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FORM 10-Q

WILLIAMS SONOMA INC - WSM

Filed: June 08, 2018 (period: April 29, 2018)

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 April 29, 2018.

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)

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

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

Indicate by check mark 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 (Do not check if a smaller reporting company) 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 May 27, 2018, 83,104,613 shares of the registrant's Common Stock were outstanding.

WILLIAMS-SONOMA, INC.
REPORT ON FORM 10-Q
FOR THE QUARTER ENDED APRIL 29, 2018

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ITEM 1. FINANCIAL STATEMENTS

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

	Thirteen Weeks Ended	
	April 29, 2018	April 30, 2017
<i>In thousands, except per share amounts</i>		
E-commerce net revenues	\$ 646,180	\$ 580,510
Retail net revenues	556,820	530,997
Net revenues	1,203,000	1,111,507
Cost of goods sold	770,836	715,747
Gross profit	432,164	395,760
Selling, general and administrative expenses	365,614	333,286
Operating income	66,550	62,474
Interest (income) expense, net	1,201	(103)
Earnings before income taxes	65,349	62,577
Income taxes	20,181	23,022
Net earnings	\$ 45,168	\$ 39,555
Basic earnings per share	\$ 0.54	\$ 0.45
Diluted earnings per share	\$ 0.54	\$ 0.45
Shares used in calculation of earnings per share:		
Basic	83,392	86,962
Diluted	84,174	87,710

See Notes to Condensed Consolidated Financial Statements.

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

	Thirteen Weeks Ended	
	April 29, 2018	April 30, 2017
<i>In thousands</i>		
Net earnings	\$ 45,168	\$ 39,555
Other comprehensive income (loss):		
Foreign currency translation adjustments	(1,145)	(1,566)
Change in fair value of derivative financial instruments, net of tax (tax benefit) of \$68 and \$237	1,123	655
Reclassification adjustment for realized (gain) loss on derivative financial instruments, net of tax (tax benefit) of \$(3) and \$5	49	(16)
Comprehensive income	\$ 45,195	\$ 38,628

See Notes to Condensed Consolidated Financial Statements.

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

<i>In thousands, except per share amounts</i>	April 29, 2018	January 28, 2018	April 30, 2017
ASSETS			
Current assets			
Cash and cash equivalents	\$ 290,244	\$ 390,136	\$ 93,975
Accounts receivable, net	102,630	90,119	63,982
Merchandise inventories, net	1,052,892	1,061,593	1,037,107
Prepaid catalog expenses	—	20,517	20,341
Prepaid expenses	56,333	62,204	64,739
Other current assets	21,118	11,876	10,901
Total current assets	1,523,217	1,636,445	1,291,045
Property and equipment, net	926,320	932,283	920,531
Deferred income taxes, net	58,842	67,306	124,977
Other long-term assets, net	148,526	149,715	54,624
Total assets	\$2,656,905	\$2,785,749	\$2,391,177
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable	\$ 393,025	\$ 457,144	\$ 397,442
Accrued expenses	99,823	134,207	87,184
Gift card and other deferred revenue	256,534	300,607	298,113
Borrowings under revolving line of credit	—	—	45,000
Income taxes payable	72,036	56,783	37,792
Other current liabilities	61,403	59,082	47,134
Total current liabilities	882,821	1,007,823	912,665
Deferred rent and lease incentives	204,599	202,134	195,201
Long-term debt	299,472	299,422	—
Other long-term liabilities	72,779	72,804	73,160
Total liabilities	1,459,671	1,582,183	1,181,026
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; 83,222, 83,726 and 86,883 shares issued and outstanding at April 29, 2018, January 28, 2018 and April 30, 2017, respectively	833	837	869
Additional paid-in capital	564,685	562,814	549,281
Retained earnings	638,774	647,422	671,758
Accumulated other comprehensive loss	(6,755)	(6,782)	(10,830)
Treasury stock, at cost: 3, 11 and 13 shares as of April 29, 2018, January 28, 2018 and April 30, 2017, respectively	(303)	(725)	(927)
Total stockholders' equity	1,197,234	1,203,566	1,210,151
Total liabilities and stockholders' equity	\$2,656,905	\$2,785,749	\$2,391,177

See Notes to Condensed Consolidated Financial Statements.

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

<i>In thousands</i>	Thirteen Weeks Ended	
	April 29, 2018	April 30, 2017
Cash flows from operating activities:		
Net earnings	\$ 45,168	\$ 39,555
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	47,873	44,950
Loss on disposal/impairment of assets	414	519
Amortization of deferred lease incentives	(6,724)	(6,477)
Deferred income taxes	(3,241)	(3,848)
Tax benefit related to stock-based awards	6,126	13,742
Stock-based compensation expense	12,889	9,817
Other	64	(76)
Changes in:		
Accounts receivable	(9,556)	24,610
Merchandise inventories	2,388	(60,246)
Prepaid catalog expenses	—	(844)
Prepaid expenses and other assets	(4,399)	(11,069)
Accounts payable	(76,823)	(65,483)
Accrued expenses and other liabilities	(32,047)	(47,248)
Gift card and other deferred revenue	4,815	(4,648)
Deferred rent and lease incentives	10,004	5,806
Income taxes payable	13,818	14,564
Net cash provided by (used in) operating activities	10,769	(46,376)
Cash flows from investing activities:		
Purchases of property and equipment	(34,029)	(32,153)
Other	120	5
Net cash used in investing activities	(33,909)	(32,148)
Cash flows from financing activities:		
Repurchases of common stock	(37,713)	(38,350)
Payment of dividends	(34,081)	(34,189)
Tax withholdings related to stock-based awards	(7,438)	(13,780)
Borrowings under revolving line of credit	—	45,000
Net cash used in financing activities	(79,232)	(41,319)
Effect of exchange rates on cash and cash equivalents	2,480	105
Net decrease in cash and cash equivalents	(99,892)	(119,738)
Cash and cash equivalents at beginning of period	390,136	213,713
Cash and cash equivalents at end of period	\$ 290,244	\$ 93,975

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 April 29, 2018 and April 30, 2017, the Condensed Consolidated Statements of Earnings, the Condensed Consolidated Statements of Comprehensive Income, 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 January 28, 2018, 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 January 28, 2018.

The results of operations for the thirteen weeks ended April 29, 2018 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 January 28, 2018.

Reclassifications

Certain amounts reported in our Condensed Consolidated Balance Sheets as of January 28, 2018 and April 30, 2017 and our Condensed Consolidated Statement of Cash Flows for the thirteen weeks ended April 30, 2017 have been reclassified in order to conform to the current period presentation. These reclassifications impacted prepaid catalog expenses, prepaid expenses, accounts payable, accrued expenses, gift card and other deferred revenue and other current liabilities. There was no change to total current assets, total current liabilities, or net cash used in operating activities as a result of these reclassifications.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers*, to clarify the principles of recognizing revenue and create common revenue recognition guidance between U.S. GAAP and International Financial Reporting Standards. We adopted the ASU on a modified retrospective basis in the first quarter of fiscal 2018 and applied the guidance therein to all applicable contracts that were not complete as of the date of application. As a result, we recorded an increase to opening retained earnings as of January 29, 2018 of approximately \$17,862,000, net of tax, for the cumulative effect adjustments of adopting the ASU. These adjustments primarily related to the acceleration in the timing of recognizing breakage income related to our unredeemed stored-value cards, the acceleration in the timing of revenue recognition for certain merchandise shipped to our customers, and prepaid catalog advertising costs, which were capitalized and amortized over their expected period of future benefit prior to adoption, and are now expensed as incurred. Prior period balances were not retrospectively adjusted as a result of adopting the ASU. See Note L for further discussion related to the impact of the adoption of the ASU on our Condensed Consolidated Financial Statements.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which revises an entity’s accounting related to the classification and measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value. This ASU is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2017. We adopted this ASU in the first quarter of fiscal 2018. The adoption did not have an impact on our financial condition, results of operations or cash flows.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which will require lessees to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than short-term leases). This ASU is effective for us beginning in the first quarter of fiscal 2019. We are currently assessing the impact of this ASU on our Consolidated Financial Statements, but expect that it will result in a substantial increase in our long-term assets and liabilities, however, we do not expect it to materially impact our Consolidated Statement of Earnings.

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

In 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

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also makes certain targeted improvements to simplify the application of hedge accounting guidance and ease the administrative burden of hedge documentation requirements and assessing hedge effectiveness. This ASU is effective for us in the first quarter of fiscal 2019 and early adoption is permitted. Entities should apply the guidance to existing cash flow and net investment hedge relationships using a modified retrospective approach with a cumulative effect adjustment recorded to opening retained earnings on the date of adoption. The guidance also provides transition relief to make it easier for entities to apply certain amendments to existing hedges where the hedge documentation needs to be modified. We do not expect the adoption of this ASU to have a material impact on our financial condition, results of operations or cash flows.

