

PARKER HANNIFIN CORP
Form 10-K
August 25, 2017

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 30, 2017

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 No. 1-4982

PARKER-HANNIFIN CORPORATION

(Exact name of registrant as specified in its charter)

Ohio 34-0451060
(State or other jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

6035 Parkland Boulevard, Cleveland, Ohio 44124-4141
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code (216) 896-3000

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

Title of Each Class Name of Each Exchange
on which Registered

Common Shares, \$.50 par value New York Stock Exchange

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

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

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

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

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

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

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

Large Accelerated Filer: Accelerated Filer:

Non-Accelerated Filer: Smaller Reporting Company:

(Do not check if a 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

The aggregate market value of the outstanding common stock held by non-affiliates of the Registrant as of December 31, 2016, excluding, for purpose of this computation only, stock holdings of the Registrant's Directors and Officers: \$18,577,753,996.

The number of Common Shares outstanding on July 31, 2017 was 133,129,936.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Definitive Proxy Statement for the Company's 2017 Annual Meeting of Shareholders to be held on October 25, 2017, are incorporated by reference into Part III of this Annual Report on Form 10-K.

TABLE OF CONTENTS

PART I

Item 1.	<u>Business</u>	<u>2</u>
Item 1A.	<u>Risk Factors</u>	<u>8</u>
Item 1B.	<u>Unresolved Staff Comments</u>	<u>13</u>
Item 1C.	<u>Executive Officers of the Registrant</u>	<u>14</u>
Item 2.	<u>Properties</u>	<u>15</u>
Item 3.	<u>Legal Proceedings</u>	<u>16</u>
Item 4.	<u>Mine Safety Disclosures</u>	<u>16</u>

PART II

Item 5.	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>16</u>
Item 6.	<u>Selected Financial Data</u>	<u>17</u>
Item 7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>18</u>
Item 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>28</u>
Item 8.	<u>Financial Statements and Supplementary Data</u>	<u>29</u>
Item 9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>66</u>
Item 9A.	<u>Controls and Procedures</u>	<u>66</u>
Item 9B.	<u>Other Information</u>	<u>66</u>

PART III

Item 10.	<u>Directors, Executive Officers and Corporate Governance</u>	<u>66</u>
Item 11.	<u>Executive Compensation</u>	<u>66</u>
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>67</u>
Item 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>68</u>
Item 14.	<u>Principal Accountant Fees and Services</u>	<u>68</u>

PART IV

Item 15.	<u>Exhibits and Financial Statement Schedules</u>	<u>69</u>
	<u>Signatures</u>	<u>70</u>
	<u>Exhibit Index</u>	<u>72</u>

Table of Contents

PARKER-HANNIFIN CORPORATION

FORM 10-K

Fiscal Year Ended June 30, 2017

PART I

ITEM 1. Business. Parker-Hannifin Corporation is a leading worldwide diversified manufacturer of motion and control technologies and systems, providing precision engineered solutions for a wide variety of mobile, industrial and aerospace markets. The Company was incorporated in Ohio in 1938. Its principal executive offices are located at 6035 Parkland Boulevard, Cleveland, Ohio 44124-4141, telephone (216) 896-3000. As used in this Annual Report on Form 10-K, unless the context otherwise requires, the term "Company" refers to Parker-Hannifin Corporation and its subsidiaries and the term "year" and references to specific years refer to the applicable fiscal year.

The Company's investor relations internet website address is www.phstock.com. The Company makes available free of charge on or through its website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after filing or furnishing such material electronically with the Securities and Exchange Commission. The information contained on or accessible through the Company's website is not part of this Annual Report on Form 10-K.

The Board of Directors has adopted a written charter for each of the committees of the Board of Directors. These charters, as well as the Company's Global Code of Business Conduct, Corporate Governance Guidelines and Independence Standards for Directors, are posted and available on the Company's investor relations internet website at www.phstock.com under the Corporate Governance page. Shareholders may request copies of these corporate governance documents, free of charge, by writing to Parker-Hannifin Corporation, 6035 Parkland Boulevard, Cleveland, Ohio 44124-4141, Attention: Secretary, or by calling (216) 896-3000.

The Company's manufacturing, service, sales, distribution and administrative facilities are located in 41 states within the United States and in 49 other countries. The Company's products are sold as original and replacement equipment through sales and distribution centers worldwide. The Company markets its products through direct-sales employees, independent distributors and sales representatives. The Company's products are supplied to approximately 439,000 customers in virtually every significant manufacturing, transportation and processing industry.

The Company has two reporting segments: Diversified Industrial and Aerospace Systems. During 2017, the Company's technologies and systems were used in the products of these two reporting segments. For 2017, total net sales were \$12.0 billion. Diversified Industrial Segment products accounted for 81% and Aerospace Systems Segment products accounted for 19% of those net sales.

Markets

The Company's technologies and systems are used throughout various industries and in various applications. The approximately 439,000 customers who purchase the Company's products are found throughout nearly every significant manufacturing, transportation and processing industry. No single customer accounted for more than 3% of the Company's total net sales for the year ended June 30, 2017.

Table of Contents

Diversified Industrial Segment. Sales of Diversified Industrial Segment products are made to both original equipment manufacturers ("OEMs") and distributors who serve the replacement markets in manufacturing, packaging, processing, transportation, mobile construction, refrigeration and air conditioning, agricultural and military machinery and equipment industries. The major markets for products of the Diversified Industrial Segment are listed below by group:

- | | | |
|-----------------------------|--|---|
| Engineered Materials Group: | <ul style="list-style-type: none"> • Aerospace • Chemical processing • Consumer • Fluid power • General industrial • Information technology • Life sciences | <ul style="list-style-type: none"> • Microelectronics • Military • Oil and gas • Power generation • Renewable energy • Telecommunications • Transportation |
| Filtration Group: | <ul style="list-style-type: none"> • Agriculture • Aerospace and defense • Construction • Food and beverage • Heating, ventilation and air conditioning (HVAC) • Industrial machinery • Life sciences | <ul style="list-style-type: none"> • Marine • Mining • Oil and gas • Power generation • Renewable energy • Transportation • Water purification |
| Fluid Connectors Group: | <ul style="list-style-type: none"> • Aerial lift • Agriculture • Bulk chemical handling • Construction machinery • Food and beverage • Fuel and gas delivery • Industrial machinery | <ul style="list-style-type: none"> • Life sciences • Marine • Mining • Mobile • Oil and gas • Renewable energy • Transportation |

Instrumentation
Group:

- Air conditioning
- Alternative fuels
- Biopharmaceuticals
- Chemical
- Diesel engine
- Food and beverage
- Industrial machinery
- Life sciences
- Microelectronics
- Mining
- Oil and gas
- Packaging
- Pharmaceuticals
- Power generation
- Refining
- Refrigeration
- Transportation
- Water/wastewater

Table of Contents

- Motion Systems Group:
- Aerial lift
 - Agriculture
 - Battery energy storage
 - Construction machinery
 - Entertainment
 - Factory automation
 - Forestry
 - Industrial machinery
 - Machine tools
 - Marine
 - Material handling
 - Microelectronics
 - Mining
 - Oil and gas
 - Packaging
 - Power generation
 - Recreational vehicles
 - Refuse vehicles
 - Renewable energy
 - Transportation
 - Truck hydraulics
 - Turf equipment

Aerospace Systems Segment. Sales of the Aerospace Systems Segment products are made primarily in the commercial and military aerospace markets to both OEMs and to end users for spares, maintenance, repair and overhaul. The major markets for products of the Aerospace Systems Segment are listed below:

- Aftermarket Services
- Commercial transports
- Engines
- General and business aviation
- Helicopters
- Military aircraft
- Missiles
- Power generation
- Regional transports
- Unmanned aerial vehicles

Principal Products and Methods of Distribution

Although the Company offers hundreds of thousands of individual products, no single product contributed more than 1% to the Company's total net sales for the year ended June 30, 2017. Listed below are some of the Company's principal products.

Diversified Industrial Segment. The products produced by the Company's Diversified Industrial Segment consist of a broad range of motion-control and fluid systems and components, which are described below by group:

Engineered Materials Group: static and dynamic sealing devices, including:

- Dynamic seals
- Elastomeric o-rings
- Electro-medical instrument design and assembly
- Electromagnetic interference shielding
- Extruded and precision-cut fabricated elastomeric seals
- High-temperature metal seals
- Homogeneous and inserted elastomeric shapes
- Medical device fabrication and assembly
- Metal and plastic retained composite seals
- Shielded optical windows
- Silicone tubing and extrusions
- Thermal management
- Vibration dampening

Table of Contents

Filtration Group: filters, systems and diagnostics solutions to monitor and remove contaminants from fuel, air, oil, water and other liquids and gases, including:

- Aerospace filters and systems
- Air pollution control and dust collection systems and filters
- Compressed air and gas treatment solutions
- Engine fuel, oil, air and closed crankcase ventilation filtration systems
- Filtration and purification systems
- Fluid condition monitoring systems
- Gas turbine air inlet filters
- Heating, ventilation and air conditioning (HVAC) filters
- Hydraulic and lubrication filters and systems
- Industrial and analytical gas generators
- Instrumentation filters
- Membrane, fiber, and sintered metal filters
- Natural gas filters
- Process liquid, air and gas filters
- Sterile air filters
- Water purification filters and systems

Fluid Connectors Group: connectors which control, transmit and contain fluid, including:

- Check valves
- Diagnostic equipment
- Hose couplings
- Industrial hose
- Low pressure fittings and adapters
- Polytetrafluoroethylene ("PTFE") hose and tubing
- Quick couplings
- Rubber and thermoplastic hose
- Tube fittings and adapters
- Tubing and plastic fittings

Motion Systems Group: hydraulic, pneumatic, and electromechanical components and systems for builders and users of industrial and mobile machinery and equipment, including:

- Accumulators
- Air regulators/filters
- Cartridge valves
- Coolers
- Electric actuators and stages
- Electrohydraulic actuators
- Electronic displays and human machine interfaces
- Electronic I/O controllers
- Fan drives
- Grippers
- Hydraulic cylinders
- Hydraulic motors and pumps
- Hydraulic systems
- Hydraulic valves and controls
- Hydrostatic steering units
- Integrated hydraulic circuits
- Intensifiers
- Inverters
- Motion controllers
- Pneumatic control valves
- Pneumatic cylinders
- Power take-offs
- Power units
- Pressure and flow controls
- Rotary actuators
- Sensors
- Servo motors and drives
- Telematic controllers
- Vacuum
- Variable frequency drives

Table of Contents

Instrumentation Group: high quality critical flow components for process instrumentation, healthcare and ultra-high-purity applications and components for use in refrigeration and air conditioning systems and in fluid control applications for processing, fuel dispensing, beverage dispensing and mobile emissions, including:

- Accumulators
- Analytical instruments and sample conditioning systems
- Carbon dioxide controls
- Compressed natural gas dispensers
- Cryogenic valves
- Electronic controllers
- Electronic valves
- Filter driers
- Fluid system and control fittings, meters, valves, regulators, and manifold valves
- Fluoropolymer chemical delivery fittings, valves and pumps
- High pressure fittings, valves, pumps and systems
- High-purity gas delivery fittings, valves and regulators
- Minature valves and pumps
- Natural gas on-board fuel systems
- Pressure regulating valves
- Refrigeration and air conditioning electronic controls and monitoring
- Solenoid valves

Diversified Industrial Segment products include standard products, as well as custom products which are engineered and produced to OEMs' specifications for application to particular end products. Both standard and custom products are also used in the replacement of original products. Diversified Industrial Segment products are marketed primarily through field sales employees and approximately 13,700 independent distributor locations throughout the world. Aerospace Systems Segment. The principal products of the Company's Aerospace Systems Segment are used on commercial and military airframe and engine programs and include:

- Control actuation systems and components
- Engine systems and components
- Fluid conveyance systems and components
- Fluid metering, delivery and atomization devices
- Fuel systems and components
- Fuel tank inerting systems
- Hydraulic systems and components
- Lubrication components
- Pneumatic control components
- Power conditioning and management systems
- Thermal management
- Wheels and brakes

Aerospace Systems Segment products are marketed by the Company's regional sales organizations and are sold directly to original equipment manufacturers and end users throughout the world.

Competition

The Company's business operates in highly competitive markets and industries. The Company offers its products over numerous, varied markets through its divisions operating in 50 countries and consequently has hundreds of competitors when viewed across its various markets and product offerings. The Company's competitors include U.S. and non-U.S. companies. These competitors and the degree of competition vary widely by product lines, end markets, geographic scope and/or geographic locations. Although each of the Company's segments has numerous competitors, given the Company's market and product breadth, no single competitor competes with the Company with respect to all products manufactured and sold by the Company.

In the Diversified Industrial Segment, the Company competes on the basis of product quality and innovation, customer service, manufacturing and distribution capability, and price competitiveness. The Company believes that it is one of the market leaders in most of the major markets for its most significant Diversified Industrial Segment products. The Company has comprehensive motion and control packages for the broadest systems capabilities. While the Company's primary global competitors include Bosch Rexroth AG, Danaher Corporation, Danfoss A/S, Donaldson

Company, Inc., Eaton Corporation plc, Emerson Climate Technologies, Emerson/ASCO, Festo AG, Freudenberg-NOK, Gates Corporation, IMI/Norgren, SMC Corporation, Swagelok Company, and Trelleborg AB, none of these businesses compete with every group in the Company's Diversified Industrial Segment and every product line offered by this segment.

