

WILLIAMS SONOMA INC
Form 10-Q
June 07, 2016
[Table of Contents](#)

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended May 1, 2016.

or

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

For the transition period from _____ to _____

Commission File Number: 001-14077

WILLIAMS-SONOMA, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization) 3250 Van Ness Avenue, San Francisco, CA (Address of principal executive offices) Registrant's telephone number, including area code: (415) 421-7900 (Former name, former address and former fiscal year, if changed since last report)	94-2203880 (I.R.S. Employer Identification No.) 94109 (Zip Code)
---	---

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, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting 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 ☐

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 29, 2016, 89,154,536 shares of the registrant's Common Stock were outstanding.

Table of Contents

WILLIAMS-SONOMA, INC.

REPORT ON FORM 10-Q

FOR THE QUARTER ENDED MAY 1, 2016

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

	PAGE
Item 1. <u>Financial Statements</u>	2
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	16
Item 4. <u>Controls and Procedures</u>	17

PART II. OTHER INFORMATION

Item 1. <u>Legal Proceedings</u>	17
Item 1A. <u>Risk Factors</u>	17
Item 2. <u>Unregistered Sales of Equity Securities And Use of Proceeds</u>	18
Item 3. <u>Defaults Upon Senior Securities</u>	18
Item 4. <u>Mine Safety Disclosures</u>	18
Item 5. <u>Other Information</u>	18
Item 6. <u>Exhibits</u>	19

Table of Contents**ITEM 1. FINANCIAL STATEMENTS****WILLIAMS-SONOMA, INC.****CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS**

(Unaudited)

	Thirteen Weeks Ended	
	May 1,	May 3,
	2016	2015
<i>In thousands, except per share amounts</i>		
E-commerce net revenues	\$ 576,234	\$ 532,573
Retail net revenues	521,583	498,103
Net revenues	1,097,817	1,030,676
Cost of goods sold	705,300	651,835
Gross profit	392,517	378,841
Selling, general and administrative expenses	328,992	306,913
Operating income	63,525	71,928
Interest (income) expense, net	(68)	8
Earnings before income taxes	63,593	71,920
Income taxes	23,996	27,130
Net earnings	\$ 39,597	\$ 44,790
Basic earnings per share	\$ 0.44	\$ 0.49
Diluted earnings per share	\$ 0.44	\$ 0.48
Shares used in calculation of earnings per share:		
Basic	89,298	91,707
Diluted	90,514	93,300

*See Notes to Condensed Consolidated Financial Statements.***WILLIAMS-SONOMA, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Unaudited)

	Thirteen Weeks Ended	
	May 1,	May 3,
	2016	2015
<i>In thousands</i>		
Net earnings	\$ 39,597	\$ 44,790
Other comprehensive income (loss):		
Foreign currency translation adjustments	5,208	867
Change in fair value of derivative financial instruments, net of tax of \$768 and \$134	(2,165)	(379)

Reclassification adjustment for realized gains on derivative

financial instruments, net of tax of \$107 and \$70	(302)	(198)
---	-------	-------

Comprehensive income	\$ 42,338	\$ 45,080
----------------------	-----------	-----------

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**WILLIAMS-SONOMA, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(Unaudited)

	May 1,	January 31,	May 3,
<i>In thousands, except per share amounts</i>	2016	2016	2015
ASSETS			
Current assets			
Cash and cash equivalents	\$ 99,217	\$ 193,647	\$ 78,851
Accounts receivable, net	75,364	79,304	64,720
Merchandise inventories, net	944,632	978,138	942,800
Prepaid catalog expenses	29,916	28,919	35,648
Prepaid expenses	53,689	44,654	59,684
Deferred income taxes, net			130,889
Other assets	9,844	11,438	11,627
Total current assets	1,212,662	1,336,100	1,324,219
Property and equipment, net	893,640	886,813	876,785
Non-current deferred income taxes, net	131,597	141,784	
Other assets, net	52,469	52,730	50,085
Total assets	\$ 2,290,368	\$ 2,417,427	\$ 2,251,089
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable	\$ 339,392	\$ 447,412	\$ 367,525
Accrued salaries, benefits and other	96,577	127,122	87,067
Customer deposits	275,116	296,827	258,854
Borrowings under revolving line of credit	100,000		60,000
Income taxes payable	7,764	67,052	8,322
Current portion of long-term debt			1,968
Other liabilities	52,907	58,014	45,092
Total current liabilities	871,756	996,427	828,828
Deferred rent and lease incentives	188,715	173,061	170,528
Non-current deferred income taxes, net			1,958
Other long-term obligations	67,041	49,713	63,143
Total liabilities	1,127,512	1,219,201	1,064,457
Commitments and contingencies			
Stockholders' equity			
Preferred stock: \$.01 par value; 7,500 shares authorized; none issued			
Common stock: \$.01 par value; 253,125 shares authorized; 89,350, 89,563 and 91,644 shares issued and outstanding at May 1, 2016, January 31, 2016 and May 3, 2015, respectively	894	896	917
Additional paid-in capital	534,414	541,307	527,257
Retained earnings	636,986	668,545	662,671

