

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended August 3, 2003.

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 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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of August 29, 2003, 116,766,169 shares of the registrant's Common Stock were outstanding.

WILLIAMS-SONOMA, INC.
REPORT ON FORM 10-Q
FOR THE QUARTER ENDED AUGUST 3, 2003

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ITEM 1. FINANCIAL STATEMENTS

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

<i>Dollars and shares in thousands, except per share amounts</i>	August 3, 2003	February 2, 2003	August 4, 2002
ASSETS			
Current assets			
Cash and cash equivalents	\$ 81,779	\$ 193,495	\$ 89,909
Accounts receivable – net	38,522	34,288	41,518
Merchandise inventories – net	376,860	321,247	250,397
Prepaid catalog expenses	41,275	35,163	28,370
Prepaid expenses	25,218	21,346	18,959
Deferred income taxes	16,316	16,304	11,553
Other assets	8,549	3,541	3,613
Total current assets	588,519	625,384	444,319
Property and equipment – net	654,916	631,774	588,458
Other assets – net	19,526	7,297	6,723
Total assets	\$ 1,262,961	\$ 1,264,455	\$ 1,039,500
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable	\$ 145,074	\$ 166,102	\$ 111,576
Accrued expenses	59,646	82,027	56,055
Customer deposits	109,573	93,073	85,633
Income taxes payable	19,786	56,442	7,490
Current portion of long-term debt	7,427	7,419	7,401
Other liabilities	17,919	19,765	12,594
Total current liabilities	359,425	424,828	280,749
Deferred rent and lease incentives	163,570	161,091	143,108
Long-term debt	17,206	18,071	24,633
Deferred income tax liabilities	11,350	11,341	8,791
Other long-term obligations	7,494	5,146	4,875
Total liabilities	559,045	620,477	462,156
Commitments and contingencies	-	-	-
Shareholders' equity			
Common stock, \$.01 par value, authorized: 253,125 shares; issued: 116,646, 114,317 and 115,941 shares; outstanding: 116,646, 114,317 and 115,941 shares	1,166	1,143	1,159
Additional paid-in capital	222,588	196,259	180,439
Retained earnings	478,056	446,837	401,494
Accumulated foreign currency translation adjustment	2,106	(11)	(61)
Deferred stock-based compensation	-	(250)	(5,687)
Total shareholders' equity	703,916	643,978	577,344
Total liabilities and shareholders' equity	\$ 1,262,961	\$ 1,264,455	\$ 1,039,500

See Notes to Condensed Consolidated Financial Statements.

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

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	August 3, 2003	August 4, 2002	August 3, 2003	August 4, 2002
<i>Dollars and shares in thousands, except per share amounts</i>				
Net revenues	\$ 580,423	\$ 495,593	\$ 1,117,263	\$ 973,972
Cost of goods sold	365,345	310,219	697,877	606,700
Gross margin	215,078	185,374	419,386	367,272
Selling, general and administrative expenses	186,226	162,166	369,069	318,836
Interest (income) expense – net	(130)	215	(446)	479
Earnings before income taxes	28,982	22,993	50,763	47,957
Income taxes	11,158	8,852	19,544	18,463
Net earnings	\$ 17,824	\$ 14,141	\$ 31,219	\$ 29,494
Basic earnings per share	\$.15	\$.12	\$.27	\$.26
Diluted earnings per share	\$.15	\$.12	\$.26	\$.25
Shares used in calculation of earnings per share:				
Basic	116,082	115,252	115,145	114,865
Diluted	119,770	120,114	118,453	119,568

See Notes to Condensed Consolidated Financial Statements.

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

<i>Dollars in thousands</i>	Twenty-Six Weeks Ended	
	August 3, 2003	August 4, 2002
Cash flows from operating activities:		
Net earnings	\$ 31,219	\$ 29,494
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	49,639	44,666
Net loss on disposal of assets	919	1,285
Amortization of deferred lease incentives	(9,251)	(7,467)
Amortization of deferred stock-based compensation	250	1,854
Other	-	69
Changes in:		
Accounts receivable	(4,192)	(9,378)
Merchandise inventories	(55,235)	(1,154)
Prepaid catalog expenses	(6,112)	1,152
Prepaid expenses and other assets	(21,235)	(2,602)
Accounts payable	(21,799)	12,650
Accrued expenses and other liabilities	(5,470)	1,948
Deferred rent and lease incentives	11,450	23,688
Income taxes payable	(36,679)	(29,926)
Net cash provided by (used in) operating activities	(66,496)	66,279
Cash flows from investing activities:		
Purchases of property and equipment	(71,831)	(64,537)
Net cash used in investing activities	(71,831)	(64,537)
Cash flows from financing activities:		
Repayments of long-term obligations	(856)	(832)
Proceeds from exercise of stock options	26,353	13,416
Net cash provided by financing activities	25,497	12,584
Effect of exchange rates on cash and cash equivalents	1,114	209
Net increase (decrease) in cash and cash equivalents	(111,716)	14,535
Cash and cash equivalents at beginning of period	193,495	75,374
Cash and cash equivalents at end of period	\$ 81,779	\$ 89,909

See Notes to Condensed Consolidated Financial Statements.

WILLIAMS-SONOMA, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Thirteen and Twenty-Six Weeks Ended August 3, 2003 and August 4, 2002
(Unaudited)

NOTE A. FINANCIAL STATEMENTS - BASIS OF PRESENTATION

These financial statements include Williams-Sonoma, Inc and its wholly-owned subsidiaries (“we”, “us” or “our”). The condensed consolidated balance sheets as of August 3, 2003 and August 4, 2002, the condensed consolidated statements of earnings for the thirteen and twenty-six week periods ended August 3, 2003 and August 4, 2002, and the condensed consolidated statements of cash flows for the twenty-six week periods ended August 3, 2003 and August 4, 2002 have been prepared by us, without audit. In our opinion, the financial statements include all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position at the balance sheet dates and the results of operations for the thirteen and twenty-six week periods then ended. Significant intercompany transactions and accounts have been eliminated. The balance sheet at February 2, 2003, presented herein, has been derived from our audited balance sheet included in our Annual Report on Form 10-K for the fiscal year ended February 2, 2003.

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 consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended February 2, 2003.

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 and twenty-six weeks ended August 3, 2003 are not necessarily indicative of the operating results of the full year.

NOTE B. ACCOUNTING POLICIES

Stock-Based Compensation We account for stock options granted to employees using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees.” Accordingly, no compensation expense has been recognized in the condensed consolidated financial statements for stock options.

We entered into employment agreements with certain executive officers during fiscal 2001. We recognized no stock-based compensation expense related to these employment agreements in the thirteen weeks ended August 3, 2003 due to there being no remaining deferred compensation expense related to these agreements. We recognized approximately \$927,000 of stock-based compensation expense related to these employment agreements in the thirteen weeks ended August 4, 2002. Approximately \$250,000 and \$1,854,000 of stock-based compensation expense related to these employment agreements was recognized in the twenty-six weeks ended August 3, 2003 and August 4, 2002, respectively.

The following table illustrates the effect on net earnings and earnings per share as if we had applied the fair value recognition provisions of Statement of Financial Accounting Standards (“SFAS”) No. 123, “Accounting for Stock-Based Compensation” to all of our stock-based compensation arrangements. Under SFAS No. 123, the fair value of stock option awards to employees is calculated through the use of option pricing models, even though such models were developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which differ significantly from our stock option awards. These models also require subjective assumptions, including future stock price volatility and expected time to exercise, which affect the calculated values. Our calculations are based on a single option valuation approach and forfeitures are recognized as they occur. Had compensation cost been determined consistent with SFAS No. 123, our net earnings and earnings per share would have been changed to the pro forma amounts indicated below:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	August 3, 2003	August 4, 2002	August 3, 2003	August 4, 2002
<i>Dollars in thousands, except per share amounts</i>				
Net earnings, as reported	\$17,824	\$14,141	\$31,219	\$29,494
Add: Stock-based employee compensation expense included in reported net earnings, net of related tax effect	-	570	154	1,140
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effect	(4,337)	(4,815)	(8,701)	(8,939)
Pro forma net earnings	\$13,487	\$ 9,896	\$ 22,672	\$ 21,695
Basic earnings per share				
As reported	\$.15	\$.12	\$.27	\$.26
Pro forma	.12	.09	.20	.19
Diluted earnings per share				
As reported	\$.15	\$.12	\$.26	\$.25
Pro forma	.11	.08	.19	.18

The fair value of each option grant was estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	August 3, 2003	August 4, 2002	August 3, 2003	August 4, 2002
Dividend yield	-	-	-	-
Volatility	64.4%	66.1%	64.8%	65.8%
Risk-free interest	3.4%	5.1%	3.4%	5.1%
Expected term (years)	6.6	6.6	6.6	6.6

New Accounting Pronouncements In January 2003, the Financial Accounting Standards Board (“FASB”) issued Interpretation No. 46 (“FIN 46”), “Consolidation of Variable Interest Entities.” FIN 46 explains how to identify and assess variable interest entities and how to decide whether to consolidate such entities. FIN 46 requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. FIN 46 is effective immediately for variable interest entities created after January 31, 2003, and for variable interest entities in which an enterprise obtains an interest after that date. FIN 46 applies in the first fiscal year or interim period beginning after June 15, 2003 to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003.

We previously determined and disclosed that two partnerships from which we lease our Memphis-based distribution facilities qualified as variable interest entities and required consolidation under FIN 46. We now estimate that the consolidation (which will be effective as of August 4, 2003) will result in increases to our consolidated balance sheet of approximately \$21,000,000 in assets (primarily buildings), \$18,500,000 in long-term debt, and \$2,500,000 in other liabilities, with no cumulative effect charge to our third quarter of fiscal year 2003 consolidated statement of earnings.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," which requires certain guarantees to be recorded at fair value. The interpretation also requires a guarantor to make new disclosures, even when the likelihood of making any payments under the guarantee is remote. In general, the interpretation applies to contracts or indemnification agreements that contingently require the guarantor to make payments to the guaranteed party based on changes in an underlying obligation that is related to an asset, liability, or an equity security of the guaranteed party. We lease an aircraft for a term of 60 months ending January 2005. At the end of the lease term, we may either purchase the aircraft for \$11,500,000 or sell it. If the proceeds of such sale are in excess of \$11,500,000, then we are entitled to retain the excess. If the proceeds are less than \$11,500,000, we will be required to pay the lessor the difference up to \$9,080,000. We currently estimate that the fair value of the aircraft at the end of the lease term will exceed \$11,500,000 and therefore no liability has been recorded for the residual value.

NOTE C. BORROWING ARRANGEMENTS

We have a \$200,000,000 unsecured revolving line of credit facility that expires on October 22, 2005 and contains certain restrictive loan covenants, including minimum tangible net worth, maximum leverage ratio (funded debt adjusted for lease and rent expense to EBITDAR), minimum fixed charge coverage ratio, and maximum annual capital expenditures. Through April 22, 2005, we may, upon notice to the lenders, request an increase in the facility up to \$250,000,000. We may elect interest rates calculated by reference to the agent's internal reference rate or LIBOR plus a margin based on our leverage ratio. As of August 3, 2003, we had no borrowings outstanding under the line of credit facility.

