FORM 10-Q

WILLIAMS SONOMA INC - WSM

Filed: June 14, 2019 (period: May 05, 2019)

Quarterly report with a continuing view of a company's financial position

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended May 5, 2019.

or

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

For the transition period from _______ to _______

Commission File Number: 001-14077

WILLIAMS-SONOMA, INC.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

Emerging growth company ☐

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

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

As of June 2, 2019, 78,603,366 shares of the registrant's Common Stock were outstanding.

WILLIAMS-SONOMA, INC.
REPORT ON FORM 10-Q
FOR THE QUARTER ENDED MAY 5, 2019

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PART I. FINANCIAL INFORMATION

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ITEM 1. FINANCIAL STATEMENTS

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

In thousands, except per share amounts	Thirteen Weeks Ended May 5, 2019	Thirteen Weeks Ended April 29, 2018
Net revenues	$1,241,132	$1,203,000
Cost of goods sold	796,801	770,836
Gross profit	444,331	432,164
Selling, general and administrative expenses	370,199	365,614
Operating income	74,132	66,550
Interest (income) expense, net	2,253	1,201
Earnings before income taxes	71,879	65,349
Income taxes	19,223	20,181
Net earnings	$ 52,656	$ 45,168
Basic earnings per share	$ 0.67	$ 0.54
Diluted earnings per share	$ 0.66	$ 0.54
Shares used in calculation of earnings per share:		
Basic	78,683	83,392
Diluted	79,867	84,174

See Notes to Condensed Consolidated Financial Statements.

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

In thousands	Thirteen Weeks Ended May 5, 2019	Thirteen Weeks Ended April 29, 2018
Net earnings	$ 52,656	$ 45,168
Other comprehensive income (loss):		
Foreign currency translation adjustments	(3,009)	(1,145)
Change in fair value of derivative financial instruments, net of tax of $74 and $68	204	1,123
Reclassification adjustment for realized (gain) loss on derivative financial instruments, net of tax (tax benefit) of $24 and $(3)	(67)	49
Comprehensive income	$ 49,784	$ 45,195

See Notes to Condensed Consolidated Financial Statements.

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

In thousands, except per share amounts	May 5, 2019	February 3, 2019	April 29, 2018
ASSETS			
Current assets			
Cash and cash equivalents	$ 107,683	$ 338,954	$ 290,244
Accounts receivable, net	102,195	107,102	102,630
Merchandise inventories, net	1,155,427	1,124,992	1,052,892
Prepaid expenses	98,213	101,356	56,333
Other current assets	22,128	21,939	21,118
Total current assets	1,485,646	1,694,343	1,523,217
Property and equipment, net	916,030	929,635	926,320
Operating lease right-of-use assets	1,200,972	—	—
Deferred income taxes, net	34,215	44,055	58,842
Goodwill	85,357	85,382	18,811
Other long-term assets, net	66,145	59,429	129,715
Total assets	$3,788,365	$2,812,844	$2,656,905
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable	$ 385,646	$ 526,702	$ 393,025
Accrued expenses	109,169	163,559	99,823
Gift card and other deferred revenue	291,839	290,445	256,534
Income taxes payable	24,384	21,461	72,036
Operating lease liabilities	227,427	—	—
Other current liabilities	75,750	72,645	61,403
Total current liabilities	1,114,215	1,074,812	882,821
Deferred rent and lease incentives	30,536	201,374	204,599
Long-term debt	299,670	299,620	299,472
Long-term operating lease liabilities	1,139,625	—	—
Other long-term liabilities	82,551	81,324	72,779
Total liabilities	2,666,597	1,657,130	1,459,671
Commitments and contingencies – See Note F			
Stockholders' equity			
Preferred stock: $.01 par value; 7,500 shares authorized; none issued	—	—	—
Common stock: $.01 par value; 253,125 shares authorized; 78,808, 78,813 and 83,222 shares issued and outstanding at May 5, 2019, February 3, 2019 and April 29, 2018, respectively	788	789	833
Additional paid-in capital	571,772	581,900	564,685
Retained earnings	564,127	584,333	638,774
Accumulated other comprehensive loss	(13,945)	(11,073)	(6,755)
Treasury stock, at cost: 14, 2 and 3 shares as of May 5, 2019, February 3, 2019 and April 29, 2018, respectively	(974)	(235)	(303)
Total stockholders' equity	1,121,768	1,155,714	1,197,234
Total liabilities and stockholders' equity	$3,788,365	$2,812,844	$2,656,905

See Notes to Condensed Consolidated Financial Statements.

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

In thousands	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance at February 3, 2019	78,813	$ 789	$ 581,900	$584,333	$ (11,073)	$ (235)	$ 1,155,714
Net earnings	—	—	—	52,656	—	—	52,656
Foreign currency translation adjustments	—	—	—	—	(3,009)	—	(3,009)
Change in fair value of derivative financial instruments, net of tax	—	—	—	—	204	—	204
Reclassification adjustment for realized (gain) loss on derivative financial instruments, net of tax	—	—	—	—	(67)	—	(67)
Conversion/release of stock-based awards[1]	571	5	(25,298)	—	—	(113)	(25,406)
Repurchases of common stock	(576)	(6)	(2,874)	(30,010)	—	(958)	(33,848)
Reissuance of treasury stock under stock-based compensation plans[1]	—	—	(332)	—	—	332	—
Stock-based compensation expense	—	—	18,376	—	—	—	18,376
Dividends declared	—	—	—	(39,549)	—	—	(39,549)
Adoption of accounting pronouncements[2]	—	—	—	(3,303)	—	—	(3,303)
Balance at May 5, 2019	78,808	$ 788	$ 571,772	$564,127	$ (13,945)	$ (974)	$ 1,121,768