Edgar Filing: WILLIAMS SONOMA INC - Form 10-Q

Accumulated other comprehensive loss	(7,875)	(10,616)	(2,257)
Treasury stock, at cost: 23, 29 and 30 shares as of May 1, 2016, January 31, 2016 and May 3, 2015, respectively	(1,563)	(1,906)	(1,956)
Total stockholders' equity	1,162,856	1,198,226	1,186,632
Total liabilities and stockholders' equity	\$ 2,290,368	\$ 2,417,427	\$ 2,251,089

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**WILLIAMS-SONOMA, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

	Thirteen Weeks Ended	
	May 1, 2016	May 3, 2015
<i>In thousands</i>		
Cash flows from operating activities:		
Net earnings	\$ 39,597	\$ 44,790
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	41,240	41,478
Loss on disposal/impairment of assets	880	1,694
Amortization of deferred lease incentives	(5,987)	(5,999)
Deferred income taxes	(5,796)	(5,498)
Tax benefit related to stock-based awards	20,087	20,572
Excess tax benefit related to stock-based awards	(3,824)	(8,724)
Stock-based compensation expense	15,732	14,010
Other	(418)	51
Changes in:		
Accounts receivable	3,781	2,864
Merchandise inventories	37,424	(53,746)
Prepaid catalog expenses	(997)	(1,706)
Prepaid expenses and other assets	(7,683)	(21,439)
Accounts payable	(113,510)	(25,030)
Accrued salaries, benefits and other current and long-term liabilities	(20,875)	(51,387)
Customer deposits	(22,465)	(3,106)
Deferred rent and lease incentives	9,439	8,260
Income taxes payable	(59,285)	(24,155)
Net cash used in operating activities	(72,660)	(67,071)
Cash flows from investing activities:		
Purchases of property and equipment	(28,149)	(40,384)
Other	294	5
Net cash used in investing activities	(27,855)	(40,379)
Cash flows from financing activities:		
Borrowings under revolving line of credit	100,000	60,000
Repurchase of common stock	(40,639)	(52,562)
Payment of dividends	(34,423)	(31,934)
Tax withholdings related to stock-based awards	(22,904)	(21,734)
Excess tax benefit related to stock-based awards	3,824	8,724
Proceeds related to stock-based awards	995	1,836
Other	(48)	
Net cash provided by (used in) financing activities	6,805	(35,670)
Effect of exchange rates on cash and cash equivalents	(720)	(956)

Edgar Filing: WILLIAMS SONOMA INC - Form 10-Q

Net decrease in cash and cash equivalents	(94,430)	(144,076)
Cash and cash equivalents at beginning of period	193,647	222,927
Cash and cash equivalents at end of period	\$ 99,217	\$ 78,851

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

WILLIAMS-SONOMA, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE A. FINANCIAL STATEMENTS - BASIS OF PRESENTATION

These financial statements include Williams-Sonoma, Inc. and its wholly owned subsidiaries (we, us or our). The Condensed Consolidated Balance Sheets as of May 1, 2016 and May 3, 2015, 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 31, 2016, 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 31, 2016.

The results of operations for the thirteen weeks ended May 1, 2016 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 31, 2016.

In November 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-17, *Balance Sheet Classification of Deferred Taxes*, which requires entities to present both deferred tax assets and deferred tax liabilities as noncurrent in a classified balance sheet. We early adopted this ASU prospectively as of January 31, 2016, and have presented both deferred tax assets and deferred tax liabilities as noncurrent in our Condensed Consolidated Balance Sheets as of January 31, 2016 and May 1, 2016. The balance sheet as of May 3, 2015, presented herein, has not been retrospectively adjusted.

New Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, to clarify the principles of recognizing revenue and create common revenue recognition guidance between U.S. Generally Accepted Accounting Principles and International Financial Reporting Standards. In addition, in March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers: Principal versus Agent Considerations*. The amendments are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. The FASB also issued ASU 2016-10, *Identifying Performance Obligations and Licensing* in April 2016, which amends certain aspects of ASU 2014-09 for identifying performance obligations and the implementation guidance on licensing. These ASUs are effective retrospectively for fiscal years and interim periods within those years beginning after December 15, 2017. We are currently assessing the potential impact of these ASUs 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 are currently assessing the potential impact of this ASU on our Condensed Consolidated Financial Statements.

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 fiscal years and interim periods within those years beginning after December 15, 2018. We are currently assessing the potential impact of this ASU on our Condensed Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which simplifies the accounting for share-based payment transactions (including the accounting for income taxes and forfeitures, among other areas). The ASU requires entities to recognize all excess tax benefits and deficiencies in the income statement in the period in which they occur. This ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2016. We are currently assessing the potential impact of this ASU on our Condensed Consolidated Financial Statements.

Table of Contents**NOTE B. BORROWING ARRANGEMENTS***Credit Facility*

We have a \$500,000,000 unsecured revolving line of credit (credit facility) that 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 credit facility by up to \$250,000,000, at such lenders option, to provide for a total of \$750,000,000 of unsecured revolving credit. As of May 1, 2016, we were in compliance with our financial covenants under the credit facility and based on current projections, we expect to remain in compliance throughout fiscal 2016. The credit facility matures on November 19, 2019, at which time all outstanding borrowings must be repaid and all outstanding letters of credit must be cash collateralized.

We may elect interest rates calculated at (i) Bank of America s prime rate (or, if greater, the average rate on overnight federal funds plus one-half of one percent, or a rate based on LIBOR plus one percent) plus a margin based on our leverage ratio or (ii) LIBOR plus a margin based on our leverage ratio. During the first quarter of fiscal 2016, we had borrowings of \$100,000,000 under the credit facility (at a weighted average interest rate of 1.45%), all of which was outstanding, as of May 1, 2016. During the first quarter of 2015, we had borrowings of \$60,000,000 under the credit facility (at a weighted average interest rate of 1.09%), all of which was outstanding as of May 3, 2015. Additionally, as of May 1, 2016, \$13,290,000 in issued but undrawn standby letters of credit was outstanding under the credit facility. The standby letters of credit were issued to secure the liabilities associated with workers compensation and other insurance programs.

Letter of Credit Facilities

We have three unsecured letter of credit reimbursement facilities for a total of \$70,000,000, each of which matures on August 27, 2016. The letter of credit facilities contain covenants that are consistent with our unsecured revolving line of credit. Interest on unreimbursed amounts under the letter of credit facilities accrues at the lender s prime rate (or, if greater, the average rate on overnight federal funds plus one-half of one percent) plus 2.0%. As of May 1, 2016, an aggregate of \$5,026,000 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 24, 2017.

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 May 1, 2016, there were approximately 7,441,000 shares available for future grant. Awards may be granted under the Plan to officers, employees and non-employee members of the board of directors of the company (the Board) or any parent or subsidiary. Shares issued as a result of award exercises or releases are primarily funded with the issuance of new shares.

Option Awards

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

Stock Awards

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

Stock-Based Compensation Expense

During the thirteen weeks ended May 1, 2016 and May 3, 2015, we recognized total stock-based compensation expense, as a component of selling, general and administrative expenses, of \$15,732,000 and \$14,010,000, respectively.

Table of Contents*Stock Options*

The following table summarizes our stock option activity during the thirteen weeks ended May 1, 2016:

	Shares
Balance at January 31, 2016 (100% vested)	38,500
Granted	
Exercised	(38,500)
Cancelled	
Balance at May 1, 2016	

Stock-Settled Stock Appreciation Rights

The following table summarizes our stock-settled stock appreciation right activity during the thirteen weeks ended May 1, 2016:

	Shares
Balance at January 31, 2016 (100% vested)	634,609
Granted	
Converted into common stock	(97,095)
Cancelled	
Balance at May 1, 2016 (100% vested)	537,514

Restricted Stock Units

The following table summarizes our restricted stock unit activity during the thirteen weeks ended May 1, 2016:

	Shares
Balance at January 31, 2016	2,288,958
Granted	1,017,858
Released	(833,836)
Cancelled	(135,953)
Balance at May 1, 2016	2,337,027
Vested plus expected to vest at May 1, 2016	1,488,811

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

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

		Weighted	Earnings
<i>In thousands, except per share amounts</i>	Net Earnings	Average Shares	Per Share
Thirteen weeks ended May 1, 2016			
Basic	\$ 39,597	89,298	\$ 0.44
Effect of dilutive stock-based awards		1,216	
Diluted	\$ 39,597	90,514	\$ 0.44
Thirteen weeks ended May 3, 2015			
Basic	\$ 44,790	91,707	\$ 0.49
Effect of dilutive stock-based awards		1,593	
Diluted	\$ 44,790	93,300	\$ 0.48

Table of Contents

Stock-based awards of 203,000 were excluded from the computation of diluted earnings per share for the thirteen weeks ended May 1, 2016, as their inclusion would be anti-dilutive. There were no stock-based awards excluded from the computation of diluted earnings per share for the thirteen weeks ended May 3, 2015.