We have three unsecured commercial letter of credit reimbursement agreements for an aggregate of \$115,000,000, which expire on July 2, 2004. The latest expiration for the letters of credit issuable under the agreements is November 29, 2004. As of August 3, 2003, \$87,663,000 was outstanding under the letter of credit agreements. Such letters of credit represent only a future commitment to fund inventory purchases to which we had not taken legal title as of August 3, 2003.

As of August 3, 2003, we had outstanding standby letters of credit under the line of credit facility in an aggregate amount of \$9,964,000. The standby letters of credit were issued to secure liabilities associated with workers' compensation and other insurance programs.

NOTE D. COMPREHENSIVE INCOME

Comprehensive income for the thirteen and twenty-six weeks ended August 3, 2003 and August 4, 2002 was as follows:

<i>Dollars in thousands</i>	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	August 3, 2003	August 4, 2002	August 3, 2003	August 4, 2002
Net earnings	\$ 17,824	\$ 14,141	\$ 31,219	\$ 29,494
Other comprehensive income -				
Foreign currency translation adjustment	322	(65)	2,117	49
Comprehensive income	\$ 18,146	\$ 14,076	\$ 33,336	\$ 29,543

NOTE E. 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.

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>	Net Earnings	Weighted Average Shares	Per-Share Amount
Thirteen weeks ended August 3, 2003			
Basic	\$ 17,824	116,082	\$.15
Effect of dilutive stock options	-	3,688	
Diluted	\$ 17,824	119,770	\$.15
Thirteen weeks ended August 4, 2002			
Basic	\$ 14,141	115,252	\$.12
Effect of dilutive stock options	-	4,862	
Diluted	\$ 14,141	120,114	\$.12
Twenty-Six weeks ended August 3, 2003			
Basic	\$ 31,219	115,145	\$.27
Effect of dilutive stock options	-	3,308	
Diluted	\$ 31,219	118,453	\$.26
Twenty-Six weeks ended August 4, 2002			
Basic	\$ 29,494	114,865	\$.26
Effect of dilutive stock options	-	4,703	
Diluted	\$ 29,494	119,568	\$.25

Options with an exercise price greater than the average market price of common shares were 237,000 and 307,000 for the thirteen weeks and 1,548,000 and 346,000 for the twenty-six weeks ended August 3, 2003 and August 4, 2002, respectively, and were not included in the computation of diluted earnings per share.

NOTE F. SEGMENT REPORTING

We have two reportable segments, retail and direct-to-customer. The retail segment sells products for the home through our four retail concepts (Williams-Sonoma, Pottery Barn, Pottery Barn Kids and Hold Everything). The four retail concepts are operating segments, which have been aggregated into one reportable segment, retail. The direct-to-customer segment sells similar products through our eight direct-mail catalogs (Williams-Sonoma, Pottery Barn, Pottery Barn Kids, Pottery Barn Bed + Bath, Pottery Barn Teen, Hold Everything, West Elm and Chambers) and four e-commerce websites (wsweddings.com, williams-sonoma.com, potterybarn.com and potterybarnkids.com).

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. Management's expectation is that the overall economics of each of our major concepts within each reportable segment will be similar over time.

We use earnings before unallocated corporate overhead, interest and income taxes to evaluate segment profitability. Unallocated earnings before income taxes is comprised solely of unallocated expenses which primarily include employment, occupancy, and other general expenses for corporate administrative and information technology functions, and company-wide incentive compensation. Unallocated assets include corporate cash and equivalents, the net book value of corporate facilities and information systems, deferred income taxes and other corporate long-lived assets.

Segment Information

<i>Dollars in thousands</i>	Retail	Direct-to-Customer	Unallocated	Total
Thirteen weeks ended August 3, 2003				
Net revenues	\$ 337,232	\$ 243,191	-	\$ 580,423
Depreciation and amortization expense	17,667	4,096	\$ 3,603	25,366
Earnings before income taxes	27,320	37,410	(35,748)	28,982
Capital expenditures	34,557	5,426	7,468	47,451
Thirteen weeks ended August 4, 2002				
Net revenues	\$ 287,758	\$ 207,835	-	\$ 495,593
Depreciation and amortization expense	14,625	4,748	\$ 3,138	22,511
Earnings before income taxes	29,817	29,018	(35,842)	22,993
Capital expenditures	32,769	3,106	2,664	38,539
Twenty-Six weeks ended August 3, 2003				
Net revenues	\$ 641,771	\$ 475,492	-	\$ 1,117,263
Depreciation and amortization expense	33,773	8,627	\$ 7,239	49,639
Earnings before income taxes	53,051	67,760	(70,048)	50,763
Assets	774,531	186,164	302,266	1,262,961
Capital expenditures	52,896	9,555	9,380	71,831
Twenty-Six weeks ended August 4, 2002				
Net revenues	\$ 556,903	\$ 417,069	-	\$ 973,972
Depreciation and amortization expense	28,772	9,716	\$ 6,178	44,666
Earnings before income taxes	55,371	59,438	(66,852)	47,957
Assets	633,468	152,832	253,200	1,039,500
Capital expenditures	54,237	4,802	5,498	64,537

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

Forward-Looking Statements

This document contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause the business and results of operations of Williams-Sonoma, Inc. and its wholly-owned subsidiaries ("we", "us" or "our") to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements include, without limitation, any projections of earnings, revenues or financial items, any statements of the plans, strategies and objectives of management for future operations, any statements relating to our projected capital expenditures and available cash, any statements relating to our plans to open additional stores, any statements relating to anticipated comparable store sales increases and decreases, any statements relating to the outcome of pending legal proceedings, any statements related to the effect of new accounting pronouncements on our financial statements and statements of belief and any statements of assumptions underlying the foregoing.

Business

We are a specialty retailer of products for the home. The retail segment of our business sells our products through our four retail store concepts (Williams-Sonoma, Pottery Barn, Pottery Barn Kids and Hold Everything). The direct-to-customer segment of our business sells similar products through our eight direct-mail catalogs (Williams-Sonoma, Pottery Barn, Pottery Barn Kids, Pottery Barn Bed + Bath, Pottery Barn Teen, Hold Everything, West Elm and Chambers) and four e-commerce websites (wsweddings.com, williams-sonoma.com, potterybarn.com and potterybarnkids.com). The principal concepts in both retail and direct-to-customer are: Williams-Sonoma, which sells cooking and entertaining essentials; Pottery Barn, which sells home furnishings, decorative accessories, and contemporary tableware; and Pottery Barn Kids, which sells stylish children's furnishings and decorative accessories. The following discussion and analysis of financial condition, results of operations, liquidity and capital resources should be read in conjunction with our condensed consolidated financial statements and the notes thereto.

Net Revenues

Net revenues consist of retail sales, direct-to-customer sales and shipping fees. Retail sales include sales of merchandise to customers at our retail stores, direct-to-customer sales include sales of merchandise to customers through catalogs and the Internet, and shipping fees consist of revenue received from customers for delivery of merchandise.

The following table summarizes our net revenues for the thirteen and twenty-six weeks ended August 3, 2003 ("Second Quarter of 2003") and August 4, 2002 ("Second Quarter of 2002").

<i>Dollars in thousands</i>	Thirteen Weeks Ended				Twenty-Six Weeks Ended			
	August 3, 2003	% Total	August 4, 2002	% Total	August 3, 2003	% Total	August 4, 2002	% Total
Retail sales	\$335,272	57.8%	\$285,813	57.7%	\$638,356	57.1%	\$ 553,391	56.8%
Direct-to-customer sales	206,327	35.5%	177,100	35.7%	404,947	36.2%	355,381	36.5%
Shipping fees	38,824	6.7%	32,680	6.6%	73,960	6.7%	65,200	6.7%
Net revenues	\$580,423	100.0%	\$495,593	100.0%	\$1,117,263	100.0%	\$ 973,972	100.0%

Net revenues for the Second Quarter of 2003 increased by \$84,830,000 or 17.1% over net revenues for the Second Quarter of 2002. This net revenue increase was primarily driven by incremental revenues from 44 new stores (net of closures), a comparable store sales increase of 6.5%, increased catalog circulation, and strong momentum from Internet growth initiatives.

Net revenues for the twenty-six week period ended August 3, 2003 (“Year-to-Date 2003”) increased by \$143,291,000 or 14.7% over net revenues for the twenty-six week period ended August 4, 2002 (“Year-to-Date 2002”). This net revenue increase was primarily driven by incremental revenues from 44 new stores (net of closures), a comparable store sales increase of 2.9%, increased catalog circulation, and strong momentum from Internet growth initiatives.

Retail Revenues and Other Data

<i>Dollars in thousands</i>	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	August 3, 2003	August 4, 2002	August 3, 2003	August 4, 2002
Retail sales	\$ 335,272	\$ 285,813	\$ 638,356	\$ 553,391
Shipping fees	1,960	1,945	3,415	3,512
Total retail revenues	\$ 337,232	\$ 287,758	\$ 641,771	\$ 556,903
Percent growth in retail sales	17.3%	16.9%	15.4%	18.4%
Percent increase in comparable store sales	6.5%	0.0%	2.9%	2.9%
Number of stores - beginning of period	487	425	478	415
Number of new stores	6	22	18	36
Number of closed stores	(4)	(2)	(7)	(6)
Number of stores - end of period	489	445	489	445
Store selling square footage at quarter-end (sq. ft.)	2,411,000	2,173,000	2,411,000	2,173,000
Store leased square footage (“LSF”) at quarter-end (sq. ft.)	3,833,000	3,429,000	3,833,000	3,429,000

	Store Count			August 3, 2003	Avg. LSF	Store Count	Avg. LSF
	May 4, 2003	Openings	Closing		per Store August 3, 2003		August 4, 2002
Williams-Sonoma	237	2	(3)	236	5,300	223	5,100
Pottery Barn	160	1	(1)	160	11,500	151	11,400
Pottery Barn Kids	63	3	-	66	7,700	42	7,500
Hold Everything	13	-	-	13	3,800	15	3,700
Outlets	14	-	-	14	13,100	14	13,100
Total	487	6	(4)	489	7,800	445	7,700

Retail revenues for the Second Quarter of 2003 increased by \$49,474,000 or 17.2% over the Second Quarter of 2002 primarily due to incremental revenues from 44 new stores (net of closures) and a comparable store sales increase of 6.5%. Net revenues generated in the Pottery Barn Kids, Williams-Sonoma and Pottery Barn brands as well as the Outlet stores, partially offset by a planned reduction in Hold Everything, drove this revenue increase. A significant increase in year-over-year merchandise inventory levels, especially in Williams-Sonoma, supported this strong retail sales performance.

Retail revenues for Year-to-Date 2003 grew \$84,868,000 or 15.2% over the same period of the prior year, primarily due to 44 new store openings (net of closures) and a comparable store sales increase of 2.9%. Net revenues generated in the Pottery Barn Kids, Williams-Sonoma, and Pottery Barn brands as well as Outlet stores, partially offset by a planned reduction in Hold Everything, drove this revenue increase. A significant increase in year-over-year merchandise inventory levels, especially in Williams-Sonoma, supported these retail sales results.

Comparable Store Sales

Comparable stores are defined as those stores whose gross square feet did not change by more than 20% in the previous 12 fiscal months and which have been open for at least 12 consecutive fiscal months without closure for seven or more consecutive days. Comparable store sales are computed based on aggregate sales of comparable stores for the reporting period. By measuring the year-over-year sales of merchandise in the stores that have a history of being open for a full comparable 12 fiscal months or more, we can better gauge how the core store base is performing since it excludes store openings, expansions and closings.

