of net revenues was driven by an increase in general expenses primarily from the reclassification of other income from selling, general and administrative expenses into net revenues due to the adoption of ASU 2014-09, an increase in incentive compensation, as well as increased hourly wages and digital advertising from the reinvestment of tax savings, the impact from our acquisition of Outward, and impairment and early lease termination charges related to underperforming retail stores. This was partially offset by the optimization of catalog advertising costs.

In the e-commerce channel, selling, general and administrative expenses as a percentage of net revenues increased in fiscal 2018 compared to fiscal 2017, driven by an increase in general expenses primarily associated with the reclassification of other income from selling, general and administrative expenses into net revenues, the impact from our acquisition of Outward, as well as increased hourly wages and digital advertising from the reinvestment of tax savings, partially offset by the optimization of catalog advertising costs.

In the retail channel, selling, general and administrative expenses as a percentage of net revenues increased in fiscal 2018 compared to fiscal 2017, driven by an increase in general expenses primarily associated with the reclassification of other income from selling, general and administrative expenses into net revenues as well as impairment and early lease termination charges related to underperforming retail stores.

Fiscal 2017 vs. Fiscal 2016

Selling, general and administrative expenses increased by \$67,189,000, or 4.8%, in fiscal 2017 compared to fiscal 2016. Selling, general and administrative expenses as a percentage of net revenues increased to 27.9% in fiscal 2017 from 27.7% in fiscal 2016. This increase as a percentage of net revenues was primarily driven by higher digital advertising expenses resulting from our focus on new customer acquisition. This increase was partially offset by lower employment expenses within the unallocated segment.

In the e-commerce channel, selling, general and administrative expenses as a percentage of net revenues increased in fiscal 2017 compared to fiscal 2016 primarily driven by higher digital advertising expenses.

In the retail channel, selling, general and administrative expenses as a percentage of net revenues increased in fiscal 2017 compared to fiscal 2016 primarily driven by an increase in employment expenses to support our growth initiatives.

INCOME TAXES

The 2017 Tax Cuts and Jobs Act (“the Tax Act”) was enacted on December 22, 2017. Among other things, the Tax Act reduced the corporate income tax rate to 21% as of January 1, 2018, introduced a new tax on global intangible low-taxed income (“GILTI”), and implemented a modified territorial tax system that includes a transition tax on deemed repatriated earnings of foreign subsidiaries.

Staff Accounting Bulletin No. 118 (“SAB 118”) issued by the SEC in December 2017 provided us with up to one year to finalize our measurement of the income tax effects of the Tax Act on our fiscal year ended January 28, 2018. As of January 28, 2018, we had made reasonable estimates of the income tax effects of the Tax Act, including the transition tax under Internal Revenue Code section 965.

As of February 3, 2019, we have completed the accounting for the income tax effects of the Tax Act based on our current interpretation of available notices and regulations issued and proposed by the U.S. Department of the Treasury and the Internal Revenue Service. As a result, during fiscal 2018 we recorded an immaterial adjustment to the fiscal 2017 provisional transition tax amount. In addition, during fiscal 2018, we booked a net tax benefit of approximately \$10,576,000 from the re-measurement of our deferred tax assets.

We have historically elected not to provide for U.S. income taxes with respect to the undistributed earnings of our foreign subsidiaries as we intended to utilize those earnings in our foreign operations for an indefinite period of time. Under Internal Revenue Code section 965 of the Tax Act, we are deemed to have distributed all the post-1986 earnings of our foreign subsidiaries to the U.S. as of December 31, 2017. In light of the Tax Act, we re-evaluated our permanent reinvestment assertion with respect to unremitted foreign earnings, and we are now only permanently reinvested with respect to our foreign earnings in Canada beginning in fiscal 2018. As a result, we recorded approximately \$1,493,000 of foreign withholding tax and additional state income tax in fiscal 2018. As of February 3, 2019, the post-fiscal 2017 earnings of our Canadian subsidiary are permanently reinvested. If we did not consider these earnings to be permanently reinvested, the deferred tax liability would have been immaterial as of February 3, 2019.

In fiscal 2018, we are subject to several provisions of the Tax Act, including GILTI, the base erosion anti-abuse tax and a deduction for foreign-derived intangible income. We have elected to account for GILTI as a periodic expense when the tax arises. The net impact due to these provisions was immaterial in fiscal 2018.

Our effective tax rate was 22.3% for fiscal 2018, 42.6% for fiscal 2017 and 35.3% for fiscal 2016. The decrease in the effective tax rate from fiscal 2017 was primarily due to the reduction of the U.S. corporate income tax rate from 35% to 21% as of January 1, 2018 as a result of the Tax Act, as well as the tax benefit from the true up of the remeasurement of our deferred tax assets under SAB 118.

LIQUIDITY AND CAPITAL RESOURCES

As of February 3, 2019, we held \$338,954,000 in cash and cash equivalents, the majority of which was held in interest-bearing demand deposit accounts and money market funds, and of which \$185,810,000 was held by our foreign subsidiaries. As is consistent within our industry, our cash balances are seasonal in nature, with the fourth quarter historically representing a significantly higher level of cash than other periods.

Throughout the fiscal year, we utilize our cash balances to build our inventory levels in preparation for our fourth quarter holiday sales. In fiscal 2019, we plan to use our cash resources to fund our inventory and inventory-related purchases, advertising and marketing initiatives, stock repurchases and dividend payments, and property and equipment purchases. In addition to our cash balances on hand, we have a credit facility which provides for a \$500,000,000 unsecured revolving line of credit (“revolver”), and a \$300,000,000 unsecured term loan facility (“term loan”). The revolver may be used to borrow revolving loans or to request the issuance of letters of credit. We may, upon notice to the administrative agent, request existing or new lenders to increase the revolver by up to \$250,000,000, at such lenders’ option, to provide for a total of \$750,000,000 of unsecured revolving credit. During fiscal 2018, we had borrowings under the revolver of \$60,000,000, all of which were repaid in the fourth quarter of fiscal 2018. During fiscal 2017, we had borrowings under the revolver of \$170,000,000, all of which

were repaid in the fourth quarter of fiscal 2017. As of February 3, 2019, we had \$300,000,000 outstanding under our term loan. The term loan matures on January 8, 2021, at which point all outstanding principal and any accrued interest must be repaid. Additionally, as of February 3, 2019, a total of \$11,732,000 in issued but undrawn standby letters of credit were outstanding under the credit facility. The standby letters of credit were issued to secure the liabilities associated with workers' compensation and other insurance programs.

Additionally, we have three unsecured letter of credit reimbursement facilities, which were amended during the year, for a total of \$70,000,000, of which an aggregate of \$6,820,000 was outstanding as of February 3, 2019. These letter of credit facilities represent only a future commitment to fund inventory purchases to which we had not taken legal title.

We are currently in compliance with all of our financial covenants under the credit facility and, based on our current projections, we expect to remain in compliance throughout fiscal 2019. 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 fiscal 2018, net cash provided by operating activities was \$585,986,000 compared to \$499,704,000 in fiscal 2017. For fiscal 2018, net cash provided by operating activities was primarily attributable to net earnings adjusted for non-cash items, an increase in accounts payable and accrued expenses and other liabilities, as well as an increase in gift card and other deferred revenue, partially offset by an increase in merchandise inventories and prepaid expenses and other assets and a decrease in income taxes payable. This represents an increase in net cash provided by operating activities compared to fiscal 2017 primarily due to an increase in accounts payable and accrued expenses and other liabilities offset by a change in income taxes payable.

For fiscal 2017, net cash provided by operating activities was \$499,704,000 compared to \$524,709,000 in fiscal 2016. For fiscal 2017, net cash provided by operating activities was primarily attributable to net earnings adjusted for non-cash items, an increase in income taxes payable, as well as deferred rent and lease incentives, partially offset by an increase in merchandise inventories. This represents a decrease in net cash provided by operating activities compared to fiscal 2016 primarily due to an increase in merchandise inventories and a decrease in net earnings, partially offset by a decrease in income taxes paid in fiscal 2017 compared to fiscal 2016.

Cash Flows from Investing Activities

For fiscal 2018, net cash used in investing activities was \$187,899,000 compared to \$269,760,000 in fiscal 2017, and was primarily attributable to purchases of property and equipment. Net cash used in investing activities compared to fiscal 2017 is lower due to the acquisition of Outward in fiscal 2017 (see Note O to our Consolidated Financial Statements).

For fiscal 2017, net cash used in investing activities was \$269,760,000 compared to \$196,975,000 in fiscal 2016, and was primarily attributable to purchases of property and equipment and the acquisition of Outward. Net cash used in investing activities compared to fiscal 2016 increased due to the acquisition of Outward.

Cash Flows from Financing Activities

For fiscal 2018, net cash used in financing activities was \$450,066,000 compared to \$51,707,000 in fiscal 2017. For fiscal 2018, net cash used in financing activities was primarily attributable to repurchases of common stock of \$295,304,000 and the payment of dividends of \$140,325,000. Net cash used in financing activities compared to fiscal 2017 decreased primarily due to term loan borrowings in fiscal 2017 and an increase in repurchases of common stock in fiscal 2018.

For fiscal 2017, net cash used in financing activities was \$51,707,000 compared to \$305,806,000 in fiscal 2016. For fiscal 2017, net cash used in financing activities was primarily attributable to repurchases of common stock of \$196,179,000 and the payment of dividends of \$135,010,000, partially offset by proceeds from issuance of long-term debt of \$300,000,000. Net cash used in financing activities compared to fiscal 2016 decreased primarily due to proceeds from the issuance of long-term debt, partially offset by an increase in repurchases of common stock.

Dividends

In fiscal 2018, fiscal 2017 and fiscal 2016, total cash dividends declared were approximately \$144,609,000, or \$1.72 per common share, \$135,779,000, or \$1.56 per common share, and \$133,588,000, or \$1.48 per common share, respectively. In March 2019, our Board of Directors authorized a \$0.05, or 11.6%, increase in our quarterly cash dividend, from \$0.43 to \$0.48 per common share, for an annual cash dividend of \$1.92 per share, subject to capital availability. Our quarterly cash dividend may be limited or terminated at any time.

Stock Repurchase Programs

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

Contractual Obligations

The following table provides summary information concerning our future contractual obligations as of February 3, 2019:

<i>In thousands</i>	Payments Due by Period ¹				
	Fiscal 2019	Fiscal 2020 to Fiscal 2022	Fiscal 2023 to Fiscal 2024	Thereafter	Total
Long-term debt ²	\$ —	\$ 300,000	\$ —	\$ —	\$ 300,000
Interest	10,898	10,232	—	—	21,130
Operating leases ³	292,387	678,447	298,086	422,024	1,690,944
Purchase obligations ⁴	960,132	29,271	186	—	989,589
Total	\$ 1,263,417	\$ 1,017,950	\$ 298,272	\$ 422,024	\$ 3,001,663

¹ This table excludes \$40.6 million of liabilities for unrecognized tax benefits associated with uncertain tax positions as we are not able to reasonably estimate when and if cash payments for these liabilities will occur. This amount, however, has been recorded as a liability in our accompanying Consolidated Balance Sheet as of February 3, 2019.

² Long-term debt consists of term loan borrowings under our credit facility. See Note C to our Consolidated Financial Statements for discussion of our borrowing arrangements.

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

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

Other Contractual Obligations

We have other liabilities reflected in our Consolidated Balance Sheet. The payment obligations associated with these liabilities are not reflected in the table above due to the absence of scheduled maturities. The timing of these payments cannot be determined, except for amounts estimated to be payable in fiscal 2019, which are included in our current liabilities as of February 3, 2019.

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

Commercial Commitments

The following table provides summary information concerning our outstanding commercial commitments as of February 3, 2019:

<i>In thousands</i>	Amount of Outstanding Commitment Expiration by Period ¹				Total
	Fiscal 2019	Fiscal 2020 to Fiscal 2022	Fiscal 2023 to Fiscal 2024	Thereafter	
Standby letters of credit	\$ 11,732	\$—	\$—	\$—	\$ 11,732
Letter of credit facilities	6,820	—	—	—	6,820
Total	\$ 18,552	\$—	\$—	\$—	\$ 18,552

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

IMPACT OF INFLATION

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations is based on our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these Consolidated Financial Statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. These estimates and assumptions are evaluated on an ongoing basis and are based on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ from these estimates.

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

Merchandise Inventories

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

Reserves for shrinkage are estimated and recorded throughout the year as a percentage of net sales based on historical shrinkage results, cycle count results within our distribution centers, expectations of future shrinkage and current inventory levels. Actual shrinkage is recorded at year-end based on the results of our cycle count and year end physical inventory counts and can vary from our estimates due to such factors as changes in operations, the mix of our inventory (which ranges from large furniture to small tabletop items) and execution against loss prevention initiatives in our stores, distribution facilities, off-site storage locations, and with our third-party warehouse and transportation providers. Accordingly, there is no shrinkage reserve at year-end, with the exception of a cycle count reserve based on the historical cycle count results in our distribution centers. This reserve was not material to our Consolidated Financial Statements as of February 3, 2019. Historically, actual shrinkage has not differed materially from our estimates.

Our obsolescence and shrinkage reserve calculations contain estimates that require management to make assumptions and to apply judgment regarding a number of factors, including market conditions, the selling

environment, historical results and current inventory trends. If actual obsolescence or shrinkage estimates change from our original estimate, we will adjust our reserves accordingly throughout the year. We have made no material changes to our assumptions included in the calculations of the obsolescence and shrinkage reserves throughout the year. In addition, we do not believe a 10% change in our inventory reserves would have a material effect on our net earnings. As of February 3, 2019 and January 28, 2018, our inventory obsolescence reserves were \$13,580,000 and \$12,649,000, respectively.

Property and Equipment

Property and equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

We review the carrying value of all long-lived assets for impairment, primarily at an individual store level, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Our impairment analyses determine whether projected cash flows from operations are sufficient to recover the carrying value of these assets. Impairment may result when the carrying value of the asset exceeds the estimated undiscounted future cash flows over its remaining useful life. For store impairment, our estimate of undiscounted future cash flows over the store lease term is based upon our experience, the historical operations of the stores and estimates of future store profitability and economic conditions. The estimates of future store profitability and economic conditions require estimating such factors as sales growth, gross margin, employment costs, lease escalations, inflation and the overall economics of the retail industry, and are therefore subject to variability and difficult to predict. Actual future results may differ from those estimates. If a long-lived asset is found to be impaired, the amount recognized for impairment is equal to the excess of the asset's net carrying value over its fair value. Long-lived assets are measured at fair value on a nonrecurring basis using Level 3 inputs as defined in the fair value hierarchy (see Note M to our Consolidated Financial Statements). The fair value is based on the present value of estimated future cash flows using a discount rate that approximates our weighted average cost of capital.

During fiscal 2018, we recorded asset impairment charges of approximately \$9,639,000, related to our retail stores, which is recorded within selling, general and administrative expenses. During fiscal 2017, we did not record any asset impairment charges. During fiscal 2016, we recorded asset impairment charges of approximately \$1,765,000 related to our retail stores.

Business Combinations

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

Goodwill

Goodwill is initially recorded as of the acquisition date, and is measured as any excess of the purchase price over the estimated fair value of the identifiable net assets acquired. Goodwill is not amortized, but rather is subject to impairment testing annually (on the first day of the fourth quarter), or between annual tests whenever events or changes in circumstances indicate that the fair value of a reporting unit may be below its carrying amount. We first perform a qualitative assessment to evaluate goodwill for potential impairment. If based on that assessment it is more likely than not that the fair value of the reporting unit is below its carrying value, a quantitative impairment test is necessary. The quantitative impairment test requires determining the fair value of the reporting

unit. We use the income approach, whereby we calculate the fair value based on the present value of estimated future cash flows using a discount rate that approximates our weighted average cost of capital. The process of evaluating the potential impairment of goodwill is subjective and requires significant estimates and assumptions about the future such as sales growth, gross margins, employment costs, capital expenditures, inflation and future economic and market conditions. Actual future results may differ from those estimates. If the carrying value of the reporting unit's assets and liabilities, including goodwill, exceeds its fair value, impairment is recorded for the excess, not to exceed the total amount of goodwill allocated to the reporting unit.

As of February 3, 2019 and January 28, 2018, we had goodwill of \$85,382,000 and \$18,838,000, respectively, primarily related to our fiscal 2017 acquisition of Outward and our fiscal 2011 acquisition of Rejuvenation, Inc. In fiscal 2018, fiscal 2017, and fiscal 2016, we performed a qualitative assessment of potential goodwill impairment and determined it was more likely than not that the fair value of each of our reporting units exceeded its carrying value. Accordingly, no further impairment testing of goodwill was performed. We did not recognize any goodwill impairment in fiscal 2018, fiscal 2017, or fiscal 2016.

Self-Insured Liabilities

We are primarily self-insured for workers' compensation, employee health benefits, product and other general liability claims. We record self-insurance liability reserves based on claims filed, including the development of those claims, and an estimate of claims incurred but not yet reported, based on an actuarial analysis of historical claims data. Factors affecting these estimates include future inflation rates, changes in severity, benefit level changes, medical costs and claim settlement patterns. Should a different number of claims occur compared to what was estimated, or costs of the claims increase or decrease beyond what was anticipated, reserves may need to be adjusted accordingly. Self-insurance reserves for workers' compensation, employee health benefits, product and other general liability claims were \$28,542,000 and \$26,370,000 as of February 3, 2019 and January 28, 2018, respectively.

Income Taxes

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

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

Our revolver and our term loan each have a variable interest rate which, when drawn upon, subjects us to risks associated with changes in that interest rate. As of February 3, 2019, we had \$300,000,000 outstanding under the term loan, and during fiscal 2018 we had borrowings of \$60,000,000 under the revolver, all of which were repaid in the fourth quarter of fiscal 2018. 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 February 3, 2019, our investments, made primarily in interest bearing demand deposit accounts and money market funds, are stated at cost and approximate their fair values.

Foreign Currency Risks

We purchase a significant amount of inventory from vendors outside of the U.S. in transactions that are denominated in U.S. dollars and, as such, any foreign currency impact related to these international purchase transactions was not significant to us during fiscal 2018 or fiscal 2017. Since we pay for the majority of our international purchases in U.S. dollars, however, a decline in the U.S. dollar relative to other foreign currencies would subject us to risks associated with increased purchasing costs from our vendors in their effort to offset any lost profits associated with any currency devaluation. We cannot predict with certainty the effect these increased costs may have on our financial statements or results of operations.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Williams-Sonoma, Inc.
Consolidated Statements of Earnings

<i>In thousands, except per share amounts</i>	Fiscal 2018 (53 weeks)	Fiscal 2017 (52 weeks)	Fiscal 2016 (52 weeks)
E-commerce net revenues	\$ 3,082,064	\$ 2,778,457	\$ 2,633,602
Retail net revenues	2,589,529	2,513,902	2,450,210
Net revenues	5,671,593	5,292,359	5,083,812
Cost of goods sold	3,570,580	3,360,648	3,200,502
Gross profit	2,101,013	1,931,711	1,883,310
Selling, general and administrative expenses	1,665,060	1,477,900	1,410,711
Operating income	435,953	453,811	472,599
Interest (income) expense, net	6,706	1,372	688
Earnings before income taxes	429,247	452,439	471,911
Income taxes	95,563	192,894	166,524
Net earnings	\$ 333,684	\$ 259,545	\$ 305,387
Basic earnings per share	\$ 4.10	\$ 3.03	\$ 3.45
Diluted earnings per share	\$ 4.05	\$ 3.02	\$ 3.41
Shares used in calculation of earnings per share:			
Basic	81,420	85,592	88,594
Diluted	82,340	86,080	89,462

See Notes to Consolidated Financial Statements.

Williams-Sonoma, Inc.
Consolidated Statements of Comprehensive Income

<i>In thousands</i>	Fiscal 2018 (53 weeks)	Fiscal 2017 (52 weeks)	Fiscal 2016 (52 weeks)
Net earnings	\$ 333,684	\$ 259,545	\$ 305,387
Other comprehensive income (loss):			
Foreign currency translation adjustments	(5,032)	3,730	1,523
Change in fair value of derivative financial instruments, net of tax (tax benefit) of \$390, \$(259) and \$(327)	1,098	(715)	(916)
Reclassification adjustment for realized (gain) loss on derivative financial instruments, net of tax (tax benefit) of \$122, \$(38) and \$(41)	(357)	106	106
Comprehensive income	\$ 329,393	\$ 262,666	\$ 306,100

See Notes to Consolidated Financial Statements.

Williams-Sonoma, Inc.
Consolidated Balance Sheets

In thousands, except per share amounts

Feb. 3, 2019 Jan. 28, 2018

	Feb. 3, 2019	Jan. 28, 2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 338,954	\$ 390,136
Accounts receivable, net	107,102	90,119
Merchandise inventories, net	1,124,992	1,061,593
Prepaid catalog expenses	—	20,517
Prepaid expenses	101,356	62,204
Other current assets	21,939	11,876
Total current assets	1,694,343	1,636,445
Property and equipment, net	929,635	932,283
Deferred income taxes, net	44,055	67,306
Goodwill	85,382	18,838
Other long-term assets, net	59,429	130,877
Total assets	\$ 2,812,844	\$ 2,785,749
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 526,702	\$ 457,144
Accrued expenses	163,559	134,207
Gift card and other deferred revenue	290,445	300,607
Income taxes payable	21,461	56,783
Other current liabilities	72,645	59,082
Total current liabilities	1,074,812	1,007,823
Deferred rent and lease incentives	201,374	202,134
Long-term debt	299,620	299,422
Other long-term liabilities	81,324	72,804
Total liabilities	1,657,130	1,582,183
Commitments and contingencies – See Note I		
Stockholders' equity		
Preferred stock: \$.01 par value; 7,500 shares authorized; none issued	—	—
Common stock: \$.01 par value; 253,125 shares authorized; 78,813 and 83,726 shares issued and outstanding at February 3, 2019 and January 28, 2018, respectively	789	837
Additional paid-in capital	581,900	562,814
Retained earnings	584,333	647,422
Accumulated other comprehensive loss	(11,073)	(6,782)
Treasury stock – at cost: 2 and 11 shares as of February 3, 2019 and January 28, 2018, respectively	(235)	(725)
Total stockholders' equity	1,155,714	1,203,566
Total liabilities and stockholders' equity	\$ 2,812,844	\$ 2,785,749

See Notes to Consolidated Financial Statements.

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

<i>In thousands</i>	Common Stock		Additional	Retained	Accumulated	Treasury	Total
	Shares	Amount	Paid-in	Earnings	Other	Stock	Stockholders'
			Capital		Income (Loss)		Equity
Balance at January 31, 2016	89,563	\$ 896	\$ 541,307	\$ 668,545	\$ (10,616)	\$(1,906)	\$ 1,198,226
Net earnings	—	—	—	305,387	—	—	305,387
Foreign currency translation adjustments	—	—	—	—	1,523	—	1,523
Change in fair value of derivative financial instruments, net of tax	—	—	—	—	(916)	—	(916)
Reclassification adjustment for realized (gain) loss on derivative financial instruments, net of tax	—	—	—	—	106	—	106
Exercise of stock-based awards and related tax effect	39	—	4,762	—	—	—	4,762
Conversion/release of stock-based awards ¹	594	6	(26,805)	—	—	(263)	(27,062)
Repurchases of common stock	(2,871)	(29)	(12,684)	(138,559)	—	—	(151,272)
Reissuance of treasury stock under stock-based compensation plans ¹	—	—	(706)	(83)	—	789	—
Stock-based compensation expense	—	—	51,054	—	—	—	51,054
Dividends declared	—	—	—	(133,588)	—	—	(133,588)
Balance at January 29, 2017	87,325	873	556,928	701,702	(9,903)	(1,380)	1,248,220
Net earnings	—	—	—	259,545	—	—	259,545
Foreign currency translation adjustments	—	—	—	—	3,730	—	3,730
Change in fair value of derivative financial instruments, net of tax	—	—	—	—	(715)	—	(715)
Reclassification adjustment for realized (gain) loss on derivative financial instruments, net of tax	—	—	—	—	106	—	106
Conversion/release of stock-based awards ¹	452	5	(17,810)	—	—	(325)	(18,130)
Repurchases of common stock	(4,051)	(41)	(18,518)	(177,620)	—	—	(196,179)
Reissuance of treasury stock under stock-based compensation plans ¹	—	—	(554)	(426)	—	980	—
Stock-based compensation expense	—	—	42,768	—	—	—	42,768
Dividends declared	—	—	—	(135,779)	—	—	(135,779)
Balance at January 28, 2018	83,726	837	562,814	647,422	(6,782)	(725)	1,203,566
Net earnings	—	—	—	333,684	—	—	333,684
Foreign currency translation adjustments	—	—	—	—	(5,032)	—	(5,032)
Change in fair value of derivative financial instruments, net of tax	—	—	—	—	1,098	—	1,098
Reclassification adjustment for realized (gain) loss on derivative financial instruments, net of tax	—	—	—	—	(357)	—	(357)
Conversion/release of stock-based awards ¹	460	5	(14,149)	—	—	(291)	(14,435)
Repurchases of common stock	(5,373)	(53)	(25,775)	(269,476)	—	—	(295,304)
Reissuance of treasury stock under stock-based compensation plans ¹	—	—	(418)	(363)	—	781	—
Stock-based compensation expense	—	—	59,428	—	—	—	59,428
Dividends declared	—	—	—	(144,609)	—	—	(144,609)
Adoption of accounting pronouncements ²	—	—	—	17,675	—	—	17,675
Balance at February 3, 2019	78,813	\$ 789	\$ 581,900	\$ 584,333	\$ (11,073)	\$(235)	\$ 1,155,714

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

² Primarily relates to our adoption of ASU 2014-09 in fiscal 2018. See Note A.

See Notes to Consolidated Financial Statements.

Williams-Sonoma, Inc.
Consolidated Statements of Cash Flows

<i>In thousands</i>	Fiscal 2018 (53 Weeks)	Fiscal 2017 (52 Weeks)	Fiscal 2016 (52 Weeks)
Cash flows from operating activities:			
Net earnings	\$ 333,684	\$ 259,545	\$ 305,387
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Depreciation and amortization	188,808	183,077	173,195
Loss on disposal/impairment of assets	10,209	1,889	3,806
Amortization of deferred lease incentives	(26,199)	(25,372)	(25,212)
Deferred income taxes	23,639	63,381	7,114
Tax benefit related to stock-based awards	—	—	3,230
Excess tax benefit related to stock-based awards	—	—	(4,894)
Stock-based compensation expense	59,802	42,988	51,116
Other	(579)	(135)	(423)
Changes in:			
Accounts receivable	(15,329)	149	(9,794)
Merchandise inventories	(70,331)	(80,235)	4,493
Prepaid catalog expenses	—	(1,019)	6,448
Prepaid expenses and other assets	(54,691)	(15,475)	(7,521)
Accounts payable	62,377	2,549	4,276
Accrued expenses and other liabilities	45,976	9,597	19,712
Gift card and other deferred revenue	38,899	(3,002)	2,020
Deferred rent and lease incentives	24,929	28,226	35,559
Income taxes payable	(35,208)	33,541	(43,803)
Net cash provided by operating activities	585,986	499,704	524,709
Cash flows from investing activities:			
Purchases of property and equipment	(190,102)	(189,712)	(197,414)
Acquisition of Outward, Inc., net of cash received	—	(80,528)	—
Other	2,203	480	439
Net cash used in investing activities	(187,899)	(269,760)	(196,975)
Cash flows from financing activities:			
Repurchases of common stock	(295,304)	(196,179)	(151,272)
Payment of dividends	(140,325)	(135,010)	(133,539)
Borrowings under revolving line of credit	60,000	170,000	125,000
Repayments of borrowings under revolving line of credit	(60,000)	(170,000)	(125,000)
Tax withholdings related to stock-based awards	(14,437)	(18,130)	(27,062)
Proceeds from issuance of long-term debt	—	300,000	—
Excess tax benefit related to stock-based awards	—	—	4,894
Proceeds related to stock-based awards	—	—	1,532
Debt issuance costs	—	(1,191)	(359)
Other	—	(1,197)	—
Net cash used in financing activities	(450,066)	(51,707)	(305,806)
Effect of exchange rates on cash and cash equivalents	797	(1,814)	(1,862)
Net increase (decrease) in cash and cash equivalents	(51,182)	176,423	20,066
Cash and cash equivalents at beginning of year	390,136	213,713	193,647
Cash and cash equivalents at end of year	\$ 338,954	\$ 390,136	\$ 213,713
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	\$ 11,424	\$ 2,915	\$ 2,202
Cash paid during the year for income taxes, net of refunds	\$ 107,951	\$ 99,062	\$ 203,426
Non-cash investing activities:			
Purchases of property and equipment not yet paid for at end of year	\$ 2,773	\$ 1,257	\$ 625

See Notes to Consolidated Financial Statements.

Williams-Sonoma, Inc.
Notes to Consolidated Financial Statements

Note A: Summary of Significant Accounting Policies

We are a specialty retailer of high-quality products for the home. These products, representing distinct merchandise strategies — Williams Sonoma, Pottery Barn, Pottery Barn Kids, West Elm, PBteen, Williams Sonoma Home, Rejuvenation, and Mark and Graham — are marketed through e-commerce websites, direct-mail catalogs and 625 stores. These brands are also part of The Key Rewards, our free-to-join loyalty program that offers members exclusive benefits across the Williams-Sonoma family of brands. We operate in the U.S., Puerto Rico, Canada, Australia and the United Kingdom, offer international shipping to customers worldwide, and have unaffiliated franchisees that operate stores in the Middle East, the Philippines, Mexico and South Korea, as well as e-commerce websites in certain locations. In 2017, we acquired Outward, Inc., a 3-D imaging and augmented reality platform for the home furnishings and décor industry.

Reclassifications

Certain amounts reported in our Consolidated Balance Sheet as of January 28, 2018 and our Consolidated Statements of Cash Flows for the fifty-two weeks ended January 28, 2018 and January 29, 2017 have been reclassified in order to conform to the current period presentation. These reclassifications impacted prepaid catalog expenses, prepaid expenses, goodwill, other long-term assets, accounts payable, accrued expenses, gift card and other deferred revenue and other current liabilities. There was no change to total current assets, total assets, total current liabilities, or cash flows as a result of these reclassifications.

Consolidation

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

Fiscal Year

Our fiscal year ends on the Sunday closest to January 31, based on a 52 or 53-week year. Fiscal 2018, a 53-week year, ended on February 3, 2019; Fiscal 2017, a 52-week year, ended on January 28, 2018; and Fiscal 2016, a 52-week year, ended on January 29, 2017.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. These estimates and assumptions are evaluated on an ongoing basis and are based on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ from these estimates.