NOTE E. SEGMENT REPORTING

We have two reportable segments, e-commerce and retail. The e-commerce segment has the following merchandising 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 merchandising strategies are operating segments, which have been aggregated into one reportable segment, e-commerce. The retail segment has the following merchandising strategies: Williams-Sonoma, Pottery Barn, Pottery Barn Kids, West Elm and Rejuvenation, which sell our products through our retail stores. Our retail merchandising 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, and other corporate long-lived assets.

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

Segment Information

<i>In thousands</i>	E-commerce	Retail	Unallocated	Total
Thirteen weeks ended May 1, 2016				
Net revenues ¹	\$ 576,234	\$ 521,583	\$	\$ 1,097,817
Depreciation and amortization expense	7,614	20,749	12,877	41,240
Operating income (loss) ²	131,545	30,125	(98,145)	63,525
Assets ³	600,053	1,039,580	650,735	2,290,368
Capital expenditures	3,849	13,752	10,548	28,149
Thirteen weeks ended May 3, 2015				

Edgar Filing: WILLIAMS SONOMA INC - Form 10-Q

Net revenues ¹	\$ 532,573	\$ 498,103	\$	\$ 1,030,676
Depreciation and amortization expense	8,102	20,150	13,226	41,478
Operating income (loss)	127,574	28,126	(83,772)	71,928
Assets ³	610,976	1,053,039	587,074	2,251,089
Capital expenditures	3,936	19,928	16,520	40,384

¹ Includes net revenues related to our international operations (including our operations in Canada, Australia, the United Kingdom and our franchise businesses) of approximately \$69.7 million and \$54.8 million for the thirteen weeks ended May 1, 2016 and May 3, 2015, respectively.

² Includes \$13.2 million of severance-related reorganization charges due to a reduction of headcount, primarily in our corporate functions, which is recorded as selling, general and administrative expense within the unallocated segment.

³ Includes long-term assets related to our international operations of approximately \$64.4 million and \$59.0 million as of May 1, 2016 and May 3, 2015, 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 larger. 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

Table of Contents

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 be time consuming, result in costly litigation, require significant amounts of management time and result in the diversion of significant operational resources. The results of these lawsuits, claims and proceedings cannot be predicted with certainty. However, we believe that the ultimate resolution of these current matters will not have a material adverse effect on our consolidated financial statements taken as a whole.

NOTE G. STOCK REPURCHASE PROGRAM AND DIVIDENDS

Stock Repurchase Program

In March 2016, we announced that our Board of Directors had authorized a new stock repurchase program to purchase up to \$500,000,000 of our common stock that we intend to execute over the next three years. During the thirteen weeks ended May 1, 2016, we repurchased 727,629 shares of our common stock at an average cost of \$55.85 per share for a total cost of approximately \$40,639,000. As of May 1, 2016, we held treasury stock of \$1,563,000 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 May 3, 2015, we repurchased 664,402 shares of our common stock at an average cost of \$79.11 per share for a total cost of approximately \$52,562,000.

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

Dividends

We declared cash dividends of \$0.37 and \$0.35 per common share during the thirteen weeks ended May 1, 2016 and May 3, 2015, respectively. Our quarterly cash dividend may be limited or terminated at any time.

NOTE H. DERIVATIVE FINANCIAL INSTRUMENTS

We have retail and/or 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. To mitigate this risk, we hedge a portion of our foreign currency exposure with foreign currency forward contracts in accordance with our risk management policies. We do not enter into such contracts for speculative purposes.

The assets or liabilities associated with the derivative instruments are measured at fair value and recorded in either other current assets or other current liabilities. As discussed below, the accounting for gains and losses resulting from changes in fair value depends on whether the derivative instrument is designated as a hedge and qualifies for hedge accounting in accordance with the Financial Accounting Standards Board 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 foreign subsidiaries. These hedges generally have terms of up to 12 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 other income (expense), net. Based on the rates in effect as of May 1, 2016, we expect to reclassify a net loss of approximately \$2,171,000 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 purchase U.S. dollars) to reduce the exchange risk associated with our assets and liabilities denominated in a foreign currency. Any foreign exchange gains (losses) related to these contracts are recognized in other income (expense), net.