<i>Percent increase (decrease) in comparable store sales</i>	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	August 3, 2003	August 4, 2002	August 3, 2003	August 4, 2002
Williams-Sonoma	12.1%	(1.7)%	8.9%	(0.1)%
Pottery Barn	2.6%	1.3%	(0.9)%	6.3%
Pottery Barn Kids	5.7%	2.6%	(1.6)%	3.7%
Hold Everything Outlets	(2.5)%	(15.8)%	(5.0)%	(13.4)%
Total	6.5%	0.0%	2.9%	2.9%

The Second Quarter of 2003 comparable store sales increase in Williams-Sonoma was primarily due to a substantial increase in retail inventory levels, a strong merchandise offering, and the sales impact of higher markdowns (primarily due to a significant transition in the tabletop assortment). The Second Quarter of 2003 comparable store sales increase in Pottery Barn was primarily due to a positive consumer response to our product offerings, a merchandising emphasis on our core assortment, and a synchronized multi-channel marketing effort to support our summer merchandising themes. The Second Quarter of 2003 comparable store sales increase in Pottery Barn Kids was primarily driven by a strong comparable store sales increase in single-store markets, offset by a negative, but improving, comparable store sales decrease in multi-store markets. Higher inventory levels, successful in-store marketing programs, and new merchandise assortments drove the positive Second Quarter of 2003 results. We expect comparable store sales for Pottery Barn Kids stores in multi-store markets to remain volatile (and negative) during the growth phase of the concept, consistent with our experience in the early years of the Pottery Barn store rollout.

The Year-to-Date 2003 comparable store sales increase in Williams-Sonoma was primarily due to a substantial increase in retail inventory levels, a strong merchandise offering, and the sales impact of higher markdowns (primarily due to a significant transition in the tabletop assortment). The Year-to-Date 2003 comparable store sales decrease in Pottery Barn was primarily due to a difficult year-over-year sales comparison (positive 6.3% in Year-to-Date 2002) and a challenging in-stock position on certain core merchandise categories that continued until the end of the Second Quarter of 2003.

The Year-to-Date 2003 comparable store sales in Pottery Barn Kids were negative primarily due to a comparable store sales decrease in the first quarter of 2003. This first quarter of 2003 decrease was primarily due to a challenging year-over-year sales comparison and the significant pressure that the rapid opening of new stores in multi-store markets imposed on the performance of existing comparable stores. This first quarter of 2003 comparable store sales decrease was significantly offset by a stronger second quarter performance. The Second Quarter of 2003 comparable store sales increase in Pottery Barn Kids was primarily driven by a strong performance in single-store markets and an improving performance in multi-store markets. Higher inventory levels, successful in-store marketing programs, and new merchandise assortments drove this improved second quarter performance. We expect comparable store sales for Pottery Barn Kids stores in multi-store markets to remain volatile (and negative) during the growth phase of the concept, consistent with our experience in the early years of the Pottery Barn store rollout.

Direct-to-Customer Revenues

<i>Dollars in thousands</i>	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	August 3, 2003	August 4, 2002	August 3, 2003	August 4, 2002
Catalog sales	\$ 137,008	\$ 132,399	\$ 275,398	\$ 272,551
Internet sales	69,319	44,701	129,549	82,830
Total direct-to-customer sales	206,327	177,100	404,947	355,381
Shipping fees	36,864	30,735	70,545	61,688
Total direct-to-customer revenues	\$ 243,191	\$ 207,835	\$ 475,492	\$ 417,069
Percent growth in direct-to-customer sales	16.5%	11.9%	13.9%	9.0%
Percent growth in number of catalogs circulated	15.6%	(3.9)%	16.9%	10.4%

Direct-to-customer revenues in the Second Quarter of 2003 increased by \$35,356,000 or 17.0% over the Second Quarter of 2002. This increase was primarily driven by incremental net revenues generated by the Pottery Barn, Pottery Barn Kids, West Elm, Williams-Sonoma, and Hold Everything brands in addition to incremental revenues from our newest catalog, Pottery Barn Teen. This increase was partially offset by a decrease in revenues from the Chambers catalog due to increased prospecting and lower productivity of the catalog.

The Pottery Barn Teen brand, launched in April 2003, is a home retail concept that is exclusively focused on the teenage market. Pottery Barn Teen offers exclusive lifestyle collections for bedrooms, study, and lounge areas that include products in five key merchandise categories: furniture, rugs, lighting, bedding, and decorative accessories. The products in Pottery Barn Teen are designed to reflect teen personalities and interests and are intended to speak to teenagers with the voice of a teen magazine.

Direct-to-customer revenues for Year-to-Date 2003 increased \$58,423,000 or 14.0% over Year-to-Date 2002. This increase was primarily driven by incremental net revenues generated by the Pottery Barn, Pottery Barn Kids, West Elm, Williams-Sonoma, and Hold Everything brands in addition to incremental revenues from our newest catalog, Pottery Barn Teen. This increase was partially offset by a decrease in revenues from the Chambers catalog due to increased prospecting and lower productivity of the catalog.

Internet sales in the Second Quarter of 2003 increased by \$24,618,000 or 55.1% over the Second Quarter of 2002 and contributed 33.6% of total direct-to-customer sales in the Second Quarter of 2003 versus 25.2% in the Second Quarter of 2002. Internet sales in Year-to-Date 2003 increased by \$46,719,000 or 56.4% over Year-to-Date 2002 and contributed 32.0% of total direct-to-customer sales in Year-to-Date 2003 versus 23.3% in Year-to-Date 2002. Although the amount of Internet sales that are incremental to our direct-to-customer channel cannot be identified precisely, we estimate that approximately 40%-50% of non-bridal Internet sales are incremental to the direct-to-customer channel and approximately 50%-60% are from mail order customers who recently received a catalog.

Cost of Goods Sold

<i>Dollars in thousands</i>	Thirteen Weeks Ended				Twenty-Six Weeks Ended			
	August 3, 2003	% Net Revenue	August 4, 2002	% Net Revenue	August 3, 2003	% Net Revenue	August 4, 2002	% Net Revenue
Cost of goods and occupancy expenses	\$335,213	57.8%	\$280,297	56.6%	\$637,510	57.1%	\$547,421	56.2%
Shipping costs	30,132	5.2%	29,922	6.0%	60,367	5.4%	59,279	6.1%
Total cost of goods sold	\$365,345	63.0%	\$310,219	62.6%	\$697,877	62.5%	\$606,700	62.3%

Cost of goods and occupancy expenses increased by \$54,916,000 in the Second Quarter of 2003 over the Second Quarter of 2002. As a percentage of net revenues, cost of goods and occupancy expenses increased 120 basis

points for the Second Quarter of 2003 from Second Quarter of 2002. This percentage increase was primarily driven by an overall increase in markdown activity in 2003 compared to an exceptionally low level of markdown activity in 2002; higher freight to store and other distribution costs due to the incremental expense associated with the ongoing inventory reinstatement initiative; and a higher cost of merchandise from euro-based vendors due to the weakening of the U.S. dollar against the euro. Ongoing operational improvements, however, including a decrease in customer returns, replacements and damages, improved shipping profitability for merchandise delivered to the customers, and lower inventory shrinkage partially offset this increase.

Cost of goods and occupancy expenses increased by \$90,089,000 for Year-to-Date 2003 over the same period of fiscal 2002. As a percentage of net revenues, cost of goods and occupancy expenses increased 90 basis points over the same period of fiscal 2002. This percentage increase was primarily driven by an overall increase in markdown activity in 2003 compared to an exceptionally low level of markdown activity in 2002; higher freight to store and other distribution costs due to the incremental expense associated with the ongoing inventory reinstatement initiative; and a higher cost of merchandise from euro-based vendors due to the weakening of the U.S. dollar against the euro. Ongoing operational improvements, however, including a decrease in customer returns, replacements and damages, improved shipping profitability for merchandise delivered to the customers, and lower inventory shrinkage partially offset this increase.

Shipping costs consist of third-party delivery services and shipping materials. Shipping costs increased by \$210,000 in the Second Quarter of 2003 versus the Second Quarter of 2002. This increase was directly related to a higher number of direct-to-customer shipments associated with the increase in direct-to-customer sales, but was substantially offset by a lower cost per shipment due to the consolidation of freight providers and the successful renegotiation of freight-to-customer contracts. As a result of these efficiencies, shipping costs, as a percentage of shipping fees, have continued to decline from 91.6% in the Second Quarter of 2002 to 77.6% in the Second Quarter of 2003.

For Year-to-Date 2003, shipping costs increased by \$1,088,000 from Year-to-Date 2002 due to an increase in the number of customer shipments. This increase was directly related to a higher number of direct-to-customer shipments associated with the increase in direct-to-customer sales, but was substantially offset by a lower cost per shipment due to the consolidation of freight providers and the successful renegotiation of freight-to-customer contracts. As a result of these efficiencies, shipping costs, as a percentage of shipping fees, have decreased to 81.6% for Year-to-Date 2003 from 90.9% for Year-to-Date 2002.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$24,060,000 or 14.8% to \$186,226,000 in the Second Quarter of 2003 from \$162,166,000 in the Second Quarter of 2002. Selling, general and administrative expenses expressed as a percentage of net revenues decreased by 60 basis points to 32.1% in the Second Quarter of 2003 from 32.7% in the Second Quarter of 2002. The improvement in selling, general and administrative expenses as a percentage of net revenues was primarily driven by lower employment and other administrative costs, partially offset by higher advertising costs. Lower employment costs were primarily driven by reduced incentive compensation and the elimination of restricted stock compensation expense. Lower administrative costs were driven by the ongoing corporate-wide initiative to control discretionary overhead expenses. The advertising cost increase was primarily driven by relatively higher costs associated with our new catalog concepts, including the April 2003 launch of Pottery Barn Teen and the substantial circulation increase in West Elm.

For Year-to-Date 2003, selling, general and administrative expenses increased \$50,233,000 or 15.8% to \$369,069,000 for Year-to-Date 2003 from \$318,836,000 for Year-to-Date 2002. Selling, general and administrative expenses expressed as a percentage of net revenues increased by 30 basis points to 33.0% for Year-to-Date 2003 from 32.7% for Year-to-Date 2002. This percentage increase was primarily due to higher catalog advertising, partially offset by a reduction in other general expenses. The increase in catalog advertising costs as a percentage of net revenues was primarily driven by increased circulation in our emerging businesses, including

West Elm, Pottery Barn Teen and Hold Everything, in addition to lower productivity in the Pottery Barn Kids and Pottery Barn catalogs which resulted from an increase in circulation to prospect mailing lists.

Interest Expense - Net

Net interest income was \$130,000 in the Second Quarter of 2003 versus net interest expense of \$215,000 in the Second Quarter of 2002. For Year-to-Date 2003, net interest income was \$446,000 versus net interest expense of \$479,000 for Year-to-Date 2002. The decrease in interest expense was primarily due to an increase in capitalized interest.

Income Taxes

Our effective tax rate was 38.5% for Year-to-Date 2003 and Year-to-Date 2002.