In February 2018, the FASB issued ASU 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220)*, which allows a reclassification from accumulated other comprehensive income (loss) to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. This ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2018 and early adoption is permitted. We adopted this ASU in the first quarter of fiscal 2018. The adoption did not have an 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 first and second anniversaries of the closing date of the amendment of the credit facility, elect to extend the maturity date for an additional year, subject to lender approval.

During the first quarter of fiscal 2018, we had no borrowings under the revolver. During the first quarter of fiscal 2017, we had borrowings of \$45,000,000 under the revolver (at a weighted average interest rate of 2.01%), all of which were outstanding as of April 30, 2017. Additionally, as of April 29, 2018, \$12,772,000 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 April 29, 2018, we had \$300,000,000 outstanding under our term loan (at a weighted average interest rate of 2.85%). 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 (“LIBOR”) plus an applicable margin based on our leverage ratio ranging from 0.91% to 1.775% for a revolver borrowing, and 1.0% to 2.0% for the term loan; or (ii) a base rate as defined in the credit facility plus an applicable margin ranging from 0% to 0.775% for a revolver borrowing, and 0% to 1% for the term loan.

As of April 29, 2018, we are 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 25, 2018. The letter of credit facilities contain covenants that are consistent with our credit facility. Interest on unreimbursed amounts under the letter of credit facilities accrues at a base rate as defined in the credit facility plus an applicable margin based on our leverage ratio. As of April 29, 2018, an aggregate of \$5,900,000 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 22, 2019.

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 32,310,000 shares. As of April 29, 2018, there were approximately 3,032,000 shares available for future grant. Subsequently, on May 30, 2018, our stockholders approved an amendment and restatement of the Plan to increase the number of shares issuable by 4,260,000 shares. 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.

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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 April 29, 2018 and April 30, 2017, we recognized total stock-based compensation expense, as a component of selling, general and administrative expenses, of \$12,889,000 and \$9,817,000, respectively.

Stock-Settled Stock Appreciation Rights

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

The following table summarizes our stock-settled stock appreciation right activity during the thirteen weeks ended April 29, 2018:

	Shares
Balance at January 28, 2018 (100% vested)	167,737
Granted	—
Converted into common stock	(125,787)
Cancelled	(1,290)
Balance at April 29, 2018 (100% vested)	40,660

Restricted Stock Units

The following table summarizes our restricted stock unit activity during the thirteen weeks ended April 29, 2018:

	Shares
Balance at January 28, 2018	2,358,137
Granted	1,306,744
Granted, with vesting subject to performance conditions	256,350
Released	(339,418)
Cancelled	(159,395)
Balance at April 29, 2018	3,422,418
Vested plus expected to vest at April 29, 2018	2,649,093

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.

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

<i>In thousands, except per share amounts</i>	Net Earnings	Weighted Average Shares	Earnings Per Share
Thirteen weeks ended April 29, 2018			
Basic	\$ 45,168	83,392	\$ 0.54
Effect of dilutive stock-based awards		782	
Diluted	\$ 45,168	84,174	\$ 0.54
Thirteen weeks ended April 30, 2017			
Basic	\$ 39,555	86,962	\$ 0.45
Effect of dilutive stock-based awards		748	
Diluted	\$ 39,555	87,710	\$ 0.45

Stock-based awards of 29,997 and 215,595 were excluded from the computation of diluted earnings per share for the thirteen weeks ended April 29, 2018 and April 30, 2017, respectively, as their inclusion would be anti-dilutive.

NOTE E. SEGMENT REPORTING

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

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

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

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

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Segment Information

<i>In thousands</i>	E-commerce	Retail	Unallocated	Total
Thirteen weeks ended April 29, 2018				
Net revenues ¹	\$ 646,180	\$ 556,820	\$ —	\$1,203,000
Depreciation and amortization expense	9,346	22,999	15,528	47,873
Operating income (loss) ²	142,805	22,061	(98,316)	66,550
Assets ³	770,187	1,115,696	771,022	2,656,905
Capital expenditures	5,794	17,195	11,040	34,029
Thirteen weeks ended April 30, 2017				
Net revenues ¹	\$ 580,510	\$ 530,997	\$ —	\$1,111,507
Depreciation and amortization expense	6,967	22,342	15,641	44,950
Operating income (loss) ²	132,004	21,714	(91,244)	62,474
Assets ³	653,898	1,067,169	670,110	2,391,177
Capital expenditures	2,870	16,497	12,786	32,153

¹ Includes net revenues related to our international operations (including our operations in Canada, Australia, the United Kingdom and our franchise businesses) of approximately \$79.4 million and \$69.4 million for the thirteen weeks ended April 29, 2018 and April 30, 2017, respectively.

² The thirteen weeks ended April 29, 2018 includes \$6.9 million of expense related to our acquisition of Outward, Inc., (primarily acquisition-related compensation costs, the amortization of intangible assets acquired, and the operations of the Outward business), of which \$5.5 million is recorded in the e-commerce segment and \$1.4 million is recorded in the unallocated segment, as well as \$1.7 million for employment-related expense in our corporate functions, which is recorded in selling, general and administrative expenses within the unallocated segment. The thirteen weeks ended April 30, 2017 includes \$5.7 million of severance-related charges in our corporate functions, which is recorded in selling, general and administrative expenses within the unallocated segment.

³ Includes long-term assets related to our international operations of approximately \$59.5 million and \$57.9 million as of April 29, 2018 and April 30, 2017, respectively.

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 Consolidated Financial Statements taken as a whole.

NOTE G. STOCK REPURCHASE PROGRAM AND DIVIDENDS

Stock Repurchase Program

In March 2018, we announced that our Board of Directors had authorized an increase in our current stock repurchase program to \$500,000,000. 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 intended to satisfy future stock-based award settlements in certain foreign jurisdictions.

During the thirteen weeks ended April 30, 2017, we repurchased 764,543 shares of our common stock at an average cost of \$50.16 per share for a total cost of approximately \$38,350,000. As of April 30, 2017, we held treasury stock of \$927,000.

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

Dividends

We declared cash dividends of \$0.43 and \$0.39 per common share during the thirteen weeks ended April 29, 2018 and April 30, 2017, respectively. Our quarterly cash dividend may be limited or terminated at any time.

NOTE H. DERIVATIVE FINANCIAL INSTRUMENTS

We have retail and e-commerce businesses in Canada, Australia and the United Kingdom, and operations throughout Asia and Europe, which expose us to market risk associated with foreign currency exchange rate fluctuations. Substantially all of our purchases and sales are denominated in U.S. dollars, which limits our exposure to this risk. However, some of our foreign operations have a functional currency other than the U.S. dollar. To mitigate this risk, we hedge a portion of our foreign currency exposure with foreign currency forward contracts in accordance with our risk management policies. We do not enter into such contracts for speculative purposes. The assets or liabilities associated with 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 immediately in selling, general and administrative expenses. Based on the rates in effect as of April 29, 2018, we expect to reclassify a net pre-tax gain of approximately \$486,000 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 April 29, 2018 and April 30, 2017, we had foreign currency forward contracts outstanding (in U.S. dollars) with notional values as follows:

<i>In thousands</i>	April 29, 2018	April 30, 2017
Contracts designated as cash flow hedges	\$ 28,500	\$ 19,200
Contracts not designated as cash flow hedges	\$ 52,276	\$ 48,000

Hedge effectiveness is evaluated prospectively at inception, on an ongoing basis, as well as retrospectively using regression analysis. Any measurable ineffectiveness of the hedge is recorded in selling, general and administrative expenses. No gain or loss was recognized for cash flow hedges due to hedge ineffectiveness and all hedges were deemed effective for assessment purposes for the thirteen weeks ended April 29, 2018 and April 30, 2017.

The effect of derivative instruments in our Condensed Consolidated Financial Statements during the thirteen weeks ended April 29, 2018 and April 30, 2017, pre-tax, was as follows:

<i>In thousands</i>	April 29, 2018	April 30, 2017
Net gain (loss) recognized in OCI	\$ 1,191	\$ 892
Net gain (loss) reclassified from OCI to cost of goods sold	\$ (52)	\$ 21
Net foreign exchange gain (loss) recognized in selling, general and administrative expenses:		
Instruments designated as cash flow hedges ¹	\$ (17)	\$ 8
Instruments not designated or de-designated	\$ 2,760	\$ 341

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

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

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<i>In thousands</i>	April 29, 2018	April 30, 2017
Derivatives designated as cash flow hedges:		
Other current assets	\$ 460	\$ 925
Other long-term assets	\$ 79	\$ 52
Other current liabilities	\$ (51)	\$ —
Derivatives not designated as hedging instruments:		
Other current assets	\$ 36	\$ —
Other current liabilities	\$ —	\$ (83)

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

NOTE I. FAIR VALUE MEASUREMENTS

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

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

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

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

Long-term Debt

As of April 29, 2018, 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.

Property and Equipment

We review the carrying value of all long-lived assets for impairment, primarily at an individual store level, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. We measure these assets at fair value on a nonrecurring basis using Level 3 inputs as defined in the fair value hierarchy. The fair value is based on the present value of estimated future cash flows using a discount rate that approximates our weighted average cost of capital.