In the Aerospace Systems Segment, the Company has developed alliances with key customers based on the Company's advanced technological and engineering capabilities, superior performance in quality, delivery, and service, and price

Table of Contents

competitiveness, which has enabled the Company to obtain significant original equipment business on new aircraft programs for its systems and components and to thereby obtain the follow-on repair and replacement business for these programs. Further, the Aerospace Systems Segment is able to utilize low-cost manufacturing techniques and best cost region strategies to achieve a lower cost producer status. Although the Company believes that it is one of the market leaders in most of the major markets for its most significant Aerospace Systems Segment products, the Company's primary global competitors for the most significant Aerospace Systems Segment products include Eaton Corporation plc, Honeywell International, Inc., Moog Inc., Triumph Group, Inc., UTC Aerospace Systems, Woodward, Inc. and Zodiac Aerospace SA.

The Company believes that its platform utilizing nine core technologies, which consist of aerospace, electromechanical, filtration, fluid handling, hydraulics, pneumatics, process control, refrigeration, and sealing and shielding, is a positive factor in its ability to compete effectively with both large and small competitors. For both of its segments, the Company believes that the following factors also contribute to its ability to compete effectively:

- decentralized operating structure that allows each division to focus on its customers and respond quickly at the local level;

- systems solution capabilities that use the Company's core technologies from both of its segments;

- global presence; and

Table of Contents

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

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

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

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

In addition, we are in the process of insourcing certain aspects of our business, including the management of certain furniture manufacturing and delivery, and in fiscal 2015 completed the insourcing of the management of our global vendors, each of which were previously outsourced to third-party providers. We may also need to continue to insource other aspects of our business in the future in order to control our costs and to stay competitive. This may cause disruptions in our business and result in increased cost to us. In addition, if we are unable to perform these functions better than, or at least as well as, our third-party providers, our business may be harmed.

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

We provide public guidance on our expected operating and financial results for future periods. Although we believe that this guidance provides investors and analysts with a better understanding of management's expectations for the future and is useful to our stockholders and potential stockholders, such guidance is comprised of forward-looking statements subject to the risks and uncertainties described in this report and in our other public filings and public statements. Our actual results may not always be in line with or exceed the guidance we have provided or the expectations of our investors and analysts, especially in times of economic uncertainty. In the past, when we have reduced our previously provided guidance, the market price of our common stock has declined. If, in the future, our operating or financial results for a particular period do not meet our guidance or the expectations of our investors and analysts or if we reduce our guidance for future periods, the market price of our common stock may decline.

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

Our quarterly results have fluctuated in the past and may fluctuate in the future, depending upon a variety of factors, including changes in economic conditions, shifts in the timing of holiday selling seasons, including Valentine's Day, Easter, Halloween, Thanksgiving and Christmas, as well as timing shifts due to 53-week fiscal

Table of Contents

years, which occur approximately every five years. Historically, a significant portion of our net revenues and net earnings have typically been realized during the period from October through January each year, our peak selling season. In anticipation of increased holiday sales activity, we incur certain significant incremental expenses prior to and during peak selling seasons, including fixed catalog production and mailing costs and the costs associated with hiring a substantial number of temporary employees to supplement our existing workforce.

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

We regularly review and evaluate our liquidity and capital needs. Although we have a growing balance of cash that is held offshore, we currently believe that our available cash, cash equivalents and cash flow from operations will be sufficient to finance our operations and expected capital requirements for at least the next 12 months. However, we might experience periods during which we encounter additional cash needs and we might need additional external funding to support our operations. Although we were able to amend and increase our line of credit facility during fiscal 2014 on acceptable terms, in the event we require additional liquidity from our lenders, such funds may not be available to us on acceptable terms, or at all. For example, in the event we were to breach any of our financial covenants, our banks would not be required to provide us with additional funding, or they may require us to renegotiate our existing credit facility on less favorable terms. In addition, we may not be able to renew our letters of credit that we use to help pay our suppliers on terms that are acceptable to us, or at all, as the availability of letter of credit facilities may become limited. Further, the providers of such credit may reallocate the available credit to other borrowers. If we are unable to access credit at the levels we require, or the cost of credit is greater than expected, it could adversely affect our operating results.

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

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

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

We have a \$500,000,000 stock repurchase program that we intend to execute over three years, of which we have \$410,578,000 remaining for future repurchases as of January 29, 2017. In March 2017, we announced that our Board of Directors had authorized an increase in our quarterly cash dividend from \$0.37 to \$0.39 per common share for an annual cash dividend of \$1.56 per share. The stock repurchase program and dividend may require the use of a significant portion of our cash earnings. As a result, we may not retain a sufficient amount of cash to fund our operations or finance future growth opportunities, new product development initiatives and unanticipated capital expenditures, which could adversely affect our financial performance. Further, our Board of Directors may, at its discretion, decrease the intended level of dividends or entirely discontinue the payment of dividends at any time. The stock repurchase program does not have an expiration date and may be limited at any time. Our ability to pay dividends and repurchase stock will depend on our ability to generate sufficient cash flows from operations in the future. This ability may be subject to certain economic, financial, competitive and other factors that are beyond our

control. Any failure to pay dividends or repurchase stock after we have announced our intention to do so may negatively impact our reputation and investor confidence in us, and may negatively impact our stock price.

Table of Contents

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

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

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

Changes to existing accounting rules or regulations may impact our future operating results. A change in accounting rules or regulations may even affect our reporting of transactions completed before the change is effective. The introduction of new accounting rules or regulations and varying interpretations of existing accounting rules or regulations have occurred and may occur in the future. Future changes to accounting rules or regulations, or the questioning of current accounting practices, may adversely affect our operating results.

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

Table of Contents

For our store locations, our gross leased store space as of January 29, 2017 totaled approximately 6,359,000 square feet for 629 stores compared to approximately 6,163,000 square feet for 618 stores as of January 31, 2016.

Leased Properties

The following table summarizes the location and size of our leased facilities occupied as of January 29, 2017:

Location	Occupied Square Footage (Approximate)
<i>Distribution and Manufacturing Facilities</i>	
Mississippi	2,105,000
New Jersey	2,103,000
California	1,432,000
Georgia	1,075,000
Texas	896,000
Tennessee	603,000
North Carolina	412,000
Oregon	91,000
Other	573,000
<i>Corporate Facilities</i>	
New York	264,000
California	240,000
Oregon	71,000
<i>Customer Care Centers</i>	
Nevada	36,000
Oklahoma	36,000
Other	25,000

In addition to the above contracts, we enter into other agreements for offsite storage needs for our distribution facilities and our retail store locations, as necessary. As of January 29, 2017, the total leased space relating to these properties was not material to us and is not included in the occupied square footage reported above.

Owned Properties

As of January 29, 2017 we owned 471,000 square feet of space, primarily in California, for our corporate headquarters and certain data center operations.

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

ITEM 3. LEGAL PROCEEDINGS

We are involved in lawsuits, claims and proceedings incident to the ordinary course of our business. These disputes, which are not currently material, are increasing in number as our business expands and our company grows. We review the need for any loss contingency reserves and establish reserves when, in the opinion of management, it is probable that a matter would result in liability, and the amount can be reasonably estimated. In view of the inherent

difficulty of predicting the outcome of these matters, it may not be possible to determine whether any loss is probable or to reasonably estimate the amount of the loss until the case is close to resolution, in which case no reserve is established until that time. Any claims against us, whether meritorious or not, could result in costly litigation, require significant amounts of management time and result in the diversion of significant operational resources. The results of these lawsuits, claims and proceedings cannot be predicted with certainty. However, we believe that the ultimate resolution of these current matters will not have a material adverse effect on our consolidated financial statements taken as a whole.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS
AND ISSUER PURCHASES OF EQUITY SECURITIES
MARKET INFORMATION**

Our common stock is traded on the New York Stock Exchange, or the NYSE, under the symbol WSM. The following table sets forth the high and low selling prices of our common stock on the NYSE for the periods indicated:

Fiscal 2016	High	Low
4 th Quarter	\$56.94	\$45.98
3 rd Quarter	\$57.40	\$45.96
2 nd Quarter	\$61.03	\$47.66
1 st Quarter	\$61.97	\$49.39
Fiscal 2015	High	Low
4 th Quarter	\$75.90	\$47.33
3 rd Quarter	\$89.38	\$71.03
2 nd Quarter	\$85.37	\$74.75
1 st Quarter	\$84.75	\$73.14

The closing price of our common stock on the NYSE on March 26, 2017 was \$47.96.

STOCKHOLDERS

The number of stockholders of record of our common stock as of March 26, 2017 was 358. This number excludes stockholders whose stock is held in nominee or street name by brokers.

Table of Contents**PERFORMANCE GRAPH**

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

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN*

**Among Williams-Sonoma, Inc., the NYSE Composite Index,
and the S&P Retailing Index**

	1/29/12	2/3/13	2/2/14	2/1/15	1/31/16	1/29/17
Williams-Sonoma, Inc.	100.00	131.04	162.36	237.56	160.06	151.39
NYSE Composite Index	100.00	116.94	133.26	144.28	135.18	162.58
S&P Retailing Index	100.00	129.17	162.55	195.46	229.73	273.22

*** Notes:**

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

Table of Contents**DIVIDENDS**

In fiscal 2016, fiscal 2015 and fiscal 2014, total cash dividends declared were approximately \$133,588,000, or \$1.48 per common share, \$130,290,000, or \$1.40 per common share, and \$125,378,000, or \$1.32 per common share, respectively. In March 2017, we announced that our Board of Directors had authorized a 5% increase in our quarterly cash dividend, from \$0.37 to \$0.39 per common share, subject to capital availability. Our quarterly cash dividend may be limited or terminated at any time.

STOCK REPURCHASE PROGRAMS

During fiscal 2016, we repurchased 2,871,480 shares of our common stock at an average cost of \$52.68 per share and a total cost of \$151,272,000. During fiscal 2015, we repurchased 2,950,438 shares of our common stock at an average cost of \$76.26 per share and a total cost of \$224,995,000. During fiscal 2014, we repurchased 3,331,557 shares of our common stock at an average cost of \$67.35 per share and a total cost of \$224,377,000.

The following table summarizes our repurchases of shares of our common stock during the fourth quarter of fiscal 2016 under our \$500,000,000 stock repurchase program:

Fiscal period		Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Program
October 31, 2016	November 27, 2016	179,052	\$ 49.33	179,052	\$ 437,851,000
November 28, 2016	December 25, 2016	256,723	\$ 54.46	256,723	\$ 423,871,000
December 26, 2016	January 29, 2017	271,232	\$ 49.01	271,232	\$ 410,578,000
Total		707,007	\$ 51.07	707,007	\$ 410,578,000

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. The stock repurchase program does not have an expiration date and may be limited or terminated at any time without prior notice.

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA***Five-Year Selected Financial Data*

	Fiscal 2016	Fiscal 2015	Fiscal 2014	Fiscal 2013	Fiscal 2012
<i>In thousands, except percentages, per share amounts and retail stores data</i>	(52 Weeks)	(52 Weeks)	(52 Weeks)	(52 Weeks)	(53 Weeks)
Results of Operations					
Net revenues	\$ 5,083,812	\$ 4,976,090	\$ 4,698,719	\$ 4,387,889	\$ 4,042,870
Net revenue growth	2.2%	5.9%	7.1%	8.5%	8.7%
Comparable brand revenue growth ¹	0.7%	3.7%	7.1%	8.8%	6.1%
Gross profit	\$ 1,883,310	\$ 1,844,214	\$ 1,800,504	\$ 1,704,216	\$ 1,592,476
Gross margin	37.0%	37.1%	38.3%	38.8%	39.4%
Operating income	\$ 472,599	\$ 488,634	\$ 502,265	\$ 452,098	\$ 409,163
Operating margin ²	9.3%	9.8%	10.7%	10.3%	10.1%
Net earnings	\$ 305,387	\$ 310,068	\$ 308,854	\$ 278,902	\$ 256,730
Basic earnings per share	\$ 3.45	\$ 3.42	\$ 3.30	\$ 2.89	\$ 2.59
Diluted earnings per share	\$ 3.41	\$ 3.37	\$ 3.24	\$ 2.82	\$ 2.54
Weighted average basic shares outstanding during the period	88,594	90,787	93,634	96,669	99,266
Weighted average diluted shares outstanding during the period	89,462	92,102	95,200	98,765	101,051
Financial Position					
Working capital ³	\$ 405,924	\$ 339,673	\$ 515,975	\$ 558,007	\$ 659,645
Total assets	\$ 2,476,879	\$ 2,417,427	\$ 2,330,277	\$ 2,336,734	\$ 2,187,679
Return on assets	12.5%	13.1%	13.2%	12.3%	12.0%
Net cash provided by operating activities	\$ 524,709	\$ 544,026	\$ 461,697	\$ 453,769	\$ 364,127
Capital expenditures	\$ 197,414	\$ 202,935	\$ 204,800	\$ 193,953	\$ 205,404
Long-term debt and other long-term obligations	\$ 71,215	\$ 49,713	\$ 62,698	\$ 61,780	\$ 50,216
Stockholders' equity	\$ 1,248,220	\$ 1,198,226	\$ 1,224,706	\$ 1,256,002	\$ 1,309,138
Stockholders' equity per share (book value)	\$ 14.29	\$ 13.38	\$ 13.33	\$ 13.35	\$ 13.39
Return on equity	25.0%	25.6%	24.9%	21.7%	20.0%
Annual dividends declared per share	\$ 1.48	\$ 1.40	\$ 1.32	\$ 1.24	\$ 0.88
E-commerce Net Revenues					
E-commerce net revenue growth	4.4%	6.4%	12.1%	13.1%	14.5%
E-commerce net revenues as a percent of net revenues	51.8%	50.7%	50.5%	48.2%	46.2%
Retail Net Revenues					
Retail net revenue growth (decline)	(0.1%)	5.4%	2.4%	4.6%	4.1%
Retail net revenues as a percent of net revenues	48.2%	49.3%	49.5%	51.8%	53.8%
Number of stores at year-end	629	618	601	585	581
Store selling square footage at year-end	3,951,000	3,827,000	3,684,000	3,590,000	3,548,000
Store leased square footage at year-end	6,359,000	6,163,000	5,965,000	5,838,000	5,778,000

¹ Comparable brand revenue is calculated on a 52-week to 52-week basis, with the exception of fiscal 2012 which was calculated on a 53-week to 53-week basis. See definition of comparable brand revenue within Management's Discussion and Analysis of Financial Condition and Results of Operations.