Cash Equivalents

Cash equivalents include highly liquid investments with an original maturity of three months or less. As of February 3, 2019, we were invested primarily in interest-bearing demand deposit accounts and money market funds. Book cash overdrafts issued, but not yet presented to the bank for payment, are reclassified to accounts payable.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are stated at their carrying values, net of an allowance for doubtful accounts. Accounts receivable consist primarily of credit card, franchisee and landlord receivables for which collectability is reasonably assured. Receivables are evaluated for collectability on a regular basis and an allowance for doubtful accounts is recorded, if necessary. Our allowance for doubtful accounts was not material to our financial statements as of February 3, 2019 and January 28, 2018.

Merchandise Inventories

Merchandise inventories, net of an allowance for shrinkage and obsolescence, are stated at the lower of cost (weighted average method) or market. To determine if the value of our inventory should be reduced below cost,

we consider current and anticipated demand, customer preferences and age of the merchandise. The significant estimates used in inventory valuation are obsolescence (including excess and slow-moving inventory and lower of cost or market reserves) and estimates of inventory shrinkage. We reserve for obsolescence based on historical trends, aging reports, specific identification and our estimates of future sales and selling prices.

Reserves for shrinkage are estimated and recorded throughout the year as a percentage of net sales based on historical shrinkage results, cycle count results within our distribution centers, expectations of future shrinkage and current inventory levels. Actual shrinkage is recorded at year-end based on the results of our physical inventory counts and can vary from our estimates due to such factors as changes in operations, the mix of our inventory (which ranges from large furniture to small tabletop items) and execution against loss prevention initiatives in our stores, distribution facilities, off-site storage locations, and with our third-party warehouse and transportation providers. Accordingly, there is no shrinkage reserve at year-end, with the exception of a cycle count reserve based on the historical cycle count results in our distribution centers. This reserve was not material to our Consolidated Financial Statements as of February 3, 2019. Historically, actual shrinkage has not differed materially from our estimates.

Our obsolescence and shrinkage reserve calculations contain estimates that require management to make assumptions and to apply judgment regarding a number of factors, including market conditions, the selling environment, historical results and current inventory trends. If actual obsolescence or shrinkage estimates change from our original estimate, we will adjust our reserves accordingly throughout the year. We have made no material changes to our assumptions included in the calculations of the obsolescence and shrinkage reserves throughout the year. As of February 3, 2019, and January 28, 2018, our inventory obsolescence reserves were \$13,580,000 and \$12,649,000, respectively.

Property and Equipment

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

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

We review the carrying value of all long-lived assets for impairment, primarily at an individual store level, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Our impairment analyses determine whether projected cash flows from operations are sufficient to recover the carrying value of these assets. Impairment may result when the carrying value of the asset exceeds the estimated undiscounted future cash flows over its remaining useful life. For store impairment, our estimate of undiscounted future cash flows over the store lease term is based upon our experience, the historical operations of the stores and estimates of future store profitability and economic conditions. The estimates of future store profitability and economic conditions require estimating such factors as sales growth, gross margin, employment costs, lease escalations, inflation and the overall economics of the retail industry, and are therefore subject to variability and difficult to predict. Actual future results may differ from those estimates. If a long-lived asset is found to be impaired, the amount recognized for impairment is equal to the excess of the asset's net carrying value over its fair value. Long-lived assets are measured at fair value on a nonrecurring basis using Level 3 inputs as defined in the fair value hierarchy (see Note M). The fair value is based on the present value of estimated future cash flows using a discount rate that approximates our weighted average cost of capital.

During fiscal 2018, we recorded asset impairment charges of approximately \$9,639,000, related to our retail stores, which is recorded within selling, general and administrative expenses. During fiscal 2017, we did not record any asset impairment charges. During fiscal 2016, we recorded asset impairment charges of approximately \$1,765,000, related to our retail stores.

Goodwill

Goodwill is initially recorded as of the acquisition date, and is measured as any excess of the purchase price over the estimated fair value of the identifiable net assets acquired. Goodwill is not amortized, but rather is subject to

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

As of February 3, 2019 and January 28, 2018, we had goodwill of \$85,382,000 and \$18,838,000, respectively, primarily related to our fiscal 2017 acquisition of Outward (see Note O) and to our fiscal 2011 acquisition of Rejuvenation, Inc. In fiscal 2018, fiscal 2017 and fiscal 2016, we performed a qualitative assessment of potential goodwill impairment and determined it was more likely than not that the fair value of each of our reporting units exceeded its carrying value. Accordingly, no further impairment testing of goodwill was performed. We did not recognize any goodwill impairment in fiscal 2018, fiscal 2017 or fiscal 2016.

Self-Insured Liabilities

We are primarily self-insured for workers' compensation, employee health benefits, product and other general liability claims. We record self-insurance liability reserves based on claims filed, including the development of those claims, and an estimate of claims incurred but not yet reported, based on an actuarial analysis of historical claims data. Factors affecting these estimates include future inflation rates, changes in severity, benefit level changes, medical costs and claim settlement patterns. Should a different number of claims occur compared to what was estimated, or costs of the claims increase or decrease beyond what was anticipated, reserves may need to be adjusted accordingly. Self-insurance reserves for workers' compensation, employee health benefits, product and other general liability claims were \$28,542,000 and \$26,370,000 as of February 3, 2019 and January 28, 2018, respectively.

Deferred Rent and Lease Incentives

For leases that contain fixed escalations of the minimum annual lease payment during the original term of the lease, we recognize rent expense on a straight-line basis over the lease term, including the construction period, and record the difference between rent expense and the amount currently payable as deferred rent. Deferred lease incentives include construction allowances received from landlords, which are amortized on a straight-line basis over the lease term, including the construction period.

For any store or facility closure where a lease obligation still exists, we record the estimated future liability associated with the rental obligation on the cease use date.

Fair Value of Financial Instruments

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

Merchandise Sales

Revenues from the sale of our merchandise through our e-commerce channel, at our retail stores, as well as to our franchisees and wholesale customers are, in each case, recognized at a point in time when control of

merchandise is transferred to the customer. Merchandise can either be picked up in our stores, or delivered to the customer. For merchandise picked up in the store, control is transferred at the time of the sale to the customer. For merchandise delivered to the customer, control is transferred either when delivery has been completed, or when we have a present right to payment which, for certain merchandise, occurs upon conveyance of the merchandise to the carrier for delivery. We exclude from revenue any taxes assessed by governmental authorities, including value-added and other sales-related taxes, that are imposed on and are concurrent with revenue-generating activities. Our payment terms are primarily at the point of sale for merchandise sales and for most services. We have elected to account for shipping and handling as fulfillment activities, and not as a separate performance obligation.

Revenue from the sale of merchandise is reported net of sales returns. We estimate future returns based on historical return trends together with current product sales performance. As of February 3, 2019, we recorded a liability for expected sales returns of approximately \$26,276,000 within other current liabilities and a corresponding asset for the expected net realizable value of the merchandise inventory to be returned of approximately \$10,030,000 within other current assets in our Consolidated Balance Sheet.

Prior to the adoption of Auditing Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers* in the first quarter of fiscal 2018, we recorded a reserve for estimated product returns, net of cost of merchandise inventory to be returned, within other current liabilities. For fiscal 2017 and fiscal 2016, the opening balance of our sales returns reserve was \$16,058,000 and \$19,113,000, respectively. For fiscal 2017 and fiscal 2016, provision for sales returns was \$302,320,000 and \$303,694,000, respectively, and actual sales returns were \$306,536,000 and \$306,749,000, respectively. The closing balance of our sales returns reserve was \$11,842,000 and \$16,058,000 for fiscal 2017 and fiscal 2016, respectively.

Gift Card and Other Deferred Revenue

We defer revenue when cash payments are received in advance of satisfying performance obligations, primarily associated with our stored-value cards, merchandise sales, customer loyalty programs, and incentives received from credit card issuers.

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

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

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

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

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

Vendor Allowances

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

Cost of Goods Sold

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

Selling, General and Administrative Expenses

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

Stock-Based Compensation

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

Advertising Expenses

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

Total advertising expenses (including digital advertising, catalog advertising and other advertising costs) were approximately \$390,115,000, \$382,206,000 and \$347,474,000 in fiscal 2018, fiscal 2017 and fiscal 2016, respectively.

Foreign Currency Translation

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

Earnings Per Share

Basic earnings per share is computed as net earnings divided by the weighted average number of common shares outstanding for the period. Diluted earnings per share is computed as net earnings divided by the weighted

average number of common shares outstanding plus common stock equivalents for the period. Common stock equivalents consist of shares subject to stock-based awards with exercise prices less than or equal to the average market price of our common stock for the period, to the extent their inclusion would be dilutive.

Income Taxes

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

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

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, *Revenue from Contracts with Customers*, to clarify the principles of recognizing revenue and create common revenue recognition guidance between U.S. GAAP and International Financial Reporting Standards. We adopted the ASU on a modified retrospective basis in the first quarter of fiscal 2018 and applied the guidance therein to all applicable contracts that were not complete as of the date of application. As a result, we recorded an increase to opening retained earnings as of January 29, 2018 of approximately \$17,862,000, net of tax, for the cumulative effect adjustments of adopting the ASU. The adoption of this standard most significantly impacted our Consolidated Financial Statements due to:

- the reclassification from selling, general and administrative expenses into net revenues for certain incentives received from credit card issuers,
- the reclassification of breakage income related to our unredeemed stored-value cards from selling, general and administrative expenses into net revenues, as well as the acceleration in the timing of recognizing breakage income,
- the acceleration in the timing of revenue recognition for certain merchandise shipped to our customers, and
- the recording of a right of return asset for merchandise we expect to receive back from customers.

In addition, prepaid catalog advertising costs, which were capitalized and amortized over their expected period of future benefit prior to adoption, and are now expensed as incurred. Prior period balances were not retrospectively adjusted as a result of adopting the ASU.

The following summarizes the impact of adopting ASU 2014-09 on our Consolidated Statement of Earnings for the fiscal year ended February 3, 2019:

<i>In thousands</i>	As Reported	ASU 2014-09 Adjustment	As Adjusted
Net revenue	\$ 5,671,593	\$ (61,106)	\$ 5,610,487
Cost of goods sold	3,570,580	(6,059)	3,564,521
Gross profit	2,101,013	(55,047)	2,045,966
Selling, general and administrative expenses	1,665,060	(48,766)	1,616,294
Operating income	\$ 435,953	\$ (6,281)	\$ 429,672

Other than the presentation of our sales returns liability and a right of return asset, which resulted in a reclassification of liabilities into other current assets, all other impacts to our Consolidated Balance Sheet from the adoption of this ASU were not material either individually or in the aggregate as of February 3, 2019. The adoption of this ASU had no net impact to our Consolidated Statement of Cash Flows for the fiscal year ended February 3, 2019.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires lessees to recognize a right-of-use asset and a lease liability for virtually all leases. This ASU, as amended, is effective for us beginning in the first quarter of fiscal 2019. We estimate that the adoption of the ASU will result in an increase in total long-term assets and total liabilities of approximately \$1.2 billion, which includes an increase in liabilities for lease obligations of approximately \$1.4 billion, a decrease in deferred rent and deferred lease incentives of approximately \$0.2 billion, and an increase in right-of-use assets of approximately \$1.2 billion. We have elected to apply the provisions of this ASU at the adoption date, instead of to the earliest comparative period presented in the financial statements. We will elect the package of practical expedients upon adoption, which permits us not to reassess whether existing contracts are or contain leases, the lease classification of existing leases, or initial direct costs for existing leases. We will also elect not to separate lease and non-lease components for all of our leases and not to recognize a right-of-use asset and a lease liability for short-term leases. We do not expect the adoption of the ASU to materially impact our Consolidated Statement of Earnings or our Consolidated Statement of Cash Flows.

In October 2016, the FASB issued ASU 2016-16, *Intra-Entity Transfers of Assets Other than Inventory*. The amendments remove the prohibition against the recognition of current and deferred income tax effects of intra-entity transfers of assets other than inventory until the asset has been sold to an outside party. We adopted this ASU in the first quarter of fiscal 2018. The adoption did not have a material impact on our financial condition, results of operations or cash flows.

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*, which simplifies the subsequent measurement of goodwill by eliminating step two from the goodwill impairment test. We adopted this ASU in the first quarter of fiscal 2018. The adoption of this ASU had no impact on our Consolidated Financial Statements.

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

In 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*. The 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. 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: Property and Equipment

Property and equipment consists of the following:

<i>In thousands</i>	Feb. 3, 2019	Jan. 28, 2018
Leasehold improvements	\$ 950,259	\$ 950,024
Fixtures and equipment	836,400	800,003
Capitalized software	733,941	621,730
Land and buildings	175,181	173,457
Corporate systems projects in progress	39,416	65,283
Construction in progress ¹	7,205	8,615
Total	2,742,402	2,619,112
Accumulated depreciation	(1,812,767)	(1,686,829)
Property and equipment, net	\$ 929,635	\$ 932,283

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

Note C: Borrowing Arrangements

Credit Facility

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

During fiscal 2018, we had borrowings of \$60,000,000 under the revolver (at a weighted average interest rate of 3.20%), all of which were repaid in the fourth quarter of fiscal 2018, and no amounts were outstanding as of February 3, 2019. During fiscal 2017, we had borrowings of \$170,000,000 under the revolver (at a weighted average interest rate of 2.21%), all of which were repaid in the fourth quarter of fiscal 2017, and no amounts were outstanding as of January 28, 2018. Additionally, as of February 3, 2019, \$11,732,000 in issued but undrawn standby letters of credit were outstanding under the revolver. The standby letters of credit were issued to secure the liabilities associated with workers’ compensation and other insurance programs.

As of February 3, 2019, we had \$300,000,000 outstanding under our term loan (at a weighted average interest rate of 3.21%). The term loan matures on January 8, 2021, at which time all outstanding principal and any accrued interest must be repaid. Costs incurred in connection with the issuance of the term loan are presented as a reduction to the carrying value of the debt in our Consolidated Balance Sheet.

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

As of February 3, 2019, we were in compliance with our covenants under the credit facility and, based on current projections, we expect to remain in compliance throughout fiscal 2019.

Letter of Credit Facilities

We have three unsecured letter of credit reimbursement facilities for a total of \$70,000,000, each of which matures on August 24, 2019. The letter of credit facilities contain covenants that are consistent with our credit facility. Interest on unreimbursed amounts under the letter of credit facilities accrues at a base rate as defined in

the credit facility, plus an applicable margin based on our leverage ratio. As of February 3, 2019, an aggregate of \$6,820,000 was outstanding under the letter of credit facilities, which represents only a future commitment to fund inventory purchases to which we had not taken legal title. The latest expiration possible for any future letters of credit issued under the facilities is January 21, 2020.

Note D: Income Taxes

The 2017 Tax Cuts and Jobs Act (the “Tax Act”) was enacted on December 22, 2017. Among other things, the Tax Act reduced the corporate income tax rate to 21.0% as of January 1, 2018, introduced a new tax on global intangible low-taxed income (“GILTI”), and implemented a modified territorial tax system that includes a one-time transition tax on deemed repatriated earnings of foreign subsidiaries.

Staff Accounting Bulletin No. 118 (“SAB 118”) issued by the SEC in December 2017 provided us up to one year to finalize our measurement of the income tax effects of the 2017 Tax Cuts and Jobs Act (“the Tax Act”) on our fiscal year ended January 28, 2018. As of January 28, 2018, we had made reasonable estimates of the income tax effects of the Tax Act, including the transition tax under Internal Revenue Code section 965.

As of February 3, 2019, we have completed the accounting for the income tax effects of the Tax Act based on our current interpretation of available notices and regulations issued and proposed by the U.S. Department of the Treasury and the Internal Revenue Service. As a result, during fiscal 2018, we recorded an immaterial adjustment to the fiscal 2017 provisional transition tax amount. In addition, during fiscal 2018, we booked a net tax benefit of approximately \$10,576,000 from the re-measurement of our deferred tax assets.

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

<i>In thousands</i>	Fiscal 2018 (53 Weeks)	Fiscal 2017 (52 Weeks)	Fiscal 2016 (52 Weeks)
United States	\$ 333,594	\$ 379,000	\$ 425,517
Foreign	95,653	73,439	46,394
Total earnings before income taxes	\$ 429,247	\$ 452,439	\$ 471,911

The provision for income taxes consists of the following:

<i>In thousands</i>	Fiscal 2018 (53 Weeks)	Fiscal 2017 (52 Weeks)	Fiscal 2016 (52 Weeks)
Current			
Federal	\$ 43,745	\$ 97,202	\$ 125,760
State	15,357	19,552	26,197
Foreign	12,822	12,759	7,453
Total current	71,924	129,513	159,410
Deferred			
Federal	23,507	62,893	8,307
State	1,562	460	(807)
Foreign	(1,430)	28	(386)
Total deferred	23,639	63,381	7,114
Total provision	\$ 95,563	\$ 192,894	\$ 166,524

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

only permanently reinvested with respect to our foreign earnings in Canada beginning in fiscal 2018. As a result, we recorded approximately \$1,493,000 of foreign withholding tax and additional state income tax in fiscal 2018. As of February 3, 2019, the post-fiscal 2017 earnings of our Canadian subsidiary are permanently reinvested. If we did not consider these earnings to be permanently reinvested, the deferred tax liability would have been immaterial as of February 3, 2019.

In fiscal 2018, we are subject to several provisions of the Tax Act, including GILTI, the base erosion anti-abuse tax and a deduction for foreign-derived intangible income. The company has elected to account for GILTI as a periodic expense when the tax arises. The net impact due to these provisions was immaterial in fiscal 2018.

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

	Fiscal 2018 (53 Weeks)	Fiscal 2017 (52 Weeks)	Fiscal 2016 (52 Weeks)
Federal income taxes at the statutory rate	21.0%	33.9%	35.0%
Re-measurement of deferred tax assets and liabilities	(2.2%)	6.7%	—
Transition tax	(0.6%)	2.9%	—
State income tax rate	3.8%	2.5%	3.5%
Change in uncertain tax positions	4.1%	(1.6%)	2.8%
Rate differential	(2.3%)	(2.9%)	(5.7%)
Research and development credits	(2.1%)	—	—
Other	0.6%	1.1%	(0.3%)
Effective tax rate	22.3%	42.6%	35.3%

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

<i>Deferred tax assets (liabilities), in thousands</i>	Feb. 3, 2019	Jan. 28, 2018
Deferred rent	\$ 18,942	\$ 18,387
Merchandise inventories	18,703	23,314
Customer deposits	14,345	23,601
Stock-based compensation	14,281	9,024
Accrued liabilities	13,470	13,626
Compensation	11,251	14,127
State taxes	7,435	5,099
Executive deferred compensation	5,739	5,886
Federal and state net operating loss	4,223	6,026
Depreciation	(31,557)	(17,361)
Deferred lease incentives	(26,032)	(24,854)
Other	(4,797)	(3,116)
Valuation allowance	(3,542)	(1,067)
Prepaid catalog expenses	(936)	(5,386)
Total deferred income tax assets, net	\$ 41,525	\$ 67,306

As a result of the acquisition of Outward, Inc. (see Note O), we had net operating loss carry-forwards of \$4,979,000 and \$7,102,000 for U.S. federal and state, respectively, as of February 3, 2019. A valuation allowance has been provided to the state net operating loss carry-forwards, as we don't expect to fully utilize the losses in future years.

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

<i>In thousands</i>	Fiscal 2018	Fiscal 2017	Fiscal 2016
Balance at beginning of year	\$ 18,051	\$ 25,864	\$ 13,290
Increases related to current year's tax positions	4,694	3,345	11,772
Increases related to prior years' tax positions	14,905	808	3,456
Decreases related to prior years' tax positions	(1,279)	(10,610)	(818)
Lapses in statute of limitations	(786)	(1,356)	(1,122)
Settlements	(376)	—	(714)
Balance at end of year	\$ 35,209	\$ 18,051	\$ 25,864

As of February 3, 2019, we had \$35,209,000 of gross unrecognized tax benefits of which \$31,209,000 would, if recognized, affect the effective tax rate.

We accrue interest and penalties related to unrecognized tax benefits in the provision for income taxes. As of February 3, 2019 and January 28, 2018, our accruals for the payment of interest and penalties totaled \$5,437,000 and \$3,719,000, respectively.

Due to the potential resolution of tax issues, it is reasonably possible that the balance of our gross unrecognized tax benefits could decrease within the next twelve months by a range of \$0 to \$10,800,000.

We file income tax returns in the U.S. and foreign jurisdictions. We are subject to examination by the tax authorities in these jurisdictions. Our U.S. federal taxable years for which the statute of limitations has not expired are fiscal years 2014 to 2017. Substantially all material states, local and foreign jurisdictions' statutes of limitations are closed for taxable years prior to 2014.

Note E: Accounting for Leases

Operating Leases

We lease store locations, distribution and manufacturing facilities, corporate facilities, customer care centers and certain equipment for our U.S. and foreign operations for original terms generally ranging from 5 to 22 years. Certain leases contain renewal options for periods up to 20 years. The rental payments for our store leases are typically structured as either: minimum rent; rent based on a percentage of store sales; minimum rent plus additional rent based on a percentage of store sales; or rent based on a percentage of store sales if a specified store sales threshold or contractual obligation of the landlord has not been met. Contingent rental payments, including rental payments that are based on a percentage of sales, cannot be predicted with certainty at the onset of the lease term. Accordingly, such contingent rental payments are recorded as incurred each period and are excluded from our calculation of deferred rent liability.

Total rent expense for all operating leases was as follows:

<i>In thousands</i>	Fiscal 2018 (53 Weeks)	Fiscal 2017 (52 Weeks)	Fiscal 2016 (52 Weeks)
Rent expense	\$ 271,522	\$ 263,409	\$ 251,066
Contingent rent expense	26,414	24,918	26,980
Rent expense before deferred lease incentive income	297,936	288,327	278,046
Deferred lease incentive income	(26,189)	(25,293)	(25,298)
Less: sublease rental income	(522)	(578)	(558)
Total rent expense ¹	\$ 271,225	\$ 262,456	\$ 252,190

¹ Excludes all other occupancy-related costs including depreciation, common area maintenance, property taxes and utilities.

The aggregate contractual future minimum annual cash rental payments under non-cancellable operating leases in effect at February 3, 2019 were as follows:

<i>In thousands</i>	Lease Commitments ¹
Fiscal 2019	\$ 292,387
Fiscal 2020	262,429
Fiscal 2021	225,755
Fiscal 2022	190,263
Fiscal 2023	160,308
Thereafter	559,802
Total	\$ 1,690,944

¹ *Projected cash payments include only those amounts that are fixed and determinable as of the reporting date and are not necessarily representative of future expected rent expense. We currently pay rent for certain store locations based on a percentage of store sales. As future store sales cannot be predicted with certainty, projected payments for these locations are based on minimum rent, which is generally higher than rent based on a percentage of store sales. We incur other lease obligation expenses, such as common area maintenance and other executory costs, which are not fixed in nature and are thus not included in the future projected cash payments reflected above. In addition, projected cash payments do not include any benefit from deferred lease incentive income, which is reflected within "Total rent expense" above.*

Memphis-Based Distribution Facility

In fiscal 2015, we entered into an agreement with a partnership comprised of the estate of W. Howard Lester, our former Chairman of the Board and Chief Executive Officer, and the estate of James A. McMahan, a former Director Emeritus and significant stockholder and two unrelated parties to lease a distribution facility in Memphis, Tennessee through July 2017. In fiscal 2017, we exercised the first of two one-year extensions available under the lease to extend the term through July 2018. Subsequently, in fiscal 2017, we amended the lease to further extend the term through July 2020. The amended lease provides for two additional one-year renewal options. We made annual rental payments of approximately \$1,689,000, \$1,629,000, and \$1,599,000 plus applicable taxes, insurance and maintenance expenses in fiscal 2018, fiscal 2017 and fiscal 2016, respectively.

Note F: Earnings Per Share

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
Fiscal 2018 (53 Weeks)			
Basic	\$ 333,684	81,420	\$ 4.10
Effect of dilutive stock-based awards		920	
Diluted	\$ 333,684	82,340	\$ 4.05
Fiscal 2017 (52 Weeks)			
Basic	\$ 259,545	85,592	\$ 3.03
Effect of dilutive stock-based awards		488	
Diluted	\$ 259,545	86,080	\$ 3.02
Fiscal 2016 (52 Weeks)			
Basic	\$ 305,387	88,594	\$ 3.45
Effect of dilutive stock-based awards		868	
Diluted	\$ 305,387	89,462	\$ 3.41

Stock-based awards of 31,000, 577,000, and 261,000 were excluded from the computation of diluted earnings per share in fiscal 2018, fiscal 2017 and fiscal 2016, respectively, as their inclusion would be anti-dilutive.

Note G: Stock-Based Compensation

Equity Award Programs

Our Amended and Restated 2001 Long-Term Incentive Plan (the “Plan”) provides for grants of incentive stock options, nonqualified stock options, stock-settled stock appreciation rights (collectively, “option awards”), restricted stock awards, restricted stock units (including those that are performance-based), deferred stock awards (collectively, “stock awards”) and dividend equivalents up to an aggregate of approximately 36,570,000 shares. As of February 3, 2019, there were approximately 7,436,000 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 is not less than 100% of the closing price of our stock on the day prior to the grant date. Option awards granted to employees generally vest evenly over a period of four years for service-based awards. Certain option awards contain vesting acceleration clauses resulting from events including, but not limited to, retirement, merger or a similar corporate event.

Stock Awards

Annual grants of stock awards are limited to 1,000,000 shares on a per person basis and have a maximum term of seven years. Stock awards granted to employees generally vest evenly over a period of four years for service-based awards. Certain performance-based awards, which have variable payout conditions based on predetermined financial targets, 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, merger or a similar corporate event. Stock awards granted to non-employee Board members generally vest in one year. Non-employee Board members automatically receive stock awards on the date of their initial election to the Board and annually thereafter on the date of the annual meeting of stockholders (so long as they continue to serve as a non-employee Board member).

Stock-Based Compensation Expense

During fiscal 2018, fiscal 2017 and fiscal 2016, we recognized total stock-based compensation expense, as a component of selling, general and administrative expenses, of \$59,802,000, \$42,988,000, and \$51,116,000, respectively. As of February 3, 2019, there was \$78,694,000 of unrecognized stock-based compensation expense (net of estimated forfeitures), which we expect to recognize on a straight-line basis over a weighted average remaining service period of approximately two years. At each reporting period, all compensation expense attributable to vested awards has been fully recognized.

Stock-Settled Stock Appreciation Rights

A stock-settled stock appreciation right is an award that allows the recipient to receive common stock equal to the appreciation in the fair market value of our common stock between the grant date and the conversion date for the number of shares converted.

The following table summarizes our stock-settled stock appreciation right activity during fiscal 2018:

	Shares	Weighted Average Conversion Price ¹
Balance at January 28, 2018 (100% vested)	167,737	\$ 30.91
Granted	—	—
Converted into common stock	(166,447)	30.83
Cancelled	(1,290)	40.87
Balance at February 3, 2019	—	\$ —

¹ Conversion price is equal to the market value on the date of grant.

No stock-settled stock appreciation rights were granted in fiscal 2018, fiscal 2017 or fiscal 2016. The total intrinsic value of awards converted to common stock was \$4,394,000 for fiscal 2018, \$7,287,000 for fiscal 2017 and \$5,237,000 for fiscal 2016. Intrinsic value for conversions is based on the excess of the market value on the date of conversion over the conversion price.

Restricted Stock Units

The following table summarizes our restricted stock unit activity during fiscal 2018:

	Shares	Weighted Average Grant Date Fair Value	Weighted Average Contractual Term Remaining (Years)	Intrinsic Value ¹
Balance at January 28, 2018	2,358,137	\$ 58.18		
Granted	1,432,954	49.72		
Granted, with vesting subject to performance conditions	256,350	48.76		
Released	(677,251)	59.47		
Cancelled	(357,267)	60.48		
Balance at February 3, 2019	3,012,923	\$ 52.88	3.03	\$162,698,000
Vested plus expected to vest at February 3, 2019	2,389,343	\$ 52.74	3.10	\$129,025,000

¹ Intrinsic value for outstanding and unvested restricted stock units is based on the market value of our common stock on the last business day of the fiscal year (or \$54.00).

The following table summarizes additional information about restricted stock units:

	Fiscal 2018	Fiscal 2017	Fiscal 2016
Weighted average grant date fair value per share of awards granted	\$ 49.57	\$ 52.76	\$ 59.17
Intrinsic value of awards released ¹	\$34,213,000	\$35,508,000	\$56,405,000

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

Tax Effect

In accordance with ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*, we record excess tax benefits and deficiencies resulting from the settlement of stock-based awards as a benefit or expense within income taxes in the period in which they occur. Further, in accordance with the ASU, we no longer classify such tax benefits as a financing cash inflow and an operating cash outflow. We adopted the classification requirements of this ASU prospectively as of the first quarter of fiscal 2017 and, as such, our Consolidated Statement of Cash Flows for fiscal 2016 has not been retrospectively adjusted. During fiscal 2018, fiscal 2017

and fiscal 2016, proceeds related to stock-based awards were \$0, \$0 and \$1,532,000, respectively, and the current tax benefit related to stock-based awards totaled \$9,927,000, \$16,066,000 and \$24,129,000, respectively.

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

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

Our matching contribution is equal to 50% of each participant’s salary deferral contribution, taking into account only those contributions that do not exceed 6% of the participant’s eligible pay for the pay period. Each participant’s matching contribution is earned on a semi-annual basis with respect to eligible salary deferrals for those participants that are employed with the company on June 30th or December 31st of the year in which the deferrals are made. Each associate must complete one year of service prior to receiving company matching contributions. For the first five years of the participant’s employment, all matching contributions vest at the rate of 20% per year of service, measuring service from the participant’s hire date. Thereafter, all matching contributions vest immediately. Our contributions to the plan were \$9,036,000, \$8,224,000 and \$7,725,000 in fiscal 2018, fiscal 2017 and fiscal 2016, respectively.

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

We also have a nonqualified executive deferred compensation plan that provides supplemental retirement income benefits for a select group of management. This plan permits eligible employees to make salary and bonus deferrals that are 100% vested. We have an unsecured obligation to pay in the future the value of the deferred compensation adjusted to reflect the performance, whether positive or negative, of selected investment measurement options chosen by each participant during the deferral period. As of February 3, 2019 and January 28, 2018, \$23,319,000 and \$24,151,000, respectively, is included in other long-term liabilities related to these deferred compensation obligations. Additionally, we have purchased life insurance policies on certain participants to potentially offset these unsecured obligations. The cash surrender value of these policies was \$25,390,000 and \$25,550,000 as of February 3, 2019 and January 28, 2018, respectively, and is included in other long-term assets, net.

Note I: Commitments and Contingencies

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

Note J: Stock Repurchase Program and Dividends

During fiscal 2018, we repurchased 5,373,047 shares of our common stock at an average cost of \$54.96 per share and a total cost of approximately \$295,304,000 under our stock repurchase program. As of February 3, 2019,

there was approximately \$223,815,000 remaining under our current stock repurchase program. In March 2019, our Board of Directors authorized an increase in our current stock repurchase program by an additional \$500,000,000. As of February 3, 2019, we held treasury stock of \$235,000 that represents the cost of shares available for issuance intended to satisfy future stock-based award settlements in certain foreign jurisdictions.