In thousands	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance at January 28, 2018	83,726	$ 837	$ 562,814	$647,422	$ (6,782)	$ (725)	$ 1,203,566
Net earnings	—	—	—	45,168	—	—	45,168
Foreign currency translation adjustments	—	—	—	—	(1,145)	—	(1,145)
Change in fair value of derivative financial instruments, net of tax	—	—	—	—	1,123	—	1,123
Reclassification adjustment for realized (gain) loss on derivative financial instruments, net of tax	—	—	—	—	49	—	49
Conversion/release of stock-based awards[1]	228	3	(7,213)	—	—	(226)	(7,436)
Repurchases of common stock	(732)	(7)	(3,437)	(34,269)	—	—	(37,713)
Reissuance of treasury stock under stock-based compensation plans[1]	—	—	(290)	(358)	—	648	—
Stock-based compensation expense	—	—	12,811	—	—	—	12,811
Dividends declared	—	—	—	(36,877)	—	—	(36,877)
Adoption of accounting pronouncements[3]	—	—	—	17,688	—	—	17,688
Balance at April 29, 2018	83,222	$ 833	$ 564,685	$638,774	$ (6,755)	$ (303)	$ 1,197,234

1 Amounts are shown net of shares withheld for employee taxes.
2 Relates to our adoption of ASU 2016-02, Leases, in fiscal 2019. See Note A.
3 Primarily relates to our adoption of ASU 2014-09, Revenue from Contracts with Customers, in fiscal 2018.

See Notes to Condensed Consolidated Financial Statements.

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

In thousands	Thirteen Weeks Ended May 5, 2019	Thirteen Weeks Ended April 29, 2018
Cash flows from operating activities:		
Net earnings	$ 52,656	$ 45,168
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	46,838	47,873
(Gain) loss on disposal/impairment of assets	(323)	414
Amortization of deferred lease incentives	(2,306)	(6,724)
Non-cash lease expense	51,596	—
Deferred income taxes	(4,126)	(3,241)
Tax benefit related to stock-based awards	14,898	6,126
Stock-based compensation expense	18,529	12,889
Other	69	64
Changes in:		
Accounts receivable	4,684	(9,556)
Merchandise inventories	(31,460)	2,388
Prepaid expenses and other assets	(4,914)	(4,399)
Accounts payable	(144,399)	(76,823)
Accrued expenses and other liabilities	(49,196)	(32,047)
Gift card and other deferred revenue	1,558	4,815
Deferred rent and lease incentives	—	10,004
Operating lease liabilities	(55,099)	—
Income taxes payable	2,915	13,818
Net cash (used in) provided by operating activities	(98,080)	10,769
Cash flows from investing activities:		
Purchases of property and equipment	(36,148)	(34,029)
Other	107	120
Net cash used in investing activities	(36,041)	(33,909)
Cash flows from financing activities:		
Repurchases of common stock	(33,848)	(37,713)
Payment of dividends	(36,868)	(34,081)
Tax withholdings related to stock-based awards	(25,406)	(7,438)
Net cash used in financing activities	(96,122)	(79,232)
Effect of exchange rates on cash and cash equivalents	(1,028)	2,480
Net decrease in cash and cash equivalents	(231,271)	(99,892)
Cash and cash equivalents at beginning of period	338,954	390,136
Cash and cash equivalents at end of period	$ 107,683	$290,244

See Notes to Condensed Consolidated Financial Statements.

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

NOTE A. FINANCIAL STATEMENTS - BASIS OF PRESENTATION

These financial statements include Williams-Sonoma, Inc. and its wholly owned subsidiaries ("we," "us" or "our"). The Condensed Consolidated Balance Sheets as of May 5, 2019 and April 29, 2018, the Condensed Consolidated Statements of Earnings, the Condensed Consolidated Statements of Comprehensive Income, the Condensed Consolidated Statements of Stockholders' Equity and the Condensed Consolidated Statements of Cash Flows for the thirteen weeks then ended, have been prepared by us, without audit. In our opinion, the financial statements include all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position at the balance sheet dates and the results of operations for the thirteen weeks then ended. Intercompany transactions and accounts have been eliminated. The balance sheet as of February 3, 2019, presented herein, has been derived from our audited Consolidated Balance Sheet included in our Annual Report on Form 10-K for the fiscal year ended February 3, 2019.

The results of operations for the thirteen weeks ended May 5, 2019 are not necessarily indicative of the operating results of the full year.

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

Reclassifications
Certain amounts reported in our Condensed Consolidated Balance Sheet as of April 29, 2018 have been reclassified in order to conform to the current period presentation. These reclassifications impacted goodwill and other long-term assets. There was no change to total current assets as a result of these reclassifications.

New Accounting Pronouncements
In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, Leases, which requires lessees to recognize a right-of-use asset and an operating lease liability for virtually all leases. This ASU, as amended, was effective for us beginning in the first quarter of fiscal 2019. The adoption of the ASU resulted in an increase in total long-term assets and total liabilities of approximately $1.2 billion, which includes an increase in liabilities for lease obligations of approximately $1.4 billion, a decrease in deferred rent and deferred lease incentives of approximately $0.2 billion, and an increase in right-of-use assets of approximately $1.2 billion. We also recorded an approximate $3.3 million, net of tax, reduction to the opening balance of retained earnings resulting from impairment of certain long-lived assets upon adoption of the ASU. We have elected to apply the provisions of this ASU at the adoption date, instead of to the earliest comparative period presented in the financial statements. We have elected the package of practical expedients upon adoption, which permits us not to reassess whether existing contracts are or contain leases, the lease classification of existing leases, or initial direct costs for existing leases. We have also elected not to separate lease and non-lease components for all of our leases and not to recognize a right-of-use asset and a lease liability for short-term leases. The adoption of the ASU did not materially impact our Condensed Consolidated Statement of Earnings.

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

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

NOTE B. BORROWING ARRANGEMENTS

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

During the first quarter of fiscal 2019 and fiscal 2018, we had no borrowings under the revolver. Additionally, as of May 5, 2019, $11,716,000 in issued but undrawn standby letters of credit was outstanding under the credit facility. The standby letters of credit were issued to secure the liabilities associated with workers’ compensation and other insurance programs.

As of May 5, 2019, we had $300,000,000 outstanding under our term loan (at a weighted average interest rate of 3.61%). The term loan matures on January 8, 2021, at which time all outstanding principal and any accrued interest must be repaid.

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

As of May 5, 2019, we were in compliance with our financial covenants under the credit facility and, based on current projections, we expect to remain in compliance throughout the next 12 months.