² *Operating margin is defined as operating income as a percent of net revenues.*

³ *In fiscal 2015, we prospectively adopted ASU 2015-17, Balance Sheet Classification of Deferred Taxes, and now present both deferred tax assets and deferred tax liabilities as noncurrent in our Consolidated Balance Sheets. Prior balance sheets were not retrospectively adjusted and, as a result, working capital for fiscal 2012, fiscal 2013 and fiscal 2014 may not be comparable to fiscal 2015 and fiscal 2016.*

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

Table of Contents

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

The following discussion and analysis of our financial condition, results of operations, and liquidity and capital resources for the 52 weeks ended January 29, 2017 (fiscal 2016), the 52 weeks ended January 31, 2016 (fiscal 2015), and the 52 weeks ended February 1, 2015 (fiscal 2014) should be read in conjunction with our Consolidated Financial Statements and notes thereto. All explanations of changes in operational results are discussed in order of magnitude.

OVERVIEW

Net revenues in fiscal 2016 increased by \$107,722,000 or 2.2%, compared to fiscal 2015, with comparable brand revenue growth of 0.7%. This increase in net revenues was driven by a 4.4% increase in e-commerce net revenues (primarily driven by West Elm, Williams Sonoma and Rejuvenation), with particular strength in furniture. This net revenue increase was partially offset by a 0.1% decrease in retail net revenues (primarily in Pottery Barn and Williams Sonoma, partially offset by increases in West Elm and Rejuvenation). Total fiscal 2016 net revenue growth included a 7.5% increase in international revenues primarily related to our company-owned international operations.

In Pottery Barn, our largest brand, comparable brand revenues declined 3.5% in fiscal 2016 compared to fiscal 2015. This decrease was primarily driven by our furniture, decorative accessories and table top collections, partially offset by stronger sales in upholstery. In the Williams Sonoma brand, comparable brand revenues increased 1.3% in fiscal 2016 compared to fiscal 2015. Growth in cookware, cutlery, tabletop and our Williams Sonoma Home business contributed to these results. In West Elm, comparable brand revenues increased 12.8% in fiscal 2016 on top of 14.8% in fiscal 2015. Growth continued to be broad-based across categories, primarily furniture. In Pottery Barn Kids, comparable brand revenues declined 1.4% in fiscal 2016 compared to fiscal 2015. Strength in our furniture business was more than offset by softness in textiles and decorative accessories. In PBteen, comparable brand revenues declined 6.2% in fiscal 2016 compared to fiscal 2015. Strength in back to school and dorm categories was more than offset by weakness in textiles and out of stock inventory in key furniture collections and gifting categories. And in our emerging brands, Rejuvenation and Mark and Graham, net revenues increased 26.6%.

Additionally, in fiscal 2016, diluted earnings per share increased to \$3.41, versus \$3.37 in fiscal 2015, and we returned \$284,811,000 to our stockholders through stock repurchases and dividends.

As we look forward to fiscal 2017, we plan to drive growth by focusing on our strategic priorities of innovation and operational excellence. We plan to increase our competitive advantage through innovation in e-commerce, our products and our services, as well as the retail experience. To accomplish this, we plan to invest in digital and online advertising initiatives. In Pottery Barn Kids and PBteen, we plan to drive innovation in product offerings across all stages of early life, and in Williams Sonoma, we plan to introduce high-quality products under the Williams Sonoma brand, as well as to develop innovative exclusives with our third party vendors. To enhance the customer experience in all of our stores, we plan to invest in point-of-sale technology and scheduling tools which will provide additional functionality and operational efficiencies. We plan to evaluate the role our retail stores can and should play and plan to invest in optimizing top-performing stores while closing underperforming stores. We also plan to continue to focus on operational excellence, driving strategies that directly improve our customers' experience and value perceptions. We believe that collectively these strategies will extend our leadership position across all of our brands.

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.

<i>In thousands</i>	Fiscal 2016	% Total	Fiscal 2015	% Total	Fiscal 2014	% Total
E-commerce net revenues	\$ 2,633,602	51.8%	\$ 2,522,580	50.7%	\$ 2,370,694	50.5%
Retail net revenues	2,450,210	48.2%	2,453,510	49.3%	2,328,025	49.5%
Net revenues	\$ 5,083,812	100.0%	\$ 4,976,090	100.0%	\$ 4,698,719	100.0%

Net revenues in fiscal 2016 increased by \$107,722,000 or 2.2%, compared to fiscal 2015, with comparable brand revenue growth of 0.7%. This increase in net revenues was driven by a 4.4% increase in e-commerce net revenues (primarily driven by West Elm, Williams Sonoma and Rejuvenation), with particular strength in furniture. This net revenue increase was partially offset by a 0.1% decrease in retail net revenues (primarily in Pottery Barn and Williams Sonoma, partially offset by increases in West Elm and Rejuvenation). Total fiscal 2016 net revenue growth included a 7.5% increase in international revenues primarily related to our company-owned international operations.

Net revenues in fiscal 2015 increased by \$277,371,000, or 5.9%, compared to fiscal 2014, with comparable brand revenue growth of 3.7%. This increase in net revenues was driven by a 6.4% increase in e-commerce net revenues (primarily driven by West Elm, Williams Sonoma and Pottery Barn Kids), and a 5.4% increase in our retail net revenues (primarily driven by West Elm), with particular strength in furniture. Total fiscal 2015 net revenue growth included a 26.8% increase in international revenues primarily related to our franchise operations, and a 3.3% increase in retail leased square footage primarily due to 17 net new stores.

The following table summarizes our net revenues by brand for fiscal 2016, fiscal 2015 and fiscal 2014:

<i>In thousands</i>	Fiscal 2016	Fiscal 2015	Fiscal 2014
Pottery Barn	\$ 2,024,218	\$ 2,074,051	\$ 2,022,331
Williams Sonoma	1,002,194	993,609	994,651
West Elm	971,568	821,136	669,074
Pottery Barn Kids	635,381	640,073	624,594
PBteen	237,818	253,602	260,617
Other ¹	212,633	193,619	127,452
Total	\$ 5,083,812	\$ 4,976,090	\$ 4,698,719

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

Comparable Brand Revenue

Comparable brand revenue includes retail comparable store sales and e-commerce sales, as well as shipping fees, sales returns and other discounts associated with current period sales. 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 to our international franchisees have also been excluded as their stores and e-commerce websites 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.

Table of Contents

<i>Comparable brand revenue growth (decline)</i>	Fiscal 2016	Fiscal 2015	Fiscal 2014
Pottery Barn	(3.5%)	1.9%	5.8%
Williams Sonoma	1.3%	1.1%	3.8%
West Elm	12.8%	14.8%	18.2%
Pottery Barn Kids	(1.4%)	2.2%	5.9%
PBteen	(6.2%)	(2.7%)	5.7%
Total	0.7%	3.7%	7.1%

RETAIL STORE DATA

<i>In thousands</i>	Fiscal 2016	Fiscal 2015	Fiscal 2014
Retail net revenues	\$ 2,450,210	\$ 2,453,510	\$ 2,328,025
Retail net revenue growth (decline)	(0.1%)	5.4%	2.4%
Store count beginning of year	618	601	585
Store openings	29	34	35
Store closings	(18)	(17)	(19)
Store count end of year	629	618	601
Store selling square footage at year-end	3,951,000	3,827,000	3,684,000
Store leased square footage (LSF) at year-end	6,359,000	6,163,000	5,965,000

	Fiscal 2016		Fiscal 2015		Fiscal 2014	
	Store Count	Avg. LSF Per Store	Store Count	Avg. LSF Per Store	Store Count	Avg. LSF Per Store
Williams Sonoma	234	6,600	239	6,600	243	6,600
Pottery Barn	201	13,900	197	13,800	199	13,700
West Elm	98	13,300	87	13,200	69	13,700
Pottery Barn Kids	89	7,400	89	7,500	85	7,600
Rejuvenation	7	9,100	6	9,000	5	10,000
Total	629	10,100	618	10,000	601	9,900

COST OF GOODS SOLD

<i>In thousands</i>	Fiscal 2016	% Net Revenues	Fiscal 2015	% Net Revenues	Fiscal 2014	% Net Revenues
Cost of goods sold ¹	\$ 3,200,502	63.0%	\$ 3,131,876	62.9%	\$ 2,898,215	61.7%

¹ Includes occupancy expenses of \$664,177,000, \$631,817,000 and \$603,357,000 in fiscal 2016, fiscal 2015 and fiscal 2014, 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.

Table of Contents

However, the e-commerce channel incurs higher customer shipping, damage and replacement costs than the retail channel.

Fiscal 2016 vs. Fiscal 2015

Cost of goods sold increased by \$68,626,000, or 2.2%, in fiscal 2016 compared to fiscal 2015. Cost of goods sold as a percentage of net revenues remained relatively flat, increasing less than 10 basis points to 63.0% in fiscal 2016 from 62.9% in fiscal 2015. Higher selling margins from reduced shipping and fulfillment-related costs as a result of our focus on our supply chain and inventory initiatives were offset by an increase in occupancy costs related to investments in our supply chain.

In the e-commerce channel, cost of goods sold as a percentage of net revenues decreased in fiscal 2016 compared to fiscal 2015 primarily driven by higher selling margins from reduced shipping and fulfillment-related costs as a result of our focus on our supply chain and inventory initiatives, partially offset by an increase in occupancy costs related to investments in our supply chain.

In the retail channel, cost of goods sold as a percentage of net revenues increased in fiscal 2016 compared to fiscal 2015, primarily driven by occupancy deleverage and lower selling margins.

Fiscal 2015 vs. Fiscal 2014

Cost of goods sold increased by \$233,661,000, or 8.1%, in fiscal 2015 compared to fiscal 2014. Cost of goods sold as a percentage of net revenues increased to 62.9% in fiscal 2015 from 61.7% in fiscal 2014. This increase was driven by increased shipping and fulfillment-related costs and 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 fiscal 2015 compared to fiscal 2014 primarily driven by increased shipping and fulfillment-related costs, and an increase in occupancy expenses.

In the retail channel, cost of goods sold as a percentage of net revenues increased for fiscal 2015 compared to fiscal 2014 driven by higher franchise revenues and increased fulfillment-related costs, partially offset by a reduction in advertising and employment costs.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

		% Net		% Net		% Net	
<i>In thousands</i>			Fiscal 2016 Revenues		Fiscal 2015 Revenues		Fiscal 2014 Revenues
Selling, general and administrative expenses	\$ 1,410,711	27.7%	\$ 1,355,580	27.2%	\$ 1,298,239	27.6%	

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

We experience differing employment and advertising costs as a percentage of net revenues within the retail and e-commerce channels due to their distinct distribution and marketing strategies. Employment costs represent a greater

percentage of net revenues within the retail channel as compared to the e-commerce channel. However, advertising expenses are higher within the e-commerce channel than in the retail channel.

Fiscal 2016 vs. Fiscal 2015

Selling, general and administrative expenses increased by \$55,131,000, or 4.1%, in fiscal 2016 compared to fiscal 2015. Selling, general and administrative expenses as a percentage of net revenues increased to 27.7% in fiscal 2016 from 27.2% in fiscal 2015. This increase as a percentage of net revenues was primarily driven by severance-related reorganization charges of approximately \$14,406,000 during fiscal 2016, as well as an increase in digital advertising expenses.

Table of Contents

In the e-commerce channel, selling, general and administrative expenses as a percentage of net revenues increased in fiscal 2016 compared to fiscal 2015 primarily driven by an increase in digital advertising expenses as a result of our focus on new customer acquisition, partially offset by the leverage of employment costs.

In the retail channel, selling, general and administrative expenses as a percentage of net revenues decreased in fiscal 2016 compared to fiscal 2015 primarily driven by the leverage of employment costs.

Fiscal 2015 vs. Fiscal 2014

Selling, general and administrative expenses for fiscal 2015 increased by \$57,341,000, or 4.4%, compared to fiscal 2014. Selling, general and administrative expenses as a percentage of net revenues decreased to 27.2% in fiscal 2015 from 27.6% in fiscal 2014. This decrease as a percentage of net revenues was primarily driven by the leverage of advertising expenses and employment costs, partially offset by litigation settlement income of \$7,414,000 recorded in fiscal 2014 that did not recur in fiscal 2015.

In the e-commerce channel, selling, general and administrative expenses as a percentage of net revenues was relatively flat for fiscal 2015 compared to fiscal 2014 primarily due to advertising leverage, offset by an increase in employment costs associated with incremental labor costs in our supply chain.