Table of Contents

As of May 1, 2016 and May 3, 2015, we had foreign currency forward contracts outstanding (in U.S. dollars) with notional values as follows:

<i>In thousands</i>	May 1, 2016	May 3, 2015
Contracts designated as cash flow hedges	\$ 27,150	\$ 20,400
Contracts not designated as cash flow hedges	\$ 43,000	\$ 26,000

Hedge effectiveness is evaluated prospectively at inception, on an ongoing basis, as well as retrospectively using regression analysis. Any measureable ineffectiveness of the hedge is recorded in other income (expense), net. No gain or loss was recognized for cash flow hedges due to hedge ineffectiveness and all hedges were deemed effective for assessment purposes for the thirteen weeks ended May 1, 2016 and May 3, 2015.

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

<i>In thousands</i>	Thirteen Weeks Ended May 1, 2016	Thirteen Weeks Ended May 3, 2015
Net loss recognized in OCI	\$ (2,933)	\$ (513)
Net gain reclassified from OCI into cost of goods sold	\$ 409	\$ 268
Net foreign exchange gain (loss) recognized in other income (expense):		
Instruments designated as cash flow hedges ¹	\$ 23	\$ (16)
Instruments not designated or de-designated ²	\$ (3,342)	\$ 382

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

² Changes in fair value for instruments not designated as cash flow hedges as well as de-designated instruments.

The fair values of our derivative financial instruments are presented below. All fair values were measured using Level 2 inputs as defined by the fair value hierarchy described in Note I.

<i>In thousands</i>	Balance sheet location	May 1, 2016	May 3, 2015
Derivatives designated as hedging instruments:			
Cash flow hedge foreign currency forward contracts	Other current assets	\$	\$ 283
Cash flow hedge foreign currency forward contracts	Other current liabilities	(2,160)	(426)
Total, net		\$ (2,160)	\$ (143)
Derivatives not designated as hedging instruments:			
Foreign currency forward contracts	Other current assets	\$	\$ 262
Foreign currency forward contracts	Other current liabilities	(287)	

Total, net	\$ (287)	\$ 262
------------	----------	--------

We record all derivative assets and liabilities on a gross basis. They do not meet the balance sheet netting criteria as discussed in Accounting Standard Codification (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

Table of Contents

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.

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 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 a 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 May 1, 2016 or May 3, 2015.

NOTE J. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	Accumulated Other		
	Foreign Currency	Cash Flow	Comprehensive
<i>In thousands</i>	Translation	Hedges	Income (Loss)
Balance at January 31, 2016	\$ (11,480)	\$ 864	\$ (10,616)
Foreign currency translation adjustments	5,208		5,208
Change in fair value of derivative financial instruments		(2,165)	(2,165)

Reclassification adjustment for realized gains on derivative financial instruments ¹		(302)		(302)
Other comprehensive income (loss)	5,208	(2,467)		2,741
Balance at May 1, 2016	\$ (6,272)	\$ (1,603)	\$	(7,875)
Balance at February 1, 2015	\$ (3,522)	\$ 974	\$	(2,548)
Foreign currency translation adjustments	867			867
Change in fair value of derivative financial instruments		(379)		(379)
Reclassification adjustment for realized gains on derivative financial instruments ¹		(198)		(198)
Other comprehensive income (loss)	867	(577)		290
Balance at May 3, 2015	\$ (2,655)	\$ 397	\$	(2,257)

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.

Table of Contents

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 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 our financial covenants; 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, 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 31, 2016, 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 624 stores. We have retail and/or e-commerce businesses in the U.S., Canada, Australia and the United Kingdom, and ship our products to customers worldwide. Our catalogs reach customers throughout the U.S. and Australia. In addition, we have unaffiliated franchisees that operate stores and/or e-commerce websites in the Middle East, the Philippines and Mexico.