Letter of Credit Facilities
We have three unsecured letter of credit reimbursement facilities for a total of $70,000,000, each of which matures on August 24, 2019. The letter of credit facilities contains covenants that are consistent with our credit facility. Interest on unreimbursed amounts under the letter of credit facilities accrues at a base rate as defined in the credit facility plus an applicable margin based on our leverage ratio. As of May 5, 2019, an aggregate of $6,168,000 was outstanding under the letter of credit facilities, which represents only a future commitment to fund inventory purchases to which we had not taken legal title. The latest expiration possible for any future letters of credit issued under the facilities is January 21, 2020.

NOTE C. STOCK-BASED COMPENSATION

Equity Award Programs
Our Amended and Restated 2001 Long-Term Incentive Plan (the “Plan”) provides for grants of incentive stock options, nonqualified stock options, stock-settled stock appreciation rights (collectively, “option awards”), restricted stock awards, restricted stock units (including those that are performance-based), deferred stock awards (collectively, “stock awards”) and dividend equivalents up to an aggregate of 36,570,000 shares. As of May 5, 2019, there were approximately 4,927,000 shares available for future grant. Awards may be granted under the Plan to our officers, employees and non-employee members of the board of directors of the company (the “Board”) or any parent or subsidiary. Shares issued as a result of award exercises or releases are primarily funded with the issuance of new shares.

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

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

Stock-Based Compensation Expense
During the thirteen weeks ended May 5, 2019 and April 29, 2018, we recognized total stock-based compensation expense, as a component of selling, general and administrative expenses, of $18,529,000 and $12,889,000, respectively.

Restricted Stock Units
The following table summarizes our restricted stock unit activity during the thirteen weeks ended May 5, 2019:

	Shares
Balance at February 3, 2019	3,012,923
Granted	953,459
Granted, with vesting subject to performance conditions	235,156
Released	(1,020,670)
Cancelled	(73,482)
Balance at May 5, 2019	3,107,386
Vested plus expected to vest at May 5, 2019	2,506,509

NOTE D. EARNINGS PER SHARE

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

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

In thousands, except per share amounts	Net Earnings	Weighted Average Shares	Earnings Per Share
Thirteen weeks ended May 5, 2019			
Basic	$ 52,656	78,683	$ 0.67
Effect of dilutive stock-based awards		1,184	
Diluted	$ 52,656	79,867	$ 0.66
Thirteen weeks ended April 29, 2018			
Basic	$ 45,168	83,392	$ 0.54
Effect of dilutive stock-based awards		782	
Diluted	$ 45,168	84,174	$ 0.54

Stock-based awards of 11,400 and 29,997 were excluded from the computation of diluted earnings per share for the thirteen weeks ended May 5, 2019 and April 29, 2018, respectively, as their inclusion would be anti-dilutive.

NOTE E. SEGMENT REPORTING

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

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

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

The following table summarizes our net revenues by brand for the thirteen weeks ended May 5, 2019 and April 29, 2018. We have updated fiscal 2018 results to conform with the current year presentation.

	Thirteen Weeks Ended	
In thousands	May 5, 2019	April 29, 2018
Pottery Barn	$ 492,126	$ 490,372
West Elm	309,483	273,349
Williams Sonoma	194,894	200,977
Pottery Barn Kids and Teen	177,046	180,396
Other[1]	67,583	57,906
Total[2]	$ 1,241,132	$ 1,203,000

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

[2] *Includes net revenues related to our international operations (including our operations in Canada, Australia, the United Kingdom and our franchise businesses) of approximately $86.6 million and $79.4 million for the thirteen weeks ended May 5, 2019 and April 29, 2018.*

Long-lived assets by geographic location are as follows:

In thousands	May 5, 2019	April 29, 2018
U.S.	$ 2,136,000	$ 1,074,177
International	166,719	59,511
Total	$ 2,302,719	$ 1,133,688

NOTE F. COMMITMENTS AND CONTINGENCIES

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

NOTE G. STOCK REPURCHASE PROGRAM AND DIVIDENDS

Stock Repurchase Program

During the thirteen weeks ended May 5, 2019, we repurchased 593,096 shares of our common stock at an average cost of $57.07 per share for a total cost of approximately $33,848,000. In March 2019, our Board of Directors authorized an increase in our current stock repurchase program by an additional $500,000,000. As of May 5, 2019, there was $689,967,000 remaining under our current stock repurchase program. As of May 5, 2019, we held treasury stock of $974,000 that represents the cost of shares available for issuance that is intended to satisfy future stock-based award settlements in certain foreign jurisdictions.

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During the thirteen weeks ended April 29, 2018, we repurchased 731,930 shares of our common stock at an average cost of $51.53 per share for a total cost of approximately $37,713,000. As of April 29, 2018, there was $481,406,000 remaining under our current stock repurchase program. In addition, as of April 29, 2018, we held treasury stock of $303,000 that represents the cost of shares available for issuance that is intended to satisfy future stock-based award settlements in certain foreign jurisdictions.

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

Dividends
We declared cash dividends of $0.48 and $0.43 per common share during the thirteen weeks ended May 5, 2019 and April 29, 2018, respectively. In March 2019, our Board of Directors authorized a $0.05, or 11.6%, increase in our quarterly cash dividend, from $0.43 to $0.48 per common share, subject to capital availability. Our quarterly cash dividend may be limited or terminated at any time.

NOTE H. DERIVATIVE FINANCIAL INSTRUMENTS

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

Cash Flow Hedges
We enter into foreign currency forward contracts designated as cash flow hedges (to sell Canadian dollars and purchase U.S. dollars) for forecasted inventory purchases in U.S. dollars by our Canadian subsidiary. These hedges have terms of up to 18 months. All hedging relationships are formally documented, and the forward contracts are designed to mitigate foreign currency exchange risk on hedged transactions. We record the effective portion of changes in the fair value of our cash flow hedges in other comprehensive income (“OCI”) until the earlier of when the hedged forecasted inventory purchase occurs or the respective contract reaches maturity. Subsequently, as the inventory is sold to the customer, we reclassify amounts previously recorded in OCI to cost of goods sold. Changes in the fair value of the forward contract related to interest charges (or forward points) are excluded from the assessment and measurement of hedge effectiveness and are recorded in cost of goods sold. Based on the rates in effect as of May 5, 2019, we expect to reclassify a net pre-tax gain of approximately $439,000 from OCI to cost of goods sold over the next 12 months.

