FORM 10-K

WILLIAMS SONOMA INC - WSM

Filed: April 04, 2013 (period: February 03, 2013)

Annual report with a comprehensive overview of the company

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, 2013.

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	**94-2203880**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3250 Van Ness Avenue, San Francisco, CA	**94109**
(Address of principal executive offices)	(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	New York Stock Exchange, Inc.
(Title of class)	(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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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 or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

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, 2012, the approximate aggregate market value of the registrant's common stock held by non-affiliates was $3,432,941,000. It is assumed for purposes of this computation that an affiliate includes all persons as of July 29, 2012 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 April 1, 2013, 97,696,301 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our definitive Proxy Statement for the 2013 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 letters 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: projections of earnings, revenues or financial items, including future comparable brand revenues, and our ability to achieve new levels of sales and profitability; statements related to enhancing stockholder value; statements related to growth of our business and our brands; statements related to our beliefs about our competitive position and our ability to leverage our competitive advantages; statements related to the plans, strategies, initiatives and objectives of management for future operations; statements related to our brands and our products, including our ability to introduce new brands and new products and product lines; statements related to our belief that our direct-mail catalogs and the Internet act as a cost-efficient means of testing market acceptance of new products and new brands; statements related to our marketing efforts; statements related to our ability to attract new customers; statements related to our belief regarding our competitive advantages; statements related to the seasonal variations in demand; statements related to our belief in the adequacy of our facilities and the availability of suitable additional or substitute space; statements related to our belief in the ultimate resolution of current legal proceedings; statements related to the payment of dividends; statements related to our stock repurchase program; statements related to our global business, including franchising and other third party arrangements in the Middle East and our entry into the Australian market; statements related to our planned use of cash in fiscal 2013; statements related to our compliance with financial covenants; statements related to our belief that our cash on hand and available credit facilities will provide adequate liquidity for our business operations over the next 12 months; statements related to our anticipated investments in the purchase of property and equipment; statements related to our belief regarding the effects of potential losses under our indemnification obligations; statements related to the effects of changes in our inventory reserves; statements related to 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, 2013

TABLE OF CONTENTS

PART I

ITEM 1. BUSINESS

OVERVIEW

Williams-Sonoma, Inc. 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. Additionally, by embracing new technologies and customer-engagement strategies as they emerge, we are able to continually refine our best-in-class approach to multi-channel retailing.

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 currently operate retail stores in the United States, Canada and Puerto Rico, and franchise our brands to a third party in a number of countries in the Middle East, including Bahrain, the Kingdom of Saudi Arabia, Kuwait and the United Arab Emirates. Our products are also available to customers through our catalogs and online worldwide.

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 and a vast library of cookbooks.

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 stores and catalogs are specially designed to make shopping an enjoyable experience, with inspirational lifestyle displays dedicated to every space in the home.

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
Since its launch in 2002, West Elm has been helping customers express their personal style at home with authentic, affordable and approachable products. West Elm offers a broad range of home furnishing categories including furniture, textiles, decorative accessories, lighting and tabletop items. Each season, West Elm's talented in-house team of designers create a collection that cannot be found anywhere else, and work with artists and independent designers both globally and locally to develop collaborations that are exclusive to the brand. The brand also works closely with organizations that support the development of craft and artisan skills to offer handcrafted and one-of-a-kind discoveries from around the world.

In late 2012, we extended our West Elm brand to include West Elm Market, which offers customers a total home toolkit in four key product categories — kitchen, garden, care and repair and personal care — while focusing on functional design, local production, entrepreneurship and community connections. These products are available in West Elm Market stand-alone stores and select West Elm stores in North America, as well as online through the West Elm website.

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 with storage space in mind.

Rejuvenation
Rejuvenation, founded in 1977 with a passion for old buildings, vintage lighting and house parts and great design, was acquired by Williams-Sonoma, Inc. in 2011. Inspired by history and period authenticity, Rejuvenation's lighting and home-goods product lines span periods back to the 1870s. With manufacturing facilities in Portland, Oregon, Rejuvenation offers a wide assortment of high-quality lights, hardware, furniture and home décor.

Mark and Graham
Launched in late 2012, Mark and Graham is designed to be a premier destination for personalized gift buying. Whether customers are shopping for themselves or for family and friends, they have the opportunity to combine typography and design to make their own unique mark and create something deeply personal. The brand's product lines include men's and women's accessories, small leather goods, jewelry, entertaining and bar, home décor, as well as do-it-yourself wrapping supplies and seasonal items.

DIRECT-TO-CUSTOMER OPERATIONS

As of February 3, 2013, the direct-to-customer segment has seven merchandising concepts (Williams-Sonoma, Pottery Barn, Pottery Barn Kids, PBteen, West Elm, Rejuvenation and Mark and Graham) and sells products through our seven e-commerce websites (williams-sonoma.com, potterybarn.com, potterybarnkids.com, pbteen.com, westelm.com, rejuvenation.com and markandgraham.com) and eight direct-mail catalogs (Williams-Sonoma, Pottery Barn, Pottery Barn Bed and Bath, Pottery Barn Kids, PBteen, West Elm, Rejuvenation and Mark and Graham). We offer shipping from many of our brands to countries worldwide, while our catalogs reach customers across the U.S. Of our seven merchandising concepts, the Pottery Barn brand and its extensions continue to be the major source of revenue in the direct-to-customer segment.

The direct-to-customer business complements the retail business by building brand awareness and acting as an effective advertising vehicle. In addition, we believe that our direct-mail catalogs and our e-commerce websites 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 the circulation of catalogs and the use of e-commerce advertising, are targeted toward driving sales to all of our channels, including retail.

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 merchandisers. Our customer mailings are continually updated to include new prospects and to eliminate non-responders. In addition, we send email communications only to those customers who have voluntarily provided us with their email addresses.

Detailed financial information about the direct-to-customer segment is found in Note M to our Consolidated Financial Statements.

RETAIL STORES

As of February 3, 2013, the retail segment has five merchandising concepts (Williams-Sonoma, Pottery Barn, Pottery Barn Kids, West Elm and Rejuvenation), operating 560 stores in 44 states, Washington, D.C., and Puerto Rico and 21 stores in Canada. This represents 253 Williams-Sonoma, 192 Pottery Barn, 84 Pottery Barn Kids, 48 West Elm and 4 Rejuvenation stores.

We also have a multi-year franchise agreement with a third party that currently operates 23 franchised stores in a number of countries in the Middle East, including Bahrain, the Kingdom of Saudi Arabia, Kuwait and the United Arab Emirates.

The retail business complements the direct-to-customer business by building brand awareness and attracting new customers to our brands. Our retail stores serve as billboards for our brands, which we believe inspires confidence in our customers to shop online and through our catalogs.

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

SUPPLIERS

We purchase our merchandise from numerous foreign and domestic manufacturers and importers, the largest of which accounted for approximately 3% of our purchases during fiscal 2012. Approximately 61% of our merchandise purchases in fiscal 2012 were foreign-sourced from vendors in 52 countries, predominantly in Asia and Europe, of which approximately 98% were negotiated and paid for in U.S. dollars.

COMPETITION AND SEASONALITY

The specialty retail business is highly competitive. Our specialty retail stores, direct-mail catalogs and e-commerce websites compete with other retail stores, including large department stores, discount retailers, other specialty retailers offering home-centered assortments, other direct-mail catalogs and other e-commerce websites. 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 and an increase in competition from established companies. In addition, the more volatile economic environment since 2008 has generated increased competition from discount retailers who, in the past, may not have competed with us or to this degree. 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 revenues and net earnings have typically 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 anticipation of our peak season, we hire a substantial number of additional temporary employees in our retail stores, customer care centers and distribution centers, and incur significant fixed catalog production and mailing costs.

TRADEMARKS, COPYRIGHTS, PATENTS AND DOMAIN NAMES

We own and/or have applied to register over 75 separate trademarks and service marks. We own and/or have applied to register our key brand names as trademarks in the U.S., Canada and approximately 90 additional jurisdictions. Exclusive rights to the trademarks and service marks are held by Williams-Sonoma, Inc. and are used by our subsidiaries under 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,” the Williams-Sonoma Grande Cuisine logo, “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 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 also used by our subsidiaries under license. We hold patents on certain product functions and product designs. 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, copyrights, trade dress rights and domain names that we hold are of material importance to us.

EMPLOYEES

As of February 3, 2013, we had approximately 26,800 employees of whom approximately 7,200 were full-time. During the fiscal 2012 peak season (defined as the period from October through December), we hired approximately 9,800 temporary employees primarily in our retail stores, customer care centers and distribution centers.

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 public may read and copy these materials at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also 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 with the SEC electronically. 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.

ITEM 1A. RISK FACTORS

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

The declines in general economic conditions over the past few years, 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, such as the one we experienced during the 2008-2009 downturn, could 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 additional 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, such as Hurricane Sandy, 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 conditions and political conditions, and consumer perceptions of personal well-being and security. In particular, the 2008-2009 economic downturn led to decreased discretionary spending, which adversely impacted our business. In addition, a decrease in home purchases has led and may continue to lead to decreased consumer spending on home products. These factors have affected our various brands and channels differently. Adverse changes in factors affecting discretionary consumer spending have reduced and may continue to further 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. For example, in the specialty home products business, style and color trends are constantly evolving. Consumer preferences cannot be predicted with certainty and may change between selling seasons. Changes in customer preferences and buying trends may also affect our brands differently. 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. 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 backorders, and we may be required to mark down certain products to sell the resulting 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, either 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 United States. Thus, we usually must order merchandise, and enter into contracts for the purchase and manufacture of such merchandise, up to twelve months 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.

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.

In fiscal 2012, we sourced our products from vendors in 52 countries outside of the United States. Approximately 61% of our merchandise purchases were foreign-sourced, predominantly from 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, the Australian dollar or any other foreign currency against the U.S. dollar may result in higher costs to us for those goods. Although approximately 98% 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 foreign countries in which our 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 vendors going out of business.

We, and our vendors, are also subject to other risks and uncertainties associated with changing economic and political conditions in foreign countries. 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), foreign government regulations, employment matters, wars and fears of war, political unrest, natural disasters, regulations to address climate change and other trade restrictions. We cannot predict whether any of the countries in which our raw materials are sourced from, or 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 or the likelihood, type or effect of any such restrictions. Any event causing a disruption or delay of imports from foreign vendors, including the imposition of additional import restrictions, restrictions on the transfer of funds and/or increased tariffs or quotas, or both, could increase the cost or reduce the supply of merchandise available to us and 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 in 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 operations in Asia and Europe could also be affected by changing economic and political conditions in foreign countries, any of which could have a negative effect on our business, financial condition and operating results.

Although we continue to improve 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 on child labor. Non-governmental organizations might attempt to create an unfavorable impression of our sourcing practices or the practices of some of our 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 key domestic and foreign agents and vendors 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 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 key agents or vendors 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 agents or vendors, 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, including risks related to the availability of raw materials, labor disputes, union organizing activities, vendor financial liquidity, inclement weather, natural disasters, general economic and political conditions and regulations to address climate change that could limit our vendors' ability to provide us with quality merchandise on a timely basis and at prices that are commercially acceptable.

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 litigation against us and an increase in our routine 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. Recently enacted legislation has given the U.S. Consumer Product Safety Commission increased regulatory and enforcement power, particularly with regard to children's safety, among other areas. As a result, companies like ours may be subject to more product recalls and incur 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, and our increasing global presence presents additional challenges.

We are currently growing our business and increasing our global presence by opening new stores outside of the United States and by offering shipping globally through a third party vendor. 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, the value of our brands may be harmed and negatively affect our future opportunities for global growth. Further, the administration of our global expansion may divert management attention and require more resources than we expect. In addition, we are exposed to foreign currency exchange rate risk with respect to our operations denominated in currencies other than the U.S. dollar. We intend to use instruments in the future to hedge certain foreign currency risks. These programs may not succeed in offsetting the negative impact of foreign currency rate fluctuations on our business and results of operations.

In fiscal 2009, we entered into a franchise agreement with an unaffiliated franchisee to operate stores in the Middle East. Under this agreement, our franchisee operates stores that sell goods purchased from us under our brand names. We have no prior experience directly opening stores outside of North America and we have limited experience opening stores through third party arrangements. 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 our franchisee to meet its projections regarding store openings and sales. Moreover, while the agreement we have entered into may provide us with certain termination rights, to the extent that our franchisee does not operate its 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 this franchise agreement, 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.

In August 2012, we announced the opening of four stores and our first e-commerce site in Australia. The four stores are currently slated to open simultaneously with the launch of our e-commerce site in May 2013, and are our first locations outside of North America to be owned and operated by us 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 directly and through franchise arrangements. Our ability to expand globally is dependent on numerous factors, including the demand for our products in new global markets and the cost of real estate in those markets.

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 subsidiaries in Asia and Europe, which includes managing overseas employees, and plan to continue expanding 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 and employment. 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;
- increased financial accounting and reporting requirements and complexities;
- 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 currency exchange rates and the related effect on our financial results, and the use of foreign exchange hedging programs to mitigate such risks;
- 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 global revenues or increase our operating costs, adversely affecting our business, operating results, financial condition and growth prospects. Some of our vendors and our franchisee in the Middle East 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 franchisee 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 comply with these laws. If any of our overseas operations, or our employees or 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.

Historically, more than 50% of our net revenues have been 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 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 the types of merchandise that we sell and in the pricing of our products may reduce the number of suitable store locations. Further, time frames for lease negotiations and store development vary from location to location and can be subject to unforeseen delays. 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, either 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 direct-to-customer and retail business is highly competitive. Our e-commerce websites, direct mail catalogs and specialty retail stores compete with other e-commerce websites, other direct mail catalogs and other retail stores that market lines of merchandise similar to ours. We compete with national, regional and local businesses utilizing a similar retail store strategy, as well as traditional furniture stores, department stores and specialty stores. The substantial sales growth in the direct-to-customer industry within the last decade has encouraged the entry of many new competitors, new business models, and an increase in competition from established companies. In addition, the decline in the global economic environment has led to increased competition from discount retailers selling similar products at reduced prices. 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:
- 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.

The success of our business depends, in part, on our ability to timely and effectively deliver merchandise to our stores and customers. We cannot control all of the various factors that might affect our fulfillment rates in direct-to-customer sales 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 all of our stores. In addition, we are heavily dependent upon two carriers for the delivery of our merchandise to our customers. Accordingly, we are subject to risks, including labor disputes, union organizing activity, inclement weather, natural disasters, the closure of such carriers' offices or a reduction in operational hours due to an economic slowdown, possible acts of terrorism associated with 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 costs could negatively affect our business and operating results by increasing our transportation costs and decreasing the efficiency of our shipments.

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

Our direct-to-customer business depends, in part, on our ability to maintain efficient and uninterrupted order-taking and fulfillment operations in 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 issues, computer viruses, security breaches, human error, changes in programming, union organizing activity, disruptions in our third party labor contracts, 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 selling, general and administrative expenses.

In addition, we face the risk that we cannot hire enough qualified employees to support our direct-to-customer 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 centers, infrastructure projects and direct-to-customer 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, 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.

If we are unable to effectively manage our e-commerce business, including effectively managing cybersecurity risks, our reputation and operating results may be harmed.

E-commerce has been our fastest growing business over the last several years and continues to be a significant part of our sales success. The success of our e-commerce business depends, in part, on third parties and factors over which we have limited control. We must successfully respond to changing consumer preferences and buying trends relating to e-commerce usage. Our success in e-commerce has been aided in part by our ability to understand the buying trends of visitors to our websites and to personalize the experience they have with us. We also utilize “interest-based advertising” to target internet 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 advertising spend.

We are also vulnerable to certain additional risks and uncertainties associated with our e-commerce websites, 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; changes in applicable federal and state regulations; security breaches; and consumer privacy concerns. In order to function successfully, we rely on communication and transmission of data over both public and private networks. Third parties may have the knowledge or technology to disable, disrupt or interfere with our systems or processes. Although we take the security of our systems seriously, we cannot guarantee that we can prevent all efforts to circumvent our security measures. Any security breach or attack against our networks or systems could slow, hinder, or prevent the proper functioning of our electronic communications. Such a breach or attack could harm our business. In addition, we must keep up to date with competitive technology trends, including the use of new or improved technology, creative user interfaces and other e-commerce marketing tools such as paid search and mobile applications, among others, which may increase our costs and which may not succeed in increasing sales or attracting customers. Our failure to successfully respond to these risks and uncertainties might adversely affect the sales in our e-commerce business, as well as damage our reputation and brands.

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, such as the recent increase that went into effect in the U.S. in 2013, 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 recently consolidated all of our catalog printing work with one printer. Our dependence on one vendor subjects us to 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. Future increases in postal rates, paper costs or printing costs would 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. Also, consolidation within the printing industry has reduced the number of potential suppliers capable of meeting our printing requirements, and further consolidation could limit our ability to obtain favorable terms. 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. In addition, 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 revenue metric 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 direct-to-customer business and fluctuations in foreign exchange rates. Among other things, weather conditions can affect comparable brand revenues because inclement weather can alter consumer behavior or require us to close certain stores temporarily and thus reduce 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. However, 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 exceed merchandise return reserves. In particular, the recent adverse economic conditions resulted and may continue to result in increased merchandise returns. Any significant increase in merchandise returns that exceeds our reserves could harm our business and operating results.

If we are unable to manage successfully 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, 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 might cannibalize a significant portion of our retail and catalog businesses, and we face the risk of catalog circulation cannibalizing our retail sales. While we recognize that our e-commerce sales cannot be entirely incremental to sales through our retail and catalog channels, we seek to attract as many new customers as possible to our e-commerce websites. We continually analyze the business results of our channels and the relationships among the channels 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 — West Elm, PBteen and Mark and Graham, as well as our recently acquired brand, Rejuvenation — and any other new brands, may not grow as we project and plan for. The work involved with integrating new brands 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 or brand repositioning, and those businesses are not as successful as we planned, then we risk damaging our overall business results. Alternatively, if our new brands, acquired brands, brand extensions or repositioned brands prove to be very successful, we risk hurting our other existing brands through the potential migration of existing brand customers to the new businesses. In addition, we may not be able to introduce new brands and brand extensions, integrate newly acquired brands, reposition existing brands, or expand our brands globally, in a manner that improves our overall business and operating results and may therefore be forced to close the brands, which may damage our reputation and negatively impact our operating results.

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

We are subject to income taxes in many U.S. and certain foreign jurisdictions, and our domestic and global tax liabilities are subject to the allocation of expenses in differing 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, the final tax outcome of these matters may materially differ from our estimates and adversely affect our financial condition or operating results. We record tax expense based on our estimates of future payments, which include reserves for estimates of probable settlements of foreign and domestic tax audits. At any one time, many tax years are subject to audit 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 tax rates as taxable events occur and exposures are evaluated.

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 rules or regulations. There could be an adverse impact on our effective tax rate if pending government proposals in the U.S. for fundamental international tax reform are enacted. Further, other pending tax legislation in the U.S. and abroad could negatively impact our current or future tax structure and effective tax rates.

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 catastrophes, fear of terrorism, financial irregularities and other fraud at publicly-traded companies, intervention by the government 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 may be otherwise unable to fulfill their contractual obligations. In addition, for certain types or levels of risk, such as risks associated with earthquakes, hurricanes 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, employee health benefits and product and general liability claims. 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 adequately 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 and other intellectual property are valuable assets that are critical to our success. The unauthorized reproduction 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 defending our intellectual property may adversely affect our operating results.

We may be subject to legal proceedings that could be time consuming, 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 be time consuming, 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 e-commerce-related patent infringement lawsuits and employment-related lawsuits in recent years. From time to time, we have been subject to these types of lawsuits. The cost of defending against all these types of claims against us or the ultimate resolution of 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.

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 peak sales 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. Alternatively, if we are unable to make substantial adjustments to our cost structure during times of uncertainty, such as the 2008-2009 economic downturn, we may incur unnecessary expenses 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. 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.

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. Further, we incur substantial costs to warehouse and distribute our inventory. Significant increases in our inventory levels may result in increased warehousing and distribution costs, such as costs related to additional distribution centers, 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 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.

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 marketing and various distribution center 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, or our vendors' fees are higher than expected, 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 the management of certain infrastructure technology, furniture manufacturing, furniture delivery to our customers and 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, our stock price may decline.

We provide public guidance on our expected operating and financial results for future periods. 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, 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 investment analysts or if we reduce our guidance for future periods, the market price of our common stock may decline as well.

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 every five years. Historically, a significant portion of our revenues and net earnings have typically been realized during the period from October through January each year. In anticipation of increased holiday sales activity, we incur certain significant incremental expenses prior to and during peak selling seasons, particularly October through January, 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 cost more than we expect, or not be available at the levels we require and, as a consequence, our expenses and operating results could be negatively affected.

We regularly review and evaluate our liquidity and capital needs. 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 our line of credit facility during fiscal 2012 on acceptable terms, in the event we require additional liquidity from our lenders, such funds may not be available to us or may not be available to us on acceptable terms in the future. 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.

Disruptions in the global financial markets and banking systems have made credit and capital markets more difficult for companies to access, even for some companies with established revolving or other credit facilities. We have access to capital through our revolving line of credit facility. Each financial institution, which is part of the syndicate for our revolving line of credit facility, is responsible for providing a portion of the loans to be made under the facility. If any participant, or group of participants, with a significant portion of the commitments in our revolving line of credit facility fails to satisfy its obligations to extend credit under the facility and we are unable to find a replacement for such participant or group of participants 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.

In March 2013, we announced that our Board of Directors had authorized the repurchase of up to $750,000,000 of our common stock, which we intend to execute over the next three years. In addition, in March 2013, we announced that our Board of Directors had authorized a 41% increase in our quarterly cash dividend from $0.22 to $0.31 per common share for an annual cash dividend of $1.24 per share. The dividend and stock repurchase program 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. Further, our Board of Directors may, at its discretion, decrease the intended level of dividends or entirely discontinue the payment of dividends at any time. The stock repurchase program does not have an expiration date and may be limited 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 would 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 Securities and Exchange Commission or the New York Stock Exchange. In addition, our internal controls may not prevent or detect all errors and fraud. 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. Future changes to accounting rules or regulations, or the questioning of current accounting practices, may adversely affect our operating 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.

We may be exposed to risks and costs associated with credit card fraud and identity theft 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 channel to function and develop successfully, we and other parties involved in processing customer transactions must be able to transmit confidential information, including credit card information, securely over public networks. Third parties may have the technology or knowledge to breach the security of customer transaction data. Although we take the security of our systems and the privacy of our customers' confidential information seriously, we cannot guarantee that our security measures will effectively prevent others from obtaining unauthorized access to our information and our customers' information. 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 websites or stores and choose not to purchase from us. Any security breach could also expose us to risks of data loss, litigation and liability and could seriously disrupt our operations and harm our reputation, 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. Also, as our business expands globally, we are subject to data privacy and other similar laws in various foreign jurisdictions. Compliance with these laws will likely increase the costs of doing business and, if we fail to implement appropriate safeguards or to detect and provide prompt notice of unauthorized access as required by some of these new laws, we could be subject to potential claims for damages and other remedies, which could harm our business.

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, are 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. If we fail to identify, attract, retain and motivate these skilled personnel, our business may be harmed. 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 market.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease store locations, distribution centers, corporate facilities and customer care centers for our U.S. and foreign operations for original terms ranging generally from 3 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, 2013, totaled approximately 5,778,000 square feet for 581 stores compared to approximately 5,743,000 square feet for 576 stores as of January 29, 2012.

Leased Properties

The following table summarizes the location and size of our leased distribution centers, customer care centers and corporate facilities occupied as of February 3, 2013:

Location	Occupied Square Footage (Approximate)
Distribution Centers	
Olive Branch, Mississippi	2,105,000
South Brunswick, New Jersey	1,351,000
City of Industry, California	1,180,000
Memphis, Tennessee[1]	1,023,000
Claremont, North Carolina	412,000
Other	278,000
Corporate Facilities	
Brisbane, California	194,000
New York City, New York	93,000
San Francisco, California	13,000
Other	41,000
Customer Care Centers	
Las Vegas, Nevada	36,000
Oklahoma City, Oklahoma	36,000
Other	17,000

[1] *See Note F to our Consolidated Financial Statements for more information.*

In addition to the above contracts, we enter into other agreements for offsite storage needs for our distribution centers and our retail store locations. As of February 3, 2013, we had approximately 109,000 square feet of leased space relating to these agreements that is not included in the occupied square footage reported above. This compares to approximately 136,000 square feet of leased space as of January 29, 2012.

Owned Properties

The following table summarizes the location and size of our owned facilities occupied as of February 3, 2013:

Location	Occupied Square Footage (Approximate)
San Francisco, California	412,000
Rocklin, California	42,000
Other	17,000

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 are not currently material. Litigation is inherently unpredictable. Any claims against us, whether meritorious or not, could be time consuming, 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.

Table of Contents

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 following table sets forth the high and low selling prices of our common stock on the NYSE for the periods indicated:

Fiscal 2012	High	Low
4th Quarter	$ 48.07	$41.99
3rd Quarter	$ 48.04	$ 33.95
2nd Quarter	$ 40.76	$ 32.67
1st Quarter	$ 39.88	$ 34.34
Fiscal 2011	High	Low
4th Quarter	$39.98	$ 33.03
3rd Quarter	$ 40.07	$ 27.90
2nd Quarter	$ 45.48	$ 34.40
1st Quarter	$ 44.20	$ 32.03

The closing price of our common stock on the NYSE on April 1, 2013 was $50.80.

STOCKHOLDERS

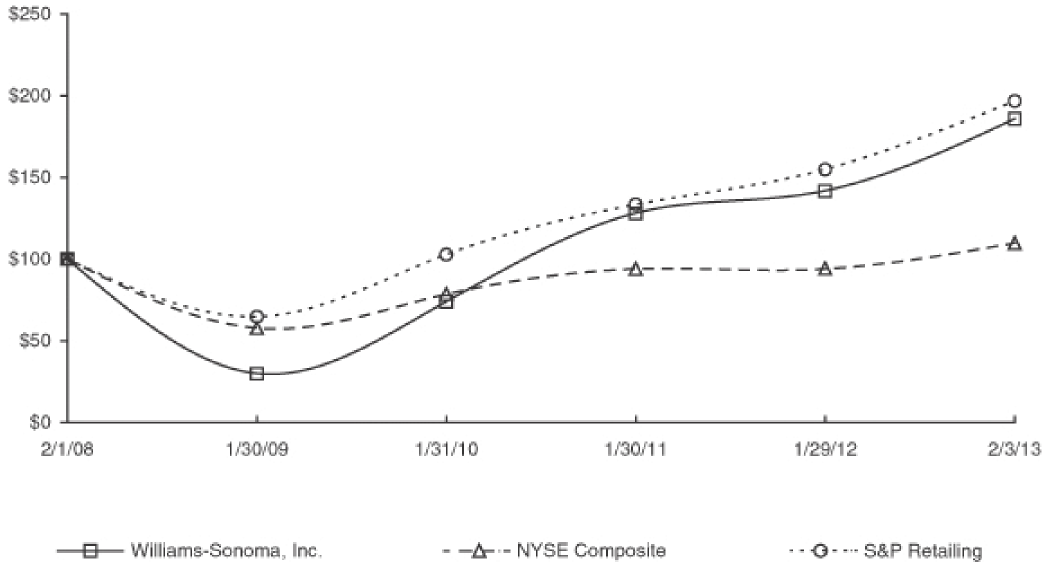
The number of stockholders of record of our common stock as of April 1, 2013 was 394. This number excludes stockholders whose stock is held in nominee or street name by brokers.

Table of Contents

PERFORMANCE GRAPH

This graph compares the cumulative total stockholder return for our common stock with those for the NYSE Composite Index and the S&P Retailing Index, 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 the S&P Retailing Index



	2/1/08	1/30/09	1/31/10	1/30/11	1/29/12	2/3/13
Williams-Sonoma, Inc.	100.00	29.89	73.78	128.13	141.85	185.88
NYSE Composite Index	100.00	57.57	78.36	93.90	93.97	109.89
S&P Retailing Index	100.00	64.80	102.67	133.34	155.05	196.70

*** 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.

DIVIDENDS

In March 2013, we announced that our Board of Directors had authorized a 41% increase in our quarterly cash dividend, from $0.22 to $0.31 per common share, subject to capital availability. Total cash dividends declared were approximately $88,452,000, or $0.88 per common share, $76,308,000, or $0.73 per common share, and $62,574,000, or $0.58 per common share, in fiscal 2012, fiscal 2011 and fiscal 2010, respectively. Our quarterly cash dividend may be limited or terminated at any time.