Liquidity and Capital Resources

For Year-to-Date 2003, net cash used in operating activities was \$66,496,000 as compared to net cash provided by operating activities of \$66,279,000 in Year-to-Date 2002. This use of operating cash for Year-to-Date 2003 was primarily attributable to an increase in merchandise inventories due to our decision to substantially reinstate the in-stock position on core merchandise inventories, a reduction in income taxes payable because of the payment of our fiscal 2002 income taxes, a reduction in accounts payable due to the timing of expenditures, and a reduction in accrued expenses primarily driven by the payout of our 2002 incentive compensation in the first quarter of 2003.

Net cash used in investing activities was \$71,831,000 for Year-to-Date 2003 as compared to \$64,537,000 for Year-to-Date 2002. Year-to-Date 2003 purchases of property and equipment included approximately \$41,976,000 for stores, \$27,559,000 for systems development projects (including e-commerce websites) and \$2,296,000 for distribution and facility infrastructure projects. During the first quarter of 2003, we entered into an agreement to purchase a corporate aircraft in late 2003. We are investing in this asset in response to the increasing complexity of our global sourcing program (currently representing 58% of annual inventory purchases from over 41 countries), the continued expansion of our retail stores and distribution centers and the increasing difficulty and risks associated with worldwide travel.

Year-to-Date 2002 purchases of property and equipment included approximately \$48,636,000 for stores, \$14,306,000 for systems development projects (including e-commerce websites) and \$1,595,000 for distribution and facility infrastructure projects.

For Year-to-Date 2003, cash provided by financing activities was \$25,497,000, comprised primarily of proceeds from the exercise of stock options, partially offset by the repayment of capital lease obligations. For Year-to-Date 2002, cash provided by financing activities was \$12,584,000, comprised primarily of proceeds from the exercise of stock options, partially offset by the repayment of capital lease obligations.

We have a \$200,000,000 unsecured revolving line of credit facility that expires on October 22, 2005 and contains certain restrictive loan covenants, including minimum tangible net worth, maximum leverage ratio (funded debt adjusted for lease and rent expense to EBITDAR), minimum fixed charge coverage ratio, and maximum annual capital expenditures. Through April 22, 2005, we may, upon notice to the lenders, request an increase in the facility up to \$250,000,000. We may elect interest rates calculated by reference to the agent's internal reference rate or LIBOR plus a margin based on our leverage ratio. As of August 3, 2003, we had no borrowings outstanding under the line of credit facility.

We have three unsecured commercial letter of credit reimbursement agreements for an aggregate of \$115,000,000, which expire on July 2, 2004. The latest expiration for the letters of credit issuable under the agreements is November 29, 2004. As of August 3, 2003, \$87,663,000 was outstanding under the letter of credit agreements.

Such letters of credit represent only a future commitment to fund inventory purchases to which we had not taken legal title as of August 3, 2003.

As of August 3, 2003, we had outstanding standby letters of credit under the line of credit facility in an aggregate amount of \$9,964,000. The standby letters of credit were issued to secure liabilities associated with workers' compensation and other insurance programs.

We regularly review and evaluate our liquidity and capital needs. As we continue to grow, we may experience peak periods for our cash needs during the course of our fiscal year. We believe we would have access to additional debt and/or capital market funding as required to meet such needs. We currently believe that our available cash, cash equivalents, cash flows from operations and cash available under our existing credit facilities will be sufficient to finance our operations and capital requirements for at least the next twelve months.

Stock Repurchase Program

In January 2003, the Board of Directors authorized a stock repurchase program to acquire up to four million shares of the Company's outstanding common stock in the open market. During the fourth quarter of fiscal year 2002, we repurchased and retired two million shares of our common stock under the program. At August 3, 2003, the remaining authorized amount of stock eligible for repurchase was two million shares. Future purchases under this program will be made through open market transactions at times and amounts that management deems appropriate. The timing and actual number of shares to be purchased in the future will depend on a variety of factors such as price, corporate and regulatory requirements, and other market conditions. We may terminate or limit the stock repurchase program at any time without prior notice.

Impact of Inflation

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

Seasonality

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

Risk Factors

The following information describes certain significant risks inherent in our business. You should carefully consider such risks, together with the other information contained in our Annual Report on Form 10-K for the fiscal year ended February 2, 2003 and in our other public filings. If any of such risks and uncertainties actually occurs, our business, financial condition or operating results could differ materially from the plans, projections and other forward-looking statements included in Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report and in our other public filings. In addition, if any of the following risks and uncertainties, or if any other disclosed risks and uncertainties, actually occurs, our business, financial condition or operating results could be harmed substantially, which, in turn, could cause the market price of our stock to decline, perhaps significantly.

We must successfully anticipate changing consumer preferences and buying trends, and manage our inventory commensurate with customer demand.

Our success depends upon our ability to anticipate and respond to changing merchandise trends and customer demands in a timely manner. We must keep our merchandise assortment fresh, but consumer preferences cannot be predicted with certainty and may change between sales seasons. If we misjudge either the market for our merchandise or our customers' purchasing habits, our sales may decline significantly and we may be required to mark down certain products to sell the resulting excess inventory or sell such inventory through our outlet stores at prices which are significantly lower than our retail prices, each of which would harm our business and operating results.

In addition, we must manage our inventory effectively, commensurate with customer demand. Much of our inventory is sourced from vendors located outside the United States. Thus, we usually must order merchandise, and enter into contracts for the purchase and manufacture of such merchandise, well in advance of the applicable selling season and frequently before trends are known. The extended lead times for many of our purchases may make it difficult for us to respond rapidly to new or changing trends. In addition, the seasonal nature of the specialty home products business requires us to carry a significant amount of inventory prior to peak selling season. As a result, we are vulnerable to demand and pricing shifts and to misjudgments in the selection and timing of merchandise purchases. If we do not accurately predict our customers' preferences and acceptance levels of our products, our inventory levels will not be appropriate and our business and operating results may be negatively impacted.

Over the last twelve months, we have increased our merchandise inventories by approximately 50% in order to improve our fulfillment rates and customer service. As a result of this increase, we have also seen a related increase in distribution costs. If we are unable to sell through this inventory to our customers, we may experience additional pressure on our gross margins or inventory writedowns in future periods which could negatively affect our business, results of operations and financial condition.

Our business depends, in part, on factors affecting consumer spending that are out of our control.

Our business depends on consumer demand for our products and, consequently, is sensitive to a number of factors that influence consumer spending, including general economic conditions, disposable consumer income, recession and fears of recession, war and fears of war, inclement weather, electrical power disruptions, consumer debt, interest rates, sales tax rates and rate increases, consumer confidence in future economic conditions and political conditions, and consumer perceptions of personal well-being and security generally. Adverse changes in factors affecting discretionary consumer spending could reduce consumer demand for our products, thus reducing our sales and harming our business and operating results.

The growth of our sales and profits depends, in large part, on our ability to successfully open new stores.

In each of the past three fiscal years, our retail stores have generated approximately 59.0% of our net revenues. We plan a net increase of approximately 35 new retail stores in fiscal 2003 as part of our growth strategy. There is no assurance that this strategy will be successful. Our ability to open additional stores successfully will depend upon a number of factors, including:

- our identification and availability of suitable store locations;
- our success in negotiating leases on acceptable terms;
- our ability to secure required governmental permits and approvals;
- our hiring and training of skilled store operating personnel, especially management;
- our timely development of new stores, including the availability of construction materials and labor and the absence of significant construction and other delays in store openings;
- the availability of financing on acceptable terms (if at all); and
- general economic conditions.

Many of these factors are beyond our control. For example, for the purpose of identifying suitable store locations, we rely, in part, on demographics surveys regarding location of consumers in our target market segments. While we believe that the surveys and other relevant information are helpful indicators of suitable store locations, we recognize that the information sources cannot predict future consumer preferences and buying trends with complete accuracy. In addition, time frames for lease negotiations and store development vary from location to location and can be subject to unforeseen delays. Construction and other delays in store openings could have a negative impact on our business and operating results. There can be no assurance that we will be able to open new stores or that, if opened, those stores will be operated profitably.

We face intense competition from companies with brands or products similar to ours.

The specialty retail and direct-to-customer business is highly competitive. Our specialty retail stores, mail order catalogs and e-commerce websites compete with other retail stores, other mail order catalogs and other e-commerce websites that market lines of merchandise similar to ours. We compete with national, regional and local businesses utilizing a similar retail store strategy, as well as traditional furniture stores, department stores and specialty stores. The substantial sales growth in the direct-to-customer industry within the last decade has encouraged the entry of many new competitors and an increase in competition from established companies.

The competitive challenges facing us include, without limitation:

- anticipating and quickly responding to changing consumer demands better than our competitors;
- maintaining favorable brand recognition and achieving customer perception of value;
- effectively marketing and competitively pricing our products to consumers in several diverse market segments; and
- developing innovative, high-quality products in colors and styles that appeal to consumers of varying age groups and tastes, and in ways that favorably distinguish us from our competitors.

In light of the many competitive challenges facing us, there can be no assurance that we will be able to compete successfully. Increased competition could adversely affect our sales, operating results and business.

We depend on key domestic and foreign vendors for timely and effective sourcing of our merchandise, and we are subject to various risks and uncertainties that might affect our vendors' ability to produce quality merchandise.

Our performance depends on our ability to purchase our merchandise in sufficient quantities at competitive prices. We purchase our merchandise from numerous foreign and domestic manufacturers and importers. We have no contractual assurances of continued supply, pricing or access to new products, and any vendor could discontinue

selling to us at any time. There can be no assurance that we will be able to acquire desired merchandise in sufficient quantities on terms acceptable to us in the future. Any inability to acquire suitable merchandise or the loss of one or more key vendors could have a negative effect on our business and operating results because we would be missing products that we felt were important to our assortment, unless and until alternative supply arrangements are secured. We may not be able to develop relationships with new vendors, and products from alternative sources, if any, may be of a lesser quality and/or more expensive than those we currently purchase.

In addition, we are subject to certain risks, including availability of raw materials, labor disputes, union organizing activity, inclement weather, natural disasters, and general economic and political conditions, that might limit our vendors' ability to provide us with quality merchandise on a timely basis. For these or other reasons, one or more of our vendors might not adhere to our quality control standards, and we might not identify the deficiency before merchandise ships to our stores or customers. Our vendors' failure to manufacture or import quality merchandise in a timely and effective manner could damage our reputation and brands, and could lead to an increase in customer litigation against us and an attendant increase in our routine litigation costs.

Our dependence on foreign vendors subjects us to a variety of risks and uncertainties.

We source our products from manufacturers in over 41 countries. Specifically, in fiscal 2002, approximately 58% of our merchandise purchases were foreign sourced, primarily from Asia and Europe.

Our dependence on foreign vendors means, in part, that we may be affected by declines in the relative value of the U.S. dollar to other foreign currencies. Although a majority of our foreign purchases of merchandise are negotiated and paid for in U.S. dollars, changes in foreign currency exchange rates might negatively affect the profitability and business prospects of one or more of our foreign vendors. This, in turn, might cause such foreign vendors to demand higher prices for merchandise, hold up merchandise shipments to us, or discontinue selling to us, any of which could ultimately reduce our sales or increase our costs.