The following discussion and analysis of financial condition, results of operations, and liquidity and capital resources for the thirteen weeks ended May 1, 2016 (first quarter of fiscal 2016), as compared to the thirteen weeks ended May 3, 2015 (first quarter of fiscal 2015), 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 2016 Financial Results

In the first quarter of fiscal 2016, our net revenues increased 6.5% to \$1,097,817,000, compared to \$1,030,676,000 in the first quarter of fiscal 2015, with comparable brand revenue growth of 4.5%. This increase in net revenues was driven by an 8.2% increase in our e-commerce net revenues and a 4.7% increase in our retail net revenues, and included 27.1% growth in our international revenues. E-commerce net revenues generated 52.5% of our total company net revenues in the first quarter of fiscal 2016 compared to 51.7% of total net revenues in the first quarter of fiscal

2015.

In Pottery Barn, our largest brand, comparable brand revenues increased 0.2% in the first quarter of fiscal 2016 compared to the first quarter of fiscal 2015. Growth in our upholstery and furniture collections was partially offset by softness in table top and decorative accessories. In the Williams-Sonoma brand, comparable brand revenues increased 3.5% in the first quarter of fiscal 2016 compared to the first quarter of fiscal 2015. We saw growth in our Williams-Sonoma branded product and our Williams-Sonoma Home business. In West Elm, comparable brand revenues increased 19.0% in the first quarter of fiscal 2016 on top of 15.3% in the first quarter of fiscal 2015, with strong performance across both channels and all categories. In Pottery Barn Kids, comparable brand revenues increased 1.7% in the first quarter of fiscal 2016 compared to the first quarter of fiscal 2015. Strength in furniture was a key driver of these results. In PBteen, comparable brand revenues increased 1.9% in the first quarter of fiscal 2016 compared to the first quarter of fiscal 2015. These results were driven by improvements across all key areas of the business.

Additionally, in the first quarter of fiscal 2016, diluted earnings per share was \$0.44 (which included severance-related reorganization charges due to a reduction of headcount, primarily in our corporate functions, of \$0.09), versus \$0.48 in the first quarter of fiscal 2015, and we returned \$75,062,000 to our stockholders through stock repurchases and dividends.

Table of Contents*Results of Operations***NET REVENUES**

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

The following table summarizes our net revenues for the first quarter of fiscal 2016 and fiscal 2015:

	Thirteen Weeks Ended			
	May 1,		May 3,	
<i>In thousands</i>	2016	% Total	2015	% Total
E-commerce net revenues	\$ 576,234	52.5%	\$ 532,573	51.7%
Retail net revenues	521,583	47.5%	498,103	48.3%
Net revenues	\$ 1,097,817	100.0%	\$ 1,030,676	100.0%

Net revenues in the first quarter of fiscal 2016 increased by \$67,141,000, or 6.5%, compared to the first quarter of fiscal 2015, with comparable brand revenue growth of 4.5%. The increase in net revenues was driven by an 8.2% increase in our e-commerce net revenues (primarily driven by West Elm and Williams-Sonoma) and a 4.7% increase in our retail net revenues (primarily driven by West Elm and our international operations), with particular strength in furniture. Net revenue growth in the first quarter of fiscal 2016 also included an increase in our international revenues of 27.1% and a 3.7% increase in retail leased square footage primarily due to 21 net new stores.

Comparable Brand Revenue Growth

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. Outlet comparable store net revenues are included in their respective brands. Comparable brand revenue excludes sales from certain operations until such time that we believe those sales are meaningful to evaluating the performance of the brand. Sales related to our international franchise operations have also been excluded as they are not operated by us.

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.

	Thirteen Weeks Ended	
	May 1,	May 3,
	2016	2015
<i>Comparable brand revenue growth</i>		

Edgar Filing: WILLIAMS SONOMA INC - Form 10-Q

Pottery Barn	0.2%	2.4%
Williams-Sonoma	3.5%	2.7%
West Elm	19.0%	15.3%
Pottery Barn Kids	1.7%	0.8%
PBteen	1.9%	3.0%
Total	4.5%	4.6%

Table of Contents**RETAIL STORE DATA**

	January 31, 2016	Openings	Closings	Store Count		Average Leased Square Footage Per Store	
				May 1, 2016	May 3, 2015	May 1, 2016	May 3, 2015
Williams-Sonoma	239	2		241	241	6,600	6,600
Pottery Barn	197	3		200	198	13,800	13,700
Pottery Barn Kids	89	2	(1)	90	87	7,500	7,500
West Elm	87			87	72	13,200	13,600
Rejuvenation	6			6	5	9,000	10,000
Total	618	7	(1)	624	603	10,000	9,900
Store selling square footage at period-end						3,867,000	3,709,000
Store leased square footage at period-end						6,218,000	5,998,000