STOCK REPURCHASE PROGRAMS

In January 2012, our Board of Directors authorized a stock repurchase program to purchase up to $225,000,000 of our common stock. During fiscal 2012, we repurchased 3,962,034 shares of our common stock at an average cost of $39.14 per share and a total cost of approximately $155,080,000. In addition, in March 2013, we announced that our Board of Directors had authorized a new stock repurchase program to purchase up to $750,000,000 of our common stock, which we intend to execute over the next three years.

The following table summarizes our repurchases of shares of our common stock under the January 2012 program during the fourth quarter of fiscal 2012:

Fiscal period		Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Program
October 29, 2012	– November 25, 2012	193,262	$45.86	193,262	$22,421,000
November 26, 2012	– December 30, 2012	253,399	$44.18	253,399	$11,225,000
December 31, 2012	– February 3, 2013	237,295	$45.21	237,295	$ 496,000
Total		683,956	$45.01	683,956	$ 496,000

Stock repurchases under these programs 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. These stock repurchase programs do not have an expiration date and may be limited or terminated at any time without prior notice.

During fiscal 2011, we repurchased 5,384,036 shares of our common stock at an average cost of $36.11 per share and a total cost of approximately $194,429,000. During fiscal 2010, we repurchased 4,263,463 shares of our common stock at an average cost of $29.32 per share and a total cost of approximately $125,000,000.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

Five-Year Selected Financial Data

Dollars and amounts in thousands, except percentages, per share amounts and retail stores data	Fiscal 2012 (53 Weeks)	Fiscal 2011 (52 Weeks)	Fiscal 2010 (52 Weeks)	Fiscal 2009 (52 Weeks)	Fiscal 2008 (52 Weeks)
Results of Operations					
Net revenues	$ 4,042,870	$ 3,720,895	$ 3,504,158	$ 3,102,704	$ 3,361,472
Net revenue growth (decline)	8.7%	6.2%	12.9%	(7.7%)	(14.8%)
Comparable brand revenue growth (decline) [1]	6.1%	7.3%	13.9%	(9.3%)	(15.6%)
Gross margin	$1,592,476	$1,459,856	$1,373,859	$ 1,103,237	$1,135,172
Gross margin as a percent of net revenues	39.4%	39.2%	39.2%	35.6%	33.8%
Operating income[2]	$ 409,163	$ 381,732	$ 323,414	$ 121,442	$ 42,153
Operating margin[3]	10.1%	10.3%	9.2%	3.9%	1.3%
Net earnings	$ 256,730	$ 236,931	$ 200,227	$ 77,442	$ 30,024
Basic earnings per share	$ 2.59	$ 2.27	$ 1.87	$ 0.73	$ 0.28
Diluted earnings per share	$ 2.54	$ 2.22	$ 1.83	$ 0.72	$ 0.28
Weighted average basic shares outstanding during the period	99,266	104,352	106,956	105,763	105,530
Weighted average diluted shares outstanding during the period	101,051	106,582	109,522	107,373	106,880
Financial Position					
Working capital	$ 659,645	$ 704,567	$ 735,878	$ 616,711	$ 479,936
Total assets	$2,187,679	$ 2,060,838	$2,131,762	$2,079,169	$1,935,464
Return on assets	12.0%	11.3%	9.5%	3.9%	1.5%
Net cash provided by operating activities	$ 364,127	$ 291,334	$ 355,989	$ 490,718	$ 230,163
Capital expenditures	$ 205,404	$ 130,353	$ 61,906	$ 72,263	$ 191,789
Long-term debt and other long-term obligations	$ 50,216	$ 52,015	$ 59,048	$ 62,792	$ 62,071
Stockholders' equity	$ 1,309,138	$1,255,262	$1,258,863	$1,211,595	$1,147,984
Stockholders' equity per share (book value)	$ 13.39	$ 12.50	$ 12.00	$ 11.33	$ 10.86
Return on equity	20.0%	18.8%	16.2%	6.6%	2.6%
Annual dividends declared per share	$ 0.88	$ 0.73	$ 0.58	$ 0.48	$ 0.48
Direct-to-Customer Net Revenues					
Direct-to-customer net revenue growth (decline)	14.5%	12.4%	18.6%	(12.5%)	(15.9%)
Direct-to-customer net revenues as a percent of net revenues	46.2%	43.9%	41.5%	39.5%	41.6%
E-commerce net revenue growth (decline)	17.4%	17.9%	26.9%	(8.7%)	(6.4%)
E-commerce net revenues as a percent of direct-to-customer net revenues	88.6%	86.4%	82.4%	77.0%	73.9%
Retail Net Revenues					
Retail net revenue growth (decline)	4.1%	1.8%	9.2%	(4.3%)	(14.0%)
Retail net revenues as a percent of net revenues	53.8%	56.1%	58.5%	60.5%	58.4%
Comparable store sales growth (decline) [1]	2.3%	3.5%	9.8%	(5.1%)	(17.2%)
Number of stores at year-end	581	576	592	610	627
Store selling square footage at year-end	3,548,000	3,535,000	3,609,000	3,763,000	3,828,000
Store leased square footage at year-end	5,778,000	5,743,000	5,831,000	6,081,000	6,148,000

[1] Comparable brand revenue and comparable store sales are calculated on a 52-week to 52-week basis, with the exception of fiscal 2012 which was calculated on a 53-week to 53-week basis. See definition of comparable brand revenue and comparable stores within "Management's Discussion and Analysis of Financial Condition and Results of Operations."
[2] Operating income is defined as earnings before net interest income or expense and income taxes.
[3] Operating margin is defined as operating income as a percentage of net revenues.

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.

Table of Contents

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, 2013 ("fiscal 2012"), the 52 weeks ended January 29, 2012 ("fiscal 2011"), and the 52 weeks ended January 30, 2011 ("fiscal 2010") should be read in conjunction with our consolidated financial statements and notes thereto. As fiscal 2012 was a 53-week year, as opposed to a 52-week year in fiscal 2011, our discussion below includes approximately $70 million of net revenues and $0.07 of diluted earnings per share associated with that additional week. All explanations of changes in operational results are discussed in order of magnitude.

OVERVIEW

Fiscal 2012 Financial Results

Net revenues exceeded four billion dollars for the first time in our history, increasing 8.7% to $4,042,870,000, including the impact of the additional week in fiscal 2012. This compared to net revenues of $3,720,895,000 in fiscal 2011. Comparable brand revenues increased 6.1% during fiscal 2012, and diluted earnings per share increased to $2.54 from $2.22 in fiscal 2011. We also ended the year with $424,555,000 in cash.

Direct-to-customer net revenues in fiscal 2012, including the impact of the additional week, increased by $236,575,000, or 14.5%, compared to fiscal 2011. This increase was driven by growth across all brands, led by Pottery Barn, West Elm, Pottery Barn Kids and Williams-Sonoma. In e-commerce, net revenues increased 17.4% to $1,656,197,000 in fiscal 2012, compared to $1,410,236,000 in fiscal 2011. Direct-to-customer net revenues generated 46% of total company net revenues in fiscal 2012 versus 44% in fiscal 2011.

Retail net revenues in fiscal 2012, including the impact of the additional week, increased by $85,400,000, or 4.1%, compared to fiscal 2011. This increase was primarily driven by Pottery Barn and West Elm, partially offset by a decrease in Williams-Sonoma. Comparable store sales in fiscal 2012 increased 2.3%.

In the Pottery Barn brand, net revenues grew to $1,752,997,000, and comparable brand revenues increased 8.5%. Throughout the year, we remained focused on selling innovative products at a great value, presented in an inspirational way, across all of our channels. In the Williams-Sonoma brand, net revenues were $980,709,000, and comparable brand revenues decreased 1.1%. Although the promotional environment intensified during the holiday season, we made progress on our initiatives to introduce exclusive and innovative products, and our strongest performance was in those categories where we had the highest proportion of these products. Although the brand's direct-to-customer channel had the third highest growth rate of any of our brands, there is still progress to be made in our retail stores. In the Pottery Barn Kids brand, net revenues increased to $557,516,000, and comparable brand revenues increased 5.6%. Textiles and furniture, especially in nursery, drove these results. In the West Elm brand, net revenues increased to $430,099,000, and comparable brand revenues grew 17.4% in fiscal 2012 on top of 30.3% in fiscal 2011. These results continued to be driven by all categories including furniture, textiles and decorative accessories. In the PBteen brand, net revenues increased to $220,081,000, and comparable brand revenues increased 1.7%. The brand gained momentum throughout the fiscal year as our in-stock inventory positions improved.

Fiscal 2012 Operational Results

In fiscal 2012, we continued to be focused on our customer, allowing us to deliver increased revenue and profitability, while simultaneously investing in our future growth. Further, we continued to make progress on our long-term strategic initiatives to: successfully execute our brand strategies and launch new businesses; lay the foundation for the expansion of our brands' global presence; invest in our supply chain in order to reduce cost and improve service; and invest in the technologies and infrastructure underlying all of these initiatives in order to enhance our leading multi-channel business.

While the Williams-Sonoma brand has grown in size to almost one billion dollars, 75% of our revenues now come from our other internally developed brands. In 2012, we broadened the reach and relevance of each of our brands and invested in new businesses. In the Williams-Sonoma brand, we are executing a vision that allows us to be less reliant on branded goods. In all of the Pottery Barn brands, we continued to deliver strong growth, and West Elm, one of our largest growth vehicles, is now approaching 11% of our business. Also, in fiscal 2012, we incubated and launched new businesses, including: Mark and Graham, which specializes in personalized products and gifts; West Elm Market, a brand extension of West Elm that expands the brand to new categories in new settings; and Agrarian, a new category extension of the Williams-Sonoma brand which celebrates homemade and homegrown. Fiscal 2012 also marked Rejuvenation's first full year of operations as a part of our portfolio of brands. We plan to expand on each of these businesses in 2013.

In our global business, our franchise operations continue to grow. In fiscal 2012, an additional 10 stores were opened in the Middle East by our unaffiliated franchisee, including the first PBteen store, and there are now 23 franchise stores at the end of fiscal 2012. In fiscal 2013, we will enter into the Australian market, with four company-owned retail stores, e-commerce websites and distribution operations.

In our supply chain, we focused on reducing costs and improving service through continued network re-design and the in-sourcing of our foreign agent operations, particularly our Vietnam and South China furniture sourcing.

Our technology investments support our initiatives and allow us to elevate our service levels. In fiscal 2012, these investments focused on e-commerce capabilities, global expansion, supply chain and our stores, and enabled us to make our information technology output more scalable, which is critical to our future growth.

Finally, we remain committed to our stockholders and returning excess cash. In fiscal 2012, we returned $242,927,000 in the form of share repurchases and dividends and, in March 2013, we announced that our Board of Directors had authorized a 41% increase in our quarterly dividend to $0.31 per share and a new $750,000,000, three-year stock repurchase program.

Table of Contents

Results of Operations

NET REVENUES

Net revenues consist of direct-to-customer net revenues and retail net revenues. Direct-to-customer 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, 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.

Dollars in thousands	Fiscal 2012 (53 Weeks)	% Total	Fiscal 2011 (52 Weeks)	% Total	Fiscal 2010 (52 Weeks)	% Total
Direct-to-customer net revenues	$1,869,386	46.2%	$1,632,811	43.9%	$ 1,452,572	41.5%
Retail net revenues	2,173,484	53.8%	2,088,084	56.1%	2,051,586	58.5%
Net revenues	$ 4,042,870	100.0%	$3,720,895	100.0%	$ 3,504,158	100.0%

Net revenues in fiscal 2012, including the impact of the additional week of net revenues in fiscal 2012, increased by $321,975,000, or 8.7%, compared to fiscal 2011. This increase was driven by growth of 6.1% in comparable brand revenue, including e-commerce net revenue growth of 17.4% within the direct-to-customer channel, and a 2.3% increase in comparable store sales. Increased net revenues during fiscal 2012 were driven by the Pottery Barn, West Elm and Pottery Barn Kids brands.

Net revenues in fiscal 2011 increased by $216,737,000, or 6.2%, compared to fiscal 2010. This increase was driven by growth of 7.3% in comparable brand revenue, including e-commerce net revenue growth of 17.9% within the direct-to-customer channel and a 3.5% increase in comparable store sales. Increased net revenues during fiscal 2011 were driven by the Pottery Barn, West Elm and Pottery Barn Kids brands.

The following table summarizes our net revenues by brand for fiscal 2012, fiscal 2011 and fiscal 2010.

Dollars in thousands	Fiscal 2012 (53 Weeks)	Fiscal 2011 (52 Weeks)	Fiscal 2010 (52 Weeks)
Pottery Barn	$1,752,997	$ 1,600,847	$1,511,029
Williams-Sonoma	980,709	994,425	1,006,086
Pottery Barn Kids	557,516	521,565	487,647
West Elm	430,099	335,980	259,936
PBteen	220,081	212,270	197,635
Other	101,468	55,808	41,825
Total	$ 4,042,870	$3,720,895	$ 3,504,158

Comparable Brand Revenue

Comparable brand revenue includes retail comparable store sales and direct-to-customer sales, as well as shipping fees, sales returns and other discounts associated with current period sales. Outlet comparable store net revenues are included in their respective brands. Sales related to our international franchised stores have been excluded as these stores are not operated by us.

Comparable stores are defined as permanent stores in which 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.

Percentages represent changes in comparable brand revenue compared to the same period in the prior year.

Comparable brand revenue growth (decline)	Fiscal 2012 (53 Weeks)	Fiscal 2011 (52 Weeks)	Fiscal 2010 (52 Weeks)
Pottery Barn	8.5%	7.6%	17.7%
Williams-Sonoma[1]	(1.1%)	0.0%	5.7%
Pottery Barn Kids	5.6%	7.4%	16.4%
West Elm	17.4%	30.3%	20.8%
PBteen	1.7%	7.4%	21.1%
Total	6.1%	7.3%	13.9%

[1] *Williams-Sonoma excludes net revenues from Williams-Sonoma Home merchandise. Including Williams-Sonoma Home, comparable brand revenue growth (decline) for Williams-Sonoma was (1.7%), (0.3%) and 5.0% in fiscal 2012, fiscal 2011 and fiscal 2010, respectively. Williams-Sonoma Home net revenues, however, are included in the total.*

DIRECT-TO-CUSTOMER NET REVENUES

Dollars in thousands	Fiscal 2012 (53 Weeks)	Fiscal 2011 (52 Weeks)	Fiscal 2010 (52 Weeks)
Direct-to-customer net revenues	$1,869,386	$1,632,811	$1,452,572
Direct-to-customer net revenue growth	14.5%	12.4%	18.6%
E-commerce net revenue growth	17.4%	17.9%	26.9%
E-commerce net revenues as a percent of direct-to-customer net revenues	88.6%	86.4%	82.4%

Direct-to-customer net revenues in fiscal 2012, including the impact of the additional week of net revenues in fiscal 2012, increased by $236,575,000, or 14.5%, compared to fiscal 2011. This increase was driven by growth across all brands, led by Pottery Barn, West Elm, Pottery Barn Kids and Williams-Sonoma. In e-commerce, net revenues increased 17.4% to $1,656,197,000 in fiscal 2012, compared to $1,410,236,000 in fiscal 2011. Direct-to-customer net revenues generated 46% of total company net revenues in fiscal 2012 versus 44% in fiscal 2011.

Direct-to-customer net revenues in fiscal 2011 increased by $180,239,000, or 12.4%, compared to fiscal 2010. This increase was driven by 17.9% growth in e-commerce net revenues in fiscal 2011 compared to fiscal 2010. Increased net revenues during fiscal 2011 were driven by growth across all brands, led by Pottery Barn, West Elm and Pottery Barn Kids.

RETAIL NET REVENUES AND OTHER DATA

Dollars in thousands	Fiscal 2012 (53 Weeks)	Fiscal 2011 (52 Weeks)	Fiscal 2010 (52 Weeks)
Retail net revenues	$2,173,484	$2,088,084	$2,051,586
Retail net revenue growth	4.1%	1.8%	9.2%
Comparable store sales growth	2.3%	3.5%	9.8%
Number of stores – beginning of year	576	592	610
Number of new stores	21	5	4
Number of acquired stores[1]	—	3	—
Number of new stores due to remodeling[2]	9	10	7
Number of permanently closed stores	(16)	(27)	(24)
Number of closed stores due to remodeling[2]	(9)	(7)	(5)
Number of stores – end of year	581	576	592
Store selling square footage at year-end	3,548,000	3,535,000	3,609,000
Store leased square footage (“LSF”) at year-end	5,778,000	5,743,000	5,831,000

[1] *On November 1, 2011, we acquired Rejuvenation, Inc. See Note N to our Consolidated Financial Statements.*

[2] *Remodeled stores are defined as those stores temporarily closed and subsequently reopened during the year due to square footage expansion, store modification or relocation.*

	Fiscal 2012		Fiscal 2011		Fiscal 2010	
	Store Count	Avg. LSF Per Store	Store Count	Avg. LSF Per Store	Store Count	Avg. LSF Per Store
Williams-Sonoma	253	6,600	259	6,500	260	6,400
Pottery Barn	192	13,900	194	13,800	193	13,100
Pottery Barn Kids	84	8,100	83	8,200	85	8,100
West Elm	48	14,900	37	17,100	36	17,100
Rejuvenation	4	13,200	3	17,200	—	—
Outlets[1]	—	—	—	—	18	19,600
Total	581	9,900	576	10,000	592	9,800

[1] *Beginning in fiscal 2011, Outlet stores and their leased square footage have been reclassified into their respective brands.*

Retail net revenues in fiscal 2012, including the impact of the additional week of net revenues in fiscal 2012, increased by $85,400,000, or 4.1%, compared to fiscal 2011. This increase was primarily driven by Pottery Barn and West Elm, partially offset by a decrease in Williams-Sonoma. Comparable store sales in fiscal 2012 increased 2.3%.

Retail net revenues in fiscal 2011 increased by $36,498,000, or 1.8%, compared to fiscal 2010. This increase was primarily driven by West Elm, Pottery Barn, international franchise operations and Pottery Barn Kids, despite a 1.5% year-over-year reduction in retail leased square footage, due to 16 net fewer stores (including the closure of our Williams-Sonoma Home stores at the end of fiscal 2010). Comparable store sales in fiscal 2011 increased 3.5%.

COST OF GOODS SOLD

Dollars in thousands	Fiscal 2012 (53 Weeks)	% Net Revenues	Fiscal 2011 (52 Weeks)	% Net Revenues	Fiscal 2010 (52 Weeks)	% Net Revenues
Cost of goods sold[1]	$2,450,394	60.6%	$2,261,039	60.8%	$2,130,299	60.8%

[1] *Includes total occupancy expenses of $517,300,000, $500,660,000 and $506,712,000 in fiscal 2012, fiscal 2011 and fiscal 2010, 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 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 direct-to-customer 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 direct-to-customer channel incurs higher customer shipping, damage and replacement costs than the retail channel.

Fiscal 2012 vs. Fiscal 2011

Cost of goods sold increased by $189,355,000, or 8.4%, in fiscal 2012 compared to fiscal 2011. Cost of goods sold as a percentage of net revenues decreased to 60.6% in fiscal 2012 from 60.8% in fiscal 2011. This decrease was primarily driven by the leverage of fixed occupancy expenses due to increasing net revenues, partially offset by lower selling margins.

In the direct-to-customer channel, cost of goods sold as a percentage of direct-to-customer net revenues increased approximately 70 basis points during fiscal 2012 compared to fiscal 2011. This increase as a percentage of net revenues was primarily driven by lower selling margins, partially offset by the leverage of fixed occupancy expenses due to increasing net revenues.

In the retail channel, cost of goods sold as a percentage of net revenues decreased 30 basis points during fiscal 2012 compared to fiscal 2011. This decrease as a percentage of net revenues was primarily driven by the leverage of fixed occupancy expenses.

Fiscal 2011 vs. Fiscal 2010

Cost of goods sold increased by $130,740,000, or 6.1%, in fiscal 2011 compared to fiscal 2010. Cost of goods sold as a percentage of net revenues remained flat at 60.8% in fiscal 2011 compared to fiscal 2010. The leverage of fixed occupancy expenses due to increasing net revenues and a decrease in occupancy expense dollars was offset by lower selling margins due to higher promotional activity (including shipping fees).

In the direct-to-customer channel, cost of goods sold as a percentage of direct-to-customer net revenues increased approximately 70 basis points during fiscal 2011 compared to fiscal 2010. This increase as a percentage of net revenues was primarily driven by lower selling margins due to higher promotional activity (including shipping fees), partially offset by the leverage of fixed occupancy expenses due to increasing net revenues.

In the retail channel, cost of goods sold as a percentage of retail net revenues remained relatively flat during fiscal 2011 compared to fiscal 2010. A decrease in occupancy expense dollars and the leverage of fixed occupancy expenses due to increasing net revenues was offset by lower selling margins due to higher promotional activity.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Dollars in thousands	Fiscal 2012 (53 Weeks)	% Net Revenues	Fiscal 2011 (52 Weeks)	% Net Revenues	Fiscal 2010 (52 Weeks)	% Net Revenues
Selling, general and administrative expenses	$ 1,183,313	29.3%	$ 1,078,124	29.0%	$ 1,050,445	30.0%

Selling, general and administrative expenses consist of non-occupancy related costs associated with our retail stores, distribution warehouses, 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 direct-to-customer channels due to their distinct distribution and marketing strategies. Store employment costs represent a greater percentage of retail net revenues than employment costs as a percentage of net revenues within the direct-to-customer channel. However, advertising expenses are higher within the direct-to-customer channel than in the retail channel.

Fiscal 2012 vs. Fiscal 2011

Selling, general and administrative expenses increased by $105,189,000, or 9.8%, in fiscal 2012 compared to fiscal 2011. Including employee separation charges of $6,935,000 primarily related to the retirement of our former Executive Vice President, Chief Operating and Chief Financial Officer, and expense of approximately $6,071,000 from asset impairment charges, selling, general and administrative expenses as a percentage of net revenues increased to 29.3% during fiscal 2012 from 29.0% during fiscal 2011 (which included expense of $2,819,000 from asset impairment and early lease termination charges). This increase was primarily driven by higher employment costs, including employee separation charges, and increases in other expenses resulting from planned incremental investments to support e-commerce, global expansion and business development growth strategies, partially offset by greater advertising efficiency.

In the direct-to-customer channel, selling, general and administrative expenses as a percentage of net revenues decreased 110 basis points during fiscal 2012 compared to fiscal 2011. This decrease was primarily driven by greater advertising efficiency.

In the retail channel, selling, general and administrative expenses as a percentage of net revenues increased 80 basis points during fiscal 2012 compared to fiscal 2011. This increase was primarily driven by higher employment costs.

Fiscal 2011 vs. Fiscal 2010

Selling, general and administrative expenses increased by $27,679,000, or 2.6%, in fiscal 2011 compared to fiscal 2010. Including expense of approximately $2,819,000 from asset impairment and early lease termination charges for underperforming retail stores, selling, general and administrative expenses as a percentage of net revenues decreased to 29.0% in fiscal 2011 from 30.0% in fiscal 2010 (which included $16,384,000 from asset impairment and early lease termination charges for underperforming retail stores and $4,319,000 associated with the retirement of our former Chairman and Chief Executive Officer). This decrease was primarily driven by a decrease in asset impairment and early lease termination charges related to our underperforming retail stores in fiscal 2011, lower incentive compensation costs, greater advertising productivity and reductions in other general expenses. This decrease was partially offset by higher employment which is reflective of our planned incremental investment to support our e-commerce, global expansion and business development growth strategies.

In the direct-to-customer channel, selling, general and administrative expenses as a percentage of direct-to-customer net revenues decreased approximately 120 basis points in fiscal 2011 compared to fiscal 2010. This decrease as a percentage of net revenues was primarily driven by greater advertising productivity and the leverage of other general expenses due to increasing net revenues, partially offset by higher employment.

In the retail channel, selling, general and administrative expenses as a percentage of retail net revenues decreased approximately 60 basis points in fiscal 2011 compared to fiscal 2010. This decrease as a percentage of net revenues was primarily driven by a decrease in asset impairment and early lease termination charges and reductions in other general expenses, partially offset by higher employment.

INCOME TAXES

Our effective income tax rate was 37.4% for fiscal 2012, 37.9% for fiscal 2011, and 38.0% for fiscal 2010. The decrease in the effective income tax rate in fiscal 2012 over fiscal 2011 was primarily driven by certain favorable income tax resolutions and credits.

LIQUIDITY AND CAPITAL RESOURCES

As of February 3, 2013, we held $424,555,000 in cash and cash equivalent funds, the majority of which are held in money market funds and highly liquid U.S. Treasury bills. 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 2013, 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 purchases of property and equipment. In addition to the current cash balances on hand, we have a credit facility that provides for a $300,000,000 unsecured revolving line of credit that may be used for loans or letters of credit. Prior to December 22, 2016, we may, upon notice to the lenders, request an increase in the credit facility of up to $200,000,000 to provide for a total of $500,000,000 of unsecured revolving credit. During fiscal 2012 and fiscal 2011, we had no borrowings under the credit facility, and no amounts were outstanding as of February 3, 2013 or January 29, 2012. However, as of February 3, 2013, $4,970,000 in issued but undrawn standby letters of credit was outstanding under the credit facility. Additionally, as of February 3, 2013, we had three unsecured letter of credit reimbursement facilities for a total of $90,000,000, of which an aggregate of $18,578,000 was outstanding. 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 and, based on our current projections, we expect to remain in compliance throughout fiscal 2013. 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

In fiscal 2012, net cash provided by operating activities was $364,127,000 compared to $291,334,000 in fiscal 2011. Net cash provided by operating activities in fiscal 2012 was primarily attributable to net earnings after non-cash adjustments and an increase in accounts payable, partially offset by an increase in merchandise inventories. Net cash provided by operating activities in fiscal 2012 increased compared to fiscal 2011 primarily due to the timing of payments associated with accounts payable and accrued salaries, benefits and other expenses, and an increase in income taxes payable and customer deposits, partially offset by an increase in inventory purchases.

In fiscal 2011, net cash provided by operating activities was $291,334,000 compared to $355,989,000 in fiscal 2010. Net cash provided by operating activities in fiscal 2011 was primarily attributable to net earnings. Net cash provided by operating activities in fiscal 2011 decreased compared to fiscal 2010 primarily due to a decrease in accounts payable and accrued liabilities and a decrease in income taxes payable, partially offset by an increase in fiscal 2011 net earnings.

Cash Flows from Investing Activities

Net cash used in investing activities was $206,815,000 for fiscal 2012 compared to $157,704,000 in fiscal 2011. Fiscal 2012 purchases of property and equipment were $205,404,000, comprised of $76,479,000 for 21 new and 9 remodeled or expanded stores, $67,077,000 for systems development projects (including e-commerce websites), and $61,848,000 for distribution center and other infrastructure projects. Net cash used in investing activities for fiscal 2012 increased compared to fiscal 2011 primarily due to an increase in purchases of property and equipment.

Net cash used in investing activities was $157,704,000 for fiscal 2011 compared to $63,995,000 in fiscal 2010. Fiscal 2011 purchases of property and equipment were $130,353,000, comprised of $53,679,000 for systems development projects (including e-commerce websites), $42,263,000 for 5 new and 12 remodeled or expanded stores and $34,411,000 for distribution center and other infrastructure projects. Net cash used in investing activities for fiscal 2011 increased compared to fiscal 2010 primarily due to an increase in purchases of property and equipment, as well as our acquisition of Rejuvenation in the fourth quarter of fiscal 2011.

Cash Flows from Financing Activities

For fiscal 2012, net cash used in financing activities was $236,445,000 compared to $259,039,000 in fiscal 2011. Net cash used in financing activities in fiscal 2012 was primarily attributable to repurchases of common stock of $155,080,000 and the payment of dividends of $87,847,000. Net cash used in financing activities in fiscal 2012 decreased compared to fiscal 2011 primarily due to a decrease in our repurchase of common stock, partially offset by an increase in the payment of dividends.

For fiscal 2011, net cash used in financing activities was $259,039,000 compared to $178,315,000 in fiscal 2010. Net cash used in financing activities in fiscal 2011 was primarily attributable to repurchases of common stock of $194,429,000 and the payment of dividends of $68,877,000. Net cash used in financing activities in fiscal 2011 increased compared to fiscal 2010 primarily due to an increase in our repurchase of common stock.

