

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 29, 2001.

OR

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

For the transition period from _____ to _____

Commission file number 001-14077

WILLIAMS-SONOMA, INC.

(Exact Name of Registrant as Specified in Its Charter)

California

94-2203880

(State or Other Jurisdiction of Incorporation or Organization)

(I.R.S. Employer Identification No.)

3250 Van Ness Avenue, San Francisco, CA

94109

(Address of Principal Executive Offices)

(Zip Code)

Registrant's Telephone Number, Including Area Code (415) 421-7900

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check 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

As of June 4, 2001, 56,557,875 shares of the Registrant's Common Stock were outstanding.

WILLIAMS-SONOMA, INC.
REPORT ON FORM 10-Q
FOR THE QUARTER ENDED APRIL 29, 2001

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

<i>Dollars in thousands</i>	April 29, 2001	January 28, 2001	April 30, 2000
ASSETS			
Current assets			
Cash and cash equivalents	\$ 5,982	\$ 19,730	\$ 14,499
Accounts receivable - net	37,656	38,181	22,229
Merchandise inventories - net	287,844	283,085	278,025
Prepaid catalog expenses	18,178	30,032	19,639
Prepaid expenses and other	14,634	13,720	13,510
Deferred income taxes	8,161	8,161	9,265
Total current assets	372,455	392,909	357,167
Property and equipment - net	494,812	490,525	401,055
Investments and other assets - net	7,722	8,494	8,450
Total assets	\$ 874,989	\$ 891,928	\$ 766,672
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable	\$ 94,580	\$ 159,247	\$ 98,924
Accrued expenses	40,140	40,839	29,011
Line of credit	83,250	-	73,262
Customer deposits	56,805	57,243	38,662
Current portion of long-term debt	5,897	12,133	6,230
Income taxes payable and other liabilities	11,981	41,824	11,176
Total current liabilities	292,653	311,286	257,265
Deferred lease incentives	112,494	112,686	90,062
Long-term debt	23,174	23,189	35,755
Deferred income tax liability	12,231	12,231	8,520
Other long-term obligations	4,372	5,078	5,380
Commitments and contingencies	-	-	-
Shareholders' equity			
Common stock	112,369	110,254	104,430
Retained earnings	317,696	317,204	265,260
Total shareholders' equity	430,065	427,458	369,690
Total liabilities and shareholders' equity	\$ 874,989	\$ 891,928	\$ 766,672

See Notes to Condensed Consolidated Financial Statements.

WILLIAMS-SONOMA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

<i>Dollars and shares in thousands, except per share amounts</i>	Thirteen Weeks Ended	
	April 29, 2001	April 30, 2000
Net revenues	\$ 417,572	\$ 365,259
Cost of goods sold	270,606	231,879
Gross margin	146,966	133,380
Selling, general and administrative expenses	144,692	124,242
Interest expense – net	1,474	1,272
Earnings before income taxes	800	7,866
Income taxes	308	3,028
Net earnings	\$ 492	\$ 4,838
Basic earnings per share	\$.01	\$.09
Diluted earnings per share	\$.01	\$.08
Shares used in calculation of earnings per share:		
Basic	55,833	56,132
Diluted	57,111	58,277

See Notes to Condensed Consolidated Financial Statements.