In the retail channel, selling, general and administrative expenses as a percentage of net revenues decreased for fiscal 2015 compared to fiscal 2014 primarily driven by the leverage of employment costs due to higher franchise revenues.

INCOME TAXES

Our effective income tax rate was 35.3% for fiscal 2016, 36.5% for fiscal 2015, and 38.5% for fiscal 2014. The decrease in the effective income tax rate in fiscal 2016 reflects a one-time favorable tax adjustment. The decrease in the effective income tax rate in fiscal 2015 compared to fiscal 2014 reflects fluctuations in the level and mix of earnings, as well as the favorable resolution of certain income tax matters.

LIQUIDITY AND CAPITAL RESOURCES

As of January 29, 2017, we held \$213,713,000 in cash and cash equivalents, the majority of which is held in demand deposit accounts and money market funds, and of which \$72,995,000 was held by our foreign subsidiaries. As is consistent within our industry, our cash balances are seasonal in nature, with the fourth quarter historically representing a significantly higher level of cash than other periods.

Throughout the fiscal year, we utilize our cash balances to build our inventory levels in preparation for our fourth quarter holiday sales. In fiscal 2017, 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 (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 fiscal 2016, we had borrowings of \$125,000,000 under the credit facility, all of which were repaid in the fourth quarter of fiscal 2016. During fiscal 2015, we had borrowings of \$200,000,000 under the credit facility, all of which were repaid in the fourth quarter of fiscal 2015.

During fiscal 2014, we redeemed restricted cash deposits of \$14,289,000 previously held under collateralized trust agreements. These deposits, which secured potential liabilities associated with our workers' compensation and other insurance programs, were replaced with standby letters of credit. As of January 29, 2017, a total of \$12,090,000 in issued but undrawn standby letters of credit was outstanding under the credit facility. Additionally, we had three unsecured letter of credit reimbursement facilities, which were amended during the year, for a total of \$70,000,000, of which an aggregate of \$6,565,000 was outstanding as of January 29, 2017. 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.

Table of Contents

and, based on our current projections, we expect to remain in compliance throughout fiscal 2017. We believe our cash on hand, in addition to our available credit facilities, will provide adequate liquidity for our business operations over the next 12 months.

Cash Flows from Operating Activities

For fiscal 2016, net cash provided by operating activities was \$524,709,000 compared to \$544,026,000 in fiscal 2015. For fiscal 2016, net cash provided by operating activities was primarily attributable to net earnings adjusted for non-cash items, an increase in deferred rent and lease incentives, as well as accrued salaries, benefits and other liabilities, partially offset by a decrease in income taxes payable. This represents a decrease in net cash provided by operating activities compared to fiscal 2015 primarily due to an increase in income taxes paid in fiscal 2016 compared to fiscal 2015.

For fiscal 2015, net cash provided by operating activities was \$544,026,000 compared to \$461,697,000 in fiscal 2014. For fiscal 2015, net cash provided by operating activities was primarily attributable to net earnings adjusted for non-cash items and an increase in accounts payable, customer deposits and income taxes payable, partially offset by an increase in merchandise inventories. This represents an increase in net cash provided by operating activities compared to fiscal 2014 primarily due to an increase in accounts payable and income taxes payable due to the timing of payments, partially offset by an increase in merchandise inventories.

Cash Flows from Investing Activities

For fiscal 2016, net cash used in investing activities was \$196,975,000 compared to \$202,166,000 for fiscal 2015, and was primarily attributable to purchases of property and equipment. Net cash used in investing activities compared to fiscal 2015 decreased primarily due to a reduction in purchases of property and equipment.

For fiscal 2015, net cash used in investing activities was \$202,166,000 compared to \$188,600,000 for fiscal 2014, and was primarily attributable to purchases of property and equipment. Net cash used in investing activities compared to fiscal 2014 increased primarily due to restricted cash receipts received in fiscal 2014 that did not recur in fiscal 2015.

Cash Flows from Financing Activities

For fiscal 2016, net cash used in financing activities was \$305,806,000 compared to \$369,383,000 in fiscal 2015. For fiscal 2016, net cash used in financing activities was primarily attributable to repurchases of common stock of \$151,272,000 and the payment of dividends of \$133,539,000. Net cash used in financing activities compared to fiscal 2015 decreased primarily due to a decrease in repurchases of common stock.

For fiscal 2015, net cash used in financing activities was \$369,383,000 compared to \$379,020,000 in fiscal 2014. For fiscal 2015, net cash used in financing activities was primarily attributable to repurchases of common stock of \$224,995,000 and the payment of dividends of \$127,636,000. Net cash used in financing activities compared to fiscal 2014 decreased primarily due to a decrease in tax withholding payments related to stock-based awards.

Dividends

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

Stock Repurchase Programs

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

Table of Contents**Contractual Obligations**

The following table provides summary information concerning our future contractual obligations as of January 29, 2017:

<i>In thousands</i>	Payments Due by Period ¹				Total
	Fiscal 2017	Fiscal 2018	Fiscal 2021	Fiscal 2022	
Operating leases ²	\$ 268,593	\$ 703,308	\$ 322,910	\$ 531,699	\$ 1,826,510
Purchase obligations ³	973,102	8,889	871		982,862
Total	\$ 1,241,695	\$ 712,197	\$ 323,781	\$ 531,699	\$ 2,809,372

¹ This table excludes \$28.7 million of liabilities for unrecognized tax benefits associated with uncertain tax positions as we are not able to reasonably estimate when and if cash payments for these liabilities will occur. This amount, however, has been recorded as a liability in our accompanying Consolidated Balance Sheet as of January 29, 2017.

² Projected payments include only those amounts that are fixed and determinable as of the reporting date. See Note E to our Consolidated Financial Statements for discussion of our operating leases.

³ Represents estimated commitments at year-end to purchase inventory and other goods and services in the normal course of business to meet operational requirements.

Other Contractual Obligations

We have other liabilities reflected in our Consolidated Balance Sheet. The payment obligations associated with these liabilities are not reflected in the table above due to the absence of scheduled maturities. The timing of these payments cannot be determined, except for amounts estimated to be payable in fiscal 2017, which are included in our current liabilities as of January 29, 2017.

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

Commercial Commitments

The following table provides summary information concerning our outstanding commercial commitments as of January 29, 2017:

<i>In thousands</i>	Amount of Outstanding Commitment Expiration By Period ¹				Total
	Fiscal 2017	Fiscal 2018	Fiscal 2021	Thereafter	

to Fiscal 2020 to Fiscal 2022

Standby letters of credit	\$ 12,090	\$ 12,090
Letter of credit facilities	6,565	6,565
Credit facility		
Total	\$ 18,655	\$ 18,655

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

IMPACT OF INFLATION

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

Table of Contents

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

Merchandise Inventories

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

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

Our obsolescence and shrinkage reserve calculations contain estimates that require management to make assumptions and to apply judgment regarding a number of factors, including market conditions, the selling environment, historical results and current inventory trends. If actual obsolescence or shrinkage estimates change from our original estimate, we will adjust our reserves accordingly throughout the year. We have made no material changes to our assumptions included in the calculations of the obsolescence and shrinkage reserves throughout the year. In addition, we do not believe a 10% change in our inventory reserves would have a material effect on net earnings. As of January 29, 2017 and January 31, 2016, our inventory obsolescence reserves were \$13,770,000 and \$9,782,000, respectively.

Property and Equipment

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

We review the carrying value of all long-lived assets for impairment, primarily at an individual store level, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Our impairment analyses determine whether projected cash flows from operations are sufficient to recover the carrying

value of these assets. Impairment may result when the carrying value of the asset exceeds the estimated undiscounted future cash flows over its remaining useful life. For store impairment, our estimate of undiscounted future cash flows over the store lease term is based upon our experience, the historical operations of the stores and estimates of future store profitability and economic conditions. The estimates of future store profitability and economic conditions require estimating such factors as sales growth, gross margin, employment costs, lease escalations, inflation and the overall economics of the retail industry, and are therefore subject to variability and difficult to predict. Actual future results may differ from those estimates. If a long-lived asset is found to be

Table of Contents

impaired, the amount recognized for impairment is equal to the difference between the asset's net carrying value and its fair value. Long-lived assets are measured at fair value on a nonrecurring basis using Level 3 inputs as defined in the fair value hierarchy. The fair value is based on the present value of estimated future cash flows using a discount rate that approximates our weighted average cost of capital.

During fiscal 2016, fiscal 2015 and fiscal 2014, we recorded asset impairment charges of approximately \$1,765,000, \$2,100,000 and \$241,000, respectively, related to our retail stores, which is recorded within selling, general and administrative expenses.

Goodwill

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

At January 29, 2017 and January 31, 2016, we had goodwill of \$18,680,000 and \$18,703,000, respectively, included in other assets primarily related to our fiscal 2011 acquisition of Rejuvenation Inc. In fiscal 2016, we performed a qualitative assessment of potential goodwill impairment and determined it was more likely than not that the fair value of each of our reporting units exceeded its carrying value. Accordingly, no further impairment testing of goodwill was performed and we did not recognize any goodwill impairment in fiscal 2016. In fiscal 2015 and fiscal 2014, we performed a quantitative goodwill impairment test and determined that the fair value of both our reporting units substantially exceeded their carrying value. Accordingly, we did not recognize any goodwill impairment in fiscal 2015 or fiscal 2014.

Self-Insured Liabilities

We are primarily self-insured for workers' compensation, employee health benefits and product and general liability claims. We record self-insurance liability reserves based on claims filed, including the development of those claims, and an estimate of claims incurred but not yet reported. Factors affecting these estimates include future inflation rates, changes in severity, benefit level changes, medical costs and claim settlement patterns. Should a different number of claims occur compared to what was estimated, or costs of the claims increase or decrease beyond what was anticipated, reserves may need to be adjusted accordingly. We determine our workers' compensation liability and product and general liability claims reserves based on an actuarial analysis of historical claims data. Self-insurance reserves for workers' compensation, employee health benefits and product and general liability claims were \$24,988,000 and \$25,290,000 as of January 29, 2017 and January 31, 2016, respectively.

Income Taxes

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

Table of Contents

update the estimates used in the accrual for uncertain tax positions as more definitive information becomes available from taxing authorities, upon completion of tax examination, upon expiration of statutes of limitation, or upon occurrences of other events.

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

Table of Contents

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks, which include significant deterioration of the U.S. and foreign markets, changes in U.S. interest rates, foreign currency exchange 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. During fiscal 2016, we had borrowings of \$125,000,000 under the credit facility, all of which were repaid in the fourth quarter of fiscal 2016. 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 January 29, 2017, our investments, made primarily in 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 fiscal 2016 or 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 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 L to our Consolidated Financial Statements).

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***Williams-Sonoma, Inc.**Consolidated Statements of Earnings*

<i>In thousands, except per share amounts</i>	Fiscal 2016	Fiscal 2015	Fiscal 2014
E-commerce net revenues	\$ 2,633,602	\$ 2,522,580	\$ 2,370,694
Retail net revenues	2,450,210	2,453,510	2,328,025
Net revenues	5,083,812	4,976,090	4,698,719
Cost of goods sold	3,200,502	3,131,876	2,898,215
Gross profit	1,883,310	1,844,214	1,800,504
Selling, general and administrative expenses	1,410,711	1,355,580	1,298,239
Operating income	472,599	488,634	502,265
Interest (income) expense, net	688	627	62
Earnings before income taxes	471,911	488,007	502,203
Income taxes	166,524	177,939	193,349
Net earnings	\$ 305,387	\$ 310,068	\$ 308,854
Basic earnings per share	\$ 3.45	\$ 3.42	\$ 3.30
Diluted earnings per share	\$ 3.41	\$ 3.37	\$ 3.24
Shares used in calculation of earnings per share:			
Basic	88,594	90,787	93,634
Diluted	89,462	92,102	95,200

See Notes to Consolidated Financial Statements.

*Williams-Sonoma, Inc.**Consolidated Statements of Comprehensive Income*

<i>In thousands</i>	Fiscal 2016	Fiscal 2015	Fiscal 2014
Net earnings	\$ 305,387	\$ 310,068	\$ 308,854
Other comprehensive income (loss):			
Foreign currency translation adjustments	1,523	(7,958)	(9,305)
Change in fair value of derivative financial instruments, net of tax	(916)	1,074	806
Reclassification adjustment for realized (gain) loss on derivative financial instruments, net of tax	106	(1,184)	(573)
Comprehensive income	\$ 306,100	\$ 302,000	\$ 299,782

See Notes to Consolidated Financial Statements.

Table of Contents*Williams-Sonoma, Inc.**Consolidated Balance Sheets*

<i>In thousands, except per share amounts</i>	Jan. 29, 2017	Jan. 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 213,713	\$ 193,647
Accounts receivable, net	88,803	79,304
Merchandise inventories, net	977,505	978,138
Prepaid catalog expenses	23,625	28,919
Prepaid expenses	52,882	44,654
Other assets	10,652	11,438
Total current assets	1,367,180	1,336,100
Property and equipment, net	923,283	886,813
Deferred income taxes, net	135,238	141,784
Other assets, net	51,178	52,730
Total assets	\$ 2,476,879	\$ 2,417,427
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 453,710	\$ 447,412
Accrued salaries, benefits and other liabilities	130,187	127,122
Customer deposits	294,276	296,827
Income taxes payable	23,245	67,052
Other liabilities	59,838	58,014
Total current liabilities	961,256	996,427
Deferred rent and lease incentives	196,188	173,061
Other long-term obligations	71,215	49,713
Total liabilities	1,228,659	1,219,201
Commitments and contingencies See Note I		
Stockholders' equity		
Preferred stock: \$.01 par value; 7,500 shares authorized; none issued		
Common stock: \$.01 par value; 253,125 shares authorized; 87,325 and 89,563 shares issued and outstanding at		
January 29, 2017 and January 31, 2016, respectively	873	896
Additional paid-in capital	556,928	541,307
Retained earnings	701,702	668,545
Accumulated other comprehensive loss	(9,903)	(10,616)
Treasury stock at cost: 20 and 29 shares as of January 29, 2017 and January 31, 2016, respectively	(1,380)	(1,906)
Total stockholders' equity	1,248,220	1,198,226
Total liabilities and stockholders' equity	\$ 2,476,879	\$ 2,417,427

See Notes to Consolidated Financial Statements.