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

As of May 5, 2019 and April 29, 2018, we had foreign currency forward contracts outstanding (in U.S. dollars) with notional values as follows:

In thousands	May 5, 2019	April 29, 2018
Contracts designated as cash flow hedges	$ 10,800	$ 28,500
Contracts not designated as cash flow hedges	$ —	$ 52,276

Hedge effectiveness is evaluated prospectively at inception, on an ongoing basis, as well as retrospectively using regression analysis. Any measurable ineffectiveness of the hedge is recorded in selling, general and administrative expenses. No gain or loss was recognized for cash flow hedges due to hedge ineffectiveness and all hedges were deemed effective for assessment purposes for the thirteen weeks ended May 5, 2019 and April 29, 2018.

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The effect of derivative instruments in our Condensed Consolidated Financial Statements during the thirteen weeks ended May 5, 2019 and April 29, 2018, pre-tax, was as follows:

In thousands	May 5, 2019	April 29, 2018
Net gain (loss) recognized in OCI	$ 278	$ 1,191

	May 5, 2019		April 29, 2018	
In thousands	Cost of goods sold	Selling, general and administrative expenses	Cost of goods sold	Selling, general and administrative expenses
Line items presented in the Condensed Consolidated Statement of Earnings in which the effects of derivatives are recorded	$ 796,801	$ 370,199	$ 770,836	$ 365,614
Gain (loss) recognized in income				
Derivatives designated as cash flow hedges	$ 108	$ —	$ (52)	$ (17)
Derivatives not designated as hedging instruments	$ —	$ (6)	$ —	$ 2,760

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

In thousands	May 5, 2019	April 29, 2018
Derivatives designated as cash flow hedges:		
Other current assets	$ 475	$ 460
Other long-term assets	$ —	$ 79
Other current liabilities	$ —	$ (51)
Derivatives not designated as hedging instruments:		
Other current assets	$ —	$ 36

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

NOTE I. FAIR VALUE MEASUREMENTS

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

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

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

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

Long-term Debt
As of May 5, 2019, the fair value of our long-term debt approximates its carrying value and is based on observable Level 2 inputs, primarily market interest rates for instruments with similar maturities.

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

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

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

There were no transfers between Level 1, 2 or 3 categories during the thirteen weeks ended May 5, 2019 or April 29, 2018.

NOTE J. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

In thousands	Foreign Currency Translation	Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)
Balance at February 3, 2019	$ (11,259)	$ 186	$ (11,073)
Foreign currency translation adjustments	(3,009)	—	(3,009)
Change in fair value of derivative financial instruments	—	204	204
Reclassification adjustment for realized (gain) loss on derivative financial instruments [1]	—	(67)	(67)
Other comprehensive income (loss)	(3,009)	137	(2,872)
Balance at May 5, 2019	$ (14,268)	$ 323	$ (13,945)
Balance at January 28, 2018	$ (6,227)	$ (555)	$ (6,782)
Foreign currency translation adjustments	(1,145)	—	(1,145)
Change in fair value of derivative financial instruments	—	1,123	1,123
Reclassification adjustment for realized (gain) loss on derivative financial instruments [1]	—	49	49
Other comprehensive income (loss)	(1,145)	1,172	27
Balance at April 29, 2018	$ (7,372)	$ 617	$ (6,755)

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

NOTE K. ACQUISITION OF OUTWARD, INC.

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

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

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

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

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

NOTE L. REVENUE

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

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

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

Merchandise Sales

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

Revenue from the sale of merchandise is reported net of sales returns. We estimate future returns based on historical return trends together with current product sales performance. As of May 5, 2019, we recorded a liability for expected sales returns of approximately $30,154,000 within other current liabilities and a corresponding asset for the expected net realizable value of the merchandise inventory to be returned of approximately $11,204,000 within other current assets in our Condensed Consolidated Balance Sheet.

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

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

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

Deferred Revenue
We defer revenue when cash payments are received in advance of satisfying performance obligations, primarily associated with our stored-value cards, merchandise sales, and incentives received from credit card issuers. As of May 5, 2019, we held $298,557,000 in gift card and other deferred revenue on our Condensed Consolidated Balance Sheet, substantially all of which will be recognized into revenue within the next 12 months.

NOTE M. LEASES

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

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

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

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

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

The components of leases costs for the thirteen weeks ended May 5, 2019 are as follows:

In thousands	
Operating lease costs	$64,968
Variable lease costs	4,634
Total lease costs	$69,602

Sublease income and short-term lease costs were not material to us for the thirteen weeks ended May 5, 2019.

Supplemental cash flow information related to our leases for the thirteen weeks ended May 5, 2019 are as follows:

In thousands	
Cash paid for amounts included in the measurement of operating lease liabilities	$69,814
Net additions to right-of-use assets	$18,522

Weighted average remaining operating lease term and incremental borrowing rate as of May 5, 2019 are as follows:

Weighted average remaining lease term (years)	7.71
Weighted average incremental borrowing rate	3.88%

As of May 5, 2019, the future minimum lease payments under our operating lease liabilities are as follows:

In thousands	
Remaining fiscal 2019	$ 212,392
Fiscal 2020	254,252
Fiscal 2021	221,022
Fiscal 2022	188,561
Fiscal 2023	158,676
Fiscal 2024	136,186
Fiscal 2025 and thereafter	426,080
Total lease payments	1,597,169
Less interest	(230,117)
Total operating lease liability	1,367,052
Less current operating lease liability	(227,427)
Total non-current operating lease liability	$1,139,625

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

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

Memphis-Based Distribution Facility

In fiscal 2015, we entered into an agreement with a partnership comprised of the estate of W. Howard Lester, our former Chairman of the Board and Chief Executive Officer, and the estate of James A. McMahan, a former Director Emeritus and significant stockholder and two unrelated parties to lease a distribution facility in Memphis, Tennessee through July 2017. In fiscal 2017, we exercised the first of two one-year extensions available under the lease to extend the term through July 2018. Subsequently, in fiscal 2017, we amended the lease to further extend the term through July 2020. The amended lease provides for two additional one-year renewal options. Rental payments under this agreement including applicable taxes, insurance and maintenance expenses were not material to us for the thirteen weeks ended May 5, 2019 or April 29, 2018.