Dividends

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

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, 2013:

	Payments Due by Period[1]				
Dollars in thousands	Fiscal 2013	Fiscal 2014 to Fiscal 2016	Fiscal 2017 to Fiscal 2018	Thereafter	Total
Operating leases[2]	$ 224,579	$ 555,502	$ 266,510	$397,662	$ 1,444,253
Purchase obligations[3]	641,266	2,635	—	—	643,901
Memphis-based distribution facilities obligation[4]	1,635	3,753	—	—	5,388
Interest[5]	528	556	—	—	1,084
Capital leases	89	—	—	—	89
Total	$ 868,097	$ 562,446	$ 266,510	$397,662	$2,094,715

[1] This table excludes $11.5 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 the accompanying Consolidated Balance Sheet as of February 3, 2013.
[2] Projected 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.
[3] Represents estimated commitments at year-end to purchase inventory and other goods and services in the normal course of business to meet operational requirements.
[4] Represents bond-related debt pertaining to the consolidation of one of our Memphis-based distribution facilities. See Note F to our Consolidated Financial Statements.
[5] Represents interest expected to be paid on our long-term debt and our capital leases.

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 2013, which are included in our current liabilities as of February 3, 2013.

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 our commercial contracts, operating leases, trademarks, intellectual property, financial agreements and various other agreements. 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, 2013:

	Amount of Outstanding Commitment Expiration By Period[1]				
Dollars in thousands	Fiscal 2013	Fiscal 2014 to Fiscal 2016	Fiscal 2017 to Fiscal 2018	Thereafter	Total
Letter of credit facilities	$ 18,578	—	—	—	$ 18,578
Standby letters of credit	4,970	—	—	—	4,970
Credit facility	—	—	—	—	—
Total	$ 23,548	—	—	—	$ 23,548

[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. In light of the recent economic environment, however, we cannot be certain of the effect inflation (or deflation) may have on our results of operations in the future.

CRITICAL ACCOUNTING POLICIES

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 significant estimates and assumptions.

Merchandise Inventories
Merchandise inventories, net of an allowance for excess quantities and obsolescence, are stated at the lower of cost (weighted average method) or market. To determine if the value of our inventory should be marked down 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 retail sales and selling prices.

Reserves for shrinkage are estimated and recorded throughout the year, at the concept and channel level, as a percentage of net sales based on historical shrinkage results, expectations of future shrinkage and current inventory levels. Actual shrinkage is recorded at year-end based on the results of our physical inventory count and can vary from our estimates due to such factors as changes in operations within our distribution centers, the mix of our inventory (which ranges from large furniture to small tabletop items) and execution against loss prevention initiatives in our stores, distribution centers, off-site storage locations, and with our third party transportation providers. Accordingly, there is no shrinkage reserve at year-end.

Due to these factors, our obsolescence and shrinkage reserves contain uncertainties. Both estimates include calculations 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. Management does not believe that changes in the assumptions used in these estimates would have a significant effect on our inventory balances. 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 net earnings. As of February 3, 2013 and January 29, 2012, our inventory obsolescence reserves were $12,273,000 and $12,026,000, respectively.

Advertising and Prepaid Catalog Expenses
Advertising expenses consist of media and production costs related to catalog mailings, e-commerce advertising and other direct marketing activities. All advertising costs are expensed as incurred, or upon the release of the initial advertisement, with the exception of prepaid catalog expenses. Prepaid catalog expenses consist primarily of third party incremental direct costs, including creative design, paper, printing, postage and mailing costs for all of our direct response catalogs. Such costs are capitalized as prepaid catalog expenses and are amortized over their expected period of future benefit. Such amortization is based upon the ratio of estimated direct-to-customer revenues for the period to the total estimated direct-to-customer revenues over the life of the catalog on an

individual catalog basis. Estimated direct-to-customer revenues over the life of the catalog are based upon various factors such as the total number of catalogs and pages circulated, the probability and magnitude of consumer response and the assortment of merchandise offered. Each catalog is generally fully amortized over a six to nine month period, with the majority of the amortization occurring within the first four to five months. Prepaid catalog expenses are evaluated for realizability on a monthly basis by comparing the carrying amount associated with each catalog to the estimated probable remaining future profitability (remaining net revenues less merchandise cost of goods sold, selling expenses and catalog-related costs) associated with that catalog. If the catalog is not expected to be profitable, the carrying amount of the catalog is impaired accordingly.

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 a 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, historical operations of the stores and estimates of future store profitability and economic conditions. The future estimates of store profitability and economic conditions require estimating such factors as sales growth, gross margin, employment rates, 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 difference between the asset's net carrying value and 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. The fair value is estimated based upon the present value of estimated future cash flows (discounted at a rate commensurate with the risk and that approximates our weighted average cost of capital).

Goodwill
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. The first step of the impairment test requires determining the fair value of the reporting unit. We use the income approach, whereby we estimate the fair value based on the present value of estimated future cash flows. The process of evaluating the potential impairment of goodwill is subjective and requires significant estimates and assumptions such as estimates for sales growth, gross margins, employment rates, 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, is in excess of its fair value, goodwill may be impaired, and we must perform a second step of comparing the implied fair value of the goodwill to its carrying value to determine the impairment charge, if any. At February 3, 2013 and January 29, 2012, we had goodwill of $18,951,000 and $19,301,000, respectively, included in other assets, primarily related to our fiscal 2011 acquisition of Rejuvenation. We did not recognize any goodwill impairment in fiscal 2012 or fiscal 2011.

Self-Insured Liabilities
We are primarily self-insured for workers' compensation, employee health benefits and product and general liability claims. We record self-insurance liabilities based on claims filed, including the development of those claims, and an estimate of claims incurred but not yet reported. Factors affecting this estimate include future inflation rates, changes in severity, benefit level changes, medical costs and claim settlement patterns. Should a different amount 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. We determine our workers' compensation liability and product and general liability claims reserves based on an actuarial analysis of historical claims data. Self-insurance reserves for employee health benefits, workers' compensation and product

and general liability claims were $20,275,000 and $19,103,000 as of February 3, 2013 and January 29, 2012, respectively, and are recorded within accrued salaries, benefits and other within our Consolidated Balance Sheets.

Stock-Based Compensation

We account for stock-based compensation arrangements by measuring and recognizing compensation expense in our consolidated financial statements for all stock-based awards using a fair value based-method. For stock options and stock-settled stock appreciation rights ("option awards"), fair value is determined using the Black-Scholes valuation model, while restricted stock units are valued using the closing price of our stock on the date prior to the date of grant. Significant factors affecting the fair value of option awards include the estimated future volatility of our stock price and the estimated expected term until the option award is exercised, converted or cancelled. The fair value of each stock-based award is amortized over the requisite service period.

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 the consolidated financial statements. We record reserves for estimates of probable settlements of foreign and domestic tax audits. At any one time, many tax years are subject to audit by various taxing jurisdictions. The results of these audits and negotiations with taxing authorities may affect the ultimate settlement of these issues. Additionally, our effective tax rate in a given financial statement period may be materially impacted by changes in the mix and level of our earnings.

Table of Contents

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 rates, including the devaluation of the U.S. dollar, and the effects of uncertain economic forces 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

As of February 3, 2013, our line of credit facility was the only instrument we held with a variable interest rate which could, if drawn upon, subject us to risks associated with changes in that interest rate. As of February 3, 2013, there were no amounts outstanding under our credit facility.

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, 2013, our investments, made primarily in money market funds, interest-bearing demand deposit accounts and highly liquid U.S. Treasury bills, are stated at cost and approximate their fair values.

Foreign Currency Risks

We purchase a significant amount of inventory from vendors outside of the U.S. in transactions that are denominated in U.S. dollars. Approximately 2% of our international purchase transactions are in currencies other than the U.S. dollar, primarily the euro. Any currency risks related to these international purchase transactions were not significant to us during fiscal 2012 and fiscal 2011. 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, as of February 3, 2013, our retail stores in Canada and our limited operations in Asia, Europe and Australia, expose us to market risk associated with foreign currency exchange rate fluctuations. Although these exchange rate fluctuations have not been material to us in the past, we intend to enter into foreign currency contracts beginning in fiscal 2013 to minimize the currency remeasurement risk associated with the transactions of our foreign subsidiaries. We did not enter into any foreign currency contracts during fiscal 2012 or fiscal 2011.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Williams-Sonoma, Inc.
Consolidated Statements of Earnings

Dollars and shares in thousands, except per share amounts	*Fiscal Year Ended* Feb. 3, 2013 (53 Weeks)	Jan. 29, 2012 (52 Weeks)	Jan. 30, 2011 (52 Weeks)
Net revenues	$ 4,042,870	$ 3,720,895	$ 3,504,158
Cost of goods sold	2,450,394	2,261,039	2,130,299
Gross margin	1,592,476	1,459,856	1,373,859
Selling, general and administrative expenses	1,183,313	1,078,124	1,050,445
Operating income	409,163	381,732	323,414
Interest (income) expense, net	(793)	(98)	354
Earnings before income taxes	409,956	381,830	323,060
Income taxes	153,226	144,899	122,833
Net earnings	$ 256,730	$ 236,931	$ 200,227
Basic earnings per share	$ 2.59	$ 2.27	$ 1.87
Diluted earnings per share	$ 2.54	$ 2.22	$ 1.83
Shares used in calculation of earnings per share:			
Basic	99,266	104,352	106,956
Diluted	101,051	106,582	109,522

See Notes to Consolidated Financial Statements.

Williams-Sonoma, Inc.
Consolidated Statements of Comprehensive Income

Dollars in thousands	*Fiscal Year Ended* Feb. 3, 2013 (53 Weeks)	Jan. 29, 2012 (52 Weeks)	Jan. 30, 2011 (52 Weeks)
Net earnings	$ 256,730	$ 236,931	$ 200,227
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustment	1,043	(400)	2,603
Comprehensive income	$ 257,773	$ 236,531	$ 202,830

See Notes to Consolidated Financial Statements.

Table of Contents

Williams-Sonoma, Inc.
Consolidated Balance Sheets

Dollars and shares in thousands, except per share amounts	Feb. 3, 2013	Jan. 29, 2012
ASSETS		
Current assets		
Cash and cash equivalents	$ 424,555	$ 502,757
Restricted cash	16,055	14,732
Accounts receivable, net	62,985	45,961
Merchandise inventories, net	640,024	553,461
Prepaid catalog expenses	37,231	34,294
Prepaid expenses	26,339	24,188
Deferred income taxes, net	99,764	91,744
Other assets	9,819	9,229
Total current assets	1,316,772	1,276,366
Property and equipment, net	812,037	734,672
Non-current deferred income taxes, net	12,398	12,382
Other assets, net	46,472	37,418
Total assets	$2,187,679	$ 2,060,838
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 259,162	$ 218,329
Accrued salaries, benefits and other	120,632	111,774
Customer deposits	207,415	190,417
Income taxes payable	41,849	22,435
Current portion of long-term debt	1,724	1,795
Other liabilities	26,345	27,049
Total current liabilities	657,127	571,799
Deferred rent and lease incentives	171,198	181,762
Long-term debt	3,753	5,478
Other long-term obligations	46,463	46,537
Total liabilities	878,541	805,576
Commitments and contingencies – See Note J		
Stockholders' equity		
Preferred stock: $.01 par value; 7,500 shares authorized; none issued	0	0
Common stock: $.01 par value; 253,125 shares authorized; 97,734 and 100,451 shares issued and outstanding at February 3, 2013 and January 29, 2012, respectively	977	1,005
Additional paid-in capital	503,616	478,720
Retained earnings	790,912	762,947
Accumulated other comprehensive income	13,633	12,590
Total stockholders' equity	1,309,138	1,255,262
Total liabilities and stockholders' equity	$2,187,679	$ 2,060,838

See Notes to Consolidated Financial Statements.

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

Dollars and shares in thousands	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at January 31, 2010	106,962	$ 1,070	$ 448,848	$ 751,290	$ 10,387	$1,211,595
Net earnings	—	—	—	200,227	—	200,227
Foreign currency translation adjustment	—	—	—	—	2,603	2,603
Exercise of stock-based awards and related tax effect	983	10	23,290	—	—	23,300
Conversion/release of stock-based awards	1,206	12	(17,930)	—	—	(17,918)
Repurchase and retirement of common stock	(4,263)	(43)	(13,945)	(111,012)	—	(125,000)
Stock-based compensation expense	—	—	26,622	8	—	26,630
Dividends declared	—	—	—	(62,574)	—	(62,574)
Balance at January 30, 2011	104,888	$1,049	$466,885	$ 777,939	$ 12,990	$ 1,258,863
Net earnings	—	—	—	236,931	—	236,931
Foreign currency translation adjustment	—	—	—	—	(400)	(400)
Exercise of stock-based awards and related tax effect	430	4	17,921	—	—	17,925
Conversion/release of stock-based awards	517	5	(11,661)	—	—	(11,656)
Repurchase and retirement of common stock	(5,384)	(53)	(18,757)	(175,619)	—	(194,429)
Stock-based compensation expense	—	—	24,332	4	—	24,336
Dividends declared	—	—	—	(76,308)	—	(76,308)
Balance at January 29, 2012	100,451	$1,005	$ 478,720	$ 762,947	$ 12,590	$1,255,262
Net earnings	—	—	—	256,730	—	256,730
Foreign currency translation adjustment	—	—	—	—	1,043	1,043
Exercise of stock-based awards and related tax effect	506	5	27,225	—	—	27,230
Conversion/release of stock-based awards	739	7	(18,644)	—	—	(18,637)
Repurchase and retirement of common stock	(3,962)	(40)	(14,741)	(140,299)	—	(155,080)
Stock-based compensation expense	—	—	31,056	(14)	—	31,042
Dividends declared	—	—	—	(88,452)	—	(88,452)
Balance at February 3, 2013	97,734	$ 977	$ 503,616	$ 790,912	$ 13,633	$ 1,309,138

See Notes to Consolidated Financial Statements.

Williams-Sonoma, Inc.
Consolidated Statements of Cash Flows

Dollars in thousands	*Fiscal Year Ended* Feb. 3, 2013 (53 Weeks)	Jan. 29, 2012 (52 Weeks)	Jan. 30, 2011 (52 Weeks)
Cash flows from operating activities:			
Net earnings	$ 256,730	$ 236,931	$ 200,227
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Depreciation and amortization	134,453	130,553	144,630
(Gain)/loss on sale/disposal of assets	2,317	2,040	(1,139)
Impairment of assets	6,071	840	5,453
Amortization of deferred lease incentives	(26,694)	(27,547)	(37,115)
Deferred income taxes	(9,029)	14,210	23,566
Tax benefit from exercise of stock-based awards	12,725	8,515	10,450
Excess tax benefit from exercise of stock-based awards	(12,683)	(8,021)	(11,239)
Stock-based compensation expense	31,042	24,336	26,630
Other	0	17	0
Changes in:			
Accounts receivable	(16,408)	(4,763)	3,477
Merchandise inventories	(85,981)	(34,853)	(46,464)
Prepaid catalog expenses	(2,937)	2,559	(4,048)
Prepaid expenses and other assets	(12,204)	(2,065)	(1,729)
Accounts payable	22,461	(21,154)	35,946
Accrued salaries, benefits and other current and long-term liabilities	9,147	(16,030)	19,314
Customer deposits	16,962	(2,242)	(3,112)
Deferred rent and lease incentives	18,803	7,570	(2,550)
Income taxes payable	19,352	(19,562)	(6,308)
Net cash provided by operating activities	364,127	291,334	355,989
Cash flows from investing activities:			
Purchases of property and equipment	(205,404)	(130,353)	(61,906)
Restricted cash deposits	(1,323)	(2,220)	(12,512)
Proceeds from sale of assets	182	81	10,823
Proceeds from insurance reimbursement	115	751	0
Acquisition of Rejuvenation Inc., net of cash received	0	(25,363)	0
Other	(385)	(600)	(400)
Net cash used in investing activities	(206,815)	(157,704)	(63,995)
Cash flows from financing activities:			
Repurchase of common stock	(155,080)	(194,429)	(125,000)
Payment of dividends	(87,847)	(68,877)	(59,160)
Tax withholdings related to stock-based awards	(18,637)	(11,656)	(17,918)
Net proceeds from exercise of stock-based awards	14,637	9,614	15,736
Excess tax benefit from exercise of stock-based awards	12,683	8,021	11,239
Repayments of long-term obligations	(1,796)	(1,626)	(1,587)
Other	(405)	(86)	(1,625)
Net cash used in financing activities	(236,445)	(259,039)	(178,315)
Effect of exchange rates on cash and cash equivalents	931	(237)	781
Net increase (decrease) in cash and cash equivalents	(78,202)	(125,646)	114,460
Cash and cash equivalents at beginning of year	502,757	628,403	513,943
Cash and cash equivalents at end of year	$ 424,555	$ 502,757	$ 628,403
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	$ 1,651	$ 1,952	$ 2,381
Income taxes, net of refunds	131,440	150,657	98,617

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. The direct-to-customer segment of our business sells our products through our seven e-commerce websites (williams-sonoma.com, potterybarn.com, potterybarnkids.com, pbteen.com, westelm.com, rejuvenation.com and markandgraham.com) and eight direct-mail catalogs (Williams-Sonoma, Pottery Barn, Pottery Barn Bed and Bath, Pottery Barn Kids, PBteen, West Elm, Rejuvenation and Mark and Graham). We offer shipping from many of our brands to countries worldwide, while our catalogs reach customers across the U.S. The retail segment of our business sells similar products through our five retail store concepts (Williams-Sonoma, Pottery Barn, Pottery Barn Kids, West Elm and Rejuvenation). As of February 3, 2013, we operate 581 stores in 44 states, Washington, D.C., Canada and Puerto Rico.

Intercompany transactions and accounts 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 2012, a 53-week year, ended on February 3, 2013; fiscal 2011, a 52-week year, ended on January 29, 2012; and fiscal 2010, a 52-week year, ended on January 30, 2011.

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, 2013, we were invested primarily in money market funds, interest-bearing demand deposit accounts and highly liquid U.S. Treasury bills. Book cash overdrafts issued, but not yet presented to the bank for payment, are reclassified to accounts payable.

Restricted Cash
Restricted cash represents deposits held in trusts to secure our liabilities associated with our workers' compensation and other insurance programs.

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. Other miscellaneous 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, 2013 and January 29, 2012.

Merchandise Inventories
Merchandise inventories, net of an allowance for excess quantities and obsolescence, are stated at the lower of cost (weighted average method) or market. To determine if the value of our inventory should be marked down 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 retail sales and selling prices.

Reserves for shrinkage are estimated and recorded throughout the year, at the concept and channel level, as a percentage of net sales based on historical shrinkage results, expectations of future shrinkage and current inventory levels. Actual shrinkage is recorded at year-end based on the results of our physical inventory count and can vary from our estimates due to such factors as changes in operations within our distribution centers, the mix of our inventory (which ranges from large furniture to small tabletop items) and execution against loss prevention initiatives in our stores, distribution centers, off-site storage locations, and with our third party transportation providers. Accordingly, there is no shrinkage reserve at year-end.

Due to these factors, our obsolescence and shrinkage reserves contain uncertainties. Both estimates include calculations 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. Management does not believe that changes in the assumptions used in these estimates would have a significant effect on our inventory balances. 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 net earnings. As of February 3, 2013 and January 29, 2012, our inventory obsolescence reserves were $12,273,000 and $12,026,000, respectively.

Advertising and Prepaid Catalog Expenses

Advertising expenses consist of media and production costs related to catalog mailings, e-commerce advertising and other direct marketing activities. All advertising costs are expensed as incurred, or upon the release of the initial advertisement, with the exception of prepaid catalog expenses. Prepaid catalog expenses consist primarily of third party incremental direct costs, including creative design, paper, printing, postage and mailing costs for all of our direct response catalogs. Such costs are capitalized as prepaid catalog expenses and are amortized over their expected period of future benefit. Such amortization is based upon the ratio of estimated direct-to-customer revenues for the period to the total estimated direct-to-customer revenues over the life of the catalog on an individual catalog basis. Estimated direct-to-customer revenues over the life of the catalog are based upon various factors such as the total number of catalogs and pages circulated, the probability and magnitude of consumer response and the assortment of merchandise offered. Each catalog is generally fully amortized over a six to nine month period, with the majority of the amortization occurring within the first four to five months. Prepaid catalog expenses are evaluated for realizability on a monthly basis by comparing the carrying amount associated with each catalog to the estimated probable remaining future profitability (remaining net revenues less merchandise cost of goods sold, selling expenses and catalog-related costs) associated with that catalog. If the catalog is not expected to be profitable, the carrying amount of the catalog is impaired accordingly.

Total advertising expenses (including catalog advertising, e-commerce advertising and all other advertising costs) were approximately $318,338,000, $301,316,000 and $293,623,000 in fiscal 2012, fiscal 2011 and fiscal 2010, 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 below.

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

We review the carrying value of all long-lived assets for impairment, primarily at a 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, historical operations of the stores and estimates of future store profitability and economic conditions. The future estimates of store profitability and economic conditions require estimating such factors as sales growth, gross margin, employment rates, 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 difference between the asset's net carrying value and 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. The fair value is estimated based upon the present value of estimated future cash flows (discounted at a rate commensurate with the risk and that approximates our weighted average cost of capital).

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.

During fiscal 2012, we recorded expense of approximately $6,071,000 associated with asset impairment charges, primarily related to underperforming retail stores, all of which is recorded within selling, general and administrative expenses.

During fiscal 2011, we recorded expense of approximately $3,194,000 associated with asset impairment and early lease termination charges for underperforming retail stores, substantially all of which is recorded within selling, general and administrative expenses.

During fiscal 2010, we recorded expense of approximately $17,525,000 associated with asset impairment and early lease termination charges for underperforming retail stores, substantially all of which is recorded within selling, general and administrative expenses. We also recorded a net benefit of $403,000 associated with the exit of excess distribution capacity, which is recorded within selling, general and administrative expenses.

Goodwill

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. The first step of the impairment test requires determining the fair value of the reporting unit. We use the income approach, whereby we estimate the fair value based on the present value of estimated future cash flows. The process of evaluating the potential impairment of goodwill is subjective and requires significant estimates and assumptions such as estimates for sales growth, gross margins, employment rates, 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, is in excess of its fair value, goodwill may be impaired, and we must perform a second step of comparing the implied fair value of the goodwill to its carrying value to determine the impairment charge, if any. At February 3, 2013 and January 29, 2012, we had goodwill of $18,951,000 and $19,301,000, respectively, included in other assets, primarily related to our fiscal 2011 acquisition of Rejuvenation. We did not recognize any goodwill impairment in fiscal 2012 or fiscal 2011.

Self-Insured Liabilities

We are primarily self-insured for workers' compensation, employee health benefits and product and general liability claims. We record self-insurance liabilities based on claims filed, including the development of those claims, and an estimate of claims incurred but not yet reported. Factors affecting this estimate include future inflation rates, changes in severity, benefit level changes, medical costs and claim settlement patterns. Should a different amount 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. We determine our workers' compensation liability and product and general liability claims reserves based on an actuarial analysis of historical claims data. Self-insurance reserves for employee health benefits, workers' compensation and product and general liability claims were $20,275,000 and $19,103,000 as of February 3, 2013 and January 29, 2012, respectively, and are recorded within accrued salaries, benefits and other.

Customer Deposits
Customer deposits are primarily comprised of unredeemed gift cards and merchandise credits and deferred revenue related to undelivered merchandise. We maintain a liability for unredeemed gift cards and merchandise credits until the earlier of redemption, escheatment or four years as we have concluded that the likelihood of our gift cards being redeemed beyond four years from the date of issuance is remote.

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 rental 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. We record rental expense during the construction period. 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.

Fair Value of Financial Instruments
The carrying values of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and debt approximate their estimated fair values.

Revenue Recognition
We recognize revenues and the related cost of goods sold (including shipping costs) at the time the products are delivered to our customers. Revenue is recognized for retail sales (excluding home-delivered merchandise) at the point of sale in the store and for home-delivered merchandise and direct-to-customer sales when the merchandise is delivered to the customers. Discounts provided to customers are accounted for as a reduction of sales. We record a reserve for estimated product returns in each reporting period. Shipping and handling fees charged to the customer are recognized as revenue at the time the products are delivered to the customer. Revenues are presented net of any taxes collected from customers and remitted to governmental authorities.

Sales Returns Reserve
Our customers may return purchased items for an exchange or refund. We record a reserve for estimated product returns, net of cost of goods sold, based on historical return trends together with current product sales performance. A summary of activity in our sales returns reserve is as follows:

Dollars in thousands	Fiscal 2012[1] (53 Weeks)	Fiscal 2011[1] (52 Weeks)	Fiscal 2010[1] (52 Weeks)
Balance at beginning of year	$ 14,151	$ 12,502	$ 11,839
Provision for sales returns	270,156	245,815	221,289
Actual sales returns	(269,910)	(244,166)	(220,626)
Balance at end of year	$ 14,397	$ 14,151	$ 12,502

[1] *Amounts are shown net of cost of goods sold.*

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 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 warehouses, 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 in our consolidated financial statements for all stock-based awards using a fair value based-method. For stock options and stock-settled stock appreciation rights ("option awards"), fair value is determined using the Black-Scholes valuation model, while restricted stock units are valued using the closing price of our stock on the date prior to the date of grant. Significant factors affecting the fair value of option awards include the estimated future volatility of our stock price and the estimated expected term until the option award is exercised, converted or cancelled. The fair value of each stock-based award is amortized over the requisite service period.

Foreign Currency Translation

As of February 3, 2013, our retail stores in Canada and our limited operations in Asia, Europe and Australia expose us to market risk associated with foreign currency exchange rate fluctuations.

Additionally, some of our foreign operations have a functional currency different than the U.S. dollar, such as those in Canada (Canadian dollar), Europe (euro or Great British pound) and Australia (Australian 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. Gains and losses resulting from foreign currency transactions have not been significant and are included in selling, general and administrative expenses.

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 for the period plus common stock equivalents. Common stock equivalents consist of shares subject to option awards with exercise prices less than or equal to the average market price of our common stock for the period, as well as restricted stock units, 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 the consolidated financial statements. We record reserves for estimates of probable settlements of foreign and domestic tax audits. At any one time, many tax years are subject to audit by various taxing jurisdictions. The results of these audits and negotiations with taxing authorities may affect the ultimate settlement of these issues. Additionally, our effective tax rate in a given financial statement period may be materially impacted by changes in the mix and level of our earnings.

New Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. This guidance revises the manner in which entities present comprehensive income in their financial statements. The new guidance removes the presentation options in previous guidance and requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. The new guidance does not change the items that must be reported in other comprehensive income. We adopted ASU 2011-05 in the first quarter of fiscal 2012 and have included two separate but consecutive statements for all periods presented.

Note B: Property and Equipment

Property and equipment consists of the following:

Dollars in thousands	Feb. 3, 2013	Jan. 29, 2012
Leasehold improvements	$ 812,451	$ 812,701
Fixtures and equipment	643,366	597,453
Capitalized software	366,509	310,761
Land and buildings	180,806	137,943
Corporate systems projects in progress [1]	66,839	72,924
Construction in progress [2]	24,971	2,695
Total	2,094,942	1,934,477
Accumulated depreciation	(1,282,905)	(1,199,805)
Property and equipment, net	$ 812,037	$ 734,672

[1] *Corporate systems projects in progress as of February 3, 2013 and January 29, 2012 includes approximately $39.7 million and $48.2 million, respectively, for the portion of our new inventory and order management system currently under development and not ready for its intended use.*
[2] *Construction in progress is primarily comprised 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

Long-term debt consists of the following:

Dollars in thousands	Feb. 3, 2013	Jan. 29, 2012
Memphis-based distribution facilities obligation	$ 5,388	$ 6,924
Capital leases	89	349
Total debt	5,477	7,273
Less current maturities	(1,724)	(1,795)
Total long-term debt	$ 3,753	$ 5,478

Memphis-Based Distribution Facilities Obligation
As of February 3, 2013 and January 29, 2012, total debt of $5,388,000 and $6,924,000, respectively, consists entirely of bond-related debt pertaining to the consolidation of one of our Memphis-based distribution facilities due to its related party relationship and our obligation to renew the lease until the bonds are fully repaid (see Note F).