Table of Contents*Williams-Sonoma, Inc.**Consolidated Statements of Stockholders Equity*

<i>In thousands</i>	Common Stock		Additional	Retained	Accumulated	Treasury	Total
	Shares	Amount	Paid-in Capital	Earnings	Other Comprehensive Income (Loss)	Stock	Stockholders Equity
Balance at February 2, 2014	94,049	\$ 941	\$ 522,595	\$ 729,043	\$ 6,524	\$ (3,101)	\$ 1,256,002
Net earnings				308,854			308,854
Foreign currency translation adjustments					(9,305)		(9,305)
Change in fair value of derivative financial instruments, net of tax					806		806
Reclassification adjustment for realized (gain) loss on derivative financial instruments, net of tax					(573)		(573)
Exercise of stock-based awards and related tax effect	116	1	31,021				31,022
Conversion/release of stock-based awards ¹	1,058	10	(56,053)				(56,043)
Repurchases of common stock	(3,332)	(33)	(13,776)	(210,568)			(224,377)
Reissuance of treasury stock under stock-based compensation plans ¹			(1,158)	(737)		961	(934)
Stock-based compensation expense			44,632				44,632
Dividends declared				(125,378)			(125,378)
Balance at February 1, 2015	91,891	919	527,261	701,214	(2,548)	(2,140)	1,224,706
Net earnings				310,068			310,068
Foreign currency translation adjustments					(7,958)		(7,958)
Change in fair value of derivative financial instruments, net of tax					1,074		1,074
Reclassification adjustment for realized (gain) loss on derivative financial instruments, net of tax					(1,184)		(1,184)
	68	1	17,238				17,239

Exercise of stock-based awards and related tax effect								
Conversion/release of stock-based awards ¹	554	6	(31,411)					(31,405)
Repurchases of common stock	(2,950)	(30)	(12,646)	(212,319)				(224,995)
Reissuance of treasury stock under stock-based compensation plans ¹			(492)	(128)		234		(386)
Stock-based compensation expense			41,357					41,357
Dividends declared				(130,290)				(130,290)
Balance at January 31, 2016	89,563	896	541,307	668,545	(10,616)	(1,906)		1,198,226
Net earnings				305,387				305,387
Foreign currency translation adjustments						1,523		1,523
Change in fair value of derivative financial instruments, net of tax						(916)		(916)
Reclassification adjustment for realized (gain) loss on derivative financial instruments, net of tax						106		106
Exercise of stock-based awards and related tax effect	39		4,762					4,762
Conversion/release of stock-based awards ¹	594	6	(26,805)			(263)		(27,062)
Repurchases of common stock	(2,871)	(29)	(12,684)	(138,559)				(151,272)
Reissuance of treasury stock under stock-based compensation plans ¹			(706)	(83)		789		
Stock-based compensation expense			51,054					51,054
Dividends declared				(133,588)				(133,588)
Balance at January 29, 2017	87,325	\$ 873	\$ 556,928	\$ 701,702	\$ (9,903)	\$ (1,380)		\$ 1,248,220

¹ Amounts are shown net of shares withheld for employee taxes.
See Notes to Consolidated Financial Statements.

Table of Contents*Williams-Sonoma, Inc.**Consolidated Statements of Cash Flows*

<i>In thousands</i>	Fiscal 2016	Fiscal 2015	Fiscal 2014
Cash flows from operating activities:			
Net earnings	\$ 305,387	\$ 310,068	\$ 308,854
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Depreciation and amortization	173,195	167,760	162,273
Loss on disposal/impairment of assets	3,806	4,339	2,410
Amortization of deferred lease incentives	(25,212)	(24,721)	(24,419)
Deferred income taxes	7,114	(7,436)	(248)
Tax benefit related to stock-based awards	3,230	14,592	26,952
Excess tax benefit related to stock-based awards	(4,894)	(14,494)	(26,560)
Stock-based compensation expense	51,116	41,357	44,632
Other	(423)	149	595
Changes in:			
Accounts receivable	(9,794)	(12,849)	(9,366)
Merchandise inventories	4,493	(92,647)	(76,964)
Prepaid catalog expenses	5,294	5,022	(386)
Prepaid expenses and other assets	(6,367)	(9,245)	(61)
Accounts payable	3,169	60,507	4,455
Accrued salaries, benefits and other liabilities	25,876	(135)	8,867
Customer deposits	(3,037)	35,877	34,400
Deferred rent and lease incentives	35,559	31,334	23,297
Income taxes payable	(43,803)	34,548	(17,034)
Net cash provided by operating activities	524,709	544,026	461,697
Cash flows from investing activities:			
Purchases of property and equipment	(197,414)	(202,935)	(204,800)
Restricted cash receipts			14,289
Other	439	769	1,911
Net cash used in investing activities	(196,975)	(202,166)	(188,600)
Cash flows from financing activities:			
Repurchases of common stock	(151,272)	(224,995)	(224,377)
Payment of dividends	(133,539)	(127,636)	(125,758)
Borrowings under revolving line of credit	125,000	200,000	90,000
Repayments of borrowings under revolving line of credit	(125,000)	(200,000)	(90,000)
Tax withholdings related to stock-based awards	(27,062)	(31,790)	(56,977)
Excess tax benefit related to stock-based awards	4,894	14,494	26,560
Proceeds related to stock-based awards	1,532	2,647	4,077
Repayment of long-term obligations		(1,968)	(1,785)
Other	(359)	(135)	(760)
Net cash used in financing activities	(305,806)	(369,383)	(379,020)
Effect of exchange rates on cash and cash equivalents	(1,862)	(1,757)	(1,271)
Net increase (decrease) in cash and cash equivalents	20,066	(29,280)	(107,194)

Edgar Filing: PARKER HANNIFIN CORP - Form 10-K

Cash and cash equivalents at beginning of year	193,647	222,927	330,121
Cash and cash equivalents at end of year	\$ 213,713	\$ 193,647	\$ 222,927
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	\$ 2,202	\$ 1,989	\$ 1,269
Cash paid during the year for income taxes, net of refunds	\$ 203,426	\$ 134,478	\$ 172,305
Non-cash investing activities:			
Purchases of property and equipment not yet paid for at end of year	\$ 625	\$ 2,715	\$ 4,808

See Notes to Consolidated Financial Statements.

Table of Contents

Williams-Sonoma, Inc.

Notes to Consolidated Financial Statements

Note A: Summary of Significant Accounting Policies

We are a specialty retailer of high-quality products for the home. These products, representing distinct merchandise strategies Williams Sonoma, Pottery Barn, Pottery Barn Kids, West Elm, PBteen, Williams Sonoma Home, Rejuvenation, and Mark and Graham are marketed through e-commerce websites, direct mail catalogs and 629 stores. We have retail and/or e-commerce businesses in the U.S., Puerto Rico, 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. In addition, during fiscal 2016, we entered into a franchise agreement with an unaffiliated franchisee to operate stores and e-commerce websites in South Korea, beginning in fiscal 2017.

Consolidation

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

Fiscal Year

Our fiscal year ends on the Sunday closest to January 31, based on a 52 or 53-week year. Fiscal 2016, a 52-week year, ended on January 29, 2017; Fiscal 2015, a 52-week year, ended on January 31, 2016; and Fiscal 2014, a 52-week year, ended on February 1, 2015.

Use of Estimates

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

Cash Equivalents

Cash equivalents include highly liquid investments with an original maturity of three months or less. As of January 29, 2017, we were invested primarily in demand deposit accounts and money market funds. Book cash overdrafts issued, but not yet presented to the bank for payment, are reclassified to accounts payable.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are stated at their carrying values, net of an allowance for doubtful accounts. Accounts receivable consist primarily of credit card, franchisee and landlord receivables for which collectability is reasonably assured. Receivables are evaluated for collectability on a regular basis and an allowance for doubtful accounts is recorded, if necessary. Our allowance for doubtful accounts was not material to our financial statements as of January 29, 2017 and January 31, 2016.

Merchandise Inventories

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

Reserves for shrinkage are estimated and recorded throughout the year as a percentage of net sales based on historical shrinkage results, expectations of future shrinkage and current inventory levels. Actual shrinkage is

Table of Contents

recorded at year-end based on the results of our physical inventory counts and can vary from our estimates due to such factors as changes in operations, the mix of our inventory (which ranges from large furniture to small tabletop items) and execution against loss prevention initiatives in our stores, distribution facilities, off-site storage locations, and with our third-party warehouse and transportation providers. Accordingly, there is no shrinkage reserve at year-end. Historically, actual shrinkage has not differed materially from our estimates.

Our obsolescence and shrinkage reserve calculations contain estimates that require management to make assumptions and to apply judgment regarding a number of factors, including market conditions, the selling environment, historical results and current inventory trends. If actual obsolescence or shrinkage estimates change from our original estimate, we will adjust our reserves accordingly throughout the year. We have made no material changes to our assumptions included in the calculations of the obsolescence and shrinkage reserves throughout the year. As of January 29, 2017 and January 31, 2016, our inventory obsolescence reserves were \$13,770,000 and \$9,782,000, respectively.

Advertising and Prepaid Catalog Expenses

Advertising expenses consist of media and production costs related to e-commerce advertising, catalog mailings and other direct marketing activities. All advertising costs are expensed as incurred, or upon the release of the initial advertisement, with the exception of prepaid catalog expenses. Prepaid catalog expenses consist primarily of third-party incremental direct costs, including creative design, paper, printing, postage and mailing costs for all of our direct response catalogs. Such costs are capitalized as prepaid catalog expenses and amortized over their expected period of future benefit, generally three months.

Total advertising expenses (including e-commerce advertising, catalog advertising and other advertising costs) were approximately \$347,474,000, \$333,276,000 and \$330,070,000 in fiscal 2016, fiscal 2015 and fiscal 2014, respectively.

Property and Equipment

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

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

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

present value of estimated future cash flows using a discount rate that approximates our weighted average cost of capital.

During fiscal 2016, fiscal 2015 and fiscal 2014, we recorded asset impairment charges of approximately \$1,765,000, \$2,100,000 and \$241,000, respectively, related to our retail stores, which is recorded within selling, general and administrative expenses.

Table of Contents*Goodwill*

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

At January 29, 2017 and January 31, 2016, we had goodwill of \$18,680,000 and \$18,703,000, respectively, included in other assets primarily related to our fiscal 2011 acquisition of Rejuvenation Inc. In fiscal 2016, we performed a qualitative assessment of potential goodwill impairment and determined it was more likely than not that the fair value of each of our reporting units exceeded its carrying value. Accordingly, no further impairment testing of goodwill was performed and we did not recognize any goodwill impairment in fiscal 2016. In fiscal 2015 and fiscal 2014, we performed a quantitative goodwill impairment test and determined that the fair value of both our reporting units substantially exceeded their carrying value. Accordingly, we did not recognize any goodwill impairment in fiscal 2015 or fiscal 2014.

Self-Insured Liabilities

We are primarily self-insured for workers' compensation, employee health benefits and product and general liability claims. We record self-insurance liability reserves based on claims filed, including the development of those claims, and an estimate of claims incurred but not yet reported. Factors affecting these estimates include future inflation rates, changes in severity, benefit level changes, medical costs and claim settlement patterns. Should a different number of claims occur compared to what was estimated, or costs of the claims increase or decrease beyond what was anticipated, reserves may need to be adjusted accordingly. We determine our workers' compensation liability and product and general liability claims reserves based on an actuarial analysis of historical claims data. Self-insurance reserves for workers' compensation, employee health benefits and product and general liability claims were \$24,988,000 and \$25,290,000 as of January 29, 2017 and January 31, 2016, respectively.

Customer Deposits

Customer deposits are primarily comprised of deferred revenues related to unredeemed gift cards, merchandise credits and undelivered merchandise. We maintain a liability for unredeemed gift cards and merchandise credits until the earlier of redemption, escheatment or four years as we have concluded that the likelihood of our gift cards being redeemed beyond four years from the date of issuance is remote. Income from unredeemed gift cards and merchandise credits, which is recorded in other income within selling, general and administrative expense, is not material to our consolidated financial statements. Our gift cards and merchandise credits have no expiration dates.

Deferred Rent and Lease Incentives

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

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

Table of Contents*Fair Value of Financial Instruments*

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

Revenue Recognition

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

Sales Returns Reserve

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

<i>In thousands</i>	Fiscal 2016 ¹	Fiscal 2015 ¹	Fiscal 2014 ¹
Balance at beginning of year	\$ 19,113	\$ 14,782	\$ 15,954
Provision for sales returns	303,694	321,421	311,911
Actual sales returns	(306,749)	(317,090)	(313,083)
Balance at end of year	\$ 16,058	\$ 19,113	\$ 14,782

¹ Amounts are shown net of cost of goods sold.