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

<i>Dollars in thousands</i>	Thirteen Weeks Ended	
	April 29, <u>2001</u>	April 30, <u>2000</u>
Cash flows from operating activities:		
Net earnings	\$ 492	\$ 4,838
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	18,990	13,386
Net loss on disposal of assets and provision for store closures	304	393
Amortization of deferred lease incentives	(3,023)	(2,485)
Other	221	(273)
Changes in:		
Accounts receivable	525	198
Merchandise inventories	(4,759)	(20,683)
Prepaid catalog expenses	11,854	(4,962)
Prepaid expenses and other assets	(914)	(184)
Accounts payable	(64,667)	(3,538)
Accrued expenses and other liabilities	(31,575)	(27,010)
Deferred lease incentives	2,958	1,674
Net cash used in operating activities	(69,594)	(38,646)
Cash flows from investing activities:		
Purchase of property and equipment	(23,317)	(21,073)
Purchase of corporate facilities	-	(73,300)
Other	271	-
Net cash used in investing activities	(23,046)	(94,373)
Cash flows from financing activities:		
Borrowings under line of credit	227,850	73,262
Repayments under line of credit	(144,600)	-
Repurchase of common stock	-	(18,535)
Repayments of long-term obligations	(6,251)	(130)
Proceeds from exercise of stock options	1,909	78
Other	(16)	-
Net cash provided by financing activities	78,892	54,675
Net decrease in cash and cash equivalents	(13,748)	(78,344)
Cash and cash equivalents at beginning of year	19,730	92,843
Cash and cash equivalents at end of year	\$ 5,982	\$ 14,499

See Notes to Condensed Consolidated Financial Statements.

WILLIAMS-SONOMA, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Thirteen Weeks Ended April 29, 2001 and April 30, 2000
(Unaudited)

NOTE A. FINANCIAL STATEMENTS - BASIS OF PRESENTATION

The condensed consolidated balance sheets as of April 29, 2001 and April 30, 2000 and the condensed consolidated statements of operations and cash flows for the thirteen week periods ended April 29, 2001 and April 30, 2000 have been prepared by Williams-Sonoma, Inc., without audit. In the opinion of management, the financial statements include all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position at the balance sheet dates and the results of operations for the thirteen week period then ended. These financial statements include Williams-Sonoma, Inc., and its wholly-owned subsidiaries (the Company). Significant intercompany transactions and accounts have been eliminated. The balance sheet at January 28, 2001, presented herein, has been derived from the audited balance sheet of the Company included in the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2001.

Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2001.

Certain reclassifications have been made to the prior period financial statements to conform to the presentation used in the current period.

The results of operations for the thirteen weeks ended April 29, 2001 are not necessarily indicative of the operating results of the full year.

NOTE B. ACCOUNTING POLICIES

New Accounting Pronouncement - On January 29, 2001, the Company adopted Statement of Financial Accounting Standards No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS 137 and SFAS 138. SFAS 133 requires all derivative financial instruments to be recognized on the balance sheet at fair value. The effect of adopting SFAS 133 was immaterial. During fiscal 2000 and the first quarter of fiscal 2001, the Company entered into no derivative financial instruments.

NOTE C. BORROWING ARRANGEMENTS

The Company had a mortgage agreement with a bank at LIBOR plus 1.25%. The Company fixed the interest rate at 7.8% through an interest-rate swap agreement with the bank. The mortgage and swap agreement expired on April 2, 2001, and the outstanding amount of \$6,154,000 was repaid.

The Company's line of credit facility provides for a \$200,000,000 unsecured revolving credit facility and contains certain restrictive loan covenants, including minimum tangible net worth, maximum leverage ratios, fixed charge coverage requirements and a prohibition on payment of cash dividends. Within the first two years of the agreement, the Company may request that the lenders under the credit facility increase the maximum availability to \$250,000,000. The Company may elect interest rates calculated by reference to the agent's internal reference rate or LIBOR plus a margin based on the Company's leverage ratio or, for advances under \$10,000,000, IBOR plus a margin based on the Company's leverage ratio. The agreement expires on August 23, 2003. As of April 29, 2001, the Company had \$83,250,000 of outstanding borrowings under this agreement at a weighted average interest rate of 5.6%.

In addition, the Company has a \$65,000,000 letter of credit facility which expires on August 1, 2001. As of April 29, 2001, \$39,281,000 was outstanding under this letter of credit facility. By the end of the second quarter of fiscal 2001, the Company expects to replace its current letter of credit agreement in order to meet increased working capital needs associated with the Company's growth plans.