There were no transfers between Level 1, 2 or 3 categories during the thirteen weeks ended April 29, 2018 or April 30, 2017.

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

<i>In thousands</i>	Foreign Currency Translation	Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)
Balance at January 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)
Balance at January 29, 2017	\$ (9,957)	\$ 54	\$ (9,903)
Foreign currency translation adjustments	(1,566)	—	(1,566)
Change in fair value of derivative financial instruments	—	655	655
Reclassification adjustment for realized (gain) loss on derivative financial instruments ¹	—	(16)	(16)
Other comprehensive income (loss)	(1,566)	639	(927)
Balance at April 30, 2017	\$ (11,523)	\$ 693	\$ (10,830)

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. (“Outward”), a 3-D imaging and augmented reality platform for the home furnishings and décor industry. Of the \$112,000,000 contractual purchase price, approximately \$80,864,000 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 \$4,446,000 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 of \$80,864,000 was allocated to identifiable assets acquired of \$2,767,000, primarily property and equipment, and to liabilities assumed of \$12,169,000, based on their estimated fair values on the acquisition date. The remaining consideration has been recorded within other long-term assets in our Condensed Consolidated Balance Sheet. We are currently in the process of valuing intangible assets acquired, and expect to allocate the remaining consideration between goodwill and intangible assets upon completion.

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. Pro forma results of Outward have not been presented as the results were not material to our Condensed Consolidated Financial Statements for all years presented, and would not have been material had the acquisition occurred at the beginning of fiscal 2017.

NOTE L. REVENUE

The majority of our revenues are generated from sales of merchandise to our customers, either in our retail stores or through our e-commerce channel (websites or direct-mail catalogs) 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.

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We exclude from revenue any taxes assessed by governmental authorities, including value-added and other sales-related taxes, that are imposed on and 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 disaggregation of our net revenues by reportable segment.

Merchandise Sales

Revenues from the sale of our merchandise through our e-commerce channel, at our retail stores, as well as to our franchisees and wholesale customers are 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 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 April 29, 2018, we recorded a liability for expected sales returns of approximately \$25,158,000 within other current liabilities and a corresponding asset for the expected net realizable value of the merchandise inventory to be returned of approximately \$9,395,000 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 at our stores or through our e-commerce channel. Our stored-value cards have no expiration dates. Revenue from stored-value cards is recognized at a point in time upon redemption of the card and as control of the merchandise is transferred to the customer. Revenue from estimated unredeemed stored-value cards (breakage) is recognized in a manner consistent with our historical redemption patterns over the estimated period of redemption of our cards of approximately 4 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.

We defer revenue when cash payments are received in advance of performance for unsatisfied obligations related to our stored-value cards, merchandise sales, and incentives received from credit card issuers. Deferred revenue related to these transactions was \$280,557,000 as of January 28, 2018. Of this balance, \$133,883,000 was recognized as revenue during the first quarter of fiscal 2018 and \$49,494,000 was recorded to retained earnings due to the adoption of ASU 2014-09. As of April 29, 2018, deferred revenue related to these transactions was \$235,046,000. We expect the majority of this balance to be recognized as revenue during fiscal 2018.

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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 at our stores or through our e-commerce channel. This customer option is a material right and, accordingly, represents a separate performance obligation to the customer. The allocated consideration for the points earned by our loyalty program members is deferred based on the standalone selling price of the points and recorded within gift card and other deferred revenue within our 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.

Adoption of ASU 2014-09

The adoption of ASU 2014-09 most significantly impacted our Condensed Consolidated Financial Statements as follows:

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

The following summarizes the impact of adopting ASU 2014-09 on our Condensed Consolidated Balance Sheet as of April 29, 2018 and our Condensed Consolidated Statement of Earnings for the first quarter of fiscal 2018. The adoption of ASU 2014-09 had no impact to net cash provided by (or used in) operating, financing, or investing activities reported in our Condensed Consolidated Statement of Cash Flows for the first quarter of fiscal 2018.

<i>In thousands</i>	As of April 29, 2018		
	As Reported	ASU 2014-09 Adjustment	As Adjusted
ASSETS			
Accounts receivable	\$ 102,630	\$ (3,056)	\$ 99,574
Merchandise inventories, net	1,052,892	6,385	1,059,277
Prepaid catalog expenses	—	22,258	22,258
Prepaid expenses	56,333	663	56,996
Other current assets	21,118	(9,395)	11,723
Deferred income taxes, net	58,842	5,178	64,020
Total assets	\$2,656,905	\$ 22,034	\$2,678,939
LIABILITIES AND STOCKHOLDERS' EQUITY			
Accounts payable	\$ 393,025	\$ (2,165)	\$ 390,860
Gift card and other deferred revenue	256,534	63,824	320,358
Income taxes payable	72,036	(3,253)	68,783
Other current liabilities	61,403	(14,757)	46,646
Other long-term liabilities	72,779	874	73,653
Retained earnings	638,774	(22,489)	616,285
Total liabilities and stockholders' equity	\$2,656,905	\$ 22,034	\$2,678,939

<i>In thousands</i>	Thirteen Weeks Ended April 29, 2018		
	As Reported	ASU 2014-09 Adjustment	As Adjusted
Net revenues	\$1,203,000	\$ (25,101)	\$1,177,899
Cost of goods sold	770,836	(6,144)	764,692
Gross profit	432,164	(18,957)	413,207
Selling, general and administrative expenses	365,614	(12,262)	353,352
Operating income	\$ 66,550	\$ (6,695)	\$ 59,855

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 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 January 28, 2018, 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, PBteen, Williams Sonoma Home, Rejuvenation, and Mark and Graham – are marketed through e-commerce websites, direct-mail catalogs and 627 stores. We operate in the U.S., Puerto Rico, Canada, Australia and the United Kingdom, offer international shipping to customers worldwide, and have unaffiliated franchisees that operate stores in the Middle East, the Philippines, Mexico and South Korea, as well as e-commerce websites in certain locations. In 2017, we acquired Outward, Inc., a 3-D imaging and augmented reality platform for the home furnishings and décor industry. Headquartered in San Jose, California, Outward's technology enables applications in product visualization, digital room design and augmented and virtual reality.

The following discussion and analysis of financial condition, results of operations, and liquidity and capital resources for the thirteen weeks ended April 29, 2018 ("first quarter of fiscal 2018"), as compared to the thirteen weeks ended April 30, 2017 ("first quarter of fiscal 2017"), 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 their magnitude.

First Quarter of Fiscal 2018 Financial Results

Net revenues in the first quarter of fiscal 2018 increased by \$91,493,000, or 8.2%, compared to the first quarter of fiscal 2017, with comparable brand revenue growth of 5.5%. The increase in net revenues was driven by an 11.3% increase in our e-commerce net revenues (primarily driven by West Elm, Pottery Barn, Pottery Barn Kids and Teen and Williams Sonoma), with growth across all brands, and a 4.9% increase in retail net revenues (primarily driven by Pottery Barn and West Elm), with particular strength in furniture. Total net revenue growth for the first quarter of fiscal 2018 also included a 14.4% increase in international revenues primarily related to our company-owned international operations, as well as the favorable impact of the adoption of ASU 2014-09 (see Note L to our Condensed Consolidated Financial Statements).

In the first quarter of fiscal 2018, we made progress on our four strategic priorities of digital leadership, product innovation, retail transformation and operational excellence. In digital leadership, we are enhancing the e-commerce experience through two key differentiators: content and convenience. We are updating our shop path across all brands with more accurate and compelling content, and we introduced online self-service scheduling capability for in-home delivery. In digital advertising, we are continuing our transition from catalog mailings to higher impact digital channels as we further refine our marketing mix to drive short-term return on investment and long-term gains in customer growth. In product innovation, we continued to expand our core offerings with newness and aesthetic diversification, while growing brand concepts to new and focused customer categories in collaborations and partnerships. In our retail transformation, during the first quarter of fiscal 2018, both our retail revenue and comp growth accelerated from last year, which speaks to our efforts to enhance the retail experience. And we are making progress in reducing unproductive store footprints, while at the same time, investing in high-impact store remodels and relocations. We remain committed to operational excellence to further improve customer service and reduce costs. To reduce inventory levels, as well as back orders, aged inventory, and out-of-market shipping costs, we are working with our overseas vendors for more in-time inventory and frequent flow. We have also implemented a new inventory planning software, which should improve our inventory position in each of our regional distribution facilities.

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And in our global business, we saw double-digit revenue growth in our company-owned operations in Australia, the United Kingdom and Canada, with our e-commerce business being particularly strong in the quarter. In addition, our existing franchise partners added another eight retail locations in the first quarter.