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

FORWARD-LOOKING STATEMENTS

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

OVERVIEW

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

The following discussion and analysis of financial condition, results of operations, and liquidity and capital resources for the thirteen weeks ended May 5, 2019 ("first quarter of fiscal 2019"), as compared to the thirteen weeks ended April 29, 2018 ("first quarter of fiscal 2018"), should be read in conjunction with our Condensed Consolidated Financial Statements and the notes thereto. All explanations of changes in operational results are discussed in order of magnitude.

First Quarter of Fiscal 2019 Financial Results
Net revenues in the first quarter of fiscal 2019 increased by $38,132,000, or 3.2%, compared to the first quarter of fiscal 2018, with comparable brand revenue growth of 3.5%. This growth was primarily driven by West Elm, Pottery Barn and our emerging brands. Net revenue growth included a 9.0% increase in international revenues primarily related to our franchise operations.

In West Elm, our fastest growing brand, we had comparable revenue growth of 11.8% driven by strong e-commerce and broad-based strength across product categories. Pottery Barn, with a comparable revenue growth of 1.5% had strength in furniture and had momentum heading into summer in our outdoor business. Pottery Barn Kids and Teen had another quarter of growth, with particular strength in the baby business. Our emerging brands, Rejuvenation and Mark & Graham continued to expand their product offer and the new stores in Rejuvenation are performing well. Williams Sonoma, with a comparable revenue decline of 1.6% had a disappointing first quarter driven by Easter, which did not perform to our expectations, and continued reductions in promotional activity.

In the first quarter of fiscal 2019, diluted earnings per share was $0.66 (which included a $0.09 impact from employment-related expenses, primarily associated with severance, and a $0.06 impact related to Outward, Inc.) versus $0.54 in the first quarter of fiscal 2018 (which included a $0.06 impact related to Outward, Inc., a $0.04 impact associated with tax expense from U.S. Tax Reform and a $0.03 impact related to other discrete items). We also returned $70,716,000 to our stockholders through stock repurchases and dividends.

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

Our cross-brand initiatives continue to build as an important source of revenue growth and customer acquisition. The Key Rewards is one of our most valuable assets with total membership having grown significantly since the launch of this loyalty program two years ago. Our Design Crew Room Planner also continues to gain traction, where total rooms created increased over the first quarter, as we doubled our product coverage and enhanced the user experience with more accurate and intuitive design features. And in our newest division, Williams-Sonoma Inc. Business-to-Business, we are thrilled with the progress that our team has already made, including putting in place the organizational infrastructure to support our growth, building a cross-brand, cross-functional support team, and establishing standardized processes to facilitate large-scale contract projects.

Another key highlight during the first quarter was the ongoing improvement in customer experience. In technology innovation, we completed the launch of our machine-learning search engine across all brands and improved our mobile site speed to deliver a faster and more compelling mobile experience. In our supply chain, order visibility and operational improvements remain two of our top priorities and, during the first quarter, we successfully completed the migration of our order management and fulfillment capabilities to a new platform, for all brands. We also fully redesigned our order tracking capability to give customers and our internal teams a more accurate and granular view of their orders.

For the remainder of fiscal 2019 we plan to drive cross-brand initiatives that leverage our platform, and we plan to bring technology innovation and continued improvement in customer experience. We have a strong foundation to support the execution of our initiatives throughout the remainder of fiscal 2019 and beyond, as well as to deliver long-term shareholder value.

NET REVENUES

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

Net revenues in the first quarter of fiscal 2019 increased by $38,132,000, or 3.2%, compared to the first quarter of fiscal 2018, with comparable brand revenue growth of 3.5%. This growth was primarily driven by West Elm, Pottery Barn and our emerging brands. Net revenue growth included a 9.0% increase in international revenues primarily related to our franchise operations.

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

	Thirteen Weeks Ended	
Comparable brand revenue growth (decline)	May 5, 2019	April 29, 2018
Pottery Barn	1.5%	2.7%
West Elm	11.8%	9.0%
Williams Sonoma	(1.6%)	5.6%
Pottery Barn Kids and Teen	1.2%	5.3%
Total[1]	3.5%	5.5%

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

STORE DATA

	Store Count					Average Leased Square Footage Per Store	
	February 3, 2019	Openings	Closings	May 5, 2019	April 29, 2018	May 5, 2019	April 29, 2018
Williams Sonoma	220	2	(3)	219	224	6,800	6,800
Pottery Barn	205	—	—	205	203	14,100	13,900
West Elm	112	1	—	113	108	13,100	13,000
Pottery Barn Kids	78	—	—	78	84	7,500	7,400
Rejuvenation	10	—	—	10	8	8,500	8,800
Total	625	3	(3)	625	627	10,500	10,300
Store selling square footage at period-end						4,094,000	4,015,000
Store leased square footage at period-end						6,549,000	6,441,000

COST OF GOODS SOLD

	Thirteen Weeks Ended			
In thousands	May 5, 2019	% Net Revenues	April 29, 2018	% Net Revenues
Cost of goods sold[1]	$796,801	64.2%	$770,836	64.1%

1 Includes total occupancy expenses of $173,853 and $173,485 for the first quarter of fiscal 2019 and the first quarter of fiscal 2018, respectively.

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

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

First Quarter of Fiscal 2019 vs. First Quarter of Fiscal 2018
Cost of goods sold increased by $25,965,000, or 3.4%, in the first quarter of fiscal 2019 compared to the first quarter of fiscal 2018. Cost of goods sold as a percentage of net revenues increased to 64.2% in the first quarter of fiscal 2019 from 64.1% in the first quarter of fiscal 2018. This increase was primarily driven by increased shipping costs, partially offset by the leverage of occupancy costs and higher product margins**.**

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Thirteen Weeks Ended			
In thousands	May 5, 2019	% Net Revenues	April 29, 2018	% Net Revenues
Selling, general and administrative expenses	$370,199	29.8%	$365,614	30.4%

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

First Quarter of Fiscal 2019 vs. First Quarter of Fiscal 2018
Selling, general and administrative expenses increased by $4,585,000, or 1.3%, in the first quarter of fiscal 2019 compared to the first quarter of fiscal 2018. Selling, general and administrative expenses as a percentage of net revenues decreased to 29.8% in the first quarter of fiscal 2019 from 30.4% in the first quarter of fiscal 2018. This decrease as a percentage of net revenues was driven by the leverage of advertising and employment costs, partially offset by an increase in severance-related expenses.