We are also subject to other risks and uncertainties associated with changing economic and political conditions in foreign countries. These risks and uncertainties include import duties and quotas, work stoppages, economic uncertainties (including inflation), foreign government regulations, war and fears of war, political unrest and trade restrictions. We cannot predict whether any of the countries in which our products are currently manufactured or may be manufactured in the future will be subject to trade restrictions imposed by the U.S. or foreign governments or the likelihood, type or effect of any such restrictions. Any event causing a disruption or delay of imports from foreign vendors, including the imposition of additional import restrictions, restrictions on the transfer of funds and/or increased tariffs or quotas, or both, against home-centered items could increase the cost or reduce the supply of merchandise available to us and adversely affect our business, financial condition and operating results. Furthermore, some or all of our foreign vendors' operations may be adversely affected by political and financial instability resulting in the disruption of trade from exporting countries, restrictions on the transfer of funds and/or other trade disruptions.

In addition, although we are in the process of developing and implementing an enhanced global compliance program, there remains a risk that one or more of our foreign vendors will not adhere to our global compliance standards (including, e.g., fair labor standards and the prohibition on child labor). If this happens, we could lose customer goodwill and favorable brand recognition, which could negatively affect our business and operating results.

We must timely and effectively deliver merchandise to our stores and customers.

We cannot control all of the various factors that might affect our fulfillment rates in direct-to-customer sales and/or timely and effective merchandise delivery to our stores. We rely upon third party carriers for our merchandise shipments, including shipments to our customers and to and from all of our stores. Accordingly, we are subject to the risks, including labor disputes (e.g., west coast port lock-out of 2002), union organizing activity, inclement weather, natural disasters, and possible acts of terrorism associated with such carriers' ability to provide

delivery services to meet our shipping needs. Failure to deliver merchandise in a timely and effective manner could damage our reputation and brands. In addition, we are seeing fuel costs increase substantially and airline companies struggle to operate profitably, which could lead to increased fulfillment expenses and negatively affect our business and operating results by increasing costs and negatively affecting the efficiency of our shipments.

Our failure to successfully manage our order-taking and fulfillment operations might have a negative impact on our business.

The operation of our direct-to-customer business depends on our ability to maintain the efficient and uninterrupted operation of our order-taking and fulfillment operations and our e-commerce websites. Disruptions or slowdowns in these areas could result from disruptions in telephone service or power outages, inadequate system capacity, human error, natural disasters or adverse weather conditions. These problems could result in a reduction in sales as well as increased selling, general and administrative expenses.

In addition, we face the risk that we cannot hire enough qualified employees, especially during our peak season, to support our direct-to-customer operations, due to war or other circumstances that reduce the relevant workforce. The need to operate with fewer employees could negatively impact our customer service levels and our operations and ultimately could negatively affect our business, results of operations and financial condition.

We experience fluctuations in our comparable store sales.

Our success depends, in part, upon our ability to increase sales at our existing stores. Various factors affect comparable store sales, including the number of stores we open, close and expand in any period, the general retail sales environment, changes in sales mix between distribution channels, our ability to efficiently source and distribute products, changes in our merchandise mix, competition, current economic conditions, the timing of our releases of new merchandise and promotional events, the success of marketing programs, and cannibalization of existing store sales by new stores. Among other things, weather conditions or electrical power disruptions can affect comparable store sales, because they can require us to close certain stores temporarily and thus reduce store traffic. Even if stores are not closed, many customers may decide to avoid going to stores in bad weather. These factors may cause our comparable store sales results to differ materially from prior periods and from earnings guidance we have provided. Our comparable store sales have fluctuated significantly in the past on an annual, quarterly and monthly basis, and we expect that comparable store sales will continue to fluctuate in the future. Our comparable store sales increases for fiscal years 2002, 2001 and 2000 were 2.7%, 1.7% and 5.5%, respectively. Comparable store sales increased by 2.9% in the twenty-six weeks ended August 3, 2003. Past comparable store sales are no indication of future results, and there can be no assurance that our comparable store sales will not decrease in the future. Our ability to maintain and improve our comparable store sales results depends in large part on maintaining and improving our forecasting of customer demand and buying trends, selecting effective marketing techniques, providing an appropriate mix of merchandise for our broad and diverse customer base and using more effective pricing strategies. Any failure to meet the comparable store sales expectations of investors and security analysts in one or more future periods could significantly reduce the market price of our common stock.

Our failure to successfully manage the costs and performance of our catalog mailings might have a negative impact on our business.

Postal rate increases and paper and printing costs affect the cost of our catalog mailings. We rely on discounts from the basic postal rate structure, such as discounts for bulk mailings and sorting by zip code and carrier routes. Our cost of paper has fluctuated significantly during the past three fiscal years, and our paper costs may increase in the future. Although we have entered into long-term contracts for catalog paper and catalog printing, these contracts offer no assurance that our catalog production costs will not substantially increase following expiration of these contracts. Future increases in postal rates or paper or printing costs would have a negative impact on our operating results to the extent that we are unable to pass such increases on directly to customers or offset such

increases by raising selling prices or by implementing more efficient printing, mailing, delivery and order fulfillment systems.

We have historically experienced fluctuations in customer response to our catalogs. Customer response to our catalogs is substantially dependent on merchandise assortment, merchandise availability and creative presentation, as well as the sizing and timing of delivery of the catalogs. The failure to effectively produce or distribute the catalogs could affect the timing of catalog delivery, which could cause customers to forego or defer purchases.

We must successfully manage our Internet business.

The success of our Internet business depends, in part, on factors over which we have limited control. In addition to changing consumer preferences and buying trends relating to Internet usage, we are vulnerable to certain additional risks and uncertainties associated with the Internet, including changes in required technology interfaces, website downtime and other technical failures, changes in applicable federal and state regulation, security breaches, and consumer privacy concerns. Our failure to successfully respond to these risks and uncertainties might adversely affect the sales through our Internet business, as well as damage our reputation and brands.

We must successfully manage the complexities associated with a multi-channel and multi-brand business.

During the past few years, with the launch and expansion of our Internet business, new brands and brand expansions, our overall business has become substantially more complex. The changes in our business have forced us to develop new expertise and face new challenges, risks and uncertainties. For example, we face the risk that our Internet business might cannibalize a significant portion of our retail and catalog businesses. While we recognize that our Internet sales cannot be entirely incremental to sales through our retail and catalog channels, we seek to attract as many new customers as possible to our websites. We continually analyze the business results of our three channels and the relationships among the channels, in an effort to find opportunities to build incremental sales. However, we cannot ensure that, as our Internet business grows, it will not cannibalize a portion of our retail and catalog businesses.

We have recently introduced two new brands, West Elm and Pottery Barn Teen, and may introduce additional new brands and brand extensions in the future. Our introduction of new brands and brand extensions poses another set of risks. If we devote time and resources to new brands and brand extensions, and those businesses are not as successful as we planned, then we risk damaging our overall business results. Alternatively, if our new brands and brand extensions prove to be very successful, we risk hurting our existing brands through the migration of customers to the new businesses. There can be no assurance that we can and will introduce new brands and brand extensions that improve our overall business and operating results.

Our inability to obtain commercial insurance at acceptable prices might have a negative impact on our business.

There has been a substantial increase in the costs of insurance, partly in response to the terrorist attacks of September 11, 2001, and financial irregularities and other fraud at publicly-traded companies. We believe that extensive commercial insurance coverage is prudent for risk management and anticipate that our insurance costs may further increase. In addition, for certain types or levels of risk (e.g., risks associated with earthquakes or terrorist attacks), we might determine that we cannot obtain commercial insurance at acceptable prices. Therefore, we might choose to forego or limit our purchase of relevant commercial insurance, choosing instead to self-insure one or more types or levels of risks. If we suffer a substantial loss that is not covered by commercial insurance, the loss and attendant expenses could have a material adverse effect on our business and operating results.

Our inability or failure to protect our intellectual property would have a negative impact on our business.

Our trademarks, service marks, copyrights, patents, trade dress rights, trade secrets, domain names and other

intellectual property are valuable assets that are critical to our success. The unauthorized reproduction or other misappropriation of our intellectual property could diminish the value of our brands or goodwill and cause a decline in our sales. There can be no assurance that we will be able to adequately protect our intellectual property or that the costs of defending our intellectual property will not adversely affect our operating results.

We have been sued and may be named in additional lawsuits in a growing number of industry-wide patent litigation cases relating to the Internet.

There appears to be a growing number of patent infringement lawsuits instituted against companies such as ours that have an Internet business. The plaintiff in each case claims to hold a patent that covers web technology, which is allegedly infringed by the operation of the defendants' websites. We are currently a defendant in certain such patent infringement cases and anticipate being named in others in the future, as part of an industry-wide trend. Even in cases where a plaintiff's claim lacks merit, the defense costs in a patent infringement case are very high. There can be no assurance that additional patent infringement claims will not be brought against us, or that the cost of defending such claims or the ultimate resolution of such claims will not negatively impact our business and operating results.

We are planning certain systems changes that might disrupt our operations.

Our success depends on our ability to source merchandise efficiently through appropriate systems and procedures. We are in the process of substantially modifying our information technology systems supporting the product pipeline, including design, sourcing, merchandise planning, forecasting and purchasing, inventory, distribution, transportation and price management. Modifications will involve updating or replacing legacy systems with successor systems during the course of several years. There are inherent risks associated with replacing our core systems, including any disruptions that affect our ability to get products into our stores and delivered to customers. There can be no assurance that we will successfully launch these new systems or that the launch will occur without any disruptions. Any resulting disruptions could have a material adverse effect on our business and operating results.

We need to manage our employment, occupancy and other operating costs.

To be successful, we need to manage our operating costs while we continue to look for opportunities to reduce costs. We recognize that we may need to increase the number of our employees, especially in peak sales seasons, and incur other expenses to support new brands and brand extensions, as well as the opening of new stores and direct-to-customer growth of our existing brands. In addition, although we strive to secure long-term contracts with our service providers and other vendors and otherwise limit our financial commitment to them, there can be no assurance that we will avoid unexpected operating cost increases in the future. Lower than expected sales, coupled with higher than expected costs, would negatively impact our business and operating results.

We depend on external funding sources for operating funds.

We regularly review and evaluate our liquidity and capital needs. We currently believe that our available cash, cash equivalents, cash flows from operations and cash available under our existing credit facilities will be sufficient to finance our operations and expected capital requirements for at least the next twelve months. However, as we continue to grow, we might experience peak periods for our cash needs during the course of our fiscal year, and we might need additional external funding to support our operations. Although we believe we would have access to additional debt and/or capital market funding if needed, there can be no assurance that such funds will be available to us on acceptable terms. If the cost of such funds is greater than expected, it could adversely affect our expenses and our operating results.

Our operating and financial performance in any given period might not meet the extensive guidance that we have provided to the public.

We provide extensive public guidance on our expected operating and financial results for future periods which is based solely on estimates made by management using information available at the time of estimate. 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. We cannot ensure that our guidance will be accurate, particularly in light of the degree of specificity included in our guidance. If in the future our operating or financial results for a particular period do not meet our guidance or the expectations of investment analysts, the market price of our common stock could decline.

We have not undertaken to publicly update or revise this or any of our other forward-looking statements, even if experience or future events make it clear that the results set forth in such statements will not be realized.

Our quarterly results of operations might fluctuate due to a variety of factors including seasonality.

Our quarterly results have fluctuated in the past and may fluctuate in the future, depending upon a variety of factors, including, but not limited to, shifts in the timing of holiday selling seasons, including Valentine's Day, Easter, Halloween, Thanksgiving and Christmas, and the strategic importance of fourth quarter results. A significant portion of our revenues and net earnings have been realized during the period from October through December. In anticipation of increased holiday sales activity, we incur certain significant incremental expenses, including the hiring of a substantial number of temporary employees to supplement our existing workforce. If, for any reason, we were to realize significantly lower-than-expected revenues or net earnings during the October through December selling season, our business and results of operations would be materially adversely affected.