In the first quarter of fiscal 2018, diluted earnings per share was \$0.54 (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) versus \$0.45 in the first quarter of fiscal 2017, (which included severance-related reorganization charges of \$0.04 and an unfavorable tax impact from the adoption of ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*, of \$0.02). Our first quarter of fiscal 2018 results also included the impact from the adoption of the new revenue standard, ASU 2014-09. We also returned \$71,794,000 to our stockholders through stock repurchases and dividends.

NET REVENUES

Net revenues consist of e-commerce net revenues and retail net revenues. E-commerce net revenues include sales of merchandise to customers through our e-commerce websites and our catalogs, as well as shipping fees. Retail net revenues include sales of merchandise to customers at our retail stores and to our franchisees, as well as shipping fees on any products shipped to our customers' homes. Shipping fees consist of revenue received from customers for delivery of merchandise to their homes. Revenues are presented net of sales returns and other discounts.

<i>In thousands</i>	Thirteen Weeks Ended			
	April 29, 2018	% Total	April 30, 2017	% Total
E-commerce net revenues	\$ 646,180	53.7%	\$ 580,510	52.2%
Retail net revenues	556,820	46.3%	530,997	47.8%
Net revenues	\$1,203,000	100.0%	\$1,111,507	100.0%

Net revenues in the first quarter of fiscal 2018 increased by \$91,493,000, or 8.2%, compared to the first quarter of fiscal 2017, with comparable brand revenue growth of 5.5%. The increase in net revenues was driven by an 11.3% increase in our e-commerce net revenues (primarily driven by West Elm, Pottery Barn, Pottery Barn Kids and Teen and Williams Sonoma), with growth across all brands, and a 4.9% increase in retail net revenues (primarily driven by Pottery Barn and West Elm), with particular strength in furniture. Total net revenue growth for the first quarter of fiscal 2018 also included a 14.4% increase in international revenues primarily related to our company-owned international operations, as well as the favorable impact of the adoption of ASU 2014-09.

Comparable Brand Revenue

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

<i>Comparable brand revenue growth (decline)</i>	Thirteen Weeks Ended	
	April 29, 2018	April 30, 2017
Pottery Barn	2.7%	(1.4%)
West Elm	9.0%	6.0%
Williams Sonoma	5.6%	3.2%
Pottery Barn Kids and Teen ¹	5.3%	(8.0%)
Total	5.5% ²	0.1%

¹ Starting in the first quarter of fiscal 2018 the performance of the Pottery Barn Kids and PBteen brands are being reported on a combined basis as Pottery Barn Kids and Teen. For reference, the comparable brand revenue growth for Pottery Barn Kids and PBteen were 4.3% and 8.2%, respectively, for the first quarter of fiscal 2018 and (5.7%) and (14.3%), respectively, for the first quarter of fiscal 2017.

² Includes approximately 30 basis points of comparable brand revenue growth due to the impact of adopting ASU 2014-09 during the first quarter of fiscal 2018.

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STORE DATA

	Store Count					Average Leased Square Footage Per Store	
	January 28, 2018	Openings	Closings	April 29, 2018	April 30, 2017	April 29, 2018	April 30, 2017
	Williams Sonoma	228	—	(4)	224	233	6,800
Pottery Barn	203	1	(1)	203	199	13,900	13,800
West Elm	106	2	—	108	99	13,000	13,300
Pottery Barn Kids	86	—	(2)	84	89	7,400	7,400
Rejuvenation	8	—	—	8	8	8,800	8,800
Total	631	3	(7)	627	628	10,300	10,100
Store selling square footage at period-end						4,015,000	3,942,000
Store leased square footage at period-end						6,441,000	6,341,000

COST OF GOODS SOLD

<i>In thousands</i>	Thirteen Weeks Ended			
	April 29, 2018	% Net Revenues	April 30, 2017	% Net Revenues
Cost of goods sold ¹	\$770,836	64.1%	\$715,747	64.4%

¹ Includes occupancy expenses of \$173,485,000 and \$167,493,000 for the first quarter of fiscal 2018 and the first quarter of fiscal 2017, respectively.

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

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

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

First Quarter of Fiscal 2018 vs. First Quarter of Fiscal 2017

Cost of goods sold increased by \$55,089,000, or 7.7%, in the first quarter of fiscal 2018 compared to the first quarter of fiscal 2017. Cost of goods sold as a percentage of net revenues decreased to 64.1% in the first quarter of fiscal 2018 from 64.4% in the first quarter of fiscal 2017. This decrease was primarily driven by the impact from the adoption of ASU 2014-09 in the first quarter of fiscal 2018 as well as the leverage of occupancy costs and reduced fulfillment related costs in our supply chain. This decrease was partially offset by lower merchandise margins and higher shipping costs.

In the e-commerce channel, cost of goods sold as a percentage of net revenues remained relatively flat in the first quarter of fiscal 2018 compared to the first quarter of fiscal 2017 primarily driven by reduced fulfillment related costs in our supply chain, the impact from the adoption of ASU 2014-09 and the leverage of occupancy costs, offset by lower merchandise margins.

In the retail channel, cost of goods sold as a percentage of net revenues increased in the first quarter of fiscal 2018 compared to the first quarter of fiscal 2017 primarily driven by lower selling margins, partially offset by the impact from the adoption of ASU 2014-09 and the leverage of occupancy costs.

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SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

<i>In thousands</i>	Thirteen Weeks Ended			
	April 29, 2018	% Net Revenues	April 30, 2017	% Net Revenues
Selling, general and administrative expenses	\$365,614	30.4%	\$333,286	30.0%

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

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

First Quarter of Fiscal 2018 vs. First Quarter of Fiscal 2017

Selling, general and administrative expenses increased by \$32,328,000, or 9.7%, in the first quarter of fiscal 2018 compared to the first quarter of fiscal 2017. Selling, general and administrative expenses as a percentage of net revenues increased to 30.4% in the first quarter of fiscal 2018 from 30.0% in the first quarter of fiscal 2017. This increase as a percentage of net revenues was primarily driven by the reclassification of other income from selling, general and administrative expenses into net revenues due to the adoption of ASU 2014-09 in the first quarter of fiscal 2018, as well as the impact from our acquisition of Outward, Inc. in the fourth quarter of fiscal 2017, partially offset by the leverage of advertising costs and employment costs.

In the e-commerce channel, selling, general and administrative expenses as a percentage of net revenues increased in the first quarter of fiscal 2018 compared to the first quarter of fiscal 2017 primarily driven by the impact from the adoption of ASU 2014-09, partially offset by the leverage of advertising costs.

In the retail channel, selling, general and administrative expenses as a percentage of net revenues remained relatively flat in the first quarter of fiscal 2018 compared to the first quarter of fiscal 2017 primarily driven by the leverage of employment costs, offset by the impact from the adoption of ASU 2014-09.

INCOME TAXES

Staff Accounting Bulletin No. 118 ("SAB 118") issued by the SEC in December 2017 provides us with up to one year to finalize our measurement of the income tax effects of the U.S. Tax Reform on our fiscal year ended January 28, 2018. As of January 28, 2018, we had made reasonable estimates of the transition tax under Internal Revenue Code section 965. As a result of the issuance of IRS Notice 2018-26, we recorded a measurement period adjustment in the first quarter of fiscal 2018 to increase the transition tax by approximately \$2,871,000. We did not record any other measurement period adjustments to our provisional amounts during the first quarter of fiscal 2018.

The effective tax rate was 30.9% for the first quarter of fiscal 2018, and 36.8% for the first quarter of fiscal 2017. The change in the effective rate was primarily due to the reduction of the U.S. corporate income tax rate from 35% to 21%, partially offset by the adjustment of the provisional transition tax under SAB 118.

In fiscal 2018, we are subject to several provisions of U.S. Tax Reform including a tax on global intangible low-taxed income provisions ("GILTI"), the base erosion anti-abuse tax ("BEAT") and a deduction for foreign-derived intangible income ("FDII"). The impact of these provisions was immaterial for the first quarter of fiscal 2018.

A company can elect an accounting policy to account for GILTI as either a periodic expense when the tax arises or as part of deferred taxes related to the investment in the subsidiary. We are currently in the process of analyzing this provision and, as a result, are not yet able to reasonably estimate its effect. Therefore, we have not yet made a policy election regarding the accounting for GILTI. The ultimate impact of U.S. Tax Reform may differ from our provisional amounts due to changes in interpretations and assumptions and/or additional regulatory guidance that may be issued. We expect to revise our U.S. Tax Reform impact estimates as we refine our analysis of the new rules and as new guidance is issued. We expect to finalize accounting for the impact of U.S. Tax Reform once our 2017 U.S. corporate income tax return is filed in the fourth quarter of fiscal 2018.

LIQUIDITY AND CAPITAL RESOURCES

As of April 29, 2018, we held \$290,244,000 in cash and cash equivalents, the majority of which was held in interest bearing demand deposit accounts and money market funds, and of which \$87,684,000 was held by our foreign subsidiaries. As is consistent within our industry, our cash balances are seasonal in nature, with the fourth quarter historically representing a significantly higher level of cash than other periods.