NOTE D. EARNINGS PER SHARE

Basic earnings per share is computed as net earnings divided by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur from common shares issuable through stock options, warrants and other convertible securities.

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

<i>Dollars and amounts in thousands, except per share amounts</i>	<u>Net Earnings</u>	<u>Weighted Average Shares</u>	<u>Per-Share Amount</u>
Thirteen weeks ended April 29, 2001			
Basic	\$ 492	55,833	\$.01
Effect of dilutive stock options	-	1,278	
Diluted	\$ 492	57,111	\$.01
Thirteen weeks ended April 30, 2000			
Basic	\$ 4,838	56,132	\$.09
Effect of dilutive stock options	-	2,145	
Diluted	\$ 4,838	58,277	\$.08

Options with an exercise price greater than the average market price of common shares for the period were 237,000 and 1,933,000 for the thirteen weeks ended April 29, 2001 and April 30, 2000, respectively, and were not included in the computation of diluted earnings per share.

NOTE E. SEGMENT REPORTING

Williams-Sonoma, Inc. has two reportable segments - retail and direct-to-customer. The retail segment sells products for the home through its four retail concepts - Williams-Sonoma, Pottery Barn, Pottery Barn Kids and Hold Everything. The direct-to-customer segment sells similar products through its six direct-mail catalogs - Williams-Sonoma, Pottery Barn, Pottery Barn Kids, Pottery Barn Bed + Bath, Hold Everything and Chambers - and three e-commerce websites.

These reportable segments are strategic business units that offer similar home-centered products. They are managed separately because the business units utilize two distinct distribution and marketing strategies.

The accounting policies of the segments, where applicable, are the same as those described in the summary of significant accounting policies. The Company uses earnings before unallocated corporate overhead, interest and taxes to evaluate segment profitability. Unallocated assets include corporate cash and equivalents, the net book value of corporate facilities and related information systems, deferred tax amounts and other corporate long-lived assets.

Segment Information

Dollars in thousands

	<u>Retail</u>	<u>Direct-to- Customer</u>	<u>Unallocated</u>	<u>Total</u>
Thirteen weeks ended April 29, 2001				
Net revenues	\$ 224,330	\$ 193,242	\$ -	\$ 417,572
Depreciation and amortization expense	12,015	4,236	2,739	18,990
Earnings before income taxes	12,095	14,885	(26,180)	800
Assets	558,671	158,356	157,962	874,989
Capital expenditures	16,739	3,209	3,369	23,317
Thirteen weeks ended April 30, 2000				
Net revenues	\$ 197,166	\$ 168,093	\$ -	\$ 365,259
Depreciation and amortization expense	8,698	3,117	1,571	13,386
Earnings before income taxes	15,696	15,185	(23,015)	7,866
Assets	450,207	160,336	156,129	766,672
Capital expenditures	13,700	1,800	78,873	94,373

NOTE F. STOCK BASED COMPENSATION

On February 5, 2001, the Company entered into an employment agreement (the "Agreement") with Dale Hilpert to serve as the Chief Executive Officer and as a director. Under the Agreement, the Company granted Mr. Hilpert options to purchase 500,000 shares of the Company's common stock, at an exercise price per share equal to the fair market value on the grant date of \$24.125, exercisable ratably over five years.

The Company also granted Mr. Hilpert 250,000 restricted shares of the Company's common stock, subject to the attainment of specific performance objectives determined by the Compensation Committee of the Board of Directors. Such restricted shares will be earned if the performance criteria are met, but will vest on March 31, 2004 based upon Mr. Hilpert's continued employment through such date. Effective April 2, 2001, the Company is accounting for the restricted stock as a variable plan; when and if such restricted shares are earned, the amount of compensation will be fixed at the fair market value when earned and will be amortized ratably over the remaining period through March 31, 2004. Accordingly, in the thirteen weeks ended April 29, 2001, the Company recognized approximately \$203,000 of compensation expense related to these restricted shares.