During fiscal 2017, we repurchased 4,050,697 shares of our common stock at an average cost of \$48.43 per share and a total cost of approximately \$196,179,000. During fiscal 2016, we repurchased 2,871,480 shares of our common stock at an average cost of \$52.68 per share and a total cost of approximately \$151,272,000.

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

Total cash dividends declared in fiscal 2018, fiscal 2017 and fiscal 2016, were approximately \$144,609,000, or \$1.72 per common share, \$135,779,000, or \$1.56 per common share and \$133,588,000, or \$1.48 per common share, respectively. In March 2019, our Board of Directors authorized a \$0.05, or 11.6%, increase in our quarterly cash dividend, from \$0.43 to \$0.48 per common share, subject to capital availability.

Note K: Segment Reporting

We have two reportable segments, e-commerce and retail. The e-commerce segment has the following merchandise strategies: Williams Sonoma, Pottery Barn, Pottery Barn Kids, West Elm, PBteen, Williams Sonoma Home, Rejuvenation and Mark and Graham, which sell our products through our e-commerce websites and direct-mail catalogs. Our e-commerce merchandise strategies are operating segments, which have been aggregated into one reportable segment, e-commerce. The retail segment, which includes our franchise operations, has the following merchandise strategies: Williams Sonoma, Pottery Barn, Pottery Barn Kids, West Elm and Rejuvenation, which sell our products through our retail stores. Our retail merchandise strategies are operating segments, which have been aggregated into one reportable segment, retail. Management's expectation is that the overall economic characteristics of each of our operating segments will be similar over time based on management's judgment that the operating segments have had similar historical economic characteristics and are expected to have similar long-term financial performance in the future.

These reportable segments are strategic business units that offer similar products for the home. They are managed separately because the business units utilize two distinct distribution and marketing strategies. Based on management's best estimate, our operating segments include allocations of certain expenses, including advertising and employment costs, to the extent they have been determined to benefit both channels. These operating segments are aggregated at the channel level for reporting purposes due to the fact that our brands are interdependent for economies of scale and we do not maintain fully allocated income statements at the brand level. As a result, material financial decisions related to the brands are made at the channel level. Furthermore, it is not practicable for us to report revenue by product group. Beginning in fiscal 2019, due to the convergence of our e-commerce and retail businesses, we will only report one reportable segment.

We use operating income to evaluate segment profitability. Operating income is defined as earnings (loss) before net interest income (expense) and income taxes. Unallocated costs before interest and income taxes include corporate employee-related costs, occupancy expenses (including depreciation expense), administrative costs and third-party service costs, primarily in our corporate administrative and systems departments. Unallocated assets include corporate cash and cash equivalents, prepaid expenses, the net book value of corporate facilities and related information systems, deferred income taxes and other corporate long-lived assets.

Income taxes are calculated at an entity level and are not allocated to our reportable segments.

Segment Information

<i>In thousands</i>	E-commerce	Retail	Unallocated	Total
Fiscal 2018 (53 Weeks)				
Net revenues ¹	\$ 3,082,064	\$ 2,589,529	\$ —	\$ 5,671,593
Depreciation and amortization expense	36,294	89,419	63,095	188,808
Operating income (loss) ²	643,592	217,070	(424,709)	435,953
Assets ³	914,452	1,183,604	714,788	2,812,844
Capital expenditures	45,151	82,840	62,111	190,102
Fiscal 2017 (52 Weeks)				
Net revenues ¹	\$ 2,778,457	\$ 2,513,902	\$ —	\$ 5,292,359
Depreciation and amortization expense	28,977	90,625	63,475	183,077
Operating income (loss) ⁴	599,491	224,608	(370,288)	453,811
Assets ³	776,569	1,114,726	894,454	2,785,749
Capital expenditures	39,273	83,750	66,689	189,712
Fiscal 2016 (52 Weeks)				
Net revenues ¹	\$ 2,633,602	\$ 2,450,210	\$ —	\$ 5,083,812
Depreciation and amortization expense	31,135	86,228	55,832	173,195
Operating income (loss) ⁴	606,286	231,929	(365,616)	472,599
Assets ³	614,213	1,077,593	785,073	2,476,879
Capital expenditures	21,479	102,859	73,076	197,414

¹ Includes net revenues related to our international operations (including our operations in Canada, Australia, the United Kingdom and our franchise businesses) of approximately \$346.8 million, \$328.2 million and \$321.2 million in fiscal 2018, fiscal 2017 and fiscal 2016, respectively.

² The 53 weeks ended February 3, 2019 includes approximately \$25.2 million of expense related to our acquisition of Outward (primarily acquisition-related compensation costs, the amortization of intangible assets acquired, and the operations of the Outward business), of which \$19.6 million is recorded in the e-commerce segment and \$5.5 million is recorded in the unallocated segment; \$13.2 million of expense related to impairment and early lease termination charges which is primarily recorded in the retail segment; and \$8.0 million of employment-related expense primarily associated with an equity grant, which is recorded within the unallocated segment.

³ Includes long-term assets related to our international operations of approximately \$50.3 million, \$63.4 million and \$59.2 million in fiscal 2018, fiscal 2017 and fiscal 2016.

⁴ The 52 weeks ended January 28, 2018 includes approximately \$8.6 million for severance-related charges, primarily in our corporate functions, which is recorded within the unallocated segment and approximately \$6.2 million for costs related to the acquisition of Outward and its ongoing operations, of which \$3.3 million is recorded in the e-commerce segment and \$2.9 million is recorded in the unallocated segment. The 52 weeks ended January 29, 2017 includes \$14.4 million for severance-related reorganization charges, primarily in our corporate functions, which is recorded within the unallocated segment.

Note L: Derivative Financial Instruments

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

Cash Flow Hedges

We enter into foreign currency forward contracts designated as cash flow hedges (to sell Canadian dollars and purchase U.S. dollars) for forecasted inventory purchases in U.S. dollars by our Canadian subsidiary. These

hedges have terms of up to 18 months. All hedging relationships are formally documented, and the forward contracts are designed to mitigate foreign currency exchange risk on hedged transactions. We record the effective portion of changes in the fair value of our cash flow hedges in other comprehensive income (“OCI”) until the earlier of when the hedged forecasted inventory purchase occurs or the respective contract reaches maturity. Subsequently, as the inventory is sold to the customer, we reclassify amounts previously recorded in OCI to cost of goods sold. Changes in the fair value of the forward contract related to interest charges (or forward points) are excluded from the assessment and measurement of hedge effectiveness and are recorded immediately in selling, general and administrative expenses. Based on the rates in effect as of February 3, 2019, we expect to reclassify a net pre-tax gain of approximately \$253,000 from OCI to cost of goods sold over the next 12 months.

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

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

<i>In thousands</i>	Feb. 3, 2019	Jan. 28, 2018
Contracts designated as cash flow hedges	\$ 16,600	\$ 28,200
Contracts not designated as cash flow hedges	\$ 5,300	\$ 46,000

Hedge effectiveness is evaluated prospectively at inception, on an ongoing basis, as well as retrospectively using regression analysis. Any measurable ineffectiveness of the hedge is recorded in selling, general and administrative expenses. No gain or loss was recognized for cash flow hedges due to hedge ineffectiveness and all hedges were deemed effective for assessment purposes for fiscal 2018, fiscal 2017 and fiscal 2016.

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

<i>In thousands</i>	Fiscal 2018	Fiscal 2017	Fiscal 2016
Net gain (loss) recognized in OCI	\$ 1,488	\$ (974)	\$ (1,243)
Net gain (loss) reclassified from OCI to cost of goods sold	\$ 478	\$ (144)	\$ (147)
Net foreign exchange gain (loss) recognized in selling, general and administrative expenses:			
Instruments designated as cash flow hedges ¹	\$ 57	\$ 88	\$ (4)
Instruments not designated or de-designated	\$ 3,967	\$ (3,286)	\$ (3,569)

¹ Changes in fair value of the forward contract related to interest charges (or forward points).

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

<i>In thousands</i>	Feb. 3, 2019	Jan. 28, 2018
Derivatives designated as cash flow hedges:		
Other current assets	\$ 358	\$ —
Other current liabilities	\$ —	\$ (635)
Other long-term liabilities	\$ —	\$ (54)
Derivatives not designated as hedging instruments:		
Other current assets	\$ 4	\$ —
Other current liabilities	\$ —	\$ (299)

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

Note M: Fair Value Measurements

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

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

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

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

Long-term Debt

As of February 3, 2019, the fair value of our long-term debt, which consists of outstanding borrowings under our term loan, approximates its carrying value, as the instrument is relatively short-term in nature and the interest rate under the term loan is based on observable Level 2 inputs, primarily quoted market interest rates for instruments with similar maturities.

Foreign Currency Derivatives and Hedging Instruments

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

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

Property and Equipment

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 these assets at fair value on a nonrecurring basis using Level 3 inputs as defined in the fair value hierarchy. The fair value is based on the present value of estimated future cash flows using a discount rate that approximates our weighted average cost of capital.

There were no transfers between Level 1, 2 or 3 categories during fiscal 2018 or fiscal 2017.

Note N: Accumulated Other Comprehensive Income (loss)

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 January 31, 2016	\$ (11,480)	\$ 864	\$ (10,616)
Foreign currency translation adjustments	1,523	—	1,523
Change in fair value of derivative financial instruments	—	(916)	(916)
Reclassification adjustment for realized (gain) loss on derivative financial instruments ¹	—	106	106
Other comprehensive income (loss)	1,523	(810)	713
Balance at January 29, 2017	(9,957)	54	(9,903)
Foreign currency translation adjustments	3,730	—	3,730
Change in fair value of derivative financial instruments	—	(715)	(715)
Reclassification adjustment for realized (gain) loss on derivative financial instruments ¹	—	106	106
Other comprehensive income (loss)	3,730	(609)	3,121
Balance at January 28, 2018	(6,227)	(555)	(6,782)
Foreign currency translation adjustments	(5,032)	—	(5,032)
Change in fair value of derivative financial instruments	—	1,098	1,098
Reclassification adjustment for realized (gain) loss on derivative financial instruments ¹	—	(357)	(357)
Other comprehensive income (loss)	(5,032)	741	(4,291)
Balance at February 3, 2019	\$ (11,259)	\$ 186	\$ (11,073)

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

Note O: Acquisition of Outward, Inc.

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

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

In thousands

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

During the second quarter of fiscal 2018, we finalized the valuation of intangible assets acquired, which primarily represent 3-D imaging data and core intellectual property which are being amortized over a useful life of four years. Goodwill is primarily attributable to expected synergies as a result of the acquisition, which include the leverage of acquired technology and talent to drive improved conversion, cost savings and operating efficiencies. Goodwill of \$55,215,000 and \$11,416,000 was assigned to the e-commerce and retail reportable segments, respectively. None of the goodwill will be deductible for income tax purposes.

Outward is a wholly-owned subsidiary of Williams-Sonoma, Inc. Results of operations for Outward have been included in our Consolidated Financial Statements from the acquisition date. Pro forma results of Outward have not been presented as the results are insignificant to our Consolidated Financial Statements for all periods presented and would not have been significant had the acquisition occurred at the beginning of fiscal 2017.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Williams-Sonoma, Inc. and subsidiaries (the “Company”) as of February 3, 2019 and January 28, 2018, the related consolidated statements of earnings, comprehensive income, stockholders’ equity, and cash flows for each of the three years in the period ended February 3, 2019, and the related notes (collectively referred to as the “financial statements”). We also have audited the Company’s internal control over financial reporting as of February 3, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of February 3, 2019 and January 28, 2018, and the results of its operations and its cash flows for each of the three years in the period ended February 3, 2019, in conformity with the accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of February 3, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

Basis for Opinions

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

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

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

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable

assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

/s/ DELOITTE & TOUCHE LLP

San Francisco, California

April 4, 2019

We have served as the Company's auditor since 1980.

Quarterly Financial Information
(Unaudited)

In thousands, except per share amounts

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter ¹	Full Year
Fiscal 2018 (53 Weeks)					
Net revenues	\$1,203,000	\$1,275,174	\$1,356,983	\$1,836,436	\$5,671,593
Gross profit	432,164	463,942	494,984	709,923	2,101,013
Operating income ^{2,3,4}	66,550	74,166	94,384	200,853	435,953
Net earnings ^{5,6}	45,168	51,713	81,465	155,338	333,684
Basic earnings per share ⁷	\$ 0.54	\$ 0.63	\$ 1.01	\$ 1.95	\$ 4.10
Diluted earnings per share ⁷	\$ 0.54	\$ 0.62	\$ 1.00	\$ 1.93	\$ 4.05
Fiscal 2017 (52 Weeks)					
Net revenues	\$1,111,507	\$1,201,606	\$1,299,336	\$1,679,910	\$5,292,359
Gross profit	395,760	422,711	467,067	646,173	1,931,711
Operating income ^{2,3}	62,474	81,584	110,813	198,940	453,811
Net earnings ^{5,6}	39,555	52,917	71,313	95,760	259,545
Basic earnings per share ⁷	\$ 0.45	\$ 0.61	\$ 0.84	\$ 1.14	\$ 3.03
Diluted earnings per share ⁷	\$ 0.45	\$ 0.61	\$ 0.84	\$ 1.13	\$ 3.02

¹ Our fourth quarter of fiscal 2018 included 14 weeks as compared to 13 weeks in fiscal 2017.

² Fiscal 2018 includes approximately \$6.9 million in the first quarter, \$5.0 million in the second quarter, \$6.0 million in the third quarter and \$7.2 million in the fourth quarter of expenses related to the acquisition of Outward and its ongoing operations, primarily recorded in selling, general and administrative expenses. Fiscal 2017 includes approximately \$6.2 million in the fourth quarter of expenses related to the acquisition of Outward and its ongoing operations, primarily recorded in selling, general and administrative expenses.

³ Fiscal 2018 includes approximately \$1.7 million in the first quarter, \$1.9 million in the second quarter, \$1.9 million in the third quarter and \$2.5 million in the fourth quarter for employment-related expense primarily associated with an equity grant which is recorded in selling, general and administrative expenses. Fiscal 2017 includes approximately \$5.7 million in the first quarter and \$2.9 million in the fourth quarter for employment-related charges primarily related to severance in our corporate functions, which is recorded in selling, general and administrative expenses.

⁴ Includes \$5.3 million in the second quarter, \$1.1 million in the third quarter and \$6.8 million in the fourth quarter of fiscal 2018 associated with impairment and early lease termination charges.

⁵ Includes tax expense of approximately \$1.1 million in the first quarter of fiscal 2018, tax expense of approximately \$1.4 million in the first quarter of fiscal 2017 and a tax benefit of approximately \$1.7 million in the fourth quarter of fiscal 2017 associated with the adoption of new accounting rules related to stock-based compensation.

⁶ Fiscal 2018 includes tax expense of \$3.3 million in the first quarter, tax expense of \$2.9 million in the second quarter, a tax benefit of \$10.6 million in the third quarter and tax expense of \$0.3 million in the fourth quarter, while fiscal 2017 includes provisional tax expense of approximately \$41.5 million in the fourth quarter, resulting from the enactment of the Tax Cuts and Jobs Act.

⁷ Due to differences between quarterly and full year weighted average share count calculations, and the effect of quarterly rounding to the nearest cent per share, full year earnings per share may not equal the sum of the quarters.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of February 3, 2019, an evaluation was performed by management, with the participation of our Chief Executive Officer (“CEO”) and our Chief Financial Officer (“CFO”), of the effectiveness of our disclosure controls and procedures. Based on that evaluation, our management, including our CEO and CFO, concluded that

our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow for timely discussions regarding required disclosures, and that such information is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

Management's Report on Internal Control Over Financial Reporting

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

Our management assessed the effectiveness of the company's internal control over financial reporting as of February 3, 2019. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework (2013)*. Based on our assessment using those criteria, our management concluded that, as of February 3, 2019, our internal control over financial reporting is effective.

Our independent registered public accounting firm audited the Consolidated Financial Statements included in this Annual Report on Form 10-K and the company's internal control over financial reporting. Their audit report appears on pages 65 and 66 of this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

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

ITEM 9B. OTHER INFORMATION

On April 3, 2019, the Company's Compensation Committee adopted the Amended and Restated 2012 EVP Level Management Retention Plan (the "MRP"). The terms of the MRP are substantially identical to the terms of the Company's 2012 EVP Level Management Retention Plan adopted on November 1, 2012 by the Company's Compensation Committee, which terms were described in the Company's Current Report on Form 8-K as filed with the Commission on November 7, 2012.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by this Item is incorporated by reference herein to information under the headings “Election of Directors,” “Information Concerning Executive Officers,” “Audit and Finance Committee Report,” “Corporate Governance — Corporate Governance Guidelines and Code of Business Conduct and Ethics,” “Corporate Governance — Audit and Finance Committee” and “Section 16(a) Beneficial Ownership Reporting Compliance” in our Proxy Statement for the 2019 Annual Meeting of Stockholders (the “Proxy Statement”).

ITEM 11. EXECUTIVE COMPENSATION

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

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

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

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

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

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements:

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

	<u>PAGE</u>
Consolidated Statements of Earnings	40
Consolidated Statements of Comprehensive Income	40
Consolidated Balance Sheets	41
Consolidated Statements of Stockholders' Equity	42
Consolidated Statements of Cash Flows	43
Notes to Consolidated Financial Statements	44
Report of Independent Registered Public Accounting Firm	65
Quarterly Financial Information	67

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

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

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

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

Exhibit Index

CERTIFICATE OF INCORPORATION AND BYLAWS

3.1 Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K as filed with the Commission on May 25, 2011, File No. 001-14077)

3.2 Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K as filed with the Commission on June 2, 2017, File No. 001-14077)

INSTRUMENTS DEFINING THE RIGHTS OF SECURITY HOLDERS, INCLUDING INDENTURES

4.1 Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K as filed with the Commission on May 25, 2011, File No. 001-14077)

FINANCING AGREEMENTS

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

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

STOCK PLANS

- 10.20+ Williams-Sonoma, Inc. 2001 Long-Term Incentive Plan, as amended (incorporated by reference to Exhibit A to the Company's definitive proxy statement as filed on April 13, 2018, File No. 001-14077)

- 10.21+ Form of Williams-Sonoma, Inc. 2001 Long-Term Incentive Plan Restricted Stock Unit Award Agreement for Grants to Non-Employee Directors (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended May 4, 2014 as filed with the Commission on June 12, 2014, File No. 001-14077)
- 10.22+ Form of Williams-Sonoma, Inc. 2001 Long-Term Incentive Plan Restricted Stock Unit Award Agreement for Grants to Employees (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended May 4, 2014 as filed with the Commission on June 12, 2014, File No. 001-14077)
- 10.23+ Form of Williams-Sonoma, Inc. 2001 Long-Term Incentive Plan Performance Stock Unit Award Agreement for Grants to Employees (incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2014 as filed with the Commission on April 3, 2014, File No. 001-14077)
- 10.24+ Form of Williams-Sonoma, Inc. 2001 Long-Term Incentive Plan Retention Restricted Stock Unit Award Agreement for Grants to Employees (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended July 30, 2017 as filed with the Commission on September 8, 2017, File No. 001-14077)

OTHER INCENTIVE PLANS

- 10.25+ Williams-Sonoma, Inc. 2001 Incentive Bonus Plan, as amended (incorporated by reference to Exhibit A to the Company's Definitive Proxy Statement on Schedule 14A as filed with the Commission on April 6, 2012, File No. 001-14077)
- 10.26+ Williams-Sonoma, Inc. Pre-2005 Executive Deferral Plan (incorporated by reference to Exhibit 10.40 to the Company's Annual Report on Form 10-K for the fiscal year ended February 1, 2009 as filed with the Commission on April 2, 2009, File No. 001-14077)
- 10.27+ Williams-Sonoma, Inc. Amended and Restated Executive Deferred Compensation Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended April 29, 2018 as filed with the Commission on June 8, 2018, File No. 001-14077)

PROPERTIES

- 10.28 Memorandum of Understanding between the Company and the State of Mississippi, Mississippi Business Finance Corporation, Desoto County, Mississippi, the City of Olive Branch, Mississippi and Hewson Properties, Inc., dated August 24, 1998 (incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the period ended August 2, 1998 as filed with the Commission on September 14, 1998, File No. 001-14077)
- 10.29 Olive Branch Distribution Facility Lease, dated December 1, 1998, between the Company as lessee and WSDC, LLC (the successor-in-interest to Hewson/Desoto Phase I, L.L.C.) as lessor (incorporated by reference to Exhibit 10.3D to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1999 as filed with the Commission on April 30, 1999, File No. 001-14077)

- 10.30 First Amendment, dated September 1, 1999, to the Olive Branch Distribution Facility Lease between the Company as lessee and WSDC, LLC (the successor-in-interest to Hewson/Desoto Phase I, L.L.C.) as lessor, dated December 1, 1998 (incorporated by reference to Exhibit 10.3B to the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2000 as filed with the Commission on May 1, 2000, File No. 001-14077)
- 10.31 Second Amendment, dated March 1, 2018, to the Olive Branch Distribution Facility Lease between the Company as lessee and WSDC, LLC (the successor-in-interest to Hewson/Desoto Phase I, L.L.C.) as lessor, dated December 1, 1998 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended April 29, 2018 as filed with the Commission on June 8, 2018, File No. 001-14077)
- 10.32 Lease for an additional Company distribution facility located in Olive Branch, Mississippi between Williams-Sonoma Retail Services, Inc. as lessee and SPI WS II, LLC (the successor-in-interest to Hewson/Desoto Partners, L.L.C.) as lessor, dated November 15, 1999 (incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2000 as filed with the Commission on May 1, 2000, File No. 001-14077)

EMPLOYMENT AGREEMENTS

- 10.33+ Amended and Restated Employment Agreement with Laura Alber, dated September 6, 2012 (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the period ended October 28, 2012 as filed with the Commission December 7, 2012, File No. 001-14077)
- 10.34+ Amended and Restated Management Retention Agreement with Laura Alber, dated September 6, 2012 (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the period ended October 28, 2012 as filed with the Commission December 7, 2012, File No. 001-14077)
- 10.35+* Amended and Restated 2012 EVP Level Management Retention Plan

OTHER AGREEMENTS

- 10.36+ Form of Williams-Sonoma, Inc. Indemnification Agreement (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 31, 2011 as filed with the Commission on September 9, 2011, File No. 001-14077)

OTHER EXHIBITS

- 21.1* Subsidiaries
- 23.1* Consent of Independent Registered Public Accounting Firm

CERTIFICATIONS

- 31.1* Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
- 31.2* Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
- 32.1* Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2* Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

XBRL

- 101.INS* XBRL Instance Document
 - 101.SCH* XBRL Taxonomy Extension Schema Document
 - 101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document
 - 101.DEF* XBRL Taxonomy Extension Definition Linkbase Document
 - 101.LAB* XBRL Taxonomy Extension Label Linkbase Document
 - 101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document
- * Filed herewith.
- + Indicates a management contract or compensatory plan or arrangement.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WILLIAMS-SONOMA, INC.

Date: April 4, 2019

By /s/ LAURA ALBER
Chief Executive Officer

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

Date: April 4, 2019 /s/ ADRIAN BELLAMY
Adrian Bellamy
Chairman of the Board of Directors

Date: April 4, 2019 /s/ LAURA ALBER
Laura Alber
Chief Executive Officer
(principal executive officer)

Date: April 4, 2019 /s/ JULIE WHALEN
Julie Whalen
Chief Financial Officer
(principal financial officer and principal accounting officer)

Date: April 4, 2019 /s/ ANTHONY GREENER
Anthony Greener
Director

Date: April 4, 2019 /s/ ROBERT LORD
Robert Lord
Director

Date: April 4, 2019 /s/ ANNE MULCAHY
Anne Mulcahy
Director

Date: April 4, 2019 /s/ GRACE PUMA
Grace Puma
Director

Date: April 4, 2019 /s/ CHRISTIANA SMITH SHI
Christiana Smith Shi
Director

Date: April 4, 2019 /s/ SABRINA SIMMONS
Sabrina Simmons
Director

Date: April 4, 2019 /s/ FRITS VAN PAASSCHEN
Frits van Paasschen
Director

NOTICE OF
2019 ANNUAL
MEETING OF
STOCKHOLDERS
—
PROXY
STATEMENT

2018 ANNUAL REPORT

WILLIAMS-SONOMA, INC.

POTTERY BARN POTTERY BARN KIDS PBTEEN WEST ELM WILLIAMS SONOMA WILLIAMS SONOMA HOME MARK AND GRAHAM REJUVENATION OUTWARD

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WILLIAMS-SONOMA, INC.

3250 Van Ness Avenue
San Francisco, California 94109
www.williams-sonomainc.com

NOTICE OF 2019 ANNUAL MEETING OF STOCKHOLDERS

- MEETING DATE: June 5, 2019
- TIME: 9:00 a.m. Pacific Time
- PLACE: Williams-Sonoma, Inc.
3250 Van Ness Avenue
San Francisco, California 94109
- ITEMS OF BUSINESS:
- 1) The election of our Board of Directors;
 - 2) An advisory vote on executive compensation;
 - 3) The ratification of the selection of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending February 2, 2020; and
 - 4) Such other business as may properly come before the meeting or any adjournment or postponement of the meeting.
- RECORD DATE: You may vote if you were a stockholder of record as of the close of business on April 8, 2019.
- MEETING ADMISSION: You are entitled to attend the Annual Meeting only if you were a stockholder of record as of the close of business on April 8, 2019. **Photo identification and proof of ownership on the record date is required for admittance.** Proof of ownership can be a brokerage or account statement indicating ownership on April 8, 2019, the Notice of Internet Availability of Proxy Materials, a proxy card, or a legal proxy or voting instruction card provided by your broker, bank or nominee.

By Order of the Board of Directors

David King
Secretary
April 19, 2019

YOUR VOTE IS IMPORTANT

Instructions for submitting your proxy are provided in the Notice of Internet Availability of Proxy Materials, the Proxy Statement and your proxy card. It is important that your shares be represented and voted at the Annual Meeting. Please submit your proxy through the Internet, by telephone, or by completing the enclosed proxy card and returning it in the enclosed envelope. You may revoke your proxy at any time prior to its exercise at the Annual Meeting.

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TABLE OF CONTENTS

	<u>Page</u>
GENERAL INFORMATION	1
CORPORATE GOVERNANCE	6
PROPOSAL 1—ELECTION OF DIRECTORS	15
PROPOSAL 2—ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION	21
PROPOSAL 3—RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	23
AUDIT AND FINANCE COMMITTEE REPORT	25
INFORMATION CONCERNING EXECUTIVE OFFICERS	27
EXECUTIVE COMPENSATION	28
Compensation Discussion and Analysis	28
Compensation Committee Report	42
Summary Compensation Table for Fiscal 2018, Fiscal 2017 and Fiscal 2016	43
Other Annual Compensation from Summary Compensation Table	44
Grants of Plan-Based Awards	45
Outstanding Equity Awards at Fiscal Year-End	46
Option Exercises and Stock Vested	48
Pension Benefits	49
Nonqualified Deferred Compensation	49
Employment Contracts and Termination of Employment and Change-of-Control Arrangements	49
CEO Pay Ratio	55
CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS	57
SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE	57
SECURITY OWNERSHIP OF PRINCIPAL STOCKHOLDERS AND MANAGEMENT	58
STOCKHOLDER PROPOSALS	61
AVAILABILITY OF PROXY STATEMENT AND ANNUAL REPORT ON FORM 10-K	62

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WILLIAMS-SONOMA, INC.

3250 Van Ness Avenue
San Francisco, California 94109
www.williams-sonomainc.com

PROXY STATEMENT FOR THE 2019 ANNUAL MEETING OF STOCKHOLDERS

GENERAL INFORMATION

Our Board of Directors is soliciting your proxy to vote your shares at our 2019 Annual Meeting of Stockholders, to be held on Wednesday, June 5, 2019 at 9:00 a.m. Pacific Time, and for any adjournment or postponement of the meeting. Our Annual Meeting will be held at our corporate headquarters located at 3250 Van Ness Avenue, San Francisco, California 94109.

Our Annual Report to Stockholders for the fiscal year ended February 3, 2019, or fiscal 2018, including our financial statements for fiscal 2018, is also included with this Proxy Statement and posted on our website at ir.williams-sonomainc.com/financial-reports-page. The Annual Report, Notice of Internet Availability of Proxy Materials, and the Proxy Statement were first made available to stockholders and posted on our website on or about April 19, 2019.

What is the purpose of the Annual Meeting?

Stockholders will be asked to vote on the following matters:

- 1) The election of our Board of Directors;
- 2) An advisory vote to approve executive compensation;
- 3) The ratification of the selection of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending February 2, 2020; and
- 4) Such other business as may properly come before the meeting or any adjournment or postponement of the meeting, including stockholder proposals. At this time, we do not know of any other matters to be brought before the Annual Meeting.

What is the Notice of Internet Availability of Proxy Materials?

In accordance with rules and regulations adopted by the U.S. Securities and Exchange Commission, or the SEC, instead of mailing a printed copy of our proxy materials to all stockholders entitled to vote at the Annual Meeting, we are furnishing the proxy materials to certain of our stockholders over the Internet. If you received a Notice of Internet Availability of Proxy Materials, or the Notice, by mail, you will not receive a printed copy of the proxy materials. Instead, the Notice will instruct you as to how you may access and review the proxy materials and submit your vote on the Internet or by telephone. If you received a Notice by mail and would like to receive a printed copy of the proxy materials, please follow the instructions for requesting such materials included in the Notice.

On the date of mailing of the Notice, all stockholders will have the ability to access all of our proxy materials on a website referred to in the Notice. These proxy materials will be available free of charge.

Can I receive future proxy materials by e-mail?

Yes. You may choose to receive future proxy materials by e-mail by following the instructions provided on the website referred to in the Notice. Choosing to receive your future proxy materials by e-mail will save us the cost of printing and mailing documents to you and will reduce the impact of our Annual Meeting on the environment.

If you choose to receive future proxy materials by e-mail, you will receive an e-mail next year with instructions containing a link to those materials and a link to the proxy voting site. Your election to receive proxy materials by e-mail will remain in effect until you terminate it.

Who may vote?

Only stockholders of record at the close of business on April 8, 2019, the record date, are entitled to receive notice of and to vote at the Annual Meeting. Each holder of our common stock will be entitled to one vote for each share of our common stock owned as of the record date. As of the record date, there were 78,508,602 shares of our common stock outstanding and entitled to vote, and there were 320 stockholders of record, which number does not include beneficial owners of shares held in the name of a bank or brokerage firm. We do not have any outstanding shares of preferred stock.

How do I vote?