In fiscal 2018, 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”) under our credit facility. 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. During the first quarter of fiscal 2018, we had no borrowings under the revolver. During the first quarter of fiscal 2017, we borrowed \$45,000,000 under the revolver, all of which was outstanding as of April 30, 2017. As of April 29, 2018, 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 April 29, 2018, a total of \$12,772,000 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 April 29, 2018, we had three unsecured letter of credit reimbursement facilities for a total of \$70,000,000, of which \$5,900,000 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 2018, net cash provided by operating activities was \$10,769,000 compared to net cash used in operating activities of \$46,376,000 for the first quarter of fiscal 2017. For the first quarter of fiscal 2018, net cash provided by operating activities was primarily attributable to net earnings adjusted for non-cash items, partially offset by a decrease in accounts payable and accrued expenses. Net cash provided by operating activities increased in the first quarter of fiscal 2018 compared to net cash used in operating activities in the first quarter of fiscal 2017 primarily due to a year-over-year reduction in merchandise inventory purchases, partially offset by an increase in accounts receivable.

Cash Flows from Investing Activities

For the first quarter of fiscal 2018, net cash used in investing activities was \$33,909,000 compared to \$32,148,000 for the first quarter of fiscal 2017, and was primarily attributable to purchases of property and equipment. Net cash used in investing activities increased compared to the first quarter of fiscal 2017 primarily due to an increase in purchases of property and equipment.

Cash Flows from Financing Activities

For the first quarter of fiscal 2018, net cash used in financing activities was \$79,232,000 compared to \$41,319,000 for the first quarter of fiscal 2017. For the first quarter of fiscal 2018, net cash used in financing activities was primarily attributable to repurchases of common stock and the payment of dividends. The decrease in cash flows from financing activities in the first quarter of fiscal 2018 compared to the first quarter of fiscal 2017 was primarily attributable to borrowings under our revolver during the first quarter of fiscal 2017 which did not recur in the first quarter of fiscal 2018.

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 2018, other than those discussed in Note L 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 January 28, 2018.

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Seasonality

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

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 2018, 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 April 29, 2018, 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 2018 or the first quarter of fiscal 2017. Since we pay for the majority of our international purchases in U.S. dollars, however, a decline in the U.S. dollar relative to other foreign currencies would subject us to risks associated with increased purchasing costs from our vendors in their effort to offset any lost profits associated with any currency devaluation. We cannot predict with certainty the effect these increased costs may have on our financial statements or results of operations.

In addition, our retail and e-commerce businesses in Canada, Australia and the United Kingdom, and our operations throughout Asia and Europe, expose us to market risk associated with foreign currency exchange rate fluctuations. Substantially all of our purchases and sales are denominated in U.S. dollars, which limits our exposure to this risk. However, some of our foreign operations have a functional currency other than the U.S. dollar. While the impact of foreign currency exchange rate fluctuations was not material to us in the first quarter of fiscal 2018 or the first quarter of fiscal 2017, 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 April 29, 2018, 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

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

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 January 28, 2018 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

The following table provides information as of April 29, 2018 with respect to shares of common stock we repurchased during the first quarter of fiscal 2018 under our \$500,000,000 stock repurchase program. For additional information, please see Note G to our Condensed Consolidated Financial Statements within Part I of this Form 10-Q.

Fiscal period	Total Number of Shares Purchased ¹	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program ¹	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Program
January 29, 2018 – February 25, 2018	217,400	\$ 52.23	217,400	\$ 203,045,000
February 26, 2018 – March 25, 2018	226,293	\$ 52.85	226,293	\$ 495,806,000
March 26, 2018 – April 29, 2018	288,237	\$ 49.96	288,237	\$ 481,406,000
Total	731,930	\$ 51.53	731,930	\$ 481,406,000

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

<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.1+*	Williams-Sonoma, Inc. Amended and Restated Executive Deferred Compensation Plan
10.2*	Second Amendment, dated March 1, 2018, to the Olive Branch Distribution Facility Lease between the Company as lessee and WSDC, LLC (the successor-in-interest to Hewson/Desoto Phase I, L.L.C.) as lessor, dated December 1, 1998, as amended September 1, 1999
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 8, 2018

WILLIAMS-SONOMA, INC.

AMENDED AND RESTATED

EXECUTIVE DEFERRED COMPENSATION PLAN

(Effective as of January 1, 2005, as amended and restated on December 1, 2014 and September 8, 2017)

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WILLIAMS-SONOMA, INC.

AMENDED AND RESTATED
EXECUTIVE DEFERRED COMPENSATION PLAN

(Effective as of January 1, 2005, as amended and restated on December 1, 2014 and September 8, 2017)

Williams-Sonoma, Inc. (the “Company”) hereby establishes this Williams-Sonoma, Inc. Executive Deferred Compensation Plan (the “Plan”), effective as of January 1, 2005 (the “Effective Date”), as amended and restated on December 1, 2014 and September 8, 2017. This amendment and restatement shall be effective commencing with deferrals made under the Plan during the Plan’s December 2017 open enrollment period.

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

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

SECTION 1
DEFINITIONS

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

- 1.1 “**Bankruptcy Court Approval**” means the approval of a bankruptcy court pursuant to 11 U.S.C. § 503(b)(1)(A).
- 1.2 “**Beneficiary**” means the person or persons entitled to receive benefits under the Plan upon the death of a Participant, as provided in Section 9.
- 1.3 “**Board of Directors**” or “**Board**” means the Board of Directors of the Employer.
- 1.4 “**Bonus**” means any cash incentive compensation that is payable to an Eligible Employee, in addition to his or her Salary, which the Committee, in its discretion, has designated as being eligible for deferral under the Plan.
- 1.5 “**Change of Control Event**” means a change in ownership or effective control of the Company or in the ownership of a substantial portion of the Company’s assets, as defined under Code Section 409A.

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

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

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

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

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

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

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

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

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

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

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- 1.16 “**Employer**” means Williams-Sonoma, Inc. and any successor corporation.
- 1.17 “**ERISA**” means the Employee Retirement Income Security Act of 1974, as amended. Reference to a specific section of ERISA will include such section, any valid regulation promulgated thereunder, and any comparable provision of any future legislation amending, supplementing or superseding such section.
- 1.18 “**401(k) Plan**” means the Williams-Sonoma, Inc. 401(k) Plan, as amended from time to time.
- 1.19 “**Fund**” or “**Funds**” means one or more of the mutual funds or other investment vehicles selected by the Committee pursuant to Section 3.2.1.
- 1.20 “**Participant**” means an individual who (a) has become a Participant in the Plan pursuant to Section 2.1, and (b) has not ceased to be a Participant pursuant to Section 2.2.
- 1.21 “**Plan**” means the Williams-Sonoma, Inc. 2005 Executive Deferred Compensation Plan , as set forth herein and as hereafter amended from time to time.
- 1.22 “**Plan Year**” means the calendar year.
- 1.23 “**Plan Year Subaccount**” means, with respect to a Participant, the bookkeeping account established and maintained by the Committee for the Participant under Section 4.1 to reflect, for each Plan Year, the deferrals of Salary made by the Participant for such Plan Year, the deferrals of Bonuses (if any) made by the Participant for the fiscal year of the Company which includes the last day of such Plan Year, any deemed earnings credited thereon, and any withdrawals and/or distributions debited thereto.
- 1.24 “**Retirement**” means a Participant’s Separation from Service on or after his or her attainment of both age fifty-five (55) and five (5) Years of Service.
- 1.25 “**Salary**” means the base pay that is payable to an Eligible Employee by the Company with respect to services performed during any period by the Employee and does not include any other type of remuneration (such as any severance payments, commissions, overtime, bonuses, or fringe benefits). Notwithstanding the foregoing, an Eligible Employee’s Salary will be calculated before any reduction for compensation voluntarily deferred or contributed by the Employee pursuant to all qualified and nonqualified plans of the Company and will be calculated to include amounts not otherwise included in the Employee’s gross income under Code Sections 125, 132, 402(e)(3) or 402(h) pursuant to plans or arrangements maintained by the Company; provided, however, that such amounts will be included in compensation only to the extent that had there been no such plan, the amount would have been payable in cash to the Employee.
- 1.26 “**Separation from Service**” means a Participant’s “separation from service” as defined in Code Section 409A. For this purpose, the employment relationship will be treated as continuing intact while the Participant is on military leave, sick leave or other bona fide leave of

absence, except that if the period of such leave exceeds six (6) months and the Participant does not retain a right to re-employment under an applicable statute or by contract, then the employment relationship will be deemed to have terminated on the first day immediately following such six-month period. A leave of absence constitutes a bona fide leave of absence only if there is a reasonable expectation that the Participant will return to perform services for the Company.