The aggregate maturities of long-term debt at February 3, 2013 were as follows:

Dollars in thousands	
Fiscal 2013	$ 1,724
Fiscal 2014	1,785
Fiscal 2015	1,968
Total	$ 5,477

Credit Facility
We have a credit facility that provides for a $300,000,000 unsecured revolving line of credit that may be used for loans or letters of credit. Prior to December 22, 2016, we may, upon notice to the lenders, request an increase in the credit facility of up to $200,000,000, to provide for a total of $500,000,000 of unsecured revolving credit. As of February 3, 2013, we were in compliance with our financial covenants under the credit facility and, based on current projections, we expect to remain in compliance throughout fiscal 2013. The credit facility matures on June 22, 2017, at which time all outstanding borrowings must be repaid and all outstanding letters of credit must be cash collateralized.

We may elect interest rates calculated at (i) Bank of America's prime rate (or, if greater, the average rate on overnight federal funds plus one-half of one percent, or a rate based on LIBOR plus one percent) plus a margin based on our leverage ratio or (ii) LIBOR plus a margin based on our leverage ratio. During fiscal 2012 and fiscal 2011, we had no borrowings under the credit facility, and no amounts were outstanding as of February 3, 2013 or January 29, 2012. Additionally, as of February 3, 2013, $4,970,000 in issued but undrawn standby letters of credit was outstanding under the credit facility. The standby letters of credit were issued to secure the liabilities associated with workers' compensation and other insurance programs.

Letter of Credit Facilities
We have three unsecured letter of credit reimbursement facilities for a total of $90,000,000, each of which matures on August 30, 2013. The letter of credit facilities contain covenants that are consistent with our unsecured revolving line of credit. Interest on unreimbursed amounts under the letter of credit facilities accrues at the lender's prime rate (or if greater, the average rate on overnight federal funds plus one-half of one percent) plus 2.0%. As of February 3, 2013, an aggregate of $18,578,000 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 27, 2014.

Note D: Income Taxes

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

	Fiscal Year Ended		
Dollars in thousands	Feb. 3, 2013 (53 Weeks)	Jan. 29, 2012 (52 Weeks)	Jan. 30, 2011 (52 Weeks)
United States	$ 401,542	$ 367,620	$ 308,033
Foreign	8,414	14,210	15,027
Total earnings before income taxes	$ 409,956	$ 381,830	$ 323,060

The provision for income taxes consists of the following:

	Fiscal Year Ended		
Dollars in thousands	Feb. 3, 2013 (53 Weeks)	Jan. 29, 2012 (52 Weeks)	Jan. 30, 2011 (52 Weeks)
Current			
Federal	$ 136,742	$ 104,370	$ 79,719
State	22,072	22,275	15,576
Foreign	3,441	4,044	3,972
Total current	162,255	130,689	99,267
Deferred			
Federal	(7,827)	15,650	20,429
State	(1,202)	(1,427)	3,047
Foreign	(0)	(13)	90
Total deferred	(9,029)	14,210	23,566
Total provision	$ 153,226	$ 144,899	$ 122,833

Except where required by U.S. tax law, 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. As of February 3, 2013, the accumulated undistributed earnings of all foreign subsidiaries were approximately $35,600,000 and are sufficient to support our anticipated future cash needs for our foreign operations. We currently intend to utilize the remainder of those undistributed earnings for an indefinite period of time and will only repatriate such earnings when it is tax effective to do so. It is currently not practical to estimate the tax liability that might be payable if these foreign earnings were to be repatriated.

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

	Fiscal Year Ended		
	Feb. 3, 2013 (53 Weeks)	Jan. 29, 2012 (52 Weeks)	Jan. 30, 2011 (52 Weeks)
Federal income taxes at the statutory rate	35.0%	35.0%	35.0%
State income tax rate	3.3%	3.5%	3.8%
Other	(0.9%)	(0.6%)	(0.8%)
Effective tax rate	37.4%	37.9%	38.0%

Significant components of our deferred tax accounts are as follows:

Dollars in thousands	Feb. 3, 2013	Jan. 29, 2012
Current:		
Compensation	$ 9,255	$ 8,638
Merchandise inventories	23,413	21,923
Accrued liabilities	19,462	15,438
Customer deposits	55,321	53,638
Prepaid catalog expenses	(13,971)	(12,869)
Other	6,284	4,976
Total current	99,764	91,744
Non-current:		
Depreciation	(11,142)	(9,008)
Deferred rent	16,205	15,824
Deferred lease incentives	(29,931)	(28,353)
Stock-based compensation	23,245	20,211
Executive deferral plan	4,562	4,563
Uncertainties	3,907	4,856
Other	5,552	4,289
Total non-current	12,398	12,382
Total deferred tax assets, net	$ 112,162	$ 104,126

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

Dollars in thousands	Feb. 3, 2013	Jan. 29, 2012	Jan. 30, 2011
Balance at beginning of year	$ 10,023	$ 11,619	$ 15,866
Increases related to current year tax positions	2,188	1,329	821
Increases related to prior years' tax positions	936	379	0
Decreases related to prior years' tax positions	(171)	(370)	(560)
Settlements	(1,069)	(2,070)	(1,701)
Lapses in statute of limitations	(2,917)	(864)	(2,807)
Balance at end of year	$ 8,990	$ 10,023	$ 11,619

As of February 3, 2013, January 29, 2012 and January 30, 2011, we had $8,990,000, $10,023,000, and $11,619,000, respectively, of gross unrecognized tax benefits, of which $6,101,000, $6,738,000, and $7,812,000, respectively, 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, 2013 and January 29, 2012, our accruals, entirely for the payment of interest, totaled $2,508,000 and $3,983,000, respectively.

Due to the potential resolution of state 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 zero to $3,100,000.

We file income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. We have concluded all U.S. federal income tax examinations through fiscal 2008. Substantially all material state, local and foreign income tax examinations have been concluded through fiscal 2001.

Note E: Accounting for Leases

Operating Leases

We lease store locations, distribution centers, customer care centers, corporate facilities and certain equipment for original terms ranging generally from 3 to 22 years. Certain leases contain renewal options for periods up to 20 years. The rental payment requirements in our store leases are typically structured as either: minimum rent; minimum rent plus additional rent based on a percentage of store sales; 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 rental expense for all operating leases was as follows:

	Fiscal Year Ended		
Dollars in thousands	Feb. 3, 2013 (53 Weeks)	Jan. 29, 2012 (52 Weeks)	Jan. 30, 2011 (52 Weeks)
Rent expense	$ 189,060	$ 186,346	$ 185,979
Contingent rent expense	35,634	34,390	34,856
Rent expense before deferred lease incentive income	224,694	220,736	220,835
Deferred lease incentive income	(26,694)	(27,547)	(37,115)
Less: sublease rental income	(535)	(382)	(329)
Total rent expense[1]	$ 197,465	$ 192,807	$ 183,391

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

Table of Contents

The aggregate future minimum annual cash rental payments under non-cancelable operating leases (excluding the Memphis-based distribution facility consolidated by us, see Note F) in effect at February 3, 2013 were as follows:

Dollars in thousands	Lease Commitments[1,2]
Fiscal 2013	$ 224,579
Fiscal 2014	207,696
Fiscal 2015	181,233
Fiscal 2016	166,573
Fiscal 2017	142,769
Thereafter	521,403
Total	$1,444,253

[1] *Represents future projected cash payments and, therefore, is not necessarily representative of future expected rental expense.*

[2] *Projected cash payments include only those amounts that are fixed and determinable as of the reporting date. We currently pay rent for certain store locations based on a percentage of store sales. Projected payments for these locations are based on minimum rent, which is generally higher than rent based on a percentage of store sales, as future store sales cannot be predicted with certainty. We incur other lease obligation expenses, such as common area charges 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.*

Note F: Memphis-Based Distribution Facilities

Our Memphis-based distribution facilities include an operating lease entered into in July 1983 for a distribution facility in Memphis, Tennessee. The lessor is a general partnership ("Partnership 1") comprised of the estate of W. Howard Lester ("Mr. Lester"), our former Chairman of the Board and Chief Executive Officer, and the estate of James A. McMahan ("Mr. McMahan"), a former Director Emeritus and significant stockholder. Partnership 1 does not have operations separate from the leasing of this distribution facility and does not have lease agreements with any unrelated third parties. The terms of the lease automatically renewed until the bonds that financed the construction of the facility were fully repaid in December 2010, at which time we continued to rent the facility on a month-to-month basis. We subsequently agreed to lease the facilities from Partnership 1 through June 2013. We made annual rental payments in fiscal 2012, fiscal 2011 and fiscal 2010 of approximately $618,000, plus interest on the bonds.

Our other Memphis-based distribution facility includes an operating lease entered into in August 1990 for another distribution facility that is adjoined to the Partnership 1 facility in Memphis, Tennessee. The lessor is a general partnership ("Partnership 2") comprised of the estate of Mr. Lester, the estate of Mr. McMahan and two unrelated parties. Partnership 2 does not have operations separate from the leasing of this distribution facility and does not have lease agreements with any unrelated third parties. The term of the lease automatically renews on an annual basis until the bonds that financed the construction of the facility are fully repaid in August 2015. As of February 3, 2013, $5,388,000 was outstanding under the Partnership 2 bonds. We made annual rental payments of approximately $2,473,000, $2,516,000 and $2,567,000 plus applicable taxes, insurance and maintenance expenses in fiscal 2012, fiscal 2011 and fiscal 2010, respectively.

As of February 3, 2013, Partnership 2 qualifies as a variable interest entity and is consolidated by us due to its related party relationship and our obligation to renew the lease until the bonds are fully repaid. As such, as of February 3, 2013, our consolidated balance sheet includes $11,535,000 in assets (primarily buildings), $5,388,000 in debt and $6,147,000 in other long-term liabilities related to the consolidation of the Partnership 2 distribution facility.

Table of Contents

Note G: 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:

Dollars and amounts in thousands, except per share amounts	Net Earnings	Weighted Average Shares	Earnings Per Share
2012 (53 Weeks)			
Basic	$256,730	99,266	$ 2.59
Effect of dilutive stock-based awards		1,785	
Diluted	$256,730	101,051	$ 2.54
2011 (52 Weeks)			
Basic	$236,931	104,352	$ 2.27
Effect of dilutive stock-based awards		2,230	
Diluted	$236,931	106,582	$ 2.22
2010 (52 Weeks)			
Basic	$ 200,227	106,956	$ 1.87
Effect of dilutive stock-based awards		2,566	
Diluted	$ 200,227	109,522	$ 1.83

Stock-based awards of 1,313,000, 1,743,000 and 1,488,000 shares in fiscal 2012, fiscal 2011 and fiscal 2010, respectively, were not included in the computation of diluted earnings per share, as their inclusion would be anti-dilutive.

Note H: 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, deferred stock awards (collectively, "stock awards") and dividend equivalents up to an aggregate of 25,759,903 shares. As of February 3, 2013, there were approximately 7,563,315 shares available for future grant. Awards may be granted under the Plan to officers, employees and non-employee Board members of the company or any parent or subsidiary. Annual grants are limited to 1,000,000 shares covered by option awards and 400,000 shares covered by stock awards on a per person basis. All grants of option awards made under the Plan 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 and stock awards granted to employees generally vest over a period of four years. Certain option awards, stock awards and other agreements contain vesting acceleration clauses resulting from events including, but not limited to, retirement, merger or a similar corporate event. Option and 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). Shares issued as a result of award exercises will be funded with the issuance of new shares.

Stock-Based Compensation Expense

During fiscal 2012, fiscal 2011 and fiscal 2010, we recognized total stock-based compensation expense, as a component of selling, general and administrative expenses, of $31,042,000 (including stock-based compensation expense of $3,019,000 associated with the retirement of our former Executive Vice President, Chief Operating and Chief Financial Officer), $24,336,000, and $26,630,000, respectively. As of February 3, 2013, there was $48,351,000 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.

Table of Contents

Stock Options

The following table summarizes our stock option activity during fiscal 2012:

	Shares	Weighted Average Exercise Price	Weighted Average Contractual Term Remaining (Years)	Intrinsic Value[1]
Balance at January 29, 2012	934,696	$ 31.76		
Granted	0	0.00		
Exercised	(505,566)	28.95		
Cancelled	(200)	38.84		
Balance at February 3, 2013 (100% vested)	428,930	$ 35.07	1.95	$4,266,000

[1] *Intrinsic value for outstanding and vested options is based on the excess, if any, of the market value of our common stock on the last business day of the fiscal year (or $45.02) over the exercise price.*

No stock options were granted in fiscal 2012, fiscal 2011 or fiscal 2010. The total intrinsic value of stock options exercised was $5,497,000 for fiscal 2012, $7,343,000 for fiscal 2011 and $15,788,000 for fiscal 2010. Intrinsic value for options exercised is based on the excess of the market value over the exercise price on the date of exercise.

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 date the award was granted and the conversion date for the number of shares vested.

The following table summarizes our stock-settled stock appreciation right activity during fiscal 2012:

	Shares	Weighted Average Conversion Price[1]	Weighted Average Contractual Term Remaining (Years)	Intrinsic Value[2]
Balance at January 29, 2012	3,941,642	$ 24.13		
Granted	0	0.00		
Converted into common stock	(1,183,951)	13.79		
Cancelled	(229,907)	32.48		
Balance at February 3, 2013	2,527,784	$ 28.21	5.42	$ 42,497,000
Vested at February 3, 2013	1,466,023	$ 20.37	5.44	$ 36,133,000
Vested plus expected to vest at February 3, 2013	2,205,070	$ 26.47	5.45	$40,899,000

[1] *Conversion price is equal to the market value on the date of grant.*
[2] *Intrinsic value for outstanding and vested rights is based on the excess of the market value of our common stock on the last business day of the fiscal year (or $45.02) over the conversion price.*

The following table summarizes additional information about stock-settled stock appreciation rights:

	Fiscal 2012	Fiscal 2011	Fiscal 2010
Weighted average grant date fair value per share of awards granted	$ 0.00	$ 14.27	$ 10.21
Intrinsic value of awards converted into common stock [1]	$31,569,000	$18,969,000	$20,252,000

[1] *Intrinsic value for conversions is based on the excess of the market value over the conversion price on the date of the conversion.*

The fair value of option awards is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

- *Expected term* – The expected term of the option awards represents the period of time between the grant date of the option awards and the date the option awards are either exercised, converted or cancelled, including an estimate for those option awards still outstanding.
- *Expected volatility* – The expected volatility is based on an average of the historical volatility of our stock price, for a period approximating our expected term, and the implied volatility of externally traded options of our stock during the period.
- *Risk-free interest rate* – The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant and with a maturity that approximates our expected term.
- *Dividend yield* – The dividend yield is based on our quarterly cash dividend and the anticipated dividend payout over our expected term.

No option awards were granted in fiscal 2012. The weighted average assumptions used for fiscal 2011 and fiscal 2010 are as follows:

	Fiscal Year Ended	
	Jan. 29, 2012	Jan. 30, 2011
Expected term (years)	5.0	5.1
Expected volatility	46.6%	47.3%
Risk-free interest rate	2.2%	2.6%
Dividend yield	2.3%	2.2%

Restricted Stock Units

The following table summarizes our restricted stock unit activity during fiscal 2012:

	Shares	Weighted Average Grant Date Fair Value	Weighted Average Contractual Term Remaining (Years)	Intrinsic Value[1]
Balance at January 29, 2012	2,293,851	$ 29.74		
Granted	1,276,183	37.94		
Released	(432,929)	21.91		
Cancelled	(364,679)	30.67		
Balance at February 3, 2013	2,772,426	$ 34.61	2.27	$124,815,000
Vested plus expected to vest at February 3, 2013	1,956,461	$ 34.67	2.27	$ 88,080,000

[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 $45.02).*

The following table summarizes additional information about restricted stock units:

	Fiscal 2012	Fiscal 2011	Fiscal 2010
Weighted average grant date fair value per share of awards granted	$ 37.94	$ 39.27	$ 28.13
Intrinsic value of awards released [1]	$16,730,000	$12,865,000	$32,109,000

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

Tax Effect

We present tax benefits resulting from the exercise of stock-based awards as operating cash flows in the Consolidated Statements of Cash Flows. Tax deductions in excess of the cumulative compensation cost recognized for stock-based awards exercised are presented as a financing cash inflow and an operating cash outflow. During fiscal 2012, fiscal 2011 and fiscal 2010, net proceeds from the exercise of stock-based awards was $14,637,000, $9,614,000 and $15,736,000, respectively, and the tax benefit associated with such exercises totaled $21,477,000, $15,078,000 and $24,762,000, respectively.

Note I: 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 employees 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.

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 Code section 414(l). Our contributions to the plan were $5,517,000, $4,862,000 and $4,247,000 in fiscal 2012, fiscal 2011 and fiscal 2010, respectively.

We also have a nonqualified executive deferred compensation plan that provides supplemental retirement income benefits for a select group of management and other certain highly compensated employees. In January 2010 all employee salary and bonus deferrals into the plan were suspended, however, beginning January 2013 salary and bonus deferrals were reinstated into the plan for all eligible employees. 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, 2013 and January 29, 2012, $12,148,000 and $12,150,000, respectively, is included in other long-term 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 $14,137,000 and $12,684,000 as of February 3, 2013 and January 29, 2012, respectively, and is included in other assets, net.

Note J: 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 larger. Litigation is inherently unpredictable. Any claims against us, whether meritorious or not, could be time consuming, 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.

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 our commercial contracts, operating leases, trademarks, intellectual property, financial agreements and various other agreements. Under these contracts, we may provide certain routine indemnifications 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.

Note K: Related Party Transactions

On January 25, 2010, the independent members of our Board of Directors (the "Board") approved our entry into a Retirement and Consulting Agreement (the "Agreement") with W. Howard Lester ("Mr. Lester"), our former Chairman of the Board and Chief Executive Officer. Pursuant to the terms of the Agreement, Mr. Lester retired as Chairman of the Board and Chief Executive Officer on May 26, 2010. The total expense recorded in fiscal 2010 associated with Mr. Lester's retirement and consulting services, consisting primarily of stock-based compensation expense, was approximately $5,935,000. As a result of Mr. Lester's death in November 2010, the Agreement terminated.

On May 16, 2008, we entered into an aircraft lease agreement with a limited liability company (the "LLC") owned by Mr. Lester for use of a Bombardier Global 5000 aircraft, through May 2011. During fiscal 2011 and fiscal 2010, we paid a total of $1,319,000 and $4,500,000 to the LLC, respectively.

Note L: Stock Repurchase Programs and Dividends

In January 2012, our Board of Directors authorized a stock repurchase program to purchase up to $225,000,000 of our common stock. During fiscal 2012, we repurchased 3,962,034 shares of our common stock at an average cost of $39.14 per share and a total cost of approximately $155,080,000. In addition, in March 2013, we announced that our Board of Directors had authorized a new stock repurchase program to purchase up to $750,000,000 of our common stock, which we intend to execute over the next three years.

Stock repurchases under these programs 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. These stock repurchase programs do not have an expiration date and may be limited or terminated at any time without prior notice.

During fiscal 2011, we repurchased 5,384,036 shares of our common stock at an average cost of $36.11 per share and a total cost of approximately $194,429,000. During fiscal 2010, we repurchased 4,263,463 shares of our common stock at an average cost of $29.32 per share and a total cost of approximately $125,000,000.

Dividends

In March 2013, we announced that our Board of Directors had authorized a 41% increase in our quarterly cash dividend, from $0.22 to $0.31 per common share, subject to capital availability. Total cash dividends declared were approximately $88,452,000, or $0.88 per common share, $76,308,000, or $0.73 per common share, and $62,574,000, or $0.58 per common share, in fiscal 2012, fiscal 2011 and fiscal 2010, respectively. Our quarterly cash dividend may be limited or terminated at any time.

Note M: Segment Reporting

We have two reportable segments, direct-to-customer and retail. The direct-to-customer segment has seven merchandising concepts (Williams-Sonoma, Pottery Barn, Pottery Barn Kids, PBteen, West Elm, Rejuvenation and Mark and Graham) which sell our products through our seven e-commerce websites and eight direct-mail catalogs. Our direct-to-customer merchandising concepts are operating segments, which have been aggregated into one reportable segment, direct-to-customer. The retail segment has five merchandising concepts (Williams-Sonoma, Pottery Barn, Pottery Barn Kids, West Elm and Rejuvenation) which sell our products through our retail stores. Our retail merchandising concepts 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 home-centered products. 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.

We use operating income to evaluate segment profitability. Operating income is defined as earnings (loss) before net interest income or 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 systems, corporate facilities and other administrative departments. Unallocated assets include corporate cash and cash equivalents, deferred income taxes, the net book value of corporate facilities and related information systems, and other corporate long-lived assets.

Income tax information by reportable segment has not been included as taxes are calculated at a company-wide level and are not allocated to each reportable segment.

Segment Information

Dollars in thousands	Direct-to-Customer	Retail	Unallocated	Total
2012 (53 Weeks)				
Net revenues[1]	$1,869,386	$ 2,173,484	$ 0	$ 4,042,870
Depreciation and amortization expense	23,164	72,994	38,295	134,453
Operating income	418,836	262,899	(272,572)	409,163
Assets[2]	397,285	939,672	850,722	2,187,679
Capital expenditures	30,585	86,776	88,043	205,404
2011 (52 Weeks)				
Net revenues[1]	$ 1,632,811	$ 2,088,084	$ 0	$ 3,720,895
Depreciation and amortization expense	19,626	76,914	34,013	130,553
Operating income	359,596	263,776	(241,640)	381,732
Assets[2]	340,573	859,879	860,386	2,060,838
Capital expenditures	27,451	51,546	51,356	130,353
2010 (52 Weeks)				
Net revenues[1]	$ 1,452,572	$2,051,586	$ 0	$ 3,504,158
Depreciation and amortization expense	20,901	92,676	31,053	144,630
Operating income	312,780	247,428	(236,794)	323,414
Assets[2]	288,080	857,750	985,932	2,131,762
Capital expenditures	15,011	25,434	21,461	61,906

[1] *Includes net revenues of approximately $166.6 million, $140.1 million and $113.7 million in fiscal 2012, fiscal 2011 and fiscal 2010, respectively, related to our foreign operations.*

[2] *Includes $42.6 million, $24.1 million and $27.0 million of long-term assets in fiscal 2012, fiscal 2011 and fiscal 2010, respectively, related to our foreign operations.*

Note N: Acquisition

On November 1, 2011, we acquired Rejuvenation Inc. (“Rejuvenation”), a leading manufacturer and multi-channel retailer of authentic reproduction lighting and high-end door and cabinet hardware, for total consideration of approximately $25,657,000. The purchase price was allocated to the net tangible and intangible assets acquired based on their estimated fair values as of November 1, 2011. Such estimated fair values require management to make estimates and judgments, especially with respect to intangible assets.

The allocation of the purchase price to the fair value of assets acquired and liabilities assumed was as follows:

Dollars in thousands	
Merchandise inventories	$ 5,089
Other assets	565
Property and equipment	4,718
Intangible assets	180
Goodwill	18,089
Total liabilities	(2,984)
Total purchase price	$ 25,657

Results of operations of Rejuvenation have been included in our Consolidated Statements of Earnings since the November 1, 2011 acquisition date. Pro forma results of the acquired business have not been presented as the results were not material to our consolidated financial statements for all years presented and would not have been material had the acquisition occurred at the beginning of fiscal 2011.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Williams-Sonoma, Inc. and subsidiaries (the "Company") as of February 3, 2013 and January 29, 2012, and 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, 2013. We also have audited the Company's internal control over financial reporting as of February 3, 2013, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. 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 conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. 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.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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 the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Williams-Sonoma, Inc. and subsidiaries as of February 3, 2013 and January 29, 2012, and the results of their operations and their cash flows for each of the three years in the period ended February 3, 2013, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of

February 3, 2013, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ DELOITTE & TOUCHE LLP

San Francisco, California
April 4, 2013

Table of Contents

Quarterly Financial Information (Unaudited)

Dollars in thousands, except per share amounts

Fiscal 2012 (53 Weeks)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter[1]	Full Year
Net revenues	$817,614	$ 874,283	$ 944,554	$1,406,419	$ 4,042,870
Gross margin	309,266	334,480	367,998	580,732	1,592,476
Operating income[2]	49,323	70,103	79,296	210,441	409,163
Net earnings	30,716	43,380	48,900	133,734	256,730
Basic earnings per share[3]	$ 0.31	$ 0.44	$ 0.50	$ 1.36	$ 2.59
Diluted earnings per share[3]	$ 0.30	$ 0.43	$ 0.49	$ 1.34	$ 2.54
Fiscal 2011 (52 Weeks)	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**Full Year**
Net revenues	$770,825	$814,750	$867,176	$1,268,144	$ 3,720,895
Gross margin	295,883	308,721	331,963	523,289	1,459,856
Operating income[2]	51,700	64,085	68,744	197,203	381,732
Net earnings	31,615	39,309	43,421	122,586	236,931
Basic earnings per share[3]	$ 0.30	$ 0.38	$ 0.42	$ 1.19	$ 2.27
Diluted earnings per share[3]	$ 0.29	$ 0.37	$ 0.41	$ 1.17	$ 2.22

[1] Our fourth quarter of fiscal 2012 included 14 weeks.
[2] Operating income is defined as earnings before net interest income or expense and income taxes.
[3] Due to differences between quarterly and full year weighted average share counts, full year earnings per share will not necessarily 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, 2013, 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. There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even any effective internal control can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of any internal control may vary over time.

Table of Contents

Our management assessed the effectiveness of the company’s internal control over financial reporting as of February 3, 2013. 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.* Based on our assessment using those criteria, our management concluded that, as of February 3, 2013, our internal control over financial reporting is effective.

Our independent registered public accounting firm audited the 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 59 through 60 of this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

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

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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

ITEM 11. EXECUTIVE COMPENSATION

Information required by this Item is incorporated by reference herein to information under the headings “Election of Directors,” “Information Concerning Executive Officers,” “Executive Compensation,” and “Committee Reports–Compensation Committee Report” 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 headings “Security Ownership of Principal Stockholders and Management” and “Equity Compensation Plan Information” 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 “Committee Reports–Audit and Finance Committee Report” and “Audit and Related Fees” 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 7:

Consolidated Statements of Earnings for the fiscal years ended February 3, 2013, January 29, 2012 and January 30, 2011

Consolidated Statements of Comprehensive Income for the fiscal years ended February 3, 2013, January 29, 2012 and January 30, 2011

Consolidated Balance Sheets as of February 3, 2013 and January 29, 2012

Consolidated Statements of Stockholders' Equity for the fiscal years ended February 3, 2013, January 29, 2012 and January 30, 2011

Consolidated Statements of Cash Flows for the fiscal years ended February 3, 2013, January 29, 2012 and January 30, 2011

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

Quarterly Financial Information

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

(a)(3) Exhibits: See Exhibit Index on pages 66 through 74.

(b) Exhibits: See Exhibit Index on pages 66 through 74.