You may vote in person at the Annual Meeting, electronically by submitting your proxy through the Internet, by telephone or by returning a hard copy of the proxy card before the Annual Meeting. Proxies properly executed, returned to us on a timely basis and not revoked will be voted in accordance with the instructions contained in the proxy. If any matter not described in this Proxy Statement is properly presented for action at the meeting, the persons named in the enclosed proxy will have discretionary authority to vote according to their best judgment.

How do I vote electronically or by telephone?

You may vote by submitting your proxy through the Internet or by telephone. The Internet and telephone voting procedures are designed to authenticate your identity as a Williams-Sonoma, Inc. stockholder, to allow you to vote your shares and to confirm that your instructions have been properly recorded. Specific instructions to be followed for voting on the Internet or by telephone are provided below in this Proxy Statement, in the Notice and on the proxy card.

Shares Registered Directly in the Name of the Stockholder

If your shares are registered directly in your name in our stock records maintained by our transfer agent, EQ Shareowner Services, then you may vote your shares:

- on the Internet at www.proxypush.com/wsm; or
- by calling EQ Shareowner Services from within the United States at 866-883-3382.

Proxies for shares registered directly in your name that are submitted on the Internet or by telephone must be received before noon Pacific Time on Tuesday, June 4, 2019.

Shares Registered in the Name of a Brokerage Firm or Bank

If your shares are held in an account at a brokerage firm or bank, you should follow the voting instructions on the Notice or the voting instruction card provided by your brokerage firm or bank.

Can I vote my shares by filling out and returning the Notice?

No. The Notice identifies the items to be voted on at the Annual Meeting, but you cannot vote by marking the Notice and returning it. The Notice provides instructions on how to vote on the Internet or by telephone and how to request paper copies of the proxy materials.

What if I return my proxy card directly to the company, but do not provide voting instructions?

If a signed proxy card is returned to us without any indication of how your shares should be voted, votes will be cast "FOR" the election of the directors named in this Proxy Statement, "FOR" the approval, on an advisory

basis, of the compensation of our Named Executive Officers, and “FOR” the ratification of the selection of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending February 2, 2020.

May I attend the Annual Meeting?

Only stockholders of record at the close of business on April 8, 2019, the record date, are entitled to attend the Annual Meeting. Stockholders planning to attend the Annual Meeting must present photo identification and proof of ownership on the record date in order to be admitted. Proof of ownership can be a brokerage or account statement indicating ownership on April 8, 2019, the Notice of Internet Availability of Proxy Materials, a proxy card, or a legal proxy or voting instruction card provided by your broker, bank or nominee. We reserve the right to deny admittance to anyone who cannot adequately show proof of share ownership as of the record date.

What are the directions to attend the Annual Meeting?

The following are directions to attend the Annual Meeting from various locations around the San Francisco Bay Area:

From the South Bay

Take US-101 Northbound toward San Francisco
Take the US-101 exit on the left
Keep left at the fork to continue on US-101 North
Take exit 434A to merge onto Mission Street/US-101
Turn left at US-101/South Van Ness Avenue
Continue North on Van Ness Avenue
Destination will be on the right

From the East Bay

Take I-80 Westbound across the Bay Bridge toward San Francisco
Take exit 1B to merge onto US-101 North
Take exit 434A to merge onto Mission Street/US-101
Turn left at US-101/South Van Ness Avenue
Continue North on Van Ness Avenue
Destination will be on the right

From the North Bay

Take US-101 Southbound across the Golden Gate Bridge toward San Francisco
Exit onto Richardson Avenue/US-101 toward Lombard Street
Continue to follow US-101
Turn left at US-101/Van Ness Avenue
Continue North on Van Ness Avenue
Destination will be on the right

How many shares must be present to transact business at the Annual Meeting?

Stockholders holding a majority of our outstanding shares as of the record date must be present in person or by proxy at the Annual Meeting so that we may transact business. This is known as a quorum. Shares that are voted in person, on the Internet, by telephone or by signed proxy card, and abstentions and broker non-votes, will be included in the calculation of the number of shares considered to be present for purposes of determining whether there is a quorum at the Annual Meeting.



What is a broker non-vote?

The term broker non-vote refers to shares that are held of record by a broker for the benefit of the broker's clients but that are not voted at the Annual Meeting by the broker on certain non-routine matters set forth in New York Stock Exchange, or NYSE, Rule 402.08(B) because the broker did not receive instructions from the broker's clients on how to vote the shares and, therefore, was prohibited from voting the shares.

How many votes are needed to elect directors?

Pursuant to a majority voting bylaw adopted by our Board of Directors and further described in our Amended and Restated Bylaws, the election of each of the nine director nominees requires the affirmative vote of a majority of the votes cast at the Annual Meeting with respect to each nominee. The number of shares voted "for" a director nominee must exceed the number of votes cast "against" that nominee for the nominee to be elected as a director to serve until the next annual meeting or until his or her successor has been duly elected and qualified. Your proxy will be voted in accordance with your instructions. If no instructions are given, the proxy holders will vote "FOR" each of the director nominees. If you hold your shares through a brokerage, bank or other nominee, or in "street name," it is important to cast your vote if you want it to count in the election of directors. If you hold your shares in street name and you do not instruct your bank or broker how to vote your shares in the election of directors, no votes will be cast on your behalf. Broker non-votes and abstentions will have no effect on the outcome of the election.

Pursuant to the resignation policy adopted by our Board of Directors and further described in our Corporate Governance Guidelines, any nominee for director who is not elected shall promptly tender his or her conditional resignation to our Board of Directors following certification of the stockholder vote. The Nominations and Corporate Governance Committee will consider the resignation offer and recommend to our Board of Directors the action to be taken with respect to the offered resignation. In determining its recommendation, the Nominations and Corporate Governance Committee shall consider all factors it deems relevant. Our Board of Directors will act on the Nominations and Corporate Governance Committee's recommendation within 90 days following certification of the stockholder vote and will publicly disclose its decision with respect to the director's resignation offer (and the reasons for rejecting the resignation offer, if applicable).

Any director who tenders his or her resignation pursuant to the resignation policy shall not participate in the Nominations and Corporate Governance Committee's recommendation or Board of Directors action regarding whether to accept the resignation offer. If each member of the Nominations and Corporate Governance Committee is required to tender his or her resignation pursuant to the resignation policy in the same election, then the independent directors of our Board of Directors who are not required to tender a resignation pursuant to the resignation policy shall consider the resignation offers and make a recommendation to our Board of Directors.

To the extent that one or more directors' resignations are accepted by our Board of Directors, our Board of Directors in its discretion may determine either to fill such vacancy or vacancies or to reduce the size of the Board within the authorized range.

How many votes are needed to approve Proposals 2 and 3?

Proposals 2 and 3 require the affirmative vote of holders of a majority of voting power entitled to vote thereon, present in person or represented by proxy, at the Annual Meeting. Proxy cards marked "abstain" will have the effect of a "NO" vote and broker non-votes will have no effect on the outcome of the vote.

The outcome of Proposal 2, the advisory vote on the approval of the compensation of our Named Executive Officers, will not be binding on us or the Board. However, the Board and the Compensation Committee will review the voting results and take them into consideration when making future decisions regarding executive compensation.

Are there any stockholder proposals this year?

No stockholder proposals are included in this Proxy Statement, and we have not received notice of any stockholder proposals to be raised at this year's Annual Meeting.

What if I want to change my vote(s)?

You may revoke your proxy prior to the close of voting at the Annual Meeting by any of the following methods:

- sending written notice of revocation to our Secretary;
- sending a signed proxy card bearing a later date;
- voting by telephone or on the Internet at a later date; or
- attending the Annual Meeting, revoking your proxy and voting in person.

What is householding?

Householding is a cost-cutting procedure used by us and approved by the SEC to limit duplicate copies of our proxy materials being printed and delivered to stockholders sharing a household. Under the householding procedure, we send only one Notice or Annual Report and Proxy Statement to stockholders of record who share the same address and last name, unless one of those stockholders notifies us that the stockholder would like a separate Notice or Annual Report and Proxy Statement. A separate proxy card is included in the materials for each stockholder of record. A stockholder may notify us that the stockholder would like a separate Notice or Annual Report and Proxy Statement by phone at 415-421-7900 or by mail at the following mailing address: Williams-Sonoma, Inc., Attention: Annual Report Administrator, 3250 Van Ness Avenue, San Francisco, California 94109. If we receive such notification that the stockholder wishes to receive a separate Notice or Annual Report and Proxy Statement, we will promptly deliver such Notice or Annual Report and Proxy Statement. If you wish to update your participation in householding, you may contact your broker or our mailing agent, Broadridge Investor Communications Solutions, at 800-542-1061.

What if I received more than one proxy card?

If you received more than one proxy card, it means that you have multiple accounts with brokers and/or our transfer agent. You must complete each proxy card in order to ensure that all shares beneficially held by you are represented at the meeting. If you are interested in consolidating your accounts, you may contact your broker or our transfer agent, EQ Shareowner Services, at 800-468-9716.

Who pays the expenses incurred in connection with the solicitation of proxies?

We pay all of the expenses incurred in preparing, assembling and mailing the Notice or this Proxy Statement and the materials enclosed. We have retained Skinner & Company to assist in the solicitation of proxies at an estimated cost to us of \$7,000. Some of our officers or employees may solicit proxies personally or by telephone or other means. None of those officers or employees will receive special compensation for such services.

CORPORATE GOVERNANCE

Director Independence

Our Board of Directors has determined that Adrian Bellamy, Scott Dahnke, Robert Lord, Anne Mulcahy, Grace Puma, Christiana Smith Shi, Sabrina Simmons, and Frits van Paasschen meet the independence requirements of our “Policy Regarding Director Independence Determinations,” which is part of our Corporate Governance Guidelines. Accordingly, the Board has determined that none of these director nominees has a material relationship with us and that each of these nominees is independent within the meaning of the NYSE and SEC director independence standards, as currently in effect. Further, each member of our Board committees satisfies the independence requirements of the NYSE and SEC, and any heightened independence standards applicable to each committee on which they serve. The Board’s independence determination was based on information provided by our director nominees and discussions among our officers and directors, including consideration of our purchases of hardware, software and services from IBM in assessing Mr. Lord’s independence.

Board Leadership Structure

We currently separate the positions of Chief Executive Officer and Chairman of the Board. Mr. Bellamy, an independent director, has served as our Chairman of the Board since May 2010. Our Corporate Governance Guidelines provide that in the event that the Chairman of the Board is not an independent director, the Board shall elect a Lead Independent Director. As Mr. Bellamy is an independent director, we have not appointed a separate Lead Independent Director.

Separating the positions of Chief Executive Officer and Chairman of the Board maximizes the Board’s independence and aligns our leadership structure with current trends in corporate governance best practices. Our Chief Executive Officer is responsible for day-to-day leadership and for setting the strategic direction of the company, while the Chairman of the Board provides independent oversight and advice to our management team, and presides over Board meetings.

Board Meetings and Executive Sessions

During fiscal 2018, our Board held a total of six meetings. Each director who was a member of our Board during fiscal 2018 attended at least 75% of the aggregate of (i) the total number of meetings of the Board held during the period for which such director served as a director and (ii) the total number of meetings held by all committees of the Board on which such director served during the periods that such director served.

It is the Board’s policy to have a separate meeting time for independent directors, typically during the regularly scheduled Board meetings. During fiscal 2018, executive sessions were led by our Chairman of the Board, Mr. Bellamy.

Attendance of Directors at Annual Meeting of Stockholders

It is our policy that directors who are nominated for election at our Annual Meeting should attend the Annual Meeting. All of our directors who were nominated for election at our 2018 Annual Meeting attended the meeting.

Board Committees

Our Board has three standing committees: the Audit and Finance Committee, the Compensation Committee and the Nominations and Corporate Governance Committee. Each committee operates under a written charter adopted by the Board. The committee charters are each available on the company’s website at ir.williams-sonomainc.com/governance and are also available in print to any stockholder upon request.

The following table sets forth the members of each committee as of April 8, 2019, the functions of each committee, and the number of meetings held during fiscal 2018.

<u>Committee and Members</u>	<u>Functions of Committee</u>	<u>Number of Meetings in Fiscal 2018</u>
Audit and Finance: Sabrina Simmons, Chair Robert Lord Grace Puma Christiana Smith Shi	<ul style="list-style-type: none"> • Assists our Board in its oversight of the integrity of our financial statements; the qualifications, independence, retention and compensation of our independent registered public accounting firm; the performance of our internal audit function; and our compliance with legal and regulatory requirements; • Prepares the report that the SEC rules require to be included in our annual proxy statement; • Reviews and recommends policies related to dividend, stock repurchase and foreign currency programs; and • Assists the Board with its oversight of our major financial risk exposures, and reviews with management such exposures and the steps management has taken to monitor and control such exposures. 	10
Compensation: Adrian Bellamy, Chair Anthony Greener Frits van Paasschen	<ul style="list-style-type: none"> • Reviews and determines our executive officers' compensation; • Reviews and determines our general compensation goals and guidelines for our employees; • Administers certain of our compensation plans and provides assistance and recommendations with respect to other compensation plans; • Reviews the compensation discussion and analysis report that the SEC rules require to be included in our annual proxy statement; • Assists the Board with its oversight of risk arising from our compensation policies and programs, and assesses on an annual basis potential material risk from our compensation policies and programs; and • Appoints, sets the compensation of, and determines independence of any compensation consultant or other advisor retained. 	6
Nominations and Corporate Governance: Christiana Smith Shi, Chair Adrian Bellamy Anthony Greener	<ul style="list-style-type: none"> • Reviews and recommends corporate governance policies; • Identifies and makes recommendations for nominees for director and considers criteria for selecting director candidates; • Considers stockholders' director nominations and proposals; • Reviews and determines our compensation policy for our non-employee directors; • Considers resignation offers of director nominees and recommends to the Board the action to be taken with respect to each such offered resignation; and • Oversees the evaluation of our Board and our senior management team. 	6

Audit and Finance Committee

The Board has determined that each member of the Audit and Finance Committee is independent under the NYSE rules, as currently in effect, and Rule 10A-3 of the Securities Exchange Act of 1934, as amended. The Board has determined that Ms. Simmons is an “audit committee financial expert” under the SEC rules. The Board has also determined that each Audit and Finance Committee member is “financially literate,” as described in the NYSE rules.

Compensation Committee

The Board has determined that each member of the Compensation Committee is independent under the NYSE rules, as currently in effect, is an “outside director” as such term is defined with respect to Section 162(m) of the Internal Revenue Code and is a “non-employee director” under Section 16(b) of the Securities Exchange Act of 1934.

Compensation Committee Interlocks and Insider Participation

Mr. Bellamy, Rose Marie Bravo, Mr. Greener, Jerry Stritzke and Mr. van Paasschen served as members of the Compensation Committee during fiscal 2018. No member of this committee was at any time during fiscal 2018 or at any other time an officer or employee of the company, or had any relationship with the company requiring disclosure under Item 404 of Regulation S-K. In addition, none of our executive officers served as a member of the board of directors or compensation committee of any entity that has or had one or more executive officers serving as a member of our Board or Compensation Committee.

Nominations and Corporate Governance Committee

The Board has determined that each member of the Nominations and Corporate Governance Committee is independent under the NYSE rules currently in effect. Each member of the Nominations and Corporate Governance Committee is a non-employee director.

During fiscal 2018, in furtherance of the Nominations and Corporate Governance Committee’s functions, the Committee took the following actions, among other things:

- Evaluated the composition of the Board, and considered desired skill sets, qualities and experience for potential future Board members, as well as potential candidates;
- Evaluated the composition of the committees of the Board;
- Considered and recommended to the Board the submission to stockholders of the director nominees described in the company’s 2018 Proxy Statement; and
- Managed the annual Board self-assessment process.

Director Nominations

The Nomination and Corporate Governance Committee’s criteria and process for evaluating and identifying the candidates that it selects, or recommends to the Board for selection, as director nominees are as follows:

- The Nominations and Corporate Governance Committee periodically reviews the current composition and size of the Board;
- The Nominations and Corporate Governance Committee manages the annual self-assessment of the Board as a whole and considers the performance and qualifications of individual members of the Board when recommending individuals for election or re-election to the Board;
- The Nominations and Corporate Governance Committee reviews the qualifications of any candidates who have been properly recommended by stockholders, as well as those candidates who have been identified by management, individual members of the Board or, if it deems appropriate, a search firm. Such review

may, in the Nominations and Corporate Governance Committee's discretion, include a review solely of information provided to it or also may include discussions with persons familiar with the candidate, an interview with the candidate or other actions that the Nominations and Corporate Governance Committee deems appropriate;

- In evaluating the qualifications of candidates for the Board, the Nominations and Corporate Governance Committee considers many factors, including issues of character, judgment, independence, financial expertise, industry experience, range of experience, and other commitments. The Nominations and Corporate Governance Committee values diversity, but does not assign any particular weight or priority to any particular factor. The Nominations and Corporate Governance Committee considers each individual candidate in the context of the current perceived needs of the Board as a whole. While the Nominations and Corporate Governance Committee has not established specific minimum qualifications for director candidates, it believes that candidates and nominees must be suitable for a Board that is composed of directors (i) a majority of whom are independent; (ii) who are of high integrity; (iii) who have qualifications that will increase the overall effectiveness of the Board; and (iv) who meet the requirements of all applicable rules, such as financial literacy or financial expertise with respect to Audit and Finance Committee members;
- In evaluating and identifying candidates, the Nominations and Corporate Governance Committee has the sole authority to retain and terminate any third-party search firm that is used to identify director candidates and the sole authority to approve the fees and retention terms of any search firm;
- After such review and consideration, the Nominations and Corporate Governance Committee recommends to the Board the slate of director nominees; and
- The Nominations and Corporate Governance Committee endeavors to notify, or cause to be notified, all director candidates of the decision as to whether to nominate individuals for election to the Board.

There are no differences in the manner in which the Nominations and Corporate Governance Committee evaluates nominees for director based on whether the nominee is recommended by a stockholder, management or a search firm.

Stockholder Recommendations

The Nominations and Corporate Governance Committee will consider recommendations from stockholders regarding possible director candidates for election at next year's Annual Meeting. Pursuant to our Stockholder Recommendations Policy, the Nominations and Corporate Governance Committee considers recommendations for candidates to the Board from stockholders holding no fewer than 500 shares of the company's common stock continuously for at least six months prior to the date of the submission of the recommendation.

A stockholder that desires to recommend a candidate for election to the Board shall direct the recommendation in writing to Williams-Sonoma, Inc., Attention: Corporate Secretary, 3250 Van Ness Avenue, San Francisco, California 94109. The recommendation must include: (i) the candidate's name, home and business contact information; (ii) detailed biographical data and qualifications of the candidate; (iii) information regarding any relationships between the candidate and the company within the last three years; (iv) evidence of the recommending person's ownership of company common stock; (v) a statement from the recommending stockholder in support of the candidate; and (vi) a written indication by the candidate of his or her willingness to serve if elected. A stockholder that desires to recommend a person directly for election to the Board at the company's Annual Meeting must also meet the deadlines and other requirements set forth in Rule 14a-8 of the Securities Exchange Act of 1934 and the company's Restated Bylaws, each of which are described in the "Stockholder Proposals" section on page 61.

Each director nominated in this Proxy Statement was recommended for election to the Board by the Nominations and Corporate Governance Committee. Ms. Mulcahy was initially recommended for appointment to the Board in

2018 by the company's human resources department, which led the search for qualified director candidates. Mr. Dahnke was initially recommended for appointment to the Board in 2019 by Ms. Alber. The Board did not receive any director nominee recommendation from any stockholder in connection with this Proxy Statement.

Risk Oversight

Board Oversight of Risk

The Board actively manages the company's risk oversight process and receives regular reports from management on areas of material risk to the company, including operational, financial, legal and regulatory risks. The Board is also responsible for oversight of the company's cybersecurity risks. Our Board committees assist the Board in fulfilling its oversight responsibilities in certain areas of risk. The Audit and Finance Committee assists the Board with its oversight of the company's major financial risk exposures. Additionally, in accordance with NYSE requirements, the Audit and Finance Committee reviews with management the company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the company's risk assessment and risk management policies. The Compensation Committee assists the Board with its oversight of risks arising from our compensation policies and programs and assesses on an annual basis potential material risk to the company from its compensation policies and programs, including incentive and commission plans at all levels. The Nominations and Corporate Governance Committee assists the Board with its oversight of risks associated with Board organization, Board independence, succession planning, and corporate governance. While each committee is responsible for evaluating certain risks and overseeing the management of such risks, the entire Board is regularly informed through committee reports about such risks.

Evaluation of Risks Relating to Compensation Programs

Our Compensation Committee is responsible for monitoring our compensation policies and programs relative to all our employees, including non-executive officers, for potential risks that are reasonably likely to have a material adverse effect on our company. In performing its duties, the Compensation Committee regularly reviews and discusses potential risks that could arise from our employee compensation plans and programs with our management and the Compensation Committee's independent compensation consultant. The Compensation Committee is responsible for reporting to the Board any material risks associated with our compensation plans and programs, including recommended actions to mitigate such risks.

For fiscal 2018, the Compensation Committee retained an independent consultant, F.W. Cook, to identify and assess the risks inherent in the company's compensation programs and policies. Accordingly, F.W. Cook evaluated the company's executive and non-executive compensation programs for such risk and the mechanisms in our programs designed to mitigate these risks. Among other things, F.W. Cook reviewed our pay philosophy, forms of incentives, performance metrics, balance of cash and equity compensation, balance of long-term and short-term incentive periods, compensation governance practices, and equity grant administration practices. Based on the assessment, F.W. Cook concluded that our compensation programs and policies do not create risks that are reasonably likely to have a material adverse effect on our company.

Director Compensation

Highlights

- Emphasis on equity in the overall compensation mix to support alignment with our stockholders.
- Full-value equity grants under a fixed-value annual grant policy with vesting for retention purposes.
- No performance-based equity awards.
- A robust stock ownership guideline to support stockholder alignment.
- A stockholder-approved annual limit on total director compensation.

- No retirement benefits and limited perquisites.
- Recent changes:
 - In fiscal 2018, our Board eliminated per-meeting fees for committee meeting attendance and shifted to a retainer-only compensation program in accordance with the compensation practices of our peers.
 - Effective as of the start of fiscal 2019, our Board reduced the additional annual cash and equity compensation of our Chair of the Board by 50% to align his compensation with market practice.

Director Compensation Program

Overview

Our non-employee directors receive cash compensation and equity grants for their service on our Board, with additional cash and equity compensation provided to the Chair of the Board and the Chair of each Board committee. Decisions regarding our non-employee director compensation program are approved by the full Board based on recommendations by the Nominations and Corporate Governance Committee. In making such recommendations, the Nominations and Corporate Governance Committee takes into consideration the duties and responsibilities of our non-employee directors, the director compensation practices of peer companies and whether such recommendations align with the interests of our stockholders. The Nominations and Corporate Governance Committee periodically reviews the total compensation of our non-employee directors and each element of our director compensation program. At the direction of the Nominations and Corporate Governance Committee, the Compensation Committee's independent compensation consultant analyzes the competitive position of the company's director compensation program against the peer group used for executive compensation purposes.

Fiscal 2018 Compensation Changes

From January 29, 2018, the first day of fiscal 2018, until our 2018 Annual Meeting of Stockholders on May 30, 2018, our non-employee directors received cash compensation in the amount of \$2,000 for each committee meeting they attended for committees of which they were a member. Effective as of our 2018 Annual Meeting, our Board eliminated this per-committee meeting attendance fee and increased cash compensation and the value of the equity grant paid to non-employee directors. The Board believed that this change in structure would provide our non-employee directors with a comparable level of compensation while more closely aligning our non-employee director compensation with that of our peers, which would allow us to continue to attract and retain top director candidates to serve on our Board.

Fiscal 2019 Board Chair Compensation Changes

The compensation program for our Chair of the Board reflects the value he provides to the company as a senior advisor with a wealth of retail and consumer product experience and great depth of knowledge about our business. Following the recommendation of the Nominations and Corporate Governance Committee and the Compensation Committee's compensation consultant, in March 2019 the Board determined to reduce the additional annual cash and equity compensation paid to our Chair of the Board, effective as of the start of fiscal 2019, by 50% from fiscal 2018 compensation amounts, resulting in a reduction from \$200,000 to \$100,000 for each of the cash and equity components. This compensation reduction was made to align the Chair's compensation with market practice.

Director Stock Ownership Policy

The Board has approved a stock ownership policy. Each non-employee director must hold at least \$400,000 worth of shares of company stock by the fifth anniversary of such director's initial election to the Board. If a director holds at least \$400,000 worth of shares of company stock during the required time period, but the value of such director's shares decreases below \$400,000 due to a drop in the company's stock price, the director shall be deemed to have complied with this policy so long as the director does not sell shares of company stock. If a

director has not complied with this policy during the required time period, then the director may not sell any shares until such director holds at least \$400,000 worth of shares of company stock. A director's unvested restricted stock units will not count toward satisfying the ownership requirements. As of April 8, 2019, all of our directors have satisfied the ownership requirements or have been on the Board for less than five years.

Stockholder Approved Compensation Limit

In May 2018, our stockholders approved the amendment and restatement of our 2001 Long-Term Incentive Plan to amend the maximum annual limit on non-employee director compensation to cover both cash fees and equity awards to non-employee directors and provide that stock awards granted during a single fiscal year under the plan or otherwise, taken together with any cash fees paid during such fiscal year for services on the Board, will not exceed \$750,000 in total value for any non-employee director.

Fiscal 2018 and Fiscal 2019 Non-Employee Director Compensation

The following table sets forth non-employee director compensation amounts for fiscal 2018 and fiscal 2019.

	Fiscal 2018 Prior to Annual Meeting	Fiscal 2018 Effective as of Annual Meeting	Fiscal 2019
Per-Committee Meeting Attendance Fee	\$2,000 per meeting	—	—
Annual Cash Compensation for Board Service(1)(2)	\$ 66,000	\$ 80,000	\$ 80,000
Annual Equity Grant for Board Service(2)(3)(4)	\$ 154,000	\$165,000	\$165,000
Annual Cash Compensation to Chair of the Board(1)	\$ 200,000	\$200,000	\$100,000
Annual Equity Grant to Chair of the Board(3)	\$ 200,000	\$200,000	\$100,000
Annual Cash Compensation to Chair of the Audit and Finance Committee(1)	\$ 25,500	\$ 25,500	\$ 25,500
Annual Equity Grant to Chair of the Audit and Finance Committee(3)	\$ 25,500	\$ 25,500	\$ 25,500
Annual Cash Compensation to Chair of the Compensation Committee(1)	\$ 12,500	\$ 12,500	\$ 12,500
Annual Equity Grant to Chair of the Compensation Committee(3)	\$ 12,500	\$ 12,500	\$ 12,500
Annual Cash Compensation to Chair of the Nominations and Corporate Governance Committee(1)	\$ 8,250	\$ 8,250	\$ 8,250
Annual Equity Grant to Chair of the Nominations and Corporate Governance Committee(3)	\$ 8,250	\$ 8,250	\$ 8,250

- (1) The annual cash compensation is paid in quarterly installments so long as the non-employee director continues to serve on the Board at the time of such payments.
- (2) Any cash compensation or equity grant otherwise payable to Scott Dahnke shall instead be paid directly to or transferred from Mr. Dahnke to a non-investment fund affiliate of his employer.
- (3) The annual equity grant is awarded on the date of the Annual Meeting. Equity grants are made in the form of restricted stock units. These restricted stock units vest on the earlier of one year from the date of grant or the day before the next regularly scheduled annual meeting, subject to continued service through the vesting date. The number of restricted stock units granted is determined by dividing the total monetary value of each award, as set forth in the table, by the closing price of our common stock on the trading day prior to the grant date, rounding down to the nearest whole share. Directors also receive dividend equivalent payments with respect to outstanding restricted stock unit awards.
- (4) Directors who are appointed to the Board after the company's last Annual Meeting receive an equity grant on the appointment date on a prorated basis based on the number of days that the director is scheduled to serve between the appointment date to the Board and the date one year from the prior year's Annual Meeting.

In addition to the compensation described above, non-employee directors received reimbursement for travel expenses related to attending our Board, committee or business meetings. Non-employee directors and their spouses received discounts on our merchandise.

Non-Employee Director Summary Compensation Table

The following table shows the compensation provided to non-employee directors who provided services during fiscal 2018.

	Fees Earned or Paid in Cash (\$)	Stock Awards \$(1)	All Other Compensation \$(2)(3)	Total (\$)
Adrian Bellamy	\$299,846	\$377,499(4)	\$53,062	\$730,407
Rose Marie Bravo	\$ 28,159	—	\$ 69	\$ 28,228
Anthony Greener	\$ 87,346	\$164,951(5)	\$ 110	\$252,407
Robert Lord	\$ 81,346	\$164,951(5)	\$ 4,609	\$250,906
Anne Mulcahy	\$ 20,659	\$ 97,589(6)	\$ 226	\$118,474
Grace Puma	\$ 83,346	\$164,951(5)	\$ 832	\$249,129
Christiana Smith Shi	\$ 97,596	\$173,212(7)	\$ 2,698	\$273,506
Sabrina Simmons	\$108,846	\$190,446(8)	\$ 565	\$299,857
Jerry Stritzke	\$ 81,346	\$164,951(5)	\$ 1,438	\$247,735
Frits van Paasschen	\$ 79,346	\$164,951(5)	\$ 1,711	\$246,008

- (1) Represents the grant date fair value of the restricted stock unit awards granted in fiscal 2018 as calculated in accordance with FASB ASC Topic 718, by multiplying the closing price of our common stock on the trading day prior to the grant date by the number of restricted stock units granted. As of February 3, 2019, the non-employee directors held the following numbers of unvested restricted stock units: Adrian Bellamy: 6,900; Anthony Greener: 3,015; Robert Lord: 3,015; Anne Mulcahy: 1,716; Grace Puma: 3,015; Christiana Smith Shi: 3,166; Sabrina Simmons: 3,481; Jerry Stritzke: 3,015; and Frits van Paasschen: 3,015.
- (2) Represents the taxable value of discount on merchandise.
- (3) Excludes dividend equivalent payments, which were previously factored into the grant date fair value of disclosed equity awards.
- (4) Represents the grant date fair value associated with a restricted stock unit award of 6,900 shares of common stock made on May 30, 2018, with a fair value as of the grant date of \$54.71 per share for an aggregate grant date fair value of \$377,499.
- (5) Represents the grant date fair value associated with a restricted stock unit award of 3,015 shares of common stock made on May 30, 2018, with a fair value as of the grant date of \$54.71 per share for an aggregate grant date fair value of \$164,951.
- (6) Represents the grant date fair value associated with a restricted stock unit award of 1,716 shares of common stock made on October 26, 2018, with a fair value as of the grant date of \$56.87 per share for an aggregate grant date fair value of \$97,589.
- (7) Represents the grant date fair value associated with a restricted stock unit award of 3,166 shares of common stock made on May 30, 2018, with a fair value as of the grant date of \$54.71 per share for an aggregate grant date fair value of \$173,212.
- (8) Represents the grant date fair value associated with a restricted stock unit award of 3,481 shares of common stock made on May 30, 2018, with a fair value as of the grant date of \$54.71 per share for an aggregate grant date fair value of \$190,446.