COST OF GOODS SOLD

<i>In thousands</i>	May 1, 2016	Thirteen Weeks Ended % Net	May 3, 2015	% Net
Cost of goods sold ¹	\$ 705,300	64.2%	\$ 651,835	63.2%

¹ Includes total occupancy expenses of \$162,019,000 and \$151,451,000 for the first quarter of fiscal 2016 and the first quarter of fiscal 2015, 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 2016 vs. First Quarter of Fiscal 2015

Cost of goods sold increased by \$53,465,000, or 8.2%, in the first quarter of fiscal 2016 compared to the first quarter of fiscal 2015. Cost of goods sold as a percentage of net revenues increased to 64.2% in the first quarter of fiscal 2016 from 63.2% in the first quarter of fiscal 2015. This increase was primarily driven by investments in our supply chain and inventory initiatives as well as higher franchise revenues, which have a lower gross margin.

In the e-commerce channel, cost of goods sold as a percentage of net revenues increased in the first quarter of fiscal 2016 compared to the first quarter of fiscal 2015 primarily driven by investments in our supply chain and inventory initiatives.

In the retail channel, cost of goods sold as a percentage of net revenues increased for the first quarter of fiscal 2016 compared to the first quarter of fiscal 2015 primarily driven by investments in our inventory initiatives as well as higher franchise revenues, partially offset by the leverage of occupancy expenses due to an increase in our international operations.

Table of Contents**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

	May 1,	Thirteen Weeks Ended % Net	May 3,	% Net
<i>In thousands</i>	2016	Revenues	2015	Revenues
Selling, general and administrative expenses	\$ 328,992	30.0%	\$ 306,913	29.8%

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

We experience differing employment and advertising costs as a percentage of net revenues within the retail and 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 2016 vs. First Quarter of Fiscal 2015

Selling, general and administrative expenses for the first quarter of fiscal 2016 increased by \$22,079,000, or 7.2%, compared to the first quarter of fiscal 2015. Selling, general and administrative expenses as a percentage of net revenues increased to 30.0% in the first quarter of fiscal 2016 from 29.8% in the first quarter of fiscal 2015. This increase as a percentage of net revenues was primarily driven by severance-related reorganization charges due to a reduction of headcount, primarily in our corporate functions, of approximately \$13,221,000, partially offset by the leverage of employment costs and advertising expenses.

In the e-commerce channel, selling, general and administrative expenses as a percentage of net revenues decreased for the first quarter of fiscal 2016 compared to the first quarter of fiscal 2015 primarily driven by the leverage of advertising expenses, partially offset by an increase in employment costs associated with our supply chain initiatives.

In the retail channel, selling, general and administrative expenses as a percentage of net revenues decreased for the first quarter of fiscal 2016 compared to the first quarter of fiscal 2015 primarily driven by the leverage of employment costs due to an increase in our international operations.

INCOME TAXES

The effective tax rate was 37.7% for the first quarter of fiscal 2016 and 37.7% for the first quarter of fiscal 2015.

LIQUIDITY AND CAPITAL RESOURCES

As of May 1, 2016, we held \$99,217,000 in cash and cash equivalents, the majority of which is held in demand deposit accounts and money market funds, of which \$60,003,000 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 2016, we plan to use our cash resources to fund our inventory and inventory related purchases, advertising and marketing initiatives, stock repurchases, dividend payments and purchases of property and equipment. In addition to our cash balances on hand, we have a \$500,000,000 unsecured revolving line of credit (credit facility) that may be used to borrow revolving loans or to request the issuance of letters of credit. We may, upon notice to the administrative agent, request existing or new lenders to increase the credit facility 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 2016, we borrowed \$100,000,000 under the credit facility, all of which was outstanding as of May 1, 2016. During the first quarter of fiscal 2015, we borrowed \$60,000,000 under the credit facility, all of which was outstanding as of May 3, 2015.

As of May 1, 2016, issued but undrawn standby letters of credit totaling \$13,290,000 were outstanding under the credit facility. Additionally, as of May 1, 2016, we had three unsecured letter of credit reimbursement facilities for a total of \$70,000,000, of which \$5,026,000 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 fiscal 2016. 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.

Table of Contents

Cash Flows from Operating Activities

For the first quarter of fiscal 2016, net cash used in operating activities was \$72,660,000 compared to \$67,071,000 for the first quarter of fiscal 2015. For the first quarter of fiscal 2016, net cash used in operating activities was primarily attributable to a decrease in accounts payable and income taxes payable due to the timing of payments, partially offset by net earnings adjusted for non-cash items and a decrease in merchandise inventories. Net cash used in operating activities increased compared to the first quarter of fiscal 2015 primarily due to a decrease in both accounts payable and income taxes payable due to the timing of payments, partially offset by a decrease in merchandise inventories at January 31, 2016 compared to February 1, 2015.