Our failure to successfully anticipate merchandise returns might have a negative impact on our business.

We record a reserve for merchandise returns based on historical return trends together with current product sales performance in each reporting period. There can be no assurance that actual merchandise returns will not exceed our reserves. In addition, there can be no assurance that the introduction of new merchandise, changes in merchandise mix, changes in consumer confidence, or other competitive and general economic conditions will not cause actual returns to exceed merchandise return reserves. Any significant increase in merchandise returns that exceed our reserves could materially affect our business and results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks, which include changes in U.S. interest rates and foreign exchange rates. We do not engage in financial transactions for trading or speculative purposes.

Interest Rate Risk

The interest payable on our bank line of credit and on two of our operating leases is based on variable interest rates and therefore affected by changes in market interest rates. If interest rates on existing variable rate debt and operating leases rose 21 basis points (an approximately 10% increase in the associated variable rates as of August 3, 2003), the effect on our results of operations and cash flows would not be material.

For one of the operating leases with a variable interest rate (2.41% at August 3, 2003), we have an interest rate cap contract at 5.88% with a notional amount of \$13,083,000 which extends through February 2005. The contract has not been designated as a hedge and is accounted for by adjusting the carrying amount of the contract to market. Losses on the contract have not been and are not expected to be significant and are included in selling, general and administrative expenses.

In addition, we have fixed and variable income investments consisting of cash equivalents and short-term investments, which are also affected by changes in market interest rates. An increase in interest rates of 10% would have an immaterial effect on the value of these investments. Declines in interest rates would, however, decrease the income derived from these investments.

Foreign Currency Risks

We purchase approximately 58% of our inventory from vendors in transactions outside of the U.S., a majority of which are denominated in U.S. dollars. A small percentage of our international purchase transactions are in currencies other than the U.S. dollar. Any currency risks related to these transactions are immaterial to us. A decline in the relative value of the U.S. dollar to other foreign currencies could, however, lead to increased purchasing costs.

As of August 3, 2003, we have 9 retail stores in Toronto and Vancouver, Canada and expect to open 2 additional Canadian stores in fiscal 2003, which expose us to market risk associated with foreign currency exchange rate fluctuations. Due to our operations in Canada, we monitor the volatility of the Canadian dollar exchange rate and purchase forward contracts as considered appropriate to limit the currency exposure associated with intercompany asset and liability accounts of our Canadian subsidiary. Losses on these contracts have not been and are not expected to be significant and are included in selling, general and administrative expenses.

ITEM 4. CONTROLS AND PROCEDURES

As of August 3, 2003, an evaluation was performed with the participation of our management, including our Chief Executive Officer ("CEO") and our Executive Vice President, 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 were 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 recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. There was no change in our internal control over financial reporting that occurred during the period covered by this quarterly report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As of the date hereof, there are no material legal proceedings pending against us. From time to time, we may become a party to and subject to claims incident to the ordinary course of our business. Although the results of the proceedings and claims cannot be predicted with certainty, we believe that the ultimate resolution of such matters will not have a material adverse effect on our business, results of operations or financial condition.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company's Annual Meeting of Shareholders was held on May 28, 2003.

At the Company's 2003 Annual Meeting of Shareholders, the shareholders took the following actions:

- (I) The shareholders elected each of the following persons by the vote indicated to serve as a Director of the Company until the next Annual Meeting of Shareholders or until his or her successor is elected and qualified:

<u>Name</u>	<u>For</u>	<u>Withheld</u>
Adrian D.P. Bellamy	100,090,783	5,884,513
Patrick J. Connolly	101,225,067	4,750,229
Jeanne Jackson	101,974,454	4,000,842
W. Howard Lester	101,159,293	4,816,003
Michael R. Lynch	101,881,574	4,093,722
James A. McMahan	74,978,194	30,997,102
Edward A. Mueller	101,059,579	4,915,717
Richard T. Robertson	75,051,740	30,923,556
Charles E. Williams	101,159,537	4,815,759

- (II) The shareholders approved, by the vote indicated, an amendment of our restated articles of incorporation to amend the section that provides authority to us to indemnify our officers, directors, employees and other agents under California law:

<u>For</u>	<u>Against</u>	<u>Withheld</u>
104,357,935	1,530,878	86,483

- (III) The shareholders ratified, by the vote indicated, the selection of Deloitte & Touche LLP as the independent accountants for the Company's fiscal year ending February 1, 2004:

<u>For</u>	<u>Against</u>	<u>Withheld</u>
103,985,094	1,938,321	51,881

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

<u>Exhibit Number</u>	<u>Exhibit Description</u>
3.1	Certificate of Amendment of Restated Articles of Incorporation, as Amended, of the Company, dated as of July 22, 2003 (Restated Articles of Incorporation, as Amended, is incorporated by reference to Exhibit 3.1 and Exhibit 3.2 to the Company's Annual Report on Form 10-K for the period ended February 2, 2003 as filed with the Commission on April 15, 2003, File No. 001-14077)
10.1	First Amendment, dated as of July 2, 2003, to the Reimbursement Agreement between the Company and Bank of America, National Association, dated July 2, 2002
10.2	First Amendment, dated as of July 2, 2003, to the Reimbursement Agreement between the Company and The Bank of New York, dated July 2, 2002
10.3	First Amendment, dated as of July 2, 2003, to the Reimbursement Agreement between the Company and Fleet National Bank, dated July 2, 2002
10.4	Fifth Amendment, dated May 30, 2003, to the First Amendment and Restatement of the Williams-Sonoma, Inc. Associate Stock Incentive Plan, effective as of January 1, 1997
10.5	Amendment to the Agreement between the Company and James Boike, dated May 8, 2003 (the original agreement is incorporated by reference to Exhibit 10.78 to the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2002 as filed with the Commission on April 29, 2002, File No. 001-14077)
31.1	Certification of Chief Executive Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
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

(b) Reports on Form 8-K

On May 22, 2003, we furnished our earnings release for the first quarter of 2003 to the Securities and Exchange Commission on a Form 8-K.

SIGNATURE

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

WILLIAMS-SONOMA, INC.

By: /s/ SHARON L. MCCOLLAM

Sharon L. McCollam
Executive Vice President
Chief Financial Officer

Dated: September 11, 2003

CERTIFICATE OF AMENDMENT
OF
RESTATED ARTICLES OF INCORPORATION, AS AMENDED,
OF
WILLIAMS-SONOMA, INC.

The undersigned, Edward A. Mueller and Seth R. Jaffe, certify that:

1. They are the Chief Executive Officer and the Secretary, respectively, of Williams-Sonoma, Inc., a California corporation.
2. Article V of the Restated Articles of Incorporation, as amended, (the "Restated Articles") of this corporation is amended to read in its entirety as follows:

"ARTICLE V

The liability of the directors of this corporation for monetary damages shall be eliminated to the fullest extent permissible under California law.

This corporation is authorized to indemnify the directors, officers, employees and other agents (as defined in Section 317 of the Corporations Code) of this corporation to the fullest extent permissible under California law."

3. The foregoing amendment of the Restated Articles has been duly approved by the Board of Directors and shareholders of this corporation in accordance with the provisions of Section 902(a) of the California Corporations Code. This corporation has only one class of shares outstanding: common. More than fifty percent of the 115,116,133 outstanding shares entitled to vote on this amendment were required to approve this amendment. The number of shares voting in favor of the amendment equaled or exceeded the vote required. More than fifty percent of such shares did vote to approve amendment.

We further declare under penalty of perjury under the laws of the State of California that the matters set forth in this certificate are true and correct of our own knowledge.

Dated as of July 22, 2003.

/s/ Edward A. Mueller
Edward A. Mueller, Chief Executive Officer

/s/ Seth R. Jaffe
Seth R. Jaffe, Secretary

FIRST AMENDMENT

THIS FIRST AMENDMENT dated as of July 2, 2003 (this “Amendment”) amends the Reimbursement Agreement dated as of July 2, 2002 (the “Reimbursement Agreement”) between Williams-Sonoma, Inc. (the “Parent”) and Bank of America, N.A. (the “Bank”). Capitalized terms used but not otherwise defined herein have the respective meanings given to them in the Reimbursement Agreement.

WHEREAS, the Parent and the Bank have entered into the Reimbursement Agreement; and

WHEREAS, the Parent and the Bank desire to amend the Reimbursement Agreement as more fully set forth herein;

NOW, THEREFORE, the parties hereto agree as follows:

SECTION 1 Amendments. Subject to the satisfaction of the conditions precedent set forth in Section 3, the Reimbursement Agreement is amended as follows:

- 1.1 Amendment to Facility Size. Recital A is amended by replacing the reference to “\$35,000,000” with “\$40,000,000”.
- 1.2 Amendments to Definitions.
 - (a) The definition of “Credit Agreement” is amended in its entirety to read as follows:

“Credit Agreement” means the Second Amended and Restated Credit Agreement dated as of October 22, 2002 among the Parent, various financial institutions and Bank of America, N.A., as administrative agent.
 - (b) The definition of “Maturity Date” is amended by replacing the reference to “first anniversary” with “second anniversary”.
- 1.3 Amendment to Section 2.1. Section 2.1 is amended by restating the first proviso therein to read as follows: “provided, however, that the Letter of Credit Usage shall not exceed \$40,000,000 at any time”.
- 1.4 Amendment to Section 2.2. Section 2.2 is amended by inserting the phrase “or via the Bank’s electronic trade banking system” after the reference to “Section 9.13”.
- 1.5 Amendment to Section 4.2. Section 4.2 is amended by replacing the reference to “Section 7.1(a) and Section 7.1(b)” with “Section 10.1(a) and Section 10.1(b)”.
- 1.6 Amendment to Section 6.9. Section 6.9 is amended by replacing the reference to “Section 8.1” with “Section 11.1”.
- 1.7 Amendment to Section 6.10. Section 6.10 is amended by replacing each reference to “Section 7.4” with “Section 10.4”.

1.8 Addition of Section 6.23. The following new Section 6.23 is added in proper sequence:

6.23 Tax Shelter Regulations. The Parent does not intend to treat the Letters of Credit and related transactions as being a “reportable transaction” (within the meaning of Treasury Regulation Section 1.6011-4). If the Parent determines to take any action inconsistent with such intention, it will promptly notify the Bank thereof. If the Parent so notifies the Bank, the Parent acknowledges that the Bank may treat the Letters of Credit as part of a transaction that is subject to Treasury Regulation Section 301.6112-1, and the Bank will maintain the lists and other records required by such Treasury Regulation.

1.9 Amendment to Section 7.1. Section 7.1 is amended by replacing each reference to “Article 7, Article 8 and Article 9” with “Article 10, Article 11 and Article 12”.

1.10 Addition of Section 7.4. The following new Section 7.4 is added in proper sequence:

7.4 Tax Reporting. Promptly after the Parent notifies the Bank of any intention by the Parent to treat the Letters of Credit and related transactions as being a “reportable transaction” (within the meaning of Treasury Regulation Section 1.6011-4), the Parent will deliver to the Bank a duly completed copy of IRS Form 8886 or any successor form.