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

Forward-Looking Statements

The forward-looking statements included in this Quarterly Report on Form 10-Q may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those set forth in such statements. These risks and uncertainties include, without limitation, the following: the Company's ability to anticipate consumer preferences and buying trends; timely introduction and customer acceptance of the Company's merchandise; timely and effective sourcing of the Company's merchandise from its foreign and domestic vendors and delivery thereof through the Company's supply chain to its stores and customers; successful catalog management, including timing, sizing and merchandising; construction and other delays in store openings; uncertainties in Internet marketing, infrastructure and regulation; changes in consumer spending based on weather, economic, competitive and other conditions beyond the Company's control; multi-channel and multi-brand complexities; effective inventory management commensurate with customer demand; dependence on external funding sources for operating funds; the Company's ability to control employment, occupancy and other operating costs; the Company's ability to improve and control its systems and processes; and other risks and uncertainties contained in the Company's public announcements, reports to stockholders and SEC filings, including but not limited to Reports on Forms 10-K, 8-K and 10-Q. The Company undertakes no obligation to update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this report.

Business

Williams-Sonoma, Inc. and its subsidiaries (the Company) are specialty retailers of products for the home. The retail segment sells its products through its four retail concepts – Williams-Sonoma, Pottery Barn, Pottery Barn Kids and Hold Everything. The direct-to-customer segment sells similar products through its six direct-mail catalogs - Williams-Sonoma, Pottery Barn, Pottery Barn Kids, Pottery Barn Bed + Bath, Hold Everything and Chambers - and three e-commerce websites. The principal concepts in both retail and direct-to-customer are Williams-Sonoma which sells cookware essentials and Pottery Barn which sells contemporary tableware and home furnishings. The following discussion and analysis of financial condition, results of operations, liquidity and capital resources should be read in conjunction with the Company's condensed consolidated financial statements and the notes thereto.

Net Revenues

Net revenues consist of retail sales, direct-to-customer sales and shipping fees. Direct-to-customer sales include catalog and Internet sales. Shipping fees consist of revenue received from customers for delivery of merchandise.

The following table summarizes the Company's net revenues for the thirteen weeks ended April 29, 2001 and April 30, 2000.

<i>Dollars in thousands</i>	Thirteen Weeks Ended		Thirteen Weeks Ended	
	<u>April 30, 2001</u>	<u>% Total</u>	<u>April 30, 2000</u>	<u>% Total</u>
Retail sales	\$ 223,024	53.4%	\$ 195,928	53.6%
Direct-to-customer sales	167,709	40.2%	147,073	40.3%
Shipping fees	26,839	6.4%	22,258	6.1%
Net revenues	\$ 417,572	100.0%	\$ 365,259	100.0%

Net revenues for the thirteen weeks ended April 29, 2001 (First Quarter of 2001) were \$417,572,000 – an increase of \$52,313,000 (14.3%) over net revenues for the thirteen weeks ended April 30, 2000 (First Quarter of 2000).

Retail Revenues

<i>Dollars in thousands</i>	Thirteen Weeks Ended	
	<u>April 29, 2001</u>	<u>April 30, 2000</u>
Retail sales	\$ 223,024	\$ 195,928
Shipping fees	1,306	1,238
Total retail revenues	\$ 224,330	\$ 197,166
Percent growth in retail sales	13.8%	23.7%
Percent increase (decrease) in comparable store sales	(2.8)%	9.1%
Number of stores – beginning of period	382	344
Number of new stores	4	2
Number of closed stores	3	10
Number of stores - end of period	383	336
Store selling square footage at quarter-end (sq. ft.)	1,774,308	1,485,872
Store leased square footage at quarter-end (sq. ft.)	2,772,794	2,292,704