Cash Flows from Investing Activities

For the first quarter of fiscal 2016, net cash used in investing activities was \$27,855,000 compared to \$40,379,000 for the first quarter of fiscal 2015, and was primarily attributable to purchases of property and equipment. Net cash used in investing activities compared to the first quarter of fiscal 2015 decreased primarily due to a decrease in purchases of property and equipment.

Cash Flows from Financing Activities

For the first quarter of fiscal 2016, net cash provided by financing activities was \$6,805,000 compared to net cash used in financing activities of \$35,670,000 for the first quarter of fiscal 2015. For the first quarter of fiscal 2016, net cash provided by financing activities was primarily attributable to borrowings under our revolving line of credit, partially offset by repurchases of common stock and the payment of dividends. Net cash provided by financing activities compared to net cash used in financing activities during the first quarter of fiscal 2015 was primarily due to increased borrowings under our revolving line of credit.

Stock Repurchase Program and Dividend

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 2016, 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 31, 2016.

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 centers, 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 revolving line of credit has a variable interest rate which, when drawn upon, subjects us to risks associated with changes in that interest rate. As of May 1, 2016, we had borrowings of \$100,000,000 outstanding under the credit facility. A hypothetical increase or decrease of one percentage point on our existing variable rate debt instrument would not materially affect our results of operations or cash flows.

In addition, we have fixed and variable income investments consisting of short-term investments classified as cash and cash equivalents, which are also affected by changes in market interest rates. As of May 1, 2016, our investments, made primarily in demand deposit accounts and money market funds, are stated at cost and approximate their fair values.

Table of Contents

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 2016 or the first quarter of fiscal 2015. Since we pay for the majority of our international purchases in U.S. dollars, however, a decline in the U.S. dollar relative to other foreign currencies would subject us to risks associated with increased purchasing costs from our vendors in their effort to offset any lost profits associated with any currency devaluation. We cannot predict with certainty the effect these increased costs may have on our financial statements or results of operations.

In addition, our retail and/or e-commerce businesses in Canada, Australia and the United Kingdom, and our operations throughout Asia and Europe, expose us to market risk associated with foreign currency exchange rate fluctuations. Substantially all of our purchases and sales are denominated in U.S. dollars, which limits our exposure to this risk. However, some of our foreign operations have a functional currency other than the U.S. dollar. While the impact of foreign currency exchange rate fluctuations was not material to us in the first quarter of fiscal 2016, we have continued to see volatility in the exchange rates in the countries in which we do business. As we continue to expand globally, the foreign currency exchange risk related to our foreign operations may increase. To mitigate this risk, we hedge a portion of our foreign currency exposure with foreign currency forward contracts in accordance with our risk management policies (see Note H to our Condensed Consolidated Financial Statements).

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of May 1, 2016, 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 31, 2016 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.

Table of Contents**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The following table provides information as of May 1, 2016 with respect to shares of common stock we repurchased during the first quarter of fiscal 2016. For additional information, please see Note G to our Condensed Consolidated Financial Statements within Part I of this Form 10-Q.

		Total Number		Maximum Dollar Value	
		Shares Purchased as		of Shares That	
		Part of a		May	
		Publicly		Yet Be Purchased	
		Announced Program		Under the Program	
Fiscal period		Purchase of Shares	Average Price		
February 1, 2016	February 28, 2016	203,767	\$ 53.44	203,767	\$ 50,961,000
February 29, 2016	March 27, 2016	234,202	\$ 55.98	234,202	\$ 537,850,000
March 28, 2016	May 1, 2016	289,660	\$ 57.44	289,660	\$ 521,211,000
Total		727,629	\$ 55.85	727,629	\$ 521,211,000

In March 2016, we announced that our Board of Directors had authorized a new stock repurchase program to purchase up to an additional \$500,000,000 of our common stock that we intend to execute over the next three years. Stock repurchases under these programs may be made through open market and privately negotiated transactions at times and in such amounts as management deems appropriate. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, capital availability and other market conditions. The stock repurchase programs do 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.

Table of Contents

ITEM 6. EXHIBITS

(a) Exhibits

Exhibit

Number	Exhibit Description
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

* Filed herewith.

Table of Contents

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 P. Whalen
Julie P. Whalen
Chief Financial Officer

Date: June 7, 2016