1.11 Amendment to Section 9.13. Section 9.13 is amended by (a) inserting the phrase “transmitted by e-mail,” before the phrase “mailed by certified mail” and (b) inserting the phrase “transmitted by e-mail, subject to telephone confirmation of receipt,” before the phrase “or when personally delivered”.

1.12 Amendment to Section 9.21. Section 9.21 is amended by inserting the following sentence at the end thereof:

Notwithstanding anything herein to the contrary, “Confidential Information” shall not include, and the Bank may disclose without limitation of any kind, any information with respect to the “tax treatment” and “tax structure” (in each case, within the meaning of Treasury Regulation Section 1.6011-4) of the transactions contemplated hereby and all materials of any kind (including opinions or other tax analyses) that are provided to the Bank relating to such tax treatment and tax structure; provided that with respect to any document or similar item that in either case contains information concerning the tax treatment or tax structure of the transaction as well as other information, this sentence shall only apply to such portions of the document or similar item that relate to the tax treatment or tax structure of the Letters of Credit and the transactions contemplated hereby.

1.13 Amendments to Section 9.22. Section 9.22 is amended by (a) replacing the reference to “Article 7, Article 8, and Article 9” with “Article 10, Article 11 and Article 12” and (b) replacing the reference to “Article 10” with “Article 13”.

SECTION 2 Representations and Warranties. The Parent represents and warrants to the Bank that, after giving effect to the effectiveness hereof:

(a) each warranty set forth in Article 6 of the Reimbursement Agreement, as amended hereby, is true and correct in all material respects as of the date of the execution and delivery of this

Amendment by the Parent, with the same effect as if made on such date, except to the extent any such warranty relates specifically to another date (in which case it was true and correct in all material respects as of such other date);

- (b) no Default exists; and
- (c) there has not occurred a material adverse change since February 2, 2003 in the business or financial condition, prospects, performance or operations of the Parent and its Subsidiaries taken as a whole or in the facts and information regarding such Persons as represented to date.

SECTION 3 Effectiveness. The amendments and the waiver set forth herein shall become effective as of July 2, 2003 when the Bank has received the following:

- (a) a counterpart of this Amendment executed by the Parent;
- (b) a Confirmation, substantially in the form of Exhibit A, executed by each Subsidiary Guarantor;
- (c) an opinion of counsel to the Parent in form and substance reasonably acceptable to the Bank;
- (d) evidence that the Parent has paid all accrued and invoiced Attorney Costs of the Bank; and
- (e) such other documents as the Bank may reasonably request.

SECTION 4 Miscellaneous.

- 4.1 **Continuing Effectiveness, etc.** As amended hereby, the Reimbursement Agreement shall remain in full force and effect and is hereby ratified and confirmed in all respects. After the effectiveness of this Amendment, all references in the Reimbursement Agreement and the other Transaction Documents to "Reimbursement Agreement" or similar terms shall refer to the Reimbursement Agreement as amended hereby.
- 4.2 **Counterparts.** This Amendment may be executed in any number of counterparts and by the different parties on separate counterparts, and each such counterpart shall be deemed to be an original but all such counterparts shall together constitute one and the same Amendment.
- 4.3 **Governing Law.** This Amendment shall be a contract made under and governed by the laws of the State of New York applicable to contracts made and to be performed entirely within such state.
- 4.4 **Successors and Assigns.** This Amendment shall be binding upon the Parent and the Bank and their respective successors and assigns, and shall inure to the benefit of the Parent and the Bank and the successors and assigns of the Bank.

Delivered as of the day and year first above written.

WILLIAMS-SONOMA, INC.

By: /s/ Sharon L. McCollam
Title: Executive Vice President
Chief Financial Officer

BANK OF AMERICA, N.A.

By: /s/ Lisa M. Thomas

Title: Senior Vice President

FIRST AMENDMENT

THIS FIRST AMENDMENT dated as of July 2, 2003 (this “Amendment”) amends the Reimbursement Agreement dated as of July 2, 2002 (the “Reimbursement Agreement”) between Williams-Sonoma, Inc. (the “Parent”) and The Bank of New York (the “Bank”). Capitalized terms used but not otherwise defined herein have the respective meanings given to them in the Reimbursement Agreement.

WHEREAS, the Parent and the Bank have entered into the Reimbursement Agreement; and

WHEREAS, the Parent and the Bank desire to amend the Reimbursement Agreement as more fully set forth herein;

NOW, THEREFORE, the parties hereto agree as follows:

SECTION 1 Amendments. Subject to the satisfaction of the conditions precedent set forth in Section 3, the Reimbursement Agreement is amended as follows:

- 1.1 Amendment to Facility Size. Recital A is amended by replacing the reference to “\$32,500,000” with “\$35,000,000”.
- 1.2 Amendments to Definitions.
 - (a) The definition of “Credit Agreement” is amended in its entirety to read as follows:

“Credit Agreement” means the Second Amended and Restated Credit Agreement dated as of October 22, 2002 among the Parent, various financial institutions and Bank of America, N.A., as administrative agent.
 - (b) The definition of “Maturity Date” is amended by replacing the reference to “first anniversary” with “second anniversary”.
- 1.3 Amendment to Section 2.1. Section 2.1 is amended by restating the first proviso therein to read as follows: “provided, however, that the Letter of Credit Usage shall not exceed \$35,000,000 at any time”.
- 1.4 Amendment to Section 2.2. Section 2.2 is amended by inserting the phrase “or via the Bank’s electronic trade banking system” after the reference to “Section 9.13”.
- 1.5 Amendment to Section 4.2. Section 4.2 is amended by replacing the reference to “Section 7.1(a) and Section 7.1(b)” with “Section 10.1(a) and Section 10.1(b)”.
- 1.6 Amendment to Section 6.9. Section 6.9 is amended by replacing the reference to “Section 8.1” with “Section 11.1”.
- 1.7 Amendment to Section 6.10. Section 6.10 is amended by replacing each reference to “Section 7.4” with “Section 10.4”.

1.8 Addition of Section 6.23. The following new Section 6.23 is added in proper sequence:

6.23 Tax Shelter Regulations. The Parent does not intend to treat the Letters of Credit and related transactions as being a “reportable transaction” (within the meaning of Treasury Regulation Section 1.6011-4). If the Parent determines to take any action inconsistent with such intention, it will promptly notify the Bank thereof. If the Parent so notifies the Bank, the Parent acknowledges that the Bank may treat the Letters of Credit as part of a transaction that is subject to Treasury Regulation Section 301.6112-1, and the Bank will maintain the lists and other records required by such Treasury Regulation.

1.9 Amendment to Section 7.1. Section 7.1 is amended by replacing each reference to “Article 7, Article 8 and Article 9” with “Article 10, Article 11 and Article 12”.

1.10 Addition of Section 7.4. The following new Section 7.4 is added in proper sequence:

7.4 Tax Reporting. Promptly after the Parent notifies the Bank of any intention by the Parent to treat the Letters of Credit and related transactions as being a “reportable transaction” (within the meaning of Treasury Regulation Section 1.6011-4), the Parent will deliver to the Bank a duly completed copy of IRS Form 8886 or any successor form.

1.11 Amendment to Section 9.13. Section 9.13 is amended by (a) inserting the phrase “transmitted by e-mail,” before the phrase “mailed by certified mail” and (b) inserting the phrase “transmitted by e-mail, subject to telephone confirmation of receipt,” before the phrase “or when personally delivered”.

1.12 Amendment to Section 9.21. Section 9.21 is amended by inserting the following sentence at the end thereof:

Notwithstanding anything herein to the contrary, “Confidential Information” shall not include, and the Bank may disclose without limitation of any kind, any information with respect to the “tax treatment” and “tax structure” (in each case, within the meaning of Treasury Regulation Section 1.6011-4) of the transactions contemplated hereby and all materials of any kind (including opinions or other tax analyses) that are provided to the Bank relating to such tax treatment and tax structure; provided that with respect to any document or similar item that in either case contains information concerning the tax treatment or tax structure of the transaction as well as other information, this sentence shall only apply to such portions of the document or similar item that relate to the tax treatment or tax structure of the Letters of Credit and the transactions contemplated hereby.

1.13 Amendments to Section 9.22. Section 9.22 is amended by (a) replacing the reference to “Article 7, Article 8, and Article 9” with “Article 10, Article 11 and Article 12” and (b) replacing the reference to “Article 10” with “Article 13”.

SECTION 2 Representations and Warranties. The Parent represents and warrants to the Bank that, after giving effect to the effectiveness hereof:

(a) each warranty set forth in Article 6 of the Reimbursement Agreement, as amended hereby, is true and correct in all material respects as of the date of the execution and delivery of this

Amendment by the Parent, with the same effect as if made on such date, except to the extent any such warranty relates specifically to another date (in which case it was true and correct in all material respects as of such other date);

- (b) no Default exists; and
- (c) there has not occurred a material adverse change since February 2, 2003 in the business or financial condition, prospects, performance or operations of the Parent and its Subsidiaries taken as a whole or in the facts and information regarding such Persons as represented to date.

SECTION 3 Effectiveness. The amendments and the waiver set forth herein shall become effective as of July 2, 2003 when the Bank has received the following:

- (a) a counterpart of this Amendment executed by the Parent;
- (b) a Confirmation, substantially in the form of Exhibit A, executed by each Subsidiary Guarantor;
- (c) an opinion of counsel to the Parent in form and substance reasonably acceptable to the Bank;
- (d) evidence that the Parent has paid all accrued and invoiced Attorney Costs of the Bank; and
- (e) such other documents as the Bank may reasonably request.

SECTION 4 Miscellaneous.

- 4.1 **Continuing Effectiveness, etc.** As amended hereby, the Reimbursement Agreement shall remain in full force and effect and is hereby ratified and confirmed in all respects. After the effectiveness of this Amendment, all references in the Reimbursement Agreement and the other Transaction Documents to "Reimbursement Agreement" or similar terms shall refer to the Reimbursement Agreement as amended hereby.
- 4.2 **Counterparts.** This Amendment may be executed in any number of counterparts and by the different parties on separate counterparts, and each such counterpart shall be deemed to be an original but all such counterparts shall together constitute one and the same Amendment.
- 4.3 **Governing Law.** This Amendment shall be a contract made under and governed by the laws of the State of New York applicable to contracts made and to be performed entirely within such state.
- 4.4 **Successors and Assigns.** This Amendment shall be binding upon the Parent and the Bank and their respective successors and assigns, and shall inure to the benefit of the Parent and the Bank and the successors and assigns of the Bank.

Delivered as of the day and year first above written.

WILLIAMS-SONOMA, INC.

By: /s/ Sharon L. McCollam
Title: Executive Vice President
Chief Financial Officer

THE BANK OF NEW YORK

By: /s/ Randolph E. J. Medrano
Title: Vice President

FIRST AMENDMENT

THIS FIRST AMENDMENT dated as of July 2, 2003 (this “Amendment”) amends the Reimbursement Agreement dated as of July 2, 2002 (the “Reimbursement Agreement”) between Williams-Sonoma, Inc. (the “Parent”) and Fleet National Bank (the “Bank”). Capitalized terms used but not otherwise defined herein have the respective meanings given to them in the Reimbursement Agreement.