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

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

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

SECTION 2 PARTICIPATION

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

2.2 **Continuing Participation.** An Eligible Employee who has become a Participant will continue to be a Participant until all of his or her benefits are distributed under the Plan. The Committee may determine at any time, in its sole discretion, that a Participant is no longer an Eligible Employee. In the event a Participant ceases to be an Eligible Employee, if such individual has not undergone a Separation from Service, he or she shall continue to make Compensation deferral contributions under the Plan through the end of the Plan Year in which he or she ceases to be an Eligible Employee or such longer period required to avoid taxation under Code Section 409A. Thereafter, such individual shall not make any further Compensation deferral contributions to the Plan unless or until he or she again becomes an Eligible Employee.

SECTION 3
COMPENSATION DEFERRAL ELECTIONS

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

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

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

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

3.1.4 Timing Rule for Performance-Based or Bonus Compensation Deferral Elections. Notwithstanding the provisions of Section 3.1.3, if the Committee (in its discretion) determines that an Eligible Employee's Bonus qualifies as "performance-based compensation" as defined in Code Section 409A ("Performance-Based Compensation") or (effective before January 1, 2009) "bonus compensation" that is based on services performed over a period of at least twelve (12) months (as determined under Internal Revenue Notice 2005-1, Q/A-22) ("Bonus Compensation"), then the Eligible Employee may, if the Committee, in its discretion, permits such, elect to defer such Performance-Based or Bonus Compensation (as the case may be) by submitting an Election Form to

the Committee on or before the Submission Deadline, which in no event may be later than six (6) months before the end of the performance/ service period. In order for an Eligible Employee to be eligible to make a deferral election for Performance-Based Compensation in accordance with the deadline established pursuant to this Section 3.1.4, he or she must have performed services continuously from the later of the beginning of the performance period for such Compensation or the date on which the performance criteria for such Compensation was established through the date on which the deferral election is made; provided, however, that no such election may be made after the amount of such Compensation has become readily ascertainable. Any deferral election made in accordance with this Section 3.1.4 will become irrevocable effective as of the Submission Deadline, except as otherwise specified in the Plan.

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

- (a) Any whole percentage of Salary up to seventy-five percent (75%); and/or
- (b) Any whole percentage of Bonus up to one hundred percent (100%).

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

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

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

3.1.9 Duration of Salary Deferral Election. Any Salary deferral election made under Section 3.1.1 or 3.1.2 will be irrevocable with respect to the Plan Year for which it is made, and will remain in effect, notwithstanding any change in the Participant's Salary, until changed or cancelled in accordance with the terms of the Plan. Subject to the other limitations set forth in this Section 3.1, an Eligible Employee may increase, decrease or cancel his or her Salary deferral election for any subsequent Plan Year in accordance with Section 3.1.1.

3.1.10 Duration of Bonus Deferral Election. Any Bonus deferral election made under Section 3.1.2, 3.1.3 or 3.1.4 will be irrevocable with respect to the Bonus that is otherwise

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

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

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

3.2 Deemed Investment Elections.

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

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

3.2.3 Changes in Deemed Investment Elections. A Participant may change the designation of the Funds in which the balances of any of his or her Plan Year Subaccounts will be deemed to be invested in accordance with such procedures and rules established by the Committee from time to time. Such change must be made by timely filing an Election Form with the Committee reflecting such change.

3.2.4 No Actual Investment. Notwithstanding any contrary Plan provision, the Funds are to be used for measurement purposes only, and the Company will not be obligated in any way to actually invest any money in the Funds, or to acquire or maintain any actual investment. In the event that the Company, in its own discretion, decides to invest funds in any or all of the

investments on which the Funds are based, no Participant or any other person will have any rights in or to such investments themselves. Without limiting the foregoing, a Participant's Deferral Account balance will at all times be a bookkeeping entry only and will not represent any investment made on his or her behalf by the Company; the Participant will at all times remain an unsecured creditor of the Company.

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

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

3.3.2 Unforeseeable Emergency. A Participant's deferral election shall be automatically cancelled in the event the Participant obtains an unforeseeable emergency distribution from the Plan pursuant to Section 6.7 hereof. The Participant, if still an Eligible Employee, may re-enroll in the Plan in the next open enrollment period.

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

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

SECTION 4 ACCOUNTING

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

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

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

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

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

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

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

SECTION 5 VESTING

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

SECTION 6 DISTRIBUTIONS

6.1 Distribution on Retirement or Disability.

6.1.1 **Time for Payment.** Subject to the other provisions of Section 6 below, a distribution of a Participant's Deferral Account balance will be made or commenced on either the

quarter following the Participant's Retirement or Disability or the date (which must be the first day of a calendar year) a number of years after the Participant's Retirement or Disability (the "Retirement Payment Eligibility Date"), as designated by the Participant in his or her initial and annual deferral elections and which number may differ for different Plan Year Subaccounts. If the Participant makes no such designation, then the "Retirement Payment Eligibility Date" will be the calendar quarter immediately following the Participant's Retirement or Disability, or as soon as practicable thereafter, but in no event later than the end of the same calendar year.

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

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

6.1.4 Postponement of Retirement Payment Eligibility Date.

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

(b) Because Plan installment payments are considered a single payment for purposes of Code Section 409A, a subsequent election may accelerate the method of distribution. For example, if a Participant initially elected to receive Retirement or Disability payments in five

annual installments following her Retirement Eligibility Date, she could make a timely election to instead take a lump-sum distribution five years following her Retirement Eligibility Date. Moreover, a subsequent election may change a lump-sum distribution to an installment election, so long as, in either case, the initial payment is delayed for a period of at least five (5) years, the election is not effective for one (1) year and is made at least one (1) year in advance of the date upon which the first distribution would have otherwise been made.

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

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

6.2 Distribution on Separation from Service Not Due to Retirement. Subject to a 6-month delay as specified in section 6.5, the Deferral Account balance of a Participant who has neither died nor incurred a Disability and who undergoes a Separation from Service for any reason other than due to Retirement will be distributed in the form of a cash lump sum in the calendar quarter immediately following the Separation from Service, or as soon as practicable thereafter, but in no event later than the end of the same calendar year containing such quarter.

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

6.4 Scheduled In-Service Distributions.

(a) In connection with each election to defer his or her Compensation under the Plan, a Participant may elect to receive a "Scheduled In-Service Distribution" from the Plan with respect to such deferral. The Scheduled In-Service Distribution that is equal to the Plan Year Subaccount corresponding thereto shall be a single lump sum payment or annual installments over

two (2) to five (5) years, as elected by the Participant in accordance with such administrative procedures established by the Company. If the Participant makes no such designation, then such distribution will be paid in a cash lump sum. Subject to the other terms and provisions of the Plan, each Scheduled In-Service Distribution elected shall be paid, or commence to be paid, in January of the Plan Year that is two or more years after the end of the Plan Year in which the applicable Compensation is earned or commences to be earned (e.g., deferral elections in 2017 for Compensation that is earned or commences to be earned in 2018 may specify a January distribution date in 2021 or later), as elected by the Participant in accordance with such administrative procedures established by the Company. In no event shall any Plan payments be made later than January of the twenty-second (22nd) year following the end of the Plan Year in which the applicable Compensation is earned or commences to be earned (e.g., no later than January 2040 for compensation earned or commencing to be earned in 2018). Any payment scheduled to be made later than such time shall be paid with the last scheduled payment within such twenty-two (22) year period. Notwithstanding the foregoing, should an event occur prior to January of a Plan Year in which a Scheduled In-Service Distribution first is payable, or first commences to be payable, that triggers a distribution under another provision of Section 6, the deferral corresponding to such Scheduled In-Service Distribution under this Section 6.4 shall instead be paid in accordance with the other applicable provision of Section 6; provided, however, that if a Participant dies while in installment payout status, any remaining installments will be paid out in a lump sum in accordance with the rules set forth in Section 6.3.

(b) If a Participant's Scheduled In-Service Distribution is to be paid in annual installments pursuant to Section 6.4(a), his or her first installment will be equal to the balance then credited to the Subaccount corresponding thereto, divided by the number of installments to be made. Each subsequent installment will be paid to the Participant in the immediately following January, or as soon as practicable thereafter, but in no event later than the end of the same calendar year, and will be equal to the balance then credited to such Subaccount, divided by the number of installments remaining to be paid. While a Participant's Subaccount is in installment payout status, the unpaid Subaccount balance will continue to be credited with deemed earnings pursuant to Section 4.1(c). All installment payments under the Plan will be considered a single payment for purposes of complying with Code Section 409A.

(c) Subject to the other provisions of Section 6, a Participant may elect to extend the Scheduled In-Service Distribution date (for lump sum payments) or the Scheduled In-Service Distribution installment commencement date (for installment payments) for his or her Plan Year Subaccounts (the "Prior Scheduled In-Service Distribution Date") by submitting an Election Form to the Committee to that effect, provided that the following requirements are met: (a) the new election will not take effect until at least twelve (12) months after the date on which the Election Form is submitted; (b) the new Scheduled In-Service Distribution date or Scheduled In-Service Distribution installment commencement date, as applicable, is at least five (5) years after the Prior Scheduled In-Service Distribution Date; and (c) the Election Form is submitted no less than twelve (12) months before the Prior Scheduled In-Service Distribution Date. A Scheduled In-Service Distribution Date that has been so extended may be further extended by submitting another Election Form in the manner and at the times specified in this Section 6.4(b). In no event, however, will a Plan payment be made more than thirty years following the initial Scheduled In-Service Distribution Date. If a Plan payment is scheduled to be made more than thirty years following the initial Scheduled In-Service Distribution Date, it will instead be paid out in the thirtieth year following the initial Scheduled In-Service Distribution Date.