INCOME TAXES

The effective tax rate was 26.7% for the first quarter of fiscal 2019, and 30.9% for the first quarter of fiscal 2018. Staff Accounting Bulletin No. 118 (“SAB 118”) issued by the SEC in December 2017 provided us with up to one year to finalize our measurement of the income tax effects of the 2017 Tax Cuts and Jobs Act (“the Tax Act”) on our fiscal year ended January 28, 2018. The decrease in the effective tax rate for the first quarter of fiscal 2019 compared to the first quarter of fiscal 2018 was primarily due to a SAB 118 adjustment of approximately $2,871,000 to increase the transition tax under the Tax Act in the first quarter of fiscal 2018.

LIQUIDITY AND CAPITAL RESOURCES

As of May 5, 2019, we held $107,683,000 in cash and cash equivalents, the majority of which was held in interest bearing demand deposit accounts and money market funds, and of which $70,075,000 was held by our international subsidiaries. As is consistent within our industry, our cash balances are seasonal in nature, with the fourth quarter historically representing a significantly higher level of cash than other periods.

In fiscal 2019, we plan to use our cash resources to fund our inventory and inventory related purchases, advertising and marketing initiatives, property and equipment purchases, stock repurchases and dividend payments. In addition to our cash balances on hand, we have a $500,000,000 unsecured revolving line of credit (“revolver”) and a $300,000,000 unsecured term loan facility (“term loan”). The revolver may be used to borrow revolving loans or request the issuance of letters of credit. We may, upon notice to the administrative agent, request existing or new lenders to increase the revolver by up to $250,000,000, at such lenders’ option, to provide for a total of $750,000,000 of unsecured revolving credit. We had no borrowings under the revolver during the first quarter of fiscal 2019 or the first quarter of fiscal 2018. As of May 5, 2019, we had $300,000,000 outstanding under our term loan. The term loan matures on January 8, 2021, at which point all outstanding principal and any accrued interest must be repaid. Additionally, as of May 5, 2019, a total of $11,716,000 in issued but undrawn standby letters of credit was outstanding under the credit facility. The standby letters of credit were issued to secure the liabilities associated with workers’ compensation and other insurance programs.

As of May 5, 2019, we had three unsecured letter of credit reimbursement facilities for a total of $70,000,000, of which $6,168,000 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 under the credit facility and, based on our current projections, we expect to remain in compliance throughout the next 12 months. We believe our cash on hand, in addition to our available credit facilities, will provide adequate liquidity for our business operations over the next 12 months.

Cash Flows from Operating Activities
For the first quarter of fiscal 2019, net cash used in operating activities was $98,080,000 compared to net cash provided by operating activities of $10,769,000 for the first quarter of fiscal 2018. For the first quarter of fiscal 2019, net cash used in operating activities was primarily attributable to a decrease in accounts payable, and accrued expenses and other liabilities and an increase in our merchandise inventories partially offset by net earnings adjusted for non-cash items. Net cash used in operating activities in the first quarter of fiscal 2019 compared to net cash provided by operating activities in the first quarter of fiscal 2018 was primarily due to a year-over-year reduction in accounts payable and an increase in merchandise inventories.

Cash Flows from Investing Activities
For the first quarter of fiscal 2019, net cash used in investing activities was $36,041,000 compared to $33,909,000 for the first quarter of fiscal 2018, and was primarily attributable to purchases of property and equipment.

Cash Flows from Financing Activities
For the first quarter of fiscal 2019, net cash used in financing activities was $96,122,000 compared to $79,232,000 for the first quarter of fiscal 2018. For the first quarter of fiscal 2019, net cash used in financing activities was primarily attributable to the payment of dividends, repurchases of common stock and tax withholdings related to stock-based awards. The increase in cash used in financing activities in the first quarter of fiscal 2019 compared to the first quarter of fiscal 2018 was primarily attributable to an increase in tax withholdings related to increased vesting of stock-based awards.

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

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk
Our revolver and our term loan each have a variable interest rate which, when drawn upon, subjects us to risks associated with changes in that interest rate. During the first quarter of fiscal 2019, we had no borrowings under our revolver. A hypothetical increase or decrease of one percentage point on our existing variable rate debt instruments would not materially affect our results of operations or cash flows.

In addition, we have fixed and variable income investments consisting of short-term investments classified as cash and cash equivalents, which are also affected by changes in market interest rates. As of May 5, 2019, our investments, made primarily in interest bearing demand deposit accounts and money market funds, are stated at cost and approximate their fair values.

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

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures
As of May 5, 2019, an evaluation was performed by management, with the participation of our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"), of the effectiveness of our disclosure controls and procedures. Based on that evaluation, our management, including our CEO and CFO, concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow for timely discussions regarding required disclosures, and that such information is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

Changes in Internal Control Over Financial Reporting
During the first quarter of fiscal 2019, we implemented controls related to the adoption of ASC 842 and the related financial statement reporting. There were no other changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

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

In March 2019, our Board of Directors authorized an increase in the amount available for repurchase under our existing stock repurchase plan by an additional $500,000,000. The following table provides information as of May 5, 2019 with respect to shares of common stock we repurchased during the first quarter of fiscal 2019. For additional information, please see Note G to our Condensed Consolidated Financial Statements within Part I of this Form 10-Q.

Fiscal period	Total Number of Shares Purchased[1]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program[1]	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Program
February 4, 2019 – March 3, 2019	156,930	$ 55.86	156,930	$ 215,050,000
March 4, 2019 – March 31, 2019	179,349	$ 57.44	179,349	$ 704,749,000
April 1, 2019 – May 5, 2019	256,817	$ 57.56	256,817	$ 689,967,000
Total	593,096	$ 57.07	593,096	$ 689,967,000

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

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

(a) Exhibits

Exhibit Number	Exhibit Description
10.1+*	Form of Williams-Sonoma, Inc. 2001 Long-Term Incentive Plan Restricted Stock Unit Award Agreement for Grants to Non-Employee Directors
31.1*	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
31.2*	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
32.1*	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.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

+ Indicates a management contract or compensatory plan or arrangement.