Retail revenues for the First Quarter of 2001 increased \$27,164,000 (13.8%) over retail revenues for the First Quarter of 2000 primarily due to new store openings. During the First Quarter of 2001, the Company opened 4 stores (2 large-format Williams-Sonoma, 1 large-format Pottery Barn and 1 Pottery Barn Kids), and closed 3 smaller stores (1 Pottery Barn and 2 Hold Everything). Pottery Barn and Pottery Barn Kids accounted for 56.0% of the growth in retail revenues from the end of the First Quarter of 2000 to the end of the First Quarter of 2001. Based on positive trends and consumer response to the first nine Pottery Barn Kids stores, the Company plans to open 19 new Pottery Barn Kids stores in Fiscal 2001.

Comparable stores are defined as those whose gross square feet did not change by more than 20% in the previous 12 months and which have been open for at least 12 months without closure for seven or more consecutive days. Comparable store sales are computed monthly for purposes of this analysis. Total comparable store sales decreased 2.8% for the First Quarter of 2001 and increased 9.1% for the First Quarter of 2000. Comparable store sales were positive in the Williams-Sonoma, Hold Everything and Outlet Stores during the First Quarter of 2001. Pottery Barn comparable store sales were negative during the First Quarter of 2001 compared to positive double digit comparable stores sales in the First Quarter of 2000. The decrease in the Pottery Barn comparable stores sales were primarily due to the challenging economic retail environment in the First Quarter of 2001 and a lack of newness in the product assortment.

Large-format stores, which enable the Company to more clearly display merchandise, average 3,500 selling square feet for Williams-Sonoma and 7,200 selling square feet for Pottery Barn. As of the end of the First Quarter of 2001, 282 stores (157 Williams-Sonoma and 125 Pottery Barn) were large-format, comprising 81.1% of the Company's total selling square footage. Large-format stores accounted for 79.4% of retail sales in the First Quarter of 2001, as compared to 78.4% in the First Quarter of 2000. During fiscal 2001, the Company plans to increase leased square footage by approximately 16%.

Direct-to-Customer Revenues

<i>Dollars in thousands</i>	Thirteen Weeks Ended	
	<u>April 29, 2001</u>	<u>April 30, 2000</u>
Catalog sales	\$ 146,249	\$ 142,457
Internet sales	21,460	4,616
Total direct-to-customer sales	167,709	147,073
Shipping fees	25,533	21,020
Total direct-to-customer revenues	\$ 193,242	\$ 168,093
Percent growth in direct-to-customer sales	14.0%	46.6%
Percent growth in number of catalogs mailed	5.4%	12.0%

Direct-to-customer revenues of \$193,242,000 in the First Quarter of 2001 increased \$25,149,000 or 15.0%. This increase was primarily due to the strength of the Pottery Barn Kids and Pottery Barn Bed + Bath catalogs and the Williams-Sonoma and Pottery Barn internet businesses. In January 1999, the Company introduced Pottery Barn Kids and in May 2000, the Company launched Pottery Barn Bed + Bath. Pottery Barn Kids and Pottery Barn Bed + Bath accounted for 17.2% and 44.7%, respectively, of the direct-to-customer revenue growth in the First Quarter of 2001.

In 1999, the Company launched both its Williams-Sonoma Internet wedding and gift registry website and its Williams-Sonoma website. The Pottery Barn website was introduced in August 2000. Combined sales from these sites were \$21,460,000 in the First Quarter of 2001, an increase of \$16,844,000 (364.9%) from \$4,616,000 in the First Quarter of 2000. In May 2001, the Company launched its Pottery Barn Kids website, and expects to launch a Pottery Barn gift registry website and a Pottery Barn Kids gift registry website in the fall of 2001.