Corporate Governance Guidelines and Code of Business Conduct and Ethics

Our Corporate Governance Guidelines and our Code of Business Conduct and Ethics, both of which apply to all of our employees, including our Chief Executive Officer, Chief Financial Officer and Controller, are available on our website at ir.williams-sonomainc.com/governance. Copies of our Corporate Governance Guidelines and our Code of Business Conduct and Ethics are also available upon written request and without charge to any stockholder by writing to: Williams-Sonoma, Inc., Attention: Corporate Secretary, 3250 Van Ness Avenue, San Francisco, California 94109. To date, there have been no waivers that apply to our Chief Executive Officer, Chief Financial Officer, Controller or persons performing similar functions under our Code of Business Conduct and Ethics. We intend to disclose any amendment to, or waivers of, the provisions of our Code of Business Conduct and Ethics that affect our Chief Executive Officer, Chief Financial Officer, Controller or persons performing similar functions by posting such information on our website at ir.williams-sonomainc.com/governance.

Communicating with Members of the Board

Stockholders and all other interested parties may send written communications to the Board or to any of our directors individually, including non-management directors and the Chairman of the Board, at the following address: Williams-Sonoma, Inc., Attention: Corporate Secretary, 3250 Van Ness Avenue, San Francisco, California 94109. All communications will be compiled by our Corporate Secretary and submitted to the Board or an individual director, as appropriate, on a periodic basis.

PROPOSAL 1

ELECTION OF DIRECTORS

Upon the recommendation of our Nominations and Corporate Governance Committee, our Board has nominated the persons set forth in the tables below. Our Board has no reason to believe that any of the nominees will be unwilling or unable to serve as a director. However, should a nominee become unwilling or unable to serve prior to the Annual Meeting, our Nominations and Corporate Governance Committee would recommend another person or persons to be nominated by our Board to stand for election, and your proxies would be voted for the person or persons selected by the committee and nominated by our Board.

There are no family or special relationships between any director nominee or executive officer and any other director nominee or executive officer. There are no arrangements or understandings between any director nominee or executive officer and any other person pursuant to which he or she has been or will be selected as our director and/or executive officer.

Information Regarding the Director Nominees



The following table sets forth information, as of April 8, 2019, with respect to each director nominee. We have also included information about each nominee’s specific experience, qualifications, attributes and skills that led the Board to conclude that he or she should serve as a director of the company, in light of our business and structure, at the time we file this Proxy Statement. Each director nominee furnished the biographical information set forth in the table.

Executive Officer:

<u>Nominee</u>	<u>Director Since</u>	<u>Position with the Company and Business Experience, including Directorships Held During Past Five Years</u>	<u>Specific Experience, Qualifications, Attributes and Skills</u>
Laura Alber Age 50 	2010	<ul style="list-style-type: none"> • Chief Executive Officer since 2010 • President since 2006 • President, Pottery Barn Brands, 2002 – 2006 • Executive Vice President, Pottery Barn, 2000 – 2002 • Senior Vice President, Pottery Barn Catalog and Pottery Barn Kids Retail, 1999 – 2000 • Director, Fitbit, Inc. (fitness trackers), since 2016 • Director, RealD Inc. (3D technologies), 2013 – 2015 	<ul style="list-style-type: none"> • Extensive retail industry, merchandising and operational experience, including 24 years of experience with the company • Implemented successful growth strategies, including Pottery Barn Kids, Pottery Barn Bed + Bath and PBteen, as well as the company’s global expansion

Proxy

Independent Directors:


<u>Nominee</u>	<u>Director Since</u>	<u>Position with the Company and Business Experience, including Directorships Held During Past Five Years</u>	<u>Specific Experience, Qualifications, Attributes and Skills</u>
Adrian Bellamy Age 77 	1997	<ul style="list-style-type: none"> • Chairman of the Board • Chair of the Compensation Committee and member of the Nominations and Corporate Governance Committee • Chairman, Total Wine and More (liquor retailer) since 2011 • Chairman and Director, Action Holding B.V. (non-food discount retailer) since 2013 • Director, Reckitt Benckiser plc (household, personal, health and food products), 2003 – 2018; Chairman, 2003 – 2017 • Director, The Gap, Inc. (clothing), 1995 – 2014 • Chairman and Director, The Body Shop International plc (personal care products), 2002 – 2008 	<ul style="list-style-type: none"> • Extensive experience as both an executive and director in the retail industry, including 12 years as Chairman and Chief Executive Officer of DFS Group Ltd. • Broad perspective of the retail industry from current and past positions on the Boards of other retailers including The Gap, The Body Shop and Gucci
Scott Dahnke Age 53 	2019	<ul style="list-style-type: none"> • Global co-CEO since 2016, Managing Partner, 2003 – 2015, L Catterton (private equity) • Managing Director, Deutsche Bank Capital Partners (private equity), 2002 – 2003 • Managing Director, AEA Investors (private equity), 1998 – 2002 • Chief Executive Officer, infoGROUP Inc. (formerly known as InfoUSA; Nasdaq-listed) (marketing), 1997 – 1998 • Principal (Partner), McKinsey & Company (management consulting), 1991 – 1997 • Director, Noodles & Company (restaurant) 2011 – 2019 	<ul style="list-style-type: none"> • Extensive experience building brand equity in leading consumer brands • Substantial expertise in the global retail and consumer industry

Nominee	Director Since	Position with the Company and Business Experience, including Directorships Held During Past Five Years	Specific Experience, Qualifications, Attributes and Skills
Robert Lord Age 56	2017	<ul style="list-style-type: none"> • Member of the Audit and Finance Committee • Senior Vice President: Cognitive Applications, since 2019, Chief Digital Officer, 2016 – 2019, IBM (technology) • President of AOL, 2015 – 2016, CEO of AOL Platforms, 2013 – 2015, at Verizon Communications Inc. (telecommunications) • Global CEO of Razorfish, 2010 – 2013, CEO of Digital Technology Division, 2013, CEO of “VivaKi Interactive”, 2011 – 2013, at Publicis Groupe (digital marketing) • Global CEO of Razorfish, 2009 – 2010, at Microsoft Corporation (digital marketing) • Executive Vice President, SBI-Razorfish Inc., 2003 – 2004 (digital marketing) • Chief Operating Officer, Razorfish Inc., 2002 – 2003 (digital marketing) • Author, <i>Converge: Transforming Business At the Intersection of Marketing and Technology</i>, published 2013 	<ul style="list-style-type: none"> • Extensive technology and digital marketing expertise, with over 15 years as an executive • Strong understanding of global consumer communications strategy
Anne Mulcahy Age 66	2018	<ul style="list-style-type: none"> • Lead Independent Director, Johnson & Johnson (consumer healthcare products) since 2012; director since 2009 • Director, Graham Holdings Company (education and media) since 2008 • Director, LPL Financial Holdings Inc. (broker-dealer) since 2013 • Chief Executive Officer, 2001 – 2009, and Chairman, 2002 – 2010, Xerox Corporation (technology and services); other roles of increasing responsibility, 1976 – 2001 • Director, Target Corporation (retail), 1997 – 2017 	<ul style="list-style-type: none"> • Extensive insight into organizational and operational management issues crucial to a large public company • Strong reputation for leadership in business innovation and talent development



<u>Nominee</u>	<u>Director Since</u>	<u>Position with the Company and Business Experience, including Directorships Held During Past Five Years</u>	<u>Specific Experience, Qualifications, Attributes and Skills</u>
Grace Puma Age 56	2017	<ul style="list-style-type: none"> • Member of the Audit and Finance Committee • Executive Vice President, Global Operations, since 2017, Senior Vice President & Chief Supply Officer, 2010 – 2015, Senior Vice President & Global Chief Procurement Officer, 2010 – 2015, PepsiCo, Inc. (food and beverage) • Senior Vice President & Global Chief Procurement Officer, United Airlines (airline), 2007 – 2010 • Vice President, Kraft Foods (food), 1999 – 2007 • Director, Marietta Corporation (personal care amenities), 2010 – 2015 	<ul style="list-style-type: none"> • Extensive knowledge of global procurement and supply chain operations, with over 20 years as an executive • Strong experience in global team leadership and strategy development
Christiana Smith Shi . . . Age 59	2017	<ul style="list-style-type: none"> • Chair of the Nominations and Corporate Governance Committee and member of the Audit and Finance Committee • Founder and Principal, Lovejoy Advisors, LLC (digital advisory services) since 2016 • President, Direct-to-Consumer, 2013 – 2016, Vice President, E-Commerce 2012 – 2013, Chief Operating Officer, Global Direct-to-Consumer, 2010 – 2012, Nike Inc. (athletic footwear and apparel) • Director and Senior Partner, 2000 – 2010, Principal (Partner), 1994 – 2000, various positions, 1986 – 1994, McKinsey & Co., Inc. (consulting) • Director, Mondelez International, Inc. (snacks) since 2016 • Director, United Parcel Service, Inc. (logistics) since 2018 • Director, West Marine, Inc. (boating and fishing supplies), 2011 – 2017 	<ul style="list-style-type: none"> • Extensive expertise in digital commerce, global retail expansion, retail technology, store operations and supply chain, with over 15 years of experience as an e-commerce executive • Strong understanding of global retail and operations



Nominee	Director Since	Position with the Company and Business Experience, including Directorships Held During Past Five Years	Specific Experience, Qualifications, Attributes and Skills
Sabrina Simmons Age 55 	2015	<ul style="list-style-type: none"> • Chair of the Audit and Finance Committee • Executive Vice President, Chief Financial Officer, The Gap, Inc. (clothing), 2008 – 2017 • Executive Vice President, Corporate Finance, 2007 – 2008, Senior Vice President, Corporate Finance and Treasurer, 2003 – 2007, Vice President and Treasurer, 2001 – 2003, The Gap, Inc. • Director, e.l.f. Cosmetics, Inc. (cosmetics) since 2016 • Director, Columbia Sportswear Company (outdoor apparel and gear) since 2018 	<ul style="list-style-type: none"> • Extensive financial and accounting expertise as chief financial officer of a large public company • Extensive experience as an executive in the retail industry, including 16 years at The Gap, Inc.
Frits van Paasschen Age 58 	2017	<ul style="list-style-type: none"> • Member of the Compensation Committee • Member, Advisory Board, Royal DSM N.V. (life and material sciences) since 2017 • Member, Board of Advisors, CitizenM Hotels (hotels) since 2017 • Chairman, Convene (workspace and property technology) since 2017 • Author, <i>The Disruptors' Feast</i>, published 2017 • President, Chief Executive Officer, Starwood Hotels and Resorts (hotels), 2007 – 2015 • President, Chief Executive Officer, Coors Brewing Company (beer), 2005 – 2007 • GM (President) Europe, Middle East & Africa, 2000 – 2004, GM (President) Americas and Africa, 1998 – 2000, Vice President Strategic Planning, 1997 – 1998, Nike Inc. (athletic footwear and apparel) • Chairman, Supervisory Board, Apollo Hotels (hotels) 2016 – 2018 • Director, Barclays PLC (banking), 2013 – 2016 • Director, Jones Apparel Group Inc. (clothing), 2004 – 2007 • Director, Oakley, Inc. (sunglasses and athletic apparel), 2004 – 2007 	<ul style="list-style-type: none"> • Extensive experience in retail and hospitality, with over 15 years of experience as an executive • Strong understanding of global retail operations and strategy

Required Vote for This Proposal

The election of each director nominee requires the affirmative vote of a majority of the votes cast at the Annual Meeting with respect to each nominee. The number of shares voted “for” a director nominee must exceed the number of votes cast “against” that nominee for the nominee to be elected as a director to serve until the next annual meeting or until his or her successor has been duly elected and qualified.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE “FOR” THE ELECTION OF ALL OF THE DIRECTOR NOMINEES LISTED ABOVE.

PROPOSAL 2

ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION

This is a proposal asking stockholders to approve, on an advisory basis, the compensation of our Named Executive Officers as disclosed in this Proxy Statement in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the “Dodd-Frank Act,” and as required under Section 14A of the Exchange Act. This proposal is commonly known as a “Say on Pay” proposal and gives our stockholders the opportunity to express their views on the compensation of our Named Executive Officers. The company’s current policy is to hold a Say on Pay vote each year, and we expect to hold another advisory vote with respect to executive compensation at the 2020 Annual Meeting.

Compensation Program and Philosophy

As described in detail under the heading “Executive Compensation,” our executive officer compensation program is constructed to attract, retain and motivate a highly qualified executive team to support our primary objective of creating long-term value for stockholders, while maintaining direct links between executive pay, individual performance, the company’s financial performance and stockholder returns. A significant portion of individual compensation is directly dependent on the company’s achievement of financial goals, which we believe aligns executive interests with stockholder interests and encourages long-term stockholder returns. Further in alignment with stockholder interests, each of our Named Executive Officers is subject to a stock ownership requirement. The Chief Executive Officer is required to hold five times her base salary, and each of the other Named Executive Officers is required to hold two times his or her base salary in shares of common stock.

Fiscal 2018 Compensation Summary

To align our executive compensation packages with our executive compensation philosophy, the following compensation decisions were made by the Compensation Committee for fiscal 2018.

- *Adjustments to Base Salary:* The base salary of each of our Chief Executive Officer and certain Named Executive Officers was increased based on their individual performance, an assessment of market data, and each executive’s experience in his or her role.
- *Performance-Based Cash Bonus:* Performance-based cash bonuses were paid for fiscal 2018 performance based on a company’s earnings per share goal, the achievement of positive net cash provided by operating activities, business unit performance and the individual performance of our Named Executive Officers.
- *Performance-Based and Time-Based Equity:* In fiscal 2018, our Named Executive Officers were granted performance stock units (PSUs) based on performance against four equally-weighted metrics—revenue, earnings, return on invested capital and operating cash flow—and restricted stock units (RSUs) with service vesting. The PSUs are earned based on actual three-year performance against each of the four metrics relative to target, subject to certain pre-established adjustments, and vest on the third anniversary of the grant date. No PSUs are earned for below threshold performance, 50% of target are earned for threshold performance, 100% of target are earned for target performance, and 200% of target are earned for maximum performance and above. The RSUs vest 25% per year over a four-year period beginning on the grant date.

In addition to the above summary, stockholders are encouraged to read the “Executive Compensation” section of this Proxy Statement for details about our executive compensation programs, including information about the fiscal 2018 compensation of our Named Executive Officers.

We are asking our stockholders to indicate their support for our Named Executive Officer compensation as described in this Proxy Statement. This vote is not intended to address any specific item of compensation, but

rather the overall compensation of our Named Executive Officers and the philosophy, policies and practices described in this Proxy Statement. Accordingly, we ask our stockholders to vote “FOR” the following resolution at the 2019 Annual Meeting:

“RESOLVED, that the company’s stockholders approve, on an advisory basis, the compensation of the Named Executive Officers, as disclosed in the company’s Proxy Statement for the 2019 Annual Meeting of Stockholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Executive Compensation, the tabular disclosure regarding such compensation and the accompanying narrative disclosure.”

Required Vote for this Proposal

To approve this proposal, a majority of voting power entitled to vote thereon, present in person or represented by proxy, at the Annual Meeting must vote “FOR” this proposal.

This Say on Pay vote is advisory, and therefore not binding on the company, the Compensation Committee or our Board. Our Board and our Compensation Committee value the opinions of our stockholders and to the extent there is any significant vote against the Named Executive Officer compensation as disclosed in this Proxy Statement, we will consider our stockholders’ concerns and the Compensation Committee will evaluate whether any actions are necessary to address those concerns.

Under the rules of the NYSE, brokers are prohibited from giving proxies to vote on executive compensation matters unless the beneficial owner of such shares has given voting instructions on the matter. This means that if your broker is the record holder of your shares, you must give voting instructions to your broker with respect to Proposal 2 if you want your broker to vote your shares on the matter.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE “FOR” THE APPROVAL OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS, AS DESCRIBED IN THIS PROXY STATEMENT PURSUANT TO THE COMPENSATION DISCLOSURE RULES OF THE SEC.

PROPOSAL 3

RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

This is a proposal asking stockholders to ratify the selection of Deloitte & Touche LLP, or Deloitte, as our independent registered public accounting firm for the fiscal year ending February 2, 2020. The Audit and Finance Committee selected Deloitte as our independent registered public accounting firm for the fiscal year ending February 2, 2020, subject to ratification by our stockholders. Although stockholder ratification of our independent registered public accounting firm is not required by law, as a matter of corporate governance, we are requesting that our stockholders ratify such selection.

A Deloitte representative will be present at the Annual Meeting and will have the opportunity to make a statement and to respond to appropriate questions.

Deloitte Fees and Services

Deloitte has audited our financial statements for the last 39 years. Based in part upon information provided by Deloitte, the Audit and Finance Committee determined that Deloitte is independent under applicable independence standards. The Audit and Finance Committee has reviewed and discussed the fees billed by Deloitte for services in fiscal 2018, as detailed below, and determined that the provision of non-audit services was compatible with Deloitte's independence.

Deloitte provided the company with the following services:

Audit Fees

Deloitte billed approximately \$2,400,000 for fiscal 2018 and \$2,392,000 for fiscal 2017 for professional services to (i) audit our consolidated financial statements and perform an assessment of the effectiveness of our internal control over financial reporting included in our Annual Report on Form 10-K, (ii) review our condensed consolidated financial statements included in our quarterly reports on Form 10-Q, (iii) audit our 401(k) plan, and (iv) audit our statutory reports for our global entities.

Audit-Related Fees

During fiscal 2018 and fiscal 2017, Deloitte did not perform any assurance and related services that were reasonably related to the performance of the audit or review of our financial statements.

Tax Fees

Deloitte billed approximately \$103,000 for fiscal 2018 and \$55,000 for fiscal 2017, each related to tax consultation services.

All Other Fees

Deloitte billed a total of approximately \$2,000 for fiscal 2018 and \$11,000 for fiscal 2017 for all other fees. All other fees consisted of sustainability consulting fees and license fees related to the use of Deloitte's online accounting research tool.

During fiscal 2018 and 2017, Deloitte did not perform any prohibited non-audit services for us.

Pre-Approval Policy

All services performed by Deloitte, whether audit or non-audit services, must be pre-approved by the Audit and Finance Committee or a designated member of the Audit and Finance Committee, whose decisions must be reported to the Audit and Finance Committee at its next meeting. Pre-approval cannot be obtained more than one year before performance begins and can be for general classes of permitted services such as annual audit services or tax consulting services. All fees paid to Deloitte for fiscal 2018 and fiscal 2017 were pre-approved by the Audit and Finance Committee.

Required Vote for this Proposal

To approve this proposal, a majority of voting power entitled to vote thereon, present in person or represented by proxy, at the Annual Meeting must vote “FOR” this proposal.

If stockholders vote against this proposal, the Audit and Finance Committee will consider interviewing other independent registered public accounting firms. There can be no assurance, however, that it will choose to appoint another independent registered public accounting firm if this proposal is not approved.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE “FOR” THE RATIFICATION OF THE SELECTION OF DELOITTE & TOUCHE LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING FEBRUARY 2, 2020.

AUDIT AND FINANCE COMMITTEE REPORT

The Audit and Finance Committee oversees the company's financial reporting process on behalf of the Board. In meeting these responsibilities, as described under the heading "Corporate Governance—Board Committees," we perform the following functions:

- Monitor the integrity of the company's financial reports, earnings and guidance press releases, and other company financial information;
- Appoint and/or replace the independent registered public accounting firm, pre-approve all audit and non-audit services of the independent registered public accounting firm, and assess its qualifications and independence;
- Review the performance of the company's internal audit function, the company's auditing, accounting and financial reporting procedures, and the company's independent registered public accounting firm;
- Monitor the company's compliance with legal and regulatory requirements, in accordance with the Audit and Finance Committee charter;
- Monitor the company's system of internal controls and internal control over financial reporting;
- Retain independent legal, accounting or other advisors when necessary and appropriate;
- Review and recommend policies related to dividend, stock repurchase and foreign currency programs; and
- Review with management the company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the company's risk assessment and risk management policies.

In performing these functions, we took the following actions, among other things, related to fiscal 2018:

- Reviewed and discussed the company's audited consolidated financial statements for fiscal 2018 and unaudited quarterly condensed consolidated financial statements for fiscal 2018 with management and Deloitte;
- Reviewed, discussed with management, and approved the company's periodic filings on Forms 10-K and 10-Q;
- Reviewed, discussed with management, and approved all company earnings and guidance press releases;
- Reviewed and discussed the company's internal controls over financial reporting with management and Deloitte, including the evaluation framework and subsequent assessment of effectiveness;
- Reviewed and discussed with the company's internal audit department the company's internal audit plans, the significant internal audit reports issued to management, and management's responses;
- Reviewed and discussed with management and the company's internal audit department the company's major financial risk exposures, including with regard to legal and regulatory matters, and the company's risk assessment and risk management policies;
- Met with Deloitte, with and without management present, to discuss the overall quality of the internal and external audit process and the financial reporting process; and
- Discussed with Deloitte its independence from the company based on the following: (i) our confirmation that no member of Deloitte's current or former audit team is or has been employed by the company in a financial reporting oversight role; (ii) our review of audit and non-audit fees; and (iii) the written communications from Deloitte as required by Public Company Accounting Oversight Board, or PCAOB, requirements.

During fiscal 2018, we discussed the following other matters, among other things, with Deloitte:

- Deloitte’s responsibilities in connection with the audit of the company’s financial statements;
- Deloitte’s annual letter describing its internal quality control procedures;
- Any significant issues arising during the audit and any other matters relating to the conduct of the audit of the company’s financial statements; and
- Matters required to be discussed pursuant to relevant PCAOB and SEC requirements, including the quality of the company’s accounting principles, the soundness of significant judgments and the clarity of disclosures in the company’s financial statements.

*The Audit and Finance Committee hereby reports as follows:**

(1) The Audit and Finance Committee has reviewed and discussed the company’s audited financial statements with management and Deloitte;

(2) The Audit and Finance Committee has discussed with Deloitte the matters required by PCAOB Auditing Standard No. 1301, *Communications with Audit Committees*;

(3) The Audit and Finance Committee has received the written disclosures and the letter from Deloitte required by the applicable requirements of the PCAOB regarding Deloitte’s communications with the Audit and Finance Committee concerning independence and has discussed with Deloitte its independence; and

Based on the review and discussions referred to in items (1) through (3) above, the Audit and Finance Committee recommended to the Board that the audited financial statements be included in the company’s Annual Report on Form 10-K for fiscal 2018 for filing with the SEC.

AUDIT AND FINANCE COMMITTEE OF THE
BOARD OF DIRECTORS

Sabrina Simmons, Chair
Robert Lord
Grace Puma
Christiana Smith Shi

* This report shall not be deemed to be (i) “soliciting material,” (ii) “filed” with the SEC, (iii) subject to Regulations 14A or 14C of the Securities Exchange Act of 1934, as amended, or (iv) subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended, nor shall it be deemed incorporated by reference into any of our other filings under the Securities Exchange Act of 1934, as amended, or the Securities Act of 1933, as amended, except to the extent we specifically incorporate it by reference into such filing.

INFORMATION CONCERNING EXECUTIVE OFFICERS

The following table provides certain information about our executive officers as of April 8, 2019. Our executive officers are appointed by and serve at the pleasure of our Board, subject to rights, if any, under employment contracts.

<u>Name</u>	<u>Position with the Company and Business Experience</u>
Laura Alber Age 50	*
Julie Whalen Age 48	<ul style="list-style-type: none"> • Executive Vice President, Chief Financial Officer since 2012 • Treasurer, 2011 – 2014 • Senior Vice President, Controller, 2006 – 2012 • Vice President, Controller, 2003 – 2006
Alex Bellos Age 34	<ul style="list-style-type: none"> • President, West Elm Brand since 2017 • Senior Vice President, General Manager, Rejuvenation, 2013 – 2017 • Vice President, Strategy and Development, 2010 – 2013 • Various Retail Operations and Finance Roles, 2008 – 2010
Marta Benson Age 56	<ul style="list-style-type: none"> • President, Pottery Barn Brand since 2017 • Executive Vice President, Pottery Barn Merchandising, 2015 – 2017 • Senior Vice President, Business Development, 2011 – 2015 • Chief Executive Officer, Gump’s, 2006 – 2011
Janet Hayes Age 51	<ul style="list-style-type: none"> • President, Williams Sonoma Brand since 2013 • President, Mark and Graham Brand, 2017 – 2019 • President, Pottery Barn Kids and PBteen Brands, 2010 – 2013 • Executive Vice President, Pottery Barn Kids and PBteen Brands, 2008 – 2010 • Senior Vice President and General Merchandising Manager, Pottery Barn, 2007 – 2008
David King Age 50	<ul style="list-style-type: none"> • Executive Vice President, General Counsel and Secretary since 2017 • Senior Vice President, General Counsel and Secretary, 2011 – 2017 • Vice President, Deputy General Counsel, 2010 – 2011 • Vice President, Associate General Counsel, 2006 – 2010 • Director, Associate General Counsel, 2004 – 2006

* Biographical information can be found in the table under the section titled “Information Regarding the Director Nominees” beginning on page 15 of this Proxy Statement.



EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This Compensation Discussion and Analysis describes our executive compensation program, the compensation decisions we made under our program, and the reasoning underlying those decisions, with respect to our “Named Executive Officers,” who in fiscal 2018 were:

Laura Alber	Director, President and Chief Executive Officer
Julie Whalen	Executive Vice President, Chief Financial Officer
Alex Bellos	President, West Elm Brand
Marta Benson	President, Pottery Barn Brand
Janet Hayes	President, Williams Sonoma Brand

Executive Summary

Our compensation decisions begin with the objective of paying for performance. For fiscal 2018, the Compensation Committee took the following steps in support of the company’s executive pay-for-performance philosophy:

- Continued to grant performance stock units (PSUs) as part of our equity program and revised the program to reward performance across four metrics that include revenue, earnings, return on invested capital and operating cash flow. We believe these metrics will properly incentivize and motivate our executive team to achieve these key indicators of company performance and drivers of stockholder value.
- Set a fiscal 2018 earnings per share target under our annual bonus plan that required an increase of more than 16% over our actual earnings per share results for fiscal 2017.
- Adopted a clawback policy for Section 16 officers that allows the Compensation Committee to recoup cash and equity awards in the event of a financial restatement.

Our compensation program is constructed to attract, motivate and retain exceptional executives in support of our primary objective to create long-term value for stockholders. Fundamentally, we believe our blend of metrics across our short-term and long-term incentive plans drives long-term stockholder value. These metrics include EPS, revenue, earnings, return on invested capital (ROIC) and operating cash flow.

Similarly, our stock ownership guidelines and time-based equity compensation align our executives’ interests directly with our stockholders’ interests and emphasize the objective of sustained growth in our stock price over the long term. The Chief Executive Officer is required to hold five times her base salary, and each of the other Named Executive Officers is required to hold two times her or his base salary in shares of our common stock. We believe this focus on long-term stock price appreciation appropriately aligns executive and stockholder interests.

Fiscal 2018 Performance Highlights

Fiscal 2018 was a year of outstanding performance for our company. Driven by strong comparable brand growth, including double-digit revenue growth in e-commerce, and strong expense management, we achieved GAAP diluted earnings per share of \$4.05 and non-GAAP diluted earnings per share of \$4.46, which outperformed the high end of our external guidance and represented growth of over 34% and 24%, respectively, over last year. Fiscal 2018 financial achievements included:

Continued Strong Earnings Growth

- GAAP diluted earnings per share of \$4.05, representing a 34% increase over last year.
- Non-GAAP diluted earnings per share of \$4.46, representing a 24% increase over last year. ⁽¹⁾

- Net Revenue growth of 7.2% to \$5.7 billion.
- E-commerce net revenue growth of 10.9% to \$3.1 billion, resulting in an all-time high of 54.3% of total company net revenues.

Strong Consolidated and Brand Revenue Growth

- Comparable brand revenue growth of 3.7% driven by:
 - 1.2% increase in comparable growth by the Pottery Barn Brand;
 - 9.5% increase in comparable growth by the West Elm Brand on top of 10.2% increase in comparable growth in fiscal 2017;
 - 1.7% increase in comparable growth by the Williams Sonoma Brand on top of 3.2% increase in comparable growth in fiscal 2017;
 - 2.8% increase in comparable growth by the Pottery Barn Kids and PBteen Brands; and
 - Another year of double-digit, profitable revenue growth generated by Rejuvenation, Mark & Graham, and our company-owned global businesses.

Industry Leading Financial Returns to Stockholders

- Return on Invested Capital of almost 19%, which is significantly above the industry average. ⁽¹⁾
- Generation of \$586 million in operating cash flow.
- Cash returned to stockholders increased to \$436 million through our stock repurchase and dividend programs, an increase of 32% over fiscal 2017.

(1) A reconciliation of the GAAP to non-GAAP diluted earnings per share and definition of Return on Invested Capital may be found in our Form 8-K filed with the Securities and Exchange Commission on March 20, 2019.

In addition to absolute year-over-year performance, sustained company performance against our peers and retail industry is reviewed and considered when making compensation decisions and to confirm that the compensation program has been effective in incenting and linking performance with appropriate rewards.

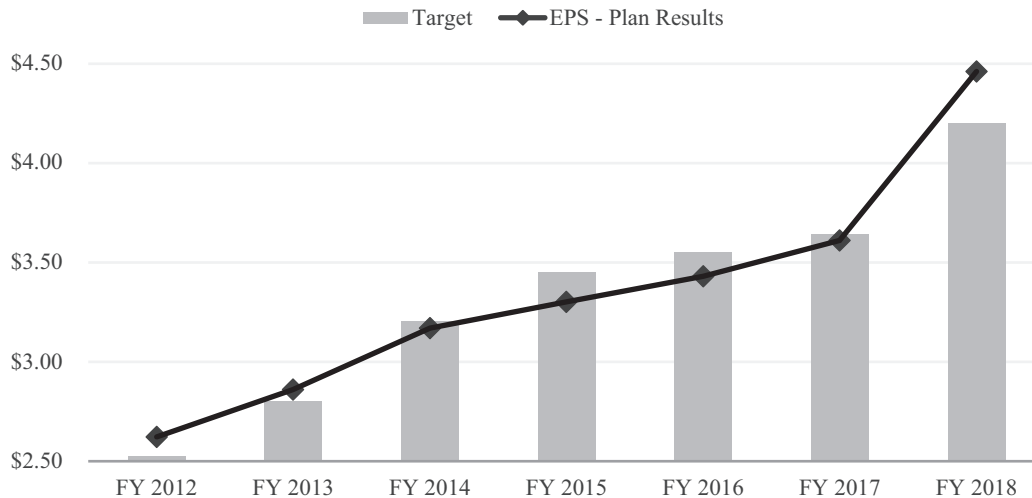
We also consider how our performance results were achieved. Our company values guide the way we think about and approach our business, and we measure executive performance with respect to these values as we make compensation decisions. This assessment is reflected in the compensation recommendations that our Chief Executive Officer makes to the Compensation Committee with respect to the other Named Executive Officers, and the Compensation Committee's decisions with respect to the compensation of our Chief Executive Officer.