WHEREAS, the Parent and the Bank have entered into the Reimbursement Agreement; and

WHEREAS, the Parent and the Bank desire to amend the Reimbursement Agreement as more fully set forth herein;

NOW, THEREFORE, the parties hereto agree as follows:

SECTION 1 Amendments. Subject to the satisfaction of the conditions precedent set forth in Section 3, the Reimbursement Agreement is amended as follows:

- 1.1 Amendment to Facility Size. Recital A is amended by replacing the reference to “\$32,500,000” with “\$40,000,000”.
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1.8 Addition of Section 6.23. The following new Section 6.23 is added in proper sequence:

6.23 Tax Shelter Regulations. The Parent does not intend to treat the Letters of Credit and related transactions as being a “reportable transaction” (within the meaning of Treasury Regulation Section 1.6011-4). If the Parent determines to take any action inconsistent with such intention, it will promptly notify the Bank thereof. If the Parent so notifies the Bank, the Parent acknowledges that the Bank may treat the Letters of Credit as part of a transaction that is subject to Treasury Regulation Section 301.6112-1, and the Bank will maintain the lists and other records required by such Treasury Regulation.

1.9 Amendment to Section 7.1. Section 7.1 is amended by replacing each reference to “Article 7, Article 8 and Article 9” with “Article 10, Article 11 and Article 12”.

1.10 Addition of Section 7.4. The following new Section 7.4 is added in proper sequence:

7.4 Tax Reporting. Promptly after the Parent notifies the Bank of any intention by the Parent to treat the Letters of Credit and related transactions as being a “reportable transaction” (within the meaning of Treasury Regulation Section 1.6011-4), the Parent will deliver to the Bank a duly completed copy of IRS Form 8886 or any successor form.

1.11 Amendment to Section 9.13. Section 9.13 is amended by (a) inserting the phrase “transmitted by e-mail,” before the phrase “mailed by certified mail” and (b) inserting the phrase “transmitted by e-mail, subject to telephone confirmation of receipt,” before the phrase “or when personally delivered”.

1.12 Amendment to Section 9.21. Section 9.21 is amended by inserting the following sentence at the end thereof:

Notwithstanding anything herein to the contrary, “Confidential Information” shall not include, and the Bank may disclose without limitation of any kind, any information with respect to the “tax treatment” and “tax structure” (in each case, within the meaning of Treasury Regulation Section 1.6011-4) of the transactions contemplated hereby and all materials of any kind (including opinions or other tax analyses) that are provided to the Bank relating to such tax treatment and tax structure; provided that with respect to any document or similar item that in either case contains information concerning the tax treatment or tax structure of the transaction as well as other information, this sentence shall only apply to such portions of the document or similar item that relate to the tax treatment or tax structure of the Letters of Credit and the transactions contemplated hereby.

1.13 Amendments to Section 9.22. Section 9.22 is amended by (a) replacing the reference to “Article 7, Article 8, and Article 9” with “Article 10, Article 11 and Article 12” and (b) replacing the reference to “Article 10” with “Article 13”.

SECTION 2 Representations and Warranties. The Parent represents and warrants to the Bank that, after giving effect to the effectiveness hereof:

(a) each warranty set forth in Article 6 of the Reimbursement Agreement, as amended hereby, is true and correct in all material respects as of the date of the execution and delivery of this

Amendment by the Parent, with the same effect as if made on such date, except to the extent any such warranty relates specifically to another date (in which case it was true and correct in all material respects as of such other date);

- (b) no Default exists; and
- (c) there has not occurred a material adverse change since February 2, 2003 in the business or financial condition, prospects, performance or operations of the Parent and its Subsidiaries taken as a whole or in the facts and information regarding such Persons as represented to date.

SECTION 3 Effectiveness. The amendments and the waiver set forth herein shall become effective as of July 2, 2003 when the Bank has received the following:

- (a) a counterpart of this Amendment executed by the Parent;
- (b) a Confirmation, substantially in the form of Exhibit A, executed by each Subsidiary Guarantor;
- (c) an opinion of counsel to the Parent in form and substance reasonably acceptable to the Bank;
- (d) evidence that the Parent has paid all accrued and invoiced Attorney Costs of the Bank; and
- (e) such other documents as the Bank may reasonably request.

SECTION 4 Miscellaneous.

- 4.1 **Continuing Effectiveness, etc.** As amended hereby, the Reimbursement Agreement shall remain in full force and effect and is hereby ratified and confirmed in all respects. After the effectiveness of this Amendment, all references in the Reimbursement Agreement and the other Transaction Documents to "Reimbursement Agreement" or similar terms shall refer to the Reimbursement Agreement as amended hereby.
- 4.2 **Counterparts.** This Amendment may be executed in any number of counterparts and by the different parties on separate counterparts, and each such counterpart shall be deemed to be an original but all such counterparts shall together constitute one and the same Amendment.
- 4.3 **Governing Law.** This Amendment shall be a contract made under and governed by the laws of the State of New York applicable to contracts made and to be performed entirely within such state.
- 4.4 **Successors and Assigns.** This Amendment shall be binding upon the Parent and the Bank and their respective successors and assigns, and shall inure to the benefit of the Parent and the Bank and the successors and assigns of the Bank.

Delivered as of the day and year first above written.

WILLIAMS-SONOMA, INC.

By: /s/ Sharon L. McCollam
Title: Executive Vice President
Chief Financial Officer

FLEET NATIONAL BANK

By: /s/ Stephen J. Garvin

Title: Managing Director

FIFTH AMENDMENT
TO THE FIRST AMENDMENT AND RESTATEMENT OF THE
WILLIAMS-SONOMA, INC.
ASSOCIATE STOCK INCENTIVE PLAN
(2002 Restatement)

Williams-Sonoma, Inc., a California corporation (the “Company”), hereby makes this Fifth Amendment to the First Amendment and Restatement of the Williams-Sonoma, Inc. Associate Stock Incentive Plan, generally effective January 1, 1997, with reference to the following facts:

- A. The Company maintains the Williams-Sonoma, Inc. Associate Stock Incentive Plan (the “ASIP”), which was most recently amended and restated in its entirety in 2002, for the benefit of eligible employees.
- B. The Company wishes to amend the ASIP to set forth expressly the Board’s authority to delegate its power to amend the ASIP, and for other reasons.
- C. By Section 8.4 of the Plan, the Company has reserved the right to amend the ASIP.

NOW, THEREFORE, the Plan is hereby amended as follows:

- 1. Section 8.4 shall be amended to read as follows:

8.4 Amendments: Subject to Section 8.3 (which concerns distributing assets after plan termination) and in accordance with Section 8.5 (which concerns action by the Company), the Company reserves the right in its discretion to amend this Plan at any time and from time to time. Effective for amendments adopted before June 1, 2003, such action shall be by action of the Company’s Board of Directors. Notwithstanding any other provision of the Plan, the Company may make any amendment, with or without retroactive effect, that: (a) the Company determines necessary or desirable to comply with ERISA, the Code or other applicable law, (b) is required by the Internal Revenue Service as a pre-condition to the issuance of a favorable determination that the Plan continues to be a qualified plan within the meaning of Code section 401(a), or (c) the Company determines is advisable to clarify the terms of this document, even retroactively, by an amendment accomplishing a good faith correction of any typographical error, inadvertent ambiguity or scrivener’s error. Any amendment of the Plan by the Company shall be binding on each Affiliate, without any further action by any such Affiliate. Affiliates shall not have the authority to amend the Plan.

- 2. A new Section 8.5 shall be added to read as follows:

8.5 Action by the Company: Any action by the Company, including any amendment authorized to be made under Section 8.4 (which concerns the procedure for amending this Plan), shall be made either by a resolution adopted by the Board, or by action taken on behalf of the Company by any committee, person or persons to the extent that such committee, person or persons is authorized by the Board to take such action on behalf of the Company.

This Amendment shall supercede the provisions of the Plan to the extent those provisions are inconsistent with the provisions of this Amendment.

In all other respects, the terms and provisions of the Plan are hereby ratified and declared to remain in full force and effect.

IN WITNESS WHEREOF, this Amendment has been executed this 30 day of May, 2003.

WILLIAMS-SONOMA, INC.

By: /s/ James E. Boike

Title: Executive Vice President and

Chief Operating Officer

May 8, 2003

Dear Jim,

Re: Amendment to Agreement

As you know, Williams-Sonoma, Inc. (“Williams-Sonoma”) entered into an agreement (the “Agreement”) with you as of May 8, 2001, with regard to certain aspects of your employment by it as Chief Operating Officer of Williams-Sonoma. Williams-Sonoma is prepared to extend your rights under the Agreement on the terms and conditions specified in this amendment to the Agreement (this “Amendment”). (All capitalized terms that are not defined in this Amendment have the definitions assigned to them in the Agreement.)

Specifically, you and Williams-Sonoma agree as follows:

1. Covered Stock Options. The Agreement and this Amendment relate to the Unvested Options, and do not take into account, or in any way cover, any other stock options that Williams-Sonoma has granted to you before the date of this Amendment, or may grant to you after the date of this Amendment.
2. Extension of Rights. In consideration of your agreement to continue to be employed by Williams-Sonoma until May 8, 2005 (the “Fourth Anniversary Date”) and to continue to be bound by the provisions of the Agreement until the Fourth Anniversary Date, Williams-Sonoma has agreed to extend all of your rights under the Agreement until such date. Solely by way of example, if, at any time before the Fourth Anniversary Date, you voluntarily terminate your employment with Williams-Sonoma for any reason, or you are terminated without Cause, you agree that (i) within ninety days of such termination, you will exercise in full all of the Unvested Options and (ii) upon such exercise, Williams-Sonoma shall be obligated to pay you the difference, if any, between the Second Guaranteed Spread and the Spread on the date of exercise.
3. No Stock Option Exercises. You represent and warrant that you have not exercised any of the Unvested Options as of the date of this Amendment, as required by the Agreement.
4. Expiration of Rights. All of your rights under the Agreement, and all of Williams-Sonoma’s obligations under the Agreement, shall expire automatically on the Fourth Anniversary Date, except that if your employment with Williams-Sonoma terminates on or before the Fourth Anniversary Date, all of your rights under the Agreement shall expire ninety days after the termination date.
5. Miscellaneous. This Amendment shall be governed by, and construed and enforced in accordance with, the laws of the State of California applicable to contracts to be performed therein. This Amendment may not be modified without the written consent of both parties. Except as expressly stated in this Amendment, the Agreement shall remain unchanged and in full force and effect.

Please indicate your agreement to the terms of this agreement by signing below and returning the signed copy to me.

Sincerely,

Williams-Sonoma, Inc.

By: /s/ W. Howard Lester
W. Howard Lester,
its Chairman

ACCEPTED AND AGREED TO:

/s/ James E. Boike
James E. Boike

May 8, 2003
Date

**CERTIFICATION BY CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Edward A. Mueller, Chief Executive Officer, certify that:

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

Date: September 11, 2003

By: /s/ EDWARD A. MUELLER
Edward A. Mueller
Chief Executive Officer

**CERTIFICATION BY CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Sharon L. McCollam, Executive Vice President and Chief Financial Officer, certify that:

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

Date: September 11, 2003

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

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

In connection with the Quarterly Report on Form 10-Q for the period ended August 3, 2003 of Williams-Sonoma, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Edward A. Mueller, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods presented in the Report.

By: /s/ EDWARD A. MUELLER
Edward A. Mueller
Chief Executive Officer

Dated: September 11, 2003

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

In connection with the Quarterly Report on Form 10-Q for the period ended August 3, 2003 of Williams-Sonoma, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sharon L. McCollam, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods presented in the Report.

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

Dated: September 11, 2003