Cost of Goods Sold

<i>Dollars in thousands</i>	Thirteen Weeks Ended		Thirteen Weeks Ended	
	<u>April 29, 2001</u>	<u>% Net Revenues</u>	<u>April 30, 2000</u>	<u>% Net Revenues</u>
Cost of goods and occupancy expenses	\$ 242,037	58.0%	\$ 207,931	56.9%
Shipping costs	28,569	6.8%	23,948	6.6%
Total cost of goods sold	\$ 270,606	64.8%	\$ 231,879	63.5%

Cost of goods and occupancy expenses increased \$34,106,000 to \$242,037,000 in the First Quarter of 2001 from \$207,931,000 in the First Quarter of 2000. Cost of goods and occupancy expenses expressed as a percentage of net revenues for the First Quarter of 2001 increased 1.1 percentage points to 58.0% from 56.9% in the First Quarter of 2000. Continued savings generated by vertical integration and international sourcing initiatives were more than offset by higher occupancy costs. The increase in occupancy costs was driven primarily by increased depreciation and property taxes on fiscal 2000 capital spending projects that were initiated after the First Quarter of 2000.

Shipping costs increased \$4,621,000 to \$28,569,000 in the First Quarter of 2001 from \$23,948,000 in the First Quarter of 2000. Shipping costs as a percentage of net revenues increased to 6.8% in the First Quarter of 2001 from 6.6% in the First Quarter of 2000. The increase in shipping costs as a percentage of net revenues is consistent with an increasing percentage of direct-to-customer revenue to total Company revenue and a continued rise in the number of furniture and dimensionally larger products being shipped to customers at a higher cost.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$20,450,000 or 16.5% to \$144,692,000 in the First Quarter of 2001 from \$124,242,000 in the First Quarter of 2000. Selling, general and administrative expenses expressed as a percent of net revenues increased by 0.7 percentage points to 34.7% in the First Quarter of 2001 from 34.0% in the First Quarter of 2000. The increased percentage was primarily due to higher catalog and internet advertising costs, offset by lower controllable expenses that resulted from distribution productivity improvements and successful cost control initiatives.

Interest Expense - Net

Net interest expense increased \$202,000 to \$1,474,000 in the First Quarter of 2001 from \$1,272,000 in the First Quarter of 2000. This increase was primarily attributable to a decrease in short-term investment income.

Income Taxes

The Company's effective tax rate was 38.5% for the First Quarter of 2001 and the First Quarter of 2000.

Liquidity and Capital Resources

For the First Quarter of 2001, net cash used in operating activities increased \$30,948,000 to \$69,594,000 from \$38,646,000 in the First Quarter of 2000. The increase in operating cash used during the First Quarter of 2001 is primarily attributable to a significant increase in cash used to reduce accounts payable, partially offset by reductions in prepaid catalog expenses and purchases of merchandise inventories. The reduced purchases of merchandise inventories reflects management's commitment to aggressively manage inventory levels and improve inventory turns.

Net cash used in investing activities was \$23,046,000 for the First Quarter of 2001 as compared to \$94,373,000 for the same period of 2000. First Quarter 2001 purchases of property and equipment were \$23,317,000, which includes approximately \$12,360,000 for stores, \$6,900,000 for systems development projects (including the Internet), \$2,800,000 for the buildout of corporate facilities and \$640,000 for distribution capacity expansion.

First Quarter 2000 purchases of property and equipment include approximately \$73,300,000 for the purchase of a 204,000 square foot corporate office facility, \$10,200,000 for stores and \$4,400,000 for systems development projects (including the Internet).

Gross capital expenditures in fiscal 2001 are projected to be approximately \$135,000,000 to \$150,000,000, including \$70,000,000 to \$75,000,000 for stores, \$50,000,000 to \$60,000,000 for systems development projects (including the Internet) and approximately \$15,000,000 for other infrastructure projects.

For the First Quarter of 2001, cash provided by financing activities was \$78,892,000, comprised primarily of proceeds from the line of credit financing and proceeds from the exercise of stock options, partially offset by the repayment of \$6,154,000 under the mortgage agreement.