The table below summarizes the components of our executive compensation program and strong alignment to stockholder interests.

Component	Form	Purpose	Alignment to Stockholder Interests
Base Salary	Cash	Fixed compensation to attract and retain NEOs	<ul style="list-style-type: none"> • Attract and retain NEOs • Market-competitive and aligned with scale, scope and complexity of role
Annual Incentives	Annual Bonus Plan	Incentivize and reward achievement of company, business-unit, and individual objectives established to drive short-term performance and stable long-term financial growth.	<ul style="list-style-type: none"> • EPS performance vs. a pre-set goal funds bonus pool • Annual goals consistently set above prior year performance • Actual awards recognize business unit performance against both quantitative and qualitative goals
Long-Term Incentives	Performance-Based RSUs	Motivate achievement of 3-year performance	<ul style="list-style-type: none"> • Equally weighted across scorecard of metrics • Revenue – 3-year compound annual growth • EPS – 3-year compound annual growth • Operating Cash Flow – 3-year average • ROIC – 3-year average
	Time-Based RSUs	Attract and retain NEOs over 4-year vesting period	<ul style="list-style-type: none"> • Emphasis on stock-price performance
	Stock Ownership Guidelines	Directly aligns interest of NEOs with stockholders	<ul style="list-style-type: none"> • Holdings value connected to stock price growth • Ms. Alber currently holds over 12x her base salary in company stock

The chart below illustrates the year-over-year increases of our target EPS goal under our 2001 Incentive Bonus Plan, as well as the EPS level at which our annual bonus plan funded for that year. Our performance goal is consistently set higher than both the previous year's target and actual EPS performance.

Annual Bonus - EPS Performance Goals FY12-FY18



Our Values

Everything we do revolves around our mission to enhance our customers' lives at home. We are committed to quality and service, and delivering an inspiring retail experience. Our core values include:

People First

We believe that our company has no limit and is driven by our associates and their imagination. We are committed to an environment that attracts, motivates and recognizes high performance.

Customers

We are here to please our customers – without them, nothing else matters.

Quality

We take pride in everything we do. From our people to our products, and in our relationships with business partners and our community, quality is our signature.

Stockholders

We are committed to providing a superior return to our stockholders. It's everyone's job.

Integrity

We do business with the highest level of integrity. Every day, in everything we do.

Corporate Responsibility

We will build sustainability into every corner of our enterprise so that our continued financial success will enhance the lives of our many stakeholders, the communities where we have a business presence and the natural environment upon which we rely.



Compensation Governance

We maintain compensation practices that are aligned with prevalent and sustainable corporate governance principles and are intended to encourage actions that are in the long-term interests of stockholders and the company and discourage actions such as excessive risk-taking and other actions contrary to the long-term interests of stockholders. Below, we highlight key elements of our compensation governance.

Compensation Practices We Follow

- *We pay for performance.* With the exception of base salary and benefits, our compensation elements are incentive-based, tied to company stock performance or at risk.
- *We structure each element of compensation with a specific purpose.* Our process for making compensation decisions involves a strategic review of the role and the level of each element of compensation, as well as the balance of short-term and long-term compensation opportunities.
- *We set meaningful stock ownership guidelines.* Our expectations for stock ownership align executives' interests with those of our stockholders as described in more detail in the section entitled "Executive Stock Ownership Guidelines" below.
- *We review our equity plan share usage regularly.* On an annual basis, the Compensation Committee reviews and evaluates our share dilution, burn rate and overhang levels with respect to equity compensation plans and their impact on stockholder dilution. The Compensation Committee is also provided this information at each committee meeting.
- *We provide double-trigger change in control benefits.* Our Management Retention Plan provides for accelerated vesting of equity awards and salary and bonus payouts after a change in control, but only if an executive is involuntarily terminated without cause or separates for good reason.
- *We consider the views of stockholders on an annual basis.* We provide stockholders with an annual Say on Pay advisory vote, and the Compensation Committee reviews and takes into account the results of this vote. In fiscal 2018, the Compensation Committee made the following changes to our executive compensation program in response to comments from proxy advisory firms in fiscal 2017:
 - Maintained EPS as the metric for our annual bonus plan, but moved away from a single earnings metric in our PSU program;
 - Revised our PSU program to include four metrics—revenue, earnings, return on invested capital and operating cash flow; and
 - Adopted a clawback policy.
- *We engage an independent compensation consulting firm.* The Compensation Committee's independent consultant does not provide any other advisory or consulting services to the company.

Compensation Practices We Do Not Follow

- We do not provide "golden parachute" excise tax gross-ups.
- We do not allow hedging, pledging or short sales of company stock.
- We do not pay dividends on unvested performance-based RSUs and PSUs.
- We do not grant stock options or stock appreciation rights with exercise prices below 100% of fair market value.
- We do not allow repricing of underwater stock options or stock appreciation rights without stockholder approval.
- We do not provide single-trigger change in control benefits.

- We do not provide excessive cash severance.
- We do not provide supplemental retirement benefits to our executives.

Roles in Determining Executive Compensation

The Compensation Committee makes compensation decisions related to the compensation of the Named Executive Officers with the input and recommendations of the Chief Executive Officer (other than with respect to her own compensation). Management provides the Compensation Committee with analyses and recommendations developed internally with the Chief Executive Officer. The Compensation Committee reviews these materials with its compensation consultant and considers the consultant's advice as part of its decision-making process, including the consultant's advice regarding the selection of appropriate peers for inclusion in the company's proxy peer group. With respect to the Chief Executive Officer's base salary, the Compensation Committee makes a recommendation to the independent members of the Board of Directors, and all independent Directors determine any base salary adjustments for the Chief Executive Officer.

Role of Compensation Committee

Each year, the Compensation Committee determines appropriate business targets for the fiscal year and evaluates executives' performance against those targets. As the Compensation Committee structures the executive compensation program, it considers the accounting and tax implications of each compensation element, as well as stockholder dilution in the case of equity awards. The Compensation Committee updates the Board of Directors regarding compensation decisions for executives and for the Chief Executive Officer, with the exception of adjustments to her base salary, which are determined by the independent members of the Board, as described above. The Compensation Committee's role is further detailed in the Compensation Committee Charter, which is available on the company's website at ir.williams-sonomainc.com/governance.

In making compensation decisions, the Compensation Committee reviews each executive's past and current compensation and analyzes each of the following:

- Each Named Executive Officer's achievement of established financial and operating objectives for that executive's area of responsibility;
- The compensation opportunity for each Named Executive Officer relative to the compensation opportunity disclosed by companies in the proxy peer group for the officer's corresponding position, for each compensation element;
- Internal positioning among the Named Executive Officers; and
- Whether the vesting schedule and value of outstanding long-term incentive awards are sufficient to provide an appropriate balance of short and long-term incentives, drive sustained performance and provide potential for appropriate reward.

Role of Our Chief Executive Officer and Management

The Chief Executive Officer is present at Compensation Committee meetings (except when her own compensation is being deliberated and established) and makes recommendations regarding the compensation program in general and each executive's compensation specifically. Her recommendations are made in the context of peer group and other relevant data, and are based on a quantitative analysis and comparison of each executive's performance against fiscal year business and strategic objectives and her qualitative evaluation of each executive's contributions to the company's long-term objectives. Further, she provides input on each executive's respective responsibilities and growth potential, as well as each's equity position and potential compensation payouts. Other members of management are also present at portions of Compensation Committee meetings to provide background information regarding the company's business and strategic objectives.

Role of Independent Compensation Committee Consultant

F.W. Cook served as the independent executive compensation consultant for the Compensation Committee during fiscal 2018. F.W. Cook provided services only as directed by the Compensation Committee and had no other relationship with the company. The Compensation Committee reviewed its relationship with F.W. Cook and identified no conflicts of interest.

In fiscal 2018, F.W. Cook provided the Compensation Committee with publicly disclosed proxy data related to Named Executive Officer compensation. In fiscal 2018, the Compensation Committee occasionally requested that F.W. Cook attend its meetings and received from F.W. Cook an in-depth update on general and retail industry compensation trends and developments.

In addition, in fiscal 2018, the Compensation Committee asked F.W. Cook to evaluate the risk inherent in our executive and non-executive compensation programs. Their report concluded that, among other things:

- The company's executive compensation program is designed to encourage behaviors aligned with the long-term interests of stockholders;
- There is appropriate balance in short-term versus long-term pay, cash versus equity, recognition of corporate versus business unit performance, financial versus non-financial goals, and use of formulas and discretion; and
- Policies are in place to mitigate compensation risk, such as stock ownership guidelines, insider trading prohibitions and disclosure requirements, and independent Compensation Committee oversight.

After considering this evaluation, the Compensation Committee concluded that our compensation programs do not encourage executives to take on business and operating risks that are reasonably likely to have a material adverse effect on the company.

Beginning in fiscal 2019, Pay Governance LLC will serve as the independent executive compensation consultant for the Compensation Committee. Pay Governance LLC provides services only as directed by the Compensation Committee and has no other relationship with the company. The Compensation Committee has reviewed its relationship with Pay Governance LLC and has identified no conflicts of interest.

Role of Market Data

The Compensation Committee, the Chief Executive Officer and management believe that knowledge of general market practices and the specific compensation practices of our proxy peer group, listed below, is important in assessing the design and competitiveness of our compensation package. When market data is reviewed, it is considered as a reference point, rather than a fixed policy, for compensation positioning and decision-making. We do not set compensation to meet specific benchmarks or percentiles. When target total direct compensation was set at the beginning of fiscal 2018, the Compensation Committee confirmed the resulting competitive positioning was appropriate for each executive given their individual experience, complexity of role, business unit performance, and the company's consistently strong operating performance and sustained revenue and earnings growth in recent years.

Our Proxy Peer Group

The Compensation Committee uses a peer group composed of public companies in the retail industry to review competitive compensation data for the company's executives. The Compensation Committee evaluates this proxy peer group on an annual basis to ensure that the companies selected remain appropriate. The proxy peer group for

fiscal 2018 was selected by the Compensation Committee based on the guiding criteria described below, with advice from F.W. Cook. Certain proxy peer companies may not meet all selection criteria but are included because they are direct competitors of our business, direct competitors for our executive talent, have a comparable business model, or for other reasons. The proxy peer group guiding criteria for fiscal 2018 was as follows:

1. Company Classification in the Global Industry Classification Standard in one of the following:
 - Home Furnishing Retail;
 - Apparel Retail; or
 - Department Stores;
2. Revenues generally between \$1.5 billion and \$14 billion;
3. Market capitalization greater than \$250 million and less than \$40 billion;
4. Current peer listed by a proxy advisory firm;
5. Among the top 100 e-retailers or an operator of multiple brands; and
6. Total stockholder return over the last one- and three-year periods.

Our Fiscal 2018 Proxy Peer Group

For fiscal 2018, the Compensation Committee reviewed the proxy peer group against our fiscal 2018 proxy peer group guiding criteria. Upon completion of its review, the Compensation Committee did not make any changes for fiscal 2018.

For fiscal 2018, our proxy peer group consisted of the following 15 companies:

American Eagle Outfitters, Inc.	Ralph Lauren, Corporation
Bed Bath & Beyond Inc.	Restoration Hardware Holdings, Inc.
Foot Locker, Inc.	Ross Stores, Inc.
The Gap, Inc.	Tapestry, Inc.
lululemon athletica inc.	Tiffany & Co.
L Brands, Inc.	Urban Outfitters, Inc.
Levi Strauss & Co	V.F. Corporation
Nordstrom, Inc.	

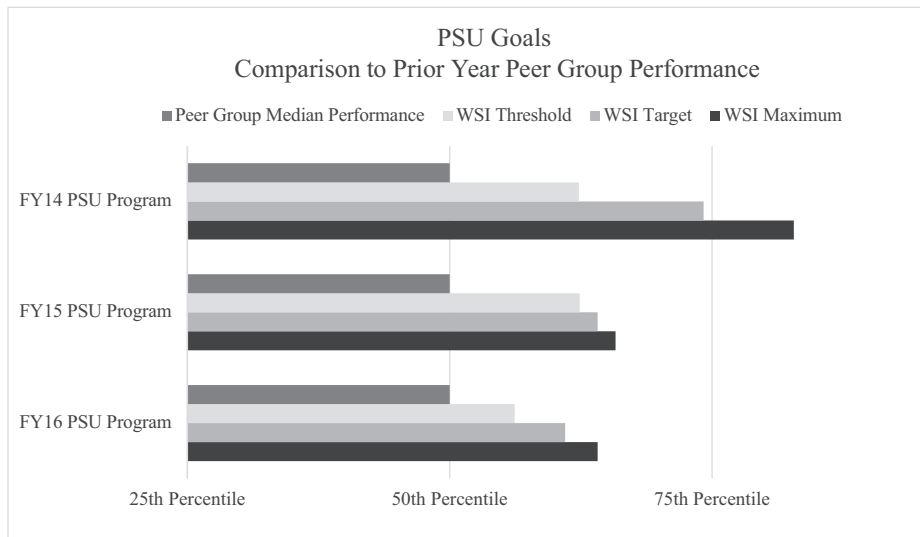
Overview of Chief Executive Officer Compensation for Fiscal 2018

Consistent with its pay-for-performance philosophy, the Compensation Committee considers the alignment of company performance and executive officer pay in making compensation decisions, and the importance of realized and realizable pay to ensure that the design of our executive compensation programs supports this pay-for-performance philosophy. Because the amounts shown in the Summary Compensation Table each year reflect the grant date, unrealized value of the long-term incentive awards granted to our executive officers and do not show the value actually received from these awards, the Compensation Committee believes that it is also important for stockholders to consider realized and realizable pay in determining whether the company is paying for performance.

In light of the fiscal 2014 PSUs paying out at 0% and the fiscal 2015 PSUs projected to pay out at 0%, the Compensation Committee began a review of our Chief Executive Officer's realized and projected realizable total direct pay and identified a disconnect relative to our performance versus our peer companies. Specifically, a potential misalignment between such pay and company performance versus our peer companies was identified. A study by the Compensation Committee's independent consultant concluded that such realized and realizable pay

from the compensation awarded over the latest three years ranked at the peer group median while overall company financial performance ranked at approximately the 75th percentile. Financial performance was measured based on (i) revenue, earnings per share, earnings, and net income growth over the latest available three-year period, and (ii) EBIT margin, return on invested capital, return on assets, and total stockholder return, in each case averaged over the same three-year period.

This misalignment was primarily based on overly aggressive performance targets that were established for the company's PSU awards. As shown in the chart below, threshold goals for the fiscal 2014, 2015 and 2016 PSUs were set consistently above the median of our peer group's prior-year earnings growth.



Due to such aggressive target setting, the PSUs awarded in both 2014 and 2015 did not vest and pay out despite strong overall financial performance during those performance periods, resulting in \$12 million of unrealized target compensation for Ms. Alber.

Based on the Compensation Committee's belief that Ms. Alber's pay should better align to the company's performance over the three-year period measured by the independent consultant's study, the company's strong financial performance over such period, and Ms. Alber's contributions in terms of leadership, strategic development, and financial performance since assuming the role of Chief Executive Officer in 2010, the Compensation Committee concluded that an off-cycle award was warranted. In February 2018, the Committee awarded Ms. Alber 203,541 RSUs that vest in equal installments on the first and second anniversary of the grant date, with each installment subject to a net income performance requirement. In February 2019, the first installment vested after the Committee determined that the performance requirement had been met.

Including the off-cycle RSU award in 2018, the Chief Executive Officer's realized and projected realizable total direct pay over the latest available 5-year period is now at the 74th percentile of our peer group.

In an executive session at a meeting in March 2018, without the Chief Executive Officer present, the Compensation Committee reviewed Ms. Alber's base salary and bonus target. The Compensation Committee recommended an increase to Ms. Alber's base salary by 7% based on her individual performance, an assessment of market data, and her experience in her role. This was the first base salary increase for Ms. Alber since fiscal 2015, which results in an annualized rate of increase of 2.3%. The Compensation Committee also recommended an increase to Ms. Alber's bonus target from 150% to 200% of base salary to be more competitive with the peer group for the same reasons. The bonus target for Ms. Alber had not been adjusted since she was appointed Chief Executive Officer in fiscal 2010.

With respect to the fiscal 2018 company-wide bonus pool, the company achieved performance at a funding level of 128.9% of target funding. The Compensation Committee determined the payout for Ms. Alber to be at 125% of her target bonus, in alignment with this company result.

Components of Our Compensation Program, 2018 Decisions and the Decision-Making Process

Our compensation program for our Named Executive Officers is made up of the four components listed below, which are designed to create long-term value for stockholders and to attract, motivate and retain outstanding executives.

Base Salary

In March 2018, the Compensation Committee reviewed and set the fiscal 2018 base salaries of our Named Executive Officers, based on individual performance, an analysis of each executive’s position relative to executives in our proxy peer group, other market data, each executive’s experience (as well as past, current and anticipated contributions to the company’s success), and the Chief Executive Officer’s recommendations (other than with respect to her own base salary). Following this review, the base salaries for Mr. Bellos and Ms. Benson were increased.

The following table shows the fiscal 2017 and fiscal 2018 base salaries for the Named Executive Officers.

<u>Named Executive Officer</u>	<u>Fiscal 2017 Base Salary</u>	<u>Fiscal 2018 Base Salary</u>
Laura Alber	\$1,400,000	\$1,500,000
Julie Whalen	\$ 800,000	\$ 800,000
Alex Bellos	\$ 650,000	\$ 750,000
Marta Benson	\$ 700,000	\$ 750,000
Janet Hayes	\$1,100,000	\$1,100,000

Annual Cash Bonus

Cash bonuses are awarded to our Named Executive Officers under the 2001 Incentive Bonus Plan, or the Bonus Plan, and paid only when threshold company and business objectives are met or exceeded.

At the beginning of each fiscal year, the Compensation Committee reviews and establishes individual bonus targets for each Named Executive Officer and threshold, target and maximum EPS goals under the Bonus Plan which determine the funding pool from which executive bonuses are paid.

In addition, the Compensation Committee sets a threshold performance goal that must be achieved, which establishes the maximum bonus payable under the Bonus Plan to each Named Executive Officer subject to the Compensation Committee’s discretion to reduce such amount. For fiscal 2018, this goal was positive net cash flow provided by operating activities as provided on the company’s consolidated statements of cash flows. This threshold goal was met in fiscal 2018, and the Compensation Committee used negative discretion to determine the actual payout to each Named Executive Officer based on achievement of the EPS goal and each individual’s performance, as described below.

Fiscal 2018 Bonus Targets

At a meeting held in March 2018, the Compensation Committee reviewed the bonus targets under the Bonus Plan for each Named Executive Officer. The Compensation Committee considered the recommendations of the Chief Executive Officer, which were informed by the following factors:

- Each executive’s respective responsibilities;
- The bonus targets set by our proxy peers;
- The relationship of the bonus target to other compensation elements; and



- Whether the established bonus targets are effective in motivating our executives to deliver strong performance.

In executive session at a meeting in March 2018, without the Chief Executive Officer present, the Compensation Committee reviewed Ms. Alber’s bonus target against our peer group and concluded that her bonus target would be increased for fiscal 2018.

The target bonuses as a percentage of base salary under the Bonus Plan remained unchanged for fiscal 2018 for our Named Executive Officers other than the Chief Executive Officer.

The target bonuses as a percentage of base salary under the Bonus Plan for fiscal 2017 and fiscal 2018 are listed below for each Named Executive Officer.

<u>Named Executive Officer</u>	<u>Fiscal 2017 Target Bonus (as a Percentage of Base Salary)</u>	<u>Fiscal 2018 Target Bonus (as a Percentage of Base Salary)</u>
Laura Alber	150%	200%
Julie Whalen	100%	100%
Alex Bellos	100%	100%
Marta Benson	100%	100%
Janet Hayes	100%	100%

Our Bonus Performance Goal – EPS

The pool from which company-wide bonuses are paid depends on our achievement of EPS goals established by the Compensation Committee. For fiscal 2018, the Compensation Committee set a diluted EPS target of \$4.20. Actual EPS is measured under the Bonus Plan by excluding the impact of extraordinary non-recurring charges or unusual items and the effect of changes in accounting principles from GAAP EPS for fiscal 2018. The company achieved performance of \$4.46, or an achievement at a funding level of 128.9% of target funding.

Individual and Business Unit Bonus Objectives

Once the bonus pool has been funded based on EPS performance under the Bonus Plan, individual performance is assessed in order to determine the payout of bonuses from the pool. The Compensation Committee believes that the achievement of individual objectives is critical to the overall success of the company and, as such, bonuses are paid, in part, to reflect individual achievement. For example, if an executive fails to fully meet some or all individual objectives, the executive’s bonus may be significantly reduced or even eliminated. Conversely, if the objectives are overachieved, awards may be subject to less or no reduction from the maximum amount payable to the executive based on our achievement of the threshold positive net cash flow goal described above.

The Compensation Committee decides the bonus amount, if any, for the Chief Executive Officer in an executive session in which the Chief Executive Officer is not present. In March 2019, the Compensation Committee reviewed the fiscal 2018 performance of each Named Executive Officer and considered the recommendations of the Chief Executive Officer for Named Executive Officers other than herself. For fiscal 2018, the Compensation Committee approved the bonus payments in the table below under the Bonus Plan for each Named Executive Officer, which were informed by the following factors:

- Achievement of established financial and operating objectives for the company and each business unit; and

- A qualitative assessment of each executive’s leadership accomplishments in the fiscal year (noting that accomplishments that increase stockholder return or that significantly impact future stockholder return are significant factors in the assessment of individual performance).

<u>Named Executive Officer</u>	<u>Fiscal 2018 Bonus Amount*</u>	<u>Fiscal 2018 Bonus (as a Percentage of Target)</u>
Laura Alber	\$3,750,000	125%
Julie Whalen	\$1,000,000	125%
Alex Bellos	\$1,500,000	200%
Marta Benson	\$ 900,000	120%
Janet Hayes	\$ 900,000	82%

* Reflects the Compensation Committee’s exercise of discretion to reduce the maximum amount payable to the executive under the Bonus Plan for fiscal 2018.

Long-Term Incentives

The third component of the company’s compensation program is long-term equity compensation. The Compensation Committee believes that equity compensation awards encourage our executives to work toward the company’s long-term business and strategic objectives and to maximize long-term stockholder returns. In addition, the Compensation Committee believes that equity awards incentivize executives to remain with the company. In determining the long-term incentive awards for fiscal 2018, the Compensation Committee considered relevant market data, the strong experience and individual performance of the executive team, the realizable pay relative to previously granted PSUs, and the unvested value of equity awards remaining in fiscal 2018.

In fiscal 2018, equity was granted to our Named Executive Officers in the form of PSUs and RSUs. PSUs were granted with variable payout based on achievement of three-year performance against four metrics—revenue, earnings, return on invested capital and operating cash flow. We believe these metrics will properly incentivize and motivate our executive team to achieve the key indicators of company success that will best drive stockholder value. PSUs earned are variable based on actual performance (subject to certain pre-established adjustments) relative to target with no PSUs earned for below threshold performance, 50% of target earned for threshold performance, 100% of target earned for target performance, and 200% of target earned for maximum performance and above. The Compensation Committee believes that granting equity in the form of RSUs and PSUs drives strong performance, aligns each executive’s interests with those of stockholders, and provides an important and powerful retention tool. The target number of PSUs granted to our Chief Executive Officer represented 50% of her annual equity award grants in fiscal 2018, which is in line with market practice among our peer group. Our Named Executive Officers received PSUs that represented 30% of the total number of equity awards granted to each of them.

<u>Component</u>	<u>Weighting (CEO/NEOs)</u>	<u>Time Frame (Vesting)</u>	<u>Purpose</u>	<u>Performance Linkage</u>
PSU	50%/30%	3-year cliff performance period and vesting	<ul style="list-style-type: none"> • Motivate to achieve company 3-year earnings growth plan • Align interests with stockholders • Retain talent 	<ul style="list-style-type: none"> • Metrics, equally weighted: <ul style="list-style-type: none"> ○ 3-year compound revenue growth ○ 3-year compound EPS growth ○ 3-year average operating cash flow ○ 3-year average ROIC • Increase in stock price from grant date
RSU	50%/70%	4-year pro-rated vesting	<ul style="list-style-type: none"> • Align interests with stockholders • Retain talent 	<ul style="list-style-type: none"> • Increase in stock price from grant date



The Compensation Committee established the three-year performance goals for the PSUs by reference to historical company performance, our fiscal 2018 budget and our three-year earnings growth plan, which were presented to and reviewed by our Board of Directors. We believe that the goals were set at challenging levels and are fully aligned with the long-term interests of our stockholders.

In determining the type and number of equity awards granted to each Named Executive Officer, the Compensation Committee considered the recommendations of the Chief Executive Officer, which were based on:

- The executive’s performance and contribution to the profitability of the company;
- The type and number of awards previously granted to each executive;
- The executive’s outstanding equity awards;
- The vesting schedule of the executive’s outstanding equity awards;
- The relative value of awards offered by peer companies to executives in comparable positions;
- The appropriate mix between long-term incentive awards and other types of compensation, such as base salary and bonus; and
- Additional factors, including increased responsibilities, succession planning and retention strategy.

The Compensation Committee believes that each factor influences the type and number of shares appropriate for each individual and that no one factor is determinative.

In determining the long-term incentive grant for the Chief Executive Officer, the Compensation Committee took into account a number of factors, including the company’s performance and the assessment by the Compensation Committee of the Chief Executive Officer’s performance.

Annual equity grants approved by the Compensation Committee in March 2018 were as follows:

<u>Named Executive Officer</u>	<u>Number of Restricted Stock Units</u>	<u>Number of Performance Stock Units (at Target)</u>
Laura Alber	123,051	123,051
Julie Whalen	32,301	13,843
Alex Bellos	28,712	12,305
Marta Benson	43,068	18,457
Janet Hayes	43,068	18,457

PSUs Granted in Fiscal 2016

In fiscal 2016, the Compensation Committee granted PSUs to Ms. Alber, Ms. Hayes and Ms. Whalen. Ms. Alber received PSUs weighted at 50% of her long-term incentives, and Ms. Hayes and Ms. Whalen received PSUs weighted at 30% of each of their long-term incentives. The PSUs granted in fiscal 2016 were granted with a cumulative three-year growth target based on compound annual earnings growth. For purposes of calculating the earnings growth rate, certain unusual business events occurring after the grant date were excluded from the calculation pursuant to predetermined exclusions. As adjusted for these exclusions, our compound annual earnings growth rate was equal to 7.4% over the three-year performance period, which exceeded the target of 5.0% and resulted in the vesting of 178% of the targeted shares.

Benefits Provided to Named Executive Officers

Subject to certain limited exceptions, all of the benefits offered to our Named Executive Officers are offered broadly to our full-time associates. For example, a limited number of company executives are provided with

reimbursement of financial consulting services up to \$12,000 annually. The Compensation Committee believes that providing this assistance is prudent given the complexity of these executives' compensation and financial arrangements and helps our Named Executive Officers maximize the compensation we pay to them. In addition, certain of our long-tenured employees receive benefits under a car allowance program that we no longer offer to new employees. We maintain an Executive Deferred Compensation Plan that is available to all U.S. employees at the level of Vice President and above and provides an opportunity for individual retirement savings on a tax- and cost-effective basis. We do not offer any company match to this benefit plan. We do not sponsor any additional supplemental executive retirement plans. Additionally, employees at the level of Director and above can participate in supplemental life insurance plans that offer enhanced benefits. We believe that these benefits allow our Named Executive Officers to concentrate on their responsibilities and our future success. The value of the benefits offered to each of the Named Executive Officers is detailed in the Other Annual Compensation from Summary Compensation Table on page 44.

Additional Information

Executive Stock Ownership Guidelines

The Compensation Committee has established stock ownership guidelines for our Named Executive Officers. Executive stock ownership supports the company's primary objective of creating long-term value for stockholders by aligning the executives' interests directly with those of the company's stockholders. Each executive is expected to maintain this minimum ownership while employed with us. The current guidelines for stock ownership are:

President and Chief Executive Officer:	Five times Base Salary
Other Named Executive Officers:	Two times Base Salary

The following equity holdings count toward the stock ownership guidelines: shares directly owned by the executive or his or her immediate family members; shares held in trust or any similar entity benefiting the executive or the executive's immediate family; and shares owned through the Williams-Sonoma, Inc. 401(k) Plan. Unexercised stock appreciation rights, unexercised stock options, and unvested restricted stock units or other full-value awards do not count towards the stock ownership guidelines listed above.

Executives covered under the ownership guidelines are required to retain at least 50% of the net after-tax shares received as a result of the release of restricted stock units until the applicable ownership guideline has been achieved. As of February 1, 2019, all of our Named Executive Officers meet or exceed the stock ownership guidelines or comply with the stock retention requirements for vested restricted stock units that are designed to bring the executive up to the applicable ownership level.

Double-Trigger Change of Control Provisions

Each of our Named Executive Officers is entitled to double-trigger change of control benefits under our 2012 EVP Level Management Retention Plan, other than our Chief Executive Officer, who is entitled to such benefits under an individual arrangement. None of our Named Executive Officers are provided with any type of "golden parachute" excise tax gross-up. We believe that our change of control arrangements are competitive compensation practices and meet the company's objectives of:

- Enhancing our ability to retain these key executives as such arrangements are an important component of competitive compensation programs;
- Ensuring that our executives remain objective and fully dedicated to the company's business and strategic objectives at a critical time; and
- Facilitating a smooth transition should a change in control occur.

The Compensation Committee has considered the total potential cost of the change of control arrangements provided to our Named Executive Officers and has determined that such cost is reasonable and reflects the importance of the objectives described above.

Severance Protection for the Chief Executive Officer

As described in the section titled “Employment Contracts and Termination of Employment and Change-of-Control Arrangements” beginning on page 49, we have entered into severance arrangements with Ms. Alber providing for certain severance benefits in the event of a termination of her employment. The Compensation Committee implemented these arrangements to ensure that she remains focused on the company’s business and strategic objectives rather than potential personal economic exposure under these particular circumstances. The Compensation Committee has considered the total potential cost of her severance benefits and determined them to be reasonable.

RSU and PSU Vesting Provisions Upon Retirement

Grants of RSUs, including the performance-based RSUs granted to our Named Executive Officers, include an acceleration feature that provides for full vesting upon retirement, which is defined as leaving the company at age 70 or later, with a minimum of 15 years of service. Grants of PSUs granted to our Named Executive Officers vest on a pro-rata basis subject to achievement of the applicable performance goals in the event of such a retirement. Currently, none of our Named Executive Officers are retirement eligible.