(d) Because Plan installment payments are considered a single payment for purposes of Code Section 409A, a subsequent election may accelerate the method of distribution. For example, if a Participant initially elected to receive a Scheduled In-Service Distribution in five annual installments commencing in January 2020, she could make a timely election to instead take a lump-sum distribution five years following such installment commencement date. Moreover, a subsequent election may change a lump-sum distribution to an installment election, so long as, in either case, the initial payment is delayed for a period of at least five (5) years, the election is not effective for one (1) year and is made at least one (1) year in advance of the date upon which the first distribution would have otherwise been made.

(e) Because installment payments are treated as a single payment under the Plan, any subsequent election must apply to all of the installment payments for a particular Plan Year Subaccount. For example, if a Participant initially elected to receive Scheduled In-Service Distribution payments in five annual installments commencing in 2021, the Participant may not elect to defer the 1st, 2nd, 3rd and 5th installments only, but must also defer the 4th installment.

6.5 Required Six-Month Delay in Payment for Specified Employees. Except as permitted by the Plan and Code Section 409A in connection with a Corporate Dissolution, pursuant to a Bankruptcy Court Approval, a conflicts of interest or ethics rules distribution under Section 6.6.2, a FICA and related income tax distribution under Section 6.6.3, a state, local or foreign tax distribution under Section 6.6.5, or a Code Section 409A distribution under Section 6.6.4, in no event may a Specified Employee's account be distributed on account of his or her Separation from Service earlier than six (6) months following the Specified Employee's Separation from Service (or if earlier, the Specified Employee's death). In the event a Specified Employee's Plan distributions are delayed due to the six-month delay requirement, the amounts otherwise payable to the Specified Employee during such period of delay shall be paid on a date that is at least six months and one day following Separation from Service, but no later than the end of the calendar year in which such six month and one day period ends (or, if earlier, within 60 days following the death of the Specified Employee).

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

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

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

6.6.3 Payment of Employment Taxes. The Committee, in its sole discretion, may accelerate the distribution of a Participant's Deferral Account balance sufficient to pay any Federal Insurance Contributions Act tax due under Code Sections 3101, 3121(a) and 3121(v)(2) on amounts deferred under the Plan (the "FICA Amount"), as well as to satisfy the corresponding tax withholding requirements with respect to the FICA Amount and the additional income tax payments

due pursuant to this Section 6.6.3, as specified in Code Section 409A. In no event, however, may the total accelerated payment under this Section 6.6.3 exceed the aggregate of the FICA Amount and the related income tax withholding.

6.6.4 Income Inclusion Under Section 409A of the Code. Subject to Section 6.5, in the event that the Plan fails to satisfy the requirements of Code Section 409A, the Committee, in its sole discretion, may accelerate the distribution of a Participant's Deferral Account up to the maximum amount required to be included in income as a result of the failure to comply with Code Section 409A.

6.6.5 Payment of State, Local or Foreign Taxes. Subject to Section 6.5, the Committee, in its sole discretion, may accelerate the distribution of a Participant's Deferral Account sufficient to pay any state, local or foreign tax obligations arising from participation in the Plan that apply to an amount deferred under the Plan before the scheduled distribution of such amount, as specified in Code Section 409A. In the event the Committee exercises such discretion, the Committee may also permit a distribution sufficient to pay related income tax withholding in accordance with Code Section 409A. In no event, however, may the total payment under this Section 6.6.5 exceed the aggregate amount of such taxes due.

6.6.6 Certain Offsets. Subject to Section 6.5, the Committee, in its sole discretion, may accelerate the distribution of a Participant's Deferral Account balance as satisfaction of a debt of the Participant to the Company, as specified in Code Section 409A.

6.6.7 Bona Fide Disputes as to a Right to a Payment. Subject to Section 6.5, the Committee, in its sole discretion, may accelerate the distribution of a Participant's Deferral Account balance in accordance with Code Section 409A where such distribution occurs as part of a settlement between the Participant and the Company of an arm's length, bona fide dispute as to the Participant's right to the deferred amount.

6.7 Unforeseeable Emergency. If a Participant incurs an Unforeseeable Emergency, the Committee, in its sole discretion, may determine that all or part of the Participant's Deferral Account balance will be distributed to him or her in a cash lump sum payment on the date that immediately follows the date on which the Committee determines that the Participant has incurred the Unforeseeable Emergency; provided, however, that the amount paid to the Participant pursuant to this Section 6.7 will be limited to the amount reasonably necessary to satisfy the Unforeseeable Emergency (which may include amounts necessary to pay any federal, state, local, or foreign income taxes or penalties reasonably anticipated to result from the payment). Also, no payment under this Section 6.7 will be made to the extent that the Participant's Unforeseeable Emergency is or may be relieved through reimbursement or compensation from insurance or otherwise, by liquidation of the Participant's assets (to the extent the liquidation of such assets would not itself cause severe financial hardship), or by the cancellation of the Participant's Compensation Deferrals in accordance with Section 3.3.2. Notwithstanding the foregoing, any determination to accelerate the distribution of the Deferral Account of any member of the Committee under this Section 6.7 will be made by the Board.

6.8 Inability to Locate Participant or Beneficiary. If the Committee is unable to locate a Participant or his or her Beneficiary on any date on which a distribution is to be made from such Participant's Deferral Account, the Company will retain the distribution which was to be made on

such date until such time as the Committee can locate the Participant or Beneficiary; provided, however, that the Company may deduct from such retained distributions all taxes which are required to be withheld by the Company. No additional deemed earnings will be credited pursuant to Section 4.1(c) on any distribution retained pursuant to this Section 6.8. If the Committee is unable to locate a Participant or Beneficiary within five (5) years following a date on which a distribution is to be made from such Participant's Deferral Account, the amount of such distribution will be forfeited. In seeking to locate a Participant or Beneficiary, the Committee may take any reasonable action, but will not be required to take any action other than communicating by registered mail to the address or addresses last provided to the Committee by the Participant or Beneficiary.

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

SECTION 7 CHANGE OF CONTROL

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

7.2 **No Deferrals Following a Change of Control.** To the extent permitted under Code Section 409A, the Committee may, in its sole discretion, provide that Plan deferrals shall cease as of the date of a Change of Control Event.

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

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

8.1 **Corporate Dissolution.** The Board, in its sole discretion, may terminate the Plan and accelerate all scheduled Plan distributions within 12 months following a Corporate Dissolution; provided that such termination and distribution acceleration complies with the requirements of Code Section 409A.

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

SECTION 9
BENEFICIARY DESIGNATION

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

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

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

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

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

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

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

SECTION 10 ADMINISTRATION OF THE PLAN

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

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

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

- (a) To construe and interpret the meaning and validity of the provisions of the Plan and to determine any question arising under, or in connection with, the administration, operation, or validity of the Plan or any amendment thereto;
- (b) To determine who are Eligible Employees, subject to the limitations described in the Plan;
- (c) To cause a Deferral Account and/or Plan Year Subaccounts to be maintained for each Participant;

- (d) To decide any and all considerations affecting the eligibility of any employee to become a Participant or remain a Participant in the Plan;
- (e) To determine the manner and form for making elections under the Plan;
- (f) To determine, establish and revise an accounting method or formula for the Plan, as provided in Section 4.2;
- (g) To determine the status and rights of Participants and their spouses, Beneficiaries or estates;
- (h) To administer the claims and review procedures set forth in Section 12;
- (i) To establish, from time to time, rules for the performance of its powers and duties and for the administration of the Plan as are not inconsistent with the terms of the Plan;
- (j) To delegate to any one or more of its members or to any other person, severally or jointly, the authority to perform for and on behalf of the Committee one or more of the functions of the Committee under the Plan;
- (k) To arrange for the distribution to each Participant of a statement of any benefits accrued under the Plan, at least annually; or
- (l) To decide all issues and questions regarding Deferral Account and/or Plan Year Subaccount balances, and the time, form, manner and amount of distributions to Participants or their Beneficiaries in accordance with the terms of the Plan.