Vendor Allowances

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

Cost of Goods Sold

Cost of goods sold includes cost of goods, occupancy expenses and shipping costs. Cost of goods consists of cost of merchandise, inbound freight expenses, freight-to-store expenses and other inventory related costs such as shrinkage,

damages and replacements. Occupancy expenses consist of rent, depreciation and other occupancy costs, including common area maintenance, property taxes and utilities. Shipping costs consist of third-party delivery services and shipping materials.

Selling, General and Administrative Expenses

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

Table of Contents

Stock-Based Compensation

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

Foreign Currency Translation

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

Earnings Per Share

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

Income Taxes

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

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

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) 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. Generally Accepted Accounting Principles (GAAP) 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 impact of these ASUs on our Consolidated Financial Statements, however, we expect that the adoption of these standards will result in a change in the timing of revenue recognition for certain merchandise shipped to the customer, as well as a change in the timing of recognizing breakage income related to our gift cards.

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

Table of Contents

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 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 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 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.

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, among other things, recognize all excess tax benefits and deficiencies in the income statement, as a component of income tax expense or benefit, in the period in which they occur. The ASU also allows an entity to make an accounting policy election to either estimate expected forfeitures or account for them as they occur. We will adopt this ASU in the first quarter of fiscal 2017. Any increased volatility in the income statement as a result of applying the provisions of the ASU will be dependent on future vesting activity and volatility in our stock price. We plan to continue to estimate expected forfeitures.

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. This ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2017. 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 January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*, which simplifies the measurement of goodwill impairment by eliminating step two from the goodwill impairment test. The ASU requires goodwill impairment to be measured as the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. This ASU is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2019 and early adoption is permitted. We do not expect the adoption of this ASU to have a material impact on our financial condition, results of operations or cash flows.

Note B: Property and Equipment

Property and equipment consists of the following:

<i>In thousands</i>	Jan. 29, 2017	Jan. 31, 2016
Leasehold improvements	\$ 923,909	\$ 861,852
Fixtures and equipment	762,379	714,911
Capitalized software	584,122	455,954
Land and buildings	172,856	172,782
Corporate systems projects in progress ¹	52,352	115,296
Construction in progress ²	13,704	20,325
Total	2,509,322	2,341,120

Accumulated depreciation	(1,586,039)	(1,454,307)
Property and equipment, net	\$ 923,283	\$ 886,813

¹ Corporate systems projects in progress as of January 31, 2016 included approximately \$77.6 million related to the portion of our new inventory and order management system that was placed in service during fiscal 2016.

² Construction in progress primarily consists of leasehold improvements and furniture and fixtures related to new, expanded or remodeled retail stores where construction had not been completed as of year-end.

Table of Contents**Note C: 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 January 29, 2017, 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 2017. 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 fiscal 2016, we had borrowings of \$125,000,000 under the credit facility (at a weighted average interest rate of 1.54%), all of which were repaid in the fourth quarter of fiscal 2016, and no amounts were outstanding as of January 29, 2017. During fiscal 2015, we had borrowings of \$200,000,000 under the credit facility (at a weighted average interest rate of 1.11%), all of which were repaid in the fourth quarter of fiscal 2015, and no amounts were outstanding as of January 31, 2016. Additionally, as of January 29, 2017, \$12,090,000 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 26, 2017. 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 January 29, 2017, an aggregate of \$6,565,000 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 23, 2018.

Note D: Income Taxes

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

<i>In thousands</i>	Fiscal 2016	Fiscal 2015	Fiscal 2014
United States	\$ 425,517	\$ 462,701	\$ 482,739
Foreign	46,394	25,306	19,464
Total earnings before income taxes	\$ 471,911	\$ 488,007	\$ 502,203

The provision for income taxes consists of the following:

Edgar Filing: PARKER HANNIFIN CORP - Form 10-K

<i>In thousands</i>	Fiscal 2016	Fiscal 2015	Fiscal 2014
Current			
Federal	\$ 125,760	\$ 156,812	\$ 157,227
State	26,197	22,969	31,959
Foreign	7,453	5,594	4,411
Total current	159,410	185,375	193,597
Deferred			
Federal	8,307	(6,093)	2,719
State	(807)	1,258	(2,547)
Foreign	(386)	(2,601)	(420)
Total deferred	7,114	(7,436)	(248)
Total provision	\$ 166,524	\$ 177,939	\$ 193,349

Table of Contents

We have historically elected not to provide for U.S. income taxes with respect to the undistributed earnings of our foreign subsidiaries as we intended to utilize those earnings in our foreign operations for an indefinite period of time. As of January 29, 2017, the accumulated undistributed earnings of all foreign subsidiaries of \$118,700,000 are needed to support our anticipated future cash needs for our foreign operations. We currently intend to utilize those undistributed earnings for an indefinite period of time and will only repatriate such earnings when it is tax effective to do so. If we did not consider these earnings to be indefinitely reinvested, the deferred tax liability would have been in the range of \$18,000,000 to \$26,000,000 at January 29, 2017.

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

	Fiscal 2016	Fiscal 2015	Fiscal 2014
Federal income taxes at the statutory rate	35.0%	35.0%	35.0%
State income tax rate	3.5%	3.2%	4.0%
Other	(3.2%)	(1.7%)	(0.5%)
Effective tax rate	35.3%	36.5%	38.5%

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

<i>Deferred tax assets (liabilities), in thousands</i>	Jan. 29, 2017	Jan. 31, 2016
Customer deposits	\$ 64,776	\$ 64,742
Merchandise inventories	32,003	31,752
Deferred rent	24,182	19,952
Accrued liabilities	23,994	17,028
Stock-based compensation	17,437	21,365
Compensation	16,781	15,776
State taxes	7,107	6,723
Executive deferred compensation	7,060	6,003
Deferred lease incentives	(36,715)	(36,475)
Depreciation	(22,477)	(4,527)
Prepaid catalog expenses	(8,726)	(10,883)
Other	10,811	11,451
Valuation allowance	(995)	(1,123)
Total deferred income tax assets, net	\$ 135,238	\$ 141,784

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

<i>In thousands</i>	Fiscal 2016	Fiscal 2015	Fiscal 2014
Balance at beginning of year	\$ 13,290	\$ 14,359	\$ 10,765
Increases related to current year's tax positions	11,772	2,765	3,093
Increases related to prior years' tax positions	3,456	101	2,007
Decreases related to prior years' tax positions	(818)	(341)	(138)
Settlements	(714)	(2,912)	(1,144)
Lapses in statute of limitations	(1,122)	(682)	(224)
Balance at end of year	\$ 25,864	\$ 13,290	\$ 14,359

As of January 29, 2017, we had \$25,864,000 of gross unrecognized tax benefits, of which \$21,134,000 would, if recognized, affect the effective tax rate.

We accrue interest and penalties related to unrecognized tax benefits in the provision for income taxes. As of January 29, 2017 and January 31, 2016, our accruals for the payment of interest and penalties totaled \$2,882,000 and \$2,649,000, respectively.

Due to the potential resolution of state issues, it is reasonably possible that the balance of our gross unrecognized tax benefits could decrease within the next twelve months by a range of \$0 to \$10,200,000.

We file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The Internal Revenue Service (IRS) has concluded examination of our U.S. federal income tax returns for years prior to fiscal

Table of Contents

2012 without any significant adjustments. Substantially all material state, local and foreign income tax examinations have been concluded through fiscal 2004.

Note E: Accounting for Leases*Operating Leases*

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

Total rent expense for all operating leases was as follows:

<i>In thousands</i>	Fiscal 2016	Fiscal 2015	Fiscal 2014
Rent expense	\$ 251,066	\$ 224,564	\$ 215,221
Contingent rent expense	26,980	33,985	32,699
Rent expense before deferred lease incentive income	278,046	258,549	247,920
Deferred lease incentive income	(25,298)	(24,679)	(24,420)
Less: sublease rental income	(558)	(608)	(560)
Total rent expense ¹	\$ 252,190	\$ 233,262	\$ 222,940

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

The aggregate future minimum annual cash rental payments under non-cancellable operating leases in effect at January 29, 2017 were as follows:

<i>In thousands</i>	Lease Commitments ¹
Fiscal 2017	\$ 268,593
Fiscal 2018	258,767
Fiscal 2019	237,667
Fiscal 2020	206,874
Fiscal 2021	177,812
Thereafter	676,797
Total	\$ 1,826,510

¹

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

Memphis-Based Distribution Facility

In August 1990, we entered into an agreement to lease a distribution facility in Memphis, Tennessee. The lessor is a general partnership comprised of the estate of W. Howard Lester, our former Chairman of the Board and Chief Executive Officer, and the estate of James A. McMahan, a former Director Emeritus and significant stockholder, and two unrelated parties. The terms of the lease automatically renewed until the second quarter of fiscal 2015 when the bonds that financed the construction of the facility were fully repaid. Simultaneously, we entered into an agreement with the partnership to lease the facility through July 2017. In 2017, we

Table of Contents

exercised the first of two one-year extensions available under the lease which extended the term through July 2018. We made annual rental payments of approximately \$1,599,000, \$3,050,000 and \$2,432,000 including applicable taxes, insurance and maintenance expenses in fiscal 2016, fiscal 2015 and fiscal 2014, respectively.

Note F: Earnings Per Share

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

<i>In thousands, except per share amounts</i>	Net Earnings	Weighted Average Shares	Earnings Per Share
Fiscal 2016			
Basic	\$ 305,387	88,594	\$ 3.45
Effect of dilutive stock-based awards		868	
Diluted	\$ 305,387	89,462	\$ 3.41
Fiscal 2015			
Basic	\$ 310,068	90,787	\$ 3.42
Effect of dilutive stock-based awards		1,315	
Diluted	\$ 310,068	92,102	\$ 3.37
Fiscal 2014			
Basic	\$ 308,854	93,634	\$ 3.30
Effect of dilutive stock-based awards		1,566	
Diluted	\$ 308,854	95,200	\$ 3.24

Stock-based awards of 261,000, 12,000 and 21,000 were excluded from the computation of diluted earnings per share in fiscal 2016, fiscal 2015 and fiscal 2014, respectively, as their inclusion would be anti-dilutive.

Note G: Stock-Based Compensation*Equity Award Programs*

Our Amended and Restated 2001 Long-Term Incentive Plan (the *Plan*) provides for grants of incentive stock options, nonqualified stock options, stock-settled stock appreciation rights (collectively, *option awards*), restricted stock awards, restricted stock units (including those that are performance-based), deferred stock awards (collectively, *stock awards*) and dividend equivalents up to an aggregate of 32,310,000 shares. As of January 29, 2017, there were approximately 7,371,000 shares available for future grant. Awards may be granted under the Plan to officers, employees and non-employee members of the board of directors of the company (the *Board*) or any parent or subsidiary. Shares issued as a result of award exercises or releases are primarily funded with the issuance of new shares.

Option Awards

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

Stock Awards

Annual grants of stock awards are limited to 1,000,000 shares on a per person basis and have a maximum term of seven years. Stock awards granted to employees generally vest evenly over a period of four years for service-based awards. Certain performance-based awards, which have variable payout conditions based on predetermined financial targets, vest three years from the date of grant. Certain stock awards and other agreements contain vesting acceleration clauses resulting from events including, but not limited to, retirement,

Table of Contents

merger or a similar corporate event. Stock awards granted to non-employee Board members generally vest in one year. Non-employee Board members automatically receive stock awards on the date of their initial election to the Board and annually thereafter on the date of the annual meeting of stockholders (so long as they continue to serve as a non-employee Board member).

Stock-Based Compensation Expense

During fiscal 2016, fiscal 2015 and fiscal 2014, we recognized total stock-based compensation expense, as a component of selling, general and administrative expenses, of \$51,116,000, \$41,357,000 and \$44,632,000, respectively. As of January 29, 2017, there was \$62,212,000 of unrecognized stock-based compensation expense (net of estimated forfeitures), which we expect to recognize on a straight-line basis over a weighted average remaining service period of approximately two years. At each reporting period, all compensation expense attributable to vested awards has been fully recognized.

Stock Options

No stock options were granted in fiscal 2016, fiscal 2015 or fiscal 2014. Stock options exercised in fiscal 2016 were 38,500 at a weighted average exercise price of \$39.80. The total intrinsic value of stock options exercised was \$663,000 for fiscal 2016, \$2,722,000 for fiscal 2015 and \$3,564,000 for fiscal 2014. Intrinsic value for options exercised is based on the excess of the market value over the exercise price on the date of exercise. No stock options were outstanding as of January 29, 2017.

Stock-Settled Stock Appreciation Rights

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

The following table summarizes our stock-settled stock appreciation right activity during fiscal 2016:

	Shares	Weighted Average Conversion Price ¹	Contractual Term Remaining (Years)	Intrinsic Value ²
Balance at January 31, 2016 (100% vested)	634,609	\$ 27.76		
Granted				
Converted into common stock	(222,899)	30.99		
Cancelled				
Balance at January 29, 2017 (100% vested)	411,710	\$ 26.02	1.45	\$ 8,844,000

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

² Intrinsic value for outstanding and vested rights is based on the excess of the market value of our common stock on the last business day of the fiscal year (or \$47.50) over the conversion price.

No stock-settled stock appreciation rights were granted in fiscal 2016, fiscal 2015 or fiscal 2014. The total intrinsic value of awards converted to common stock was \$5,237,000 for fiscal 2016, \$24,465,000 for fiscal 2015 and \$26,837,000 for fiscal 2014. Intrinsic value for conversions is based on the excess of the market value on the date of conversion over the conversion price.