Clawback Policy Following Financial Restatement

In March 2018, our Compensation Committee adopted a clawback policy regarding recovery of past payments or awards in the event of a financial restatement. In such event, the Compensation Committee will review all cash and equity awards that, in whole or in part, were granted or paid to, or earned by, our executive officers based on performance during the financial period subject to such restatement. If any award would have been lower or would not have vested, been earned or been granted based on such restated financial results, the committee may, if it determines appropriate in its sole discretion and to the extent permitted by governing law, (a) cancel such award, in whole or in part, whether or not vested, earned or payable and/or (b) require the award holder to repay to the company an amount equal to all or any portion of the value from the grant, vesting or payment of the award that would not have been realized or accrued based on the restated financial results.

Internal Revenue Code Section 162(m)

Internal Revenue Code Section 162(m) generally disallows the deduction of compensation paid to certain executives in excess of \$1,000,000. The Compensation Committee reviews the potential impact of Section 162(m) as it constructs the compensation program and in relation to the level of each element of compensation, but reserves the right to pay non-deductible compensation where appropriate to achieve our business objectives.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management. Based on this review and discussion with management, the Compensation Committee has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and in the company’s Annual Report on Form 10-K for fiscal 2018.

COMPENSATION COMMITTEE OF THE
BOARD OF DIRECTORS

Adrian Bellamy, Chair
Anthony Greener
Frits van Paasschen

Summary Compensation Table for Fiscal 2018, Fiscal 2017 and Fiscal 2016

This table sets forth certain annual and long-term compensation earned by or granted to our Named Executive Officers. For more information on the realized pay of our Named Executive Officers, please see “Overview of Chief Executive Officer Compensation for Fiscal 2018” on page 35 and “PSUs Granted in Fiscal 2016” on page 40.

Name and Principal Position	Fiscal Year	Salary \$(1)	Bonus (\$)	Stock Awards \$(2)(3)	Option Awards (\$)	Non-Equity Incentive Plan Compensation \$(4)	All Other Compensation \$(5)	Total (\$)
Laura Alber Director, President and Chief Executive Officer	2018	\$1,473,077	—	\$21,999,903	—	\$3,750,000	\$ 31,186	\$27,254,166
	2017	\$1,400,000	—	\$ 9,999,899	—	\$3,000,000	\$ 29,433	\$14,429,332
	2016	\$1,400,000	—	\$ 9,999,960	—	\$2,400,000	\$ 23,419	\$13,823,379
Julie Whalen Executive Vice President, Chief Financial Officer	2018	\$ 800,010	—	\$ 2,249,982	—	\$1,000,000	\$ 28,811	\$ 4,078,803
	2017	\$ 786,545	—	\$ 2,999,883	—	\$ 750,000	\$ 28,647	\$ 4,565,075
	2016	\$ 750,000	—	\$ 1,999,919	—	\$ 700,000	\$ 28,398	\$ 3,478,317
Alex Bellos(6) President, West Elm Brand	2018	\$ 723,077	—	\$ 1,999,989	—	\$1,500,000	\$ 27,354	\$ 4,250,420
	2017	\$ 457,596	\$660,000(7)	\$ 1,999,915	—	\$ 750,000	\$176,704	\$ 4,044,215
Marta Benson(6) President, Pottery Barn Brand	2018	\$ 736,539	—	\$ 2,999,959	—	\$ 900,000	\$ 34,889	\$ 4,671,387
	2017	\$ 671,539	—	\$ 1,499,942	—	\$ 750,000	\$ 33,446	\$ 2,954,927
Janet Hayes President, Williams Sonoma Brand	2018	\$1,100,008	—	\$ 2,999,959	—	\$ 900,000	\$ 31,362	\$ 5,031,329
	2017	\$1,052,890	—	\$ 4,999,895	—	\$1,300,000	\$ 30,964	\$ 7,383,749
	2016	\$ 925,000	—	\$ 2,999,939	—	\$1,300,000	\$113,879	\$ 5,338,818

- (1) Variances in the salary column versus annual base salary rate are a result of the timing of paychecks issued in a given fiscal year, as well as the impact of a 53-week fiscal year in fiscal 2018 as compared to 52-week fiscal years in fiscal 2017 and fiscal 2016.
- (2) Represents the grant date fair value of awards granted in fiscal 2018, fiscal 2017, and fiscal 2016, as calculated in accordance with FASB ASC Topic 718 by multiplying the closing price of our stock on the trading day prior to the grant date by the number of units granted. The number of restricted stock units and performance stock unit awards granted is determined by dividing the total monetary value of each award by the closing price of our common stock on the trading day prior to the grant date, rounding down to the nearest whole share.
- (3) The amounts in the stock awards column include the fair market value of performance stock unit awards assuming probable achievement of the performance goal at target levels resulting in the following fair market values for the performance stock unit awards: Ms. Alber – \$5,999,967 (fiscal 2018), \$4,999,949 (fiscal 2017) and \$4,999,980 (fiscal 2016); Ms. Whalen – \$674,985 (fiscal 2018), \$599,955 (fiscal 2017) and \$599,964 (fiscal 2016); Mr. Bellos – \$599,992 (fiscal 2018) and \$299,981 (fiscal 2017); Ms. Benson – \$899,963 (fiscal 2018) and \$299,978 (fiscal 2017); and Ms. Hayes – \$899,963 (fiscal 2018), \$899,987 (fiscal 2017) and \$899,945 (fiscal 2016). Assuming maximum achievement of the performance goal, the fair market value of those performance stock units would be: Ms. Alber – \$11,999,934 (fiscal 2018), \$9,999,899 (fiscal 2017), and \$9,999,960 (fiscal 2016); Ms. Whalen – \$1,349,969 (fiscal 2018), \$1,199,910 (fiscal 2017) and \$1,199,927 (fiscal 2016); Mr. Bellos – \$1,199,984 (fiscal 2018) and \$599,962 (fiscal 2017); Ms. Benson – \$1,799,927 (fiscal 2018) and \$599,955 (fiscal 2017); and Ms. Hayes – \$1,799,927 (fiscal 2018), \$1,799,973 (fiscal 2017) and \$1,799,891 (fiscal 2016).
- (4) Represents amounts earned under the company’s 2001 Incentive Bonus Plan for fiscal 2018, fiscal 2017, and fiscal 2016.
- (5) Details are provided in the Other Annual Compensation from Summary Compensation Table on page 44.
- (6) Mr. Bellos and Ms. Benson each became a Named Executive Officer in fiscal 2017.
- (7) Represents a special, discretionary sign-on bonus of \$660,000 that was awarded to Mr. Bellos in connection with his promotion to President, West Elm Brand. The sign-on bonus is repayable ratably over a five-year period in the event Mr. Bellos leaves the company or is terminated for cause within five years from the effective date of his promotion.

Other Annual Compensation from Summary Compensation Table

This table sets forth the compensation and benefits included under “All Other Compensation” in the Summary Compensation Table above.

	Fiscal Year	Life Insurance Premiums(1)	Matching Contribution to the 401(k) Plan(2)	Car Allowance	Executive Financial Services	Dividend Equivalent Payments(3)	Total
Laura Alber	2018	\$4,878	\$8,308	\$6,000	\$12,000	—	\$ 31,186(4)
	2017	\$3,510	\$7,923	\$6,000	\$12,000	—	\$ 29,433
	2016	\$3,510	\$7,923	\$6,000	\$ 5,986	—	\$ 23,419
Julie Whalen	2018	\$2,792	\$8,019	\$6,000	\$12,000	—	\$ 28,811
	2017	\$2,743	\$7,904	\$6,000	\$12,000	—	\$ 28,647
	2016	\$2,610	\$7,788	\$6,000	\$12,000	—	\$ 28,398
Alex Bellos	2018	\$1,341	\$9,481	—	—	\$16,532	\$ 27,354
	2017	\$ 785	\$6,635	—	—	\$12,053	\$176,704(5)
Marta Benson	2018	\$7,348	\$7,482	—	—	\$20,059	\$ 34,889
	2017	\$6,470	\$7,477	—	—	\$19,499	\$ 33,446
Janet Hayes	2018	\$5,382	\$7,980	\$6,000	\$12,000	—	\$ 31,362
	2017	\$4,805	\$8,159	\$6,000	\$12,000	—	\$ 30,964
	2016	\$3,240	\$7,755	\$6,000	\$12,000	\$84,884	\$113,879

- (1) Premiums paid by us for term life insurance in excess of \$50,000 for each fiscal year.
- (2) Represents company matching contributions under our 401(k) plan. Similar to our other full-time employees, Named Executive Officers were eligible to participate in our 401(k) plan and received matching contributions from the company of up to \$8,250 during calendar 2018, \$8,100 during calendar 2017, and \$7,950 during calendar 2016. Matching amounts above this maximum are due to differences between calendar and fiscal year contributions.
- (3) Amounts only include dividend equivalent payments for any outstanding equity award not disclosed at the time of grant in the executive compensation tables of a prior proxy statement. Excludes the following dividend equivalent payments, which were previously factored into the grant date fair value for such disclosed equity award: Ms. Alber – \$240,970 (fiscal 2018), \$306,346 (fiscal 2017), and \$573,509 (fiscal 2016); Ms. Whalen – \$94,050 (fiscal 2018), \$78,964 (fiscal 2017), and \$180,601 (fiscal 2016); Mr. Bellos – \$13,602 (fiscal 2018), Ms. Benson – \$8,880 (fiscal 2018) and Ms. Hayes – \$143,777 (fiscal 2018), \$109,365 (fiscal 2017) and \$63,486 (fiscal 2016).
- (4) Does not include incremental cost of one-time personal use by Ms. Alber of the company airplane because she fully reimbursed the company for such cost.
- (5) Includes the following for Mr. Bellos: \$87,830 in home sale and purchase assistance, \$53,655 in moving and relocation expenses and a \$15,746 tax restoration payment, in each case paid pursuant to the company’s relocation policy in connection with his promotion to President, West Elm Brand in June 2017, which required that Mr. Bellos relocate from Portland, Oregon to Brooklyn, New York.

Grants of Plan-Based Awards

This table sets forth certain information regarding all grants of plan-based awards made to the Named Executive Officers during fiscal 2018.

	Grant Date	Compensation Committee Approval Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#)	Grant Date Fair Value of Stock and Option Awards (\$)(3)
			Threshold (\$)	Target (\$)(1)(2)	Maximum (\$)(2)	Threshold (#)	Target (#)	Maximum (#)		
Laura Alber	—	—	—	\$3,000,000	\$10,000,000	—	—	—	—	
	2/6/2018	2/6/2018(4)	—	—	—	—	—	203,541	\$9,999,969	
	4/18/2018	3/21/2018(4)	—	—	—	—	—	123,051	\$5,999,967	
	4/18/2018	3/21/2018(5)	—	—	—	61,525	123,051	246,102	\$5,999,967	
Julie Whalen	—	—	—	\$ 800,000	\$10,000,000	—	—	—	—	
	4/18/2018	3/21/2018(4)	—	—	—	—	—	32,301	\$1,574,997	
	4/18/2018	3/21/2018(5)	—	—	—	6,921	13,843	27,686	\$ 674,985	
Alex Bellos	—	—	—	\$ 750,000	\$10,000,000	—	—	—	—	
	4/18/2018	3/21/2018(4)	—	—	—	—	—	28,712	\$1,399,997	
	4/18/2018	3/21/2018(5)	—	—	—	6,152	12,305	24,610	\$ 599,992	
Marta Benson	—	—	—	\$ 750,000	\$10,000,000	—	—	—	—	
	4/18/2018	3/21/2018(4)	—	—	—	—	—	43,068	\$2,099,996	
	4/18/2018	3/21/2018(5)	—	—	—	9,228	18,457	36,914	\$ 899,963	
Janet Hayes	—	—	—	\$1,100,000	\$10,000,000	—	—	—	—	
	4/18/2018	3/21/2018(4)	—	—	—	—	—	43,068	\$2,099,996	
	4/18/2018	3/21/2018(5)	—	—	—	9,228	18,457	36,914	\$ 899,963	

- (1) Target potential payment for each eligible executive pursuant to our established incentive targets.
- (2) The Compensation Committee established a threshold performance goal that needed to be satisfied in order for payments under our stockholder-approved 2001 Incentive Bonus Plan to be earned. For fiscal 2018, the Compensation Committee established the threshold performance goal for the 2001 Incentive Bonus Plan as positive net cash flow provided by operating activities as set forth in the company's consolidated statements of cash flows. The Compensation Committee also set a secondary performance goal to guide its use of discretion in determining whether to reduce bonus amounts from the maximum shown in the table above; the Compensation Committee typically expects to pay bonuses at target levels if the secondary performance goal is met at target. For fiscal 2018, the Compensation Committee set the secondary performance goal as an earnings per share target of \$4.20 (excluding extraordinary non-recurring charges, and including any amounts payable to covered employees under the 2001 Incentive Bonus Plan). As further described in the section entitled "Components of our Compensation Program, 2018 Decisions and the Decision Making Process—Annual Cash Bonus" in the Compensation Discussion and Analysis beginning on page 28, the 2001 Incentive Bonus Plan's threshold performance goal was achieved and the secondary performance goal was achieved between target and maximum levels, and the Compensation Committee elected to apply its discretion in determining to reduce the actual amount to be paid to the Named Executive Officers under the 2001 Incentive Bonus Plan below the maximum potential payment shown in the table above.
- (3) Represents the grant date fair value of restricted stock unit and performance stock unit awards granted in fiscal 2018, as calculated in accordance with FASB ASC Topic 718, by multiplying the closing price of our stock on the trading day prior to the grant date by the number of units granted. The number of restricted stock units and performance stock units granted is determined by dividing the total monetary value of each award by the closing price of our common stock on the trading day prior to the grant date, rounding down to the nearest whole share.
- (4) Grants of restricted stock units. See the section entitled "Components of our Compensation Program, 2018 Decisions and the Decision Making Process—Long-Term Incentives" in the Compensation Discussion and Analysis beginning on page 28 and the footnotes to the "Outstanding Equity Awards at Fiscal Year-End" table beginning on page 46 for more information regarding these grants.
- (5) Grants of performance stock units. See the section entitled "Components of our Compensation Program, 2018 Decisions and the Decision Making Process—Long-Term Incentives" in the Compensation Discussion and Analysis beginning on page 28 and the footnotes to the "Outstanding Equity Awards at Fiscal Year-End" table beginning on page 46 for more information regarding these grants. The number of performance stock units granted appears in the "Target" column.

Outstanding Equity Awards at Fiscal Year-End

The following tables set forth information regarding equity awards held by our Named Executive Officers on February 3, 2019.

	Stock Awards			
	Number of Shares or Units of Stock that have not Vested (#)	Market Value of Shares or Units of Stock that have not Vested (\$)(1)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that have not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that have not Vested (\$)(1)
Laura Alber	123,051(2)	\$ 6,644,754	—	—
	—	—	123,051(3)	\$6,644,754
	203,541(4)	\$10,991,214	—	—
	69,380(5)	\$ 3,746,520	—	—
	—	—	92,506(6)	\$4,995,324
	41,044(7)	\$ 2,216,376	—	—
	146,116(8)	\$ 7,890,264	—	—
	16,338(9)	\$ 882,252	—	—
Julie Whalen	32,301(2)	\$ 1,744,254	—	—
	—	—	13,843(3)	\$ 747,522
	9,251(10)	\$ 499,554	—	—
	19,426(5)	\$ 1,049,004	—	—
	—	—	11,100(6)	\$ 599,400
	11,492(7)	\$ 620,568	—	—
	17,533(8)	\$ 946,782	—	—
	4,117(9)	\$ 222,318	—	—
Alex Bellos	28,712(2)	\$ 1,550,448	—	—
	—	—	12,305(3)	\$ 664,470
	18,568(11)	\$ 1,002,672	—	—
	6,938(5)	\$ 374,652	—	—
	—	—	6,189(12)	\$ 334,206
	5,071(13)	\$ 273,834	—	—
	2,463(7)	\$ 133,002	—	—
	654(9)	\$ 35,316	—	—
Marta Benson	43,068(2)	\$ 2,325,672	—	—
	—	—	18,457(3)	\$ 996,678
	16,651(5)	\$ 899,154	—	—
	—	—	5,550(6)	\$ 299,700
	3,284(7)	\$ 177,336	—	—
	1,266(14)	\$ 68,364	—	—
	915(9)	\$ 49,410	—	—
Janet Hayes	43,068(2)	\$ 2,325,672	—	—
	—	—	18,457(3)	\$ 996,678
	18,501(10)	\$ 999,054	—	—
	29,139(5)	\$ 1,573,506	—	—
	—	—	16,651(6)	\$ 899,154
	17,239(7)	\$ 930,906	—	—
	26,299(8)	\$ 1,420,146	—	—
	5,947(9)	\$ 321,138	—	—

(1) Based on a stock price of \$54.00, the closing price of our common stock on February 1, 2019, the last business day of fiscal 2018.

- (2) Represents restricted stock units granted on April 18, 2018. The restricted stock units vest as follows: (i) 25% of the units vest on April 18, 2019; (ii) 25% of the units vest on April 18, 2020; (iii) 25% of the units vest on April 18, 2021; and (iv) 25% of the units vest on April 18, 2022, each subject to continued service. In addition, upon vesting, the executive receives a cash payment equal to dividends declared between the grant date and the vesting date.
- (3) Represents performance stock units granted on April 18, 2018. The performance stock units vest on April 18, 2021, subject to continued service and achievement of performance criteria. The shares above reflect a target payout of 100%. This award has a potential payout of 200% if the maximum performance criteria are achieved and 50% if the threshold performance criteria are achieved. In addition, upon vesting, the executive receives a cash payment equal to dividends declared between the grant date and the vesting date.
- (4) Represents restricted stock units granted on February 6, 2018. The restricted stock units vest as follows: (i) 50% of the units vest on February 6, 2019; and (ii) 50% of the units vest on February 6, 2020, each subject to continued service and a performance criterion of positive net income during the prior fiscal year with respect to each vesting date, which has been met with respect to the first vesting date. In addition, upon vesting, the executive receives a cash payment equal to dividends declared between the grant date and the vesting date.
- (5) Represents restricted stock units granted on May 1, 2017. The restricted stock units vest as follows: (i) 25% of the units vest on May 1, 2018; (ii) 25% of the units vest on May 1, 2019; (iii) 25% of the units vest on May 1, 2020; and (iv) 25% of the units vest on May 1, 2021, each subject to continued service and a performance criterion of positive net cash flow provided by operating activities (excluding any non-recurring charges) for fiscal 2017 as provided on the company's consolidated statements of cash flows, which has been met. In addition, upon vesting, the executive receives a cash payment equal to dividends declared between the grant date and the vesting date.
- (6) Represents performance stock units granted on May 1, 2017. The performance stock units vest on May 1, 2020, subject to continued service and achievement of a performance criterion. The shares above reflect a target payout of 100%. This award has a potential payout of 200% if the maximum performance criterion is achieved and 50% if the threshold performance criterion is achieved. In addition, upon vesting, the executive receives a cash payment equal to dividends declared between the grant date and the vesting date.
- (7) Represents restricted stock units granted on April 18, 2016. The restricted stock units vest as follows: (i) 25% of the units vested on April 18, 2017; (ii) 25% of the units vested on April 18, 2018; (iii) 25% of the units vest on April 18, 2019; and (iv) 25% of the units vest on April 18, 2020, each subject to continued service and a performance criterion of positive net cash flow provided by operating activities (excluding any non-recurring charges) for fiscal 2016 as provided on the company's consolidated statements of cash flows, which has been met. In addition, upon vesting, the executive receives a cash payment equal to dividends declared between the grant date and the vesting date.
- (8) Represents performance stock units granted on April 18, 2016. The performance stock units vested on April 18, 2019 because the continued service requirement was met and the performance criterion was achieved, resulting in payout of 178% of target. See the section entitled "Components of our Compensation Program, 2018 Decisions and the Decision Making Process—PSUs Granted in Fiscal 2016" in the Compensation Discussion and Analysis beginning on page 28 for more information regarding the achievement of the performance criterion. In addition, upon vesting, the executive received a cash payment equal to dividends declared between the grant date and the vesting date.
- (9) Represents restricted stock units granted on April 20, 2015. The restricted stock units vest as follows: (i) 25% of the units vested on April 20, 2016; (ii) 25% of the units vested on April 20, 2017; (iii) 25% of the units vested on April 20, 2018; and (iv) 25% of the units vest on April 20, 2019, each subject to continued service and a performance criterion of positive net cash flow provided by operating activities (excluding any non-recurring charges) for fiscal 2015 as provided on the company's consolidated statements of cash flows, which has been met. In addition, upon vesting, the executive receives a cash payment equal to dividends declared between the grant date and the vesting date.

- (10) Represents restricted stock units granted on May 1, 2017. The restricted stock units vest as follows: (i) 50% of the units vested on May 1, 2018; and (ii) 50% of the units vest on May 1, 2019, each subject to continued service and a performance criterion of positive net cash flow provided by operating activities (excluding any non-recurring charges) for fiscal 2017 as provided on the company's consolidated statements of cash flows, which has been met. In addition, upon vesting, the executive receives a cash payment equal to dividends declared between the grant date and the vesting date.
- (11) Represents restricted stock units granted on June 5, 2017. The restricted stock units vest as follows: (i) 25% of the units vested on June 5, 2018; (ii) 25% of the units vest on June 5, 2019; (iii) 25% of the units vest on June 5, 2020; and (iv) 25% of the units vest on June 5, 2021, each subject to continued service and a performance criterion of positive net cash flow provided by operating activities (excluding any non-recurring charges) for fiscal 2017 as provided on the company's consolidated statements of cash flows, which has been met.
- (12) Represents performance stock units granted on June 5, 2017. The performance stock units vest on May 1, 2020, subject to continued service and achievement of a performance criterion. The shares above reflect a target payout of 100%. This award has a potential payout of 200% if the maximum performance criterion is achieved and 50% if the threshold performance criterion is achieved. In addition, upon vesting, the executive receives a cash payment equal to dividends declared between the grant date and the vesting date.
- (13) Represents restricted stock units granted on January 6, 2017. The restricted stock units vest as follows: (i) 25% of the units vested on January 6, 2018; (ii) 25% of the units vested on January 6, 2019; (iii) 25% of the units vest on January 6, 2020; and (iv) 25% of the units vest on January 6, 2021, each subject to continued service and a performance criterion of positive net cash flow provided by operating activities (excluding any non-recurring charges) for fiscal 2017 as provided on the company's consolidated statements of cash flows, which has been met. In addition, upon vesting, the executive receives a cash payment equal to dividends declared between the grant date and the vesting date.
- (14) Represents restricted stock units granted on May 28, 2015. The restricted stock units vest as follows: (i) 25% of the units vested on May 28, 2016; (ii) 25% of the units vested on May 28, 2017; (iii) 25% of the units vested on May 28, 2018; and (iv) 25% of the units vest on May 28, 2019, each subject to continued service and a performance criterion of positive net cash flow provided by operating activities (excluding any non-recurring charges) for fiscal 2015 as provided on the company's consolidated statements of cash flows, which has been met. In addition, upon vesting, the executive receives a cash payment equal to dividends declared between the grant date and the vesting date.

Option Exercises and Stock Vested

The following table sets forth information regarding the vesting of restricted stock unit awards held by our Named Executive Officers during fiscal 2018.

	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise \$(1)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting \$(2)
Laura Alber	—	—	71,972	\$3,498,003
Julie Whalen	8,465	\$122,319	31,342	\$1,516,448
Alex Bellos	—	—	13,220	\$ 708,308
Marta Benson	—	—	10,290	\$ 502,566
Janet Hayes	—	—	50,771	\$2,453,220

- (1) The value realized upon exercise is calculated as the difference between the closing price of our stock on the day prior to the exercise date and the applicable exercise price of the option awards, multiplied by the number of shares exercised.
- (2) The value realized upon vesting is calculated as the closing price of our stock on the day prior to the vesting date multiplied by the number of units vested.

Pension Benefits

None of our Named Executive Officers received any pension benefits during fiscal 2018.

Nonqualified Deferred Compensation

The following table describes nonqualified deferred compensation to our named executive officers during fiscal 2018:

	Executive Contributions in Fiscal 2018 (\$)	Registrant Contributions in Fiscal 2018 (\$)	Aggregate Earnings (Loss) in Fiscal 2018 (\$)	Aggregate Withdrawals/ Distributions (\$)	Aggregate Balance at February 3, 2019 (\$)
Laura Alber	—	—	—	—	—
Julie Whalen	—	—	—	—	—
Alex Bellos	—	—	—	—	—
Marta Benson(1)	\$517,154(2)	—	\$17,180	—	\$845,466(3)
Janet Hayes	—	—	—	—	—

- (1) Reflects amounts deferred under the Executive Deferred Compensation Plan. Participation in the plan is limited to a group of select management and highly compensated employees. In fiscal 2018, participants were able to defer up to 75% of their base salary and up to 100% of their bonus, net of applicable employment and withholding taxes and subject to a minimum deferral requirement (5% of salary). Participant accounts are not put aside in trust or any other funding vehicle, and the obligations of the company to pay are an unsecured promise to pay in the future. Although no investments are held in the plan, participant accounts track investment funds chosen by the participant from a specified list, and accounts are adjusted for earnings that the investments would have accrued had the investment fund been held by such participant accounts. Accounts are generally distributed at termination of employment, although a participant can make an election at the time of deferral to have the distribution occur at an earlier or later date. A choice of quarterly installments over 5, 10, 15 or 20 years, or a single lump sum, is available for terminations due to retirement or disability, as defined in the plan, if the account is over \$15,000. All other distributions are paid as a single lump sum. The commencement of payments can be postponed, subject to advance election and minimum deferral requirements. At death, the plan may provide a death benefit funded by a life insurance policy, in addition to payment of the participant's account.
- (2) These amounts represent executive contributions attributable to fiscal 2018, and are included in the Summary Compensation Table for fiscal 2018 in the salary and bonus columns.
- (3) A portion of this amount was previously reported in the Summary Compensation Table in the Proxy Statement for the 2018 Annual Meeting of Stockholders in the amount of \$435,439.

Employment Contracts and Termination of Employment and Change-of-Control Arrangements

Management Retention Agreement

We entered into an amended and restated management retention agreement with Laura Alber on September 6, 2012. The management retention agreement restates substantially all of the material terms of the prior agreement, with the exception of extending the term of the agreement through September 7, 2033. All other terms are substantially the same as the EVP Retention Plan, as described below.

Management Retention Plan

Effective March 27, 2019, we amended and restated the 2012 EVP Level Management Retention Plan, or the EVP Retention Plan. The EVP Retention Plan restates substantially all of the material terms of the prior 2012 EVP Level Management Retention Plan. Each of Ms. Whalen, Mr. Bellos, Ms. Benson and Ms. Hayes are subject to the EVP Retention Plan. The EVP Retention Plan will remain in effect through March 26, 2022, unless earlier terminated by the company in accordance with the plan.

If within 18 months following a change of control, an executive's employment is terminated by us without "cause," or by the executive for "good reason," then (i) 100% of such executive's outstanding equity awards, including full value awards, with performance-based vesting where the payout is a set number or zero depending on whether the performance metric is obtained, will immediately become fully vested, except that if a full value award has performance-based vesting and the performance period has not been completed and the number of shares that can be earned is variable based on the performance level, a pro-rata portion of such executive's outstanding equity awards will immediately become fully vested at the target performance level, and (ii) in lieu of continued employment benefits (other than as required by law), such executive will be entitled to receive payments of \$3,000 per month for 12 months.

In addition, if, within 18 months following a change of control, the executive's employment is terminated by us without "cause," or by the executive for "good reason," such executive will be entitled to receive (i) severance equal to 200% of such executive's base salary as in effect immediately prior to the change of control or such executive's termination, whichever is greater, with such severance to be paid over 24 months, and (ii) 200% of the average annual bonus received by such executive in the last 36 months prior to the termination, with such severance to be paid over 24 months.

Each executive's receipt of the severance benefits discussed above is contingent on such executive signing and not revoking a release of claims against us, such executive's continued compliance with our Code of Business Conduct and Ethics (including its provisions relating to confidential information and non-solicitation), such executive not accepting employment with one of our competitors, and such executive's continued non-disparagement of us. In the event that the severance payments and other benefits payable to an executive under a retention agreement constitute a "parachute payment" under Section 280G of the U.S. tax code and would be subject to the applicable excise tax, then the executive's severance payments and other benefits will be either (i) delivered in full or (ii) delivered to a lesser extent such that no portion of the benefits are subject to the excise tax, whichever results in the receipt by such executive on an after-tax basis of the greatest amount of benefits (such provision, a "better after-tax" provision).

For purposes of the EVP Retention Plan, "cause" means: (i) an act of dishonesty made by the executive in connection with his or her responsibilities as an employee; (ii) the executive's conviction of, or plea of nolo contendere to, a felony or any crime involving fraud, embezzlement or any other act of moral turpitude; (iii) the executive's gross misconduct; (iv) the executive's unauthorized use or disclosure of any proprietary information or trade secrets of the company or any other party to whom the executive owes an obligation of nondisclosure as a result of the executive's relationship with the company; (v) the executive's willful breach of any obligations under any written agreement or covenant with the company or breach of the company's Code of Business Conduct and Ethics; or (vi) the executive's continued failure to perform his or her employment duties after he or she has received a written demand of performance which specifically sets forth the factual basis for the belief that the executive has not substantially performed his or her duties and has failed to cure such non-performance within 30 days after receiving such notice.

For purposes of the EVP Retention Plan, "change of control" means the occurrence of any of the following events: (i) a change in the ownership of the company which occurs on the date that any one person, or more than one person acting as a group ("Person"), acquires ownership of the stock of the company that, together with the stock held by such Person, constitutes more than 50% of the total voting power of the stock of the company; provided, however, that for purposes of this subsection (i), the acquisition of additional stock by any one Person, who is considered to own more than 50% of the total voting power of the stock of the company will not be considered a change of control; or (ii) a change in the effective control of the company which occurs on the date that a majority of members of the Board of Directors is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Board of Directors prior to the date of the appointment or election; provided, however, that for purposes of this subsection (ii), if any Person is considered to effectively control the company, the acquisition of additional control of the company by the same Person will not be considered a change of control; or (iii) a change in the ownership of a substantial portion of

the company's assets which occurs on the date that any Person acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) assets from the company that have a total gross fair market value equal to or more than 50% of the total gross fair market value of all of the assets of the company immediately prior to such acquisition or acquisitions; provided, however, that for purposes of this subsection (iii), the following will not constitute a change in the ownership of a substantial portion of the company's assets: (A) a transfer to an entity that is controlled by the company's stockholders immediately after the transfer, or (B) a transfer of assets by the company to: (1) a stockholder of the company (immediately before the asset transfer) in exchange for or with respect to the company's stock, (2) an entity, 50% or more of the total value or voting power of which is owned, directly or indirectly, by the company, (3) a Person that owns, directly or indirectly, 50% or more of the total value or voting power of all the outstanding stock of the company, or (4) an entity, at least 50% of the total value or voting power of which is owned, directly or indirectly, by a Person. For purposes of this subsection (iii), gross fair market value means the value of the assets of the company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets. For purposes of this definition, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the company. Notwithstanding the foregoing, a transaction shall not be deemed a change of control unless the transaction qualifies as a change in the ownership of the company, change in the effective control of the company or a change in the ownership of a substantial portion of the company's assets, each within the meaning of Section 409A.