For the First Quarter of 2000, cash provided by financing activities was \$54,675,000, comprised primarily of proceeds from the line of credit financing, partially offset by Company repurchases of 825,200 shares of the Company's common stock for approximately \$18,535,000.

The Company's line of credit facility provides for a \$200,000,000 unsecured revolving credit facility and contains certain restrictive loan covenants, including minimum tangible net worth, maximum leverage ratios, fixed charge coverage requirements and a prohibition on payment of cash dividends. Within the first two years of the agreement, the Company may request that the lenders under the credit facility increase the maximum availability to \$250,000,000. The Company may elect interest rates calculated by reference to the agent's internal reference rate or LIBOR plus a margin based on the Company's leverage ratio or, for advances under \$10,000,000, IBOR plus a margin based on the Company's leverage ratio. The agreement expires on August 23, 2003. As of April 29, 2001, the Company had \$83,250,000 of outstanding borrowings under this agreement at a weighted average interest rate of 5.6%.

In addition, the Company has a \$65,000,000 letter of credit facility which expires on August 1, 2001. As of April 29, 2001, \$39,281,000 was outstanding under this letter of credit facility. By the end of the second quarter of fiscal 2001, the Company expects to replace its current letter of credit agreement in order to meet increased working capital needs associated with the Company's growth plans.

The Company believes that its available cash, cash equivalents, cash flow from operations and credit facilities will be sufficient to finance operations and capital requirements for at least the next twelve months.

Impact of Inflation

The impact of inflation on results of operations has not been significant.

Seasonality

The Company's business is subject to substantial seasonal variations in demand. Historically, a significant portion of the Company's revenues and net earnings have been realized during the period from October through December, and levels of net revenues and net earnings have generally been significantly lower during the period from January through September. The Company believes this is the general pattern associated with the direct-to-customer and retail industries. In anticipation of its peak season, the Company hires a substantial number of additional employees in its retail stores and direct-to-customer processing and distribution areas, and incurs significant fixed catalog production and mailing costs.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risks, which include changes in U.S. interest rates and, to a lesser extent, foreign exchange rates. The Company does not engage in financial transactions for trading or speculative purposes.

Interest Rate Risk

The interest payable on the Company's bank line of credit is based on variable interest rates and therefore affected by changes in market interest rates. If interest rates on existing variable rate debt rose 56 basis points (a 10% change in the associated debt's variable rate as of April 29, 2001), the Company's results from operations and cash flows would not be materially affected. In addition, the Company has fixed and variable income investments consisting of cash equivalents and short-term investments, which are also affected by changes in market interest rates. The Company does not use derivative financial instruments in its investment portfolio.

Foreign Currency Risks

The Company enters into a significant amount of purchase obligations outside of the U.S. which are primarily settled in U.S. dollars and, therefore, has only minimal exposure to foreign currency exchange risks. The Company does not hedge against foreign currency risks and believes that foreign currency exchange risk is immaterial. The Company intends to open five stores in Toronto, Canada in the fourth quarter of fiscal 2001. As of April 29, 2001, the Company had deposits totaling 832,000 Canadian dollars in a Canadian bank account to support this effort.

WILLIAMS-SONOMA, INC. AND SUBSIDIARIES
FORM 10-Q
PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

There are no material pending legal proceedings against the Company. The Company is, however, involved in routine litigation arising in the ordinary course of its business, and, while the results of the proceedings cannot be predicted with certainty, the Company believes that the final outcome of such matters will not have a material adverse effect on the Company's consolidated financial position or results of operations.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) Reports on Form 8-K

There have been no Current Reports on Form 8-K filed during the quarter for which this report is being filed.

SIGNATURE

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

WILLIAMS-SONOMA, INC.

By: /s/ SHARON L. MCCOLLAM
Sharon L. McCollam
Senior Vice President
Chief Financial Officer

Dated: June 8, 2001