Table of Contents*Restricted Stock Units*

The following table summarizes our restricted stock unit activity during fiscal 2016:

	Shares	Weighted Average Grant Date Fair Value	Weighted Average Contractual Term Remaining (Years)	Intrinsic Value ¹
Balance at January 31, 2016	2,288,958	\$ 60.89		
Granted	1,159,211	59.17		
Released	(976,110)	52.33		
Cancelled	(239,573)	60.70		
Balance at January 29, 2017	2,232,486	\$ 63.75	3.11	\$ 106,043,000
Vested plus expected to vest at January 29, 2017	1,520,660	\$ 63.96	3.14	\$ 72,231,000

¹ *Intrinsic value for outstanding and unvested restricted stock units is based on the market value of our common stock on the last business day of the fiscal year (or \$47.50).*

The following table summarizes additional information about restricted stock units:

	Fiscal 2016	Fiscal 2015	Fiscal 2014
Weighted average grant date fair value per share of awards granted	\$ 59.17	\$ 76.19	\$ 63.18
Intrinsic value of awards released ¹	\$ 56,405,000	\$ 50,773,000	\$ 101,189,000

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

Tax Effect

We present tax benefits resulting from the settlement of stock-based awards as operating cash flows in our Consolidated Statements of Cash Flows. Tax deductions in excess of the cumulative compensation cost recognized for stock-based awards settled are presented as a financing cash inflow and an operating cash outflow. During fiscal 2016, fiscal 2015 and fiscal 2014, proceeds related to stock-based awards was \$1,532,000, \$2,647,000 and \$4,077,000, respectively, and the current tax benefit related to stock-based awards totaled \$24,129,000, \$30,352,000 and \$52,798,000, respectively.

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

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

Our matching contribution is equal to 50% of each participant's salary deferral contribution, taking into account only those contributions that do not exceed 6% of the participant's eligible pay for the pay period. Each participant's matching contribution is earned on a semi-annual basis with respect to eligible salary deferrals for those employees that are employed with the company on June 30th or December 31st of the year in which the deferrals are made. Each associate must complete one year of service prior to receiving company matching contributions. For the first five years of the participant's employment, all matching contributions vest at the rate of 20% per year of service, measuring service from the participant's hire date. Thereafter, all matching contributions vest immediately. Our contributions to the plan were \$7,725,000, \$6,915,000 and \$6,038,000 in fiscal 2016, fiscal 2015 and fiscal 2014, respectively.

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

Table of Contents

We also have a nonqualified executive deferred compensation plan that provides supplemental retirement income benefits for a select group of management. This plan permits eligible employees to make salary and bonus deferrals that are 100% vested. We have an unsecured obligation to pay in the future the value of the deferred compensation adjusted to reflect the performance, whether positive or negative, of selected investment measurement options chosen by each participant during the deferral period. As of January 29, 2017 and January 31, 2016, \$18,736,000 and \$15,929,000, respectively, is included in other long-term obligations related to these deferred compensation liabilities. Additionally, we have purchased life insurance policies on certain participants to potentially offset these unsecured obligations. The cash surrender value of these policies was \$19,000,000 and \$17,112,000 as of January 29, 2017 and January 31, 2016, respectively, and is included in other assets, net.

Note I: Commitments and Contingencies

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

Note J: Stock Repurchase Program and Dividends

During fiscal 2016, we repurchased 2,871,480 shares of our common stock at an average cost of \$52.68 per share and a total cost of approximately \$151,272,000 under our stock repurchase programs. As of January 29, 2017, we held treasury stock of \$1,380,000 that represents the cost of shares available for issuance intended to satisfy future stock-based award settlements in certain foreign jurisdictions.

During fiscal 2015, we repurchased 2,950,438 shares of our common stock at an average cost of \$76.26 per share and a total cost of approximately \$224,995,000. During fiscal 2014, we repurchased 3,331,557 shares of our common stock at an average cost of \$67.35 per share and a total cost of approximately \$224,377,000.

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. The stock repurchase program does not have an expiration date and may be limited or terminated at any time without prior notice.

Total cash dividends declared in fiscal 2016, fiscal 2015 and fiscal 2014, were approximately \$133,588,000, or \$1.48 per common share, \$130,290,000, or \$1.40 per common share and \$125,378,000, or \$1.32 per common share, respectively. In March 2017, we announced that our Board of Directors had authorized a 5% increase in our quarterly cash dividend, from \$0.37 to \$0.39 per common share, subject to capital availability. Our quarterly cash dividend may be limited or terminated at any time.

Note K: Segment Reporting

We have two reportable segments, e-commerce and retail. The e-commerce segment has the following merchandise strategies: Williams Sonoma, Pottery Barn, Pottery Barn Kids, West Elm, PBteen, Williams Sonoma Home, Rejuvenation and Mark and Graham, which sell our products through our e-commerce websites and direct mail catalogs. Our e-commerce merchandise strategies are operating segments, which have been aggregated into one reportable segment, e-commerce. The retail segment, which includes our franchise operations, has the following merchandise strategies: Williams Sonoma, Pottery Barn, Pottery Barn Kids, West

Table of Contents

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 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
Fiscal 2016				
Net revenues ¹	\$ 2,633,602	\$ 2,450,210	\$	\$ 5,083,812
Depreciation and amortization expense	31,135	86,228	55,832	173,195
Operating income (loss) ²	606,286	231,929	(365,616)	472,599
Assets ³	614,213	1,077,593	785,073	2,476,879
Capital expenditures	21,479	102,859	73,076	197,414
Fiscal 2015				
Net revenues ¹	\$ 2,522,580	\$ 2,453,510	\$	\$ 4,976,090
Depreciation and amortization expense	32,056	83,027	52,677	167,760
Operating income (loss)	562,081	239,288	(312,735)	488,634
Assets ³	625,951	1,049,892	741,584	2,417,427
Capital expenditures	22,293	102,717	77,925	202,935
Fiscal 2014				
Net revenues ¹	\$ 2,370,694	\$ 2,328,025	\$	\$ 4,698,719
Depreciation and amortization expense	32,116	80,154	50,003	162,273
Operating income (loss)	560,396	248,535	(306,666)	502,265
Assets ³	600,503	1,028,293	701,481	2,330,277
Capital expenditures	41,633	97,247	65,920	204,800

- ¹ *Includes net revenues related to our international operations (including our operations in Canada, Australia, the United Kingdom and our franchise businesses) of approximately \$321.2 million, \$298.9 million and \$235.8 million in fiscal 2016, fiscal 2015 and fiscal 2014, respectively.*
- ² *Includes approximately \$14.4 million in fiscal 2016 for severance related reorganization charges due to headcount reduction, primarily 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 \$59.2 million, \$61.7 million and \$58.3 million in fiscal 2016, fiscal 2015 and fiscal 2014, respectively.*

Table of Contents**Note L: 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. However, some of our foreign operations have a functional currency other than the U.S. dollar. To mitigate this risk, we hedge a portion of our foreign currency exposure with foreign currency forward contracts in accordance with our risk management policies. We do not enter into such contracts for speculative purposes. The assets or liabilities associated with the derivative 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 instrument is designated as a hedge and qualifies for hedge accounting in accordance with the FASB 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 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 January 29, 2017, we expect to reclassify a net pre-tax gain of approximately \$74,000 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 or losses related to these contracts are recognized in selling, general and administrative expenses.

As of January 29, 2017, and January 31, 2016, we had foreign currency forward contracts outstanding (in U.S. dollars) with notional values as follows:

<i>In thousands</i>	Jan. 29, 2017	Jan. 31, 2016
Contracts designated as cash flow hedges	\$ 19,550	\$ 24,500
Contracts not designated as cash flow hedges	\$ 46,000	\$ 40,000

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 selling, general and administrative expenses. No gain or loss was recognized for cash flow hedges due to hedge ineffectiveness and all hedges were deemed effective for assessment purposes for fiscal 2016, fiscal 2015 and fiscal 2014.

Table of Contents

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

<i>In thousands</i>	Fiscal 2016	Fiscal 2015	Fiscal 2014
Net gain (loss) recognized in OCI	\$ (1,243)	\$ 1,454	\$ 1,153
Net gain (loss) reclassified from OCI to cost of goods sold	\$ (147)	\$ 1,605	\$ 573
Net foreign exchange gain (loss) recognized in selling, general and administrative expenses:			
Instruments designated as cash flow hedges ¹	\$ (4)	\$ (66)	\$ (155)
Instruments not designated or de-designated	\$ (3,569)	\$ 2,838	\$ (1,795)

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

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

<i>In thousands</i>	Jan. 29, 2017	Jan. 31, 2016
Derivatives designated as cash flow hedges:		
Other current assets	\$ 241	\$ 866
Other long-term assets	\$ 21	\$
Other current liabilities	\$ (230)	\$ (115)
Derivatives not designated as hedging instruments:		
Other current assets	\$ 111	\$
Other current liabilities	\$	\$ (471)

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

Note M: Fair Value Measurements

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

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

Level 1: inputs which include quoted prices in active markets for identical assets or liabilities;

Level 2: inputs which include observable inputs other than Level 1 inputs, such as quoted prices in active markets for similar assets or liabilities; quoted prices for identical or similar assets or liabilities in markets that

are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability; and

Level 3: inputs which include unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the underlying asset or liability.

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

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

Table of Contents

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

There were no transfers between Level 1, 2 or 3 categories during fiscal 2016 or fiscal 2015.

Note N: Accumulated Other Comprehensive Income

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 February 2, 2014	\$ 5,783	\$ 741	\$ 6,524
Foreign currency translation adjustments	(9,305)		(9,305)
Change in fair value of derivative financial instruments		806	806
Reclassification adjustment for realized (gain) loss on derivative financial instruments ¹		(573)	(573)
Other comprehensive income (loss)	(9,305)	233	(9,072)
Balance at February 1, 2015	(3,522)	974	(2,548)
Foreign currency translation adjustments	(7,958)		(7,958)
Change in fair value of derivative financial instruments		1,074	1,074
Reclassification adjustment for realized (gain) loss on derivative financial instruments ¹		(1,184)	(1,184)
Other comprehensive income (loss)	(7,958)	(110)	(8,068)
Balance at January 31, 2016	(11,480)	864	(10,616)
Foreign currency translation adjustments	1,523		1,523
Change in fair value of derivative financial instruments		(916)	(916)
Reclassification adjustment for realized (gain) loss on derivative financial instruments ¹		106	106
Other comprehensive income (loss)	1,523	(810)	713

Balance at January 29, 2017	\$	(9,957)	\$	54	\$	(9,903)
-----------------------------	----	---------	----	----	----	---------

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

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Williams-Sonoma, Inc. and subsidiaries (the Company) as of January 29, 2017 and January 31, 2016, and the related consolidated statements of earnings, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended January 29, 2017. We also have audited the Company's internal control over financial reporting as of January 29, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Table of Contents

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Williams-Sonoma, Inc. and subsidiaries as of January 29, 2017 and January 31, 2016, and the results of their operations and their cash flows for each of the three years in the period ended January 29, 2017, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 29, 2017, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ DELOITTE & TOUCHE LLP

San Francisco, California

March 30, 2017

Table of Contents**Quarterly Financial Information***(Unaudited)**In thousands, except per share amounts*

	First	Second	Third	Fourth	Full
	Quarter	Quarter	Quarter	Quarter	Year
Fiscal 2016					
Net revenues	\$1,097,817	\$1,159,029	\$1,245,385	\$1,581,581	\$5,083,812
Gross profit	392,517	410,539	458,223	622,031	1,883,310
Operating income ¹	63,525	83,276	109,979	215,819	472,599
Net earnings ²	39,597	51,785	69,378	144,627	305,387
Basic earnings per share ³	\$ 0.44	\$ 0.58	\$ 0.78	\$ 1.65	\$ 3.45
Diluted earnings per share ³	\$ 0.44	\$ 0.58	\$ 0.78	\$ 1.63	\$ 3.41
	First	Second	Third	Fourth	Full
Fiscal 2015					
Net revenues	\$1,030,676	\$1,127,028	\$1,232,082	\$1,586,304	\$4,976,090
Gross profit	378,841	406,625	451,188	607,560	1,844,214
Operating income	71,928	83,343	110,683	222,680	488,634
Net earnings	44,790	53,668	70,482	141,128	310,068
Basic earnings per share ³	\$ 0.49	\$ 0.59	\$ 0.78	\$ 1.57	\$ 3.42
Diluted earnings per share ³	\$ 0.48	\$ 0.58	\$ 0.77	\$ 1.55	\$ 3.37

¹ Includes approximately \$13.2 million and \$1.2 million in the first quarter and third quarter of fiscal 2016, respectively, for severance related reorganization charges due to headcount reduction, primarily in our corporate functions.

² Includes a benefit of \$7.7 million from a one-time favorable tax adjustment in the fourth quarter of fiscal 2016.

³ Due to differences between quarterly and full year weighted average share count calculations, and the effect of quarterly rounding to the nearest cent per share, full year earnings per share may not equal the sum of the quarters.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of January 29, 2017, an evaluation was performed by management, with the participation of our Chief Executive Officer (CEO) and our Chief Financial Officer (CFO), of the effectiveness of our disclosure controls and procedures. Based on that evaluation, our management, including our CEO and CFO, concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under

the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow for timely discussions regarding required disclosures, and that such information is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

Management's Report on Internal Control Over Financial Reporting

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

Table of Contents

Our management assessed the effectiveness of the company's internal control over financial reporting as of January 29, 2017. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework (2013)*. Based on our assessment using those criteria, our management concluded that, as of January 29, 2017, our internal control over financial reporting is effective.