* Filed herewith.

SIGNATURE

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

WILLIAMS-SONOMA, INC.

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

Date: June 14, 2019

Exhibit 10.1

WILLIAMS–SONOMA, INC. 2001 LONG-TERM INCENTIVE PLAN
RESTRICTED STOCK UNIT AWARD AGREEMENT
FOR GRANTS TO NON-EMPLOYEE DIRECTORS ("AGREEMENT")

Name:	**Number of RSUs:**
Grant Date:	**Grant Date FMV:**

1. **Award**. Williams-Sonoma, Inc. (the "Company"), has awarded you the number of Restricted Stock Units indicated above ("Award"). Each Restricted Stock Unit entitles you to receive one share of Common Stock of the Company upon the terms and subject to the conditions set forth in the Company's 2001 Long-Term Incentive Plan (the "Plan") and this Award. Prior to the distribution of any shares, this Award represents an unsecured obligation, payable only from the general assets of the Company.

Except as specified herein, shares of Common Stock will be issued to you or, in case of your death, your beneficiary designated in accordance with the procedures specified by the Administrator on or shortly following the vesting date. If at the time of your death, there is not an effective beneficiary designation on file or you are not survived by your designated beneficiary, the shares will be issued to the legal representative of your estate or other beneficiary as determined under applicable law.

2. **Vesting.** The Restricted Stock Units will vest **[INSERT VESTING LANGUAGE].**

3. **Termination**.

(a) **General Rule**. If you cease to provide service as a Non-employee Director or employee of the Company or a Subsidiary prior to the Vesting Date other than due to a termination described in 3(b) below, all then unvested Restricted Stock Units (including dividend equivalents thereon) awarded hereby shall immediately terminate without notice to you and shall be forfeited.

(b) **Death or Disability**. If you cease to provide service as a Non-employee Director or employee of the Company or a Subsidiary due to your death or Disability, then 100% of the then unvested Restricted Stock Units awarded hereby will vest and shares of Common Stock will be delivered to you, your estate, or your personal representative (as appropriate) on the first business day of the month following the date upon which your service terminates. "Disability" is defined as any one or more of the following: (i) your being unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to last for a continuous period of not less than twelve (12) months; (ii) you are, 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 the Company's accident and health plan covering the Company's employees; or (iii) if you are a U.S. employee, you have been determined to be totally disabled by the Social Security Administration.

(c) **Death and Disability following Share Deferral**. If (i) you have elected to defer receipt of your shares such that this Award is subject to Code Section 409A, and (ii) you cease to provide service as a Non-employee Director or employee of the Company or a Subsidiary due to your death or Disability, then 100% of the then unvested Restricted Stock Units awarded hereby will vest and be settled as of the first business day of the month following the date upon which you incur a separation from service; provided however in the unlikely event that you are a "specified employee" within the meaning of Code Section 409A at the time of your termination of service due to your permanent disability, delivery of the related shares of Common Stock shall be delayed to the date that is six (6) months and one (1) day following such separation. ***Please note this proviso is applicable only to U.S. taxpayers.***

4. **Certain Corporate Events**.

(a) **General Rule for Transaction**. In the event of a Transaction, other than a dissolution, liquidation, or corporate reorganization of the Company, if you have not elected to defer receipt of your shares, then 100% of the then unvested Restricted Stock Units awarded hereby will vest and the related shares of Common Stock (or the per share consideration received by a majority of the holders of such Common Stock in such Transaction) will be delivered to you on the date upon which such Transaction is consummated.

(b) **Transaction Following Share Deferral**. In the event of a Transaction, other than a dissolution, liquidation, or corporate reorganization of the Company, if you have elected to defer receipt of your shares such that this Award is subject to Code Section 409A, then 100% of the then unvested Restricted Stock Units awarded hereby will vest on the date upon which such Transaction is consummated.

If such Transaction qualifies as a change in the ownership or effective control of the Company, or a change in the ownership of a substantial portion of the assets of the Company, under Code Section 409A, then the related shares of Common Stock (or the per share consideration received by a majority of the holders of such Common Stock in such Transaction) will be delivered to you on the date upon which such Transaction is consummated, except that in the unlikely event you are a "specified employee" within the meaning of Code Section 409A at the time of such Transaction, delivery of the related shares of Common Stock (or the consideration shareholders generally received for such Common Stock) will be delayed to the date that is six (6) months and one (1) day following the date upon which your service terminates to the extent necessary to avoid the imposition of taxation under Code Section 409A.

If such Transaction does not qualify as a change in the ownership or effective control of the Company, or a change in the ownership of a substantial portion of the assets of the Company, under Code Section 409A, then the related shares of Common Stock (or the per share consideration received by a majority of the holders of such Common Stock in such Transaction) will be delivered to you on the same dates specified in your deferral election subject to Section 3(c) above. ***Please note this Section4(b) is applicable only to U.S. taxpayers.***

5. **Dividend Equivalents**. During the period beginning on the Grant Date as indicated above and ending on the date that the Restricted Stock Unit is settled or terminates, whichever occurs first, you will receive cash payments based on and payable at approximately the same time as the cash dividends (but not later than 15 days thereafter). Notwithstanding the foregoing, if you have elected to defer receipt of your shares, such cash payments shall instead be paid to you at the same time as the underlying shares are payable to you in accordance the terms hereof and your deferral election.

6. **Deferral**. If permitted by the Administrator, the issuance of the Common Stock issuable with respect to this Award may be deferred upon such terms and conditions as determined by the Administrator, subject to the Administrator's determination that any such right of deferral or any term thereof complies with applicable laws or regulations in effect from time to time. If you are located outside the U.S., you will not be permitted to elect to defer the settlement of your Restricted Stock Units.

7. **Nontransferable**. Without the prior written consent of the Company, you may not sell, assign, pledge, encumber or otherwise transfer any interest in the Restricted Stock Units or the right to receive dividend equivalents thereon.

8. **Other Restrictions**. The issuance of Common Stock under this Award is subject to compliance by the Company and you with all applicable legal requirements applicable thereto and with all applicable regulations of any stock exchange on which the Common Stock may be listed at the time of issuance. The Company may delay the issuance of shares of Common Stock under this Award to ensure at the time of issuance there is a registration statement for the shares in effect under the Securities Act of 1933.