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

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, 2013

By /s/ LAURA J. ALBER
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, 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, 2013	/s/ ADRIAN D.P. BELLAMY Adrian D.P. Bellamy Chairman of the Board of Directors
Date: April 4, 2013	/s/ LAURA J. ALBER Laura J. Alber Chief Executive Officer (principal executive officer)
Date: April 4, 2013	/s/ JULIE P. WHALEN Julie P. Whalen Chief Financial Officer (principal financial officer and principal accounting officer)
Date: April 4, 2013	/s/ ROSE MARIE BRAVO Rose Marie Bravo Director
Date: April 4, 2013	/s/ MARY ANN CASATI Mary Ann Casati Director
Date: April 4, 2013	/s/ PATRICK J. CONNOLLY Patrick J. Connolly Director
Date: April 4, 2013	/s/ ADRIAN T. DILLON Adrian T. Dillon Director
Date: April 4, 2013	/s/ ANTHONY A. GREENER Anthony A. Greener Director
Date: April 4, 2013	/s/ TED W. HALL Ted W. Hall Director
Date: April 4, 2013	/s/ MICHAEL R. LYNCH Michael R. Lynch Director
Date: April 4, 2013	/s/ LORRAINE TWOHILL Lorraine Twohill Director

EXHIBIT INDEX TO ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED FEBRUARY 3, 2013

EXHIBIT NUMBER	EXHIBIT DESCRIPTION
PLAN OF ACQUISITION, REORGANIZATION, ARRANGEMENT LIQUIDATION OR SUCCESSION	
2.1	Agreement and Plan of Merger of Williams-Sonoma, Inc., a Delaware corporation, and Williams-Sonoma, Inc., a California Corporation, dated May 25, 2011 (incorporated by reference to Exhibit 2.1 to the Company’s Current Report on Form 8-K as filed with the Commission on May 25, 2011, File No. 001-14077)
ARTICLES 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 3.2 to the Company’s Current Report on Form 8-K as filed with the Commission on May 25, 2011, 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	Fifth Amended and Restated Credit Agreement, dated September 23, 2010, 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, JPMorgan Chase Bank, N.A. and U.S. Bank, National Association, as co-documentation agents, and the lenders party thereto (incorporated by reference to Exhibit 10.4 to the Company’s Quarterly Report on Form 10-Q for the period ended October 31, 2010 as filed with the Commission on December 10, 2010, File No. 001-14077)
10.2	Second Amendment to Fifth Amended and Restated Credit Agreement with Bank of America, N.A., as administrative agent, the lenders party thereto, and certain subsidiaries of the Company as guarantors, dated June 22, 2012 (incorporated by reference to Exhibit 10.3 to the Company’s Quarterly Report on Form 10-Q for the period ended July 29, 2012 as filed with the Commission on September 7, 2012, File No. 001-14077)
10.3	Reimbursement Agreement between the Company and Bank of America, N.A., dated as of July 1, 2005 (incorporated by reference to Exhibit 10.2 to the Company’s Quarterly Report on Form 10-Q for the period ended July 31, 2005 as filed with the Commission on September 9, 2005, File No. 001-14077)
10.4	First Amendment, dated as of September 9, 2005, to the Reimbursement Agreement between the Company and Bank of America, N.A., dated as of July 1, 2005 (incorporated by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q for the period ended October 30, 2005 as filed with the Commission on December 6, 2005, File No. 001-14077)

Table of Contents

EXHIBIT NUMBER	EXHIBIT DESCRIPTION
10.5	Second Amendment, dated as of September 8, 2006, to the Reimbursement Agreement between the Company and Bank of America, N.A., dated as of July 1, 2005 (incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended October 29, 2006 as filed with the Commission on December 8, 2006, File No. 001-14077)
10.6	Third Amendment, dated as of October 25, 2006, to the Reimbursement Agreement between the Company and Bank of America, N.A., dated as of July 1, 2005 (incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended October 29, 2006 as filed with the Commission on December 8, 2006, File No. 001-14077)
10.7	Fourth Amendment, dated as of September 8, 2007, to the Reimbursement Agreement between the Company and Bank of America, N.A., dated as of July 1, 2005 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended October 28, 2007 as filed with the Commission on December 7, 2007, File No. 001-14077)
10.8	Fifth Amendment, dated as of September 5, 2008, to the Reimbursement Agreement between the Company and Bank of America, N.A., dated as of July 1, 2005 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended November 2, 2008 as filed with the Commission on December 12, 2008, File No. 001-14077)
10.9	Sixth Amendment, dated as of September 4, 2009, to the Reimbursement Agreement between the Company and Bank of America, N.A., dated as of July 1, 2005 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended November 1, 2009 as filed with the Commission on December 12, 2009, File No. 001-14077)
10.10	Seventh Amendment, dated as of September 3, 2010, to the Reimbursement Agreement between the Company and Bank of America, N.A., dated as of July 1, 2005 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended October 31, 2010 as filed with the Commission on December 10, 2010, File No. 001-14077)
10.11	Eighth Amendment, dated as of September 2, 2011, to the Reimbursement Agreement between the Company and Bank of America, N.A., dated as of July 1, 2005 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended October 30, 2011 as filed with the Commission December 9, 2011, File No. 001-14077)
10.12	Ninth Amendment, dated as of August 31, 2012, to the Reimbursement Agreement between the Company and Bank of America, N.A., dated as of July 1, 2005 (incorporated by reference to Exhibit 10.1 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)
10.13	Reimbursement Agreement between the Company and Wells Fargo Bank, N.A., dated as of July 1, 2005 (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the period ended July 31, 2005 as filed with the Commission on September 9, 2005, File No. 001-14077)

Table of Contents

EXHIBIT NUMBER	EXHIBIT DESCRIPTION
10.14	First Amendment, dated as of September 9, 2005, to the Reimbursement Agreement between the Company and Wells Fargo Bank, N.A., dated as of July 1, 2005 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the period ended October 30, 2005 as filed with the Commission on December 6, 2005, File No. 001-14077)
10.15	Second Amendment, dated as of September 8, 2006, to the Reimbursement Agreement between the Company and Wells Fargo Bank, N.A., dated as of July 1, 2005 (incorporated by reference to Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended October 29, 2006 as filed with the Commission on December 8, 2006, File No. 001-14077)
10.16	Third Amendment, dated as of September 8, 2007, to the Reimbursement Agreement between the Company and Wells Fargo Bank, N.A., dated as of July 1, 2005 (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the period ended October 28, 2007 as filed with the Commission on December 7, 2007, File No. 001-14077)
10.17	Fourth Amendment, dated as of September 5, 2008, to the Reimbursement Agreement between the Company and Wells Fargo Bank, N.A., dated as of July 1, 2005 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the period ended November 2, 2008 as filed with the Commission on December 12, 2008, File No. 001-14077)
10.18	Fifth Amendment, dated as of September 4, 2009, to the Reimbursement Agreement between the Company and Wells Fargo Bank, N.A., dated as of July 1, 2005 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended November 1, 2009 as filed with the Commission on December 11, 2009, File No. 001-14077)
10.19	Sixth Amendment, dated as of September 3, 2010, to the Reimbursement Agreement between the Company and Wells Fargo Bank, N.A., dated as of July 1, 2005 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended October 31, 2010 as filed with the Commission on December 10, 2010, File No. 001-14077)
10.20	Seventh Amendment, dated as of September 2, 2011, to the Reimbursement Agreement between the Company and Wells Fargo Bank, N.A., dated as of July 1, 2005 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended October 30, 2011 as filed with the Commission on December 9, 2011, File No. 001-14077)
10.21	Eighth Amendment, dated as of August 31, 2012, to the Reimbursement Agreement between the Company and Wells Fargo, N.A., dated as of July 1, 2005 (incorporated by reference to Exhibit 10.2 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)
10.22	Reimbursement Agreement between the Company and U.S. Bank National Association, dated as of September 8, 2006 (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended October 29, 2006 as filed with the Commission on December 8, 2006, File No. 001-14077)

EXHIBIT NUMBER	EXHIBIT DESCRIPTION
10.23	First Amendment, dated as of October 25, 2006, to the Reimbursement Agreement between the Company and U.S. Bank National Association, dated as of September 8, 2006 (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended October 29, 2006 as filed with the Commission on December 8, 2006, File No. 001-14077)
10.24	Second Amendment, dated as of September 8, 2007, to the Reimbursement Agreement between the Company and U.S. Bank National Association, dated as of September 8, 2006 (incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the period ended October 28, 2007 as filed with the Commission on December 7, 2007, File No. 001-14077)
10.25	Third Amendment, dated as of September 5, 2008, to the Reimbursement Agreement between the Company and U.S. Bank National Association, dated as of September 8, 2006 (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the period ended November 2, 2008 as filed with the Commission on December 12, 2008, File No. 001-14077)
10.26	Fourth Amendment, dated as of September 4, 2009, to the Reimbursement Agreement between the Company and U.S. Bank National Association, dated as of September 8, 2006 (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the period ended November 1, 2009 as filed with the Commission on December 11, 2009, File No. 001-14077)
10.27	Fifth Amendment, dated as of September 3, 2010, to the Reimbursement Agreement between the Company and U.S. Bank National Association, N.A., dated as of September 8, 2006 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the period ended October 31, 2010 as filed with the Commission on December 10, 2010, File No. 001-14077)
10.28	Sixth Amendment, dated as of September 2, 2011, to the Reimbursement Agreement between the Company and U.S. Bank National Association, N.A., dated as of September 8, 2006 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the period ended October 30, 2011 as filed with the Commission on December 9, 2011, File No. 001-14077)
10.29	Seventh Amendment, dated as of August 31, 2012, to the Reimbursement Agreement between the Company and U.S. Bank National Association, dated as of September 8, 2006 (incorporated by reference to Exhibit 10.3 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)
STOCK PLANS	
10.30+	Williams-Sonoma, Inc. Amended and Restated 1993 Stock Option Plan (incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2006 as filed with the Commission on April 15, 2005, File No. 001-14077)
10.31+	Williams-Sonoma, Inc. 2000 Nonqualified Stock Option Plan (incorporated by reference to Exhibit 4 to the Company's Registration Statement on Form S-8 as filed with the Commission on October 27, 2000, File No. 333-48750)

Table of Contents

EXHIBIT NUMBER	EXHIBIT DESCRIPTION
10.32+	Williams-Sonoma, Inc. 2001 Long-Term Incentive Plan, as amended (incorporated by reference to Exhibit D to the Company's definitive proxy statement on Schedule A as filed on April 7, 2011, File No. 001-14077)
10.33+	Forms of Notice of Grant and Stock Option Agreement under the Company's 1993 Stock Option Plan, 2000 Nonqualified Stock Option Plan and 2001 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended October 31, 2004 as filed with the Commission on December 10, 2004, File No. 001-14077)
10.34+	Form of Williams-Sonoma, Inc. 2001 Long-Term Incentive Plan Restricted Stock Unit Award Term Sheet for Director Grants (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended July 29, 2007 as filed with the Commission on September 7, 2007, File No. 001-14077)
10.35+	Form of Williams-Sonoma, Inc. 2001 Long-Term Incentive Plan Restricted Stock Unit Award Agreement for Employee Grants (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on March 22, 2010, File No. 001-14077)
10.36+	Form of Williams-Sonoma, Inc. 2001 Long-Term Incentive Plan Stock-Settled Stock Appreciation Right Award Agreement for Director Grants (incorporated by reference to Exhibit 10.31 to the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2008 as filed with the Commission on April 3, 2008, File No. 001-14077)
10.37+	Form of Williams-Sonoma, Inc. 2001 Long-Term Incentive Plan Stock-Settled Stock Appreciation Right Award Agreement for Employee Grants (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Commission on March 22, 2010, File No. 001-14077)
10.38+	Williams-Sonoma, Inc. 2001 Long-Term Incentive Plan Stock-Settled Stock Appreciation Right Award Agreement for CEO Grant (incorporated by reference to Exhibit 10.38 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)
10.39+	Restricted Stock Unit Award Agreement with W. Howard Lester dated May 26, 2010 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the period ended August 1, 2010 as filed with the Commission on September 10, 2010, File No. 001-14077)
OTHER INCENTIVE PLANS	
10.40+	Williams-Sonoma, Inc. 2001 Incentive Bonus Plan, as amended (incorporated by reference to the Company's Definitive Proxy Statement on Schedule 14A as filed with the Commission on April 6, 2012, File No. 001-14077)
10.41+	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)
10.42+*	Williams-Sonoma, Inc. Amended and Restated Executive Deferred Compensation Plan

Table of Contents

EXHIBIT NUMBER	EXHIBIT DESCRIPTION
10.43+	Williams-Sonoma, Inc. 401(k) Plan, as amended and restated effective January 1, 2002, except as otherwise noted, and including amendments effective through August 1, 2007 (incorporated by reference to Exhibit 10.34 to the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2008 as filed with the Commission on April 3, 2008, File No. 001-14077)
10.44+	Amendment to the Williams-Sonoma, Inc. 401(k) Plan dated November 6, 2008 (incorporated by reference to Exhibit 10.43 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)
10.45+	January 2009 Amendment to the Williams-Sonoma, Inc. 401(k) Plan dated January 20, 2009 (incorporated by reference to Exhibit 10.44 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)
PROPERTIES	
10.46	Warehouse – Distribution Facility lease dated July 1, 1983, between the Company as lessee and the Lester-McMahan Partnership as lessor (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1983 as filed with the Commission on October 14, 1983, File No. 000-12704)
10.47	First Amendment, dated December 1, 1985, to the Warehouse – Distribution Facility lease dated July 1, 1983, between the Company as lessee and the Lester-McMahan Partnership as lessor (incorporated by reference to Exhibit 10.48 to the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 1986 as filed with the Commission on May 2, 1986, File No. 000-12704)
10.48	Second Amendment, dated December 1, 1993, to the Warehouse – Distribution Facility lease dated July 1, 1983 between the Company as lessee and the Lester-McMahan Partnership as lessor (incorporated by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 1994 as filed with the Commission on April 29, 1994, File No. 000-12704)
10.49	Sublease for the Distribution Facility at 4600 and 4650 Sonoma Cove, Memphis, Tennessee, dated as of August 1, 1990, by and between Hewson-Memphis Partners and the Company (incorporated by reference to Exhibit 10 to the Company's Quarterly Report on Form 10-Q for the period ended October 28, 1990 as filed with the Commission on December 12, 1990, File No. 000-12704)
10.50	First Amendment, dated December 22, 1993, to Sublease for the Distribution Facility at 4600 and 4650 Sonoma Cove, Memphis, Tennessee between the Company and Hewson-Memphis Partners, dated as of August 1, 1990 (incorporated by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2001 as filed with the Commission on April 26, 2001, File No. 001-14077)
10.51	Second Amendment, dated September 1, 1994, to Sublease for the Distribution Facility at 4600 and 4650 Sonoma Cove, Memphis, Tennessee, dated as of August 1, 1990 between the Company and Hewson-Memphis Partners (incorporated by reference to Exhibit 10.38 to the Company's Quarterly Report on Form 10-Q for the period ended October 30, 1994 as filed with the Commission on December 13, 1994, File No. 000-12704)

EXHIBIT NUMBER	EXHIBIT DESCRIPTION
10.52	Third Amendment, dated October 24, 1995, to Sublease for the Distribution Facility at 4600 and 4650 Sonoma Cove, Memphis, Tennessee, dated as of August 1, 1990 between the Company and Hewson-Memphis Partners (incorporated by reference to Exhibit 10.2E to the Company's Quarterly Report on Form 10-Q for the period ended October 29, 1995 as filed with the Commission on December 13, 1995, File No. 000-12704)
10.53	Fourth Amendment, dated February 1, 1996, to Sublease for the Distribution Facility at 4600 and 4650 Sonoma Cove, Memphis, Tennessee, dated as of August 1, 1990 between the Company and Hewson-Memphis Partners (incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2001 as filed with the Commission on April 26, 2001, File No. 001-14077)
10.54	Fifth Amendment to Sublease, dated March 1, 1999, incorrectly titled Fourth Amendment to Sublease for the Distribution Facility at 4600 and 4650 Sonoma Cove, Memphis, Tennessee, dated as of August 1, 1990 between the Company and Hewson-Memphis Partners (incorporated by reference to Exhibit 10.43 to the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2002 as filed with the Commission on April 29, 2002, File No. 001-14077)
10.55	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)
10.56	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)
10.57	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)
10.58	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	
10.59+	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)

EXHIBIT NUMBER	EXHIBIT DESCRIPTION
10.60+	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)
10.61+	Form of Management Retention Agreement for Executive Vice Presidents and Brand Presidents, approved May 25, 2010 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K as filed with the Commission on June 1, 2010, File No. 001-14077)
10.62+	Form of Management Retention Agreement for Senior Vice Presidents, approved May 25, 2010 (incorporated by reference to Exhibit 10.67 to the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2011 as filed with the Commission on March 31, 2011, File No. 001-14077)
10.63+*	2012 EVP Level Management Retention Plan
10.64+	Separation Agreement and General Release with Sharon L. McCollam dated March 7, 2012 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended July 29, 2012 as filed with the Commission on September 7, 2012, File No. 001-14077)
OTHER AGREEMENTS	
10.65	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

EXHIBIT NUMBER	EXHIBIT DESCRIPTION
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.

Exhibit 10.42

WILLIAMS-SONOMA, INC.

AMENDED AND RESTATED

EXECUTIVE DEFERRED COMPENSATION PLAN

(Effective as of January 1, 2005; as amended and restated on December 5, 2012)

TABLE OF CONTENTS

TABLE OF CONTENTS
(continued)

TABLE OF CONTENTS
(continued)

WILLIAMS-SONOMA, INC.
AMENDED AND RESTATED
EXECUTIVE DEFERRED COMPENSATION PLAN
(Effective as of January 1, 2005; as amended and restated on December 5, 2012)

Williams-Sonoma, Inc. (the "Company") hereby establishes this Williams-Sonoma, Inc. Executive Deferred Compensation Plan (the "Plan"), effective as of January 1, 2005 (the "Effective Date"), as amended and restated on December 5, 2012.

The purpose of the Plan is to provide certain supplemental retirement income benefits to a select group of management or highly compensated employees of the Company and its affiliates who have been selected for participation in the Plan. The Plan is an unfunded deferred compensation plan that is intended to (1) qualify for the exemptions provided in sections 201, 301 and 401 of the Employee Retirement Income Security Act of 1974, as amended, and (2) comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended, and applicable guidance issued thereunder (collectively, "Code Section 409A").

From and after the Effective Date, this Plan replaces the Williams-Sonoma, Inc. Pre-2005 Executive Deferral Plan, as amended, which was frozen to new deferrals effective after December 31, 2004 so as to qualify the amounts deferred on or before December 31, 2004 under such prior plan for "grandfather" treatment under Code Section 409A.

SECTION 1
DEFINITIONS

For purposes of this Plan, the following words and phrases will have the following meanings unless a different meaning is plainly required by the context:

1.1 **"Bankruptcy Court Approval"** means the approval of a bankruptcy court pursuant to 11 U.S.C. § 503(b)(1)(A).

1.2 "**Beneficiary**" means the person or persons entitled to receive benefits under the Plan upon the death of a Participant, as provided in Section 9.

1.3 "**Board of Directors**" or **"Board**" means the Board of Directors of the Employer.

1.4 "**Bonus**" means any cash incentive compensation that is payable to an Eligible Employee, in addition to his or her Salary, which the Committee, in its discretion, has designated as being eligible for deferral under the Plan.

1.5 **"Change of Control Event"** means a change in ownership or effective control of the Company or in the ownership of a substantial portion of the Company's assets, as defined under Code Section 409A.

1.6 “**Code**” means the Internal Revenue Code of 1986, as amended. Reference to a specific section of the Code will include such section, any valid regulation or other Treasury Department or Internal Revenue Service guidance promulgated thereunder, and any comparable provision of any future legislation amending, supplementing or superseding such section.

1.7 “**Committee**” means the administrative committee charged with responsibility for the general administration of the Plan pursuant to Section 10, as it may be constituted from time to time.

1.8 “**Company**” means the Employer and each corporation, trade or business that is, together with the Employer, a member of a controlled group of corporations or under common control (within the meaning of Code Sections 414(b) or (c)); provided, however, that in applying Code Sections 1563(a)(1), (2), and (3) for purposes of determining a controlled group of corporations under Code Section 414(b) and in applying Treasury Regulation Section 1.414(c)-2 for purposes of determining trades or businesses that are under common control for purposes of Code Section 414(c), the phrase “at least 50 percent” will be used instead of “at least 80 percent” at each place it appears in such sections.

1.9 “**Compensation**” means the Salary and Bonus (if any) of an Eligible Employee. An Eligible Employee’s Compensation will not include any other type of remuneration, including any severance pay.

1.10 **“Corporate Dissolution”** means a dissolution of the Company that is taxed under Code Section 331.

1.11 “**Deferral Account**” means, for each Participant, the bookkeeping account maintained by the Committee for the Participant under Section 4.1 which will be the sum of the Participant’s Plan Year Subaccount(s).

1.12 “**Disability**” or “**Disabled**” means (a) the inability of a Participant to engage in any substantial gainful activity 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 twelve (12) months, or (b) the Participant 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 twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Employer. The Committee will determine whether or not a Participant is Disabled based on such evidence as the Committee deems necessary or advisable.

1.13 “**Domestic Relations Order**” means a court order that qualifies as a domestic relations order under Code Section 414(p)(1)(B).

1.14 “**Election Form**” means the form, which may be in electronic format, prescribed from time to time by the Committee that an Eligible Employee or Participant must properly complete, sign and return to the Committee (or its designated agent) to make an election under the Plan.

1.15 “**Eligible Employee**” means a member of a group of select management or highly compensated employees of the Company who is at the level of Vice President or above and has been notified that he or she has been selected by the Committee (in its sole discretion) to participate in the Plan.

1.16 “**Employer**” means Williams-Sonoma, Inc. and any successor corporation.

1.17 “**ERISA**” means the Employee Retirement Income Security Act of 1974, as amended. Reference to a specific section of ERISA will include such section, any valid regulation promulgated thereunder, and any comparable provision of any future legislation amending, supplementing or superseding such section.

1.18 “**401(k) Plan**” means the Williams-Sonoma, Inc. 401(k) Plan, as amended from time to time.

1.19 “**Fund” or “Funds**” means one or more of the mutual funds or other investment vehicles selected by the Committee pursuant to Section 3.2.1.

1.20 “**Participant**” means an individual who (a) has become a Participant in the Plan pursuant to Section 2.1, and (b) has not ceased to be a Participant pursuant to Section 2.2.

1.21 “**Plan**” means the Williams-Sonoma, Inc. 2005 Executive Deferred Compensation Plan , as set forth herein and as hereafter amended from time to time.

1.22 “**Plan Year**” means the calendar year.

1.23 “**Plan Year Subaccount**” means, with respect to a Participant, the bookkeeping account established and maintained by the Committee for the Participant under Section 4.1 to reflect, for each Plan Year, the deferrals of Salary made by the Participant for such Plan Year, the deferrals of Bonuses (if any) made by the Participant for the fiscal year of the Company which includes the last day of such Plan Year, any deemed earnings credited thereon, and any withdrawals and/or distributions debited thereto.

1.24 “**Retirement”** means a Participant’s Separation from Service on or after his or her attainment of both age fifty-five (55) and five (5) Years of Service.

1.25 “**Salary**” means the base pay that is payable to an Eligible Employee by the Company with respect to services performed during any period by the Employee and does not include any other type of remuneration (such as any severance payments, commissions, overtime, bonuses, or fringe benefits). Notwithstanding the foregoing, an Eligible Employee’s Salary will be calculated before any reduction for compensation voluntarily deferred or contributed by the Employee pursuant to all qualified and nonqualified plans of the Company and will be calculated to include amounts not otherwise included in the Employee’s gross income under Code Sections 125, 132, 402(e)(3) or 402(h) pursuant to plans or arrangements maintained by the Company; provided, however, that such amounts will be included in compensation only to the extent that had there been no such plan, the amount would have been payable in cash to the Employee.

1.26 “**Separation from Service**” means a Participant’s “separation from service” as defined in Code Section 409A. For this purpose, the employment relationship will be treated as continuing intact while the Participant is on military leave, sick leave or other bona fide leave of absence, except that if the period of such leave exceeds six (6) months and the Participant does not retain a right to re-employment under an applicable statute or by contract, then the employment relationship will be deemed to have terminated on the first day immediately following such six-month period. A leave of absence constitutes a bona fide leave of absence only if there is a reasonable expectation that the Participant will return to perform services for the Company.

1.27 “**Specified Employee**” means a Participant who, as of the date of his or her Separation from Service, is a key employee of the Company. For this purpose, a Participant is a key employee if he or she meets the requirements of Code Section 416(i)(1)(A)(i), (ii) or (iii) (disregarding Code Section 416(i)(5)). As of 2008, this generally includes (a) the top fifty (50) Company officers with compensation greater than $150,000 per year, (b) a 5% owner of the Company, or (c) a 1% owner of the Company with compensation greater than $150,000 per year. For purposes of the preceding sentence, “compensation” means compensation as such term is defined in the 401(k) Plan for purposes of Code Section 415.

1.28 “**Unforeseeable Emergency**” means (a) a severe financial hardship to a Participant resulting from an illness or accident of the Participant or his or her spouse, Beneficiary or dependent (as defined in section 152 of the Code, but without regard to subsections (b)(1), (b)(2) and (d)(1)(B) thereof), (b) loss of the Participant’s property due to casualty (including the need to rebuild a home following damage to a home not otherwise covered by insurance, for example, not as a result of a natural disaster), or (c) other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. The Committee will determine whether or not a Participant has incurred an Unforeseeable Emergency based on such evidence as the Committee deems necessary or advisable.

1.29 “**Year of Service**” means a full year in which a Participant has been continuously employed by the Company. For this purpose, a year of employment will be a 365 day period (or 366 day period in the case of a leap year) that, for the first year of employment, commences on the Employee’s date of hire and that, for any subsequent year, commences on an anniversary of that hiring date. The Committee may, in its sole discretion, credit a Participant with any partial year of employment. Periods during which an Eligible Employee is on a paid leave of absence or suffers from a Disability will be deemed to be periods of continuous employment.

SECTION 2
PARTICIPATION

2.1 **Participation.** An Eligible Employee will become a Participant in the Plan by electing to defer his or her Compensation in accordance with Section 3.

2.2 **Continuing Participation.** An Eligible Employee who has become a Participant will continue to be a Participant until all of his or her benefits are distributed under the Plan. The Committee may determine at any time, in its sole discretion, that a Participant is no longer an

Eligible Employee. In the event a Participant ceases to be an Eligible Employee, if such individual has not undergone a Separation From Service, he or she shall continue to make Compensation deferral contributions under the Plan through the end of the Plan Year in which he or she ceases to be an Eligible Employee. Thereafter, such individual shall not make any further Compensation deferral contributions to the Plan unless or until he or she again becomes an Eligible Employee.

SECTION 3
COMPENSATION DEFERRAL ELECTIONS

3.1 **Elections to Defer Compensation.** Each Eligible Employee's decision to defer his or her Compensation under the terms of the Plan will be entirely voluntary.

3.1.1 **General Timing Rule for Compensation Deferral Elections.** Except as otherwise provided in this Section 3.1, an Eligible Employee may elect to defer Compensation that is payable for services performed during any Plan Year by submitting an Election Form to the Committee on or before the deadline established by the Committee, in its discretion (the "Submission Deadline"), which in no event may be later than the December 31 that immediately precedes such Plan Year. Any deferral election made in accordance with this Section 3.1.1 will become irrevocable effective as of the Submission Deadline, except as otherwise specified in the Plan.

3.1.2 **Timing Rule for Compensation Deferral Elections of Newly-Eligible Employees.** An individual who first becomes an Eligible Employee during any Plan Year may elect to defer Compensation that is payable for services performed after the election, as described below, by submitting an Election Form to the Committee on or before the Submission Deadline, which in no event may be later than thirty (30) days after he or she first becomes an Eligible Employee (the "Initial Election Period"). However, no such deferral election may be made if the Eligible Employee was previously eligible to participate in this Plan or in any other plan that is required to be aggregated with this Plan under Code Section 409A. A Compensation deferral election that is made by an Eligible Employee during the Initial Election Period will be effective only (a) with respect to Salary that is payable for services performed beginning with the first pay period immediately following the end of the Initial Election Period, and (b) with respect to the portion of the Bonus (if any) that is payable for services performed after the end of the Initial Election Period, which shall be determined by multiplying the total Bonus (or the percentage of the total Bonus that was deferred) by a fraction, the numerator of which is the number of days remaining in the Plan Year after the initial election becomes irrevocable, and the denominator of which is 365 (or 366 in the event of a leap year). Any deferral election made in accordance with this Section 3.1.2 will become irrevocable effective as of the Submission Deadline, except as otherwise specified in the Plan.

3.1.3 **Timing Rule for Bonus Deferral Elections**. An Eligible Employee may elect to defer any Bonus that is payable for services performed during any fiscal year of the Company, by submitting an Election Form to the Committee on or before the Submission Deadline, which in no event may be later than the last day of the immediately preceding fiscal year of the Company. Any deferral election made in accordance with this Section 3.1.3 will become irrevocable effective as of the Submission Deadline, except as otherwise specified in the Plan.