Our independent registered public accounting firm audited the Consolidated Financial Statements included in this Annual Report on Form 10-K and the company's internal control over financial reporting. Their audit report appears on pages 58 and 59 of this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

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

ITEM 9B. OTHER INFORMATION

None.

Table of Contents

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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

ITEM 11. EXECUTIVE COMPENSATION

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

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

Information required by this Item is incorporated by reference herein to information under the headings Security Ownership of Principal Stockholders and Management and Equity Compensation Plan Information in our Proxy Statement.

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

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

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this Item is incorporated by reference herein to information under the headings Committee Reports Audit and Finance Committee Report and Proposal 4 Ratification of Selection of Independent Registered Public Accounting Firm Deloitte Fees and Services in our Proxy Statement.

Table of Contents

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements:

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

Consolidated Statements of Earnings for the fiscal years ended January 29, 2017, January 31, 2016 and February 1, 2015

Consolidated Statements of Comprehensive Income for the fiscal years ended January 29, 2017, January 31, 2016 and February 1, 2015

Consolidated Balance Sheets as of January 29, 2017 and January 31, 2016

Consolidated Statements of Stockholders' Equity for the fiscal years ended January 29, 2017, January 31, 2016 and February 1, 2015

Consolidated Statements of Cash Flows for the fiscal years ended January 29, 2017, January 31, 2016 and February 1, 2015

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

Quarterly Financial Information

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

(a)(3) Exhibits: See Exhibit Index on pages 65 through 69.

(b) Exhibits: See Exhibit Index on pages 65 through 69.

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

Table of Contents

SIGNATURES

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

WILLIAMS-SONOMA, INC.

Date: March 30, 2017

By /s/ LAURA J. ALBER
Chief Executive Officer

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

Date: March 30, 2017 /s/ ADRIAN D.P. BELLAMY
Adrian D.P. Bellamy
Chairman of the Board of Directors

Date: March 30, 2017 /s/ LAURA J. ALBER
Laura J. Alber
Chief Executive Officer
(principal executive officer)

Date: March 30, 2017 /s/ JULIE P. WHALEN
Julie P. Whalen
Chief Financial Officer
(principal financial officer and principal accounting officer)

Date: March 30, 2017 /s/ ROSE MARIE BRAVO
Rose Marie Bravo
Director

Date: March 30, 2017 /s/ ADRIAN T. DILLON
Adrian T. Dillon
Director

Date: March 30, 2017 /s/ ANTHONY A. GREENER
Anthony A. Greener
Director

Date: March 30, 2017 /s/ TED W. HALL
Ted W. Hall
Director

Date: March 30, 2017 /s/ SABRINA SIMMONS
Sabrina Simmons

Director

Date: March 30, 2017 /s/ JERRY D. STRITZKE
Jerry D. Stritzke
Director

Date: March 30, 2017
Lorraine Twohill
Director

Table of Contents

EXHIBIT INDEX TO ANNUAL REPORT ON FORM 10-K

FOR THE

FISCAL YEAR ENDED JANUARY 29, 2017

EXHIBIT NUMBER	EXHIBIT DESCRIPTION
CERTIFICATE OF INCORPORATION AND BYLAWS	
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K as filed with the Commission on May 25, 2011, File No. 001-14077)
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K as filed with the Commission on February 2, 2016, File No. 001-14077)
INSTRUMENTS DEFINING THE RIGHTS OF SECURITY HOLDERS, INCLUDING INDENTURES	
4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K as filed with the Commission on May 25, 2011, File No. 001-14077)
FINANCING AGREEMENTS	
10.1	Sixth Amended and Restated Credit Agreement, dated November 19, 2014, between the Company and Bank of America, N.A., as administrative agent, letter of credit issuer and swingline lender, Wells Fargo Bank, National Association, as syndication agent, JPMorgan Chase Bank, N.A., MUFG Union Bank, NA and U.S. Bank, National Association, as co-documentation agents, and the lenders party thereto (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the fiscal year ended February 1, 2015 as filed with the Commission on April 2, 2015, File No. 001-14077)
10.2	Reimbursement Agreement between the Company, Williams-Sonoma Singapore Pte. Ltd. and Bank of America, N.A., dated as of August 30, 2013 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended November 3, 2013 as filed with the Commission on December 12, 2013, File No. 001-14077)
10.3	First Amendment to Reimbursement Agreement between the Company, Williams-Sonoma Singapore Pte. Ltd. and Bank of America, N.A., dated as of August 29, 2014 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended November 2, 2014 as filed with the Commission on December 5, 2014, File No. 001-14077)
10.4	Second Amendment to Reimbursement Agreement between the Company, Williams-Sonoma Singapore Pte. Ltd. and Bank of America, N.A., dated as of August 28, 2015 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on

Edgar Filing: PARKER HANNIFIN CORP - Form 10-K

Form 10-Q for the period ended November 1, 2015 as filed with the Commission on December 11, 2015, File No. 001-14077)

10.5

Third Amendment to Reimbursement Agreement between the Company, Williams-Sonoma Singapore Pte. Ltd., and Bank of America, N.A., dated as of August 26, 2016 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended October 30, 2016 as filed with the Commission on December 7, 2016, File No. 001-14077)

Table of Contents

EXHIBIT NUMBER	EXHIBIT DESCRIPTION
10.6	Reimbursement Agreement between the Company, Williams-Sonoma Singapore Pte. Ltd. and Wells Fargo Bank, N.A., dated as of August 30, 2013 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended November 3, 2013 as filed with the Commission on December 12, 2013, File No. 001-14077)
10.7	First Amendment to Reimbursement Agreement between the Company, Williams-Sonoma Singapore Pte. Ltd. and Wells Fargo Bank, N.A., dated as of August 29, 2014 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended November 2, 2014 as filed with the Commission on December 5, 2014, File No. 001-14077)
10.8	Second Amendment to Reimbursement Agreement between the Company, Williams-Sonoma Singapore Pte. Ltd. and Wells Fargo Bank, N.A., dated as of August 28, 2015 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended November 1, 2015 as filed with the Commission on December 11, 2015, File No. 001-14077)
10.9	Third Amendment to Reimbursement Agreement between the Company, Williams-Sonoma Singapore Pte. Ltd., and Wells Fargo Bank, N.A., dated as of August 26, 2016 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended October 30, 2016 as filed with the Commission on December 7, 2016, File No. 001-14077)
10.10	Reimbursement Agreement between the Company, Williams-Sonoma Singapore Pte. Ltd. and U.S. Bank National Association, dated as of August 30, 2013 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 3, 2013 as filed with the Commission on December 12, 2013, File No. 001-14077)
10.11	First Amendment to Reimbursement Agreement between the Company, Williams-Sonoma Singapore Pte. Ltd. and U.S. Bank National Association, dated as of August 29, 2014 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 2, 2014 as filed with the Commission on December 5, 2014, File No. 001-14077)
10.12	Second Amendment to Reimbursement Agreement between the Company, Williams-Sonoma Singapore Pte. Ltd. and U.S. Bank National Association, dated as of August 28, 2015 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the period ended November 1, 2015 as filed with the Commission on December 11, 2015, File No. 001-14077)
10.13	Third Amendment to Reimbursement Agreement between the Company, Williams-Sonoma Singapore Pte. Ltd., and U.S. Bank National Association, dated as of August 26, 2016 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the period ended October 30, 2016 as filed with the Commission on December 7, 2016, File No. 001-14077)

STOCK PLANS

10.14+

Edgar Filing: PARKER HANNIFIN CORP - Form 10-K

Williams-Sonoma, Inc. 2000 Nonqualified Stock Option Plan (incorporated by reference to Exhibit 4 to the Company's Registration Statement on Form S-8 as filed with the Commission on October 27, 2000, File No. 333-48750)

Table of Contents

EXHIBIT NUMBER	EXHIBIT DESCRIPTION
10.15+	Williams-Sonoma, Inc. 2001 Long-Term Incentive Plan, as amended (incorporated by reference to Exhibit D to the Company's definitive proxy statement on Schedule A as filed on April 7, 2011, File No. 001-14077)
10.16+	Forms of Notice of Grant and Stock Option Agreement under the Company's 2000 Nonqualified Stock Option Plan and 2001 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended October 31, 2004 as filed with the Commission on December 10, 2004, File No. 001-14077)
10.17+	Form of Williams-Sonoma, Inc. 2001 Long-Term Incentive Plan Stock-Settled Stock Appreciation Right Award Agreement for Director Grants (incorporated by reference to Exhibit 10.31 to the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2008 as filed with the Commission on April 3, 2008, File No. 001-14077)
10.18+	Form of Williams-Sonoma, Inc. 2001 Long-Term Incentive Plan Stock-Settled Stock Appreciation Right Award Agreement for Employee Grants (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Commission on March 22, 2010, File No. 001-14077)
10.19+	Williams-Sonoma, Inc. 2001 Long-Term Incentive Plan Stock-Settled Stock Appreciation Right Award Agreement for CEO Grant (incorporated by reference to Exhibit 10.38 to the Company's Annual Report on Form 10-K for the fiscal year ended February 1, 2009 as filed with the Commission on April 2, 2009, File No. 001-14077)
10.20+	Form of Williams-Sonoma, Inc. 2001 Long-Term Incentive Plan Restricted Stock Unit Award Agreement for Grants to Non-Employee Directors (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended May 4, 2014 as filed with the Commission on June 12, 2014, File No. 001-14077)
10.21+	Form of Williams-Sonoma, Inc. 2001 Long-Term Incentive Plan Restricted Stock Unit Award Agreement for Grants to Employees (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended May 4, 2014 as filed with the Commission on June 12, 2014, File No. 001-14077)
10.22+	Form of Williams-Sonoma, Inc. 2001 Long Term Incentive Plan Performance Stock Unit Award Agreement for Grants to Employees (incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2014 as filed with the Commission on April 3, 2014, File No. 001-14077)
OTHER INCENTIVE PLANS	
10.23+	Williams-Sonoma, Inc. 2001 Incentive Bonus Plan, as amended (incorporated by reference to the Company's Definitive Proxy Statement on Schedule 14A as filed with the Commission on April 6, 2012, File No. 001-14077)
10.24+	Williams-Sonoma, Inc. Pre-2005 Executive Deferral Plan (incorporated by reference to Exhibit 10.40 to the Company's Annual Report on Form 10-K for the fiscal year ended February 1, 2009 as filed with the Commission on April 2, 2009, File No. 001-14077)

Table of Contents**EXHIBIT NUMBER****EXHIBIT DESCRIPTION**

- 10.25+ Williams-Sonoma, Inc. Amended and Restated Executive Deferred Compensation Plan (incorporated by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K for the fiscal year ended February 1, 2015 as filed with the Commission on April 2, 2015, File No. 001-14077)
- 10.26+ Williams-Sonoma, Inc. 401(k) Plan, as amended and restated effective January 1, 2016 (incorporated by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2016 as filed with the Commission on March 31, 2016, File No. 001-14077)

PROPERTIES

- 10.27 Memorandum of Understanding between the Company and the State of Mississippi, Mississippi Business Finance Corporation, Desoto County, Mississippi, the City of Olive Branch, Mississippi and Hewson Properties, Inc., dated August 24, 1998 (incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the period ended August 2, 1998 as filed with the Commission on September 14, 1998, File No. 001-14077)
- 10.28 Olive Branch Distribution Facility Lease, dated December 1, 1998, between the Company as lessee and WSDC, LLC (the successor-in-interest to Hewson/Desoto Phase I, L.L.C.) as lessor (incorporated by reference to Exhibit 10.3D to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1999 as filed with the Commission on April 30, 1999, File No. 001-14077)
- 10.29 First Amendment, dated September 1, 1999, to the Olive Branch Distribution Facility Lease between the Company as lessee and WSDC, LLC (the successor-in-interest to Hewson/Desoto Phase I, L.L.C.) as lessor, dated December 1, 1998 (incorporated by reference to Exhibit 10.3B to the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2000 as filed with the Commission on May 1, 2000, File No. 001-14077)
- 10.30 Lease for an additional Company distribution facility located in Olive Branch, Mississippi between Williams-Sonoma Retail Services, Inc. as lessee and SPI WS II, LLC (the successor-in-interest to Hewson/Desoto Partners, L.L.C.) as lessor, dated November 15, 1999 (incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2000 as filed with the Commission on May 1, 2000, File No. 001-14077)

EMPLOYMENT AGREEMENTS

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

Table of Contents

EXHIBIT NUMBER

EXHIBIT DESCRIPTION

10.33+ Amended and Restated 2012 EVP Level Management Retention Plan (incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2016 as filed with the Commission on March 31, 2016, File No. 001-14077)

OTHER AGREEMENTS

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

OTHER EXHIBITS

21.1* Subsidiaries

23.1* Consent of Independent Registered Public Accounting Firm

CERTIFICATIONS

31.1* Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended

31.2* Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended

32.1* Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2* Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

XBRL

101.INS* XBRL Instance Document

101.SCH* XBRL Taxonomy Extension Schema Document

101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF* XBRL Taxonomy Extension Definition Linkbase Document

101.LAB* XBRL Taxonomy Extension Label Linkbase Document

101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

+ Indicates a management contract or compensatory plan or arrangement.