For purposes of the EVP Retention Plan, "good reason" means, without the executive's consent, (i) a material reduction in his or her annual base salary (except pursuant to a reduction generally applicable to senior executives of the company), (ii) a material diminution of his or her authority, duties or responsibilities, (iii) the executive ceasing to report directly to a specified individual or the Board of the company or the entity holding all or substantially all of the company's assets following a change of control, or (iv) relocation of the executive to a location more than 50 miles from the company's San Francisco, California main office location. In addition, upon any such voluntary termination for good reason, the executive must provide written notice to the company of the existence of one or more of the above conditions within 90 days of its initial existence, and the company must be provided with at least 30 days from the receipt of the notice to remedy the condition.

Amended and Restated Employment Agreement with Laura Alber

We entered into an amended and restated employment agreement with Laura Alber, effective as of September 6, 2012, which amended and restated the prior agreement entered into with Ms. Alber, effective May 26, 2010. The employment agreement restates substantially all of the material terms of the prior agreement, with the exception of extending the term of the agreement through September 7, 2033 and referencing Ms. Alber's then current base salary of \$1,300,000. If we terminate Ms. Alber's employment without "cause," if she terminates her employment with us for "good reason," or if her employment is terminated due to her death or "disability," she will be entitled to receive (i) severance equal to 24 months of her base salary to be paid over 24 months, (ii) a lump sum payment equal to 200% of the average annual bonus received by her in the last 36 months prior to the termination, (iii) in lieu of continued employment benefits (other than as required by law), payments of \$3,000 per month for 18 months, and (iv) accelerated vesting of her then-outstanding equity awards that vest solely based upon Ms. Alber's continued service by up to an additional 18 months' of vesting credit, and if the awards were subject to cliff-vesting of more than one year, the cliff-vesting provision will be lifted and vesting credit given as if the award had been subject to monthly vesting, and equity awards subject to performance-based vesting will remain outstanding through the date upon which the achievement of the applicable performance milestones are certified with such awards paid out, subject to the attainment of the applicable performance milestones, to the same extent and at the same time as if Ms. Alber had remained employed through the 18-month anniversary of her termination date. Ms. Alber's receipt of the severance benefits discussed above is contingent on her signing and not revoking a release of claims against us, her continued compliance with our Code of Business Conduct and Ethics (including its provisions relating to confidential information and non-solicitation), her not accepting employment with one of our competitors, and her continued non-disparagement of us.

For purposes of the employment agreement with Ms. Alber, “cause” is defined as (i) an act of dishonesty made by her in connection with her responsibilities as an employee, (ii) Ms. Alber’s conviction of or plea of nolo contendere to, a felony or any crime involving fraud, embezzlement or any other act of moral turpitude, (iii) Ms. Alber’s gross misconduct, (iv) Ms. Alber’s unauthorized use or disclosure of any proprietary information or trade secrets of the company or any other party to whom she owes an obligation of nondisclosure as a result of her relationship with the company, (v) Ms. Alber’s willful breach of any obligations under any written agreement or covenant with the company or breach of the company’s Code of Business Conduct and Ethics, or (vi) Ms. Alber’s continued failure to perform her employment duties after she has received a written demand of performance from the Board which specifically sets forth the factual basis for the Board’s belief that she has not substantially performed her duties and has failed to cure such non-performance to the company’s satisfaction within 30 days after receiving such notice.

For purposes of the employment agreement with Ms. Alber, “disability” means Ms. Alber (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than 3 months under an accident and health plan covering company employees.

For purposes of the employment agreement with Ms. Alber, “good reason” is defined as, without Ms. Alber’s consent, (i) a reduction in her base salary (except pursuant to a reduction generally applicable to senior executives of the company), (ii) a material diminution of her authority or responsibilities, (iii) a reduction of Ms. Alber’s title, (iv) Ms. Alber ceasing to report directly to the Board of Directors, or (v) the Board of Directors failing to re-nominate Ms. Alber for Board membership when her Board term expires while she is employed by the company. In addition, upon any such voluntary termination for good reason, Ms. Alber must provide written notice to the company of the existence of one or more of the above conditions within 90 days of its initial existence and the company must be provided with at least 30 days to remedy the condition.

The following table describes the payments and/or benefits which would have been owed by us to Ms. Alber as of February 3, 2019 if her employment had been terminated in various situations, without taking into account the “better after-tax” provision or applicable taxes.

<u>Compensation and Benefits</u>	<u>Termination Without Cause or for Good Reason (No Change-of-Control)</u>	<u>Termination Without Cause or for Good Reason (Change-of-Control)</u>	<u>Death/Disability</u>
Base Salary(1)	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000(2)
Bonus Payment(3)	\$ 5,333,333	\$ 5,333,333	\$ 5,333,333(2)
Equity Awards(4)(5)	\$37,516,446(6)	\$40,553,946(7)	\$37,516,446(6)
Health Care Benefits(8)	\$ 54,000	\$ 36,000	\$ 54,000

- (1) Represents 200%, or 24 months, of Ms. Alber’s base salary as of February 3, 2019.
- (2) Will be reduced by the amount of any payments Ms. Alber receives through company-paid insurance policies.
- (3) Represents 200% of the average annual bonus received by Ms. Alber in the 36-month period prior to February 3, 2019.
- (4) Value is based on a stock price of \$54.00, the closing price of our common stock on February 1, 2019, the last business day of fiscal 2018.
- (5) For illustrative purposes only, performance stock units are estimated at target.
- (6) Represents the sum of (i) \$23,104,818 for acceleration of vesting of 427,867 restricted stock units and (ii) \$14,411,628 for acceleration of vesting of 266,882 performance stock units.

- (7) Represents the sum of (i) \$24,481,116 for acceleration of vesting of 453,354 restricted stock units and (ii) \$16,072,830 for acceleration of vesting of 297,645 performance stock units.
- (8) Based on a monthly payment of \$3,000 to be paid by the company for 18 months or 12 months, as applicable, in lieu of continued employment benefits.

All Other Named Executive Officers

Except as described above in connection with a termination following a change of control of the company, the other Named Executive Officers are generally not entitled to severance benefits in connection with their termination for good reason or involuntary termination. The following table describes the payments and/or benefits which would have been owed by us to the Named Executive Officers as of February 3, 2019 under the EVP Retention Plan if within 18 months following a change of control of the company, the executive's employment was terminated by us without cause, or by the executive for good reason, without taking into account the "better after-tax" provision or applicable taxes.

Name	Potential Double-Trigger Change in Control Benefits			Health Care Benefits(4)
	Base Salary(1)	Bonus Payment(2)	Equity Awards(3)	
Julie Whalen	\$1,600,000	\$1,400,000	\$6,014,520(5)	\$36,000
Alex Bellos	\$1,500,000	\$ 816,667	\$4,368,600(6)	\$36,000
Marta Benson	\$1,500,000	\$ 950,000	\$4,816,314(7)	\$36,000
Janet Hayes	\$2,200,000	\$2,266,667	\$8,843,958(8)	\$36,000

- (1) Represents 200% of each Named Executive Officer's base salary as of February 3, 2019.
- (2) Represents 200% of the average annual bonus received by each Named Executive Officer in the 36-month period prior to February 3, 2019.
- (3) Value is based on a stock price of \$54.00, the closing price of our common stock on February 1, 2019, the last business day of fiscal 2018.
- (4) Based on a monthly payment of \$3,000 to be paid by the company for 12 months in lieu of continued employment benefits.
- (5) Represents the sum of (i) \$4,135,698 for acceleration of vesting of 76,587 restricted stock units and (ii) \$1,878,822 for acceleration of vesting of 34,793 performance stock units.
- (6) Represents the sum of (i) \$3,369,924 for acceleration of vesting of 62,406 restricted stock units and (ii) \$998,676 for acceleration of vesting of 18,494 performance stock units.
- (7) Represents the sum of (i) \$3,519,936 for acceleration of vesting of 65,184 restricted stock units and (ii) \$1,296,378 for acceleration of vesting of 24,007 performance stock units.
- (8) Represents the sum of (i) \$6,150,276 for acceleration of vesting of 113,894 restricted stock units and (ii) \$2,693,682 for acceleration of vesting of 49,883 performance stock units.

Acceleration Provisions Under Equity Award Agreements and 2001 LTIP

Restricted stock units and performance stock units were granted to our Named Executive Officers in each of fiscal 2018, fiscal 2017 and fiscal 2016. Pursuant to our equity award agreements, our Named Executive Officers are eligible for pro-rata accelerated vesting of their equity awards in the event of a Named Executive Officer's death, "disability," or "retirement," subject to the achievement of performance goals in the case of performance stock units. The performance stock units also provide that upon a "change in control," the performance goals shall be deemed satisfied at target and, for purposes of any severance and corporate transaction vesting provisions, the performance stock units will generally be treated in the same manner as a time-based restricted stock unit award covering the number of shares based on such deemed target performance.



For purposes of the equity awards, “disability” means the occurrence of any of the following events: (i) the executive being unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to last for a continuous period of not less than 12 months; (ii) the executive is, by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under the company’s accident and health plan covering the company’s employees; or (iii) the executive has been determined to be totally disabled by the Social Security Administration.

For purposes of the equity awards, “retirement” means the executive’s termination of employment for a reason other than “cause,” “disability,” or death subsequent to the executive having attained age 70 and having been employed by the company for at least 15 years. Currently, none of the Named Executive Officers satisfy the requirements for “retirement.”

For purposes of the equity awards, “cause” means: (i) embezzlement, theft or misappropriation by the executive of any property of any of the company; (ii) the executive’s breach of any fiduciary duty to the company; (iii) the executive’s failure or refusal to comply with laws or regulations applicable to the company and their businesses or the policies of the company governing the conduct of its employees or directors; (iv) the executive’s gross incompetence in the performance of their job duties; (v) the executive’s commission of a felony or of any crime involving moral turpitude, fraud or misrepresentation; (vi) the executive’s failure to perform duties consistent with a commercially reasonable standard of care; (vii) the executive’s failure or refusal to perform job duties or to perform specific directives of the executive’s supervisor or designee, or the senior officers or the Board; or (viii) any gross negligence or willful misconduct by the executive resulting in loss to the company or damage to the reputation of the company.

For purposes of the equity awards, “change in control” generally has the same meaning as “change in control” under the EVP Retention Plan or in the Named Executive Officer’s employment agreement, as applicable.

In addition, our 2001 Long-Term Incentive Plan provides that, in the event of a merger or sale of all or substantially all of the assets of the company, a liquidation or dissolution of the company or a corporate reorganization of the company, equity awards held by all plan participants (including our Named Executive Officers) will vest in full immediately prior to such transaction to the extent they are terminated at the time of such transaction without provision to the holder of an equivalent substitute award. The following table describes the benefits which would have been paid to our Named Executive Officers under these provisions had they been fully triggered on February 3, 2019. None of our Named Executive Officers were eligible to retire on February 3, 2019.

<u>Name</u>	<u>Death/Disability (1)(2)</u>	<u>Award Termination (No Substitute Award) (1)(2)</u>
Laura Alber	\$23,004,756(3)(4)	\$40,553,946(9)
Julie Whalen	\$ 3,511,350(5)	\$ 6,014,520(10)
Alex Bellos	\$ 2,067,660(6)	\$ 4,368,600(11)
Marta Benson	\$ 2,151,522(7)	\$ 4,816,314(12)
Janet Hayes	\$ 5,329,368(8)	\$ 8,843,958(13)

(1) Value is based on a stock price of \$54.00, the closing price of our common stock on February 1, 2019, the last business day of fiscal 2018.

(2) For illustrative purposes only, performance stock units are estimated at target.

(3) Under her employment agreement, Ms. Alber may be entitled to greater acceleration in the event of her death or disability, as described above in the table on page 52.

- (4) Represents the sum of (i) \$14,781,636 for acceleration of vesting of 273,734 restricted stock units and (ii) \$8,223,120 for acceleration of vesting of 152,280 performance stock units.
- (5) Represents the sum of (i) \$2,487,294 for acceleration of vesting of 46,061 restricted stock units and (ii) \$1,024,056 for acceleration of vesting of 18,964 performance stock units.
- (6) Represents the sum of (i) \$1,714,824 for acceleration of vesting of 31,756 restricted stock units and (ii) \$352,836 for acceleration of vesting of 6,534 performance stock units.
- (7) Represents the sum of (i) \$1,727,568 for acceleration of vesting of 31,992 restricted stock units and (ii) \$423,954 for acceleration of vesting of 7,851 performance stock units.
- (8) Represents the sum of (i) \$3,824,388 for acceleration of vesting of 70,822 restricted stock units and (ii) \$1,504,980 for acceleration of vesting of 27,870 performance stock units.
- (9) Represents the sum of (i) \$24,481,116 for acceleration of vesting of 453,354 restricted stock units and (ii) \$16,072,830 for acceleration of vesting of 297,645 performance stock units.
- (10) Represents the sum of (i) \$4,135,698 for acceleration of vesting of 76,587 restricted stock units and (ii) \$1,878,822 for acceleration of vesting of 34,793 performance stock units.
- (11) Represents the sum of (i) \$3,369,924 for acceleration of vesting of 62,406 restricted stock units and (ii) \$998,676 for acceleration of vesting of 18,494 performance stock units.
- (12) Represents the sum of (i) \$3,519,936 for acceleration of vesting of 65,184 restricted stock units and (ii) \$1,296,378 for acceleration of vesting of 24,007 performance stock units.
- (13) Represents the sum of (i) \$6,150,276 for acceleration of vesting of 113,894 restricted stock units and (ii) \$2,693,682 for acceleration of vesting of 49,883 performance stock units.

CEO Pay Ratio

The annual total compensation of Laura Alber, our Chief Executive Officer, was \$27,254,166 in fiscal 2018, as reflected in the Summary Compensation Table above. Based on reasonable estimates, the median annual total compensation of all employees of the company and its subsidiaries, excluding our Chief Executive Officer, was \$11,137 for fiscal 2018. Accordingly, for fiscal 2018, the ratio of the annual total compensation of our Chief Executive Officer to the median annual total compensation of all of our other employees was 2,447 to 1. Our median employee for fiscal 2018 was a Retail Stock Associate located in Tennessee, who was part-time in fiscal 2018. In preparation for and during our holiday selling season in the fourth quarter of our fiscal year, we hire a substantial number of temporary and seasonal employees, primarily in our retail stores, customer care centers and distribution facilities, who are included in the determination of the median employee. If we exclude permanent part-time, temporary and seasonal employees from our pay ratio calculation, the median annual total compensation of the remaining employees increases to \$39,817, which would result in a ratio of 684 to 1.

We identified a new median employee for fiscal 2018 based on all taxable wages earned in fiscal 2018 by each individual who was employed by the company on January 28, 2019. We also converted all relevant employee compensation, on a country-by-country basis, to U.S. dollars based on the applicable exchange rate.

Incentive Award Committee

Pursuant to its charter and the 2001 Long-Term Incentive Plan, the Compensation Committee may delegate the authority to make non-executive officer grants to two or more directors, one or more officers of the company, or otherwise in any manner permitted under applicable law. The Compensation Committee does not delegate any of its authority with respect to grants to executive officers and non-employee directors of the company. The Compensation Committee delegated to Adrian Bellamy, the Chair of the Compensation Committee, and Laura Alber the authority to grant equity to certain non-executive employees within a stated budget in connection with the company's annual equity grants.

The Compensation Committee also appointed an Incentive Award Committee consisting of Laura Alber and Julie Whalen for fiscal 2018. The Compensation Committee delegated to the Incentive Award Committee the authority to grant equity awards under the company's 2001 Long-Term Incentive Plan within certain prescribed limits to non-executive officer employees with a corporate rank at or below Senior Vice President. The Chief Executive Officer believes it is important to provide our associates with long-term incentive vehicles that are directly linked to stockholder return. Granting equity-based incentives aligns the interests of our associates with those of our stockholders and reinforces the company's pay-for-performance strategy. This delegation is reviewed by the Compensation Committee annually and includes limitations on the number of shares subject to the grants, both on an individual basis and in the aggregate. Reports of awards made by the Incentive Award Committee are included in the materials presented at the Compensation Committee's regularly scheduled meetings.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

We have policies in our Code of Business Conduct and Ethics that provide that employees must not engage in any transaction when an employee may face a real or perceived conflict of interest with the company. Our Code of Business Conduct and Ethics is distributed to all employees on an annual basis and made available throughout the year in our internal document database. It is also available on our website and in print to any stockholder who requests it. In addition, we have in place policies and procedures with respect to related person transactions that provide that our executive officers, directors and principal stockholders, as well as their immediate family members and affiliates, are not permitted to enter into a related party transaction with us unless (i) the transaction is approved or ratified by our Audit and Finance Committee or the disinterested members of our Board or (ii) the transaction involves the service of one of our executive officers or directors or any related compensation, is reportable under Item 402 of Regulation S-K and is approved by our Compensation Committee.

For the purposes of our related party transaction policy, “related party transaction” means any transaction in which the amount involved exceeds \$120,000 in any calendar year and in which any of our executive officers, directors and principal stockholders, as well as their immediate family members and affiliates, had, has or will have a direct or indirect material interest, other than transactions available to all of our employees.

It is our policy to approve related party transactions only when it has been determined that such transaction is in, or is not inconsistent with, our best interests and those of our stockholders, including situations where we may obtain products or services of a nature, quantity or quality, or on other terms, that are not readily available from alternative sources or when the transaction is on terms comparable to those that could be obtained in arm’s length dealings with an unrelated third party.

Indemnification Agreements

We have indemnification agreements with our directors and executive officers. These agreements, among other things, require us to indemnify each director and executive officer to the fullest extent permitted by Delaware law, including coverage of expenses such as attorneys’ fees, judgments, fines and settlement amounts incurred by the director or executive officer in any action or proceeding, including any action or proceeding by or in right of us, arising out of the person’s services as a director or executive officer.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors, executive officers and holders of more than 10% of our common stock to file reports regarding their ownership and changes in ownership of our stock with the SEC. Based upon (i) copies of Section 16(a) reports that we received from such persons for their fiscal 2018 transactions and (ii) information provided to us by them, we believe that all reporting requirements under Section 16(a) were met in a timely manner by the persons who were executive officers, members of the Board of Directors or greater than 10% stockholders during such fiscal year.

SECURITY OWNERSHIP OF PRINCIPAL STOCKHOLDERS AND MANAGEMENT

This table sets forth information regarding the ownership of our common stock as of April 8, 2019 by:

- each person known to us to own more than 5% of our outstanding common stock;
- each director;
- the Named Executive Officers; and
- all current executive officers and directors as a group.

Unless otherwise noted, the persons listed below have sole voting and investment power. In addition, unless otherwise noted, the address of each stockholder noted in the following table is c/o Williams-Sonoma, Inc., 3250 Van Ness Avenue, San Francisco, California 94109. Information regarding our non-management 5% stockholders is derived from the most recently available 13G filings.

<u>Name and Address of Beneficial Owner</u>	<u>Position with Company</u>	<u>Amount and Nature of Beneficial Ownership</u>			<u>Percent of Class(2)</u>
		<u>Common Stock</u>	<u>Awards Exercisable or Vesting within 60 Days(1)</u>	<u>Total</u>	
Capital Research Global Investors 333 South Hope Street Los Angeles, CA 90071	—	8,762,213(3)	—	8,762,213(3)	11.2%
The Vanguard Group, Inc. 100 Vanguard Blvd. Malvern, PA 19355	—	7,483,446(4)	—	7,483,446(4)	9.5%
BlackRock Inc. 55 East 52 nd Street New York, NY 10055	—	7,373,820(5)	—	7,373,820(5)	9.4%
FMR LLC 245 Summer Street Boston, MA 02210	—	6,115,916(6)	—	6,115,916(6)	7.8%
Aristotle Capital Management, LLC . . . 11100 Santa Monica Blvd., Suite 1700 Los Angeles, CA 90025	—	5,027,952(7)	—	5,027,952(7)	6.4%
Blackhill Capital, Inc. 161 Madison Avenue Morristown, NJ 07960	—	4,049,526(8)	—	4,049,526(8)	5.2%
Laura Alber	Director, Chief Executive Officer and President	341,696(9)	236,865	578,561	*
Julie Whalen	Executive Vice President, Chief Financial Officer	32,473(10)	51,197	83,670	*
Alex Bellos	President, West Elm Brand	4,783	17,565	22,348	*
Marta Benson	President, Pottery Barn Brand	10,476	20,140	30,616	*

<u>Name and Address of Beneficial Owner</u>	<u>Position with Company</u>	<u>Amount and Nature of Beneficial Ownership</u>			<u>Percent of Class(2)</u>
		<u>Common Stock</u>	<u>Awards Exercisable or Vesting within 60 Days(1)</u>	<u>Total</u>	
Janet Hayes	President, Williams Sonoma Brand	44,889	79,846	124,735	*
Adrian Bellamy	Director	58,266	6,900	65,166	*
Scott Dahnke	Director	10,000	418	10,418	*
Anthony Greener	Director	33,218	3,015	36,233	*
Robert Lord	Director	1,987	3,015	5,002	*
Anne Mulcahy	Director	—	1,716	1,716	*
Grace Puma	Director	3,172	3,015	6,187	*
Christiana Smith Shi	Director	3,265	3,166	6,431	*
Sabrina Simmons	Director	9,184	3,481	12,665	*
Frits van Paasschen	Director	3,172	3,015	6,187	*
All current executive officers and directors as a group (15 persons) . . .	—	574,380(11)	456,273	1,030,653	1.3%

* Less than 1%.

- (1) Reflects exercisable restricted stock units vesting within 60 days of April 8, 2019 (prior to withholding of any such shares to satisfy applicable statutory withholding requirements).
- (2) Assumes settlement or vesting of awards included in footnote (1) into shares of our common stock with respect to the named individual. Based on 78,508,602 shares outstanding as of April 8, 2019.
- (3) The information above and in this footnote is based on information taken from the Schedule 13G filed by Capital Research Global Investors, a division of Capital Research and Management Company, with the Securities and Exchange Commission on February 13, 2019. Capital Research Global Investors has sole voting power with respect to 8,762,213 shares and sole dispositive power with respect to 8,762,213 shares.
- (4) The information above and in this footnote is based on information taken from the Schedule 13G of The Vanguard Group, Inc. filed with the Securities and Exchange Commission on February 11, 2019. The Vanguard Group, Inc. has sole voting power with respect to 40,175 shares, shared voting power with respect to 10,338 shares, sole dispositive power with respect to 7,441,246 shares and shared dispositive power with respect to 42,200 shares.
- (5) The information above and in this footnote is based on information taken from the Schedule 13G of BlackRock Inc. filed with the Securities and Exchange Commission on February 6, 2019. BlackRock Inc. has sole voting power with respect to 7,030,796 shares and sole dispositive power with respect to 7,373,820 shares.
- (6) The information above and in this footnote is based on information taken from the Schedule 13G filed by FMR LLC and Abigail P. Johnson, a Director and the Chairman and the Chief Executive Officer of FMR LLC, with the Securities and Exchange Commission on February 13, 2019. FMR LLC has sole voting power with respect to 774,383 shares, shared voting power with respect to 10,338 shares, and sole dispositive power with respect to 6,115,916 shares. Ms. Johnson has sole voting power and sole dispositive power with respect to 6,115,916 shares.
- (7) The information above and in this footnote is based on information taken from the Schedule 13G filed by Aristotle Capital Management, LLC with the Securities and Exchange Commission on February 4, 2019. Aristotle Capital Management, LLC has sole voting power with respect to 1,820,706 shares and sole dispositive power with respect to 5,027,952 shares.



- (8) The information above and in this footnote is based on information taken from the Schedule 13G filed by Blackhill Capital, Inc. with the Securities and Exchange Commission on February 14, 2019. Blackhill Capital, Inc. has sole voting power with respect to 4,049,526 shares and sole dispositive power with respect to 4,049,526 shares.
- (9) Includes 14,860 shares held by Ms. Alber in the Williams-Sonoma, Inc. Stock Fund under our 401(k) plan, based on a statement dated April 8, 2019.
- (10) Includes 1,044 shares held by Ms. Whalen in the Williams-Sonoma, Inc. Stock Fund under our 401(k) plan, based on a statement dated April 8, 2019.
- (11) Includes 16,144 shares held by the executive officers in the Williams-Sonoma, Inc. Stock Fund under our 401(k) plan, based on statements dated April 8, 2019.

STOCKHOLDER PROPOSALS

Stockholder proposals must comply with the requirements of Rule 14a-8 under the Securities Exchange Act of 1934 and be received by our Secretary at our principal executive offices no later than December 21, 2019 in order to be included in our Proxy Statement for the 2020 Annual Meeting.

In order to submit a proposal to be raised at the 2020 Annual Meeting that will not be included in our Proxy Statement for the 2020 Annual Meeting, stockholder proposals must comply with our Restated Bylaws. Under our Restated Bylaws a stockholder must give advance notice to our Secretary of any business, including nominations of directors for our Board, that the stockholder wishes to raise at our Annual Meeting. To be timely under our Restated Bylaws, the notice must be received by our Secretary not less than 90 days or more than 120 days prior to June 5, 2020, the anniversary of our 2019 Annual Meeting. Therefore, stockholder proposals must be received by our Secretary at our principal executive offices between February 6, 2020 and March 7, 2020 in order to be raised at our 2020 Annual Meeting.

Under Rule 14a-8 of the Securities Exchange Act of 1934, as amended, if the date of the 2020 Annual Meeting changes by more than 30 days from the anniversary of this year's Annual Meeting, to be included in our Proxy Statement, stockholder proposals must be received by us within a reasonable time before our solicitation is made.

Under our Restated Bylaws, if the date of the 2020 Annual Meeting changes by more than 30 days from the anniversary of this year's Annual Meeting, stockholder proposals to be brought before the 2020 Annual Meeting must be delivered not later than the 90th day prior to the 2020 Annual Meeting or the 10th day following the day on which public announcement of the date of such meeting is first made by us.

With respect to a stockholder's nomination of a candidate for our Board, the stockholder notice to the Secretary must contain certain information as set forth in our Restated Bylaws and described under the section "Corporate Governance—Board Committees—Nominations and Corporate Governance Committee" about both the nominee and the stockholder making the nomination. With respect to any other business that the stockholder proposes, the stockholder notice must contain a brief description of such business and the reasons for conducting such business at the meeting, as well as certain other information as set forth in our Restated Bylaws.

Any stockholder (or group of up to 20 stockholders) meeting our continuous ownership requirements of three percent (3%) or more of our common stock for at least three years who wishes to nominate a candidate or candidates for election in connection with our 2020 Annual Meeting and require us to include such nominees in our Proxy Statement and form of proxy for our 2020 Annual Meeting must submit a notice to our Secretary at our principal executive offices no later than December 21, 2019 and no earlier than November 21, 2019 (i.e., no later than the 120th day and no earlier than the 150th day before the one-year anniversary of the date on which we first mailed our proxy materials for our 2019 Annual Meeting). If the date of the 2020 Annual Meeting is more than 30 days before or after the one-year anniversary of the 2019 Annual Meeting (the "Other Meeting Date"), the notice must be received at our principal executive offices not later than the close of business on the later of the 90th day prior to such Other Meeting Date or the 10th day following the date on which public announcement of the date of such meeting is first made by the us.

If we receive notice of a matter to come before the 2020 Annual Meeting that is not in accordance with the deadlines described above, we will use our discretion in determining whether or not to bring such matter before the Annual Meeting. If such matter is brought before the Annual Meeting, then our proxy card for such meeting will confer upon our proxy holders discretionary authority to vote on such matter.

Stockholder proposals should be sent to: Williams-Sonoma, Inc., Attention: Corporate Secretary, 3250 Van Ness Avenue, San Francisco, California 94109.

AVAILABILITY OF PROXY STATEMENT AND ANNUAL REPORT ON FORM 10-K

Pursuant to SEC rules, we have elected to provide access to our proxy materials by notifying you of the availability of our proxy materials on the Internet. Copies of this Proxy Statement and our Annual Report on Form 10-K, including the financial statements for fiscal 2018 as filed with the SEC, are available at our website at ir.williams-sonomainc.com/financial-reports-page and upon written request and without charge to any stockholder by writing to: Williams-Sonoma, Inc., Attention: Annual Report Administrator, 3250 Van Ness Avenue, San Francisco, California 94109.

San Francisco, California

April 19, 2019

DIRECTOR NOMINEES AND EXECUTIVE OFFICERS

ADRIAN BELLAMY

Chairman of the Board of Directors

LAURA ALBER

Director, President and Chief Executive Officer

SCOTT DAHNKE

Director

ROBERT LORD

Director

ANNE MULCAHY

Director

GRACE PUMA

Director

CHRISTIANA SMITH SHI

Director

SABRINA SIMMONS

Director

FRITS VAN PAASSCHEN

Director

ALEX BELLOS

President, West Elm Brand

MARTA BENSON

President, Pottery Barn Brand

JANET HAYES

President, Williams Sonoma Brand

DAVID KING

Executive Vice President, General Counsel
and Secretary

JULIE WHALEN

Executive Vice President, Chief Financial Officer

CORPORATE INFORMATION

CORPORATE HEADQUARTERS

Williams-Sonoma, Inc.
3250 Van Ness Avenue
San Francisco, California 94109

STOCK EXCHANGE LISTING

New York Stock Exchange
Symbol: WSM

CORPORATE WEBSITE

williams-sonomainc.com

STOCKHOLDER/INVESTOR INFORMATION

ir.williams-sonomainc.com

ANNUAL MEETING

Wednesday, June 5, 2019
starting at 9:00 a.m. at:
Williams-Sonoma, Inc.
3250 Van Ness Avenue
San Francisco, California 94109

TRANSFER AGENT

EQ Shareowner Services
P.O. Box 64854
St. Paul, Minnesota 55164
800-468-9716 – shareowneronline.com

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Deloitte & Touche LLP
555 Mission Street
San Francisco, California 94105

TRADEMARKS

Pottery Barn, Pottery Barn Kids, PBteen, West Elm,
Williams Sonoma, Williams Sonoma Home,
Mark and Graham, Rejuvenation

WILLIAMS-SONOMA, INC.

POTTERY BARN POTTERY BARN KIDS PBTEEN WEST ELM WILLIAMS SONOMA WILLIAMS SONOMA HOME MARK AND GRAHAM REJUVENATION OUTWARD

WILLIAMS-SONOMA, INC.

2018
ANNUAL
REPORT

ANNUAL MEETING OF STOCKHOLDERS