3.1.4 **Timing Rule for Performance-Based or Bonus Compensation Deferral Elections** . Notwithstanding the provisions of Section 3.1.3, if the Committee (in its discretion) determines that an Eligible Employee's Bonus qualifies as "performance-based compensation" as defined in Code Section 409A ("Performance-Based Compensation") or (effective before January 1, 2009) "bonus compensation" that is based on services performed over a period of at least twelve (12) months (as determined under Internal Revenue Notice 2005-1, Q/A-22) ("Bonus Compensation"), then the Eligible Employee may, if the Committee, in its discretion, permits such, elect to defer such Performance-Based or Bonus Compensation (as the case may be) by submitting an Election Form to the Committee on or before the Submission Deadline, which in no event may be later than six (6) months before the end of the performance/ service period. In order for an Eligible Employee to be eligible to make a deferral election for Performance-Based Compensation in accordance with the deadline established pursuant to this Section 3.1.4, he or she must have performed services continuously from the later of the beginning of the performance period for such Compensation or the date on which the performance criteria for such Compensation was established through the date on which the deferral election is made; provided, however, that no such election may be made after the amount of such Compensation has become readily ascertainable. Any deferral election made in accordance with this Section 3.1.4 will become irrevocable effective as of the Submission Deadline, except as otherwise specified in the Plan.

3.1.5 **Amount of Deferral**. Subject to the other limitations set forth in this Section 3.1, the amount of Compensation that an Eligible Employee may elect to defer is as follows:

(a) Any whole percentage of Salary up to seventy-five percent (75%); and/or

(b) Any whole percentage of Bonus up to one hundred percent (100%).

3.1.6 **Maximum Deferrals**. To the extent permissible under Code Section 409A, a Participant's Salary or Bonus deferral amount in any Plan Year will be limited to the extent that the amount of the Salary or Bonus remaining undeferred in that Plan Year is less than the amount of payroll taxes that the Company will owe on the Participant's Compensation and all other compensation that he or she receives from the Company in that Plan Year. In addition, an election to defer Salary or Bonus will not be effective to the extent it exceeds the maximum amount set forth in Section 3.1.5.

3.1.7 **Minimum Deferrals**. For each Plan Year for which a Participant elects to defer any portion of his or her Salary, the minimum percentage of Salary that may be deferred is five percent (5%) or such lesser percentage (but not below zero percent) as may be established by the Committee pursuant to rules adopted by it and applied in a uniform manner.

3.1.8 **Limitation on Changes to Deferral Amounts** . Notwithstanding any contrary Plan provision, the dollar amount of any Compensation deferrals may not be reduced or increased by virtue of any Participant election to increase, decrease or terminate his or her rate of deferral in any other Company employee benefit plan, except as permitted under Code Section 409A with respect to changes in deferral elections under the 401(k) Plan or a Code Section 125 cafeteria plan (or as otherwise permitted under Code Section 409A).

3.1.9 **Duration of Salary Deferral Election**. Any Salary deferral election made under Section 3.1.1 or 3.1.2 will be irrevocable with respect to the Plan Year for which it is made, and will remain in effect, notwithstanding any change in the Participant's Salary, until changed or cancelled in accordance with the terms of the Plan; provided, however, that such election automatically will be cancelled under Section 2.2 for any Plan Year or portion thereof for which the Participant is not an Eligible Employee. Subject to the other limitations set forth in this Section 3.1, an Eligible Employee may increase, decrease or cancel his or her Salary deferral election for any subsequent Plan Year in accordance with Section 3.1.1.

3.1.10 **Duration of Bonus Deferral Election**. Any Bonus deferral election made under Section 3.1.2, 3.1.3 or 3.1.4 will be irrevocable with respect to the Bonus that is otherwise payable for services performed during the Company's fiscal year for which the election is made. Subject to the other limitations set forth in this Section 3.1, an Eligible Employee may make a new deferral election with respect to any Bonus that is payable for services performed during any subsequent fiscal year of the Company in accordance with Section 3.1.3 or 3.1.4 (as applicable).

3.1.11 **Year-End Cross-Over Payroll Periods**. In the case of a Participant's Salary deferral election, any payroll period that relates to a period of service that crosses over the calendar year end will be covered by the Participant's deferral election (if any) in effect for the immediately preceding year.

3.1.12 **USERRA Rights.** Notwithstanding the foregoing provisions of this Section 3.1, the Committee may (in its discretion) provide an Eligible Employee with a Compensation deferral election to satisfy the requirements of the Uniformed Services Employment and Reemployment Rights Act of 1994, as amended ("USERRA"), if applicable.

3.2 **Deemed Investment Elections**.

3.2.1 **Selection of Funds**. The Committee will select the Funds whose performance will measure the amounts to be credited to the Deferral Accounts of Participants pursuant to Section 4.1(c). The Committee may, in its discretion, change its selection of the Funds at any time. If a Participant has elected pursuant to Section 3.2.2 to make a deemed investment of all or a portion of his or her Plan Year Subaccount in a Fund which the Committee decides to discontinue, his or her Plan Year Subaccount will be deemed invested after such discontinuance in the continuing Fund which the Committee determines, in its discretion, most nearly resembles the discontinued Fund.

3.2.2 **Deemed Investment Election.** The Committee will provide each Participant with a list of the Funds available for hypothetical investment of his or her Deferral Account balance. The Participant will designate, when the Participant makes deferral elections under Section 3.1, on the form prescribed by the Committee for such purpose, one or more of such Funds in which each of his or her Plan Year Subaccounts will be deemed to be invested. The Participant may make a separate designation for each of his or her Plan Year Subaccounts. In making the designation pursuant to this Section 3.2.2, the Participant may specify that all or any whole percentage of at least one percent (1%) of his or her Plan Year Subaccount balance be deemed to be invested in one or more of the Funds. If a Participant does not elect to have his or her Plan Year Subaccount deemed invested in any of the Funds as described in this Section 3.2.2, then the Plan Year Subaccount automatically will be deemed invested in the Plan’s default Fund, as determined by the Committee, in its sole discretion.

3.2.3 **Changes in Deemed Investment Elections**. On or before the twentieth (20^{th}) day of any calendar month (or such later day as may be prescribed by the Committee, in its discretion, but not later than the last day of the calendar month), a Participant may change the designation of the Funds in which the balances of any of his or her Plan Year Subaccounts will be deemed to be invested. Such change may be made with respect to any whole percentage of at least ten percent (10%) of a Plan Year Subaccount balance. Such change must be made by timely filing an Election Form with the Committee reflecting such change. Such change will be effective as of the first day of the immediately following calendar month. The Committee may provide for more rapid effectiveness of allocation changes for all Participants and for more liberal ability to reallocate deemed investments.

3.2.4 **No Actual Investment**. Notwithstanding any contrary Plan provision, the Funds are to be used for measurement purposes only, and the Company will not be obligated in any way to actually invest any money in the Funds, or to acquire or maintain any actual investment. In the event that the Company, in its own discretion, decides to invest funds in any or all of the investments on which the Funds are based, no Participant or any other person will have any rights in or to such investments themselves. Without limiting the foregoing, a Participant’s Deferral Account balance will at all times be a bookkeeping entry only and will not represent any investment made on his or her behalf by the Company; the Participant will at all times remain an unsecured creditor of the Company.

3.3 **Cancellation of Compensation Deferrals.** Notwithstanding any contrary provision of Section 3.1:

3.3.1 **Hardship Distribution under 401(k) Plans.** In the event that a Participant receives a hardship distribution under the 401(k) Plan or any other plan maintained by the Company that contains a qualified cash or deferred arrangement under Code Section 401(k) (collectively, the “401(k) Plans”), the Participant’s Compensation deferrals (if any) under this Plan will be cancelled for a period of six (6) months from the date that the Participant received such hardship distribution. Notwithstanding the foregoing, the Participant’s Compensation deferrals will not be so cancelled if the Committee determines that such cancellation is not required in order to preserve the tax-qualification of the 401(k) Plans.

3.3.2 **Unforeseeable Emergency.** A Participant’s deferral election shall be automatically cancelled in the event the Participant obtains an unforeseeable emergency distribution from the Plan pursuant to Section 6.6 hereof. The Participant, if still an Eligible Employee, may re-enroll in the Plan in the next open enrollment period.

3.3.3 **Irrevocability of Prior Compensation Deferrals.** Notwithstanding the foregoing, a Participant’s election to make Compensation deferrals under Section 3.1 will be irrevocable as to amounts already deferred as of the effective date of any cancellation in accordance with this Section 3.3.

3.3.4 **Resumption of Compensation Deferrals.** A Participant whose Compensation deferrals have been cancelled pursuant to this Section 3.3 may later resume making Compensation deferrals under the Plan only in accordance with Section 3.1.

SECTION 4
ACCOUNTING

4.1 **Deferral Accounts**. The Committee will establish and maintain the Plan Year Subaccounts and the Deferral Account (which will be the sum of all Plan Year Subaccounts) for each Participant. Each Plan Year Subaccount of each Participant will be further divided into separate subaccounts ("Fund Subaccounts"), each of which corresponds to a Fund elected by the Participant pursuant to Section 3.2. Each Plan Year Subaccount of each Participant will be credited as follows:

(a) Within five (5) business days after deferred Salary has been withheld from a Participant's paycheck, the Committee will credit each of the Participant's Fund Subaccounts with amounts equal to the deferred Salary in accordance with the Participant's election under Section 3.2; that is, the portion of the Participant's deferred Salary that he or she has elected to be deemed to be invested in a certain Fund will be credited to the Fund Subaccount corresponding to that Fund.

(b) Within five (5) business days after a deferred Bonus has been withheld from a Participant's paycheck, the Committee will credit each of the Participant's Fund Subaccounts with amounts equal to the deferred Bonus in accordance with the Participant's election under Section 3.2; that is, the portion of the Participant's deferred Bonus that he or she has elected to be deemed to be invested in a certain Fund will be credited to the Fund Subaccount corresponding to that Fund.

(c) At least once in each calendar month, each Fund Subaccount of a Participant's Plan Year Subaccount will be credited with deemed earnings on the Fund corresponding to that Fund Subaccount.

(d) Any distribution or withdrawal from Participant's Plan Year Subaccount will be charged to the Plan Year Subaccount as soon as practicable after such distribution or withdrawal is made. The amount of a distribution or withdrawal charged to a Participant's Plan Year Subaccount will be charged to the Fund Subaccounts in such Plan Year Subaccount in the proportions of the relative balances of such Fund Subaccounts as of the date such distribution or withdrawal is valued.

4.2 **Accounting Methods**. The accounting methods or formulae to be used under the Plan for the purpose of maintaining the Participants' Deferral Accounts, including the exact times and method for crediting any deemed earnings, will be determined by the Committee, in its sole discretion; provided, however that the exact times and/or method for crediting such deemed earnings will be uniform among all Participants.

4.3 **Periodic Reports**. Under procedures established by the Committee, each Participant will be furnished with a periodic statement of his or her Deferral Account, reflecting the status of his or her interest in the Plan, at least once with respect to each Plan Year.

SECTION 5
VESTING

Subject to the provisions of Sections 13.1 (Participants are unsecured general creditors) and 13.5 (Company's right to deduct required tax withholding), a Participant's Deferral Account balance at all times will be one hundred percent (100%) vested and nonforfeitable.

SECTION 6
DISTRIBUTIONS

6.1 **Distribution on Retirement or Disability**.

6.1.1 **Time for Payment**. Subject to the other provisions of Section 6 below, a distribution of a Participant's Deferral Account balance will be made or commenced on the date (which must be the first day of a calendar year) a number of years after the Participant's Retirement or Disability (the "Retirement Payment Eligibility Date"), which number may be designated by the Participant to the extent provided for in his or her initial and annual deferral elections and which number may differ for different Plan Year Subaccounts. If the Participant makes no such designation, then the "Retirement Payment Eligibility Date" will be the first day of the calendar quarter immediately following the Participant's Retirement or Disability, or as soon as practicable thereafter, but in no event later than the end of the same calendar year.

6.1.2 **Form of Payment**. The distribution in Section 6.1.1 will be paid in a cash lump sum or quarterly installments over five (5), ten (10), fifteen (15) or twenty (20) years, as designated by the Participant in his or her deferral elections in respect of any Plan Year Subaccount. If the Participant makes no such designation, then such distribution will be paid in a cash lump sum. In no event shall any Plan payments be made more than twenty-two (22) years following a Participant's Separation From Service. Any payment scheduled to be made more than twenty-two (22) years following a Participant's Separation From Service shall be paid with the last scheduled payment with the twenty-two (22) year period.

6.1.3 **Installment Payments**. If a Participant's Deferral Account balance is to be paid in quarterly installments pursuant to Section 6.1.2, his or her first installment will be equal to the balance then credited to the Account, divided by the number of installments to be made. Each subsequent installment will be paid to the Participant on the first day of the immediately following calendar quarter, or as soon as practicable thereafter, but in no event later than the end of the same calendar year, and will be equal to the balance then credited to the Account, divided by the number of installments remaining to be paid. While a Participant's Deferral Account is in installment payout status, the unpaid Account balance will continue to be credited with deemed earnings pursuant to Section 4.1(c). All installment payments under the Plan will be considered a single payment for purposes of complying with Code Section 409A.

6.1.4 **Postponement of Retirement Payment Eligibility Date** .

(a) Subject to the other provisions of Section 6, a Participant may elect to extend the Retirement Payment Eligibility Date for his or her Plan Year Subaccounts (the "Prior Retirement Payment Eligibility Date") by submitting an Election Form to the Committee to that effect, provided that the following requirements are met: (a) the new election will not take effect until at least twelve (12) months after the date on which the Election Form is submitted; (b) if the new election relates to a payment on account of Retirement, the new Retirement Payment Eligibility Date is at least five (5) years after the Prior Retirement Payment Eligibility Date; and (c) the Election Form is submitted no less than twelve (12) months before the Prior Retirement Payment Eligibility Date. A Retirement Payment Eligibility Date that has been so extended may be further extended by submitting another Election Form in the manner and at the times specified in this Section 6.1.4. In no event, however, will a Plan payment be made more than thirty years following the initial Retirement Eligibility Date. If a Plan payment is scheduled to be made more than thirty years following the initial Retirement Eligibility Date, it will instead be paid out in the thirtieth year following the initial Retirement Eligibility Date.

(b) Because Plan installment payments are considered a single payment for purposes of Code Section 409A, a subsequent election may accelerate the method of distribution. For example, if a Participant initially elected to receive Retirement or Disability payments in five annual installments following her Retirement Eligibility Date, she could make a timely election to instead take a lump-sum distribution five years following her Retirement Eligibility Date. Moreover, a subsequent election may change a lump-sum distribution to an installment election, so long as, in either case, the initial payment is delayed for a period of at least five (5) years, the election is not effective for one (1) year and is made at least one (1) year in advance of the date upon which the first distribution would have otherwise been made.

(c) Because installment payments are treated as a single payment under the Plan, any subsequent election must apply to all of the installment payments for a particular Plan Year Subaccount. For example, if a Participant initially elected to receive Retirement or Disability payments relating to her 2009 Plan Year Subaccount in five annual installments following her Separation From Service, the Participant may not elect to defer the 1st, 2d, 3rd and 5th installments only, but must also defer the 4th installment.

6.1.5 **Automatic Lump Sum Payment** . Notwithstanding any other Plan provisions, if, on the date of a Participant's Separation From Service, their Deferral Account totals, less than $15,000, then all of the Deferral Account shall be distributed in a lump-sum in the month following such Participant's Separation From Service, or, if the Participant is a Specified Employee, in the seventh month following such Participant's Separation From Service (or, if earlier, within 60 days following the death of the Specified Employee); provided, however, that in the event such Deferral Accounts increases in value so that the value exceeds $15,000 on the scheduled payment date, such Deferral Account shall instead be paid in accordance with the Plan and plans and the Participant's deferral elections.

6.2 **Distribution on Separation from Service Not Due to Retirement.** Subject to a 6-month delay as specified in section 6.4, the Deferral Account balance of a Participant who has neither died nor incurred a Disability and who undergoes a Separation from Service for any reason other than due to Retirement will be distributed in the form of a cash lump sum on the first day of the calendar month immediately following the Separation from Service, or as soon as practicable thereafter, but in no event later than the end of the same calendar year.

6.3 **Distribution on Death**. If a Participant dies while some or all of his or her Deferral Account balance is in installment payout status, the balance credited to the Deferral Account as of the last day of the calendar month in which the Participant dies will be paid to the Participant's Beneficiary in a cash lump sum on the first day of the calendar month immediately following such last day, or as soon as practicable thereafter, but in no event later than the end of the same calendar year. In all other cases of the Participant's death, the balance then credited to his or her Deferral Account will be paid to the Participant's Beneficiary in a cash lump sum on the first day of the calendar quarter immediately following the calendar quarter in which the Participant dies.

6.4 **Required Six-Month Delay in Payment for Specified Employees**. Except as permitted by the Plan and Code Section 409A in connection with a Corporate Dissolution, pursuant to a Bankruptcy Court Approval, a conflicts of interest or ethics rules distribution under Section 6.5.2, a FICA and related income tax distribution under Section 6.5.3, a state, local or foreign tax distribution under Section 6.5.5, or a Code Section 409A distribution under Section 6.5.4, in no event may a Specified Employee's account be distributed earlier than (i) six (6) months following the Specified Employee's Separation From Service (or if earlier, the Specified Employee's death), (ii) the Specified Employee's Disability, (iii) the Specified Employee's death, (iv) a Change of Control Event, or (v) the occurrence of an Unforeseeable Emergency. In the event a Specified Employee's Plan distributions are delayed due to the six-month delay requirement, the amounts otherwise payable to the Specified Employee during such period of delay shall be paid on a date that is at least six months and one day following Separation From Service, but no later than the end of the calendar year in which such six month and one day period ends (or, if earlier, within 60 days following the death of the Specified Employee).

6.5 **Acceleration of Payment(s) Permitted Under Certain Circumstances.** Notwithstanding the foregoing provisions of Section 6 and except as otherwise provided below:

6.5.1 **Compliance With Ethics Agreements**. The Committee, in its sole discretion, may accelerate the distribution of a Participant's Deferral Account balance to the extent necessary for any U.S. federal officer or employee in the executive branch of the U.S. federal government to comply with an ethics agreement with the U.S. federal government, as specified in Code Section 409A.

6.5.2 **Compliance With Ethics Laws or Conflicts of Interest Laws**. The Committee, in its sole discretion, may accelerate the distribution of a Participant's Deferral Account balance to the extent reasonably necessary to avoid a violation of an applicable U.S. federal, state, local or foreign ethics law or conflicts of interest law, as specified in Code Section 409A.

6.5.3 **Payment of Employment Taxes.** The Committee, in its sole discretion, may accelerate the distribution of a Participant's Deferral Account balance sufficient to pay any Federal Insurance Contributions Act tax due under Code Sections 3101, 3121(a) and 3121(v)(2) on amounts deferred under the Plan (the “FICA Amount”), as well as to satisfy the corresponding tax withholding requirements with respect to the FICA Amount and the additional income tax payments due pursuant to this Section 6.5.3, as specified in Code Section 409A. In no event, however, may the total accelerated payment under this Section 6.5.3 exceed the aggregate of the FICA Amount and the related income tax withholding.

6.5.4 **Income Inclusion Under Section 409A of the Code.** Subject to Section 6.4, in the event that the Plan fails to satisfy the requirements of Code Section 409A, the Committee, in its sole discretion, may accelerate the distribution of a Participant’s Deferral Account up to the maximum amount required to be included in income as a result of the failure to comply with Code Section 409A.

6.5.5 **Payment of State, Local or Foreign Taxes.** Subject to Section 6.4, the Committee, in its sole discretion, may accelerate the distribution of a Participant’s Deferral Account sufficient to pay any state, local or foreign tax obligations arising from participation in the Plan that apply to an amount deferred under the Plan before the scheduled distribution of such amount, as specified in Code Section 409A. In the event the Committee exercises such discretion, the Committee may also permit a distribution sufficient to pay related income tax withholding in accordance with Code Section 409A. In no event, however, may the total payment under this Section 6.5.5 exceed the aggregate amount of such taxes due.

6.5.6 **Certain Offsets.** Subject to Section 6.4, the Committee, in its sole discretion, may accelerate the distribution of a Participant’s Deferral Account balance as satisfaction of a debt of the Participant to the Company, as specified in Code Section 409A.

6.5.7 **Bona Fide Disputes as to a Right to a Payment.** Subject to Section 6.4, the Committee, in its sole discretion, may accelerate the distribution of a Participant’s Deferral Account balance in accordance with Code Section 409A where such distribution occurs as part of a settlement between the Participant and the Company of an arm’s length, bona fide dispute as to the Participant’s right to the deferred amount.

6.6 **Unforeseeable Emergency.** If a Participant incurs an Unforeseeable Emergency, the Committee, in its sole discretion, may determine that all or part of the Participant’s Deferral Account balance will be distributed to him or her in a cash lump sum payment on the date that immediately follows the date on which the Committee determines that the Participant has incurred the Unforeseeable Emergency; provided, however, that the amount paid to the Participant pursuant to this Section 6.6 will be limited to the amount reasonably necessary to satisfy the Unforeseeable Emergency (which may include amounts necessary to pay any federal, state, local, or foreign income taxes or penalties reasonably anticipated to result from the payment). Also, no payment under this Section 6.6 will be made to the extent that the Participant’s Unforeseeable Emergency is or may be relieved through reimbursement or compensation from insurance or otherwise, by liquidation of the Participant’s assets (to the extent the liquidation of such assets would not itself cause severe financial hardship), or by the cancellation of the Participant’s Compensation Deferrals in accordance with Section 3.3.2. Notwithstanding the foregoing, any determination to accelerate the distribution of the Deferral Account of any member of the Committee under this Section 6.6 will be made by the Board.

6.7 **Inability to Locate Participant or Beneficiary.** If the Committee is unable to locate a Participant or his or her Beneficiary on any date on which a distribution is to be made from such Participant's Deferral Account, the Company will retain the distribution which was to be made on such date until such time as the Committee can locate the Participant or Beneficiary; provided, however, that the Company may deduct from such retained distributions all taxes which are required to be withheld by the Company. No additional deemed earnings will be credited pursuant to Section 4.1(c) on any distribution retained pursuant to this Section 6.7. If the Committee is unable to locate a Participant or Beneficiary within five (5) years following a date on which a distribution is to be made from such Participant's Deferral Account, the amount of such distribution will be forfeited. In seeking to locate a Participant or Beneficiary, the Committee may take any reasonable action, but will not be required to take any action other than communicating by registered mail to the address or addresses last provided to the Committee by the Participant or Beneficiary.

6.8 **Domestic Relations Order Distributions.** The Committee, in its sole discretion, may accelerate a payment (or payments) or make such payments to an individual other than the Participant as necessary to comply with the terms of a Domestic Relations Order.

SECTION 7
CHANGE OF CONTROL

7.1 **No New Participants Following Change of Control.** The Committee may, in its sole discretion, provide that no individual may commence participation in the Plan following a Change of Control Event.

7.2 **No Deferrals Following a Change of Control.** The Committee may, in its sole discretion, provide that Plan deferrals shall cease as of the date of a Change of Control Event.

7.3 **Discretionary Termination and Accelerated Plan Distributions 30 Days Prior to or Within 12 Months Following a Change in Control.** Notwithstanding any other Plan provisions, the Board, in its sole discretion, may terminate the Plan and accelerate all scheduled Plan distributions within 30 days prior to or 12 months following a Change in Control Event by means of an irrevocable election; provided that such termination and distribution acceleration complies with the requirements of Code Section 409A.

SECTION 8
TERMINATION DUE TO CORPORATE DISSOLUTION OR PURSUANT TO BANKRUPTCY COURT APPROVAL

8.1 **Corporate Dissolution.** The Board, in its sole discretion, may terminate the Plan and accelerate all scheduled Plan distributions within 12 months following a Corporate Dissolution;

provided that such termination and distribution acceleration complies with the requirements of Code Section 409A.

8.2 **Bankruptcy Court Approval.** The Administrator, in its sole discretion, may terminate the Plan and accelerate all scheduled Plan distributions pursuant to Bankruptcy Court Approval; provided that such termination and distribution acceleration complies with the requirements of Code Section 409A.

SECTION 9
BENEFICIARY DESIGNATION

9.1 **Beneficiary.** Each Participant will have the right, at any time, to designate his or her Beneficiary(ies) (both primary as well as contingent) to receive any benefits payable under the Plan to a beneficiary upon the death of a Participant under such rules as is established by the Committee. The Beneficiary designated under the Plan may be the same as or different from the beneficiary designation under any other plan of the Company in which the Participant participates.

9.2 **Beneficiary Designation; Change; Spousal Consent.** A Participant may designate his or her Beneficiary by properly completing and signing the form prescribed by the Committee for such purpose (the "Beneficiary Designation Form"), and returning it to the Committee or its designated agent in accordance with such rules and procedures as is established by the Committee. A Participant will have the right to change his or her Beneficiary by properly completing, signing and otherwise complying with the terms of the Beneficiary Designation Form and the Committee's rules and procedures, as in effect from time to time. If the Participant names someone other than his or her spouse as his or her Beneficiary, spousal consent to such designation is required to be provided in the form designated by the Committee, signed by that Participant's spouse and returned to the Committee or its designated agent. Upon the proper completion, submission and acceptance by the Committee of a new Beneficiary Designation Form, all Beneficiary designations previously filed will be cancelled. The Committee will be entitled to rely on the last Beneficiary Designation Form, which has been properly completed and submitted by the Participant in accordance with the applicable rules and procedures established with respect to the filing of such forms, and accepted by the Committee or its designated agent prior to the Participant's death.

9.3 **Acknowledgment.** No designation or change in designation of a Beneficiary will be effective until properly completed, submitted, and accepted by the Committee or its designated agent in accordance with the rules and procedures established by the Committee for this purpose.

9.4 **No Beneficiary Designation.** If a Participant fails to designate a Beneficiary as provided in this Section 9 or, if all designated Beneficiaries predecease the Participant or die prior to the complete distribution of the Participant's Deferral Account balance under the Plan, then the Participant's surviving spouse will be deemed to be the designated Beneficiary of the Participant. If the Participant has no surviving spouse, any benefits remaining under the Plan to be paid to a Beneficiary will be paid to the Participant's estate in care of the duly appointed and currently acting personal representative of the estate (which includes either the Participant's probate estate or living trust). In any case where there is no such personal representative of the Participant's estate duly appointed and acting in that capacity within ninety (90) days after the Participant's death (or such extended period as the Committee determines is reasonably necessary to allow such personal representative to be appointed, but not to exceed one hundred eight (180) days after the Participant's death), then such benefits will be paid to the person or persons who can verify by affidavit or court order to the satisfaction of the Committee that they are legally entitled to receive such benefits under the Plan.

9.5 **Doubt as to Beneficiary.** If the Committee has any doubt as to the proper Beneficiary to receive payments pursuant to this Plan, the Committee will have the right, exercisable in its discretion, to cause the Company to withhold such payments until such matter is resolved to the Committee's satisfaction.

9.6 **Discharge of Obligations.** The payment of benefits under the Plan to a Beneficiary will fully and completely discharge the Company and the Committee from all further obligations under the Plan with respect to the Participant, and that Participant's rights (if any) under the Plan will terminate upon such full payment of benefits.

9.7 **Death of Spouse or Dissolution of Marriage.** Notwithstanding the foregoing, a Participant's Beneficiary designation will be deemed to be automatically revoked if the Participant names his or her spouse as his or her Beneficiary and the marriage to such spouse is later dissolved. Without limiting the generality of the preceding sentence, the interest in benefits of a spouse of a Participant who has predeceased the Participant or whose marriage has been dissolved will automatically pass to the Participant, and will not be transferable by such spouse in any manner, including but not limited to such spouse's will, nor will such interest pass under the laws of intestate succession.

SECTION 10
ADMINISTRATION OF THE PLAN

10.1 **Committee.** The Committee is hereby designated as the administrator of the Plan (within the meaning of ERISA Section 3(16)(A)). The Committee will consist of not less than one person, who will be appointed by and serve at the pleasure of the Compensation Committee of the Board. A member of the Committee may resign at any time by notice in writing mailed or delivered to the Compensation Committee of the Board. The Compensation Committee of the Board may remove any member of the Committee by resolution at any time. Any vacancies in the membership of the Committee will be filled by the Compensation Committee of the Board.

10.2 **Committee Action.** The Committee will act at meetings by the affirmative vote of a majority of its members. Any action permitted to be taken at a meeting may be taken without a meeting if, prior to or contemporaneously with such action, a written consent to the action is signed by all members of the Committee, and such written consent is filed with the minutes of the proceedings of the Committee. The Chairperson or any other member or members of the Committee designated by the Chairperson may execute any certificate or other written direction on behalf of the Committee.