9. **Additional Provisions**. This Award is subject to the provisions of the Plan. Capitalized terms not defined in this Award are used as defined in the Plan. If the Plan and this Award are inconsistent, the provisions of the Plan will govern, except as specifically provided herein. Interpretations of the Plan and this Award by the Committee are binding on you and the Company.

10. **No Employment Agreement**. Neither the award to you of the Restricted Stock Units nor the delivery to you of this Award or any other document relating to the Restricted Stock Units will confer on you the right to continued employment or service or be interpreted as forming an employment or service contract with the Company or any Subsidiary.

11. **Tax Withholding**. You acknowledge that, regardless of any action taken by the Company, the ultimate liability for any or all income tax, social insurance contributions, payroll tax or other tax-related items related to your participation in the Plan and legally applicable to you ("Tax-Related Items") is and remains your responsibility and may exceed the amount, if any, withheld by the Company. You further acknowledge that the Company (1) makes no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Award and (2) does not commit to structure the terms of the grant or any aspect of the Award to reduce or eliminate your liability for Tax-Related Items or achieve any particular tax result. Further, if you are subject to Tax-Related Items in more than one jurisdiction between the Grant Date and the date of any relevant taxable or tax withholding event, as applicable, you acknowledge that the Company and/or one of its foreign Subsidiaries or Affiliates may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

As a condition of this Award, you agree to pay or make adequate arrangements satisfactory to the Company to satisfy all withholding obligations, if any, of the Company by the applicable due date.

If the Company determines to withhold taxes, you agree that the Company may satisfy such withholding by any or a combination of the following methods: (i) by requiring you to pay such amount in cash or check; (ii) by deducting such amount out of any other compensation otherwise payable to you; (iii) by the Company withholding a number of shares issuable in respect of the Award having a fair market value equal to the amount of Tax-Related Items that the Company determines it is required to withhold; and/or (iv) arranging for the Company's designated broker (if any, or any broker acceptable to the Company) to sell shares having a fair market value equal to the amount of Tax-Related Items that the Company determines it is required to withhold (and, in the case of using the Company's designated broker, you authorize such sale by accepting the terms of this Award). If the obligation for Tax-Related Items is satisfied by withholding in shares, for tax purposes, you are deemed to have been issued the full number of shares subject to the vested Award, notwithstanding that a number of the shares are held back solely for the purpose of paying the Tax-Related Items.

If the Tax-Related Items are not satisfied for any reason or if you otherwise fail to comply with your obligations in connection with the Tax-Related Items as described in this section, the Company may refuse to deliver the shares pursuant to this Award.

12. **Data Protection (Applicable Only If You Are Located Outside the U.S.)** ***You hereby explicitly and unambiguously consent to the collection, use and transfer, in electronic or other form, of your personal data as described in this document by and among the Company and its Subsidiaries for the exclusive purpose of implementing, administering and managing your participation in the Plan.***

You understand that the Company and its Subsidiaries hold certain personal information about you, including, but not limited to, your name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares of stock or directorships held in the Company, details of all awards or any other entitlement to shares of stock awarded, canceled, exercised, vested, unvested or outstanding in your favor, for the purpose of implementing, administering and managing the Plan ("Data"). You understand that Data may be transferred to any third parties assisting in the implementation, administration and management of the Plan, that these recipients may be located in your country or elsewhere, including outside the European Economic Area, and that the recipient's country may have different data privacy laws and protections than your country. You understand that you may

request a list with the names and addresses of any potential recipients of the Data by contacting your local human resources representative. You authorize the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing your participation in the Plan, including any requisite transfer of such Data as may be required to a broker or other third party with whom you may elect to deposit any shares of stock pursuant to this Award. You understand that Data will be held only as long as is necessary to implement, administer and manage your participation in the Plan, including any deferral election thereunder. You understand that you may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing your local human resources representative. Further, you understand that you are providing the consents herein on a purely voluntary basis. If you do not consent, or if you later seek to revoke your consent, your employment status (if any) or service and career with the Company or your employer will not be adversely affected; the only adverse consequence of refusing or withdrawing your consent is that the Company would not be able to grant you Restricted Stock Units or other equity awards or administer or maintain such awards. Therefore, you understand that refusing or withdrawing your consent may affect your ability to participate in the Plan. For more information on the consequences of your refusal to consent or withdrawal of consent, you understand that you may contact your local human resources representative.

13. **Governing Law and Venue**. The Award and the provisions of this Agreement are governed by, and subject to, the laws of the State of California without regard to the conflict of law provisions, as provided in the Plan. Further, for purposes of any action, lawsuit or other proceedings brought to enforce this Agreement, relating to it, or arising from it, the parties hereby submit to and consent to the sole and exclusive jurisdiction of the courts of San Francisco County, California, or the federal courts for the United States for the Northern District of California, and no other courts, where this grant is made and/or to be performed.

14. **Electronic Delivery and Acceptance**. The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

15. **Severability and Waiver**. The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable. Further, you acknowledge that a waiver by the Company of breach of any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by you or any other Plan participant.

16. **Imposition of Other Requirements**. The Company reserves the right to impose other requirements on your participation in the Plan, on the Award and on any shares of Common Stock acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require you to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

17. **No Advice**. The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding your participation in the Plan or your acquisition or sale of Common Shares. You are hereby advised to consult with your own personal tax, legal and financial advisors regarding your participation in the Plan before taking any action related to the Plan.

18. **Address for Notices**. Any notice to be given to the Company under the terms of this Agreement will be addressed to the Company, in care of its Stock Plan Administrator, at 3250 Van Ness Avenue, San Francisco, CA 94109 USA, or at such other address as the Company may hereafter designate in writing.

Exhibit 31.1

CERTIFICATION

I, Laura Alber, certify that:

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

Date: June 14, 2019

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

Exhibit 31.2

CERTIFICATION

I, Julie Whalen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Williams-Sonoma, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 14, 2019

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

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q for the period ended May 5, 2019 of Williams-Sonoma, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Laura Alber, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

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

Date: June 14, 2019

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 Quarterly Report on Form 10-Q for the period ended May 5, 2019 of Williams-Sonoma, Inc. (the “Company”) as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Julie Whalen, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

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

Date: June 14, 2019