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

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

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

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

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

SECTION 11 CLAIMS AND REVIEW PROCEDURE

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

11.2 **Non-Disability Claims.**

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

- (a) that the Claimant’s requested determination has been made, and that the Non-Disability Claim has been allowed in full; or
- (b) that the Committee has reached a conclusion contrary, in whole or in part, to the Claimant’s requested determination, which notice will set forth:
 - (i) the specific reason(s) for the denial of the Claim;
 - (ii) specific reference(s) to pertinent provisions of the Plan upon which the denial was based;
 - (iii) a description of any additional material or information necessary for the Claimant to perfect the Claim, and an explanation of why such material or information is necessary;

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

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

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

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

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

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

11.2.3 Decision on Review of the Non-Disability Claim. The Committee will render its decision on review promptly, but not later than sixty (60) days after the Committee receives the Claimant's timely written request for a review of the denial of the Non-Disability Claim. If the Committee determines that special circumstances require an extension of time for reviewing the Non-Disability Claim, written notice of the extension will be furnished to the Claimant before the termination of the initial sixty (60) day period. In no event will such extension exceed a period of sixty (60) days from the end of the initial sixty (60) day period. The extension notice will indicate the special circumstances requiring the extension of time and the date by which the Committee expects to render its decision on review. In rendering its decision, the Committee will take into account all comments, documents, records and other information submitted by the Claimant (if any) relating to the Non-Disability Claim, without regard to whether such information was submitted or considered in the initial Claim determination. If the Committee wholly or partly denies the Non-Disability Claim on review, the Committee will provide written notice to the Claimant which will set forth:

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

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

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

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

11.3 Disability Claims.

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

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

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

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

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

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

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

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

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

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

- (a) may, upon request and free of charge, have reasonable access to, and copies of, all documents, records and other information relevant (as defined in ERISA) to the Disability Claim;
- (b) may submit written comments or other documents to the Committee; and/or
- (c) may request a hearing, which the Committee, in its sole discretion, may grant.

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

- (a) the specific reasons for the denial of the Claim;
- (b) specific reference(s) to the pertinent Plan provisions upon which the denial was based;

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

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

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

11.4 Exhaustion of Claims and Review Procedure and Legal Action.

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

SECTION 12 MODIFICATION OR TERMINATION OF THE PLAN

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

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

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

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

SECTION 13
GENERAL

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

13.2 Restriction Against Assignment. The Company will pay all amounts payable hereunder only to the person or persons designated by the Plan and not to or for any other person. No part of a Participant's Deferral Account will be liable for the debts, contracts, or engagements of any Participant, his or her Beneficiary, or successors in interest, nor will a Participant's Deferral Account be subject to execution by levy, attachment, or garnishment or by any other legal or equitable proceeding, nor will any such person have any right to alienate, anticipate, transfer, commute, pledge, encumber, or assign any benefits or payments hereunder in any manner whatsoever; provided, however, that a Deferral Account hereunder may be transferred to a Participant's former spouse pursuant to a Domestic Relations Order. Any purported alienation, anticipation, transfer, commutation, pledge, encumbrance, or assignment will be void and of no effect.

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

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

13.5 Tax Withholding. Notwithstanding any contrary Plan provision, the Company will have the right to deduct from a Participant's Deferral Account and/or any payments due to the Participant or his or her Beneficiary under the Plan any and all taxes determined by the Committee

to be applicable with respect to such benefits. If any taxes, including employment taxes with respect to the Deferral Account, are required to be withheld prior to the time of payment, the Company may withhold such amounts from other compensation that is payable to the Participant by the Company.

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

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

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

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

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

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

EXECUTION

IN WITNESS WHEREOF, Williams-Sonoma, Inc., by its duly authorized officer, has executed this Plan on the date indicated below.

WILLIAMS-SONOMA, INC.

/s/ Julie Whalen

By: Julie Whalen

Title: EVP, Chief Financial Officer

Dated: September 8, 2017

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SECOND AMENDMENT TO LEASE

THIS SECOND AMENDMENT TO LEASE ("Second Amendment") is entered into effective as of the 1st day of March, 2018 (the "Effective Date"), by and between WSDC, LLC, as successor to Hewson/Desoto Phase I, L.L.C. ("Landlord"), Williams-Sonoma, Inc. ("Original Tenant"), and Williams-Sonoma Retail Distribution Center, Inc. ("Tenant"), and amends the Lease entered into by and between Hewson/Desoto Phase I, L.L.C. as Landlord and Original Tenant dated as of December 1, 1998, as amended by First Amendment by and among Landlord, Original Tenant, and Tenant, dated as of September 1, 1999 (collectively, the "Lease").

RECITALS:

Landlord, Original Tenant, and Tenant desire to amend the Lease on the terms and conditions set forth herein.

AGREEMENTS:

In consideration of the mutual covenants, conditions and promises hereinafter contained, the parties agree as follows:

1. **Effect of Amendment.** Unless otherwise defined in this Second Amendment, all capitalized terms shall have the same meaning as set forth in the Lease. All terms and conditions in the Lease which are not contrary to the terms and conditions of this Second Amendment shall remain in full force and effect, and are incorporated herein by this reference.
2. **Payment of Bonds.** As of the Effective Date, (i) Landlord and Tenant acknowledge that all of the Bonds (including without limitation the Series 1998 and Series 1999 Bonds) will have been paid in full and will no longer be Outstanding, and the Indenture will be released; (ii) all references in the Lease to required approvals by the Bondholders, Trustee, or Issuer, or required compliance with the Bond Documents, are hereby deleted; and (iii) there shall be no further requirement to name Trustee as an additional insured party.
3. **Amendment to Rent Schedule.** As of the Effective Date, there shall be no further payments of Basic Rent to the Trustee and no difference between, and with no duplication of, Basic Rent and Company Payments. All Global Basic Rent shall be paid directly to Landlord, according to the Rent Schedule as set forth on the attached Exhibit "A". There shall be no further separate Addition Global Basic Rent or Addition Rent Schedule, and the only Global Basic Rent due under the Lease as of the Effective Date shall be as set forth on the attached Exhibit A.
4. **No Default.** Original Tenant and Tenant acknowledge that the Lease is in full force and effect and that there is no Event of Default on the part of Landlord which has occurred or which with the passage of time will occur which would allow Original Tenant or Tenant to terminate the Lease or claim any offsets against Rent or sums due from the Landlord. Landlord acknowledges that the Lease is in full force and effect and that there is no Event of Default on the part of Original Tenant or Tenant.

IN WITNESS WHEREOF, the parties hereto have executed this Second Amendment as of the Effective Date.

LANDLORD:

WSDC, LLC, a Delaware limited liability company

By: SUMMA INVESTMENT II, LLC, a Delaware limited liability company

By: /s/ Jonathan Tratt
Jonathan Tratt, Manager

ORIGINAL TENANT:

WILLIAMS-SONOMA, INC., a Delaware corporation

By: /s/ Julie Whalen
Name: Julie Whalen
Title: EVP, CFO

TENANT:

WILLIAMS-SONOMA RETAIL DISTRIBUTION CENTER, INC., a California corporation

By: /s/ Julie Whalen
Name: Julie Whalen
Title: EVP, CFO

EXHIBIT A**GLOBAL BASIC RENT SCHEDULE****New Schedule
(as of March 1, 2018)**

<u>Due Date</u>	<u>Total Rent</u>
03/15/18	\$ 876,851.76
04/01/18	\$ 292,283.92
05/01/18	\$ 292,283.92
06/01/18	\$ 292,283.92
07/01/18	\$ 292,283.92
08/01/18	\$ 292,283.92
09/01/18	\$ 292,283.92
10/01/18	\$ 292,283.92
11/01/18	\$ 292,283.92
12/01/18	\$ 292,283.92
01/01/19	\$ 292,283.92
02/01/19	\$ 292,283.92
03/01/19	\$ 292,283.92
04/01/19	\$ 292,283.92
05/01/19	\$ 292,283.92
06/01/19	\$ 292,283.92
07/01/19	\$ 292,283.92
08/01/19	\$ 292,283.92
09/01/19	\$ 292,283.92
10/01/19	\$ 292,283.92
11/01/19	\$ 292,283.92
12/01/19	\$ 292,283.92
01/01/20	\$ 292,283.92
02/01/20	\$ 292,283.92
03/01/20	\$ 292,283.92
04/01/20	\$ 292,283.92
05/01/20	\$ 292,283.92
06/01/20	\$ 292,283.92
07/01/20	\$ 292,283.92
08/01/20	\$ 292,283.92
09/01/20	\$ 292,283.92
10/01/20	\$ 292,283.92
11/01/20	\$ 292,283.92
12/01/20	\$ 292,283.92
01/01/21	\$ 292,283.92
02/01/21	\$ 292,283.92
03/01/21	\$ 292,283.92

04/01/21	\$ 292,283.92
05/01/21	\$ 292,283.92
06/01/21	\$ 292,283.92
07/01/21	\$ 292,283.92
08/01/21	\$ 292,283.92
09/01/21	\$ 292,283.92
10/01/21	\$ 292,283.92
11/01/21	\$ 292,283.92
12/01/21	\$ 292,283.92
TOTAL	\$14,029,628.16

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 8, 2018

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

CERTIFICATION

I, Julie Whalen, certify that:

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

Date: June 8, 2018

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

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

In connection with the Quarterly Report on Form 10-Q for the period ended April 29, 2018 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 8, 2018

**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 April 29, 2018 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 8, 2018