10.3 **Powers and Duties of the Committee.** The Committee will enforce the Plan in accordance with its terms, will be charged with the general administration of the Plan, and will have full discretion, power, and authority necessary to accomplish its purposes, including, but not by way of limitation, the following discretionary powers:

(a) To construe and interpret the meaning and validity of the provisions of the Plan and to determine any question arising under, or in connection with, the administration, operation, or validity of the Plan or any amendment thereto;

(b) To determine who are Eligible Employees, subject to the limitations described in the Plan;

(c) To cause a Deferral Account and/or Plan Year Subaccounts to be maintained for each Participant;

(d) To decide any and all considerations affecting the eligibility of any employee to become a Participant or remain a Participant in the Plan;

(e) To determine the manner and form for making elections under the Plan;

(f) To determine, establish and revise an accounting method or formula for the Plan, as provided in Section 4.2;

(g) To determine the status and rights of Participants and their spouses, Beneficiaries or estates;

(h) To administer the claims and review procedures set forth in Section 12;

(i) To establish, from time to time, rules for the performance of its powers and duties and for the administration of the Plan as are not inconsistent with the terms of the Plan;

(j) To delegate to any one or more of its members or to any other person, severally or jointly, the authority to perform for and on behalf of the Committee one or more of the functions of the Committee under the Plan;

(k) To arrange for the distribution to each Participant of a statement of any benefits accrued under the Plan, at least annually; or

(l) To decide all issues and questions regarding Deferral Account and/or Plan Year Subaccount balances, and the time, form, manner and amount of distributions to Participants or their Beneficiaries in accordance with the terms of the Plan.

10.4 **Decisions of the Committee and its Delegates.** All actions, interpretations, and decisions of the Committee (and its delegates) will be conclusive and binding on all persons, and will be given the maximum possible deference allowed by law.

10.5 **Eligibility to Participate.** No member of the Committee who is also an employee of the Company will be excluded from participating in the Plan if otherwise eligible, but he or she will not be entitled, as a member of the Committee, to act or pass upon any matters pertaining specifically to his or her own Deferral Account under the Plan.

10.6 **Compensation and Expenses.** The members of the Committee will serve without compensation for their services under the Plan. The Committee is authorized at the expense of the Employer to employ such legal counsel, accountants and other advisers as it may deem advisable to assist in the performance of its duties under the Plan. Any expenses and fees incurred in connection with the administration of the Plan by the Committee, or otherwise, will be paid and borne by the Employer.

10.7 **Information.** To enable the Committee to perform its functions under the Plan, each Company will supply full and timely information to the Committee on all matters related to the Compensation of all Participants, their deaths or other cause of their Separations from Service, and such other pertinent facts as the Committee may require.

10.8 **Indemnity.** To the fullest extent permitted by applicable law, each Company will indemnify, hold harmless, and defend the Committee and each member thereof, the Board of Directors, and any delegate of the Committee who is an employee of the Company, against any and all expenses, liabilities and claims, including legal fees as they are incurred to defend against such liabilities and claims arising out of their discharge in good faith of responsibilities under or incident to the Plan, other than expenses and liabilities arising out of willful misconduct. This indemnity will not preclude such further indemnities as may be available under insurance purchased by the Company or provided by the Company under any bylaw, agreement or otherwise.

SECTION 11
CLAIMS AND REVIEW PROCEDURE

11.1 **Presentation of Claim.** If a Participant or Beneficiary (a "Claimant") asserts a right to a benefit under the Plan which has not been received, the Claimant must file a written claim for such benefit with the Committee. All other claims must be made in writing and filed with the Committee within one hundred eighty (180) days of the date on which the event that caused the claim to arise occurred. Any claim must state with particularity the determination desired by the Claimant. The claims and review procedure set forth in this Section 13 will be administered in accordance with ERISA Section 503. Any written notice that is required to be given to the Claimant may, at the option of the Committee and in accordance with applicable guidance issued under ERISA Section 503, be provided electronically.

11.2 **Non-Disability Claims.**

11.2.1 **Notification of Decision.** The Committee will consider a Claimant's claim (other than a claim for benefits due to a Disability) (a "Non-Disability Claim") within a reasonable time, but no later than ninety (90) days after its receipt of the Claim, unless the Committee determines that special circumstances require an extension of time for processing the Claim, in which case written notice of the extension will be furnished to the Claimant before the termination of the initial ninety (90) day period. In no event will such extension exceed a period of ninety (90) days from the end of the initial ninety (90) day period. The extension notice will indicate the special circumstances requiring the extension of time and the date by which the Committee expects to render its decision on the Non-Disability Claim. The Committee will notify the Claimant in writing:

(a) that the Claimant's requested determination has been made, and that the Non-Disability Claim has been allowed in full; or

(b) that the Committee has reached a conclusion contrary, in whole or in part, to the Claimant's requested determination, which notice will set forth:

(i) the specific reason(s) for the denial of the Claim;

(ii) specific reference(s) to pertinent provisions of the Plan upon which the denial was based;

(iii) a description of any additional material or information necessary for the Claimant to perfect the Claim, and an explanation of why such material or information is necessary;

(iv) an explanation of the Plan's Claims review procedure and the time limits applicable to such procedure; and

(v) a statement of the Claimant's right to bring a civil action under ERISA Section 502(a) following an adverse benefit determination on review (as set forth in Section 11.4).

11.2.2 **Review of a Denied Non-Disability Claim.** On or before sixty (60) days after receiving a notice from the Committee that the Claimant's Non-Disability Claim has been denied, in whole or in part, the Claimant (or the Claimant's duly authorized representative) may file with the Committee a written request for a review of the denial of the Claim. The Claimant (or the Claimant's duly authorized representative):

(a) may, upon request and free of charge, have reasonable access to, and copies of, all documents, records and other information relevant (as defined in ERISA) to the Non-Disability Claim;

(b) may submit written comments or other documents to the Committee; and/or

(c) may request a hearing, which the Committee, in its sole discretion, may grant.

11.2.3 **Decision on Review of the Non-Disability Claim**. The Committee will render its decision on review promptly, but not later than sixty (60) days after the Committee receives the Claimant's timely written request for a review of the denial of the Non-Disability

Claim. If the Committee determines that special circumstances require an extension of time for reviewing the Non-Disability Claim, written notice of the extension will be furnished to the Claimant before the termination of the initial sixty (60) day period. In no event will such extension exceed a period of sixty (60) days from the end of the initial sixty (60) day period. The extension notice will indicate the special circumstances requiring the extension of time and the date by which the Committee expects to render its decision on review. In rendering its decision, the Committee will take into account all comments, documents, records and other information submitted by the Claimant (if any) relating to the Non-Disability Claim, without regard to whether such information was submitted or considered in the initial Claim determination. If the Committee wholly or partly denies the Non-Disability Claim on review, the Committee will provide written notice to the Claimant which will set forth:

(a) the specific reasons for the denial of the Claim;

(b) the specific reference(s) to the pertinent Plan provisions upon which the denial was based;

(c) a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to and copies of, all documents, records and other information relevant (as defined in ERISA) to his or her Claim for benefits; and

(d) a statement of the Claimant's right to bring a civil action under ERISA Section 502(a).

11.3 **Disability Claims.**

11.3.1 **Notification of Decision.** The Committee will consider a Claimant's claim for benefits due to a Disability (a "Disability Claim") within a reasonable time, but no later than forty-five (45) days after its receipt of the Claim, unless the Committee determines that special circumstances require an extension of time to process the Claim, in which case written notice of the extension will be furnished to the Claimant before the termination of the initial forty-five (45) day period. In no event will such extension exceed a period of thirty (30) days from the end of the initial forty-five (45) day period. However, if the Committee determines that special circumstances require an additional extension of time to process the Disability Claim, the Committee will notify the Claimant in writing before the end of the initial thirty (30) day extension period. In no event will such additional extension exceed a period of thirty (30) days from the end of the initial thirty (30) day extension period. The extension notice will indicate the special circumstances requiring the extension of time and the date by which the Committee expects to render its decision on the Disability Claim. The extension notice also will explain the standards on which the entitlement to a benefit is based, the unresolved issues that prevent a decision on the Disability Claim and the additional information needed to resolve those issues, and notice that the Claimant will be afforded at least forty-five (45) days within which to provide the specified information. The Committee will notify the Claimant in writing:

(a) that the Claimant's requested determination has been made, and that the Disability Claim has been allowed in full; or

(b) that the Committee has reached a conclusion contrary, in whole or in part, to the Claimant's requested determination, which notice will set forth:

(i) the specific reason(s) for the denial of the Claim;

(ii) specific reference(s) to pertinent provisions of the Plan upon which the denial was based;

(iii) a description of any additional material or information necessary for the Claimant to perfect the Claim, and an explanation of why such material or information is necessary;

(iv) an explanation of the Plan's Claims review procedure and the time limits applicable to such procedure;

(v) a copy of any internal rule, guideline, protocol or other similar criteria relied on in denying the Claim or a statement that such rule, guideline, protocol or other similar criteria was relied on in denying the Claim and that a copy of it will be provided without charge upon request; and

(vi) a statement of the Claimant's right to bring a civil action under ERISA Section 502(a) following an adverse benefit determination on review (as set forth in Section 11.4).

11.3.2 **Review of a Denied Disability Claim**. On or before one hundred eighty (180) days after receiving a notice from the Committee that the Claimant's Disability Claim has been denied, in whole or in part, a Claimant (or the Claimant's duly authorized representative) may file with the Committee a written request for a review of the denial of the Claim. The Claimant (or the Claimant's duly authorized representative):

(a) may, upon request and free of charge, have reasonable access to, and copies of, all documents, records and other information relevant (as defined in ERISA) to the Disability Claim;

(b) may submit written comments or other documents to the Committee; and/or

(c) may request a hearing, which the Committee, in its sole discretion, may grant.

11.3.3 **Decision on Review of the Disability Claim**. The Committee will render its decision on review promptly, but not later than forty-five (45) days after the Committee receives the Claimant's timely written request for a review of the denial of the Disability Claim, unless the Committee determines that special circumstances require an extension of time for processing the Claim, in which case written notice of the extension will be furnished to the Claimant before the termination of the initial forty-five (45) day period. In no event will such extension exceed a period of forty-five (45) days from the end of the initial forty-five (45) day period. The extension notice will indicate the special circumstances requiring an extension of time and the date by which the Committee expects to render its decision on the Disability Claim. In rendering its decision, the Committee will take into account all comments, documents, records and other information submitted by the Claimant (if any) relating to the Disability Claim, without regard to whether such information was submitted or considered in the initial Claim determination. The review of the denied Disability Claim will not be conducted by the individual who decided the Claimant's initial Claim nor the subordinate of such individual. In deciding an appeal of any denied Disability Claim that is based in whole or in part on a medical judgment, the Committee will consult with a health care professional (who will neither be an individual who was consulted in connection with the initial Claim denial nor the subordinate of such individual) who has appropriate training and experience in the field of medicine involved in the medical judgment. Any medical or vocational experts whose advice was obtained on behalf of the Committee in connection with the denial of the Disability Claim will be identified, regardless of whether the advice was relied upon in denying the Claim. If the Committee wholly or partly denies the Disability Claim on review, the Committee will provide written notice to the Claimant which will set forth:

(a) the specific reasons for the denial of the Claim;

(b) specific reference(s) to the pertinent Plan provisions upon which the denial was based;

(c) a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to and copies of, all documents, records and other information relevant (as defined in ERISA) to the Claimant's Claim for benefits;

(d) a copy of any internal rule, guideline, protocol or other similar criteria relied on in denying the Claim or a statement that such rule, guideline, protocol or other similar criteria was relied on in denying the Claim and that a copy of it will be provided without charge upon request; and

(e) a statement of the Claimant's right to bring a civil action under ERISA Section 502(a).

11.4 **Exhaustion of Claims and Review Procedure and Legal Action.** No action in law or equity may be brought more than one (1) year after the Committee's affirmation of a denial of a claim under the Plan, or, if earlier, more than four (4) years after the facts or events giving rise to the Claimant's allegation(s) or claim(s) first occurred.

SECTION 12
MODIFICATION OR TERMINATION OF THE PLAN

12.1 **Companies' Obligations Limited**. The Companies intend to continue the Plan indefinitely, and to maintain each Participant's Deferral Account until it is scheduled to be paid to him or her in accordance with the provisions of the Plan. However, the Plan is voluntary on the part of the Companies and the Companies do not guarantee to continue the Plan. The Board of Directors, in its sole discretion, at any time may, by amendment of the Plan, suspend or discontinue Compensation deferrals under the Plan, with or without cause.

12.2 **Right to Amend or Terminate.** The Board of Directors, in its sole discretion, may amend or terminate the Plan, or any part thereof, in such manner as it may determine, at any time and for any reason; provided, however that no such amendment or termination will have any retroactive effect to reduce any amounts allocated to a Participant's Deferral Account on the date of such amendment or termination. The Board of Directors may from time to time make any amendment to the Plan that may be necessary to satisfy Code Section 409A, ERISA or other applicable laws.

12.3 **Retroactive Amendment Permitted.** An amendment made by the Board of Directors in accordance with Section 12.2 may be made effective on a date prior to the first day of the Plan Year in which it was adopted if such amendment is necessary or appropriate to enable the Plan to satisfy the applicable requirements of Code Section 409A, ERISA or other applicable laws or to conform the Plan to any change in applicable laws or to any regulations or rulings thereunder, so long as such retroactive amendment is permitted by applicable law.

12.4 **Effect of Termination.** If the Plan is terminated pursuant to this Section 12, then no further Compensation deferrals may be made under the Plan and the balances credited to the Deferral Accounts of the affected Participants will be distributed to them at the time and in the manner set forth in Section 6.

SECTION 13
GENERAL

13.1 **Unsecured General Creditors.** All amounts credited to a Participant's Deferral Account under the Plan will continue for all purposes to be a part of the general assets of the Company. Participants and their Beneficiaries, heirs or successors will have no legal or equitable rights, claims, or interest in any specific property or assets of any Company. No assets of the Company will be held under a trust, or held in any way as collateral security for the fulfilling of any obligations of the Company under the Plan. The Plan will not cause the Company's assets to be pledged or restricted. The Company's obligations (if any) under the Plan will be merely that of an unfunded and unsecured promise of that Company to pay money in the future, and the rights of the Participants and their Beneficiaries will be no greater than those of unsecured general creditors of the Company. The Company may, but need not, acquire investments corresponding to the Funds, and it is under no obligation to maintain any investment it may make. Any such investments, if made, will be in the name of the Company, and will be its sole property in which no Participant or Beneficiary will have any interest. The Plan is intended to be an unfunded plan for purposes of Title I of ERISA.

13.2 **Restriction Against Assignment.** The Company will pay all amounts payable hereunder only to the person or persons designated by the Plan and not to or for any other person. No part of a Participant's Deferral Account will be liable for the debts, contracts, or engagements of any Participant, his or her Beneficiary, or successors in interest, nor will a Participant's Deferral

Account be subject to execution by levy, attachment, or garnishment or by any other legal or equitable proceeding, nor will any such person have any right to alienate, anticipate, transfer, commute, pledge, encumber, or assign any benefits or payments hereunder in any manner whatsoever; provided, however, that a Deferral Account hereunder may be transferred to a Participant's former spouse pursuant to a Domestic Relations Order. Any purported alienation, anticipation, transfer, commutation, pledge, encumbrance, or assignment will be void and of no effect.

13.3 **Governing Law.** The Plan is intended to comply with the provisions of Code Section 409A. Notwithstanding any contrary Plan provision, the Plan will be construed, administered and enforced in a manner that is consistent with such intent. The Plan also will be construed, administered and enforced in accordance with the applicable provisions of ERISA, and to the extent not preempted by ERISA, the applicable laws of the State of California (other than its conflict of laws provisions).

13.4 **Receipt and Release.** Any payment to a Participant or his or her Beneficiary in accordance with the provisions of the Plan will, to the extent thereof, be in full satisfaction of any and all claims against the Committee and/or the Company.

13.5 **Tax Withholding.** Notwithstanding any contrary Plan provision, the Company will have the right to deduct from a Participant's Deferral Account and/or any payments due to the Participant or his or her Beneficiary under the Plan any and all taxes determined by the Committee to be applicable with respect to such benefits. If any taxes, including employment taxes with respect to the Deferral Account, are required to be withheld prior to the time of payment, the Company may withhold such amounts from other compensation that is payable to the Participant by the Company.

13.6 **Severability.** If any provision of the Plan is held to be invalid or unenforceable, its invalidity or unenforceability will not affect any other provisions of the Plan, and in lieu of each provision which is held invalid or unenforceable, there will be added as part of the Plan a provision that will be as similar in terms to such invalid or unenforceable provision as may be possible and be valid, legal, and enforceable.

13.7 **No Guarantees Regarding Tax Treatment; Disclaimer.** Participants (or their Beneficiaries) will be completely responsible for all taxes with respect to any benefits under the Plan. The Committee, the Board of Directors and the Companies make no guarantees regarding the tax treatment to any person of any deferrals or payments made under the Plan. **Neither the Companies nor any of their employees shall have any liability to any Participant should the Plan or its administration fail to comply with Code Section 409A.**

13.8 **Captions.** The captions contained in and the table of contents prefixed to the Plan are inserted only as a matter of convenience and for reference, and in no way define, limit, enlarge or describe the scope or intent of the Plan nor in any way will affect the construction of any provision of the Plan.

13.9 **No Employment Rights.** Neither the establishment or maintenance of the Plan, the making of any deferrals under the Plan nor any action of any Company or the Committee, will be held or construed to confer upon any person any right to be employed by the Company, nor upon dismissal, any right or interest in any specific assets of the Companies other than as provided in the Plan. Each Company expressly reserves the right to discharge any employee at any time, with or without cause or notice.

13.10 **Payments on Behalf of Persons Under Incapacity**. In the event that any amount becomes payable under the Plan to a person who, in the sole judgment of the Committee, is considered by reason of physical or mental condition to be unable to give a valid receipt therefor, the Committee may direct that such payment be made to any person found by the Committee, in its sole judgment, to have assumed the care of such person. Any payment made pursuant to such determination will constitute a full release and discharge of any and all claims against the Committee and/or the Company.

13.11 **Rights and Duties**. Neither the Company nor the Committee will be subject to any liability or duty under the Plan except as expressly provided in the Plan, or for any action taken, omitted or incurred in good faith.

Exhibit 10.63

WILLIAMS-SONOMA, INC.

2012 EVP LEVEL MANAGEMENT RETENTION PLAN

This 2012 EVP Level Management Retention Plan (the "Plan") was adopted and approved by the Compensation Committee ("Committee") of the Board of Directors ("Board") of Williams-Sonoma, Inc., a Delaware corporation (the "Company") on November 1, 2012, and became effective immediately upon such adoption (the "Effective Date"). The purpose of the Plan is to provide certain eligible Executives (as such term is defined in Section 1(a) below) of the Company with severance benefits upon certain terminations of employment following a Change of Control in order to provide such Executive participants with enhanced financial security, incentive and encouragement to remain with the Company notwithstanding the possibility of a Change of Control. The Board recognizes that a potential Change of Control can be a distraction to Executive participants and can cause them to consider alternative employment opportunities. The Board has determined that it is in the best interests of the Company and its stockholders to (a) assure that the Company will have the continued dedication and objectivity of covered Executives, notwithstanding the possibility, threat or occurrence of a Change of Control of the Company, and (b) provide Executive participants with an incentive to continue their employment and to motivate them to maximize the value of the Company upon a Change of Control for the benefit of its stockholders. This Plan is an "employee welfare benefit plan," as defined in Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). This document constitutes both the written instrument under which the Plan is maintained and the required summary plan description for the Plan. Capitalized terms used herein but not defined shall have the meaning assigned to such terms in Section 5 below.

1. Eligibility; Term; and Termination.

(a) Eligibility. Each employee of the Company at the Executive Vice President level and above (each, an "Executive") shall automatically participate in the Plan, effective upon the later of (i) the Effective Date, (ii) the lapse of the term of Executive's management retention agreement with the Company in existence upon the Effective Date, and (iii) promotion to the Executive Vice President level or higher. The Committee may, in its discretion, adopt a resolution approving participation in the Plan by an employee below the level of Executive Vice President. For the avoidance of doubt, the President and Chief Executive Officer of the Company, whose severance benefits are governed by a separate agreement with the Company, shall not participate in the Plan. Notwithstanding any other provision in the Plan to the contrary, the severance payments and benefits provided hereunder shall be in lieu of any other severance and/or retention plan benefits and any severance payments and benefits specified in Section 3 below shall be reduced by any severance paid or provided to Executive under any other plan or arrangement. Once participating in the Plan, Executive shall remain a Plan participant until (i) the Plan is terminated in accordance with Section 1(b) below, (ii) Executive is no longer an employee of the Company, other than a termination of employment triggering severance benefits under Section 3(a) below, (iii) the effective date of Executive's demotion below the Executive Vice President level, or (iv) written notice is provided to Executive prior to a Change in Control stating that such employee is no longer a Plan participant.

(b) Term. This Plan will commence on the Effective Date and will remain in effect through November 15, 2015; provided, however, that if prior to the expiration of the term of this Plan, the Company enters into a definitive agreement (a "Definitive Agreement") with a third party (or third parties), the consummation of which would result in a Change of Control (as defined in this Plan), then the term of this Plan shall automatically be extended to eighteen months following the resulting Change of Control, unless the Definitive Agreement terminates or is cancelled without resulting in a Change of Control, in which case such extension shall not be effective. Moreover, the Plan provisions shall survive the lapse of the term of this Plan and shall be binding on both the Company and Executive with respect to any termination of Executive's employment triggering severance benefits under Section 3 that occurs prior to the lapsing of the term of this Plan.

(c) Amendment, Modification or Termination. The Company reserves the right to amend, modify or terminate the Plan at any time, without advance notice to any Executive; provided, however, that, no amendment, modification, or termination of the Plan shall be permitted for a period of eighteen (18) months after a Change in Control that would reduce the severance benefits payable to Executive or impair Executive's eligibility under the Plan (unless the affected Executive consents in writing to such amendment or termination). Any action of the Company in amending or terminating the Plan will be taken in a non-fiduciary capacity.

2. No Employment Right. Nothing in the Plan shall interfere with or limit in any way the right of the Company, or a subsidiary of the Company, as applicable, to terminate any Executive's employment or service at any time, with or without cause. Executive's employment is and shall continue to be at-will, as defined under applicable law. If Executive's employment terminates for any reason, Executive shall not be entitled to any payments, benefits, damages, awards or compensation other than as provided under this Plan, any outstanding written employment agreement or offer letter by and between Executive and the Company, or as may otherwise be available in accordance with the Company's established employee plans.

3. Severance Benefits.

(a) Involuntary Termination Other than for Cause or Voluntary Termination for Good Reason, Within 18 Months On or Following a Change of Control. If within the period commencing on a Change of Control and ending eighteen (18) months following the Change of Control, Executive's employment with the Company (A) is terminated involuntarily by the Company without Cause, or (B) voluntarily by Executive for Good Reason, then subject to Executive signing and not revoking a release of claims in favor of the Company substantially in the form attached as Exhibit A to this Plan, which may be updated to reflect applicable laws (a "Release"), the Company shall provide severance pay and benefits, subject to certain conditions, as follows:

(i) Severance Payment. Executive shall be entitled to receive a cash severance payment equal to two hundred percent of Executive's annual base salary (as in effect immediately prior to (A) the Change of Control, or (B) Executive's termination, whichever is greater) plus an amount equal to two hundred percent of the average annual bonus received by Executive in the last thirty-six (36) months. Such cash severance payment shall be paid out ratably over twenty-four (24) months from the date of employment termination in accordance with the payroll schedule applicable to active officers of the Company (subject to the timing provisions of Sections 3(h) and 9 of this Plan.

(ii) Equity Compensation Acceleration. One hundred percent (100%) of Executive's outstanding stock options, stock appreciation rights, restricted stock units and other Company equity compensation awards, including performance-based vesting full-value awards where the payout is either a fixed number of shares or zero shares depending on whether the performance metric is obtained, shall immediately become fully vested as to all of the underlying shares. With respect to performance-based vesting full-value awards in which the performance period has not been completed prior to Executive's termination date and where the number of shares earned is variable based upon the extent to which performance milestones are reached (i.e., where the number of shares earned based upon achieving performance milestones can be more than one positive number), each such award shall vest at the target performance level as to a pro-rata number of shares in an amount equal to (A) the number of shares subject to the award that would have vested at target performance levels (had any additional service-based vesting requirements been met) multiplied by (B) a fraction, with the numerator being the number of months that have elapsed from the start of the award's performance period (with partial months rounded up to a whole month) through and including Executive's termination date and the denominator being the number of full months in the award's performance period (with such fraction not to exceed the whole number one). Any Company stock options and stock appreciation rights shall thereafter remain exercisable following Executive's employment termination for the period prescribed in the respective option and stock appreciation right agreements.

(iii) Continued Employee Benefits. In lieu of continued employee benefits (other than as statutorily required, such as COBRA continuation coverage as required by law), Executive shall receive payments of three thousand dollars ($3,000) per month for twelve months from the date of employment termination in accordance with the payroll schedule applicable to active officers of the Company (subject to the timing provisions of Sections 3(h) and 9 of this Plan.

(b) Voluntary Resignation Other than for Good Reason; Termination for Cause; Termination due to Death or Disability. If Executive's employment with the Company terminates (i) voluntarily by Executive other than for Good Reason, or (ii) for Cause by the Company, or (iii) pursuant to Executive's death or Disability, then Executive shall not be entitled to receive severance or other benefits except for those (if any) as may then be established under the Company's then existing severance and benefits plans and practices or pursuant to other written agreements with the Company.

(i) Termination Outside of Change of Control. In the event Executive's employment is terminated for any reason, either prior to a Change of Control or more than eighteen (18) months after a Change of Control, then Executive shall be entitled to receive severance benefits only as provided under the Company's then existing severance and benefits plans and practices or pursuant to other written agreements with the Company.

(ii) Termination On or Within 18 Months Following a Change of Control. In the event Executive's employment terminates on or within eighteen (18) months following a Change of Control, Executive shall only receive severance payments and benefits under this Plan and not pursuant to the Company's then existing severance and benefits plans and practices or pursuant to other written agreements with the Company.

(c) Non-Solicitation; Confidential Information. Notwithstanding the foregoing, the Company's obligation to provide severance payments and benefits under this Section 3 is expressly conditioned upon Executive's ongoing compliance with the confidential information and non-solicitation provisions of the Company's Corporate Code of Conduct as in effect on the date of Executive's termination of employment. In the event Executive breaches the terms of the confidential information and non-solicitation provisions of the Company's Corporate Code of Conduct as in effect on such date, the Company's obligations under Section 3 shall automatically terminate, without any notice to Executive.

(d) No Mitigation. Executive shall not be required to mitigate the amount of any severance payments or benefits provided for under this Plan by seeking other employment nor shall any amounts to be received by Executive under this Plan be reduced by any other compensation earned; provided that in no event shall Executive receive severance payments or benefits under both a Management Retention Agreement entered into on or prior to the Effective Date and under this Plan.

(e) Tax Withholding. The Company shall be entitled to withhold from any payments made to Executive under this Section 3 any amounts required to be withheld by applicable federal, state or local tax law.

(f) Non-Competition, Non-Solicitation; Confidential Information. If at any time during the period commencing on Executive's employment termination date and ending twelve (12) months later, Executive accepts other employment or a professional relationship with a competitor of the Company (defined as either (i) another company primarily engaged in retail sales of products for the home or (ii) any retailer with retail products for the home sales in excess of one hundred million dollars ($100,000,000) annually), or if Executive breaches Executive's remaining obligations to the Company (e.g., the duty to protect confidential information and intellectual property and the duties not to solicit under the Company's Corporate Code of Conduct), then the Company's obligations under this Section 3 will cease such that Executive will not be entitled to any further payments or benefits under this Section 3 and the Company may seek injunctive relief against Executive as specified in Section 8(d) hereof.

(g) Non-Disparagement. While employed by the Company and for a period of twenty-four (24) months commencing on the date upon which Executive's employment terminates, (i) Executive shall agree in the Release not to make any statements that disparage the Company, its products, services, officers, employees, members of its Board, advisers or other business contacts, and (ii) the Company hereby agrees that members of its Board and the Company's officers holding a title of Executive Vice President or above shall not make any statements that disparage Executive. Executive shall acknowledge and agree in the Release that upon Executive breaching this non-disparagement provision of the Plan and the Release on or after the date upon which Executive's employment terminates then the Company's obligations under this Section 3 will cease such that Executive will not be entitled to any further payments or benefits under this Section 3 and the Company may seek injunctive relief against Executive as specified in Section 8(d) hereof.

(h) Release of Claims. Receipt of the severance payments and benefits specified in this Section 3 shall be contingent on Executive's execution of the Release, and the lapse of any statutory period for revocation, and such Release becoming effective in accordance with its terms within fifty-two days following Executive's termination date. Any severance payment to which Executive otherwise would have been entitled during such fifty-two day period shall be paid by the Company in cash and in full arrears on the fifty-third day following Executive's employment termination date or such later date as is required to avoid the imposition of additional taxes under Section 409A ("Section 409A") of the Internal Revenue Code of 1986, as amended (the "Code").

4. Code Section 280G Best Results. If any payment or benefit Executive would receive pursuant to this Plan or otherwise, including accelerated vesting of any equity compensation ("Payment") would (i) constitute a "parachute payment" within the meaning of Section 280G of the Code, and (ii) but for this sentence, be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), then such Payment shall be reduced to the Reduced Amount. The "Reduced Amount" shall be either (x) the largest portion of the Payment that would result in no portion of the Payment being subject to the Excise Tax or (y) the largest portion, up to and including the total, of the Payment, whichever amount, after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate), results in Executive's receipt, on an after-tax basis, of the greater amount of the Payment notwithstanding that all or some portion of the Payment may be subject to the Excise Tax. If a reduction in payments or benefits constituting "parachute payments" is necessary so that the Payment equals the Reduced Amount, reduction shall occur in the following order: (A) cash payments shall be reduced first and in reverse chronological order such that the cash payment owed on the latest date following the occurrence of the event triggering such excise tax will be the first cash payment to be reduced; (B) accelerated vesting of stock awards shall be cancelled/reduced next and in the reverse order of the date of grant for such stock awards (i.e., the vesting of the most recently granted stock awards will be reduced first), with full-value awards reversed before any stock option or stock appreciation rights are reduced; and (C) employee benefits shall be reduced last and in reverse chronological order such that the benefit owed on the latest date following the occurrence of the event triggering such excise tax will be the first benefit to be reduced.

The Company shall appoint a nationally recognized accounting firm to make the determinations required hereunder and perform the foregoing calculations. The Company shall bear all expenses with respect to the determinations by such accounting firm required to be made hereunder.

The accounting firm engaged to make the determinations hereunder shall provide its calculations, together with detailed supporting documentation, to the Company and Executive within fifteen (15) calendar days after the date on which right to a Payment is triggered (if requested at that time by the Company or Executive) or such other time as requested by the

Company or Executive. Any good faith determinations of the accounting firm made hereunder shall be final, binding and conclusive upon the Company and Executive.

5. Definition of Terms. The following terms referred to in this Plan shall have the following meanings:

(a) Cause. "Cause" means (i) an act of dishonesty made by Executive in connection with Executive's responsibilities as an employee, (ii) 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) Executive's gross misconduct, (iv) Executive's unauthorized use or disclosure of any proprietary information or trade secrets of the Company or any other party to whom Executive owes an obligation of nondisclosure as a result of Executive's relationship with the Company; (v) Executive's willful breach of any obligations under any written agreement or covenant with the Company or breach of the Company's Corporate Code of Conduct; or (vi) Executive's continued failure to perform Executive's employment duties after Executive has received a written demand of performance from the Chief Executive Officer which specifically sets forth the factual basis for the Chief Executive Officer's belief that Executive has not substantially performed Executive's duties and has failed to cure such non-performance to the Chief Executive Officer's satisfaction within 30 days after receiving such notice.

(b) Change of Control. "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 is replaced during any twelve (12) month period by Directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election. For purposes of this clause (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 twelve (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 Section 5(b), 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.

(c) Disability. "Disability" means Executive (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 twelve (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 twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering Company employees.

(d) Good Reason. "Good Reason" means, without Executive's consent, (i) a reduction in Executive's annual base salary (except pursuant to a reduction generally applicable to senior executives of the Company), (ii) a material diminution of Executive's authority or responsibilities, (iii) a reduction of Executive's title, (iv) if Executive reported directly to the Chief Executive Officer of the Company immediately prior to the Change of Control, Executive ceasing to report directly to the Chief Executive Officer of the Company or to the Chief Executive Officer of the entity holding all or substantially all of the Company's assets following a Change of Control, or (v) relocation of Executive to a location more than 50 miles from the principal place of employment for Executive immediately prior to the Change of Control. In addition, upon any such voluntary termination for Good Reason Executive must provide written notice to the Company of the existence of the 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.

6. Assignment.

(a) Executive. The rights and obligations of Executive under the Plan are personal to that Executive and without the prior written consent of the Company, no such right shall be assignable by Executive otherwise than by will or the laws of descent and distribution. The rights of Executive under this Plan shall inure to the benefit of and be enforceable by the heirs, executors and legal representatives of Executive upon Executive's death. None of the rights of Executive to receive any form of compensation payable pursuant to this Plan may be assigned or transferred except by will of the laws of descent and distribution. Any other attempted assignment, transfer, conveyance or other disposition of Executive's right to compensation or other benefits will be null and void.

(b) Successor Company. Until the Plan terminates in accordance with Section 1 above, the rights and obligations of the Company under the Plan shall inure to the benefit of and be binding upon the Company and its successors and assigns. Any such successor of the Company will be deemed substituted for the Company under the terms of this Plan for all purposes. For this purpose, "successor" means any person, firm, corporation or other business entity which at any time, whether by purchase, merger or other, directly or indirectly acquires all or substantially all of the assets or business of the Company. The Company will require any successor to assume expressly and agree to administer this Plan in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place.

7. Notices. All claims, notices, requests, demands and other communications called for under this Plan shall be in writing and shall be deemed given (i) on the date of delivery if delivered personally, (ii) one (1) day after being sent by a well established commercial overnight service, or (iii) four (4) days after being mailed by registered or certified mail, return receipt requested, prepaid and addressed to the parties or their successor at the following addresses, or at such other addresses as the parties may later designate in writing:

If to the Administrator:

Compensation Committee of the Board of Directors
Williams-Sonoma, Inc.
3250 Van Ness Avenue
San Francisco, CA 94109
Attn: c/o General Counsel

If to Executive:
At the last residential address known to the Company

8. Administration and Claims.

(a) Administration. The "Administrator" (within the meaning of section 3(16)(A) of ERISA) shall be the Committee. The Administrator shall have the exclusive discretion and authority to establish rules, forms, and procedures for the administration of the Plan, and discretionary authority to construe and interpret the Plan and to decide any and all questions of fact, interpretation, definition, computation or administration arising in connection with the operation of the Plan. Decisions made by the Administrator prior to the occurrence of a Change of Control shall not be subject to review unless they are found to be unreasonable or not to have been made in good faith. For decisions made by the Administrator on or after the occurrence of a Change of Control that affect benefits payable under the Plan, the Administrator's decisions shall be subject to review. As used in this Section 8(a), "review" shall mean review as provided by applicable law. The Administrator may appoint one or more individuals and delegate such of its powers and duties as it deems desirable to any such individual(s), in which case every reference herein made to the Administrator shall be deemed to mean or include the appointed individual(s) as to matters within their jurisdiction.

(b) Claims Procedure. Any Executive who believes he or she is entitled to any payment under the Plan may submit a claim in writing to the Administrator in accordance with Section 7 above identifying the matter in dispute and the proposed remedy. If the claim is denied (in full or in part), the claimant will be provided a written notice explaining the specific reasons for the denial and referring to the provisions of the Plan on which the denial is based. The notice will also describe any additional information needed to support the claim and the Plan's procedures for appealing the denial. The denial notice will be provided within ninety (90) days after the claim is received. If special circumstances require an extension of time (up to ninety (90) days), written notice of the extension will be given within the initial ninety (90) day period. This notice of extension will indicate the special circumstances requiring the extension of time and the date by which the Administrator expects to render its decision on the claim.

(c) Appeal Procedure. If the claimant's claim is denied, the claimant (or his or her authorized representative) may apply in writing to the Administrator for a review of the decision denying the claim. Review must be requested within sixty (60) days following the date the claimant received the written notice of their claim denial or else the claimant loses the right to review. The claimant (or representative) then has the right to review and obtain copies of all documents and other information relevant to the claim, upon request and at no charge, and to submit issues and comments in writing. The Administrator will provide written notice of his or her decision on review within sixty (60) days after it receives a review request. If additional time (up to sixty (60) days) is needed to review the request, the claimant (or representative) will be given written notice of the reason for the delay. This notice of extension will indicate the special circumstances requiring the extension of time and the date by which the Administrator expects to render its decision. If the claim is denied (in full or in part), the claimant will be provided a written notice explaining the specific reasons for the denial and referring to the provisions of the Plan on which the denial is based. The notice shall also include a statement that the claimant will be provided, upon request and free of charge, reasonable access to, and copies of, all documents and other information relevant to the claim and a statement regarding the claimant's right to bring an action under Section 502(a) of ERISA.

(d) Availability of Injunctive Relief. Notwithstanding the other provisions of this Section 8 or any other provision of the Plan to the contrary, the Company and Executive shall have the right to seek judicial relief in the form of injunctive and/or other equitable relief under the California Arbitration Act, Code of Civil Procedure section 1281.8(b), including but not limited to relief for threatened or actual misappropriation of trade secrets, violation of this Plan, the Corporate Code of Conduct or any other agreement regarding trade secrets, confidential information, non-competition, nonsolicitation, non-disparagement or Labor Code §2870. In the event either the Company or Executive seeks injunctive relief, the prevailing party shall be entitled to recover reasonable costs and attorneys' fees.

(e) Administrative Relief. This Plan does not prohibit Executive from pursuing an administrative claim with a local, state or federal administrative body such as the Department of Fair Employment and Housing, the Equal Employment Opportunity Commission or the workers' compensation board.

9. Section 409A.

(a) Notwithstanding anything to the contrary in this Plan, no Deferred Compensation Separation Benefits (as defined below) payable under this Plan will be considered due or payable until and unless Executive has a "separation from service" within the meaning of Section 409A. Notwithstanding anything to the contrary in this Plan, if Executive is a "specified employee" within the meaning of Section 409A at the time of Executive's "separation from service" other than due to Executive's death, then any severance benefits payable pursuant to this Plan and any other severance payments or separation benefits, that in each case when considered together may be considered deferred compensation under Section 409A (together, the "Deferred Compensation Separation Benefits") and are otherwise due to Executive on or within the six (6) month period following Executive's "separation from service" will accrue during such six (6) month period and will instead become payable in a lump sum payment on the date six (6) months and one (1) day following the date of Executive's "separation from service." All subsequent Deferred Compensation Separation Benefits, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit. Each payment and benefit payable under this Plan is intended to constitute separate payments for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations.

(b) Notwithstanding anything to the contrary in this Plan, if Executive dies following Executive's "separation from service" but prior to the six (6) month anniversary of the date of Executive's "separation from service," then any Deferred Compensation Separation Benefits delayed in accordance with this Section will be payable in a lump sum as soon as administratively practicable after the date of Executive's death, but not later than ninety (90) days after the date of Executive's death, and all other Deferred Compensation Separation Benefits will be payable in accordance with the payment schedule applicable to each payment or benefit.

(c) It is the intent of this Plan to comply with the requirements of Section 409A so that none of the severance payments and benefits to be provided hereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to so comply. Notwithstanding anything to the contrary in the Plan, including but not limited to Section 1(c), the Committee reserves the right to amend the Plan as it deems necessary or advisable, in its sole discretion and without the consent of Executive, to comply with Section 409A or to otherwise avoid income recognition under Section 409A prior to the actual payment of any severance benefits or imposition of any additional tax.

10. Miscellaneous Provisions.

(a) Waiver. No provision of this Plan shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by Executive and by an authorized officer of the Company (other than Executive). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Plan by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(b) Headings. All captions and section headings used in this Plan are for convenient reference only and will not limit or otherwise affect the meaning hereof.

(c) Inconsistency with Plan. This Plan supersedes in its entirety all prior representations, understandings, undertakings or agreements (whether oral or written and whether expressed or implied) of Executive and the Company with respect to the subject matter hereof, including any prior management retention agreements entered into between Executive and the Company. In the event of any inconsistency between this Plan and any other plan, program, practice or agreement in which Executive participates or is a party, this Plan shall control unless a written agreement is executed by both Executive and an authorized officer of the Company (other than Executive) specifically stating that the terms of such agreement shall prevail over the Plan.

(d) Choice of Law. This Plan will be governed by the laws of the State of California (with the exception of its conflict of laws provisions).

(e) Severability. The invalidity or unenforceability of any provision or provisions of this Plan shall not affect the validity or enforceability of any other provision hereof, which shall remain in full force and effect.

11. Statement of ERISA Rights. Executives under the Plan have certain rights and protections under ERISA:

(a) Executive may examine (without charge) all Plan documents, including any amendments and copies of all documents filed with the U.S. Department of Labor, such as the Plan's annual report (IRS Form 5500). These documents are available for Executive's review in the Company's Human Resources Department.

(b) Executive may obtain copies of all Plan documents and other Plan information upon written request to the Plan Administrator. A reasonable charge may be made for such copies.

In addition to creating rights for Executives, ERISA imposes duties upon the people who are responsible for the operation of the Plan. The people who operate the Plan (called "fiduciaries") have a duty to do so prudently and in the interests of covered Executives. No one, including the Company or any other person, may fire Executives or otherwise discriminate against Executives in any way to prevent Executives from obtaining a benefit under the Plan or exercising Executive's rights under ERISA. If Executive's claim for a severance benefit is denied, in whole or in part, Executive must receive a written explanation of the reason for the denial. Executive has the right to have the denial of claim reviewed. (The claim review procedure is explained in Section 8 above.)

Under ERISA, there are steps Executives can take to enforce the above rights. For instance, if Executive requests materials and does not receive them within thirty (30) days, Executive may file suit in a federal court. In such a case, the court may require the Plan Administrator to provide the materials and to pay Executive up to $110 a day until receipt of the materials, unless the materials were not sent because of reasons beyond the control of the Plan Administrator. If Executive has a claim which is denied or ignored, in whole or in part, Executive may file suit in a state or federal court. If it should happen that Executive is discriminated against for asserting his or her rights, Executive may seek assistance from the U.S. Department of Labor, or may file suit in a federal court.

In any case, the court will decide who will pay court costs and legal fees. If Executive is successful, the court may order the person sued to pay these costs and fees. If Executive loses, the court may order Executive to pay these costs and fees, for example, if it finds that the claim is frivolous.

If Executive has any questions regarding the Plan, they should contact the Administrator. If Executive has any questions about this statement or about their rights under ERISA, Executive may contact the nearest area office of the Employee Benefits Security Administration (formerly the Pension and Welfare Benefits Administration), U.S. Department of Labor, listed in the telephone directory, or the Division of Technical Assistance and Inquiries, Employee Benefits Security Administration, U.S. Department of Labor, 200 Constitution Avenue, N.W. Washington, D.C. 20210. Executive may also obtain certain publications about their rights and responsibilities under ERISA by calling the publications hotline of the Employee Benefits Security Administration.

12. Additional Information.

Plan Name:	Williams-Sonoma, Inc. 2012 Management Retention
Plan Sponsor:	Williams-Sonoma, Inc. 3250 Van Ness Avenue San Francisco, California 94109
Identification Numbers:	EIN: - 94-2203880
Plan Year:	Company's Fiscal Year

Plan Administrator:	Williams-Sonoma, Inc. *Attention:* Compensation Committee of the Board c/o General Counsel Williams-Sonoma, Inc. 3250 Van Ness Avenue San Francisco, California 94109 415-421-7900
Agent for Service of Legal Process	CSC - Lawyers Incorporating Service (a.k.a., Corporation Service Company) 2710 Gateway Oaks Drive, Suite 150N Sacramento, CA 95833
Type of Plan:	Severance Plan/Employee Welfare Benefit Plan
Plan Costs:	The cost of the Plan is paid by the Employer

END OF PLAN

EXHIBIT A

WILLIAMS-SONOMA, INC.

RELEASE OF CLAIMS

This Release of Claims ("Agreement") is made by and between Williams-Sonoma, Inc. (the "Company") and____________("Executive").

WHEREAS, Executive has agreed to enter into a release of claims in favor of the Company upon certain events specified in the 2012 EVP Level Management Retention Plan (the "Management Retention Plan").

NOW THEREFORE, in consideration of the mutual promises made in this Agreement, the parties hereby agree as follows:

1. Termination. Executive's employment from the Company terminated on ____________(the "Termination Date").

2. Confidential Information. Executive shall continue to maintain the confidentiality of all confidential and proprietary information of the Company and shall continue to comply with the terms and conditions of the Company's Code of Corporate Conduct as in effect on the date of Executive's termination of employment. Executive shall return all the Company property and confidential and proprietary information in Executive's possession to the Company on the Effective Date of this Agreement. In the event Executive breaches the terms of the confidential information provisions of the Company's Corporate Code of Conduct as in effect on such date, the Company's obligations under Section 3 of the Management Retention Plan shall automatically terminate, without any notice to Executive.

3. Non-Solicitation. Executive shall continue to comply with the non-solicitation provisions of the Company's Corporate Code of Conduct as in effect on the date of Executive's termination of employment. In the event Executive breaches the terms of the non-solicitation provisions of the Company's Corporate Code of Conduct as in effect on such date, the Company's obligations under this Section 3 of the Management Retention Plan shall automatically terminate, without any notice to Executive.

4. Non-Competition. If at any time during the period commencing on Executive's employment termination date and ending twelve (12) months later, Executive accepts other employment or a professional relationship with a competitor of the Company (defined as either (i) another company primarily engaged in retail sales of products for the home or (ii) any retailer with retail products for the home sales in excess of one hundred million dollars ($100,000,000) annually), or if Executive breaches Executive's remaining obligations to the Company (e.g., the duty to protect confidential information and intellectual property and the duties not to solicit under the Company's Corporate Code of Conduct), then the Company's obligations under Section 3 of the Management Retention Plan will cease such that Executive will not be entitled

to any further payments or benefits under Section 3 of the Management Retention Plan and the Company may seek injunctive relief against Executive as specified in Section 8(d) of the Management Retention Plan.

5. Non-Disparagement. For a period of twenty-four (24) months commencing on the date upon which Executive's employment terminates, (i) Executive hereby agrees not to make any statements that disparage the Company, its products, services, officers, employees, members of its Board, advisers or other business contacts, and (ii) the Company hereby agrees that members of its Board and the Company's officers holding a title of Executive Vice President or above shall not make any statements that disparage Executive. Executive acknowledges and agrees that upon Executive breaching this non-disparagement provision on or after the date upon which Executive's employment terminates then the Company's obligations under Section 3 of the Management Retention Plan will cease such that Executive will not be entitled to any further payments or benefits under Section 3 of the Management Retention Plan and the Company may seek injunctive relief against Executive as specified in Section 8(d) of the Management Retention Plan.

6. Payment of Salary. Executive acknowledges and represents that the Company has paid all salary, wages, bonuses, accrued vacation, commissions and any and all other benefits due to Executive.

7. Release of Claims. Executive agrees that the foregoing consideration represents settlement in full of all outstanding obligations owed to Executive by the Company. Executive, on behalf of Executive, and Executive's respective heirs, family members, executors and assigns, hereby fully and forever releases the Company and its past, present and future officers, agents, directors, employees, investors, shareholders, administrators, affiliates, divisions, subsidiaries, parents, predecessor and successor corporations, and assigns, from, and agrees not to sue or otherwise institute or cause to be instituted any legal or administrative proceedings concerning any claim, duty, obligation or cause of action relating to any matters of any kind, whether presently known or unknown, suspected or unsuspected, that Executive may possess arising from any omissions, acts or facts that have occurred up until and including the Effective Date of this Agreement including, without limitation,

(a) any and all claims relating to or arising from Executive's employment relationship with the Company and the termination of that relationship;

(b) any and all claims relating to, or arising from, Executive's right to purchase, or actual purchase of shares of stock of the Company, including, without limitation, any claims for fraud, misrepresentation, breach of fiduciary duty, breach of duty under applicable state corporate law, and securities fraud under any state or federal law;

(c) any and all claims for wrongful discharge of employment; termination in violation of public policy; discrimination; breach of contract, both express and implied; breach of a covenant of good faith and fair dealing, both express and implied; promissory estoppel; negligent or intentional infliction of emotional distress; negligent or intentional misrepresentation; negligent or intentional interference with contract or prospective economic advantage; unfair business practices; defamation; libel; slander; negligence; personal injury; assault; battery; invasion of privacy; false imprisonment; and conversion;

(d) any and all claims for violation of any federal, state or municipal statute, including, but not limited to, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Age Discrimination in Employment Act of 1967, the Americans with Disabilities Act of 1990, the Fair Labor Standards Act, the Employee Retirement Income Security Act of 1974, The Worker Adjustment and Retraining Notification Act, the California Fair Employment and Housing Act, and Labor Code section 201, *et seq*. and section 970, *et seq*. and all amendments to each such Act as well as the regulations issued under each such Act;

(e) any and all claims for violation of the federal, or any state, constitution;

(f) any and all claims arising out of any other laws and regulations relating to employment or employment discrimination; and

(g) any and all claims for attorneys' fees and costs.

Executive agrees that the release set forth in this section shall be and remain in effect in all respects as a complete general release as to the matters released. This release does not extend to any severance obligations due Executive under the Management Retention Plan. Nothing in this Agreement waives Executive's rights to indemnification or any payments under any fiduciary insurance policy, if any, provided by any act or agreement of the Company, state or federal law or policy of insurance.

8. Acknowledgment of Waiver of Claims under ADEA. Executive acknowledges that Executive is waiving and releasing any rights Executive may have under the Age Discrimination in Employment Act of 1967 ("ADEA") and that this waiver and release is knowing and voluntary. Executive and the Company agree that this waiver and release does not apply to any rights or claims that may arise under the ADEA after the Effective Date of this Agreement. Executive acknowledges that the consideration given for this waiver and release Agreement is in addition to anything of value to which Executive was already entitled. Executive further acknowledges that Executive has been advised by this writing that (a) Executive should consult with an attorney prior to executing this Agreement; (b) Executive has at least twenty-one (21) days within which to consider this Agreement; (c) Executive has seven (7) days following the execution of this Agreement by the parties to revoke the Agreement; (d) this Agreement shall not be effective until the revocation period has expired; and (e) nothing in this Agreement prevents or precludes Executive from challenging or seeking a determination in good faith of the validity of this waiver under the ADEA, nor does it impose any condition precedent, penalties or costs for doing so, unless specifically authorized by federal law. Any revocation should be in writing and delivered to the Vice-President of Human Resources at the Company by close of business on the seventh day from the date that Executive signs this Agreement.

9. Civil Code Section 1542. Executive represents that Executive is not aware of any claims against the Company other than the claims that are released by this Agreement.

Executive acknowledges that Executive has been advised by legal counsel and is familiar with the provisions of California Civil Code 1542, below, which provides as follows:

> **A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.**

Executive, being aware of said code section, agrees to expressly waive any rights Executive may have under such code section, as well as under any statute or common law principles of similar effect.

10. No Pending or Future Lawsuits. Executive represents that Executive has no lawsuits, claims, or actions pending in Executive's name, or on behalf of any other person or entity, against the Company or any other person or entity referred to in this Agreement. Executive also represents that Executive does not intend to bring any claims on Executive's own behalf or on behalf of any other person or entity against the Company or any other person or entity referred to herein.

11. Application for Employment. Executive understands and agrees that, as a condition of this Agreement, Executive shall not be entitled to any employment with the Company, its subsidiaries, or any successor, and Executive hereby waives any right, or alleged right, of employment or re-employment with the Company.

12. No Cooperation. Executive agrees that Executive will not counsel or assist any attorneys or their clients in the presentation or prosecution of any disputes, differences, grievances, claims, charges, or complaints by any third party against the Company and/or any officer, director, employee, agent, representative, shareholder or attorney of the Company, unless under a subpoena or other court order to do so.

13. No Admission of Liability. Executive understands and acknowledges that this Agreement constitutes a compromise and settlement of disputed claims. No action taken by the Company, either previously or in connection with this Agreement shall be deemed or construed to be (a) an admission of the truth or falsity of any claims heretofore made or (b) an acknowledgment or admission by the Company of any fault or liability whatsoever to Executive or to any third party.

14. Costs. The parties shall each bear their own costs, expert fees, attorneys' fees and other fees incurred in connection with this Agreement.

15. Authority. Executive represents and warrants that Executive has the capacity to act on Executive's own behalf and on behalf of all who might claim through Executive to bind them to the terms and conditions of this Agreement.

16. No Representations. Executive represents that Executive has had the opportunity to consult with an attorney, and has carefully read and understands the scope and effect of the

provisions of this Agreement. Neither party has relied upon any representations or statements made by the other party which are not specifically set forth in this Agreement.

17. Severability. In the event that any provision hereof becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement shall continue in full force and effect without said provision.

18. Entire Agreement. This Agreement, along with the Management Retention Plan, the Code of Corporate Conduct and Executive's written equity compensation agreements with the Company, represents the entire agreement and understanding between the Company and Executive concerning Executive's separation from the Company.

19. No Oral Modification. This Agreement may only be amended in writing signed by Executive and the Chairman of the Board of Directors of the Company.

20. Governing Law. This Agreement shall be governed by the internal substantive laws, but not the choice of law rules, of the State of California.

21. Effective Date. This Agreement is effective eight (8) days after it has been signed by both parties.

22. Counterparts. This Agreement may be executed in counterparts, and each counterpart shall have the same force and effect as an original and shall constitute an effective, binding agreement on the part of each of the undersigned.

23. Voluntary Execution of Agreement. This Agreement is executed voluntarily and without any duress or undue influence on the part or behalf of the parties to this Agreement, with the full intent of releasing all claims. The parties acknowledge that:

(a) They have read this Agreement;

(b) They have read the Management Retention Plan;

(c) They have been represented in the preparation, negotiation, and execution of this Agreement by legal counsel of their own choice or that they have voluntarily declined to seek such counsel;

(d) They understand the terms and consequences of this Agreement and of the releases it contains;

(e) They are fully aware of the legal and binding effect of this Agreement and the Management Retention Plan.

IN WITNESS WHEREOF, the parties have executed this Agreement on the respective dates set forth below.

Williams-Sonoma, Inc.

Dated: ________, 20__ By____

_____________, an individual

Dated: ________, 20__ ____

Exhibit 21.1

SUBSIDIARIES

The following is a list of subsidiaries of Williams-Sonoma, Inc., omitting subsidiaries which, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary as of February 3, 2013:

Subsidiary Name	**Jurisdiction/Date of Incorporation**
Williams-Sonoma Stores, Inc.	California, October 11, 1984
Williams-Sonoma DTC, Inc.	California, October 26, 2000

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements No. 33-60787, No. 33-65656, No. 333-48247, No. 333-39811, No. 333-58833, No. 333-48750, No. 333-58026, No. 333-134897, No. 333-118351, No. 333-169318 and No. 333-176410 on Form S-8 of our report dated April 4, 2013, relating to the consolidated financial statements of Williams-Sonoma, Inc. and subsidiaries, and the effectiveness of Williams-Sonoma, Inc's internal control over financial reporting, appearing in this Annual Report on Form 10-K of Williams-Sonoma, Inc. for the year ended February 3, 2013.

/s/ DELOITTE & TOUCHE LLP

San Francisco, California
April 4, 2013

Exhibit 31.1

CERTIFICATION

I, Laura J. Alber, certify that:

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

Date: April 4, 2013

By: /S/ LAURA J. ALBER
Laura J. Alber
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Julie P. Whalen, certify that:

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

Date: April 4, 2013

By: /S/ JULIE P. WHALEN
Julie P. Whalen
Chief Financial Officer

Exhibit 32.1

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

In connection with the Annual Report on Form 10-K for the period ended February 3, 2013 of Williams-Sonoma, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Laura J. Alber, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

By: /S/ LAURA J. ALBER

Laura J. Alber
Chief Executive Officer

Date: April 4, 2013

Exhibit 32.2

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

In connection with the Annual Report on Form 10-K for the period ended February 3, 2013 of Williams-Sonoma, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Julie P. Whalen, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods presented in the Report.

By: /S/ JULIE P. WHALEN
Julie P. Whalen
Chief Financial Officer

Date: April 4, 2013